easyJet Q3 Results Call 22.07.15

Speaker key

OP Operator
CC Carolyn McCall
CK Chris Kennedy
JC Jarrod Castle
SF Stephen Furlong
OS Oliver Sleath
AL Andrew Light.
AN Andrew Lobbenberg
DB Damian Brewer
MS Mark Simpson
AD Anand Date
MF Mark Fortescue
WE Wynn Ellis
JB Johannes Braun

OP Good morning, ladies and gentlemen, and welcome to the Easyjet Q3 Results Conference Call. My name is Indie and I will 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 will 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.

00:00:39

CC Good morning everyone; thanks for joining us to discuss our trading statement for the third quarter of 2014/15. Joining me in the room is Chris Kennedy and the IR team. You should have been sent the slides along with the statement; slides are also available on our corporate website. As usual Chris and I will review the Q3 results and leave plenty of time for questions.

00:01:02

Easyjet has delivered a good commercial performance in the quarter; revenue per seat in the quarter was better than the guidance given at half-year with improved performance in the UK and on beach routes right across Europe. As we discussed at the half-year we faced a difficult April with the impact of the French ATC strikes, we've also had to contend with the ongoing impacts of the fire at Fiumicino airport which has led to 773 cancellations in just one quarter. In addition we've experienced issues with our ground handling supplier that has led to some on-time performance decline at Gatwick. We've worked collaboratively with our supplier and I'm pleased to say that the performance is certainly improving. So overall we are pleased with the commercial performance of Gatwick.

The underlying cost performance was solid despite heightened levels of disruption; cost per seat increased 2.8 per cent, 1.1 percentage point of the increase due to the French ATC strike and the impact of the Fiumicino fire. We are continuing, as you can see, to deliver our successful strategy by investing in our network, developing a pipeline of revenue and cost initiatives, and delivering sustainable returns to shareholders.

On to slide three; overall our revenue performance improved across the quarter despite the difficult start to the period in April as already mentioned. As a reminder, this led to guidance at the half-year results of revenue per seat at constant currency for the third quarter declining by four per cent, which was made up of two percentage points due the extended impact of the French ATC strikes, one percentage point due to the timing of Easter, and one percentage point from underlying trading. Due to the implementation of some self-help measures as well as an improvement in underlying trading Q3 revenue per seat was down 2.8 per cent, 1.2 per cent better than guidance. An example of what we mean by self-help was our CRM programme; our focused up-weighted marketing campaign across the quarter resulted in 1.2 million more bookings than May and June 2015 from our existing customer base than in the same month in 2010, before our CRM programme began. Load factor in the quarter was strong at 91.7 per cent, an increase of 1.3 percentage points. Total revenue, reported revenue for the quarter decreased by one per cent to 1.228 million, so 1.2 billion, and reported revenue per seat decreased by 5.4 per cent to £59.08.

00:03:31

Now turning to slide four, moving on to cost; cost per seat, excluding fuel, increased by 2.8 per cent at constant currency but decreased by 2.1 per cent on a reported basis. The main drivers of the cost increase across the quarter were the impact of French ATC strikes and the fire at Fiumicino already mentioned combined to make up 1.1 percentage points of the 2.8 percentage increase, and increased charges at airports including Italian and German regulated airports which made up another 0.8 percentage points. We continue to work hard to offset these cost increases and in the quarter we have delivered £7 million sustainable savings through Easyjet Lean, driven by airport and ground handling initiatives. Easyjet Lean has already delivered 28 million of savings this financial year; an improvement of $95 per tonne in the post-hedged effective fuel price when compared to the same quarter last year and the continued up-gauging in the fleet which reduced cost per seat by 0.5 per cent in the quarter compared to the same quarter last year.

00:04:39

Now turning to slide five for a bit more detail in up-gauging in Easyjet Lean; at Easyjet focusing on cost of course continues to be a key strategic objective and a real focus to ensure we maintain our cost advantage; the up-gauging programme to move from 319s to 320s is well established and delivering meaningful savings. We will take delivery of our first 186 seat A320 in May 2016; our first A320 Neo arrives in June 2017. 38 per cent of our fleet are now A320s, our up-gauging programme will deliver one per cent CAGR cost per seat saving over the next five years. This year Easyjet Lean is well on track to deliver towards the high end of our guided range of 30 to 40 million in annual savings.

We are focused on the pipeline of cost initiatives at Easyjet over the coming years of course, which includes the single terminal consolidation which we've talked to you about at Gatwick in autumn next year. You will have seen that we've already taken over the branding of the shuttle between the south and the north terminals, the new component support contract which starts in October and further airport and ground handling deals across the network; the combination of up-gauging and Easyjet Lean will give us around a two per cent CAGR benefit to our cost base over the next five years.

Slide six; you will have seen our announcement on 18th June highlighting the strengthening of our key market positions in Italy, the closure of our base in Rome, and the opening of our base in Barcelona. Easyjet has a really rigorous approach to capital allocation which I think you've got used to seeing from us; we took the decision to re-allocate aircraft from Rome to other areas of the Italian network where we see better opportunities to deliver profitable growth and returns. The returns at Fiumicino were below network average and the passenger charges have doubled over the last two years. We will continue to serve Rome; I think this is a really important point, as an inbound destination where half our capacity will remain. We see better opportunities to deliver returns from based aircraft in Milan Malpensa, Venice, and Naples so we're opening a new base in Venice with four based aircraft. We already have a number one position at Marco Polo Airport and a 19 per cent market share. Milan Malpensa is already Easyjet's second-largest base in the network, 18 aircraft there at the moment and we will be putting three more aircraft to the base from April next year. And the final aircraft will be allocated to our new base in Naples which is performing well; we've already got a number one position there with a 30 per cent market share.

00:07:23

Barcelona, opening in February 2016, with three based aircraft strengthens our position at a key network point and will provide additional cost flexibility and efficiency alongside our recently opened base in Porto. Our new Schiphol base, as you will know, opened in March with three based aircraft with a fourth to be based there from October this year. We currently have the number two position at the airport to KLM with a nine per cent market share. Amsterdam is consistent with our primary airport strategy and will allow us to take advantage of first wave flying which attracts high yielding business passengers, already 30 per cent of our passengers at Schiphol are travelling on business. So we've just given you some of the many profitable growth opportunities that we see across our network over the next three to four years; now over to Chris.

CK So moving on to the detail of our hedging positions for fuel, US dollar, Euro, and Swiss Franc; we've now got 83 per cent of the last three months of this financial year's fuel requirement hedged at $878 a tonne which means that 88 per cent of the full-year 2015 requirement has been hedged at $922 a tonne. For this year, taking into account the hedges already currently in place, a $10 movement in the fuel price impacts PBT by £1 million and a one cent movement in the dollar rate impacts by £0.3 million.

00:08:46

Moving into next year; we've got 80 per cent of the full year fuel requirement hedged at $844 a tonne, with 83 per cent of the first half at $864, and 78 per cent of the second half at $828. On currency for next year we've got 76 per cent of our dollar requirements hedged at 163, and 79 per cent of our Euro surplus hedged at 121.

CC Overall forward bookings are in line with the prior year with 77 per cent of seats currently sold. Just a reminder, our load factor in August last year was a record breaking 94.2 per cent. We will be there or thereabouts this year despite the prior August being a record one as I said. Of course any load factor over 90 per cent is a fantastic result. There has been little or no change to our view on market capacity in the second half of the year with the capacity on Easyjet markets increasing by 6.7 per cent. Demand in the market has been improving across the quarter; we see solid trading in Q4.

Turning now to the outlook, slide nine; it's estimated that at current exchange rates and with jet fuel remaining within a $550 to $750 metric tonne trading range, Easyjet's unit fuel bill for the second half of the financial year is likely to decrease by between £65 million and £80 million, and by between £100 million and £115 million for the full year. In addition, exchange rate movements are likely to have around a 35 million adverse impact compared to the six months to 30th September 2014 and are likely to have around a 15 million adverse impact compared to the 12 months to 30th September 2014. The underlying performance of the business remains consistent with the capacity and cost guidance given on 12th May 2015 despite absorbing an additional £15 million of disruption costs in the nine months to 30th June 2015 compared to the same period in the prior year.

00:10:50

Revenue per seat is trending better than outlined in May. So the current macro and [unclear 00:10:57] environment has more moving parts than in previous years because of the situation in Greece, the events in North Africa, combined with the reduction in capacity at Fiumicino because of the fire, and the various threats of minor industrial action that you see or hear of. However, despite this, Easyjet expects to grow profit before tax from 581 million for the year to 30th September 2014 to a range of £620 million to £660 million for the year to 30th September 2015. Even at the bottom end of this range, adjusting for the 35 million negative currency impact, Easyjet will grow profits in the second half.

So to summarise; we delivered a strong performance in the quarter with improved trading in a difficult operating environment and a good underlying cost performance. We continue to see exciting, profitable growth opportunities across our core markets. We have built an excellent pipeline of initiatives to drive returns. And finally, as you have seen, we continue to make disciplined decisions on the allocation of capital to deliver sustainable growth and returns for our shareholders. Now thanks a lot for listening to that and I'll hand over to you for questions.

OP Ladies and gentlemen, if you would like to ask a question please press star one on your telephone keypad. If you change your mind and wish to withdraw your question please press star one again. You will be advised when to ask your question. The first question comes from the line of Jarrod Castle; please go ahead with your question, Jarrod.

00:12:40

JC Hello, good morning.

CC Good morning, Jarrod.

JC Hi, three if I may; one on digital strategy, you've kind of mentioned the iPhone app and some other commentary around it but I'm trying to get your view on how do you see the competition once Ryan Air has launched their price comparison website, i.e. in terms of that website driving incremental traffic, potentially driving incremental bookings; do you think you're positioned well enough to kind of deal with quite a change in their strategy and how they view things? Secondly, just on capacity you mentioned overall no change but any of the markets that you can highlight if there have been specific routes where you've seen a change? And then I know the ballot is, I think, early August when the results come out but any views on how you see things developing and potentially if there is a strike, how you will plan around it? Thanks.

CC Sure Jarrod; so I'll just take the digital strategy first. Digital strategy for us is embedded in everything we do; we are highly innovative and we're right at the front end of this and we see it as either reducing our costs, so cost efficiency, or enhancing our revenue. It is entirely about our bottom line or our top line so we are, I would say, quite a way ahead, not just of competition in the UK on digital with airlines but actually globally. So this is a real competitive advantage for us. You're talking about a very tiny, tiny part of the digital strategy which is a comparison website, which has been done, so you can currently compare all prices on Sky Scanner, on Google, on a whole range of websites, and actually I think Ryan Air are unlikely to have access to our pricing and the reason for that is it's not really comparable. We fly to primary airports, as you know, Ryan Air don't predominantly fly to primary airports and therefore you're not really comparing like with like and so we feel everyone does price comparison websites in sectors, I'm not being funny but this is not innovation in digital and it doesn't put us at a disadvantage because you can get that information from a lot of different sources, people still come back to using Easyjet. So that's that. I don't know if Chris wants to add anything to that?

00:15:12

CK No; I mean we know already that something like 80 per cent of our passengers price compare before they buy Easyjet anyway so we don't think it will change any behaviour.

CC And then on the capacity issue that you've made, and changes on specific routes, you know we don't really talk about…we're not route-specific when we do these updates because actually that would give you a very skewed idea. And to be absolutely honest with you there's not a dramatic change in capacity on any of our routes. Where we're seeing an effect on our yield is where we are putting in a lot of capacity so we are diluting ourselves on yield in the Netherlands; for obvious reasons we're putting a huge amount of capacity there, in Hamburg, in Portugal to an extent, and in Switzerland. So that's the correlation, is our capacity is actually driving some of our RPS and as we know that capacity matures and it will come back and be quite strong yielding because that's where we put our capacity. So again do you want to add anything to that, Chris?

00:16:16

CK No, I think that's…

CC And then on the ballot that you referred to, I'm very pleased to say that we now have a recommendation from Unite to our cabin crew in the UK to vote in favour of a deal we've come up with, an agreement with them which is entirely around holiday pay and is something that was an outstanding issue that had not been negotiated as part of the current pay deal and we've now brought it into the pay deal because it would have needed to be discussed anyway and so with that recommendation I am very optimistic that that will go well. I think our cabin crew in the UK are very professional and will not want to not vote for the recommendation. So that's good news.

JC Okay, thanks very much.

CC Okay.

OP The second question comes from the line of Stephen Furlong from Davy; please go ahead with your question, Stephen.

SF Hi Carolyn, Hi Chris; two questions, can you just talk about Barcelona, Carolyn, a bit more? I understand it's an attractive market and there's availability there, just in line with your strategy of building number one or two network positions, given the [unclear 00:17:35] encumbrance in there, just talk about that. And the second thing, mainly for Chris, just what the cash and the balance sheets, just remind us in terms of the metrics that you look at that you're happy in terms of the debt equity and cash for aircraft please. That would be great.

00:17:51

CC Okay, so I would say Barcelona is less about the number one, number two network position for us; it is a tactical rather than highly strategic move because it is already a very, very large network point for us and it just makes us far more efficient to have based aircraft there than actually to be flying in and out of Barcelona. So it's an efficiency move rather than anything else and it will actually work very well for us in our network and we won't have to do anything that's inefficient in terms of the rotations in flying; that's what Barcelona is about.

CK And then on the cash and the balance sheet, Stephen, we've got 930 million in cash at the moment, which is broadly in line with our liquidity target and the gearing is within our gearing target range as well.

SF Okay, great. Best of luck at ARM by the way, Chris.

CC We're not here to discuss that, thank you, Stephen.

CK I'm still here just til the end of the month.

CC Shush.

00:18:49

SF Best of luck anyway.

CK Thank you.

OP Our next question comes from the line of Oliver Sleath calling from Barclays; thank you, please go ahead with your question.

OS Morning Carolyn, morning Chris, three questions please; firstly on capacity growth for the winter, I couldn't see in the IMS what you're planning for that in H1 16 so if you could help with that number, I was thinking something along the lines of three to four per cent.

CC That's well-spotted.

OS Second question with regard to Gatwick; I know ING has been asked to release some Gatwick slots as part of the Aer Lingus takeover and I think that includes up to three on Belfast so I just wondered if you would be interested in bidding for those and theoretically could you re-use your current Belfast slots for other [unclear 00:19:32] to expand out of Gatwick? How would that work? And then the third question is just on Rome; if we put the fire to one side, I was a bit surprised to see the base closure given that, a, you have been growing Rome quite strongly over the last two years, I think even this summer in the schedules. And, b, I thought you said up until recently that Rome was actually performing a bit better than you expected given the amount of capacity going in from yourselves and competitors there so could you talk through the thought process around closing Rome and had it actually been under-performing for a while? Thank you.

00:20:04

CC Sure, sure, yes, good questions. Capacity, winter, far too early to tell really; we're going through our planning phase right now and our budgeting phase so it's way too early for us to say anything about winter. On Gatwick; clearly we're going to review that slot position and we haven't taken a decision on that yet so just watch that space. On Fiumicino I'll give you a much fuller answer; you're absolutely right, and you're right to say that we said our performance was better year on year, and it was. So it's not as if Rome wasn't performing, it's that it was performing way below our network average and it was just coming in above our WAC. And because we have to be very disciplined about our capacity allocation and our assets therefore and where we put them to get returns we took that decision in light of the returns we were getting, what we projected into the future because of the airport charges, which had doubled and there's no sign ADR are going to be not putting those charges up in the future, and it's rack-rate all the way, and the third factor I think is that it is a very congested, difficult infrastructure, made worse by the fire but the fire had absolutely nothing to do with the decision. So the key thing for us is we know that by moving those assets within Italy, so this is very much part of our Italian strategy, it gives us very, very strong positions in the places I mentioned, Milan, Venice, and Naples. It puts us in a formidably strong position in northern Italy with Milan and Venice, and it doesn't mean that we will not be flying to Rome from right across our network, it's just that we don't need those first wave slots which are very expensive slots, but we don't need them because actually Rome is primarily an in-bound market. So we'll still have half our capacity going in and out of Rome, it's just that there is a much more efficient, more capital disciplined way of doing Rome. And that's why we took what is, of course, you know, a difficult decision.

00:22:28

OS Okay, thanks, that's helpful. I'm sorry; just to come back to the first point on the winter capacity, sorry to push it but I would have thought you'd got a lot of the network planning in place; in the absence of knowing better can we sort of assume similar to last winter?

CK Well I think what you will see is the annualisation of some of the base openings so you'll see flow-through from Amsterdam and Hamburg, and the investment in Venice as well so you're probably looking at slightly ahead of last year.

CC Yes.

OS Thanks very much, thank you.

OP The next question comes from the line of Andrew Light from Citi; please go ahead with your question, Andrew, thank you.

AL Thanks; on this subject of capacity, you say industry capacity this summer is up 6.7 per cent, do you have a take on what it looks like for the winter at the moment? And then secondly, Madrid, you withdrew from that base a few years ago but traffic there has been rebounding quite strongly and tariffs could go down; I was just wondering what your thoughts are about potentially re-opening a base there?

00:23:30

CC Let me just take Madrid quickly because that's an easy one; we don't need to base aircraft in Madrid to do what we want to do with Madrid because again we don't need first wave out of Madrid. So we will increase our capacity to Madrid but we don't have to base our aircraft there. So the answer to that one is no, we won't open a base, we won't re-enter with a base opening there. Chris, do you want to take that capacity point?

CK	Yes; it's still not a complete picture because not everyone has put the OAG data in, but looking forward to our Q1 next year it looks like the capacity environment last year, total short haul was up 5.1 and competitors on our markets were up 7.4; we think it will be a more benign environment this Q1 than last year from that first look, but the data is still very dirty so difficult to draw conclusions, but definitely looks like it's down, a more benign environment.

AL	You mean more benign than plus 6.7 per cent?

CK	Yes.

AL	Okay, alright, thank you very much.

00:24:38

CC	Pleasure.

OP	The next question comes from the line of Andrew Loggenberg; please go ahead with your question, Andrew.

AN	Hi Carolyn, hi Chris.

CC	Morning.

AN	Could I ask how you expect to take advantage, in the early days, of the 186 seaters because given that you flow aircraft around the system and that there are operational changes on the day, how long will it take for you to have enough critical mass of them to be able to sell to 186 and effectively to be able to harvest anything like the relevant benefit of them? Can I ask about Greece? Plainly it's not a huge market for you at all and it's a leisure market into there substantially; how is it trading? Is it suffering or not? And then can I just clarify, and I'm sure it's a simple clarification, on the cost; you're talking about a two per cent CAGR on cost from Easy Lean and up-gauging, that presumably is not guidance for cost, that is before you have inflationary effects but can we just clarify that?

00:25:53

CC	Sure; so the 186 seater, I'll bring Chris in on this too, but we will be able to take advantage, I think, by the first winter because they are going to be new aircraft.

CF	The first delivery is May 16, so clearly they're new aircraft so I think we'll be able to put those on the long routes and get the yield benefit that we want on those, on the [unclear 00:26:17] routes. And then I think to your question all the deliveries from May 16 onwards will be the 186 but the big slug of retrofitting, because the really great thing about the Flex Two design is we can retrofit all of the A320s that we own and we'll do that over the two winters. One is the winter at the end of 16 and the winter at the end of 17, so really you'll start to see during that winter some meaningful capacity coming through on the 186 and the yield benefit that we get.

CC	Do you want to do the cost point now?

CK	Yes, you're absolutely right, Andrew, so the two per cent is in effect the real reduction in cost that we'll get from the up-gauging and Lean so that will, in terms of cost guidance you take an assumption on inflation and you can take off that two per cent to get to the nominal.

CC Yes; and on Greece we saw of course with all the publicity around Greece and the bail-out, we saw short-term weakness but it's rebounded very well. And just remember that yes, it is all leisure capacity into Greece and we're probably half of what Ryan Air do into Greece and we don't do any domestics so we're quite protected on Greece, it's also a very small part of the network overall. So I think we're pleased to see that that short-term weakness has disappeared actually, it's come back quite strong, particularly out of the UK actually.

00:27:51

AN Can I just clarify as well on the ballot with Unite, you're saying you've got a deal with Unite that they're recommending so that means Unite are balloting their cabin crew and they're effectively recommending their cabin crew to vote against the strike; is that right?

CC They are, yes. They've got two ballots out there, one is for a strike, one is for a recommendation for the pay deal and they're recommending that our cabin crew vote for the recommendation. They have put a strong message out there, a very strong paper out there, saying that they recommend the deal now and that they want all the cabin crew to vote for that.

AN Okay, cool, thank you.

CK I think, Andrew, just on the up-gauging as well; I think the other thing to say, not only do we get the cost benefit but obviously it gives us the opportunity when we're up-gauging from the 319 to the 186 seat 320, gives us the opportunity to increase capacity in the slot constrained airports. So that gives us that opportunity to reinforce those number one and two positions in the slot constrained airports.

AN Thank you.

00:28:55

CC Okay.

OP The next question is from the line of Damian Brewer from Royal Bank of Canada; please go ahead with your question, Damian.

DB Good morning, yes, two questions please; first of all just one more general one, I notice the average sector length has moved up in Q3 and given lower fuel prices whether there will be now a focus on a little bit more longer distance flying and what that would do to the shape of the schedule and network as you go forward, particularly given the other non-fuel costs become a bigger competitive advantage as fuel goes down. And secondly, just more to the sort of short-term trading; in the statement you commented again on the Gatwick ground handling issues and the effect that's had on your on-time performance, could you let us know a little bit more of how much of that on-time performance impact across network was purely driven by Gatwick? And then secondly how the evolved solutions are with Menzies at Gatwick to solve this?

CK Sure; so Damian I'll take the sector question; it is up slightly, part of that will be because of the cancellations in France, so a lot of the French domestic flights were cancelled so that will have impacted this quarter. And I think we've said in the past that the average network sector length is really an output of all the network decisions, it's not something we deliberately target. We are incredibly granular in all of our route decisions and clearly the lower fuel feeds into the profitability of each route. So when we look at a route we know the airport charges, the ground handling, any taxes, all of the fuel benefit, and we build it up on that basis so we won't target a sector length, it is simply the output of all those individual route network decisions.

00:30:50

CC So on Gatwick, just let's be clear that it is entirely a Gatwick effect on OTP and the reason is resourcing issues in Gatwick, very hard to recruit in that area; the pool of labour there is very tight and also there's a complete change of Menzies management, a complete wholesale change, from CEO, COO, and the director in charge of Gatwick. So that has been the reason, the cause, however I have to say the Easyjet team has been all over it, has a very strong plan, and actually we've seen day to day improvements, week on week improvements, and I would say the situation is completely stable now and is able to cope with disruption, whether it's weather or ATC. So we've seen an improving trend at Gatwick. The only other hotspot we had on OTP was Fiumicino because of the fire which is pretty awful, but those are the two things that are bringing down the OTP for the network.

DB Okay, so just to be clear, at Gatwick was it the ground handler that simply didn't have the slack to deal with a schedule that went irregular?

CC No; it was nothing to do with our schedule, it was their resourcing issues. So they struggled to recruit staff in time and therefore they were using contingency plans from the rest of their organisation to bolster Gatwick. So it was nothing to do with our schedule, which as you know is planned quite a long time ahead.

00:32:23

DB But just to be clear; when you had weather disruption or anything else like that the weakness in Menzies wouldn't have helped that.

CC No, look the weather disruption and ATC action doesn't help any airline; every airline's OTP will be affected when there's bad weather and there will be delays, that's not an Easyjet-specific issue. What I was saying is Easyjet operation in Gatwick is totally stable now and we are confident, looking forward, that we have worked very collaboratively with them and the airport to get to that situation so we're very confident about it now. But that's what we've been experiencing in the run up to the summer.

DB Okay, thank you. And can I just ask one clarification on that? And that is within all your existing contractual terms so it won't cost you anything more to ensure Menzies deliver as they should do?

CC That's absolutely right. No it won't be costing us any more money.

DB Okay, thanks very much.

CC Okay.

00:33:18

OP The next question is from the line of Mark Simpson from Goodbody; please go ahead with your question, Mark.

MS Yes, thank you, morning; couple of questions, first I just want to dig in a bit more to this Rome change; you talk obviously about looking at everything at a route level and the criteria of return on capital employed over WAC, I'm just wondering if you could give us a bit more I suppose guidance in terms of the numbers that you were seeing in Rome and the decision to pull out of Rome. You said you don't need Rome as a base because it's an inbound market but it always was an inbound market so to some extent why were you in Rome anyway? So I'm a little bit confused about that commentary. The other thing, just ATC costs, the French disruption there; can you just break down the I think it was 25 million you were saying was the cost of that disruption, can you break that down in a bit more detail because it seems, as I say, like a big number and I can't quite work out where that 25 million would come from. So clarification on those two would be great.

CC Okay, so it's up to us really where we make our network decisions and I'm not going to go into any detail on numbers around Rome; you're going to have to trust us and we make good network decisions and decisions we make, Rome has been open for eight years, I think, seven, eight years, a long time ago that decision was taken, when Al Italia was kind of flailing around and about to go bankrupt. And so, you know, actually decisions that are taken for a moment in time are the right decisions at the time; so it was before my time but I would still substantiate the fact that it was a rational, logical decision. A lot has changed in that period of time and actually the current management, looking at Rome in the current situation with the fact that we have increased our returns significantly over the last four years across network, put Rome in a very difficult position because actually every other base that we have has much, much higher returns than Rome. So that's how we've made our decision and I know, I'm absolutely confident, it's the right economic decision for the airline. So you're going to have to trust us on that one without the numbers being broken down.

00:35:41

On ATC in France, I'm going to get Chris to come into that but I will just remind you that we're big players in France, unlike many other airlines, and we fly domestic as well as international in France. We're the number two airline, and we overfly France a lot so you have a lot of different things going on for Easyjet when the French ATC go on strike. Chris?

CK Yes, and the 25 million is not cost, it's the impact on our profit. So there are three elements to that; one is the actual costs of the disruption, so putting passengers up in hotels, looking after them, recovering them well. The second is the lost contribution on the flights that we had to cancel; so people didn't fly and we lost the contribution on that. And the third is the lost contribution on the seats we had to use to repatriate passengers who were stranded by the air traffic controllers, which we would normally have sold at a very high premium because those are the last few seats on an aircraft. So it wasn't a cost, it was the profit impact of the whole thing. And you know in many ways it's a function of recovering the passengers very well in the process, and making sure they come back and fly with Easyjet again.

CC Any other questions?

OP Our next question is from the line of Anand Date from Deutsche Bank; please go ahead with your question, Anand.

00:37:15

AD Hello, morning everyone; I've got a couple please. For the last six months you guys, and Ryan Air as well, have been talking about passing on the oil price; I know I'm not treading any new ground here but you've been talking about passing on the oil price to consumers, we're not really seeing that come through this summer. I think Lufthansa has been saying as well they haven't seen any predatory pricing; is there any view on why that is? Is it just because load factors are so strong, or demand is so strong that you just haven't needed to? And do you have a view on whether that can persist in winter? And the second question, a bit more for Carolyn I guess, is could you perhaps outline for the recommendation committee what they were particularly looking for with the new CFO coming in? Can you kind of give us the three things that he needed to check off that make you comfortable he's the right man? And then maybe, it might be for the full-year results, but is it possible you could give us some data on your big bases, which ones are over 90 per cent utilised in terms of their slots? And also a breakdown of slot ownership by time; I appreciate that's not something we can do on a call but maybe if there could be a couple of slides on that at the full-year, I think that would be good. Thank you.

CC Okay, this is going to be quite quick, I think.

CK On fuel; we've talked about the fuel price feeding into fares as the hedges roll off and we've also said that how that will happen will depend on the demand environment and the competitor environment in each of the catchment areas so really nothing more to add to that. We've got a demand driven pricing system and if the demand is high then the prices don't fall.

00:39:10

CC Yes I think you're actually conflating a Ryan Air and Easyjet positon because actually we didn't have the same position on fuel. Ryan Air said what you've said; we actually said we're a demand led business and our algorithms, our revenue management system, exactly as Chris said, is demand led and therefore if pricing comes down in the market as a result of fuel being low then our pricing system will respond to that, take into account our previous prices as well as competitor pricing, and our prices will come down. But we're not going on any kind of campaign to say that all fuel is passed onto the consumer; our fares our low but primarily they are competitive, so we're lowest fare on the routes we fly and because we fly a different network to Ryan Air that is quite a different position. So I think that's the first point, it's quite a distinctive position. I think on the data on the big bases, I'm sorry, the answer is no because it's quite difficult data to gather and therefore it's competitive information so we're not going to break down, we don't ever break down data by base because it's commercially sensitive. And on the recommendation for a CFO, I don't think it's going to be that different to the nomination committee of any FTSE 100 looking for a CFO; it's the skills and qualities you would expect to look for. I think the difference for us will be you want someone who really understands the low cost culture and who really understands the cost base and the importance of the focus on cost. And Andrew certainly does that; Andrew Findlay has come from a low cost background and has driven a lot of cost programmes and so he brings that to us very well and very substantially. And the second thing, of course, is chemistry with the top team and I think that is a specific thing that you have to make a judgement about because we are a very high-performing but very close team. We get on very well as a leadership team and so the chemistry would have been very important on that.

00:41:09

AD Okay, great; thank you.

OP	The next question is from the line of Mark Fortescue from Jefferies; please go ahead with your question, Mark.

MF	Hi, good morning; just two quick ones, please; geopolitical disruptions, for want of a better word, you've touched on Greece, North Africa, okay a smaller part of the network for summer but a bit more relevant for winter and just thinking ahead to that, are there any changes you're seeing in terms of customer behaviour? Even late bookings this summer, but the ability to substitute and offer alternative routes in that part of the world? And then the second one was just on the national living wage; again I don't think a material direct impact for Easyjet, but is there any cascade up, any inflationary pressure, that you are nervous about as a result of that?

CC	I'll just take the national living wage first because actually you're right, it has no impact on Easyjet directly, all our salaries comply with that quite well. We don't have an issue on the national living wage. I don't think this is an impact on Easyjet but I think some of our suppliers will have to think carefully about national living wage and the effect on their businesses and their margins, but clearly that's not going to be an issue for Easyjet but it could be an issue for suppliers.

00:42:43

On winter, I think the thing about particularly UK travellers actually, regardless of geopolitical kind of conditions; as long as the Foreign Office is saying you can travel to North Africa we will get winter sun. So it really does depend on whether there's any change to that geopolitical environment. At the moment, despite Tunisia, there will still be quite strong bookings to North Africa even now. So I think it does depend on whether there's any change to that. And of course we are looking at where else there is winter sun in our network that we would fly to, not just from the UK but from other parts of our network. So we're already looking at that as part of our planning process for North Africa.

MF	Okay, well thanks, Carolyn.

CC	Okay.

OP	The next question is coming from the line of Wynn Ellis from Numis; please go ahead with your question, Wynn.

WE	Yes, hi, good morning; most of my questions have been asked already, and answered, but a couple of very quick ones if I can; first of all going back to Gatwick and the ground handling, you say this situation is now stable, does that mean that you're happy with it or is there a lot of room still for improvement? And secondly, you talk about a very good performance from the UK and on beach routes across Europe; are you getting any benefit to Easyjet Holidays? Are you making any progress there in terms of selling to these beach routes?

00:44:13

CC	So on Gatwick, I'm never happy; it is a huge base, I think there's always room for improvement and of course there will be a lot of room for improvement from the current position. So actually you will see continual improvement at Gatwick from the ground handler there, and I am actually confident that the new management really get it and will resource well and will structure well for Gatwick. But I do think we will have a stable August and September as I see it today, so I think continually improving would be the kind of mantra there. On UK and beach, yes it has been very, very good and remains so; I think Easyjet Holidays has definitely got a halo effect on that because we've been doing quite a lot of promoting of Easyjet Holidays, and just remember that for the first time ever we've got Easyjet Holidays right across Europe. So in the past we were only doing Easyjet Holidays in the UK and so it didn't have quite the halo effect that it has now, where we are able to do that in Germany, which is a very strong package market, as well as in Italy. So we've been promoting the Easyjet Holidays right across the network and there will be a positive effect of that, I think, on beach.

WE Okay, thank you very much.

CC So it's really all about the positive.

00:45:36

OP The next question comes from the line of Johannes Braun from Commerzbank; please go ahead with your question.

JB Oh yes, thank you; just one question left regarding the offer to Unite, to the union; can I just ask what was the additional change you made to your initial offer for them now to accept or to recommend the deal to their members because I think I didn't get that?

CC So I think what I'm prepared to say on that is it was on holiday pay; it was something we had already got built in to our planning and to our assumptions. I don't want to go into the details of amounts just simply because it's still something in progress but it was an outstanding issue on holiday pay that would have needed to have been resolved, it's just that we got to it much more quickly with Unite because it had been parked as outside the pay deal. We've now brought it inside the pay deal in order to resolve this issue quickly.

JB Okay, but the pay increase of 4.1 per cent and 5.1 per cent is still unchanged?

CC Yes it is, and that's over two years, so please remember that. It's two per cent for cabin crew and 2.5 per cent for cabin managers and that is a two-year deal.

JB Yes, understood, thank you.

CC Okay.

00:47:10

OP We have no further questions in the queue; please be reminded if you wish to ask question please press star one on your keypad now. Thank you.

CC Okay, shall we wrap it up?

OP There are no further questions so I'll hand back to your host to conclude today's conference.

CC Thanks very much; thank you all for joining us and speak to you all soon. Have a good summer. Bye.

OP Thank you for joining today's call, you may now replace your handsets. Thank you.