

EasyJet Q1 23 01 14

Speaker key

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FA Good morning, ladies and gentlemen, and welcome to the easyJet Q1 Results Conference Call. My name is Faye and I'll be your coordinator for today's conference. For the duration of the call, you'll be on listen-only. However, at the end you will have the opportunity to ask questions. If at any time you need assistance, please press *0 on your telephone keypad and you'll be connected to an operator. I will now hand you over to our host, Carolyn McCall, to begin.

CM Thanks, Faye. Good morning, everybody, and thank you all for joining me to discuss our interim management statement for the first quarter of 2013/14. In the room with me are Chris Kennedy, who you all know, and Rachel and Will, who you also all know from the IR team. You should have been sent slides along with the statements; the slides are also available on our corporate website. We're going to keep this presentation quite short so that you have time for questions.

So just looking at Slide Two in your pack, we made a good start to the year. We've delivered strong operational performance in the quarter despite a challenging competitive environment. In the quarter, passenger numbers were up 4.2%, load factors were high at 88.7%, RPS was up 1.4% at constant currency. Cost per seat at constant currency was up 1.2% in the quarter, reflecting our strong focus on cost control and the slowing of the rate of increase in the charges at regulated airports. As many of you will know, we have new bases in Hamburg and Naples opening in the spring. We've also announced an increase in capacity at Rome's Fiumicino, and this is all about our strategy of building a quality network and having strong number one and two network positions.

Our performance in the quarter demonstrates continued progress against our strategic priorities and easyJet's structural advantage in the European short-haul market against both the legacy and the low-cost competition. I will now just run through the numbers in a bit more detail, so if you turn to Slide Three in your pack, you will see that revenue performance was in line with expectations. RPS grew, as I said, by 1.4% on a constant currency basis; by 3.4% on a reported basis to £55.71. Load factors, as I've said, 88.7% for the quarter. That's an increase of .1%. Our capacity grew by 4.1% in the quarter and this capacity growth was focussed on our core markets where we know the potential to generate the greatest returns exist. Now, onto Slide Four in your pack: total seat revenue increased by 5.5% at constant currency and 7.6%, as reported, to £883 million. This has been driven by careful management of capacity by us, strong allocated seating performance, some changes to fees and charges, and on-going benefits from the digital offering and the generation easyJet campaign.

As we stated at the time of the full year results in November, the first quarter was impacted by the tough comparison with the very strong post-Olympic bounce in the same quarter last year and the travel restrictions to Egypt imposed by various European governments. In addition, the competitive environment was definitely a bit tougher in the quarter with total capacity in the European short-haul market increasing by 2% year-on-year and by 0.5% on easyJet's routes. Competition in the UK has increased on, particularly I would say on UK Beach. Capacity has grown in the UK market by close to 4% and by 3% on easyJet routes. This compares to a decline of 2% in the same quarter last year. However, easyJet now has a broad portfolio of markets and of customer types, which has enabled it to deliver the good performance in the quarter.

On to costs, on Slide Five: cost per seat increased by 1.2% at constant currency, and by 3% on a reported basis, and in this quarter, we've benefitted from the increased A320 mix, easyJet lean, which continues to deliver sustainable savings and the slower rate of increase in charges at regulated airports, mainly France and Italy. In addition to the increase in charges at regulated airports, the other main cost increases were the maintenance costs, which increased due to the planned aging of the fleet, and the increased proportion of leased aircraft, and disruption events such as London Gatwick on Christmas Eve, ATC strikes in Italy and ATC issues in the UK. The disruption at Gatwick on Christmas Eve has resulted in a cost of approximately £2 million. However, we are now managing disruption better than we've done before, much more efficiently, and that is evident by the increase in our on-time performance from 85.9% to 87.3% in the quarter. I'm now going to hand over to Chris.

CK Thank you, Carolyn. So turning to Slide Six and the detail of our hedging positions for fuel, USD and Euro, we now have 77% of our remaining H1 2014 fuel requirement hedged at \$991 a ton, and 74% of the full year 2014 requirement at \$982 a ton. We continue our policy of using hedging to smooth the impact of on cash flows of changes in fuel and foreign exchange rates, and taking into account the hedges currently in place, a \$10 movement in the fuel price impacts PDT by \$4 million, a 1% movement Dollar rate impacts by £.6 million, and a 1% movement in Euros, by £1.3 million. Turning to Slide Seven: overall on forward bookings, with the exception of March, which is clearly driven by the movement of Easter year on year, forward bookings are in line with the prior year and 74% of H1 seats have been sold.

Turning to Slide Eight, you'll have seen the outlook in the RNS. There's been no significant changes to capacity plans for the year, with around 3.5% capacity growth planned for the first half, and 5% capacity growth for the full year, assuming normal levels of disruption. With first half bookings in line with last year, we still expect first half revenue per seat to constant currency to be very slightly up on the prior year, and that's after the 1.5% point advert impact from the timing of Easter, which as you know, falls in the second half of the financial year. easyJet now expects first half cost per seat to constant currency, and excluding fuel, to increase about 1.5% for the first half of the year, and between 1.5 and 2% for the full year. It's estimated that at current exchange rates and with refuel remaining within the \$950 to \$1,050 a ton trading range, our unit fuel bill for the 2014 financial year will be up to £40 million higher than prior year, and up to £15 million higher for the half-year.

In addition, it's estimated that exchange rate movements, including those related to fuel, will be broadly neutral in the six months to 31st March, 2014, and in the 12 months to 30th September, 2014. We expect the first half loss before tax to be in the range of 70-90 million, assuming normal levels of disruption, and just to reiterate, last year Easter fell on 31st March, which resulted in £25 million of additional revenue in the first half of last year, and in this financial year, Easter will fall in April.

So with around 15% of second half seats sold year to date, which is in line with where we were last year, it's still too early to give guidance on the second half yields or the expected profit. Our strong customer focus and tight cost control ensure that we are well positioned to deliver sustainable growth and returns for our shareholders. Thank you for listening in and now over to you for questions.

FA Thank you. Ladies and gentlemen, if you'd like to ask a question, please press *1 on your telephone keypad. If you change your mind and wish to withdraw your question, please press *1 again. You will be advised when to ask your question. And our first question is from the line of Steven Furlong from Davy. Please go ahead.

SF Hi, Carolyn, hi Chris. You might... I know you've only got 15% of bookings for the summer but you might just talk about the competitor environment: are you seeing any changes or any surprises or is it more the same and maybe a bit more competition in UK Beach, as you mentioned that you would be expecting, and maybe while you're doing that, if you could just touch on Germany and Italy, obviously the developments there – I'm sure it's early days with Hamburg and Naples – and talk about Rome, that would be great.

CM So actually we're not seeing, we don't think there's been anything fundamental that's changed in the capacity environment. It's still relatively tight but clearly in the summer when everyone can make money, we are expecting it to be more capacity, and actually we're generating quite a lot ourselves, as you say, so our main competitor competition in the summer is going to continue to be in the primary airports with the legacy competition. They're in various stages of restructuring. It's, for us, that's just more of what we've been doing so we're very focussed on it but it is more of the same.

Hamburg and Naples, not started yet, Steven, so that's spring, we launch those in spring, and Fiumicino capacity is going in gradually but won't really start until spring, picking up for summer so that is all about strengthening what you know is a very

quality position and network, and Hamburg is about just a very stealthy, quite cautious approach to Germany. Germany is not one country, as you know, it's not homogenous; we're doing very well in Berlin but we're looking at Hamburg as almost like a different country so it's a steady go really at Hamburg and it looks promising. I think Italy, it's hard to... I think Alitalia is, it looks as if it might get an injection of cash and, therefore, will continue, although Alitalia is taking capacity out of the market, you can see that quite clearly, and I think there are opportunities for us in Italy, which we're not the only people to have spotted.

SF Just finally, I'm wondering, Carolyn, do you have a different marketing approach to the likes of Hamburg or Rome, or it's all the same?

CM No, we have a different marketing approach by country but we have an overarching brand strategy for easyJet so we have, so I think that answers that.

SF That's great, thanks, guys.

FA Thank you. And our next question is from the line of Jarrod Castle from UBS. Please go ahead.

JC Thank you. Good morning, just two quick questions: one is sector length, it's up 3% for the quarter; can we expect that for the full year? You're giving very clear guidance, obviously, on seat capacity but I'm just interested in terms of sector length; and then secondly, I know allocated seating really started towards the backend of Q1, the last financial year; can you give an indication what the final benefit was this quarter in terms of uplift from allocated seating? Thanks.

CM So, Chris, do you want to take the sector length question?

CK Yes, on sector length it's primarily driven this quarter by the introduction of the Moscow routes from Manchester and London, and then new routes to Sharm from other network points like Milan and a little bit of Tel Aviv, so it won't be 3% in the full year because the proportionate capacity, clearly in the summer, the proportion of capacity that represents is lower than in the winter so don't expect three; it will be up slightly but it won't be up three. On allocated seating, this, as you know, this is the last quarter we get the annualisation of the move from speedy boarding to allocated seating so we got an uplift, which was broadly in line with Q2, 3, 4 last year so in total it was 43 pence in the quarter from allocated seating, over and above where speedy boarding was last year.

JC Thanks very much.

FA Thank you, and our next question is from the line of Neil Glynn from Credit Suisse. Please go ahead.

NG Good morning, everybody. If I could ask a couple of questions just on the business traveller: for me, one of the most compelling parts of the first quarter was the 9% increase in business traveller volumes. I'm just interested in terms of if you can provide any regional colour and maybe a view as to whether that kind of run rate is sustainable going forward, and then the second question was, is it possible to help me think about what proportion of business passengers actually book an allocated seat?

CM Yes, we will have that figure although I don't have that with me at the moment, the proportion of business travellers. Most, the majority of our business travellers, particularly through GDS, will book an allocated seat so it will be the direct bookings that are business travellers where we would have to analyse that so, but it's a high propensity to book an allocated seat if you're travelling on business. In terms of run rate, Neil, we've said this consistently; we are pleased with that run rate, it is across the market so there are certain markets doing slightly better than others but we are doing well in all our markets on the business traveller. It's much, much more important for us to make sure that that 9% is driving the right yield and we are very focussed on yield and not on run rate so we're pleased with that. We think it is, we think we will continue to get momentum now.

We've said repeatedly this is a long, long game. This has taken us a good two years to get all the pieces of the jigsaw in place, including the sales team, to be able to get this kind of momentum going and so, for us, we are focussed on yield and on converting a lot of the contracts we currently have rather than going out and getting new business, and that's the strategy going forward for the business traveller.

NG Understood, thanks, Carolyn.

FA Thank you, and the next question from the line of Andy Light from Citigroup. Please go ahead.

AL Good morning, a couple of questions: first of all on unit cost, it came in slightly better, I think, than your previous guidance and you're giving a slightly better outlook. Is there anything specific that's driving that, and then secondly, just following on from Steven's question on the capacity outlook in the summer, are you able to, like you did for the December quarter, say what you think capacity for those numbers?

CK Yes, on cost, nothing, no one particular event on the cost; it was just generally a good cost performance across all lines so, and nothing really fundamentally changing in the assumption so effectively what the guidance is doing is just banking the cost upside from Q1 but assuming the run rate for the rest of the year is going to remain where we said it full year.

CM And on the second question, Andy, I think it's impossible to tell you what it's going to be for summer because even if you were to use OAG data, it will change so we, it's just far too early because people say they're doing something and they'll change it by the time they get to summer. I can give you H1 but that is more, it's going to be much more accurate than anything else even though that Q2 could even shift now but would you find it helpful if I gave you, run through each one?

AL Yes, sure.

CM So easyJet actual in H1 will be about 3.6%. What you see there is legacy's coming out so -7.8% roughly for IAG, -5.7% for Alitalia. What you are really seeing is an oddity with Air France, KLM putting in 2.7% for H1, and a bit of Lufthansa, 2.4%. When you look at Ryanair, it's very moderate, 2.2%, Vueling and Norwegian are putting in around 16% in H1, and Air Berlin still, oddly, putting in capacity of 2.4% but you can see that the picture is not very different to where it was last year in

terms of it's the low cost carriers and us, Vueling and Norwegian are putting in capacity, and the legacy's predominantly restructuring and taking out capacity.

AL To be clear is that on your routes or is that overall?

CM Overall in the market; I've given you overall figures in the market.

CK And then on our routes we see our market going up half a percent overall in H1 and that implies competitors coming, reducing on our routes by 1.3% for H1, the growth on our routes.

AL Thanks very much for that.

FA Thank you and our next question is from the line of Wyn Ellis from Numis. Please go ahead.

WE Yes, hi, good morning, everyone. Most of my question's been answered already but could I just ask what you're seeing across the different geographies that you're serving in the source markets; are you seeing any difference between the amount of capacity that's coming on routes and the yield development on those routes relative to what you might say is the underlying economic performance in the various countries that you're serving?

CK Yes, I think as you'd expect, I think it's a good question. The yield picture is very much driven by the capacity picture so the UK is the only market where you've got substantial growth on our routes, and that's where the yields are hardest to achieve, whereas in the rest of Europe we're seeing good RPS progression. And in terms of the markets themselves, consumer demand still seems to be where it was. We're not seeing any dramatic change in demand. In the UK I think there's a lot of talk about the recovery coming now but we still see it as a corporate recovery rather than a consumer recovery because real wages are still not growing.

CM I think that's right and I think in Europe, in mainland Europe you don't feel any warm winds around consumer recovery and that has, it's no different to last year in mainland Europe really.

WE Thank you very much.

FA Thank you and our next question's from the line of Donal O'Neil from Goodbody. Please go ahead.

DO Hi, guys, good morning. Just a couple of questions from me, if that's okay. Can you give us an idea of where you think non-seat revenue per seat will go through the next, the rest of the year so in the first half; should we expect a similar kind of increase to what we saw in Q1, the eight pence, and secondly, just I guess there's threats of ATC strikes in the next few weeks: what's your view on that in itself and how you're going to deal with that when it comes about?

CM I'll just talk about the ATC environment or the industrial environment. I think that we should just expect that the industrial environment or the employee relations environment, put it that way, across Europe, particularly in mainland Europe, is going to remain tricky and I think that there will be more strikes from ATC. This is all about

single European skies and the amalgamation of air traffic control, effectively, and that will be particularly France, Germany, the particular objection to that from those countries so you will see that continuing. I think you'll also see some continued unrest, if you like, with people in airlines who are, just want to protect terms and conditions and want to protect jobs. Now, that doesn't affect us because we are expanding but you're seeing that in Europe; it's just a very, it's quite a, it's just going to continue for quite a long time.

I think the key thing about that environment is that easyJet is really very, very good at managing disruption, at doing it cost-efficiently, but also looking after passengers, and you can be cost-efficient and look after your passengers and make sure that you don't have people turning up to the airport if your flight's not going to go on time or whatever, so we're using a lot of digital communication to make sure that we're managing that disruption extremely well. It is cost-efficient and it enables us to recover very, very quickly so even with Christmas Eve, which was kind of a nightmare, we were able to recover the next day very quickly. We flew on Christmas day to get more passengers to where they wanted to go so I think for us, despite the industrial environment, unless it's abnormal; if it's kind of normal levels of disruption, things that we're used to, we feel very well equipped, I think, to handle that. Chris, do you want to take the non-seat revenue?

CK Yes, I think on the non-seat it's, so this is, it doesn't include fees and charges on allocated seats or anything; it's just our partner and in-flight so it's a relatively small number so you get big percentage movements driven by small pence of income, so in the full year don't expect 10% increase but it will be steady progress on the partner and in-flights, it will be a small incremental again.

CM I think the good news here is basically we've stabilised it because the insurance, the whole insurance thing is now coming out so it's taking quite a long time for that to phase out but I think we feel we're at the bottom of that insurance issue and now what we're, this is all about just converting on the website, hotels, cars, just getting more of our passengers to book all of that so it's stable. This is a small number in relative terms so I wouldn't get too excited about it.

DO And maybe just one quick follow-on on Egypt: has the performance been any better or worse than you would expect in terms of the guidance you gave about 0.7% hit to revenue proceeds?

CM It's on guidance really. I think what you're saying is that obviously countries where they're telling people not to fly we've taken out the routes so Switzerland has been very affected by that; we you put that into the guidance and with the UK people are still flying to Egypt. They're getting some brilliant deals in Egypt and actually when they get there they're coming back and telling their friends that it's a very good holiday because its very well protected, if you like, but I think what you're getting there is volume without the yields which is exactly what we expected so we're not getting the yields we were getting and that's the effect, that's really... so it's taking out routes plus a yield diminution.

DO Super. Thank you very much, guys.

FA Thank you, and the net question is from the line of Edward Stanford from Lazarus partnership. Please go ahead.

ES Good morning. Two quick questions, please: one is on the UK competitor environment; have you noticed it being particularly disruptive or is the competitive behaviour of new income has been relatively disciplined, and the secondly, on the allocated seating, have you started, remind me, started yield managing that a little bit and are you able to give any indication of how that's progressing, please?

CM Yes, so I think, as we've said, the UK is seeing the most capacity coming in. I don't think we're... I think whether one's being very disciplined because we know where we will put the capacity in the UK and we know where we will fight to win and, therefore, we won't be scatter-gun about where we put capacity. We're being very disciplined about our allocation of capacity because either there is a long-term win for us, which is about our returns, so for us competition is competition; we're used to competition, it doesn't matter where it comes from, whether it's the UK or France or Italy, at the moment it's UK Beach but we're used to competing on various different kind of routes and markets, so I don't think there's any particular change on that. It's just that we're seeing it particularly in the UK right now, rather than in Italy, France or Germany. The key thing for us is we are very, very clear about our strategy and therefore we know exactly what we have to do and how we have to do it to win, and it's about our network positions and about the quality of our network.

On allocated teaching, broadly, if I just go through what our... again, how we've been doing this, you're absolutely right. We've been now yield managing some of it, but two-thirds of it is roughly staying exactly as it was. Where we're really tweaking it is on the long haul, where clearly, when we say long haul, we mean anything over two and a half hours. Clearly, there is an upside there for us, where we can, they get... Those seats go months in advance for the extra legroom, so there is obviously a price insensitivity, to a level, and at the moment that's where we are looking at putting it up, and that's probably around 16% of our seats. And then we are also, however, taking down quite a lot of seats, so on flights under two and a half hours, particularly under two hours, we're looking at incentivising people to take extra legroom, and therefore we've reduced the price of that. And that's really what we're doing.

CK Yes, we're still keeping it very simple, so the price adjustments are in increments of a pound or two, but it's still very much this is first set of seats that have gone on trial, on sale, sorry. They've been on sale for two months now, so it's too early to say what the uplift is going to be from it, but clearly, we're doing it because we've got great data around which seats are being sold out early and which aren't selling at all, and we're addressing that.

ES Thank you.

FA Thank you. Our next question comes from the line of Damien Brewer, from RBC. Please go ahead.

DB Yes, good morning. Most of my questions have been answered, just two remaining, please. Could you tell us a little bit more about the A320 mix effect on the

cost per seat, and as that fleet develops into summer whether that process will accelerate or change in any way? So basically, what it did in Q1 and the degree of acceleration effect for the remainder of the year. And then, second, as your competitors grow capacity, particularly out of the UK, has there been any increase in labour turnover rates, or has that remained relatively stable? Thank you.

CM If I take your second question first, so no, our churn is actually very low, even amongst our cabin crew, very, very low. I think... I'm not just saying this; I think that our crew are happy, and feel very proud of what easyJet is doing, and see the future as being bright, and they love the fact that we are still growing, and there are still lots of opportunities for our crew to go to different places if they want to, or to grow in Gatwick, for instance.

So, no, we're not seeing... In fact, our pilot attrition is probably the lowest it's been for a very long time, so it's very, very low.

So, actually, not fortunately we're not seeing any effects on that.

CK Then, on the A320 mix the impact in the quarter is relatively modest. We've gone from 26% of the fleet last December being A320s to 29% of the fleet this year, so a relatively modest impact for the quarter. It will be larger for the full year, because this year in particular we've got great delivery slots for the new aircraft coming in. Again, this is part of the culmination of managing the fleet over the long term, so we're getting the extra capacity we need for the summer being delivered in the spring of this year, ready for the summer, so we're not holding on to spare capacity over the winter. So it will be a better 320 mix by the end of the year.

DB Would that have a similar effect on cost per seat, as we saw last year, or is the fleet...? I think you've got a bigger base that you're starting from in A320s, but you're still growing that base, so it becomes a bigger proportion of the fleet. Net-net would that have the same effect on unit costs, as we saw last year, or would it be slightly better?

CK No, I think it would be slightly less, because we're also extending the 319s as part of the fleet replacement, the new fleet order.

Probably best for Will to take you through that offline, later, but we can take you through the numbers.

DB Thank you very much.

CM Okay.

FA Thank you. Our next question is from the line of James Hollins, from Investec. Please go ahead.

JH Hi, morning. A few for me. The first one's on aircraft utilisation; it was up 1.5% in Q1. Should I be thinking of that as being quite an impressive performance, or is it just really a mix of routes, and at 10.1 hours to where could that get? The second

one is I believe you may have had a fairly slow start to the Manchester-Moscow route. I was wondering if that was building. The third one is what proportion of your December to April capacity is ski routes? And should I be worried about April being so late this year?

Thank you.

CM Let me just take the Moscow. We added Moscow; we put it in as a network touching point in terms of building Moscow. One of the things we were very surprised about is that Moscow is doing very... So the Moscow outbound is doing unbelievably well, because we thought we were going to have to build a lot of that, stimulate that, from the Moscow end, but actually, they've heard about us, and they're all booking online, which we also didn't expect. We've heard that they... Our investigation, and we've heard that a lot of people booked through travel agents, so, we've been very pleased, outbound Moscow-London, i.e., Gatwick. It's okay Moscow-Manchester. I think what we do have to do is in the Manchester, in the northwest we need to do a bit more work on making sure people realise that we are flying Manchester-Moscow. It's been a much, much less salient route than the Gatwick-Moscow. Everybody, I think, knows that we're flying Gatwick-Moscow. So I think that's the issue. I think we're doing twice a week now, Manchester-Moscow, so I think that's probably the right level to be flying, and then we'll reassess it and see how we do on Manchester, but actually, the Moscow-Gatwick is doing well. That is the primary thing that we feel about on Moscow.

Utilisation?

CK Yes, utilisation. What you're looking at is the average of the whole network, so there's a huge variety of routes and so on, going into that. I think the small increase this year, so going to the 10.1, it really is, I think, a product of just our focus on the schedule this year, and every year we are getting better at optimising that winter schedule to minimise those winter losses.

JH Okay.

FA Thank you...

JH Sorry, just on the ski season proportion?

CM Your question was what proportion of ski is in April to September; is that the question?

JH Well, December to April, i.e., ski season.

CM Yes. And your question is...?

JH What proportion of your total capacity is skiing? Ski routes?

CM Do you know, that's quite hard, that one, because we fly into primary airports, and sometimes you go flying into Geneva for business, sometimes they're flying in for

a holiday that is not skiing, and then sometimes they're flying in to ski, and sometimes they're flying into Geneva to get to France to ski. So it's quite... It's really difficult for us to disentangle the flights, the reason for the flights. If that makes sense?

JH Yes.

CM If you go to our website and just go Geneva, or somewhere in France, which is near a ski resort, you don't necessarily know, because it's primary airport, it's not... So all we can say on ski is that at the moment we are on track on ski. So when we are promoting ski we are getting good pick up. It all depends on the snow, as you probably know, and I don't, because I'm not a skier, but people who ski will book quite late, and it will depend on snow. So we monitor it very closely, because clearly, it's an important part of the Q2 mix, but at the moment there's nothing that would worry us about that.

JH Okay that's fine. Thanks very much.

FA Thank you. Our next question is from the line of Alexia Dogani from Goldman Sachs. Please go ahead.

AD Yes, good morning. I also have two questions, please. Firstly, on the unit cost guidance, how should we think the announcement of this year on the Gatwick charges, where they feel a fair price is RPI minus 1.6? And then my second question is, again on the business traveller; can you talk about whether you've had more progress on specific markets to get this 9% growth? And then, building on that, as you improve on the business traveller penetration, should we really be thinking that ultimately you're driving the business to make profits or break even in the first half? Thanks.

CM Okay, just on the... Just let me mention something about Gatwick before Chris comes into the unit cost guidance. Just on Gatwick, the Commitments Framework, which is what you're talking about, largely, has not been done and dusted yet, so a lot of airlines will have been dealing with Gatwick, but now that the CAA have come out and given these figures, they can't mandate Gatwick to do it, so we are still in discussions with Gatwick about where this all ends up on commitment, so it's too early for us to say anything, really on that.

Do you want to mention...? Is there anything else on unit cost guidance there?

CK No, just...

CM No? On the business traveller, I think what you should see this as is one element of our ability to, with our own actions, continue to improve our RPS. It's not the only thing. It's one of a combination of different initiatives that we have at EasyJet that helps us drive RPS whatever the market conditions are, and so we are making good progress, it's steady progress, but, as I keep saying, this is about being tenacious and it's about a lot of perseverance, about changing habits in business. I think we are beginning to do that, but it's going to take quite a long time.

As to first half losses, of course our ultimate objective is always to lose as little money as we possibly can in the winter, while having a decent schedule for our business passengers, and also of course our leisure passengers, second home owners, GP4, etc. So of course it would be our ultimate goal not to lose money in the first half, but as you can see, for every airline I think that is quite a challenge.

AD Carolyn, can I just ask a follow up on the Gatwick airport? My understanding then is that you're working with Gatwick to strike a deal, and that's how this Commitment Framework will be put in place. So, I guess, can you give an indication of what kind of duration you would be looking to lock in your charges?

CM No, because it's all commercially sensitive, so Gatwick will be talking to all airlines at the moment, because the CAA has told them to do so. So, it's in their interests to do so, and it's in airlines' interests to do so, but anything within those conversations will remain very confidential.

CK The public... As it stands at the moment, and it is not yet finalised, but the CAA are suggesting that a Commitments Framework will work. GAL have made a proposal, under a commitments framework, which is for the airport as a whole, for the next seven years, the blended rate paid by... so the average rate paid by all airlines would increase by RPI each year. And that would apply from 1st April. So that's what's in the public domain. After that, as Carolyn said, any bilateral discussions are confidential.

AD Okay, great. Thank you.

FA Thank you. Our next question is from the line of Oliver Sleath from Barclays. Please go ahead.

OS Morning, guys. It's Oliver Sleath here, from Barclays. Just two quick questions: firstly, Carolyn, on Italy, and especially Rome, there's clearly quite a lot of capacity going into Rome this year, with the Vueling and Ryanair base announcements, and I assume your announced capacity increase was partly aimed at holding your number three position at Fiumicino, so am I right to assume that depending on the Alitalia outcome Italy could be a particular price pressure for you, going into the summer, and do you have any sense for how much your network out of Fiumicino looks like it could directly be in competition with other low cost carriers? That's the first question. And second, just for Chris, on the sale and leaseback transactions, could you give us an update? Do you think that's going to be more during the quarter, and with the new A320s coming in through the spring are you looking at closing any more on that financing? Thank you.

CM Yes, you're right. I think it's brilliant news for consumers in the Rome catchment area, because I think there is going to be quite a lot of capacity in Fiumicino, but do remember that Alitalia have taken capacity out of Fiumicino, and they've taken quite a lot of capacity out, so on balance there will still be an increase in capacity in Fiumicino, but it's not all incremental capacity in the market.

I think, from where we are, we've been in Fiumicino for quite a long time. We're very used to the airport, very used to dealing with them; we have been number two in Fiumicino for some time, and we intend for that position to remain.

Where we will come against Vueling will be on some international routes, so we... our predominant focus out of Fiumicino is out of Italy. Other than Linate we don't do very many domestic; we don't do domestics. Ryanair have come into Fiumicino, and they are doing domestic out of Fiumicino, and they're doing international out of Ciampino. So our head to head, and it's a really, really small part of our... it will be a very small part of our overall network, this, but our head to heads will mainly be with Vueling, out of Fiumicino.

OS Thanks. And on the sale and leaseback?

CK On the sale and leaseback, as you know, we're in a fairly strong balance sheet position, so we don't have to go to the market for sale and leaseback. The team have been out at the aviation conference over the last week or so, and we're just judging what the conditions are. If we get great deals like we did last time we'll consider them. If we don't, we won't.

OS Cool. Thanks, guys.

FA Thank you. Our next question is from the line of Anand Date from Deutsche Bank. Please go ahead.

AN Hi, morning, everyone. I've got a couple as well, I'm afraid. Could you quantify exactly what Amadeus is delivering for you, in terms of business passengers, and whether you're getting a bit more interaction with TMCs on the back of that as well? Another one on business passengers as well, could you let me know exactly how you classify them? So how do you differentiate exactly between business passengers and leisure? And then a more general network one, what percentage of your network would you classify as trunk or core, versus, say, peripheral? If you suffered significant competition on those two bits, do you think you'd pull out or would you fight? And if you were fighting, for how long would you persist with that before you just said, you know what, we'll let someone else have this market?

CM Okay, so there are two questions. I'm not going to give you a very... You're not going to be happy with my answer. The first question is, no, I can't quantify what we're doing for Amadeus. It's completely sensitive commercial information. All I can tell you is that Amadeus are performing well for us, the technology is working well, and we are definitely seeing a pick up in TMC bookings through Amadeus, so they're very pleased with it, and we, we're never very pleased with anything, but I mean, we are content that the technology is working now, and that is seeing an uplift.

The other thing you're not going to be very happy about is we're not going to break down in any detail what is core and what is not. You need to assume that a lot of what we do is core. That's why we have a quality network. That's why we have such high returns and that's what we're very focused on it. We're focused on profitable growth and sustainable, good returns for our shareholders. We believe we can deliver that,

and therefore, what we do, both tactically and strategically around that is very much for us to know and for us to deliver, and tell you about it retrospectively.

AN Okay, fair enough. And just how you go about classifying business passengers, specifically? I know that's a technical question.

CK We ask them, is a short answer. So it's a very non-technical answer. There's a box that says, why are you travelling with easyJet? And then we use an algorithm. There's a very small number who don't tick the box, but in essence, people are self-certifying, and then we check that self-certification, and we've got a high degree of confidence that the numbers we're putting together are accurate.

CM Yes, we have a high degree of validation of the self-certification, so we then have criteria that we use to validate whether they are a business traveller or not, which will be about length of trip, one day, overnight, etc. So are they travelling with other people? Are they on the same booking? So there's a whole load of validation criteria that go into certifying whether that is what they've said it is.

As a market researcher in the past, it is a very robust way of looking at it.

AN Okay, lovely. That's perfect, thank you.

FA Thank you. Our final question is from the line of Andrew Lobbenberg from HSBC. Please go ahead.

AL Hi, Carolyn. Hi, Chris.

CM Hi.

AL In the winter you appear to have traded or managed very serenely through a bit of industrial instability in Portugal and in France. Could you say a little bit about how you worked through that process, and indeed, whether it's settled or whether you're expecting a further industrial little bit of unrest here or there?

And then otherwise, we've had quite a bit of chat about Rome and the excitement there, but obviously your more important airport is Milan Malpensa. How is the trading in Milan? Is that rather more serene?

CM As I said, Andrew, I do think that the industrial landscape, particularly in mainland Europe, is just... and it's been like this, actually; there's not really any change. It's been like this for a good two, two and a half years. I think one of our...

I'll just take France, first. One of our issues in France is they see... they have a very different outlook, really. The more successful a company is, what France will see is, well, we should get a load of that, so we want... In France it's about they want profit sharing, etc. Now, we don't do that. We give shares. We give performance shares to all our people, if we have hit our targets on PBT. Everybody benefits across the network in performance shares. We don't do profit sharing; we do performance shares instead. So, France doesn't like that. They don't like that. They want profit sharing,

because in France it's more common to have profit sharing than performance shares. So that is actually at the nub of the issue with France.

The other thing that is causing an issue in France with the cabin crew is that we don't have seniority, as you know, in cabin crews. This is a very important low cost principle, which is you reward on performance, you don't reward on length of service, and of course that is something we will not be able to do, and we won't be able to do that in any part of our network for cabin crews. So for us, we know clearly what we can do to improve relations with our unions, and there are things that we just can't do, and we'll explain that to them.

So our whole approach to this is constructive, it's about engaging, it's about explaining, it's about explaining the business model, why we can't do things. That doesn't always mean the outcome is not having a strike. So that's, kind of, where we are.

I think Lisbon is very different. Lisbon is because we're coming to the end of the two years of contracts in Lisbon, and we are now formalising it, if you like, as a base, and that's where some of the issues lie, in terms of terms and conditions, and it's mainly because we've put people from other parts of the network into Lisbon, and that's creating a bit of friction.

So, I feel confident that we are approaching these things in the right way, and that we will get through them, but as I said, we are not always able to agree with the unions' positions on terms and conditions.

Does that help, Andrew?

AL Yes. No. But I mean, you would expect similar sorts of issues to crop up from time to time, around the system, because you're a successful, profitable company, right?

CM Yes, I think that's absolutely right. I think the way... I think what has really changed, though, in the last four years, is how we engage with the unions, how hard we try to communicate with the unions, and how much information we share with them. So we give them a huge amount of information, to demonstrate why we're taking decisions, and we try and consult, obviously, as well.

So I think our whole approach has changed, and doesn't mean, as I said, that the outcome is not a strike, and what, for us, is important, is that operationally we protect our customers, and the customers will always come first, and therefore we will do, as we have done through Christmas. There was not one passenger affected by what happened in Lisbon. So we work around it.

AL Lovely.

CK Then, Andrew, on Milan we're very much on plan, where we expect to be. I don't want to say too much about whether it's a good airport or a bad airport, because there's a lot of competitor activity going on, so it's where we expected to be.

Northern Italy, as a market, and as a consumer, as Carolyn said earlier, there's been no real change in consumer sentiment there. It's more of the same, but we are number one in Milan, and we intend to stay there.

AL Lovely. Congratulations.

CM Thanks, Andrew.

FA Thank you. We have no further questions coming through, so please be reminded it's star one on your telephone keypad.

CM Thank you all. If there are no more questions, Faye, we'll close the call. Thanks very much for joining us. Bye for now.

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