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THE WEB'S FAVORITE AIRLINE

The safest way to become a millionaire is to start as a billionaire and invest in the airline industry.

Richard Branson,
Founder, the Virgin Group

Research Associate Brian Rogers prepared this case under the supervision of Professor Nirmalya Kumar as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.

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*This case also won the **2001 European Case Award**, in the category of **Policy & General Management**, granted by ECCH in association with *Business Week*.*

“If you create the right expectations and you meet or exceed those expectations, then you will have happy customers,” proclaimed Stelios Haji-Ioannou, the 32 year-old founder and CEO of easyJet airlines. Since its launch in November 1995, easyJet had become one of Europe’s leading low-cost airlines by adopting an efficiency-driven operational model, creating brand awareness, and maintaining high levels of customer satisfaction.

Stelios, who preferred to be addressed by his first name only, considered himself a serial entrepreneur. Although he gained international fame as a pioneer in the airline industry, he first achieved business success at the age of 25 when he created Stelmar, a specialized tanker company. Anxious to replicate his past successes, Stelios aggressively pursued any business opportunity that he believed he could operate profitably.

Despite its early success, easyJet airlines still faced internal challenges that were typical of many start-up companies. Growing competition from other small, low-cost carriers, as well as threats from Europe’s major carriers, required much of the company’s attention and resources. Undeterred, Stelios relished the challenge and moved ahead in his mission “to offer low-cost airline service to the masses.”

Stelios believed that in order to be successful, it was important to be first to market and to saturate the geographic market. “You don’t need to conquer the world in order to be profitable,” he argued. His strategy for market entry had been successful in the airline industry, but many wondered if he could transfer his low-cost business model to Internet cafés, rental cars, and Internet banking, three ventures he considered in 1999.

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Company Background

Stelios first became interested in the idea of a European low-cost airline in May 1994, after being asked to invest in a Virgin Atlantic Airlines franchisee. Although he refused, soon thereafter, he flew on Southwest Airlines, a successful low-cost carrier in the US. That experience became the catalyst in his decision to create easyJet. Stelios asked his father, Lukas Haji-Ioannou, a Greek shipping tycoon, to invest in his startup airline. In November 1995, after receiving £5 million from his father, Stelios began operating easyJet with two leased aircraft and a staff primarily comprised of teenagers who served as reservation agents. Although London's Heathrow and Gatwick were major international airports with higher passenger traffic, Stelios chose Luton because it offered lower labor costs and close proximity to downtown London, and charged lower airport fees.

The first easyJet flight, from London to Glasgow, was advertised for a one-way fare of £29. The flight was completely full, in large part because Stelios had launched an extensive public relations and advertising campaign with the slogan, "Fly to Scotland for the price of a pair of jeans!" Increasing demand soon led to flight service to Edinburgh and Aberdeen. Over the next two years, Stelios raised an additional £50 million in debt and equity to finance the purchase of four additional aircraft and to speed expansion. By early 1998, easyJet owned a fleet of six Boeing 737-300s and flew 12 routes in five countries. However, by November 1999 easyJet owned and/or leased 18 Boeing 737-300s, and flew 27 routes in Europe.

Stelios modeled easyJet after Southwest Airlines. He researched Southwest intensively and even met with the airline's CEO, Herb Kelleher, before launching easyJet. Stelios deeply admired the concept behind Southwest Airlines: one type of aircraft, point-to-point short-haul travel, no in-flight meals, rapid turnaround time and very high aircraft utilization. However, Stelios added his own twist to the Southwest concept: he completely avoided travel agents, issued no tickets, encouraged direct sales over the Internet, and flew brand new Boeing 737s using the maximum seat capacity of 149 seats. Moreover, he decided not to offer free drinks or peanuts; everything would be for sale. Stelios championed the idea of no-frills travel; the only free item on board an easyJet flight was easyRider, the airline's in-flight magazine. He argued, "When someone is on a bus, he doesn't expect any free lunch. I couldn't see why we cannot educate our customers to expect no frills on board." (Refer to *Exhibit 1* to view items available from the *easyKiosk*.)

The company's headquarters, referred to as "easyLand," was located at London's Luton airport. Just like the airline, easyLand was no-frills. Employees were instructed to dress casually, and Stelios sat in the same open-plan office as everyone else. He had no personal secretary, maintained a paperless office, and expected everybody else to do the same.

In 1996/97 easyJet suffered pre-tax losses of £3.3 million.¹ However, in 1998 the company announced annual pre-tax profits of £2.3 million, the first time the

¹ £1.0 = US\$1.60.

airline had posted a profit in its brief history. (Refer to *Exhibit 2* to review easyJet's financial performance.)

Deregulation of the European Airline Industry

Until the early 1990s the European airline industry had been highly regulated, in large part because individual countries wanted to protect their own national carriers, commonly referred to as "flag carriers." However, in December 1992 the European Union passed legislation that deregulated the airline industry. Similar to the deregulation of the US airline industry in the 1980s, the new directive meant that any European carrier could fly to any destination and demand landing slots.

The proliferation of airlines offering highly competitive fares after December 1992 revolutionized European air travel, especially from the United Kingdom. New airlines were created, and travelers could fly from most airports in the UK to almost anywhere in the world for very low prices. This prompted one commentator to reply, "You can now fly from one end of Europe to the other for the cost of two hardback books." Richard Wright of the Civil Aviation Authority, which regulated British aviation, postulated that many new carriers set up operations from the UK, rather than other European countries, because the British, along with the Germans, traveled most often.

Deregulation in Europe, however, spawned fewer new competitors than in the US. In 1999, only 3% to 5% of passengers in Europe flew on a low-cost carrier, compared to 24% in the US. On some routes in Europe, high speed rail service competed directly with airlines. Furthermore, industry experts believed that the cost of running an airline in Europe was, on average, 40% higher than in the US.

Understandably, few low-cost carriers enjoyed the same success as easyJet. Of the 80 carriers that had begun operations after 1992, 60 had already gone bankrupt by 1996. Still, analysts predicted that the European low-cost market could grow by as much as 300% by 2004.

Competing on Cost

Because easyJet offered low fares, it sought to minimize costs where possible. For example, easyJet saved £14 per passenger by not offering meal service, and estimated that by flying into London's Luton Airport instead of Gatwick, it saved £10 per passenger. The airline also shaved costs by not offering business class seating, thus allowing for more overall seating capacity. (Refer to *Exhibit 3* to view a comparison of the costs of easyJet and other carriers.)

Moreover, easyJet encouraged Internet sales. In March 1999, Internet sales accounted for 15% of revenues; however, by October 1999, Internet sales had soared to 60% of revenues. Stelios offered discounted fares to customers who purchased over the Internet because such sales reduced the need to hire additional reservation agents. He avoided computer reservation systems and travel agents because he believed that they added 25% to total operating costs.

Illustration: Saying No To Travel Agents

In 1998, Stelios enraged travel agents in Greece by selling cheap daily flights to Athens and flaunting his commission-free service by advertising to “forget your travel agent.” Travel agents there took him to court. He won and then immediately thumbed his nose at his foes by plastering “say no to travel agents” in bright orange letters across the first plane to fly from London to Athens, earning him huge amounts of press.

The airline also turned its airplanes around faster, flying planes 11.5 hours per day, instead of 6 hours, the industry average. Because easyJet flew its planes more hours, Stelios claimed that he could fly just 2 planes, and do the work of 3. Although easyJet had achieved profitability in 1999, margins were quite small; the airline earned £1.50 profit per passenger.

Table 1: Cost of an easyJet flight from London to Geneva

Cost Item	£	%
Airport charges	600	15%
Aircraft ownership	560	14%
Air traffic control	480	12%
Crew	400	10%
Marketing/sales	400	10%
Fuel	400	10%
Maintenance	400	10%
Overhead	400	10%
Ground handling	360	9%
Total Costs	£4,000	100%

Assumptions: The table approximates easyJet’s costs for a one-way trip. All costs are fixed.

Source: easyJet

Even though easyJet carefully monitored costs, Stelios emphasized that safety was never compromised. The airline only flew brand new Boeing 737s, and only hired experienced pilots who were paid market rates. Stelios commented:

If you advertise a very cheap price, people expect an old airplane. But when they come on board and see a brand new plane, they are impressed. Likewise, many customers expect an unhappy staff because they believe they are not paid well, but they come on board and see the staff is smiling!

Competing on Service

One of the distinguishing characteristics of easyJet was its approach to customer satisfaction. Stelios flew on at least four flights per week, and enjoyed interacting with customers. He had even been known to work the phones selling tickets. Stelios was wary of market research, preferring to cull information directly from passengers. He also read and replied to many of the emails he received from customers. He considered himself a man of the people and worked hard to cultivate this image. (Refer to **Exhibit 4** to view an example of his communication with customers.)

Figure 1: easyJet Mission Statement

To provide our customers with safe, low-cost, good value, point-to-point air services. To offer a consistent and reliable product at fares appealing to leisure and business markets from our bases to a range of domestic and European destinations. To achieve this we will develop our people and establish lasting partnerships with our suppliers.

Source: easyJet

All of easyJet's fares were one-way fares and had the same restrictions. The cost to change a flight was £10 plus the difference between the two fares. Only 4% of customers failed to show up for their flights, and easyJet offered no reimbursement for missed flights.

To book a flight, customers either purchased their tickets over the Internet or they called a local number and were connected to one of easyJet's reservation agents in easyLand. Because easyJet was a 100% direct-sell operation, the marketing department knew the relative effectiveness of different media and could react quickly. Oftentimes, the company placed different phone numbers on different types of advertisements to measure consumer response precisely.

Figure 2: Destinations served from London's Luton Airport



Source: easyJet, November 1999

Customers were required to pay by credit card, after which they received a six-character booking reference number. This reference number was the only information passengers needed to board the plane. Reservation agents were paid on a commission basis, at a rate of £0.80 per seat sold, and could sell 60 to 90 seats during an average eight-hour shift.

The airline did not offer any pre-assigned seating, but instead utilized a priority boarding procedure. Passengers were given a number based on the time they checked in, and those passengers who arrived late for check-in had to sit in whatever seats remained.

Generally speaking, easyJet defined its target customers as “people who pay for travel from their own pockets.” The target group consisted of travelers visiting relatives, leisure travelers making brief trips, as well as entrepreneurs and managers working for small firms. While easyJet typically ignored the large market of business travelers, on some routes, such as London-Glasgow, London-Edinburgh, and London-Amsterdam, business travelers represented 50% of the passengers. Stelios argued that larger airlines ripped off traveling business customers who usually did not want to stay over a Saturday night or who wanted complete flexibility to change their travel plans.

Figure 3: Destinations served from Geneva



Source: easyJet, November 1999

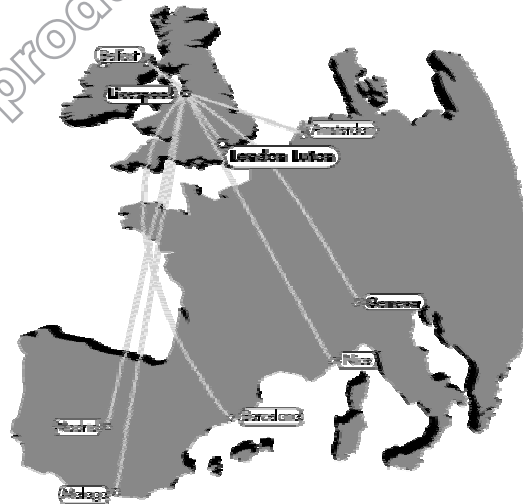
Using yield management, easyJet tried to fill as many seats as possible. Seats were sold in what could be considered a lottery system; the more people demanded a particular flight, the higher the fare. Put differently, if the load factor (percentage of seats sold) was higher than normal, prices automatically increased. This system worked well for easyJet because it helped avoid selling out popular flights months in advance.

Yield management also served another purpose: it drew potential customers who were in search of cheap fares. Once they found there were no more cheap seats, they usually bought a ticket anyway, since the next highest fare was still cheaper than easyJet’s competitors. Stelios defended his policy vigorously: “We decided that people who are willing to give us their money early should get a better price, and those who want the flexibility of booking late should pay a bit more.” (Refer to **Exhibit 5** to view a report on availability of fares.)

Punctuality at easyJet was important. Because customer satisfaction was linked so closely to punctuality, responding adequately to the needs of customers was very important to Stelios. If a flight arrived more than four hours late, Stelios instructed his staff to write a letter of apology with his signature and to issue a full refund. Because the airline had many repeat customers, Stelios was confident that

customer satisfaction was high. (Refer to *Exhibit 6* to view additional data on punctuality.)

Figure 4: Destinations served from Liverpool



Source: easyJet, November 1999

Outsourcing

Initially, Stelios had outsourced many of the airline's operations because it lowered costs and increased efficiency. Typically, the airline provided the planes, pilots, cabin crew, marketing and sales people. Subcontractors handled all other responsibilities, from check-in to the on-site customer information desk.

By early 1998, however, easyJet had acquired its own operating certificate and reached a scale where it would have been possible to bring certain operations in-house. Nevertheless, Stelios still maintained that it made more sense to continue working with subcontractors. The airline's ability to remain ticketless, meet its goal of a 20-minute turnaround at the gate, and maintain its safety depended on subcontractors.

To improve its relationships with these outside vendors, easyJet often led workshops, role-reversal exercises, and simulations to explain its objectives and expectations. The company evaluated subcontractors not only on quantitative criteria, such as percentage of on-time flights, but also on qualitative criteria, such as understanding of the easyJet concept.

Creating Brand Awareness

Because Stelios felt that brand awareness was critical to the success of the airline, approximately 10% of easyJet's revenues were spent on newspaper, magazine, and radio advertising. Because of its marketing approach, easyJet's top management believed that easyJet was able to differentiate itself from its

competitors. Management was also of the opinion that its efforts had been rewarded through a significant growth in sales and through the company's high level of brand awareness. A 1998 industry poll indicated that the easyJet brand had a recognition rate of 88% in London; in Geneva, brand awareness was 82%.

Stelios also generated publicity for easyJet through highly publicized, and often full-scale attacks on his competitors. According to Philippe Vignon, marketing director, "Whenever there is an opportunity to make some news, we do it!" (Refer to *Exhibits 7 and 8* to view examples of easyJet's attacking ads.)

Illustration: The Barcelona Controversy

In early 1999, easyJet advertised for months that the airline was planning to offer service to Barcelona [from Geneva], and had even sold 7,000 seats. However, this new service was contingent upon approval from the Swiss authorities. Swissair, which had a monopoly over the Barcelona-Geneva route, fought against easyJet's entry into the market. The Swiss government ruled in favor of Swissair, stating that easyJet could not fly scheduled flights between the two cities. On the inaugural flight to Barcelona, Stelios appeared and personally issued refunds to passengers, in essence, giving them a free trip to Barcelona. He even emblazoned the words, "Say no to Swissair monopoly" in bright orange letters across the fuselage of the plane. During the flight, he asked for a donation from passengers in order to "protect consumers against the Swissair monopoly." Surprisingly, 50% to 60% of the money he refunded was donated back to easyJet. Undeterred, easyJet found a loophole. The company set up a new company, called easyJet Tours, which offered chartered service to Barcelona as part of a package that included the flight, a bus ticket, and the right to stay in a tent on a campsite near the city. (Staying in the tent was not a requirement.) Stelios believed such acts created affinity. In addition to building brand loyalty, the extra media attention helped easyJet gain widespread support in Switzerland for its willingness to stand its ground against Swissair.

Source: easyJet

Corporate Culture

Stelios wanted to build a strong, inclusive employee-culture at easyJet, which led to the creation of the easyJet Culture Committee. The committee, an elected group drawn from company staff, was responsible for establishing company policy on the working environment, communications between management and staff, and social events such as staff parties for the airline's 1,000 employees. Every Friday at Luton, easyJet held a company-sponsored barbecue that the staff used to get to know one another better.

Stelios believed in complete transparency, and all documents had to be scanned and placed on the computer system, so that anyone in the company could access them. This included mail, internal memos, press cuttings, business plans, and sales data (the only confidential information was payroll-related).

Stelios stressed that culture was not something leaders can create overnight. As he put it, "You build your legend slowly, bit by bit, battle by battle. You talk about it, and then you get together and have fun. I believe that work should be fun."

Illustration: The Fight with Go

In 1996, Bob Ayling, British Airways' chief, approached Stelios in what appeared to be an offer to buy easyJet. Instead, after a three month courtship, British Airways abandoned the deal, and one year later, launched Go, its own budget airline. Still angry over the incident, Stelios got his revenge by buying several rows of seats on Go's first flight. He commanded his staff to don orange boiler jackets, and they all boarded the flight like a group of merry pranksters, offering free flights on easyJet to Go's passengers. Barbara Cassani, chief executive of Go airlines, was on the inaugural flight to welcome new passengers. When she saw what was occurring, she lapsed into stunned silence. The publicity stunt paid off for easyJet. Go Airlines announced losses of £22 million in 1999. However, Stelios was wounded yet again when British Airways hired away easyJet's lawyer at an estimated annual salary of £500,000.

Source: easyJet

Stelios strongly believed that being the underdog in such a highly competitive industry strengthened his team and brought them closer together. He recalled:

I noticed how much more motivated the staff was when British Airways launched the Go airline and when the whole country was talking about us and we were on television every night. All of these things created a sense of pride for the company. The same thing happened in Switzerland. People at TEA, a Swiss charter airline, were no longer motivated, so we bought the company and turned it around. As soon as we had the run-in with Swissair, morale really picked up. We were the underdogs. Our employees would go home and their neighbors had heard about the company they work for, which gave them the courage to stay and fight.

Because of the airline's high-profile battles, Stelios had become famous and people began to recognize him when he was out in public. When asked about his increasing popularity, he replied:

It is nice to be considered as sort of a Robin Hood, and have people stop you in the street and say, 'Thank you for flying to London. Now I can go and see my family.' My father was a very successful shipper, but no one ever stopped him in the street and said, 'Thank you for transporting oil to my house.' It is very satisfying to be recognized and to be appreciated.

Competition

Ryanair

Ryanair, based in Ireland, was established in 1985. Initially, Ryanair was a full-service, traditional airline with two classes of seating, but in the early 1990s, the airline changed its focus to become a no-frills carrier. Unlike easyJet, Ryanair used travel agents, issued tickets, and participated in the global distribution system. Utilizing a fleet of 20 Boeing 737s and servicing 26 destinations, the airline had more than 100 scheduled flights per day in late 1999, and planned to expand both its route base and the size of its fleet. (Refer to **Exhibits 9 and 10** for additional information on easyJet's competitors.)

In 1999, Ryanair experienced its ninth straight year of strong growth. For the six month period ending June 30, 1999, Ryanair had sales of IR£66.2 million², and the operating profit margin was 28%.

Go

Go was established by British Airways in May 1998 as a no-frills airline to compete in the low-cost segment of the European market. Financed with £25 million from British Airways, Go was founded in large part to defend British Airways' market share, since easyJet was stealing its passengers. In 1999 the company suffered financial losses, although Go's CEO, Barbara Cassani, expected to achieve profitability by 2001. For the period ending March 31, 1999, Go had sales of £31.6 million, and operating losses of £22 million. Before Go announced that the airline was losing money, Stelios set up a contest offering free easyJet flights to whoever came closest to guessing the amount of Go's losses.

Go's flights were based out of London's Stansted Airport instead of London's Heathrow Airport, where British Airways was headquartered. Stelios considered Go a copycat of easyJet, and believed that Go was heavily influenced by parent company British Airways in the way it structured its fares. Stelios also suspected that British Airways unfairly subsidized Go; therefore, he filed a lawsuit alleging that British Airways violated Article 86 of the Treaty of Rome, which says that dominant players in a market should not operate at below the cost of production.

Virgin Express

Virgin Express Holdings plc, headquartered in Belgium, was set up in 1996 when the Virgin Group acquired a controlling stake in EuroBelgian Airlines. Virgin Express Holdings plc was principally engaged as a low-fare carrier, and provided short to medium-haul jet service to markets principally within continental Europe from the company's base in Brussels. For the fiscal year ending December 31, 1998, Virgin Express had sales of BEF 10.5 billion.³

Virgin Express differentiated itself from other low-cost carriers in that it had formed an alliance with Sabena Airlines, the flag carrier in Belgium. This relationship provided Virgin Express with a steady stream of contractual revenue, since Sabena bought seats on Virgin Express in order to offer better connections to destinations throughout Europe.

Buzz

In September 1999 KLM announced that it would enter the low-cost segment of the market with Buzz airlines. From its base at London's Stansted airport, Buzz planned to offer service to Berlin, Dusseldorf, Frankfurt, Milan, Vienna, Paris, and Lyon. KLM already had one brand in place at London Stansted, KLM UK.

² IR£1.00 = US\$1.30.

³ BEF 40 = US\$1.00.

To avoid confusion, management stated that KLM flights would go to Amsterdam, while Buzz would fly to all other destinations.

Challenges

Stelios faced several challenges at easyJet. In November 1999, he struggled with the decision of whether to take his privately held company public. On one hand, he believed he could better motivate his staff by offering them shares in the company. On the other hand, however, his team of advisors feared his management style was too entrepreneurial. Regarding the decision to refund passengers who had already paid for the Geneva-Barcelona flight during the battle with Swissair, he remarked, "Do you think the finance director of a public company would say, 'Refund every customer on the Geneva flight' like I did? My finance director was pulling his hair out!" Although plans were underway to float the company on the London Stock Exchange and NASDAQ in early 2000, Stelios frequently asked himself and others around him if the market would trust him to run the company the way he felt was best.

Second, the airline had a history of using subcontractors, but found that at times, the outsourcing of vital functions posed certain problems. For example, at some airports that were not frequently serviced, easyJet hired external ground handlers. Because the handlers were not easyJet employees, they did not attend to customers' needs in a manner that satisfied Stelios. He commented:

Making sure that these subcontractors meet the quality standards we have set is very difficult. The weakest link in the chain is in Mallorca. There, we have people who maybe work on an easyJet flight once a day or once a week, and therefore don't know the company very well. I've been telling my staff, 'If I hear another ground handler refer to easyJet in the third person, I will sack him!' There is nothing worse for a customer to go to a check-in desk and say, 'When is the flight?' and the person responds, 'easyJet is an hour late.' When the customer asks why, the person responds, 'Ask easyJet!'"

Third, Stelios believed that easyJet needed to become more corporate in its processes. In his opinion, it took certain skills to start a company from scratch, and people who were good at starting companies were not necessarily good at running big companies. In late 1999, the company was recruiting 3 or 4 senior managers.

A fourth challenge at easyJet was the relative youth and inexperience of some employees. Although it was not unusual to find a 24 year-old handling a monthly budget of £500,000, the airline nonetheless had high rates of absenteeism among phone operators.

Recognizing that easyJet was in a phase where it needed to stabilize itself internally, Stelios decided not to enter any new markets in the short-term. He felt that he needed to consolidate and do more in the countries where they had already set up operations. He asked, "What's wrong with flying 10 times a day between London and Geneva?" He added, "One of the biggest mistakes that airlines make is spreading themselves too thin."

When asked how many low-cost carriers could survive in Europe, Stelios replied:

The market is bigger than most people think, although availability of slots at airports is a problem. London is getting a bit crowded, but then again, London is a big place and just about any city out of London can work as a destination. Start looking around Europe, and there aren't many other low-cost carriers. [...] The big prize in Europe is Paris. There is no low-cost flying in and out of Paris whatsoever. Any city with 3 or 4 million people should be capable of sustaining a low cost airline.

From easyJet to easyEverything

Pleased with his success in the airline industry, Stelios was ready to try his hand at other businesses in 1999. Among his pet projects was the creation of a cybercafé business called easyEverything café. The idea behind easyEverything was “to offer the Internet to the masses” and “to be the cheapest way to access the web.” Charging £1 per hour of Web access, Stelios stated that surfing the Internet at easyEverything was less than the cost of a phone call in London. He hoped that customers would come to the café not only to surf the Internet, but also to send emails and do their online shopping. Stelios joked, “If flying people to Scotland for £29 is crazy, this is crazier!”

The first easyEverything café debuted in London on June 21, 1999 near Victoria Station and was open non-stop 24 hours per day. It was quickly considered one of the hot spots in London, and there was often a queue to get inside, even at 3 AM. Customers could purchase coffee and snacks or rent the services of a tutor, who showed them how to use the Internet to access online bargains.

In June 1999, Stelios signed four more leases for bigger locations in London. The key to success for the café was thought to be size; the first café contained 400 terminals. Another perceived advantage was the use of state-of-the-art hardware, including flat screens and fiber-optic communication lines, which offered much faster connection and downloading than most home systems.

Not content to stop with cybercafés, Stelios also considered entering the rental car business and starting up an Internet-based bank. He wondered if he could successfully apply the concept behind easyJet to these new businesses. Given that Stelios was known to be rather risk-averse, the decision would not be an easy one.⁴

⁴ The case was written using interviews and materials provided by the company. Among the materials provided were a case study from the February 1999 issue of the European Management Journal written by Don Sull, and an article on easyJet from the November 1999 issue of Bilan magazine written by Giuseppe Melillo, which we would like to gratefully acknowledge.

**Exhibit 1
Food Selections from the easyKiosk**

easyKiosk

There's no such thing as a free lunch... so on easyJet we don't give one - we've taken a big bite out of flight costs instead.

£2.80
A fresh Granary Bloomer filled with Four Cheeses and a salad garnish

Pringles 90p each

Danish Pastries £1.60 each

£3.20
All Day Breakfast - a Soft White Bloomer filled with egg and bacon in mayonnaise

£3.80
Fresh Focaccia Wedge, one side filled with Char-Grilled Chicken, Tomato and Lollo Rosso, and the other with Soft Cheese and Roasted Vegetables. Served with a moist Flapjack

KitKat 50p each

Hot Drinks
Tea, Coffee, Cappuccinos, Hot Chocolate ... All £1.00 each

Drinks from the bar

Lagers	Soft Drinks & Mixers
Stella Artois £1.50	Pepsi 330ml £1.00
Budweiser £1.50	Pepsi 150ml 30p
Wines	Diet Pepsi 30p
Red Wine £2.50	Lemonade 30p
White Wine £2.50	Tap Water 30p
Champagne	Ginger Ale 30p
Champagne £8.00	Tomato Juice 30p
Spirits	Orange Juice 30p
Polignac Brandy ... £2.00	Large 50p
Gordon's Gin £2.00	Sparkling Wine 150ml/50p
White & Mackay Whisky £2.00	Still Water 350ml ... 30p
Smirnoff Red Vodka £2.00	Apple Juice 300ml ... 70p
Bacardi Rum £1.00	

Other Products
easyJet Mobile Aircraft ... £9.00

The only alcohol permitted to be consumed on board is that which has been purchased from the cabin crew.

Prices and information correct at time of going to press. However, we reserve the right to alter or amend them without notice. Any communication regarding the contents must be directed to Alpha Flight Services. All products subject to availability. Sandwich filling may vary depending on originating airport. Your cabin crew will be happy to advise you on what's available today.

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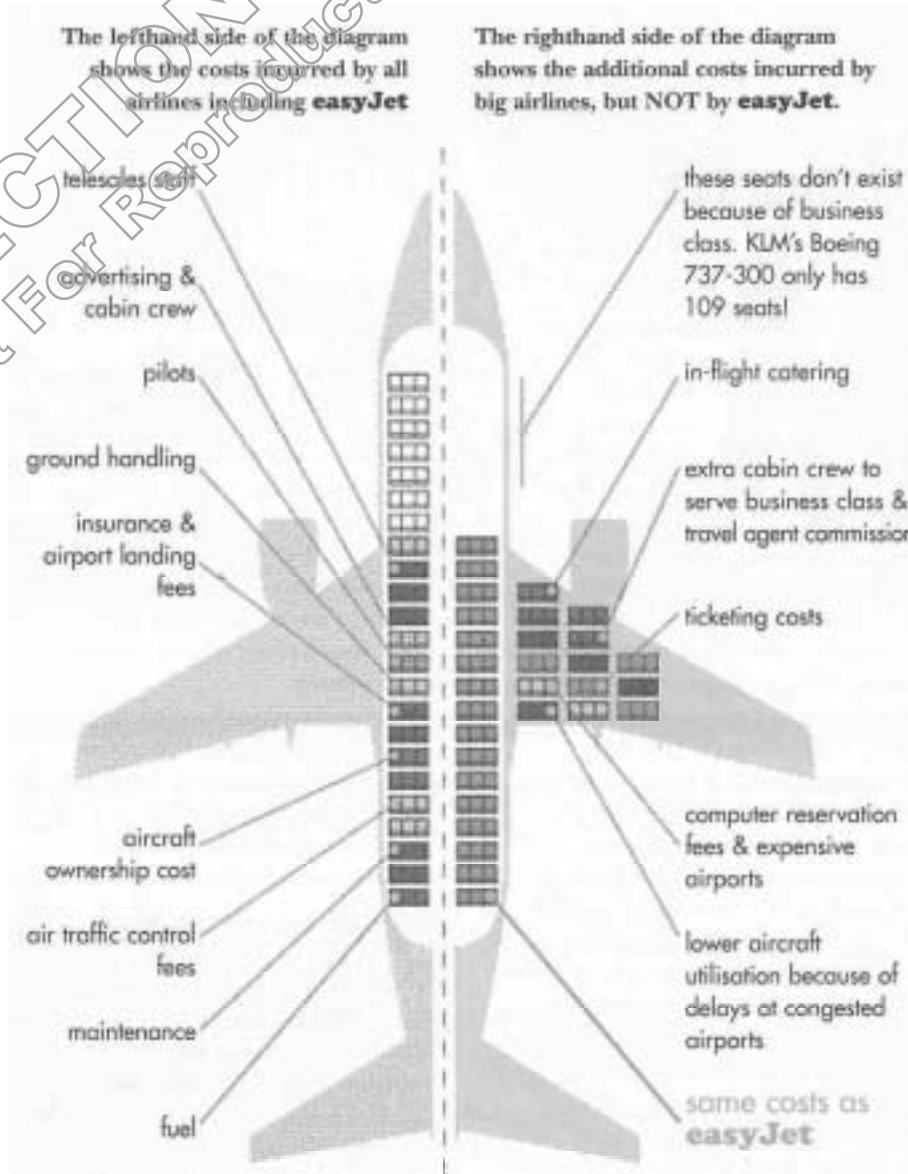
Source: easyJet

**Exhibit 2
Financial Performance, 1997-1998**

easyJet Airline Company Limited	1997	1998
PROFIT AND LOSS ACCOUNT	£	£
Turnover	46,034,549	77,000,035
Cost of Sales	(38,963,150)	(61,525,257)
Gross Profit	7,071,399	15,474,778
Distribution and marketing	(6,324,068)	(7,748,225)
Administrative expenses	(4,491,338)	(6,260,124)
Operating profit/(loss)	(3,744,007)	1,466,429
Other interest receivable and similar income	607,392	978,268
Interest payable and similar charges	(135,250)	(125,759)
Profit/(loss) on ordinary activities before taxation	(3,271,865)	2,318,938
Tax on profit on ordinary activities	-	-
Retained profit/(loss) for the year	(3,271,865)	2,318,938
Retained loss brought forward	(5,872,621)	(9,144,486)
Retained loss carried forward	(9,144,486)	(6,825,548)
<hr/>		
easyJet Airline Company Limited	1997	1998
BALANCE SHEET	£	£
Fixed assets		
Tangible assets	1,529,161	2,601,184
Current assets		
Restricted deposits	343,476	1,416,457
Debtors	3,888,546	10,887,761
Cash at bank and in hand	16,877,623	12,506,665
Creditors	(17,783,292)	(20,237,615)
Net current assets	3,326,353	4,573,268
Net assets	4,855,514	7,174,452
Capital and reserves		
Called up share capital	14,000,000	14,000,000
Profit and loss account	(9,144,486)	(6,825,548)
Equity shareholders' funds	4,855,514	7,174,452

Source: Directors' report and financial statements, September 30, 1998

Exhibit 3 Cost Comparison



Source: easyRider magazine, July 1999

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**Exhibit 4
Message from Stelios**



We have arrived! (Well, sort of.) The ultimate magazine for fat cat business travelers did a poll of its readers, and we were voted the best low-cost airline. What pleases me more than anything is that we beat the low-cost clone by British Airways (BA). It's not bad if you think that they lost £22m in the first year alone trying to break into our market.

So we must be doing something right. With our fleet of 18 Boeing 737-300s, one of the youngest in the world, and a far better punctuality record than BA and other so-called flag carriers, we are flying fuller than ever before. We now have 27 routes, and not only will we fly more frequently on our existing routes, but we are also planning new ones later in the year 2000, when the next 15 brand new 737-700s start arriving.

On other fronts, my Internet shops are doing very well and I will expand easyEverything in all the cities that easyJet flies as soon as I can. At the time of publishing this message on the web site, we have signed for five in London with a total of 2300 seats (yes - the biggest has 630 seats!), and have already signed for sites in Edinburgh and Amsterdam.

My easyRentacar.com project is on track for being up and running by April 2000, and you should be able to rent an 'orange car' over the Internet for £9/day.

As you can see, the common theme for all my ventures is the heavy use of the Internet. Take my word for it, all the best deals on the airline will be available on the Net from now on. So, if you don't get online you might lose out. Remember you can always use an easyEverything Internet shop to book your flight or car, coming to a place near you soon!

On another subject, we continue our battle against Swissair. As you may remember, in July we were blocked from operating a scheduled service between Geneva and Barcelona, due to political pressure from Swissair who wanted to preserve their monopoly on this route. So, to get round this, I set up easyJet Tours, a charter operation which offers passengers return flights, transfers, and accommodation (even though this is only a tent!). This service has proved very popular (I mean the flights, not the tents), and we will continue to fly this route throughout the winter. In the meantime, we will carry on lobbying the Swiss government to make changes to the law. I am encouraged by the fact that a large number of Swiss MPs have signed a motion supporting this cause, even before it is debated in Parliament.

Thank you for visiting our web site.

Stelios

Source: easyJet, November 1999

Exhibit 5
A Sunday Times Reporter Investigates Availability of easyJet's Low Fares

Four weeks before travel date:

I had to wait 10 minutes before speaking to Richard, a sales assistant. I asked for the cheapest fare to Barcelona, leaving Saturday, September 26 and staying two nights. Richard said that a ticket for the 8:10 PM flight would cost £49 one way (an earlier flight would be much more expensive.) The return would cost £99 for the 4:45 PM flight, or £69 for the 6:50 AM flight. So the cheapest fare was £118 including tax. Richard warned me that the 4:45 PM flight was filling up fast and prices would only go up.

Three weeks before travel date:

Prices were the same, but there were then only six seats for the return leg. I felt pressured to book, so I did. There was no charge for using my credit card and no hard sell to take easyJet insurance. I was given a reference number and told I won't be issued a ticket. Confirmation of my flight was faxed through about an hour later; the paperwork arrived in the post a week later, with a discount voucher for train travel.

Two weeks before travel date:

The prices had risen by £10 for the outward flight; the 4:45 PM flight was sold out.

One week before travel date:

My outward flight was £64; there were only two seats left. Interestingly, seven seats were available again on the return flight at £129.

One day before travel date:







The outward flight cost £69, and the return flight cost £139.

Source: "Fare Play." *Sunday Times*, October 18, 1998

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**Exhibit 6
Airline Punctuality Comparisons for the Period Ending August 1999:
Arrivals and Departures**

Percentage of Flights Late

		Early to 15 minutes	16 to 30 minutes	31 to 60 minutes	1 to 3 hours	3 to 6 hours
	London-Glasgow	90%	8%	2%	0%	0%
	London-Zurich	52%	33%	11%	4%	0%
	London-Mallorca	79%	13%	6%	2%	0%
	London-Malaga	64%	18%	9%	6%	3%
	London-Mallorca	53%	8%	25%	14%	0%
	London-Dublin	63%	20%	10%	7%	0%
	London-Malaga	70%	0%	10%	20%	0%
	London-Mallorca	78%	11%	11%	0%	0%
	London-Zurich	43%	31%	18%	8%	0%
	London-Glasgow	88%	6%	3%	3%	0%
	London-Zurich	69%	23%	6%	2%	0%

Source: UK Civil Aviation Authority

**Exhibit 7
Ad Attacking British Airways**



It's time BA came out of the closet!

On 25 May 1999, British Airways announced their 1998/99 results, but they still refuse to disclose how much of the £25 million they put in their low-cost airline has been lost over that period. Last year **easyJet** convinced a High Court Judge that any cross subsidy between BA and its subsidiary could be illegal. The case is still pending, and BA is doing everything it can to avoid disclosure of the facts.

We are so convinced that BA's low-cost airline has made a substantial loss in their first year that we are having a competition over the Internet to guess the total amount lost in its first year of trading.

The 50 entrants nearest the correct figure will win themselves a pair of **easyJet** flights anywhere on the **easyJet** network! If there are more than 50 correct answers a tie-breaker will apply. The competition will close as soon as the results are released. In due course they will have to file them with Companies House. So if you want the chance to win a prize sooner, why not e-mail Bob Ayling at BA and persuade him to release the results.

COMPETITION
50 pairs of **easyJet** flights up for grabs!

Entries will **ONLY** be accepted over the Internet at
www.easyJet.com
the web's favourite airline

Source: easyJet

**Exhibit 8
Stelios' Pet Hates**

Stelios' pet hates

Air Miles = Air Bribes

Air Miles is a bribery scheme invented by British Airways and designed to induce business travellers to waste their companies' money by travelling business class and then collecting the reward for their personal benefit. (Usually lavish holidays in the Caribbean frequently in the company of their secretaries)!

Those Chief Executives with the best interest of the company and its shareholders at heart must ban the collection of air miles by their staff while travelling on business. It's not going to be a popular decision, which goes to prove the degree of corruption!

In addition, the taxman has done British Airways a huge favour by miraculously not including air miles as a taxable perk, in the same way that company cars are taxed.

Write to your MP about the great Government rip-off!

The last Tory Chancellor increased airport tax (officially called Air Passenger Duty or APD) from £5 to £10. Zurich, outside the EU, has an even higher tax at £20. Contrary to popular belief this money does not contribute to the improvement of airports, but ends up in the pocket of the taxman. This tax is totally unfair to **easyJet** customers as on some occasions the tax has been more than our one-way air fare (Yes, we have sold seats for £8.50). Please write to your MP expressing your dissatisfaction and suggesting that APD should be a percentage of the fare, just like VAT.



www.easyJet.com

Source: easyJet

**Exhibit 9
Airlines Routes of Competing Low Cost Carriers**



Belgium			Brussels	Brussels*
Czech Republic		Prague		
Denmark		Copenhagen	Århus	Copenhagen
France	Nice	Lyon	Biarritz, Carcassonne, Dinnard, Lyon, Paris, St. Etienne, Toulouse	Nice
Germany		Munich	Frankfurt	
Greece	Athens			
Ireland	Belfast		Cork, Derry, Dublin*, Kerry, Knock	Shannon
Italy		Bologna, Milan, Rome, Venice	Ancona, Genoa, Pisa, Rimini, Turin, Venice	Milan, Rome
The Netherlands	Amsterdam			Rotterdam
Norway			Oslo	
Portugal		Faro, Lisbon		
Scotland	Aberdeen, Edinburgh, Glasgow, Inverness	Edinburgh	Glasgow*	
Spain	Barcelona, Madrid, Malaga, Mallorca	Alicante, Barcelona, Bilbao, Madrid, Malaga, Mallorca		Barcelona, Madrid, Malaga, Mallorca
Sweden			Kristianstad, Malmö, Stockholm	
Switzerland	Geneva*, Zurich	Zurich		
United Kingdom	Liverpool*, London*	London*	Birmingham, Bournemouth, Bristol, Cardiff, Leeds Bradford, Liverpool, London*, Manchester, Teesside	London

* Represents a hub

Sources: <<http://www.easyJet.com>>; <<http://www.Go-Fly.com>>; <<http://www.Ryanair.com>>; <<http://www.Virgin-Express.com>>.

**Exhibit 10
Comparative Financial & Operational Statistics for Selected Airlines**

	EASYJET 1	GO 2	RYANAIR 3	VIRGIN EXPRESS 4	SOUTHWEST 5	BRITISH AIRWAYS 6	SWISSAIR 7
	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million	US\$ million
Revenue	123	51	303	262	4,164	14,264	7,290
Operating expenses	121	83	233	261	3,480	13,557	6,897
Operating profit/(loss)	2	(32)	70	1	684	806	452
Net profit/(loss)	4	(22)	59	(3)	433	330	233
Market Capitalization	n/a	n/a	1,794	95	8,197	6,504	2,439
Pre-tax Profit Margin	3.0	(63)	25.6	0.5	16.9	2.5	4.9
Return on Assets	32.3	(57)	18.8	(2.8)	9.7	1.6	2.6
Return on Equity	16.6	(177)	31.6	(6.6)	19.7	6.1	13.0
Debt/Equity	1.4	n/a	59.3	140.3	96.7	282.2	385.2
Sales to Assets	10.7	91.1	96.9	292.0	92.9	69.5	82.5
Price-Earnings Ratio	n/a	n/a	21.7	170.8	20.4	21.4	10.0
Capacity ('000) – ASKM ^a	2,801,000	2,052,000	3,000,000 ^b	2,657,814	76,069,624	161,291,000	40,560,000
Load Factor	75%	53%	71%	75%	66%	71%	72%
Passengers per year	1,714,761	2,000,000	4,900,000	2,600,000	52,586,400	45,049,000	12,199,000
Number of Aircraft	8	13	20	20	280	278	129
Employees	394	500	1094	639	25,844	63,779	43,696

For the period ending 30.09.98.

4,5,7 For the period ending 31.12.98.

2,3,6 For the period ending 31.03.99.

^a ASKM = Available Seat Kilometers; ^b This figure is an estimate.

Source: Company Annual Reports, Reuters Business Briefing