

Announcement of voting intentions by Sir Stelios Haji-Ioannou

1st July 2013

Open letter to the independent shareholders of easyJet PLC

Dear fellow shareholder,

The purpose of this letter is to explain why I, as the founder and largest single shareholder in this company, will vote against the proposed “secret deal with Airbus” at the EGM on July 11.

Whilst urging you to join me in opposing the directors’ decision, I do not expect that the vote will go any other way than the way the directors want it to. I believe these decisions have already been made behind closed doors mostly by City insiders playing with other people’s money. It is also conceivable that people close to Airbus have bought shares in easyJet in order to influence the vote.

As the person with the most to gain if this company increases profitability and the most to lose if the outcome from this order is not as promised by the board, it is my firm opinion that this is a good deal for Airbus and a bad deal for easyJet shareholders. As an investor if there is one thing to remember about airline history, it is that most airlines are run by their executives in order to buy more aircraft from the two main suppliers - **not to maximise shareholder value.**

I am not against replacing aircraft that have reached the end of their economic life. However I am against buying aircraft that are three times more expensive than the ones I bought with my own money in the early 2000s. Nor am I against directors trying to engineer some top line growth - but not at the expense of the profit margin. I am not against planning ahead for the next 4-5 years but I see no reason why this set of directors need to commit the company for the next nine years (or even longer if options are taken into account). Remember - none of these directors will be around in nine years time.

I strongly believe public company directors should be legally held to account for their decisions. I will hold these directors to account, if at some point in the future it turns out that their decision to overcommit the company today was wrong.

Let’s look at the reasons why they are asking you to give them the authority to spend our money :

1. There is no disclosure of the price they are paying per aircraft.

We are told in Clause 10.4 of the Notice of General Meeting that easyJet is precluded by Airbus from disclosing details of real pricing under threat of losing the price benefits they have negotiated. We are therefore required to make a decision based on the meaningless “list prices” quoted. This is proof of Airbus’ abuse of its dominant market position, that allows it to profit from keeping deals secret. There is no other industry that I can think of, where a stock market listed company can ask for shareholder approval to spend an amount of shareholders’ money in excess of its market capitalisation. Their calculation is based on the flimsiest of details regarding actual unit cost for each asset and no disclosure of secret payment terms. We have noticed there is a significant and unexplained difference between the so called “list” price mentioned in easyJet’s circular on page 14 at \$76m and the \$88m for the same current generation A320 aircraft published on the Airbus website. The feeble excuse offered is the easyJet aircraft will not have as many galleys as the typical aircraft on the price list. So we have given up a \$12m oven and storage locker! My view is that the \$76m is a meaningless number which is there to mislead investors.

2. The rumours about the real % discount.

This industry is full of commentators willing to speculate on the scale of the alleged discount. I have seen analysts’ speculation of between 40% and 60% “off the list price”. The problem is one of

comparison. If the starting list price is a fiction which always goes up with time and doubles over the next decade - then the discount has just evaporated! No other industry is willing to buy its assets on such biased and supplier friendly terms.

3. The secret indices used by Airbus to increase aircraft prices each year

Airbus has complete power to increase the price of the aircraft over the next 9 years with no details provided of how prices are escalated from a hypothetical 2012 price to the final delivery price. This is the inherent problem of an industry dominated by a duopoly. Both Boeing and Airbus have increased prices for the same product every year by 4-5% over the last 10 years. Because they did it before and got away with it - they will do it again.

4. The deal appears to be for 135 aircraft but with options it gives the present (and future) board authority to buy another 100 aircraft without having to come back to shareholders for approval

In the past, easyJet management has been able to “slice and dice” a large aircraft order. This allows them to avoid asking for shareholder approval for the overall purchase. Now our board who already operate 211 aircraft want the authority to buy another 235 aircraft at secret but ever rising prices and at a time of their choosing. If ever there was a “double or quits” move this looks like one to me!

5. There is no disclosure of the routes on which the new aircraft will be used

easyJet tells us that those aircraft purchased for growth rather than replacement will be used on new routes and increased frequencies on existing routes without any explanation whatsoever. We have been putting pressure on management to halt, or at least slow down growth of the fleet over the last two years – and we have seen improved profit margins as a result – largely because of increased ticket prices. This is the natural result of focussing on profitable routes and weeding out unprofitable routes. We fear that the new order will lead, once again to a hunt for “new” routes, better described as “unprofitable routes” discarded by other airlines. Europe is a mature market for civil aviation, we do not believe there are any untapped, profitable routes left to fly.

6. The cost base has increased from £43 per seat to £54 per seat between 2008 and 2012

That is an increase of 25% over 4 years. If this trend continues it is highly likely that consumers will refuse to pay the ever increasing ticket prices. easyJet will then have to retrench from some routes/markets to stay profitable. It is simply unnecessary to buy new aircraft just at the moment when increases in the cost base - according to every forecast out there - will render some routes unprofitable.

7. The fuel savings from purchasing the A320 “neo” are not declared, unproven and not material - it is just a shiny new toy which allows Airbus to charge 21% more

The board have already admitted on page 4 of the circular that the improvement in the unit cost per seat for the A320neo vs the current generation is only 3%. In reality the aircraft our directors want to buy do not even exist yet. They state in the circular that the A320neo is due to enter service in 2015 (see page 19) however this fact does not appear to be confirmed on the Airbus website. The “Risk Factors statement” further mentions the Boeing 787 grounding and delay as a risk that may affect the A320neo following the introduction of the new technology engine. Yet the A320neo is 21% more expensive than the current generation A320, based on the quoted list prices (page 14) i.e. \$92.3m versus \$76.3m, an increase of \$16m in the purchase price. Nor does the circular provide any details of improvements to projected fuel consumption. In other words Airbus cannot guarantee any such fuel consumption improvements. The only guarantee is that the new model is 21% more costly than the current model - whatever the secret discount. Even the promised 3% saving to the overall cost base is premised on a fuel price significantly above current levels. All the calculations supplied by the board assume an oil price of \$1100 per metric tonne against a significantly lower price at present. By deliberately selecting a higher oil price to flatter the cost savings, the board is trying to pull the wool

over our eyes. If fuel prices drop further, then by management's own admission, the decision to buy the A320neo is a bad one. The increased cost of aircraft operation, resulting from higher landing fees/air traffic control costs (driven by increased gross aircraft weight) will outweigh any future fuel savings (see Risk Factors statement on page 20).

8. The company does not have to buy aircraft nine years out.

It is plainly wrong that our board should ask us to approve the acquisition of aircraft nine years in the future when they cannot even make a working capital statement more than 12 months ahead. In the airline industry, nine years is a lifetime. Furthermore, the incremental saving from any discount is small relative to the increased risk. Cost of Ownership is currently less than 12% of the overall cost base which means an additional 5% discount on the price of buying because of "bulk purchasing discounts" only makes a 0.6% difference to overall costs. The safer alternative would be to buy fewer aircraft and not commit the company beyond a five year horizon.

9. Our new Chairman has no airline experience and has been in the job for just 45 days.

I am disappointed that John Barton did not wait a bit longer before splashing more than \$12 billion of our money. (A back of the envelope calculation suggests that if the list price is, say, \$100m - multiplied by 235 aircraft to give a total cost of \$23.5 billion. Then with a discount of say 50%, means we are giving approval for a total spend of around \$12bn, give or take a billion or two!). Would you eat in a restaurant where the menu has no prices?

10. Recent growth in the share price has been largely due to increases in ticket prices

Revenue per seat has increased from £45 to £58 between 2008 and 2012. This has occurred due to the pricing power the airlines have gained by reducing the number of seats available. We have been at the forefront in demanding easyJet slows the growth of its fleet to in order to improve returns. Our concerns have been that excessive growth above the current level will lead to lower load factors and/or reduced revenue per seat.

11. This letter will remain on the record and I will use it to hold the directors to account by all legal means if it turns out that this deal destroys shareholder value.