10 years old

95>05

easyJet plc

Annual report and accounts 2005

95>05

10 years old
easyJet has changed the face of air travel in Europe in our ten years of unprecedented growth. It is our people and our passengers who have made us successful – so we decided to celebrate our birthday with them.

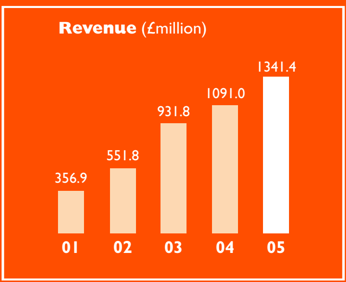
easyJet is still growing rapidly. 2005 was a year of milestones: we carried 30 million passengers, welcomed the 100 millionth passenger in our history and took delivery of our 50th Airbus A319 as our fleet exceeded 100 aircraft for the first time.

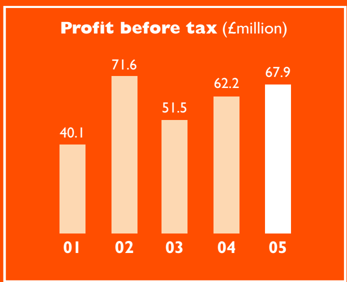
easyJet plc 95>05

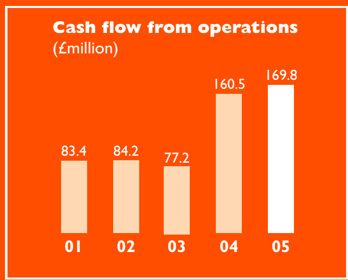
Contents

Year at a glance

- Total revenue per seat **up 2%** to £38.66
- Ancillary revenue per seat **up 17%**
- Cost per seat before goodwill amortisation and fuel **down 4%**





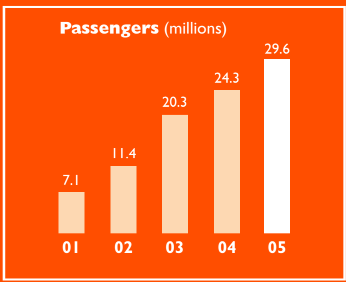


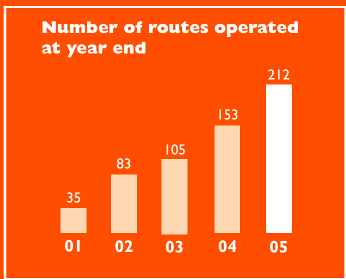
+23%
Revenues up to £1.3 billion

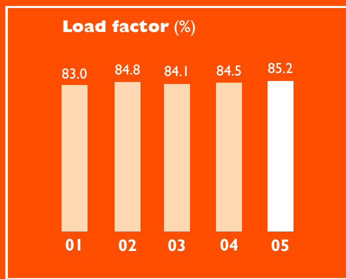
+9.1%
Profit before tax

+5.8%
Cash flow from operations

- Increase in fleet from 92 to **109** aircraft
- Number of airports increased from 44 to **64**
- **21** cities added to the network







+21.4%

Passengers (millions)

212

Number of routes operated

85.2%

Consistently high load factor

Chairman's statement

During the last financial year, easyJet has begun the process of building a new management team. Where possible, this process was conducted in a phased manner, so as to ensure that sufficient continuity has been maintained to retain the required focus on the business. In 2005 our financial performance improved with a 9.1% increase in profit before tax. This has been achieved due to a strong emphasis on revenue and cost management. We recognise the need to continue to enhance shareholder value, and a new long term incentive plan for management based on increases in return on equity was introduced. This received shareholder approval at the Extraordinary General Meeting held on 15 September 2005. A key feature of this plan is the requirement for share ownership by senior management.

95>05

In March, we welcomed Jeff Carr as Group Finance Director. Jeff's previous experience in companies in highly competitive markets is already bringing benefits to easyJet.

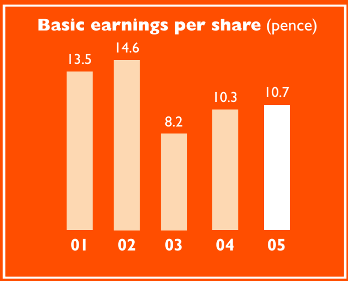
In May, Ray Webster announced he would be stepping down from the Board on 1 December 2005. Ray's contribution to the growth of easyJet over the last ten years has been immense and he will be greatly missed. A rigorous search process resulted in the appointment of Andrew Harrison to the Board as our new Chief Executive Officer, and I am sure that he will make a significant contribution to improving easyJet's performance. Andrew will take over from Ray on 1 December.

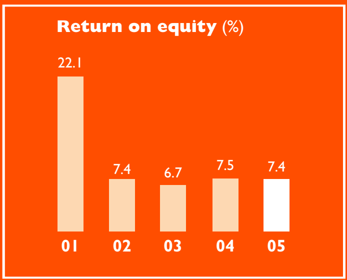
Additionally, Ed Winter, our Chief Operating Officer, and Stephen Connock, our People Director, retired in September 2005.

Mike Szucs has been promoted from within the Group to Chief Operating Officer. Mike has more than ten years' airline experience and has been with easyJet since 2003. Mike Campbell has joined the management team as People Director. Mike recently held a number of senior management roles at the Waterford Wedgwood Group.

Our search for a Chief Commercial Officer has recently concluded and I am delighted to announce the appointment of Saad Hammad who joined the management team on 7 November.

Managing increased profitability from easyJet's continued growth as a high volume business necessitates the formation of a high quality senior management group. The building of the top team along with the long term incentive plan, with its emphasis on share ownership and its availability





to our top 50 managers, give me confidence in our ability to grow shareholder returns.

As previously announced, Colin Day and Tony Illsley both stood down from the Board on 30 September 2005, and Amir Eilon, representing easyGroup on the Board, will not be offering himself for re-election. All three have been excellent participants in Board deliberations and I am most grateful for their contributions.

In May 2005, following the announcement that Amir Eilon would be stepping down, Stelios Haji-Ioannou rejoined the Board as a Non-Executive Director. We were fortunate to have appointed, as an Independent Non-Executive Director, David Bennett, the Finance Director of Alliance and Leicester plc, a FTSE 100 company. David's appointment was effective from 1 October 2005. I look forward to David's contribution to Board matters and his stewardship of the Audit Committee.

Despite high fuel prices, we have continued the trend from the first half and made significant reductions in our non-fuel cost base. In highly competitive markets, the challenge of simply improving shareholder value is unrelenting, but the quality of our team throughout the whole Group gives me confidence in our future. We would not have achieved what we have without the dedication of all our staff, and on behalf of the Board I offer them many thanks and much appreciation.

Sir Colin Chandler
Chairman

21 November 2005

Chief Executive's review

When I first joined easyJet we'd set ourselves some big targets – increasing our aircraft numbers ten-fold (to 20!), achieving our own operating licence and reaching profitability. It seems a very long time since 1995 when we had two leased Boeing 737-200s and essentially acted as a "virtual airline" contracting everything from pilots to check-in staff. The first booking was taken on 23 October 1995, from a small rented tin shed in a corner of Luton airport, called easyLand. Our concept of eliminating travel agents was at the time radical and untested, but proved to be successful. On 10 November 1995, when the inaugural flight took to the skies from London Luton airport to Glasgow it was carrying 120 passengers.

95

The first booking is taken on 23 October, as the easyJet telephone reservation centre opens at **easyLand**, Luton. Inaugural flights take off from London Luton to Edinburgh and Glasgow in November.

96

easyJet takes delivery of its first wholly-owned aircraft and goes international with services to Amsterdam, Nice and Barcelona from Luton.

97

easyJet.com is launched to provide information on the website, although the first seat is not sold online for a further year.

The business has come a very long way in the last ten years. We acquired, with great excitement, our first owned aircraft in 1996 and began our first international routes in the same year. Our much prized Air Operators Certificate was granted in 1997, the year we also reached break-even for the first time, and placed an order for 12 brand new Boeing 737-300s for delivery by 2000.

In 1998, the first seat was sold online at easyJet.com, we introduced our "The web's favourite airline" strapline and led the airline industry in developing the internet as the preferred distribution channel. In addition that year we purchased 40% of the Swiss Charter operation, TEA Basel AG, based in Basel.

The business continued to grow, and was floated on the London Stock Exchange five years ago on 22 November 2000. We acquired Go Fly in 2002 to create Europe's number one low-cost airline. A well planned and successful transformation followed. Airbus was appointed as our preferred aircraft supplier and we ordered a massive 120 aircraft for delivery over five years. Our first Airbus went into service in Geneva in 2003, and since that date, no other airline has taken Airbus aircraft at the rate that we have.

From our small and often difficult beginnings we now have a huge presence across Europe with 212 routes across 64 of Europe's best placed and most popular airports.

Getting there wasn't an easy ride – and not for those with weak stomachs! easyJet was a small fish in a very large bowl. However, commitment and determination drove our people to believe and recognise that they had a product that would change the lives of consumers forever. Along the way, we picked fights with bigger airlines which tried or threatened to try

98

easyJet buys 40% of Swiss charter operation, TEA Basel AG, now operating as easyJet Switzerland.

99

The first *Airline* series featuring **easyJet** is transmitted on ITV, giving a "warts and all" account of life for passengers and staff at **easyJet**.

00

easyJet shares formally admitted to the London Stock Exchange.

to use anti-competitive behaviour to block our way. I remember with pride our battles with KLM, British Airways and most of all Swissair, when we operated a charter service (complete with bus ticket and a tent) to beat their monopoly on the Geneva Barcelona service and deliver low prices to customers. I would like to thank our employees for their professionalism and dedication to our unique values and customer service.

Today, easyJet is still growing. During 2005 we've reached several major milestones: we flew our 100 millionth passenger, and we took delivery of our 100th aircraft, as well as our 50th Airbus A319. In the past ten years we have grown to an airline which carries 30 million passengers a year: a feat which took Ryanair twice the time to achieve. Consistent with our values of delivering excellent service to our customers through our people, we have celebrated our 10th birthday which has been marked by 15 parties at our 15 bases and a number of competitions for passengers.

I am proud of having led easyJet as it shook up the industry in the last ten years. We have provided a huge increase in the range of services available, all at lower prices, and the customer has rewarded us by travelling in numbers that would have seemed impossible a few years ago. easyJet has led the way, but the customer is the clear winner and they have responded by travelling more frequently, expanding the market. We have changed the way people think about travel and, in doing so, we have opened up the continent by making it cheaper for people to fly. Europe is now available to everyone whenever they want – both for business and leisure travel. We've been responsible for thousands of life enhancing experiences and journeys made; made millions of introductions and forged countless friendships.

Chief Executive's review continued

easyJet announced its **16th base, Milan Malpensa,** in October 2005

01

easyJet announces massive route expansion and becomes the second-largest scheduled airline from Gatwick airport.

02

easyJet acquires Go to create Europe's number one low-cost airline.

03

The first Airbus A319 goes into service in Geneva. This forms part of an order of 120 aircraft to be delivered over five years.

We've launched long distance love affairs; mended broken hearts and helped people to realise their dreams. I wish easyJet and my successor, Andrew Harrison, all the best for the future as easyJet continues to grow.

Results

I believe that the airline is in good shape for Andrew. These are commendable results in difficult conditions delivered partly through a very strong year round focus on costs.

Safety is our primary concern, and our internal procedures and processes ensured that there were no significant incidents during the year. The operation has run superbly during the year – with on-time performance remaining excellent at 80.2% of all flights arriving within 15 minutes of scheduled arrival time.

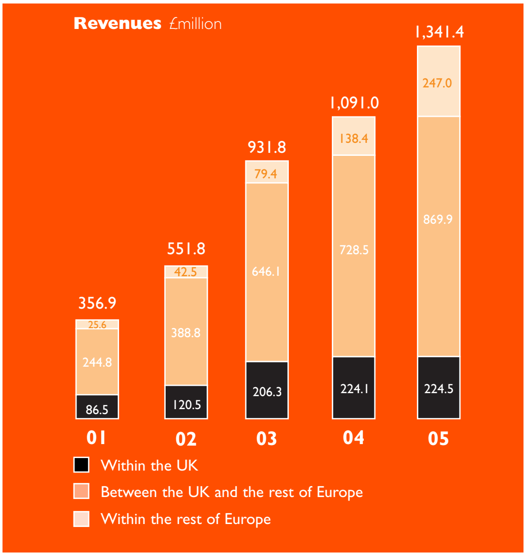
In the year ended 30 September 2005, easyJet made a profit before tax of £67.9 million, an increase of 9.1% on the prior year. Profit before tax and goodwill amortisation for the year was £85.3 million, an increase of 7.6% by comparison to 2004. Basic earnings per share for the year were 10.68 pence (10.34 pence in 2004). Return on equity before goodwill amortisation was 7.4% (7.5% in 2004).

Despite increasing levels of competition, we managed to increase our revenue per seat from £37.88 in 2004 to £38.66, with our load factor rising from 84.5% in 2004 to 85.2% in 2005. With the increasing load factor and increase in revenue per seat, total revenues grew 23.0% to £1,341.4 million. The number of passengers rose 21.4% to 29.6 million. The average number of aircraft operated during the year increased 17.7% to 94.

Revenues from intra-European flights grew by **78%** in 2005

Fuel costs were 50.5% higher on average than they were during the previous year – costing us £90.0 million in the year after taking growth into account. In fact, unrelenting fuel prices caused our cost per seat, before goodwill amortisation, to increase from £35.12 in 2004 to £36.20 in 2005.

So, I am particularly pleased with the results of the very strong focus in all other areas of the business this year. Cost per seat excluding goodwill amortisation and fuel decreased 4.4% from £30.03 to £28.71 with a 6.7% reduction in the second half of the year. During the year we have finalised a number of initiatives – including the signing of a major new long term maintenance agreement with SR Technics which is expected to lower our Airbus maintenance costs, excluding engines, by 25% over the life of the contract. We increased crew efficiency, reduced ground handling costs and continue to benefit from the introduction of the Airbus A319.



04

easyJet launches first flights from its new Berlin base to Liverpool and Luton.

05

easyJet takes delivery of its 100th aircraft, and celebrates its 100 millionth passenger, Grandma, Linda Martin, travelling to Malaga on EZY 3115 from Stansted with her family and star of the LWT airline documentary, Leo Jones.

This is the result of an exceptional amount of hard work by our people. But, despite the tangible progress, there is still more to do to provide an improvement to the underlying performance. We continue to fight against unjustifiable above inflation increases at airports across Europe and for lower handling charges in Spain. While we commend the UK government for resisting calls for a £250 million subsidy from financially healthy airlines to the financially weak, I wish that other European governments would demonstrate such broadmindedness – too many national governments still seem intent on protecting their national airlines – whatever the cost.

Outlook

easyJet has a new management team in place which is clearly incentivised to deliver shareholder value through return on equity targets, as agreed by shareholders at our EGM on 15 September 2005. In the current financial year we expect to deliver capacity growth, measured by available seats, of 15%. Our strong focus on controllable costs will continue and should result in a 3-5% reduction in cost per seat, before fuel. While we anticipate a slight reduction in total revenue per seat, ancillary revenues will improve with double digit percentage growth supported by a series of new initiatives. Overall, we therefore expect to achieve mid to high single digit percentage profit growth.

Ray Webster
Chief Executive

21 November 2005

The people and events

easyJet goes **international** with London Luton to **Amsterdam**

95

Douglas Macdonald
Resource planning manager
Joined December 1995

I look after the contact centre resource planning and rostering of all the people in our contact centre at Luton. In ten years we've earned the right to exist with persistence and hard work. I remember particularly the buzz when we launched our first international route to Amsterdam in 1996 – we thought we had arrived as an airline.

96

Jane Horton
Revenue protection
Joined January 1996

Stelios asked me to join **easyJet** to set up the Customer Services function. After a couple of years, I joined the finance function and now work controlling credit card fraud. I'm proud to have seen **easyJet** grow from two aircarft to more than 100 and to have grown personally at the same time.

07.00 HRS
10.11.95

First flight from London Luton to Glasgow

First
seat sold online at
easyJet.com

97

Eileen Castelijn
Senior payroll administrator
Joined June 1997

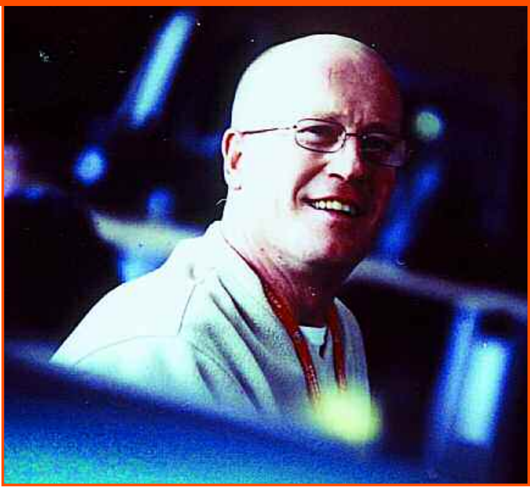
I started my **easyJet** life in the call centre, but moved into payroll in 1998. We were so short of space I had to share Stelios' desk! I love the easyJet environment and the fact that nothing stays the same for very long – there's always a new challenge around the corner.

98

Simon Frood
IT support
Joined December 1998

I joined **easyJet** as a baggage handler, but always had an interest in IT and was delighted when I was able to transfer. I now get involved in setting up new bases and ensuring there is cover for IT emergencies. I get to meet lots of people and I really enjoy this – **easyJet** is one big family.

one millionth
passenger carried



The people and events continued

ten millionth

passenger is carried

99

Richard Smiles
Operations technical specialist
Joined January 1999

I joined **easyJet** to work in the network operations centre, ensuring the safe and efficient control of our daily flight operations. I am now responsible for monitoring aircraft weights to ensure safe operation of the business. During my time, I remember the first delivery of both the Boeing 737-700 and the Airbus A319, each of which took us to a new level.

00

Chris Brady
Captain – Liverpool airport
Joined December 2000

I am in charge of **easyJet's** Boeing 737 test flying. These are important because once an aircraft has been on maintenance, we use these flights to ensure that the aircraft are fully airworthy before passengers fly on them. The test flights last about 2.5 hours and we pretty much do everything that the aircraft is capable of doing – it's all interesting stuff!

one millionth

seat sold online

60

The **acquisition of Go Fly** takes the fleet size to over 60

01

Lisa Purcell
On-board performance manager – Liverpool
Joined December 2001

I've been flying for 11 years, and I now check the operation of our cabin crew from our Liverpool base to make sure they meet our standards. Working at **easyJet** has been really good for me – I've had three promotions in three years and had lots of new experiences.

02

Cindy Marin-Matholaz
Customer services team manager
Joined September 2002

Back home in France, I did a degree in Tourism Management, and **easyJet** was one of the companies I studied. I was really pleased to get a job at **easyJet**. Customer services is a special place in which to work – it's a diverse group, with people of many different nationalities, all committed to helping our customers.

21

new routes almost **doubles** existing network

The people and events continued

£1.0 billion

Turnover exceeds £1.0 billion

03

James Heather
Senior cabin crew – Gatwick
Joined June 2003

Although I only started working at Gatwick in 2003, it's grown so quickly that I'm one of the longest serving staff! It's great working in an environment where there are always new people.

04

Marielle Mosink
Base cabin crew manager – Dortmund
Joined May 2004

I live in Holland, but commute to Dortmund every day to manage the 70 cabin crew at our base. Given its location, it's a multinational base, with many different nationalities. Having worked for other airlines, what I really like about **easyJet** is its unconventional culture.

Continued growth makes us a **larger European airline** than **British Airways**

100

aircraft now
in operation

05

Marva Pascall-amada
Purchase ledger clerk
Joined April 2005

I work processing invoices and dealing with suppliers, making sure they get paid on time. With the increasing number of airports we fly to, it's a busy place, but a friendly place to work.

100 millionth

passenger carried

Operational and financial review

Strategy and business model

During the year, management reviewed with the Board the implementation of easyJet's strategy and made changes to ensure that the business remains well positioned in an increasingly competitive marketplace. The business model required no change. It is tried and tested and has withstood the challenges of this difficult year.

Being mindful of the business environment, our strategy has three cornerstones: "focus on our customers", "own our markets" and "reduce our costs".

Focus on our customers We know what our customers value, and we design our core product and ancillary services accordingly. Every year, we aim to create better value for our customers, whilst decreasing our costs to maintain or improve competitiveness.

Own our markets We will develop and aggressively defend our chosen markets against competitors. This means quickly establishing a strong base, offering numerous routes with multiple frequencies to existing and new points on the network, and establishing a strong brand in the market.

Reduce our costs Management is focused on increasing the return on equity. In order to achieve this, we will continue to challenge industry norms and further reduce our cost base through being highly productive, innovative and taking advantage of our scale and local knowledge in procuring goods and services. For example, in the coming year we will see benefit from the long term maintenance contract that we signed with SR Technics in August 2005.

We will withdraw capacity from any existing markets that are poorly performing or airports which are overpriced. We are confident that this strategy will bring clarity and focus to the efforts of our people and will provide easyJet with its unique strength to remain best in class, with a leading position in the growing European air travel market.

Network

We have continued to develop the network during the year in a manner that absorbed the 18.8% growth in new capacity, measured by sectors operated, without affecting operational performance. At 30 September 2005, the easyJet network covered 212 routes and 64 airports, compared to 153 and 44 at the same time last year. Thirteen routes ceased operations in the year due to their poor performance.

During the year, we have added 21 new cities to the easyJet network: Almeria, Asturias, Bratislava, Cagliari, Cork, Grenoble, Hamburg, Knock, Krakow, Maastricht, Mahon, Milan, Murcia, Olbia, Pisa, Riga, Shannon, Tallinn, Turin, Valencia, and Warsaw. Basel opened as a new base during the year.

Further growth is planned for the forthcoming season and we have already announced four new cities: Bournemouth, Doncaster, Lisbon, and Bremen. We announced last month the addition of a 16th base in Milan: our first Italian base.

Fleet and aircraft financing

At the end of the financial year, the fleet comprised 54 Boeing 737s and 55 Airbus A319s, giving a total of 109 aircraft. The fleet at the start of the year comprised 71 Boeing 737s and 21 Airbus A319s . Details of the fleet at 30 September 2005 are as follows:

	Owned	Under operating lease	Total	Changes in year	Future deliveries	Options[1]
Airbus A319s	18	37	55	34	65	120
Boeing 737-700s	–	32	32	(1)	–	–
Boeing 737-300s [2]	–	22	22	(16)	–	–
	18	**91**	**109**	**17**	**65**	**120**

Notes:
1) Options may be taken as any Airbus A320 family aircraft and are valid until 2012.
2) Excludes one Boeing 737-300 which was held for sale at 30 September 2005.

A further 65 Airbus A319 aircraft are planned to be delivered through to February 2009. This will give us a modern fleet of aircraft that will underpin our high levels of asset utilisation and increase our operational efficiency. The average fleet age, currently 3.0 years (2004: 4.5 years), is expected to fall to approximately 2.3 years by 30 September 2006.

Fleet changes: The total fleet over the period to 30 September 2008 based on contractual commitments is as follows:

	Airbus A319s	Boeing 737-700s	Boeing 737-300s	Total aircraft
At 30 September 2004	21	33	38	92
At 30 September 2005	55	32	22	109
At 30 September 2006	87	32	3	122
At 30 September 2007	106	32	–	138
At 30 September 2008	118	31	–	149

Whilst we are very confident of growing the business at this rate, we have contractual rights with Airbus that allow us to moderate or accelerate our capacity growth within certain constraints.

Aircraft financing Of the 34 aircraft that were delivered to easyJet during the year, 22 were sold to lessors and leased back under operating leases, and 12 were financed by debt.

During the year, we continued to secure financing through mortgages and sale and leasebacks for the majority of the Airbus delivery stream. We have now committed facilities available for 97 of the 120 Airbus aircraft ordered. The arrangements include facilities for deliveries in 2006 and 2007.

Our people

At 30 September 2005 there were 4,152 employees in easyJet, an increase of 11.4% during the year from 3,727 at 30 September 2004, well below the overall growth rate in the business. This is because of management action to increase the efficiency of our crew, and our focus on a more efficient easyLand.

Operational and financial review continued

The following tables set forth certain consolidated operating and profit and loss account data.

Internally at a Company level, we look at both revenue and cost per seat flown. Each seat flown incurs a cost of capital: we try and minimise the cost of debt through effective financing; we incentivise our top management to deliver higher returns on equity.

We continue to publish other operating data and performance measures, to facilitate comparison with other airlines.

Selected consolidated operating data

(unaudited)

	Year ended 30 September 2005	2004	Year on year change %
Key performance indicators			
Return on equity before goodwill amortisation[1]	**7.4%**	7.5%	(0.1)pp
Profit before tax and goodwill amortisation per seat[2]	**2.46**	2.75	(10.7)
Revenue per seat[3]	**£38.66**	£37.88	2.1
Cost per seat excluding goodwill amortisation[4]	**£36.20**	£35.12	3.1
Cost per seat excluding goodwill amortisation and fuel[5]	**£28.71**	£30.03	(4.4)
Seats flown (millions)[6]	**34.7**	28.8	20.5
Output measures			
Number of aircraft owned/leased at end of year[7]	**109**	92	18.5
Average number of aircraft owned/leased during year[8]	**102.6**	85.0	20.7
Number of aircraft operated at end of year[9]	**103**	90	14.4
Average number of aircraft operated during year[10]	**94.0**	79.9	17.7
Sectors[11]	**229,068**	192,742	18.8
Block hours[12]	**401,588**	328,074	22.4
Number of routes operated at end of year	**212**	153	38.6
Number of airports served at end of year	**64**	44	45.5
Passengers (millions)[13]	**29.6**	24.3	21.4
Other performance measures			
Operated aircraft utilisation (hours per day)[14]	**11.7**	11.2	4.5
Owned/leased aircraft utilisation (hours per day)[15]	**10.7**	10.5	2.2
Available seat kilometres ("ASK") (millions)[16]	**32,141**	25,448	26.3
Load factor[17]	**85.2%**	84.5%	0.7pp
Revenue passenger kilometres ("RPK")(millions)[18]	**27,448**	21,566	27.3
Average sector length (kilometres)	**926**	884	4.8
Average fare[19]	**£42.43**	£42.28	0.4
Revenue per ASK (pence)[20]	**4.17**	4.29	(2.7)
Cost per ASK before goodwill amortisation (pence)[21]	**3.91**	3.95	(1.1)

Footnotes can be found at the end of the operational and financial review.

Results of operations

(unaudited)

	Year ended 30 September 2005 £million	%	2004 £million	%	Year on year change 2004
Passenger revenue	**1,254.2**	**93.5**	1,029.3	94.3	21.8
Ancillary revenue(22)	**87.2**	**6.5**	61.7	5.7	41.3
Revenue(23)	**1,341.4**	**100.0**	1,091.0	100.0	23.0
Ground handling charges, including salaries	**(130.5)**	**9.7**	(111.3)	10.2	17.2
Airport charges	**(230.1)**	**17.2**	(191.4)	17.5	20.2
Fuel	**(260.2)**	**19.4**	(146.9)	13.5	77.1
Navigation charges	**(108.6)**	**8.1**	(87.7)	8.0	23.8
Crew costs	**(136.2)**	**10.2**	(126.8)	11.6	7.4
Maintenance	**(119.2)**	**8.9**	(102.0)	9.3	16.9
Advertising	**(32.8)**	**2.4**	(30.5)	2.8	7.4
Merchant fees and incentive pay	**(15.6)**	**1.2**	(13.6)	1.2	15.0
Aircraft insurance	**(19.3)**	**1.4**	(19.8)	1.8	(2.6)
Other costs(24)	**(80.0)**	**5.9**	(71.7)	6.6	11.6
EBITDAR(25)	**208.9**	**15.6**	189.3	17.4	10.4
Depreciation	**(16.4)**	**1.2**	(19.2)	1.8	(14.4)
Accelerated depreciation of 737-300 aircraft	**(2.7)**	**0.2**	(6.1)	0.6	(55.7)
Goodwill amortisation	**(17.4)**	**1.3**	(17.1)	1.6	1.7
Aircraft dry lease costs	**(123.7)**	**9.2**	(96.4)	8.8	28.3
Group operating profit (EBIT)	**48.7**	**3.7**	50.5	4.6	(3.6)
Share of operating profit of The Big Orange Handling Company	**0.2**	**0.0**	0.2	–	15.9
Interest receivable	**27.2**	**2.0**	14.2	1.3	91.2
Interest payable	**(8.2)**	**0.6**	(2.7)	0.2	202.5
Net interest receivable	**19.0**	**1.4**	11.5	1.1	65.2
Profit before tax	**67.9**	**5.1**	62.2	5.7	9.1
Tax	**(25.3)**	**1.9**	(21.1)	1.9	19.7
Retained profit for the year	**42.6**	**3.2**	41.1	3.8	3.7
Earnings per share (pence)					
Basic	**10.68**		10.34		3.3
Diluted	**10.43**		10.11		3.1
Basic, before goodwill amortisation	**15.03**		14.64		2.7
Diluted, before goodwill amortisation	**14.68**		14.33		2.4

Footnotes can be found at the end of the operational and financial review.

Operational and financial review continued

Financial year 2005 compared with financial year 2004

Revenue

easyJet's revenue increased 23.0% from £1,091.0 million to £1,341.4 million, from financial year 2004 to financial year 2005. Revenue per seat increased 2.1% from £37.88 to £38.66.

Passenger revenue, the largest component, comprises the price paid for the seat less government taxes, such as Air Passenger Duty and VAT. It increased by 21.8% from £1,029.3 million to £1,254.2 million, driven by a 21.4% growth in passenger numbers from 24.3 million to 29.6 million, and a 0.4% increase in average fares. The number of passengers carried reflected a 17.7% increase in the size of the easyJet fleet in operation from an average of 79.9 aircraft to an average of 94.0 aircraft and a small increase in the average load factor achieved from 84.5% to 85.2%.

Growth was particularly strong in continental Europe, with intra-European revenues growing by 78%. The performance at our German bases was the key driver to this growth.

Ancillary revenue includes credit card fees, excess baggage charges, sporting equipment fees, infant fees, change fees and rescue fees, profit share from in-flight sales of food, beverages, and boutique items, commissions received from products and services sold such as hotel bookings, car hire bookings and travel insurance, less chargebacks. In 2005, £87.2 million was earned from ancillary revenues, up 41.3% from 2004. This has been driven by renegotiation of key contractual arrangements and more consistent application of policies on additional charges.

Ground handling charges, including salaries

easyJet's ground handling charges increased by 17.2% from £111.3 million to £130.5 million, from financial year 2004 to financial year 2005. The increase in ground handling charges reflects the 18.8% increase in the number of sectors flown, set off against mix savings as a result of network expansion decisions and our continued efforts to work with our suppliers. We exited expensive airports such as Zurich, and expanded at lower cost locations such as Basel and Berlin.

Airport charges

easyJet's external airport charges increased by 20.2% from £191.4 million to £230.1 million from financial year 2004 to financial year 2005. This increase was attributable to the growth in passengers carried of 21.4%, inflationary cost increases at regulated airports offset by the beneficial impact of growth centred at lower cost airports such as Basel and Berlin.

Fuel

easyJet's fuel costs increased by 77.1% from £146.9 million to £260.2 million from financial year 2004 to financial year 2005. The increase was significantly higher than the 22.4% increase in number of block hours flown. This change is primarily due to a 50.5% increase in easyJet's average US dollar fuel cost per tonne, compared with the previous year, resulting in additional costs to easyJet of £90.0 million. The strengthening of the value of sterling against the US dollar, the currency in which fuel prices are denominated, over the course of financial year 2005 provided a set off benefit of approximately £8.0 million. In addition, a 4.8% increase in sector length, the introduction of new aircraft and increased optimisation of route planning aided the efficiency of easyJet's fuel consumption. Benefits obtained from Group fuel hedging activities were £12.3 million.

Navigation charges

easyJet's navigation charges increased by 23.8% from £87.7 million to £108.6 million from financial year 2004 to financial year 2005. This increase was principally attributable to a 26.3% increase in the ASKs flown in financial year 2005, set off against reductions in cost per kilometre flown in Germany, France and the UK.

Crew costs, including training

easyJet's crew costs increased by 7.4% from £126.8 million to £136.2 million from financial year 2004 to financial year 2005. The increase in crew costs resulted from an increase in headcount during the financial year 2005 to service the additional sectors and aircraft operated by easyJet during the year, the increase in salaries, and the costs of recruitment. The increase in crew costs is less than the rate of growth in block hours of 22.4%. This is due to more efficient use of crew across the network, and because £6.4 million was incurred in 2004 during the migration of certain operations from Boeing to Airbus aircraft.

Maintenance

Maintenance expenses increased by 16.9% from £102.0 million to £119.2 million from financial year 2004 to financial year 2005. easyJet's maintenance expenses consist primarily of the cost of routine maintenance and spare parts and provisions for the estimated future cost of heavy maintenance and engine overhauls on aircraft operated by easyJet pursuant to dry operating leases. The extent of the required annual maintenance reserve charges is determined by reference to the number of flight hours and cycles permitted between each engine shop visit and heavy maintenance overhaul on aircraft airframes. The increase in maintenance costs was largely due to a 22.1% increase in the average number of leased aircraft from 72.0 to 87.9, offset by the benefits of the new SR Technics maintenance contract.

Advertising

Advertising costs increased by 7.4% from £30.5 million to £32.8 million from financial year 2004 to financial year 2005. Spend per passenger was approximately 11.7% lower than the previous year which is principally due to maturity of markets, particularly in the UK. This set off the additional costs incurred by entering into new markets in eastern Europe during the year. Costs in 2004 reflected the costs of establishing the easyJet brand in Germany, particularly in Berlin and Dortmund. While continued investment has been required in these markets in the current year, they have been at a lower level.

Merchant fees and incentive pay

Merchant fees and incentive pay increased by 15.0% from £13.6 million to £15.6 million from financial year 2004 to financial year 2005. Merchant fees and incentive pay includes the costs of processing fees paid for all of easyJet's credit and debit card sales and the per-seat sold/transferred commission paid as incentive pay to easyJet's telesales staff. The increase reflects an increase in passenger revenues of 21.8% since 2004. This is offset by a decrease in the number of bookings made using credit cards from 72% of bookings in 2004 to 66% of bookings in 2005 due to wider card schemes enabling purchase by debit card in additional European countries. Incentive pay paid to telesales personnel decreased slightly year on year due to the full-year effect of allowing online changes. 84% of changes were made online in 2005, compared to 73% in 2004.

Aircraft insurance

Aircraft insurance costs reduced from £19.8 million in financial year 2004 to £19.3 million in financial year 2005, despite a 21.4% increase in passenger numbers. This was as a result of lower rates being negotiated and also due to the beneficial effect of the strengthening of sterling against the US dollar.

Other costs

Other costs increased by 11.6% from £71.7 million to £80.0 million from financial year 2004 to financial year 2005. Items in this cost category include administrative costs and operational costs not included elsewhere including some salary expenses. This cost category also includes compensation paid to passengers, and certain other items, such as currency exchange gains and losses and the profit or loss on the disposal of fixed assets. The major influence of this category of costs was the growth in the scope of the operation.

Operational and financial review continued

Depreciation
Depreciation charges decreased by 14.4% from £19.2 million to £16.4 million from financial year 2004 to financial year 2005. The depreciation charge reflects depreciation on owned aircraft and capitalised aircraft maintenance charges, and also includes depreciation on computer systems and other assets. easyJet has owned an average of 4.1 Boeing 737-300 aircraft and 10.6 Airbus A319 aircraft during the financial year 2005 (2004: 8.0 Boeing 737-300 aircraft and 4.9 Airbus A319 aircraft). Due to the relative costs of acquisition, Boeing aircraft attract a higher absolute annual depreciation charge than Airbus aircraft. The decrease in depreciation reflects the disposal of most of the owned Boeing 737-300 aircraft and the 3.8% improvement in the average value of sterling against the US dollar, the currency in which the majority of easyJet's assets are denominated, and the additional depreciation of other assets such as spares and leasehold improvements.

Accelerated depreciation of 737-300 aircraft
In 2004, management provided £3.4 million of additional depreciation in respect of the four oldest owned Boeing 737-300 aircraft to align the aircraft carrying value with the residual value. These aircraft were all disposed of in the year ended 30 September 2004.

The residual values of six owned Boeing 737-300 aircraft were reassessed in 2004 which led to an additional £2.7 million of accelerated depreciation being recognised on these aircraft during 2004 and £2.7 million in 2005. All of the aircraft have now been sold, with five being sold prior 30 September 2005.

Goodwill amortisation
Goodwill amortisation charges increased slightly from £17.1 million to £17.4 million from financial year 2004 to financial year 2005.

Aircraft dry lease costs
Aircraft dry lease costs increased by 28.3% from £96.4 million to £123.7 million from financial year 2004 to financial year 2005. During the period 22 new Airbus A319 aircraft were added to the fleet on lease agreements, and the average number of leased aircraft during the year increased by 22.1% to 87.9. Over the period, easyJet has been impacted by increasing US dollar interest rates which have increased lease payments. This has been offset by the benefit of the strengthening of the value of sterling against the US dollar, the currency in which lease costs are denominated. As a consequence, easyJet has seen its average leasing cost per aircraft increase by around 4.5%, year on year.

Share of operating profit of The Big Orange Handling Company
The Big Orange Handling Company Limited is a joint venture company owned by Menzies Aviation Limited and easyJet. It was set up in January 2004 to provide ground handling services at London Luton airport. During the financial year 2005, the share (26%) of the turnover attributable to easyJet was £2.0 million (2004: £1.4 million), and the share of operating profit was £0.2 million (2004: £0.2 million).

Interest receivable
Interest receivable increased by 91.2% from £14.2 million in 2004 to £27.2 million in 2005. This increase is because of an increase in the cash balance during the year from £510.3 million to £695.5 million and the higher sterling interest rates, since most of the Group's cash is retained in sterling.

Interest payable
Interest payable increased 202.5% from £2.7 million to £8.2 million. This primarily reflects an increase in bank loans from £119.8 million to £220.4 million due to the financing of new Airbus aircraft, and the increase in US dollar and sterling interest rates.

Taxation
In financial year 2005, easyJet incurred a tax charge of £25.3 million, an effective tax rate of 37% (2004: £21.1 million charge, being 34% effective tax rate). The effective tax rate is higher than the UK standard rate of tax principally due to goodwill amortisation not being tax deductible. A more detailed explanation may be found in note 7 to the accounts.

The deferred tax liability increased by £7.3 million from £20.2 million to £27.5 million, primarily due to capital allowances taken being in excess of depreciation charges.

Retained profit for the year
For the reasons described above, easyJet's retained profit increased by 3.7% from £41.1 million in financial year 2004 to £42.6 million in financial year 2005.

Earnings per share
The basic earnings per share increased by 3.3% from 10.34 pence in the financial year 2004 to 10.68 pence in the financial year 2005.

The basic earnings per share, before goodwill amortisation, increased by 2.7% from 14.64 pence in the financial year 2004 to 15.03 pence in the financial year 2005.

Capital expenditure
Group capital expenditure on tangible assets is set out in note 10 to the accounts. Aircraft expenditure includes purchases of new Airbus aircraft, and the cost of purchased rotable spares and aircraft improvements. Aircraft deposits include the amount expended on pre-delivery payments to Airbus (and in 2004 Boeing in addition). Fixtures, fittings and equipment includes, amongst other things, IT hardware and software development costs and office fixtures and fittings.

Total capital expenditure in the two years ended 30 September 2005 is summarised as follows:

	2005 £million	2004 £million
Aircraft	**159.2**	262.3
Prepayments on account – aircraft deposits	**83.9**	103.7
Leasehold improvements – buildings	**2.0**	0.5
Fixtures fittings and equipment	**2.8**	3.9
	247.9	370.4

In addition, aircraft spare parts totalling £8.5 million were received free of charge during 2005.

As a result of a purchase agreement approved by shareholders in March 2003, the Group is contractually committed to the acquisition of a further 65 new Airbus A319 aircraft with a list price of approximately US $2.9 billion, or £1.6 billion (before escalations, discounts and deposits already paid) (2004: 99 Airbus A319s, US $4.4 billion; £2.4 billion). In respect of those aircraft, prepayments on account amounting to US $262.0 million (£148.1 million) had been made as at 30 September 2005 (2004: US $299.4 million, £165.4 million). It is intended that these aircraft will be financed partly by cash holdings and internal cash flow and partly through external financing including committed facilities arranged prior to delivery. In addition, certain of the aircraft will be sold and leased back under operating leases.

Operational and financial review continued

Working capital

At 30 September 2005, net current assets were £495.1 million, up £125.1 million from £370.0 million at 30 September 2004. This change principally reflects an increase in cash, an increase in debtors due to increased sales volumes offset by an increase in creditors, and an increase in the current portion of deferred profits on sale and leasebacks due to an additional 22 Airbus aircraft being sold and leased back during the year.

Unearned revenue (including Government taxes) increased from £143.0 million to £160.3 million due to increased volumes of passenger bookings.

Cash flow

Net cash inflow from operating activities totalled £169.8 million, an increase of £9.3 million from £160.5 million in 2004. The principal components of the net cash inflow were the operating profit and movements in the working capital cycle, in addition to movements in the maintenance provision of £27.1 million and an increase in long term deferred profits on sale and leaseback of aircraft of £27.5 million.

Net cash inflow before management of liquid resources and financing decreased £21.3 million from £108.4 million in 2004 to £87.1 million in 2005, due to increases in net cash inflow from operating activities offset by capital expenditure.

Financing arrangements

The following table sets out the movements in loans for the two years ended 30 September 2005:

	2005 £million	2004 £million
Balance at 1 October	**119.8**	72.8
New loans raised	**146.2**	65.8
Repayment of amounts borrowed	**(46.9)**	(8.3)
Financing fees	**(3.2)**	–
Effect of exchange rates	**1.4**	(10.5)
Balance at 30 September	**217.3**	119.8

34 Airbus A319s were delivered during the year. Twelve of the aircraft were financed through US dollar or sterling mortgage loans with the remaining being sold and leased back for a period of between seven and ten years.

For the purposes of the financial statements, foreign currency debt is translated into sterling at year-end exchange rates. Gains and losses on translation on loans which finance US dollar denominated fixed assets are taken to reserves, together with the differences arising on the translation of the related assets. The debt translation loss taken to reserves in 2005 was £1.4 million (2004: gain of £10.5 million).

Share capital

The number of shares allotted, called up and fully paid on 30 September 2005 was 400.4 million (2004: 399.2 million). During 2005, 1.2 million shares were issued on exercise of options under employee share option schemes (2004: 5.2 million).

Other matters

Liquidity and investments The Group holds significant cash or liquid funds as a form of insurance to mitigate the impact of potential business disruption events. The cash and liquid investment balances at 30 September 2005 totalled £695.5 million (2004: £510.3 million).

The robust increase in cash and liquid investment balances from the prior year represents continued cash inflows generated from the operation of the business together with cash inflows generated from aircraft financing activities. Group cash resources are used to fund payments made to Airbus in advance of taking delivery of aircraft, and drawdown of the full committed aircraft financing is made only when the aircraft is delivered. As a result aircraft deliveries are cash generative for the Group.

Surplus funds are invested, in line with Board-approved policy, in high-quality short-term liquid instruments, usually money market funds or bank deposits. Credit risk is managed by limiting the aggregate exposure to any one individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered to be unlikely.

Management of financial and fuel price risks The Board of Directors is responsible for setting treasury policy and objectives, and approves the parameters within which the various aspects of treasury risk management are operated. Approved treasury policy outlines the Group's approach to corporate and asset financing, interest rate risk, fuel price risk, foreign exchange risk and cash and liquidity management. The policy also lists the financial instruments and time periods which the Group's treasury function is authorised to use in managing financial risks. The policy is under ongoing review to ensure best practice in the light of developments in the trading and financial markets.

The treasury function implements the agreed policies on a day-to-day basis to meet the treasury objectives. These objectives include ensuring that the Group has sufficient liquidity to meet its day-to-day needs and to fund its capital commitments; deploying any surplus liquidity in a prudent and profitable manner; managing currency, fuel, interest rate and credit exposures; and managing the Group's worldwide relationship with banks and financial institutions.

Financing and interest rate risk All of the Group's debt is asset related, reflecting the capital intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers. These factors are also reflected in the medium-term profile of the Group's loans and operating leases. The incidence of repayments is shown in note 23. The Group demonstrated its continued ability to raise new committed financing, with 97 of the 120 Airbus aircraft to be delivered through February 2009 having committed financing in place at 30 September 2005 (2004: 82).

Group interest rate management policy aims to provide certainty in a proportion of its financing. All Group loans are at floating interest rates repricing every three to six months, while a minimum of 40% of operating leases rentals are based on fixed interest rates at the time of aircraft delivery. Of the operating leases in place at 30 September 2005 approximately 59% of lease payments were based on fixed interest rates and 41% were based on floating interest rates (2004: 58% fixed, 42% floating).

The Group's loan borrowings and operating leases are denominated in US dollars and sterling. The Group's aircraft are priced in and transacted in US dollars and 60% of loans outstanding at 30 September 2005 were priced in US dollars and 40% in sterling (2004: 100% US dollars).

Operational and financial review continued

Foreign currency risk The Group is broadly neutral in the key currencies in which it does business, with the exception of the US dollar. Capital, lease, and some mortgage payments and proceeds from the sale of aircraft are denominated in US dollars. As a result the Group can experience adverse or beneficial effects arising from exchange rate movements. The Group seeks to reduce its foreign exchange exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. In addition, the Group uses a limited range of hedging instruments as described below.

The Group has substantial liabilities denominated in US dollars. Some aircraft owning companies are treated as US dollar branches, and some are sterling denominated. In US dollar branches, movements in the aircraft values act as a natural hedge against the loans. As noted below, under International Financial Reporting Standards, this natural accounting hedge will no longer exist, and will cause additional volatility in the income statement due to changes in foreign exchange rates. We expect to manage this risk through a mixture of drawing down loans in sterling, holding cash in US dollars and entering into foreign exchange options.

Fuel price risk The Group fuel risk management policy aims to provide protection against sudden and significant increases in jet fuel price while ensuring that the Group may also benefit from price reductions. In order to provide protection the Group uses a limited range of hedging instruments traded on the over-the-counter markets, principally zero-cost collars and forwards, with approved counterparties and within approved limits. Group policy at 30 September 2005 is to hedge a maximum of 80% of estimated exposures up to 12 months in advance, and to hedge a smaller percentage of estimated expense up to 36 months in advance. In exceptional market conditions, the Board may accelerate or limit the implementation of the hedging policy. Further details can be found in note 23 below.

Derivative financial instruments The Group uses derivative financial instruments ("derivatives") with off-balance-sheet risk selectively for currency and fuel risk management purposes as described above. The Group's policy is not to trade in derivatives but to use these instruments to hedge anticipated exposures.

Forward foreign exchange and fuel contracts and zero-cost collars are used to cover currency and jet fuel exposures. All contracts outstanding at 30 September 2005 are summarised in note 23.

The Group does not permit selling of currency and jet fuel options, except as part of a fully matched options collar hedging structure.

All derivatives are used for the purpose of risk management: they do not expose the Group to market risk because gains and losses on the derivatives offset losses and gains on the matching asset, liability, revenue or cost being hedged. Counterparty credit risk is generally restricted to any hedging gain from time to time and is controlled through mark-to-market-based credit limits.

Critical accounting policies

easyJet's consolidated financial statements have been prepared in accordance with UK GAAP. Significant accounting policies are described in note 1 to the consolidated financial statements. The preparation of financial statements in accordance with the stated accounting policies requires easyJet's management to make estimates and assumptions that will affect the amounts reported in the consolidated financial statements. easyJet's estimates and assumptions are based on management's historical experiences, changes in the business environment and advice from specialists. However, actual results may differ from these estimates if actual conditions are different. The policies used in determining the carrying value of aircraft, aircraft maintenance liabilities, and corporation tax are material to easyJet's financial statements and require a significant amount of management judgement.

Carrying value of aircraft easyJet typically holds its owned aircraft for a period of seven years, and depreciates aircraft to an estimated residual value over this period. As aircraft have a useful life beyond 20 years, there is usually a substantial residual value at seven years. The residual value relates to the expected net sale proceeds which easyJet estimates it could obtain when it sells the aircraft. In estimating the residual values, easyJet management will consult a range of external valuers, and take into account its own knowledge and experience. Nevertheless, there can be significant variations between expected and actual residual values, as a result of factors such as the general strength of the global aviation market, the supply of aircraft suitable for low-cost airlines, the supply of the specific aircraft type being sold, and the supply of aircraft generally. Variations may result in changes to the depreciation estimate or impairment charges, and as this is a significant component of the cost base of the Group, this may cause significant variations in the profitability of the Group.

Aircraft maintenance costs easyJet incurs liabilities for maintenance costs in respect of its leased aircraft during the course of the lease term. These are as a result of legal and constructive obligations in the lease contract in respect of the return conditions applied by lessors, which require aircraft airframes, engines, landing gear and auxiliary power units to reach at least a specified condition on their return at the end of the lease term. In most instances, to reach the specified conditions, easyJet will need to carry out a heavy duty maintenance check on each of the engines and the airframe once during the lease term, usually towards the end of the lease. Other work may be required on landing gear and auxiliary power units. A charge is made in the profit and loss account each month based on the number of flight hours or cycles used to build up a provision to cover the cost of heavy duty maintenance checks when they occur. Estimates involved in calculating the provision required include the expected date of the check, market conditions for heavy duty maintenance checks pertaining at the expected date of check, the condition of asset at the time of the check, the likely utilisation of the asset in terms of either flying hours or cycles, and the regulations in relation to extensions to lives of life limited parts, which form a significant proportion of the cost of heavy duty maintenance costs of engines.

easyJet is also required to pay maintenance reserves to certain lessors on a monthly basis, based on usage, to provide a security deposit for the lessor should the aircraft be returned without meeting its return conditions. These maintenance reserves are then returned to the Group on production of evidence that qualifying maintenance expenditure has been incurred. Maintenance reserves paid are deducted from the provision made. In some instances, not all of the maintenance reserves paid can be recovered by the Group and therefore are retained by the lessor at the end of the lease term. If management considers this is likely to occur, then an additional provision is made (again either on a flying hours or cycles basis) to cover the expected liability.

Assumptions made in respect of the basis of the provisions are reviewed for all aircraft once a year. In addition, when further information becomes available which could materially change an estimate made, such as a heavy duty maintenance check taking place, utilisation assumptions changing, or return conditions being renegotiated, then specific estimates are reviewed immediately, and the provision is reset accordingly.

Corporation tax In the ordinary course of easyJet's business, there are many transactions and calculations where the ultimate tax determination is uncertain at the time the accounts are prepared. As part of the process of preparing our consolidated financial statements, we are required to estimate our corporation tax liabilities in each of the jurisdictions in which we operate. This process involves estimating our current tax exposures on a jurisdiction by jurisdiction basis. Included in the estimation process is making judgements on the recoverability of deferred tax assets. Tax exposures can involve complex issues and can take an extended period to resolve.

The effective tax rate of easyJet is derived from the effective tax rate of the weighted earnings in each jurisdiction that we operate. Changes in the geographic mix of earnings can affect easyJet's effective tax rate.

Operational and financial review continued

International Financial Reporting Standards

easyJet will prepare its consolidated financial statements to 30 September 2006 under International Financial Reporting Standards (IFRS).

An IFRS transition project team was put in place in 2003. Progress continues according to the project plan, and the project is on track to deliver IFRS-compliant information for the 2005 year. We expect that this information will be communicated to shareholders in January 2006. Although the project team are still in the process of finalising the full impact of adopting IFRS, we expect the main impacts on easyJet will be as follows:

IAS 39 "Financial Instruments: Recognition and Measurement" IAS 39 will be adopted on 1 October 2005. This standard impacts the accounting for a wide range of financial instruments, including certain financing and purchase contracts, and those used by easyJet to manage foreign exchange and fuel price risks. Systems are in place to measure the effectiveness of hedges of foreign exchange and fuel prices. Based on tests to date, our fuel price and foreign exchange hedges are largely effective.

IFRS 3 "Business Combinations" Goodwill held in the UK GAAP consolidated balance sheet is being amortised over a period of 20 years. Under IFRS 3, regular amortisation of goodwill is prohibited. Instead, an annual impairment test is required to support the carrying value of goodwill. Any impairment charge will be reflected in the profit and loss account. The format of the impairment test is different from that used under UK GAAP.

IFRS 2 "Share-Based Payment" Under UK GAAP, no charge is reflected in the consolidated profit and loss account for easyJet's share options. Under IFRS 2, all options which were issued after 7 November 2002 and which had not vested prior to 1 January 2005 must be fair valued and expensed in the income statement over the vesting period of the options.

IAS 12 "Income Taxes" Adjustments will be made for the tax impacts of restating the carrying values of fixed assets under IAS 21 and IFRS 1 described below, and the impact of IFRS 2 described above. In addition deferred tax adjustments will be made for differences in asset bases under IFRS.

IAS 19 "Employee Benefits" IAS 19 includes the requirement to accrue for all short-term benefits payable during employment, including holiday pay.

IAS 21 "The Effects of Changes in Foreign Exchange Rates" Under UK GAAP, certain US-dollar-denominated assets and liabilities are treated as foreign operations or branches with the US dollar as their functional currency, and as a consequence, exchange movements are taken to reserves rather than through the income statement. Under IAS 21, the criteria used to assess the functional currency of foreign operations differ from those used under UK GAAP. easyJet has reviewed the impact of this and has at the same time reconsidered its approach to managing currency risk in its foreign operations. Following the review easyJet has considered that those aircraft-owning companies within the Group currently classified as US dollar branches under UK GAAP will under IAS 21 be treated as having a sterling functional currency. Consequently exchange differences on retranslation of monetary items will be taken to the income statement. easyJet will implement effective foreign currency risk management policies to mitigate exchange volatility, as described above.

IFRS 1 "First-Time Adoption of International Financial Reporting Standards" Certain tangible fixed assets will be revalued at 1 October 2004, the date of the Group's opening IFRS balance sheet. This valuation will be taken as the deemed cost of those assets on that date.

Footnotes

1) Represents the profit after tax and before goodwill amortisation divided by the average shareholders' funds.
2) Represents profit before tax and goodwill amortisation divided by the number of seats flown available for passengers.
3) Revenue per seat represents total revenues divided by the number of seats flown available for passengers.
4) Represents the difference between total revenues less profit before tax plus goodwill amortisation, divided by the number of seats flown available for passengers.
5) Represents the difference between total revenues less profit before tax plus goodwill amortisation plus fuel costs, divided by the number of seats flown available for passengers.
6) Represents the number of seats flown available for passengers.
7) Represents the number of aircraft owned plus those held on lease arrangements of more than one month's duration at the end of the relevant financial year.
8) Represents the average number of aircraft owned plus those held on lease arrangements of more than one month's duration during the relevant financial year.
9) Represents the number of owned/leased aircraft in service at the end of the relevant financial year. Owned/leased aircraft in service exclude those in maintenance and those which have been delivered but have not yet entered service or those out of service prior to disposal or return.
10) Represents the average number of owned/leased aircraft in service during the relevant financial year. Owned/leased aircraft in service exclude those in maintenance and those which have been delivered but have not yet entered service or those out of service prior to disposal or return.
11) Represents the number of one-way revenue flights.
12) Represents the number of hours that aircraft are in actual service, measured from the time that each aircraft leaves the terminal at the departure airport to the time that such aircraft arrives at the terminal at the arrival airport.
13) Represents the number of earned seats flown by easyJet. Earned seats include seats that are flown whether or not the passenger turns up, because easyJet is generally a no-refund airline and once a flight has departed a no-show customer is generally not entitled to change flights or seek a refund. Earned seats also include seats provided for promotional purposes and to easyJet staff for business travel.
14) Represents the average number of block hours per day per aircraft operated during the relevant financial year.
15) Represents the average number of block hours per day per aircraft owned/leased during the relevant financial year.
16) Represents the sum by route of seats available for passengers multiplied by the number of kilometres those seats were flown.
17) Represents the number of passengers as a proportion of the number of seats available for passengers. No weighting of the load factor is carried out to recognise the effect of varying flight (or "stage") lengths.
18) Represents the sum by route of passengers multiplied by the number of kilometres those passengers were flown.
19) Represents the seat revenue divided by the number of passengers carried.
20) Represents the total revenue divided by the total number of ASKs.
21) Represents the difference between total revenue and profit before tax, plus goodwill amortisation, divided by the total number of ASKs.
22) Includes credit card fees, excess baggage charges, sporting equipment fees, infant fees, change fees and rescue fees, profit share from in-flight sales of food, beverages, and boutique items, commissions received from products and services sold such as hotel bookings, car hire bookings and travel insurance, less chargebacks.
23) When easyJet makes refunds to customers, it records refunds made in the pre-flight period as reductions in revenue and any refunds made post-flight as marketing expenses, included in "other costs".
24) Includes principally administrative costs and operational costs not included elsewhere, including some salary expenses, compensation paid to passengers, and certain other items, such as currency exchange gains and losses and the profit or loss on the disposal of fixed assets.
25) EBITDAR is defined by the Group as earnings before interest, taxes, depreciation, amortisation and lease payments (excluding the maintenance reserve component of operating lease payments). Maintenance reserve costs are charged to the cost heading, "maintenance".

Directors

1 Sir Colin Chandler (Non-Executive Chairman)
Colin (66) joined easyJet in April 2002 and was appointed Chairman in November 2002. Until November 2004, he was Non-Executive Deputy Chairman of Smiths Group plc, having been a Non-Executive Director of TI Group since 1992. Colin has been variously Managing Director, Chief Executive and then Chairman of Vickers plc. Earlier in his career he was seconded from British Aerospace to the role of Head of Defence Export Services, Ministry of Defence. He was Chairman of Racal Electronics plc. He is Chairman of TI Automotive Limited, Chairman of Automotive Technik Limited and Pro-Chancellor of Cranfield University. He was knighted in June 1988 for services to export.

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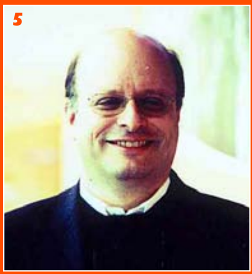
2 Ray Webster (Chief Executive)
Prior to joining easyJet in March 1996, Ray (59) had 27 years of experience in the airline industry at Air New Zealand. In his career with Air New Zealand he held various positions within the engineering business unit, formed their cargo business unit and had responsibility for marketing, sales and operations within the Americas market. His last role at Air New Zealand was as General Manager of Strategic Planning, where he was responsible for the identification, evaluation and implementation of corporate development options, including the concept development, planning and implementation of a start up "value-based" (low-cost) airline serving short-haul routes within the Australasian market.

3 Jeff Carr (Group Finance Director)
Jeff (44) was appointed as Group Finance Director in March 2005. Prior to joining easyJet, Jeff was Director of Finance, Performance and Planning for Associated British Foods plc. He has previously held senior financial positions with Unilever, Grand Metropolitan and Reckitt Benckiser. In addition to experience with major consumer orientated companies, Jeff has wide international experience in both mainland Europe and in the USA.

4 Dawn Airey (Independent Non-Executive Director)
Dawn (45) joined easyJet in April 2004. As Managing Director of Sky Networks, Dawn is responsible for 90 wholly-owned channels, including Sky One, Sky News, Sky Movies and Sky Media. Prior to joining Sky in January 2003, Dawn was Chief Executive of Channel Five (2000–2002); Director of Programmes, Channel Five (1996–2000); Controller of Arts and Entertainment at Channel 4 (1994–1996) and Controller of Network Children's and Daytime Programmes at ITV (1993–1994). Dawn has worked in television for over 20 years and began her career at Central TV as a management trainee. She is Vice President of the Royal Television Society, the Executive Chair of the Media Guardian Edinburgh International Television Festival and a Trustee of the Media Trust. Dawn is a member of the board of the International Emmy Awards, a governor of the Banff Television Festival and an Honorary Committee Member of the Monte Carlo Television Festival.

5 Amir Eilon (Non-Executive Director)
Amir (57) spent the major part of his career working for investment banks specialising in particular in global capital markets. Before joining easyJet in March 1999, Amir was at Credit Suisse First Boston private equity group where he had joint responsibility for Western Europe within its international group. Prior to that, Amir was at Barclays de Zoette Wedd for eight years where he was head of global capital markets. Since then Amir has established his own consultancy group, Eilon & Associates Limited. Amir is also Non-Executive Chairman of Spring Group Plc, and a Non-Executive Director of Flamingo Holdings, and Tidal Energy. Amir will not offer himself for re-election as Non-Executive Director at the Annual General Meeting in February.



6 Stelios Haji-Ioannou (Non-Executive Director)
Stelios (38) founded easyJet in 1995. Prior to that he founded Stelmar Tankers, a shipping company which listed on the New York Stock Exchange in 2001 and in which he retains a significant shareholding, but no longer sits on the board. In 1998, he established the easy group of companies, with the objective of exploiting the "easy" brand for ventures other than easyJet. Stelios was Non-Executive Chairman of easyJet until 26 November 2002 and was reappointed to the Board on 16 May 2005.

7 Diederik Karsten (Independent Non-Executive Director)
Diederik (49) joined easyJet in May 2001 and is currently Chief Executive Officer of UPC The Netherlands, the country's leading cable TV company. From February 2000 to November 2001 he was Chief Executive Officer of KPN Mobile N.V. Previously he was Director of the business unit Mobile Telephony and Director of The Mobile Net, both parts of KPN Telecom. Prior to joining KPN in 1996, Diederik held various management and marketing positions at Pepsi Co, including Vice President of Sales and Marketing at Snacks Ventures Europe and Sales and Marketing Director Pepsi Cola, Germany. Before that, Diederik held various marketing positions at Proctor & Gamble. Diederik is also a Non-Executive Director of BGN B.V. (Bookstores Group, The Netherlands).

Directors continued

In addition, Colin Day and Tony Illsley both served as Independent Non-Executive Directors throughout the year and resigned effective from 30 September 2005.

The following Directors were appointed before 30 September 2005, but do not take up office until the new financial year.

Andrew Harrison (Chief Executive Officer)

Andrew (48) will be taking up his new post on 1 December 2005. Andrew was previously the Chief Executive of RAC plc prior to its acquisition by Aviva plc in 2005. Andrew joined Lex Service plc in 1996 as Chief Executive and led its transformation from a vehicle distribution company into RAC plc, a strongly-branded, consumer-facing services company with 6.5 million members. RAC plc delivered strong growth in a variety of consumer services, which included BSM, financial and legal services, as well as good expansion in business services, winning large contracts. The successful integration of Lex and RAC resulted in a strong rise in profits and a tripling of the share price during Andrew's tenure as Chief Executive. Since 2000, Andrew has been a Non-Executive Director at Emap, where he chairs the Audit Committee. Prior to Lex Service, Andrew was an Executive Director of Courtaulds Textiles plc since 1990.

David Bennett (Independent Non-Executive Director)

David (43) was appointed to the Board on 1 October 2005. He is the Group Finance Director of the FTSE 100 bank Alliance & Leicester plc and will join the Board of easyJet plc as Chairman of the Audit Committee. Prior to joining Alliance & Leicester in 1999, David held a number of senior management positions at Cheltenham & Gloucester Building Society and Lloyds TSB.

Corporate governance

Principles statement

easyJet is committed to meeting the required standards of corporate governance. During the year it has complied with the best practice provisions of Section 1 of the Combined Code of 2003, with six exceptions, which are set out below.

Statement of compliance

The Company complied with the provisions of the Combined Code during the year, with the exception of the following six items:

a) Prior to Admission to the Official List of the UK Listing Authority, the Group granted share options without performance criteria attached to them. The majority of these options remain outstanding. Options granted since December 2000 have had performance conditions attached. The Group does not intend to grant further share options to employees without attaching performance conditions to their exercise;

b) The Senior Independent Non-Executive Director, Tony Illsley, has not had regular meetings with major external shareholders during the year, on the basis that the Board considers this more appropriate to be carried out by the Chairman;

c) Where Non-Executive Directors exercise share options, they are not required to retain these until at least one year after they have resigned from the Board. However, given that the Board has decided not to grant further options to Non-Executive Directors, this only relates to existing options held;

d) Whilst the terms of reference of various Committees have been made available on the Company's website since early 2005, they have not been made available through this method for the entire year;

e) An external recruitment agency was not used in the appointment of Stelios Haji-Ioannou. Stelios was considered by the Board to be the most appropriate candidate for appointment to the Board given that he was previously Chairman of the Group; and

f) During at least part of the year, Sir Colin Chandler (Chairman) has sat on both of the Nominations and Remuneration Committees. Sir Colin's appointment to the Remuneration Committee is a transitional arrangement until the appointment of a further Independent Non-Executive Director to the Board. Sir Colin's appointment to the Nominations Committee is not a transitional arrangement. The Board is satisfied that the Chairman's personal integrity and experience make him a highly effective member of the Board and Nominations Committee. Furthermore, until the appointment of Dawn Airey on 2 August 2005, the Nominations Committee did not include three Independent Non-Executive Directors.

Board of Directors

As at 30 September 2005, the Board comprised seven Non-Executive Directors, including the Chairman, and two Executive Directors.

The roles of Chairman (Sir Colin Chandler) and Chief Executive (Ray Webster) are separated, clearly defined and approved by the Board. Tony Illsley was the Senior Independent Non-Executive Director. The Company regards Tony Illsley, Colin Day, Dawn Airey, and Diederik Karsten as Independent Non-Executive Directors. Tony Illsley and Colin Day resigned from the Board on 30 September 2005.

The Combined Code states that the holding of share options could be relevant to the determination of a Non-Executive Director's independence. Share options were granted to some of the Independent Non-Executive Directors just prior to Admission to the Official List of the UK Listing Authority in November 2000 and at the end of that financial year. In 2002, after discussion with shareholder lobby groups, those Directors agreed that they would exercise their options as soon as was reasonably practical after the date that they were allowed so to do. All such options have either been exercised or have lapsed. The Board has considered the holding of these options and was aware of them at the time that it made its judgement as to which Directors were to be considered independent. The judgement was made on the basis that the number of options was insignificant in relation to the financial affairs of each Independent Director.

There are matters which are reserved to the Board by virtue of a resolution of the Board. These include matters relating to share issues, material acquisitions and disposals of assets, connected party transactions, borrowings and guarantees, material contracts, capital expenditure, shareholder and investor relations, officers and employees, treasury policies, risk management policies, donations, litigation, strategy, internal control, budgets, accounting issues

Corporate governance continued

and authority levels. By resolution, the Board has delegated certain authorities to management. This delegation covers areas such as finance (expenditure, treasury and the sale of assets), revenue management, customer compensation, contracts, leases, employment and business development.

The Chairman participates in investor meetings and makes himself available for questions, in person, at the time of major announcements. This direct contact, together with feedback from management and from the Company's two sponsors (ABN Amro and Credit Suisse First Boston), is used to brief the Board. In addition, the Board has sought direct feedback from sources who are independent of easyJet. The Board considers that it is appropriate for the Chairman to be the conduit with investors, rather than the Senior Independent Non-Executive Director. The Chairman updates the Board and particularly the Senior Independent Non-Executive Director on the results of his meetings and the opinions of the investors. On this basis, easyJet considers that the Senior Independent Non-Executive Director is able to gain full awareness of the issues and concerns of major shareholders. Notwithstanding this policy, all directors have a standing invitation to participate in meetings with investors.

Tony Illsley, who served as Senior Independent Non-Executive Director until his resignation on 30 September 2005, has met during the year with the other Non-Executive Directors (excluding the Chairman) to appraise the Chairman's performance.

The Board meets regularly, with 12 meetings being held during the year ended 30 September 2005. All members of the Board are supplied in advance with appropriate information covering matters which are to be considered.

	Number of meetings attended	Total number of meetings
Sir Colin Chandler	11	12
Dawn Airey	12	12
Diederik Karsten	10	12
Amir Eilon	12	12
Stelios Haji-Ioannou (reappointed 16 May 2005)	4	4
Ray Webster	12	12
Jeff Carr (appointed 7 March 2005)	7	7
Directors who resigned during the year:		
Tony Illsley (resigned 30 September 2005)	9	12
Colin Day (resigned 30 September 2005)	10	12
Chris Walton (resigned 18 March 2005)	5	5

The Chairman discusses governance and strategy with major shareholders when required and communicates the results of these visits to the Board. All Non-Executive Directors have been offered the opportunity to attend meetings with major shareholders. Similarly, if a major shareholder requests the attendance of a specific Non-Executive Director at a meeting, then they will be made available. However, there are no instances of shareholders having made such requests during the year.

The Chairman confers with other Non-Executive Directors on a regular basis, without the Executive Directors present.

All directors have access to the Company Secretary. They have access to appropriate independent professional advice, resources and other services as they see fit to discharge their duties. The Nominations Committee, Remuneration Committee and the Audit Committee also have access to sufficient resources to allow them to undertake their duties effectively. The Company Secretary is responsible for generating the funding for these activities.

All Directors, both Executive and Non-Executive are encouraged to request inclusion of any unresolved concerns that they may have in the Board minutes.

The Company Secretary is responsible to the Board for ensuring that Board procedures have been complied with. The Board has agreed that the appointment or removal of the Company Secretary is a matter to be decided by itself.

Insurance cover has been established for all directors to provide cover against their reasonable actions as an officer of easyJet.

During the year, the Chairman undertook a performance review of the Board using an external evaluation framework. The process involved structured interviews with Directors and management. The Chairman has also reviewed the performance of the Remuneration, Nomination and Audit Committees and also that of the individual Board Directors.

Directors may be appointed by the Company by ordinary resolution or by the Board. A Director appointed by the Board holds office only until the next Annual General Meeting ("AGM"). At each AGM one-third of the Directors will retire by rotation and be eligible for re-election. The Directors to retire will be those who wish to retire and those who have been longest in office since their last appointment or reappointment, with the proviso that all must retire within a three-year period.

Non-Executive Directors are appointed for three-year terms, after which time they may offer themselves for re-election. Executive Directors are not appointed for specific terms, however, in practice each director will normally serve a term no longer than three years due to the required retirement by rotation of one-third of the Board at each AGM.

Remuneration Committee

The Remuneration Committee comprises at least three independent Non-Executive Directors, and at 30 September 2005 comprised Sir Colin Chandler, the Chairman, Colin Day, Tony Illsley and Dawn Airey. Tony Illsley was Chairman of the Remuneration Committee until Sir Colin's appointment to the Committee on 25 August 2005. Sir Colin Chandler's appointment to the Remuneration Committee is a transitional arrangement until the appointment of a further Independent Non-Executive Director to the Board and to this Committee. This Committee, which meets at least twice per year, has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the Executive Directors and the Chairman. In addition to meetings to allot shares under the Company's share option schemes, the Remuneration Committee has met 12 times during the year.

The Board has discussed the composition of the Remuneration Committee and is satisfied that the Directors who are members of this Committee are those who are best able to contribute to the Committee's objectives.

The terms of reference of the Remuneration Committee are documented and agreed by the main Board. The full text of the terms of reference are available in the investor relations section of the easyJet website, www.easyJet.com. The key terms set out that the Remuneration Committee will:

- Seek to provide the packages needed to attract, retain and motivate Executive Directors of the quality required without paying more than is necessary;
- Judge where to position easyJet relative to other companies, taking account of what comparable companies are paying and relative performance;
- Determine the terms of any compensation package in the event of early termination of any Executive Director's contract in accordance with its terms;
- Make recommendations to the Board on the Company's framework of executive remuneration and its cost; and
- Determine on behalf of the Board specific remuneration packages and conditions of employment for Executive Directors.

Corporate governance continued

The record of attendance is:

	Number of meetings attended	Total number of meetings
Dawn Airey	12	12
Sir Colin Chandler (with effect from 25 August 2005)	1	1
Directors who resigned during the year:		
Tony Illsley (resigned 30 September 2005)	11	12
Colin Day (resigned 30 September 2005)	8	12
By invitation:		
Ray Webster	4	4

Subsequent to his appointment to the Board on 1 October 2005, David Bennett was appointed to the Remuneration Committee.

Shareholders are required to approve all new long term incentive plans. A Sharesave (Save As You Earn) Plan was approved at the Annual General Meeting on 24 February 2005, and a Long Term Incentive Plan was approved at an Extraordinary General Meeting on 15 September 2005. Further details of these plans can be found in the remuneration report.

Audit Committee

The Audit Committee comprises three Non-Executive Directors, all of whom are independent. During the year, the Audit Committee members were Colin Day (Chairman), Tony Illsley and Diederik Karsten. This committee meets at least three times per year. The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by reviewing the financial reports and other financial information in advance of publication, reviewing on a continuing basis the systems of internal controls regarding finance and accounting that management and the Board have established and reviewing generally the auditing, accounting and financial reporting processes. The ultimate responsibility for reviewing and approving the annual and other accounts remains with the Board.

The terms of reference of the Audit Committee are documented and agreed by the main Board. The full text of the terms of reference are available in the investor relations section of the easyJet website, www.easyJet.com. The key terms set out that the Audit Committee will:

- Serve as an independent and objective party to monitor the quality and timeliness of the financial reporting process and monitor the internal financial control system;
- Review and appraise the audit efforts of the external auditors;
- Provide an open avenue of communication among the external auditors, financial and senior management, and the Board;
- Confirm and assure the independence and objectivity of the external auditor; and
- Review annually the need for an internal audit function.

The Audit Committee has the responsibility for appointing the external auditors.

In order to preserve auditor independence, the Board has decided that the auditor will not be used for consulting services unless this is in the best interests of the Company. The auditors are asked on a regular basis to articulate the steps that they have taken to ensure their independence. easyJet then monitors the auditor's performance and behaviour during the exercise of their duties. In the financial year, easyJet spent £0.1 million (2004: £0.3 million) with KPMG in respect of non-audit services and £0.7 million (2004: £0.5 million) with other parties who are entitled to act as registered auditors.

During the year, three firms tendered for the position as auditors for the Group in an open and transparent process. At the Annual General Meeting, the Board will propose the appointment of PricewaterhouseCoopers LLP as auditors of the Group. KPMG Audit Plc have indicated that they will resign as auditors for the Group once they have completed the audits of all the statutory accounts of the Group companies to which they are appointed auditors.

The Board has discussed the composition of the Audit Committee and is satisfied that the Directors who were members of this Committee during the year were those who were best able to contribute to the Committee's objectives. The Chairman of the Committee during the year, Colin Day, is the Chief Financial Officer of a major FTSE 100 company, which the Board considers to be recent and relevant experience.

The record of attendance is:

	Number of meetings attended	Total number of meetings
Diederik Karsten	2	3
Directors who resigned during the year:		
Colin Day (resigned 30 September 2005)	3	3
Tony Illsley (resigned 30 September 2005)	3	3
By invitation:		
Ray Webster	1	1
Chris Walton (resigned 18 March 2005)	1	1
Jeff Carr (appointed 7 March 2005)	2	2

Following the resignation of Colin Day and Tony Illsley from the Board, David Bennett was appointed to the Board on 1 October 2005, and has been appointed as Chairman of the Audit Committee. David Bennett is the Group Finance Director of a FTSE 100 company, Alliance and Leicester plc.

In addition, Sir Colin Chandler was appointed to the Audit Committee on 1 October 2005. Sir Colin's appointment to the Audit Committee is a transitional arrangement until the appointment of an additional Independent Non-Executive Director to the Board and to the Audit Committee.

Nominations Committee

The Nominations Committee comprises at least three members. During the year the Nominations Committee members were Sir Colin Chandler (Chairman), Colin Day, Tony Illsley and Dawn Airey. Sir Colin Chandler is not considered to be independent as he is Chairman of the Group. Therefore the Nominations Committee did not comprise three Independent Non-Executive Directors until Dawn Airey's appointment on 2 August 2005. The Board is satisfied that Sir Colin Chandler's personal integrity and experience makes him a highly effective member of the Board and the Nominations Committee.

This Committee is responsible for nominating candidates to fill Board positions and for making recommendations on Board composition and balance. In appointing Non-Executive Directors, the Board's practice is to use an external recruitment agency. This was the case for the appointments to the Board of Jeff Carr, David Bennett and the announced appointment of Andrew Harrison. For the appointment of Stelios Haji-Ioannou to the Board, an external recruitment agency was not used, and the Nominations Committee did not go through a formal selection procedure prior to his appointment. Stelios Haji-Ioannou was previously Chairman of the Group and was considered to have the relevant skills and experience to add strength to the Board.

The terms of reference of the Nominations Committee are documented and agreed by the Board. The full text of the terms of reference are available in the investor relations section of the easyJet web site, www.easyJet.com. The key terms are as follows:

- To consider, at the request of the Board or the Chairman of the Board, the making of any appointment or reappointment to the Board, whether of Executive or Non-Executive Directors; and
- To establish and carry out a formal selection process of candidates and provide advice and recommendations to the Board or Chairman (as appropriate) on any such appointment.

Corporate governance continued

Before selecting new appointees, the Nominations Committee considers the balance of skills, knowledge and experience on the Board to ensure that a suitable balance is maintained. All job specifications prepared include details of the time commitments expected in the role.

On joining the Board, new Board members receive a full and tailored induction. Shareholders are offered the chance to meet new Non-Executive Directors.

Contracts with Directors are made available at the Annual General Meeting or on request.

The record of attendance is:

	Number of meetings attended	Total number of meetings
Sir Colin Chandler	3	3
Dawn Airey (with effect from 2 August 2005)	2	2
Directors who resigned during the year:		
Colin Day (resigned 30 September 2005)	0	3
Tony Illsley (resigned 30 September 2005)	1	3

Subsequent to his appointment to the Board on 1 October 2005, David Bennett was appointed to the Nominations Committee.

Before the appointment of Sir Colin Chandler to the Board in 2002, his significant other commitments were disclosed to the Board. Sir Colin continues to have significant commitments outside easyJet: he is Pro-Chancellor of Cranfield University and until November 2004 was Non-Executive Deputy Chairman of Smiths Group plc. The Board has considered this and has decided that these commitments do not represent an impediment to proper performance of his role as Chairman of easyJet.

Relations with investors and the Annual General Meeting ("AGM")

The AGM gives all shareholders the opportunity to communicate directly with the Board. There is also regular communication with institutional investors, fund managers and analysts on key business issues. The Group has an investor relations department.

It is the Company's policy that the following procedures should be adhered to with respect to AGMs:

- All proxy votes are counted and read out at the AGM;
- Separate resolutions are proposed for each separate issue, including approval of the report and accounts;
- The Chairmen of the Audit, Remuneration and Nomination Committees are available for any questions at the meetings; and
- It is the Company's intention that notice of the forthcoming AGM and related papers will be sent to shareholders at least 20 working days before that meeting.

The Audit Committee has reviewed the need for a whistleblower function. Management is currently in the process of implementing such a system and the Audit Committee is content with this course of action.

Internal control

The overall responsibility for easyJet's systems of internal control and for reviewing its effectiveness rests with the Directors of the Company. The responsibility for establishing and operating detailed control procedures lies with the Chief Executive. However, the internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and by their nature can only provide reasonable but not absolute assurance against material misstatement or loss.

A formal ongoing process has been established to identify, evaluate and manage significant risks faced by the Company. This process has been in place for the year under review and up to the date of approval of the annual report and accounts and this has been regularly reviewed by the Board during the period.

An ongoing process for the effective management of risk has been defined by the Company Directors and has been adopted as follows:

- Ongoing assurance and risk management is provided through the various monitoring reviews and reporting mechanisms embedded into the business operations. Key monitoring reviews include those conducted continuously in weekly meetings. Operational meetings include the Safety Audit Group which meets monthly to discuss safety, security and environmental risks. The Safety Review Board meets monthly, or more regularly where events require, to review safety performance. In addition, there are regular commercial, financial and IT meetings;
- The Airline Management Board meet monthly to consider current significant risks. Individual department and overall business performance is reviewed;
- The Board considers current significant risks at each of its formal meetings. Control weaknesses or failings are considered by the Board if they arise;
- easyJet has an internal control function which considers, reviews and tests internal control matters throughout the Group. This is not an internal audit function, but is an addition to existing processes within easyJet;
- Risk reviews form an integral part of specific projects. For example, prior to entering into a ten-year maintenance contract with SR Technics during 2005, a comprehensive examination of the two short-listed contractors was undertaken;
- Comprehensive risk reviews are also performed to help improve risk management. A fatigue control assessment was completed in 2005, which resulted in implementation of a fatigue risk management plan which has significantly improved easyJet's safety performance above industry standards;
- An annual risk and control identification process, together with control effectiveness testing, is conducted. The key risks to significant business objectives are identified and the key controls to manage these risks to the desired level are also identified. The controls, which mitigate or minimise the high level risks, are tested to ensure that they are in operation. The results of this testing are reported to the Board which considers whether these high-level risks are effectively controlled; and
- Action plans are set to address any control weaknesses or gaps in controls identified.

The Directors reviewed the effectiveness of internal control, including operating, financial, compliance and risk management controls, which mitigate the significant risks identified. The procedures used by the Directors to review the effectiveness of these controls include:

- Reports from management. Reporting is structured to ensure that key issues are escalated through the management team and ultimately to the Board as appropriate;
- Discussions with senior personnel throughout the Company; and
- Consideration by the Audit Committee of any reports from external auditors.

Internal audit

The Company does not have an internal audit function. This is presently considered appropriate given the size of the Company and the close involvement of Executive Directors and senior management on a day-to-day operational basis. The Board has considered the need for such a function and will continue to review the need for one from time to time. However, as set out above, an internal control function exists.

Social, environmental and ethical report

easyJet believes in the goal of excellence of achievement in all its functions and activities. We see the striving for excellence in environmental, social and ethical activities as a key behaviour for a successful and sustainable business: positive for our shareholders, people and suppliers, and considerate to our neighbours whilst we deliver value to our customers.

Environment

We are the largest intra-United Kingdom and fourth largest intra-European airline in terms of passengers carried. With this level of activity, we recognise that we affect the environment in a number of ways:

- Emission of greenhouse gases
- Noise
- Usage of chemicals in the airport environment
- Use of paper and packaging
- Creating demand for new infrastructure
- Airport congestion

Emission of greenhouse gases As a product of operating its aircraft, easyJet emits greenhouse gases notably carbon dioxide, nitrous oxides, sulphur oxides and water vapour.

Our business model contributes to minimising our effect on the environment through the following:

- Our use of "point-to-point" services means that the distance of customer trips is reduced, especially when compared to the flag carrier "hub and spoke" concept, whereby many passengers will travel on more flights and therefore an additional distance to get to their destination;
- Our load factors, which are amongst the highest in the industry, mean that unit output of greenhouse gases will be lower than for most airlines. As a result, easyJet ensures that unnecessary flights are eliminated; and
- The use of new aircraft. Our policy is to grow our fleet using new aircraft, whilst retiring older aircraft usually within seven years of delivery. As newer aircraft are more fuel efficient than older ones, their environmental impact is less. At 30 September 2005, our fleet had an average age of 3.0 years, an improvement of 1.5 years from 30 September 2004. After committed deliveries have been taken into account, the average fleet age is expected to reduce to 2.3 years by 30 September 2006.

Noise easyJet generates noise as part of its aircraft operations. Our business model however ensures that the impact of this on the environment is less than for many other carriers. Our new aircraft are amongst the quietest in the industry. We have very few operations at night (2300 hrs – 0600 hrs) when noise is of the greatest concern.

Usage of chemicals in the airport environment easyJet is aware of its responsibilities to the environment, within our operation the risk from the use of fluids for de-icing and the transfer and shipment of oils is maintained to a level as low as is practicable. In the area of de-icing and oils easyJet uses process which reclaim harmful emissions where available and, where this is not possible, processes must be shown to ensure that harmful fluids do not enter water courses or leach into the water table.

Use of paper and packaging We have a policy of operating a near paperless office, where the majority of hard-copy documents are scanned into electronic format. Our head office does not contain a photocopier. All paper is disposed of through our recycling programme. This programme principally covers papers, including a special secure disposal for commercially sensitive waste and printer toner cartridges.

Our onboard product business policy of supplying food that does not rapidly perish and our charging for these products has the effect of minimising such waste. By not offering inclusive food, we eliminate meals that people do not want. To reduce the effect on waste processing we seek to use packaging materials that are either biodegradable or can be readily recycled.

Creating demand for new infrastructure The demand for low-cost air services has driven the huge expansion of easyJet. This potentially creates demand for additional land facilities, such as airport terminals and runways. The construction and development of these may have negative effects on the environment.

We prefer efficient use of existing infrastructure rather than new build. easyJet is one of the most efficient users of existing regional airport capacity in and across Europe. This means that previously under-utilised facilities are being used rather than having to build new capacity at existing congested hubs. In addition, we are committed to reducing the costs of the airport environment. One of these projects is to use self check-in terminals, which have been successfully introduced at Geneva, Basel, Berlin Schoenefeld and Nottingham East Midlands. One of the advantages of self check-in is that airport terminal space can be used more efficiently. This will reduce the amount of terminal development required in the future.

Airport congestion Passengers travelling to and from easyJet airports have the potential to create congestion. We have engaged with other transport suppliers and negotiated incentive pricing offers that encourage our people and customers to use more environmentally efficient methods of airport access. Notable of these in London is reduced price tickets on selected train and bus services when purchased though our website.

Further actions to reduce the environmental impact of operations Whilst our business model and processes mean that easyJet is already more environmentally efficient than other airlines, we recognise that more needs to be done. To further these aims, we are pursuing a number of measures.

We have joined the UK Sustainable Aviation Coalition, and have given our support to the concept of emissions trading. This would incentivise a change in the behaviour of airlines to focus on the cleanest and most modern aircraft. We see emissions trading as a mechanism to reduce the relative contribution of airlines.

We are lobbying to make taxes more closely meet the challenges of the environment. We are in favour of changing the basis of the calculation of Air Passenger Duty ("APD") and its equivalent in other European countries. APD does not encourage airlines to be more environmentally aware. We would support the tax being charged in relation to environmental impact. All we would ask is that all transport industries would be treated in the same way in terms of environmental taxation and infrastructure cost.

We are lobbying to improve the effectiveness of European air traffic control. At present the industry is fragmented and aligned along international boundaries. This means that aircraft have to travel further than they would otherwise need to. We have calculated that our aircraft travel on average 5% further than they need to, therefore burning more fuel. We support the introduction of the European Single Sky initiative. Through our shareholding in The Airline Group Limited, we have encouraged the UK air traffic control provider, NATS, to pursue opportunities with other European providers to drive efficiency. We are pleased to note that some success has already been achieved.

We have continued to encourage the EU to allow consolidation within the European airline industry, allowing old inefficient flag carriers to cease trading. This would reduce the number of flights within Europe.

Social

Equality and diversity easyJet is a committed equal opportunities employer. Our policy aims to ensure that no job applicant or employee receives less favourable treatment on the basis of their age, colour, creed, disability, full- or part-time status, gender, marital status, nationality or ethnic origin, race, religion or sexual orientation.

At 30 September 2005, we employed 4,152 persons as set out below:

Location of employees at 30 September	2005	2004	Age of employees at 30 September	2005	2004
UK	**3,131**	2,966	Under 20	**147**	123
Switzerland	**506**	385	21 – 30	**1,833**	1,654
Germany	**355**	247	31 – 40	**1,360**	1,229
France	**158**	127	41 – 50	**612**	537
Other	**2**	2	Over 50	**200**	184
	4,152	3,727		**4,152**	3,727

Social, environmental and ethical report continued

With our growth across Europe, our workforce is becoming increasingly multinational. We are building a workforce that has a balanced age profile and intends to maintain opportunities for younger and older people alike. A visible industry-leading example of this is that we now have no age limit for the employment of cabin crew.

Safety Safety is the number one priority for the business. We aim to provide a safe and efficient work environment for all our people. Beyond those engaged in office-based work, the large majority of our people are aircrew. They have been one of the mainstays to our success, giving a great deal of effort to their role. The rapid expansion of the airline has from time to time created extra load from events such as service disruption and this coupled with the effect on fatigue, subsequent rest and lifestyle, proved challenging for them all. To improve this situation we are continuing to invest substantial effort and money into rostering practice and systems. We have continued to study the effect of fatigue on our flight crew to both minimise fatigue and improve the lifestyle opportunities of our aircrew.

Training and development We are committed to providing high-quality training to support the safe operation of the business, and the cultural and personal development of our people. During the year we have opened the easyJet Academy, a 30,000 square foot training facility, which will contribute towards achieving these objectives.

Consultation with employees easyJet is committed to providing open information to its people, and to consulting over key issues. We have a number of forums at which each area of the business can raise issues that are of concern. During the year, we created the Business Forum, to consult at a high level with both unions and other staff groups.

We have a good relationship with our recognised trade unions, Amicus, BALPA and the TGWU. We have lost no days to industrial action during the year.

We have developed our previous Culture Committee activity into the new Culture Network, which recognises our European personality and location of our people. This Network gives everyone an opportunity to get involved in communicating issues and ideas to management. The goals of the Network are to create an environment where people are happy to come to work; to nurture pride in the Company and people's individual efforts; to deliver outstanding performance to our internal and external customers and to promote our low-cost model.

Staff recognition We introduced the GoMAD rewards scheme to give social and financial recognition, on a monthly basis, to those of our people who so often go beyond their normal duties to assist others. During the year, we have given 194 such awards.

Structure of management and communication The process of designing efficiency into our core business extends to our "flat" management structure, where we have few organisational layers between the Chief Executive and our operational and customer-facing people.

Our head office facility is also low cost and consists only of what is functionally necessary to conduct our business. We have an open office policy to encourage the interaction between any people, with break-out meeting rooms having full access to all the computer-based applications and electronic information, displayed on energy-saving screens.

The Company, from its inception, subscribed to a policy of open information access. This is only limited to comply with our public Company obligations, ensure commercial confidentiality of key information from other parties such as our suppliers or maintain security of business knowledge and personal data.

We have a number of means to keep our people informed of the business both for internal and external news. Key amongst these is our intranet, which is the official portal to a wide range of Company information which is actively updated and expanding in subject coverage. This is a proven, successful communications medium and events ranging from daily operational performance to long term plans are posted here.

Using the intranet, access is provided to both common policies and procedures, such as in the People Handbook, or specific activities related to one of the business groups e.g. aircraft technical discussions. Our people also publish their views on any topic via open discussion forums covering technical, employment, cost issues and more; in fact anything our people wish to debate.

As measurement of travel delivery achievement to our customers is a key performance indicator. We report to our people on the end result of their effort by publishing the preceding day's on time performance on our intranet front page each weekday morning.

A wide range of topical news from inside and outside the business, management announcements and general social activities, is also available. To connect the management with any person in the business, Directors have instituted a monthly on-line chat forum, which draws a wide audience with lively discussion.

To supplement the general intranet information, a range of magazines and newsletters are published. These include the business development focused Plane Times, in electronic form every three weeks, the quarterly Plane People, containing articles on a wide range of subjects and which is delivered to the home address of each of our people. Individual business groups produce specialist publications such as The Stable Approach for pilots, Cabin Fever for cabin crew and Crew Safety for the operations team.

Charitable donations

Our charity policy is to recognise and devote efforts to a single charity each year. The charity chosen this year was the National Society for Epilepsy. We have worked with the National Society for Epilepsy to help promote them, with activities including on-board collections, a click and give campaign from our website, being featured in our in-flight magazine and other public relations activities. Over £262,360 was raised to 30 September 2005 and the National Society for Epilepsy received coverage in major national, regional press and television. We will shortly select our chosen charity for the next year. A tender and selection process has already been undertaken, with the final choice being made by way of open staff vote.

Also during this year we gave a one-off donation of £50,000 to the Disasters Emergency Committee following the Boxing Day tsunami and a two-week on-board collection raised in excess of £300,000. In Geneva, our base staff raised a further £33,000 for the Swiss solidarity organisation, Bonheur.

As part of our support to local communities, we also donate free flights to deserving causes. During the year, we have given away 123 return flights to a large number of local organisations. Organisations that have benefited include NIPPA – the Early Years organisation, which works to promote the development of high-quality care, education and play facilities for children aged up to 14 and their families in Northern Ireland.

We also encourage staff involvement in charitable activities. A scheme involving donations through deductions from payroll has resulted in several different charities benefiting.

Ethical

easyJet is committed to the highest standards of corporate behaviour from its Directors and employees. We require all of our people to perform their duties with efficiency and diligence and to always behave to customers and other people alike with courtesy and decorum.

Our procurement process has strong controls to ensure that our dealings with others are open and transparent, and avoids any suspicion of conflicts of interest. In particular, we have specific clauses in each employee's contract of employment which sets tight rules in respect of accepting gifts or gratuities.

Directors' report

The Directors present the audited consolidated financial statements for easyJet plc ("the Company") for the year ended 30 September 2005.

Principal activity

The principal activity of the Company and its subsidiary companies ("the Group" or "easyJet") is the provision of a "low-cost, good value" airline service on short-haul and medium-haul point-to-point routes within Europe.

Results for the year

Retained profit for the year ended 30 September 2005 was £42.6 million (2004: £41.1 million). The Directors do not recommend the payment of a dividend (2004: £nil).

Safety and security

easyJet's commitment to safety is the top priority of the Group and management. easyJet is committed to safe operations, which is manifested in its safety training procedures, its investment in the latest aircraft equipment and its adoption of a confidential safety issue reporting system.

Customer service

easyJet seeks to provide its customers with a safe, low-cost, good value and reliable service.

easyJet operates an entirely ticketless sales and check-in service. This service is, easyJet believes, less burdensome for passengers. In addition, the service reduces the costs associated with ticket processing, including personnel costs, and simplifies administration and control.

In-flight service costs are kept to a minimum. Food and drinks are served on board and are paid for by the passenger. Third-party suppliers provide the in-flight catering.

People and culture

easyJet's employees have defined a statement of the organisation's values – the "orange culture". The Directors believe that the Group's framework of "orange" values helps to motivate and align employees to the Group's objectives.

The management of the Group is entrusted to an executive team with extensive commercial, operational and financial experience. In keeping with the "orange culture" the Directors encourage employees to contribute to the management of the business and allow employees to have access to a significant amount of information stored on the Group's electronic document system.

The Group is an equal opportunity employer, which actively encourages the training and development of all its employees on an ongoing basis.

It is the Group's policy to give full and fair consideration to applications for employment from disabled individuals, having regard to their particular aptitudes and abilities, and to provide such individuals with equal training, development, and opportunities for promotion. Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation and retraining.

easyJet is committed to generating an awareness among its employees of the Group's performance, development and progress, and to providing employees with information on matters of concern to them. It achieves this through regular communication meetings, employee newsletters and management briefings. Also, communication meetings are used by employee representatives to air the views of employees. Employees are encouraged to become involved in the Company's financial performance through participation in various share option schemes.

Going concern

The Directors are satisfied, after due consideration, that the Group has sufficient financial resources to continue in operation for the foreseeable future. On this basis, they continue to adopt the going concern principle in preparing the financial statements.

Directors and Directors' interests

The Directors who held office during the year were as follows:

Non-Executive:
Sir Colin Chandler
Dawn Airey
Amir Eilon
Diederik Karsten
Tony Illsley (resigned 30 September 2005)
Colin Day (resigned 30 September 2005)
Stelios Haji-Ioannou (reappointed 16 May 2005)

Executive
Ray Webster
Chris Walton (resigned 18 March 2005)
Jeff Carr (appointed 7 March 2005)

On 1 September 2005, the Company announced that Andrew Harrison will be appointed to the easyJet Board as Chief Executive on 1 December 2005. Ray Webster will resign from the Board on this date.

David Bennett was appointed to the Board as a Non-Executive Director on 1 October 2005.

Executive Directors are deemed to be interested in the shares held by the easyJet UK Employee Share Ownership Trust and the easyJet Overseas Employee Share Ownership Trust (the "Trusts"). At 30 September 2005, ordinary shares held in the Trusts were as follows:

	Ordinary shares
MCIP (allocated but now lapsed)	502
Total unallocated/lapsed	**502**
Total held by UK Trust (allocated)	13,852
Total held by Overseas Trust (allocated)	51,904
MCIP Trust (allocated)	39,606
Total allocated	**105,362**
Total	**105,864**

Details of share options and share gifts granted to the Directors of the Company are disclosed below in the report on Directors' remuneration.

Policy and practice on payment of creditors

The Group and the Company do not follow a universal code which deals specifically with payments to suppliers but, where appropriate, their practice is to:

- Agree the terms of payment at the start of business with the supplier;
- Ensure that those suppliers are made aware of the terms of payment; and
- Pay in accordance with its contractual and other legal obligations.

At 30 September 2005, the number of creditor days outstanding for the Group was two days (2004: seven days), and the Company, nil days (2004: nil days).

Directors' report continued

Political and charitable contributions
During the year, the Group made charitable contributions totalling £110,033 (2004: £64,321). In addition, the Group provides free flights to selected charities. There is minimal incremental cost to the Group associated with these gifts. Further details can be found in the social, environmental and ethical report above.

There were no contributions made for political purposes.

Post-balance-sheet events
David Bennett was appointed to the Board as a Non-Executive Director on 1 October 2005.

One Boeing 737-300 aircraft was transferred from fixed assets to debtors in September 2005 as a contract had been signed for its sale. The aircraft was delivered in November 2005.

In 2002, Navitaire Inc., a former supplier of airline reservation software to easyJet Airline Company Limited, a Group company, issued proceedings against that Group company alleging copyright infringement in relation to airline reservations software. In November 2005, the parties reached an amicable agreement fully resolving the dispute, bringing the litigation to an end.

Substantial interests
As at 18 November 2005, the Company has been notified of the following disclosable interests of 3% or more in its ordinary shares:

	Number of shares	Percentage
easyGroup Holdings Limited (holding vehicle for Stelios Haji-Ioannou)	66,076,451	16.50
Flugleidir Fjarfestingarfelag ehf. (Icelandair Investments)	64,754,337	16.17
Polys Holdings Limited (holding vehicle for Polys Haji-Ioannou)	47,954,575	11.97
Clelia Holdings Limited (holding vehicle for Clelia Haji-Ioannou)	47,954,575	11.97

Auditors
The Directors considered the appointment of auditors during 2005 and, following a competitive tender, decided to appoint PricewaterhouseCoopers LLP. Accordingly KPMG Audit Plc have indicated that they will resign as auditors for the Group once they have completed the audits of all the statutory accounts of the Group companies to which they are appointed auditors. At the Annual General Meeting, the Board will propose the appointment of PricewaterhouseCoopers LLP as auditors of the Group.

On behalf of the Board

J Carr
Director

easyLand
London Luton Airport
Luton
Bedfordshire LU2 9LS
21 November 2005

Report on Directors' remuneration

This report has been prepared in accordance with the Directors' Remuneration Report Regulations 2002 (the "Regulations"). The Regulations require the auditors to report to the Company's members on the "audited information" within the Directors' remuneration report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 1985 (as amended by the Regulations). As a result, the report has been divided into separate sections for unaudited and audited information.

This report sets out the Company's policy on Directors' remuneration for the forthcoming year, and, so far as is practicable for subsequent years, as well as information on remuneration paid to Directors in the financial year.

Unaudited information

Membership and responsibilities of the Remuneration Committee

Membership and responsibilities of the Remuneration Committee are disclosed in the corporate governance report above.

The Remuneration Committee continues to use New Bridge Street Consultants LLP as remuneration advisers. Apart from advice regarding the design, establishment and operation of remuneration arrangements, New Bridge Street Consultants provides no other services to the Company.

Policy

The objective of the Remuneration Committee's remuneration policy is to reward the Company's executives competitively having regard to the comparative marketplace in order to ensure that they are properly motivated to perform in the best interests of the Company and its shareholders. The Company aims to provide competitive "total pay" for "on target" performance, with superior awards for exceptional performance.

The remuneration packages of the Executive Directors comprise a combination of basic salary, annual bonus, participation in share-based long term incentive plans and "lean" benefits provision. easyJet has a "no frills" approach and does not include, for example, company cars or final salary pensions as part of the package. Therefore, performance-related elements form a significant proportion of the packages of the Executive Directors.

The Board as a whole determines the remuneration of the Company's Non-Executive Directors, with Non-Executive Directors exempting themselves from discussions and voting as appropriate. When determining the remuneration of Non-Executive Directors, account is taken of practice adopted in other similar organisations and the time commitment of each Non-Executive Director.

Basic salary

The basic salaries of Directors are reviewed annually and are set taking account of a number of factors including; (i) practice adopted in companies of a broadly similar size, (ii) a formal appraisal of their contribution to the business and (iii) the competitive environment, as senior easyJet executives are potential targets for other low-cost start-ups and other companies in the airline sector.

During the year Ray Webster's salary increased (2.8%) from £390,000 to £401,090. Jeff Carr's salary is £250,000.

Report on Directors' remuneration continued

Pension contributions

Pension contributions for Executive Directors are set at 7% of their basic salaries. The Remuneration Committee does not expect any senior executive to be materially affected by the forthcoming changes in pension legislation.

Annual bonus scheme

All Executive Directors participate in an annual bonus scheme. The maximum annual bonus opportunity of the Chief Executive during the year was 200% of salary, with a 100% of salary maximum for other senior executives. This policy will remain unchanged for the forthcoming year.

80% of the annual bonus opportunity is subject to achieving very demanding financial targets, with the remaining 20% subject to the achievement of demanding personal performance targets. Last year the financial targets were based on profit before tax performance targets. For the forthcoming year, the financial targets will relate to return on equity.

Ray Webster was paid a bonus of £117,000 during the year (30% of salary) to reflect performance in the year ended 30 September 2004. Chris Walton was paid a bonus of £9,675 (4.5% of salary).

Ray Webster will be paid a bonus of £232,811 (58.0% of salary) in the year ending 30 September 2006 to reflect performance in the year ended 30 September 2005. Jeff Carr will be paid a bonus of £53,562 (37.7% of salary) in the year ending 30 September 2006 to reflect performance in the year ended 30 September 2005.

Long term incentive plans

Share-based long term incentives have previously been provided to Executive Directors and other staff under Inland Revenue approved and unapproved Executive Share Option Schemes.

However, last year the Remuneration Committee completed its review of long term incentive provision that was commenced in 2004. The main conclusion of this review was that the Executive Share Option Scheme should be replaced by a new Long Term Incentive Plan (the "LTIP"). Accordingly, shareholder approval was obtained to establish the LTIP at an Extraordinary General Meeting ("EGM") that was held on 15 September 2005. The Executive Share Option Scheme ("ESOS") has been retained for flexibility. Options will be granted to Andrew Harrison under this scheme as described below, but there is no current intention to make regular grants of options under this scheme.

Full details of the new LTIP were provided to all shareholders in the Notice of EGM. However, in summary, the LTIP has been structured to tie in directly with the Company's current circumstances and forward-looking strategy. It provides for regular annual awards of (i) "performance shares" worth up to 100% of salary each year and (ii) "matching shares" linked to the investment of up to 50% of annual bonus in easyJet shares, which are then matched on a 1:1 gross basis.

In addition, the Long Term Incentive Plan provides for the one-off grant of "FTSE 100" awards.

Regular annual awards It is currently intended that the vesting of all regular annual LTIP awards will be subject to the satisfaction of return on equity ("ROE") targets. These are defined as post-tax profit (pre-goodwill amortisation) divided by average shareholders funds. The ROE targets will be measured by reference to a three-year performance period. Awards granted in the forthcoming year will be divided into three equal tranches that will vest according to the achievement of the following ROE targets that are specific to each financial year of the performance period.

Tranche and financial year (ending 30 September)	Return on equity Threshold (25% of tranche vests)	Target (50% of tranche vests)	Maximum (100% of tranche vests)
Tranche 1: 2006	8.4%	8.8%	10%
Tranche 2: 2007	11.8%	12.4%	13%
Tranche 3: 2008	12.5%	13.2%	15%

To the extent that a tranche satisfies its annual ROE target it will vest three years after grant, subject to continued employment.

In addition, if ROE in 2007/2008 is between threshold and maximum ROE the relevant portion of the entire award vests to that extent (rather than merely the relevant portion of tranche 3), unless the potential level of vesting of a previous tranche was higher in which case that tranche will vest at that higher level. This approach of performance in the final year of a vesting period determining levels of vesting is very much in accordance with how similar plans are operated by other companies. The ability for annual tranches of awards to conditionally vest for annual performance over the vesting period encourages the steady, sustained delivery of outstanding ROE performance.

ROE has been chosen as the performance measure for a number of reasons, such as:

- It is a fundamental measure of easyJet's underlying performance and is directly linked to the generation of returns to shareholders; and
- It is directly connected to the self-sustaining growth rate of the business and incentivises management to achieve the appropriate balance between growth and returns, to deliver the best shareholder value.

The Remuneration Committee will review the ROE targets prior to each grant date in order to ensure that they remain sufficiently challenging. For example, if easyJet's ROE year-on-year growth is not so pronounced the Remuneration Committee may consider setting a challenging range of average ROE targets for the three years.

When determining the extent to which the ROE targets (and, indeed, the EPS targets that apply to awards made under other long term incentive schemes operated by the Company) are met, the Remuneration Committee will seek guidance from external advisers on the affect of the move to International Financial Reporting Standards and will endeavour to ensure consistency of measurement over the relevant performance period.

The one-off "FTSE 100" award In addition to the proposed regular annual LTIP grants, a one-off "FTSE 100" award will be granted in the forthcoming year to provide senior executives with a simple, transparent incentive to increase materially easyJet's market capitalisation. This FTSE 100 award will be structured so that, if easyJet becomes a member of the FTSE 100 index for a period of at least six months before the end of the financial year ending 30 September 2008, participants will become entitled to receive an award over easyJet shares worth 100% of salary (subject to the Remuneration Committee being satisfied that the Company's issued share capital has remained reasonably constant over the relevant period or any major acquisition has created shareholder value). These shares will vest three-and-a-half years after entry into the FTSE 100 index (subject to continued employment).

Report on Directors' remuneration continued

Although these FTSE 100 awards will form a smaller part of the overall incentive arrangements compared to the annual bonus opportunity and the regular annual LTIP awards, they will be an important element of the incentive arrangements at easyJet for a number of reasons:

- They support the corporate goal of easyJet;
- They provide an important growth underpin to the ROE targets; and
- They are indicative of easyJet's growth potential.

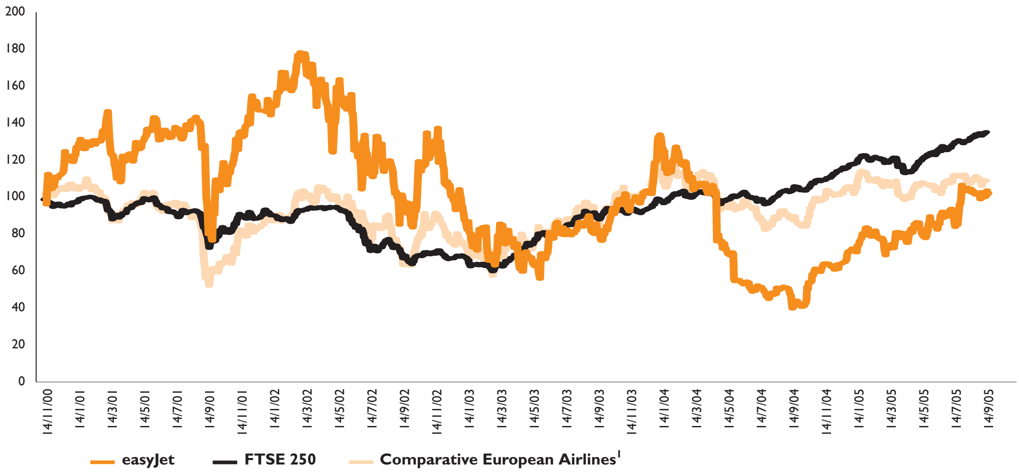
Shareholding guideline Linked to the establishment of the new LTIP, the Remuneration Committee has introduced a share ownership guideline which will apply to all members of the Airline Management Board (being those senior executives who report to the Chief Executive Officer) which requires them to retain all the shares they receive on the vesting of LTIP awards (on an after-tax basis) until they have built up a shareholding equal to 100% of salary (with pre-existing shareholdings taken into account). For senior executives who report to the Airline Management Board and receive LTIP awards, a 50% share ownership guideline will apply.

All-employee share participation

During the year share ownership was also extended throughout the Company by the commencement of a Share Incentive Plan and the introduction of a Sharesave Plan.

Total shareholder return

The following graphs show the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Mid 250 and that of a group of European Airlines[1]. The FTSE Mid 250 has been chosen as it consists of companies of similar size to easyJet. The group of European Airlines comprises companies operating in a comparable sector.



1 British Airways, Lufthansa, Ryanair, Air France – KLM and Iberia have been included in the Comparative European Airlines group.

External appointments

Executive Directors are permitted to accept appointments on external boards or committees so long as these are not deemed to interfere with the business of the Group. Any fees received in respect of these appointments are retained directly by the relevant Executive Director.

Ray Webster has an agreement with Air New Zealand that he will perform two weeks' consultancy services each year in return for employer and employee contributions to a pension scheme, and free flights to New Zealand for himself and his family. The Board has approved this arrangement.

Service contracts

The service contracts of the Executive Directors that served during the year were of no fixed term, contained notice periods of not more than six months, but no other provision for compensation for loss of office.

Non-Executive Directors do not have service contracts but are appointed for a period not exceeding three years. Their appointment may be terminated without compensation.

Details of contracts currently in place for Directors who have served during the year are as follows:

	Date of contract	Unexpired term	Notice period	Provision for compensation
Non-Executive:				
Sir Colin Chandler	26 February 2004	1 year 3 months	3-year fixed term	None
Amir Eilon	22 October 2003	1 year	3-year fixed term	None
Dawn Airey	5 April 2004	1 year 5 months	3-year fixed term	None
Diederik Karsten	11 May 2004	1 year 6 months	3-year fixed term	None
Stelios Haji-Ioannou (reappointed 16 May 2005)	n/a	n/a	n/a	n/a
Tony Illsley (resigned 30 September 2005)	22 October 2003	10 months	3-year fixed term	None
Colin Day (resigned 30 September 2005)	22 October 2003	10 months	3-year fixed term	None
Executive				
Ray Webster	18 June 2002	n/a	6 months	6 months
Chris Walton (resigned 18 March 2005)	18 June 2002	n/a	6 months	6 months
Jeff Carr (appointed 7 March 2005)	24 November 2004	n/a	6 months	6 months

Copies of all the service contracts for both Executive and Non-Executive Directors are available on request from the Company Secretary.

Chief Executive Officer

On 1 September 2005 it was announced that Andrew Harrison was to join the Board as Chief Executive Officer, with his employment due to commence on 1 December 2005. Andrew's base salary will be £540,000 and will remain at that level until October 2007. His annual bonus opportunity and pension provision will reflect current easyJet policy.

Report on Directors' remuneration continued

To facilitate Andrew's recruitment as CEO and to ensure that his interests are directly and immediately aligned with those of easyJet shareholders, he will be granted an option under the existing ESOS over shares worth a multiple of four times his salary. These options will vest three years after grant subject to a sliding scale of challenging performance conditions based on the Company's growth in diluted earnings per share before goodwill amortisation ("normalised EPS") over this three-year period. 30% of the option will vest if the Company's normalised EPS grows by RPI plus 5% p.a. over the three years, with the financial year ended 30 September 2005 as the "base year", with the option vesting in full for EPS growth of RPI plus 20% p.a. Straight-line vesting will apply between these points.

In addition, Andrew will acquire and retain between £500,000 and £1,500,000 worth of easyJet shares using his own funds. In recognition of this, Andrew will be granted a further share-based incentive award. The shares he acquires will be "matched" by the conditional award of an equal number of shares.

This matching share award will vest three years after grant subject to the satisfaction of challenging performance conditions. Half of the matching share award will vest subject to a sliding scale of normalised EPS growth target over this three-year period. 25% of this portion of the award will vest if the Company's normalised EPS grows by RPI plus 5% p.a. over the three years, with the 2004/2005 financial year as the "base year", with this portion of the award vesting in full for EPS growth of RPI plus 20% p.a. Straight-line vesting will apply between these points.

The other half of the award will be subject to the same ROE targets as will apply to the first grant of regular annual awards under the new LTIP as described above. Andrew will also receive a one-off FTSE 100 award under the new LTIP, as will all other senior executives, but will not receive a "normal" LTIP award in the forthcoming year.

Andrew's matching award will normally lapse if he leaves employment prior to vesting and will lapse to the extent that he withdraws his invested shares from the arrangement. However, in certain "compassionate leaver" circumstances, the matching award can vest subject to the performance conditions and a pro-rata reduction in size, unless the Remuneration Committee believes that applying the pro-rata reduction will be inappropriate. The same basic principles apply in the event of a change in control of the Company. No alteration to Andrew's advantage to certain material terms of the arrangement can be made without prior shareholder approval. Awards under the arrangement are not pensionable.

This arrangement was considered necessary to facilitate his recruitment and was therefore established under the exemption in paragraph 9.4.2(2) of the UK Listing Authority's Listing Rules which permits bespoke awards to be made following a recruitment without seeking formal shareholder approval.

Andrew's service contract will be of no fixed term and will be terminable by the Company giving 12 months' notice or by Andrew giving six months' notice. On termination of Andrew's employment he will receive a pro-rated bonus for the year of his termination based on performance up to the date of his termination. In addition, the Company has the right to pay Andrew, in lieu of notice and on a monthly basis until he secures commensurate employment, an amount equal to base salary, pension and bonus earned in the previous year.

As described when the Company announced that Ray Webster would be stepping down as Chief Executive, Ray will resign from the Board on Andrew's appointment. Ray will remain at the Company until 30 November 2006, carrying out specific tasks for the Chairman, drawing on his skills and experience.

Audited information

Directors' emoluments

Details of emoluments paid or payable by Group companies to the Directors of easyJet plc who served in either the current or previous financial year are as follows:

	Emoluments excluding pension contributions				Pension contributions		Payments for loss of office	
	Salary/fees 2005 £000	Bonus† 2005 £000	Total 2005 £000	Total 2004 £000	2005 £000	2004 £000	2005 £000	2004 £000
Non-Executive:								
Stelios Haji-Ioannou (reappointed 16 May 2005)	**–**	**–**	**–**	–	**–**	–	**–**	–
Sir Colin Chandler	**150**	**–**	**150**	150	**–**	–	**–**	–
Amir Eilon	**40**	**–**	**40**	40	**–**	–	**–**	–
Nick Hartley (resigned 2 August 2004)	**–**	**–**	**–**	33	**–**	–	**–**	–
Tony Illsley (resigned 30 September 2005)	**50**	**–**	**50**	50	**–**	–	**–**	–
Dawn Airey (appointed 6 April 2004)	**40**	**–**	**40**	17	**–**	–	**–**	–
Colin Day (resigned 30 September 2005)	**50**	**–**	**50**	50	**–**	–	**–**	–
Diederik Karsten	**40**	**–**	**40**	40	**–**	–	**–**	–
Executive								
Ray Webster	**402**	**350†**	**752**	488	**28**	27	**–**	–
Chris Walton (resigned 18 March 2005)*	**100**	**10†**	**110**	231	**20**	15	**101**	–
Jeff Carr (appointed 7 March 2005)	**142**	**54†**	**196**	–	**10**	–	**–**	–
	1,014	**414**	**1,428**	1,099	**58**	42	**101**	–

* Chris Walton was paid £101,000 for six months in lieu of notice subsequent to his resignation on 18 March 2005. He was asked by the Board to stay on as an employee for two months subsequent to his resignation to provide certain advice to the Company and received £37,000 in respect of these services. These payments are not included in the table above as Chris was not a Director of the Company when he provided these services.

† The Executive Directors' bonus calculation for the year ended 30 September 2004 contained targets that were subjective, and which were only able to be determined after the publication of the 2004 annual report and accounts. However, in 2005, the equivalent targets were directly based on information published in this report. As such, the Remuneration Committee has met and approved the Executive Directors' bonuses for the year. Therefore the amount of bonus disclosed for 2005 for Ray Webster includes £117,000 in respect of the 2004 financial year and £232,811 in respect of the 2005 financial year. The disclosed comparatives for both Ray Webster and Chris Walton relate to bonuses for the 2003 financial year. Jeff Carr's bonus relates solely to the 2005 financial year, and the amount of bonus disclosed in 2005 for Chris Walton relates solely to the 2004 financial year.

Report on Directors' remuneration continued

easyJet Airline Company Limited, a Group company, has signed an agreement with Eilon & Associates Limited, a company controlled by Amir Eilon, a Non-Executive Director, to provide consulting services to easyJet in respect of a specific business development project. Payment for services is based on a daily rate of between £1,500 and £2,000. Total remuneration relating to the year was £85,643.

The table on the preceding page excludes gains as a result of the vesting of shares. During the year, the following share options and awards vested. The value represents the number of shares or awards multiplied by the mid-market closing price on the day that the share options or awards were first available for exercise and exercisable under the Code of Conduct for Transactions in Securities of easyJet plc, unless the options or awards were subsequently exercised at a different price during the current financial year.

		2005		2004	
		Number of shares	**Value £000**	Number of shares	Value £000
Executive					
Ray Webster	Management Combination Incentive Plan	–	–	76,927	262
Chris Walton (resigned 18 March 2005)	Management Combination Incentive Plan	–	–	48,382	165
		–	–	125,309	427

The following Directors exercised options during the year:

Name	Exercise date	Scheme	Number of shares exercised	Option exercise price £	Mid-market price on date of exercise £	Gain £
Ray Webster	13 Jan 2005	E	76,927	Nil	2.0525	157,893
Colin Day (resigned 30 September 2005)	5 Sep 2005	B	14,667	2.0184	2.9175	13,187
Chris Walton (resigned 18 March 2005)	9 Dec 2004	E	145,146	Nil	1.8100	262,714

Directors' share options

Details of share options and awards under the schemes described above granted to the Directors of the Company and which were outstanding at the year end or date of resignation, or which lapsed during the year are as follows:

Director At 30 September 2005	Grant date	Interest in options and awards over ordinary shares	Exercise price £	Date from which exercisable	Expiry date of grant or award	Notes
Non-Executive						
Amir Eilon	29 Feb 2000	3,103,407	1.6112	22 Nov 2002	29 Feb 2010	A
	26 Sep 2000	106,830	1.6112	22 Nov 2002	26 Sep 2010	A
Executive						
Ray Webster	29 Feb 2000	4,304,544	1.6112	22 Nov 2000	29 Feb 2010	B
	26 Sep 2000	142,442	1.6112	22 Nov 2000	26 Sep 2010	B
	6 Mar 2003	151,088	1.9995	6 Mar 2006	6 Mar 2013	C
	19 Jan 2004	102,874	3.6015	19 Jan 2007	19 Jan 2014	C
	8 Dec 2004	222,860	1.8415	8 Dec 2007	8 Dec 2014	C
	8 Dec 2004	16,291	1.8415	8 Dec 2007	8 Dec 2014	D
Jeff Carr						
(appointed 7 March 2005)	2 June 2005	108,079	2.3205	2 June 2008	2 June 2015	C
	2 June 2005	12,928	2.3205	2 June 2008	2 June 2015	D
At date of resignation, for Directors who resigned during the year						
Chris Walton						
(resigned 18 March 2005)	29 Feb 2000	600,568	1.6112	22 Nov 2000	29 Feb 2010	B
Options which lapsed during the year						
Amir Eilon	7 Dec 2001	931	4.0192	7 Dec 2004	7 Dec 2011	C
Tony Illsley						
(resigned 30 September 2005)	7 Dec 2001	931	4.0192	7 Dec 2004	7 Dec 2011	C
Colin Day						
(resigned 30 September 2005)	7 Dec 2001	931	4.0192	7 Dec 2004	7 Dec 2011	C
Diederik Karsten	7 Dec 2001	15,599	4.0192	7 Dec 2004	7 Dec 2011	C
Ray Webster	7 Dec 2001	51,029	4.0192	7 Dec 2004	7 Dec 2011	C
	7 Dec 2001	7,459	4.0192	7 Dec 2004	7 Dec 2011	D
Chris Walton						
(resigned 18 March 2005)	7 Dec 2001	28,994	4.0192	7 Dec 2004	7 Dec 2011	C
	7 Dec 2001	7,459	4.0192	7 Dec 2004	7 Dec 2011	D
	6 Mar 2003	79,186	1.9995	6 Mar 2006	6 Mar 2013	C
	19 Jan 2004	52,756	3.6015	19 Jan 2007	19 Jan 2014	C

Share options have never been issued to Sir Colin Chandler, Stelios Haji-Ioannou or Dawn Airey. Tony Illsley, Colin Day and Diederik Karsten had no options outstanding at 30 September 2005.

Report on Directors' remuneration continued

Notes

A Vested in full on Admission to the Official List of the UK Listing Authority but were not exercisable until the second anniversary of Admission.

B Key Employee Pre-Flotation Share Scheme. 25% of the share options granted vest at the dates below:

- Date of Admission of the Company;
- First anniversary of Admission;
- Second anniversary of Admission; and
- Third anniversary of Admission.

C Granted under the easyJet Non-Approved Discretionary Share Option Scheme and subject to meeting the performance criteria below.

D Granted under the easyJet Approved Discretionary Share Option Scheme and subject to meeting the performance criteria below.

E Granted under the Management Combination Incentive Plan and subject to meeting certain combination milestones as set out below.

Performance criteria for C & D December 2001: based on diluted earnings per share pre-goodwill achieved in the year ending 30 September 2004. If diluted earnings per share pre-goodwill exceeds 37.3 pence, then all options will vest on 7 December 2004. If diluted earnings per share pre-goodwill exceeds 20.6 pence but is less than 37.3 pence, then between 50% and 100% of the options vest, on a pro-rata basis. If diluted earnings per share pre-goodwill is exactly 20.6 pence, then 50% of the options vest. If diluted earnings per share pre-goodwill is below 20.6 pence then no options vest. Given actual diluted earnings per share for the year ended 30 September 2004 fell below 20.6 pence, the options lapsed on 8 December 2004.

March 2003: based on diluted earnings per share pre-goodwill achieved in the year ending 30 September 2005. If diluted earnings per share pre-goodwill exceeds 37.87 pence, then all options vest. If diluted earnings per share pre-goodwill exceeds 20.97 pence but is less than 37.87 pence, then between 50% and 100% of the options vest, on a pro-rata basis. If diluted earnings per share pre-goodwill are exactly 20.97 pence, then 50% of the options vest. If diluted earnings per share pre-goodwill are below 20.97 pence then no options vest. Given actual diluted earnings per share for the year ended 30 September 2004 have fallen below 20.97 pence, it is not expected that any of these options will vest.

January 2004: based on diluted earnings per share pre-goodwill achieved in the year ending 30 September 2006. If diluted earnings per share pre-goodwill exceed 36.96 pence, then all options vest. If diluted earnings per share pre-goodwill exceeds 20.47 pence but are less than 36.96 pence, then between 50% and 100% of the options vest, on a pro-rata basis. If diluted earnings per share pre-goodwill are exactly 20.47 pence, then 50% of the options vest. If diluted earnings per share pre-goodwill are below 20.47 pence then no options vest.

December 2004 and June 2005: based on the average annual growth in earnings per share (EPS), where no shares vest if EPS is less than RPI plus 5%, 30% vest where EPS is RPI plus 5% and 100% vest where EPS is RPI plus 20%. Straight-line vesting will occur between these points.

Milestones for E

1) The single brand milestone, triggered if within 12 months of completion of the purchase of Go Fly, the combined business had common inventory held on eRes (easyJet's booking system), yield managed in an identical way and sold off the same website, together with common check-in services around the combined network.

2) The single AOC milestone, triggered if within 18 months of completion the combined business commenced operation in the United Kingdom under one AOC.

3) The combination completion milestone, triggered if within 24 months of completion all substantial issues arising from the integration of the businesses of easyJet and Go Fly were complete.

Where employees are considered to be good leavers, their share options vest immediately and are exercisable for a period of six months from the date that they leave easyJet.

The middle market price of the Company's ordinary shares at 30 September 2005 was 291.25 pence and the range during the year to 30 September 2005 was 120.5 pence to 305.5 pence.

The options granted on 29 February 2000, 26 September 2000, 22 November 2000 and 7 December 2001 have been amended, both in number and exercise price, to reflect the bonus effect of the Rights Issue in 2002. The table above reflects the position after the amendments had been made.

Options granted on 7 December 2001 lapsed during the year as performance thresholds had not been met.

Details of movements during the year in the number of Directors' share options and awards are as follows:

	Key Employee Pre-Flotation Share Scheme	Non-Approved Discretionary Share Option Scheme	Approved Discretionary Share Option Scheme	Management Combination Incentive Plan	Total
Amir Eilon					
At 1 October 2004	3,210,237	931	–	–	3,211,168
Granted	–	–	–	–	–
Exercised	–	–	–	–	–
Lapsed	–	(931)	–	–	(931)
At 30 September 2005	**3,210,237**	**–**	**–**	**–**	**3,210,237**
Tony Illsley (resigned 30 September 2005)					
At 1 October 2004	–	931	–	–	931
Granted	–	–	–	–	–
Exercised	–	–	–	–	–
Lapsed	–	(931)	–	–	(931)
At 30 September 2005	**–**	**–**	**–**	**–**	**–**
Colin Day (resigned 30 September 2005)					
At 1 October 2004	14,667	931	–	–	15,598
Granted	–	–	–	–	–
Exercised	(14,667)	–	–	–	(14,667)
Lapsed	–	(931)	–	–	(931)
At 30 September 2005	**–**	**–**	**–**	**–**	**–**

Report on Directors' remuneration continued

	Key Employee Pre-Flotation Share Scheme	Non-Approved Discretionary Share Option Scheme	Approved Discretionary Share Option Scheme	Management Combination Incentive Plan	Total
Diederik Karsten					
At 1 October 2004	–	15,599	–	–	15,599
Granted	–	–	–	–	–
Exercised	–	–	–	–	–
Lapsed	–	(15,599)	–	–	(15,599)
At 30 September 2005	**–**	**–**	**–**	**–**	**–**
Ray Webster					
At 1 October 2004	4,446,986	304,991	7,459	76,927	4,836,363
Granted	–	222,860	16,291	–	239,151
Exercised	–	–	–	(76,927)	(76,927)
Lapsed	–	(51,029)	(7,459)	–	(58,488)
At 30 September 2005	**4,446,986**	**476,822**	**16,291**	**–**	**4,940,099**
Jeff Carr					
(appointed 7 March 2005)					
At 7 March 2005	–	–	–	–	–
Granted	–	108,079	12,928	–	121,007
Exercised	–	–	–	–	–
Lapsed	–	–	–	–	–
At 30 September 2005	**–**	**108,079**	**12,928**	**–**	**121,007**
Chris Walton					
(resigned 18 March 2005)					
At 1 October 2004	600,568	160,936	7,459	145,146	914,109
Granted	–	–	–	–	–
Exercised	–	–	–	(145,146)	(145,146)
Lapsed	–	(160,936)	(7,459)	–	(168,395)
At 18 March 2005	**600,568**	**–**	**–**	**–**	**600,568**

Sir Colin Chandler, Dawn Airey and Stelios Haji–Ioannou have not been granted any share options or awards.

Share options granted to Directors on 7 December 2001 did not vest on 7 December 2004 since the performance conditions pertaining to the options were not met. Share options granted to Directors on 6 March 2003 are not expected to vest on 6 March 2006 since the performance conditions pertaining to the options are not expected to be met.

Directors' share interests

The following directors held Direct interests in the share capital of the Company:

	30 September 2005	1 October 2004 (or date of appointment if later)
Sir Colin Chandler	**29,700**	29,700
Amir Eilon	**8,627**	8,627
Colin Day (resigned 30 September 2005)	**30,454**	30,454
Dawn Airey	**10,000**	10,000
Stelios Haji-Ioannou (reappointed 16 May 2005)	**66,076,451**	66,076,451
Tony Illsley (resigned 30 September 2005)	**–**	15,000
Ray Webster	**1,818,436**	1,778,830
Chris Walton (resigned 18 March 2005)	**n/a**	7,279
Jeff Carr (appointed 7 March 2005)	**5,000**	5,000

The interests of Ray Webster are held indirectly through Elura Investments Limited. The interests of Stelios Haji-Ioannou are held through easyGroup Holdings Limited.

On behalf of the Board

Sir Colin Chandler
Chairman
21 November 2005

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of easyJet plc

We have audited the financial statements on pages 62 to 94. We have also audited the information in the Directors' remuneration report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report and the Directors' remuneration report. As described on page 60, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the corporate governance statement on pages 33 to 39 reflects the Company's compliance with the nine provisions of the 2003 FRC Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal controls cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and other control procedures.

We read the other information contained in the annual report, including the corporate governance statement and the unaudited part of the Directors' remuneration report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- The financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2005 and of the profit of the Group for the year then ended; and
- The financial statements and the part of the Directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants, Registered Auditor, London
21 November 2005

Consolidated profit and loss account

for the year ended 30 September

	Notes	**2005 £million**	2004 £million
Turnover: Group and share of joint ventures and associates	1,2	**1,343.4**	1,092.4
Less: share of turnover of joint ventures and associates		**(2.0)**	(1.4)
Group turnover	2	**1,341.4**	1,091.0
Cost of sales		**(1,166.4)**	(929.3)
Gross profit		**175.0**	161.7
Distribution and marketing expenses		**(66.5)**	(55.7)
Administrative expenses		**(59.8)**	(55.5)
Group operating profit	3	**48.7**	50.5
Share of operating profit of joint venture		**0.2**	0.2
Total operating profit: Group and share of joint ventures and associates		**48.9**	50.7
Interest receivable and similar income	5	**27.2**	14.2
Interest payable	6	**(8.2)**	(2.7)
Profit on ordinary activities before taxation		**67.9**	62.2
Tax on profit on ordinary activities	7	**(25.3)**	(21.1)
Retained profit for the financial year	18	**42.6**	41.1

		Pence	Pence
Earnings per share			
Basic	8	**10.68**	10.34
Diluted	8	**10.43**	10.11
Basic, before goodwill amortisation	8	**15.03**	14.64
Diluted, before goodwill amortisation	8	**14.68**	14.33

All activities relate to continuing operations in the current and previous year.

Consolidated balance sheet

as at 30 September

	Notes	**2005 £million**	**2005 £million**	2004 £million	2004 £million
Fixed assets					
Intangible assets	9		**292.2**		309.6
Tangible assets	10		**425.8**		330.4
Investments	11				
Joint venture arrangements:					
Share of gross assets		**0.5**		0.6	
Share of gross liabilities		**(0.3)**		(0.4)	
			0.2		0.2
			718.2		640.2
Current assets					
Debtors	12	**197.2**		174.4	
Cash at bank and in hand		**695.5**		510.3	
		892.7		684.7	
Creditors: amounts falling due within one year	13	**(397.6)**		(314.7)	
Net current assets			**495.1**		370.0
Total assets less current liabilities			**1,213.3**		1,010.2
Creditors: amounts falling due after more than one year	14		**(276.1)**		(157.7)
Provisions for liabilities and charges	16		**(97.5)**		(63.1)
Net assets			**839.7**		789.4
Capital and reserves					
Called up share capital	17		**100.1**		99.8
Share premium account	18		**557.2**		554.2
Profit and loss account	18		**182.4**		135.4
Shareholders' funds – equity			**839.7**		789.4

These financial statements were approved by the Board of Directors on 21 November 2005 and were signed on its behalf by:

R Webster
Director

J Carr
Director

Cash flow information

for the year ended 30 September

Reconciliation of operating profit to net cash flow from operating activities

	2005 £million	2004 £million
Group operating profit	**48.7**	50.5
Goodwill amortisation	**17.4**	17.1
Depreciation of tangible fixed assets	**19.1**	25.3
Loss on sale of fixed assets	**2.0**	–
Increase in debtors	**(17.0)**	(36.1)
Increase in creditors and provisions	**99.6**	103.7
Cash flow from operating activities	**169.8**	160.5

Consolidated cash flow statement

	Notes	2005 £million	2004 £million
Cash flow from operating activities		**169.8**	160.5
Returns on investments and servicing of finance	22	**23.1**	12.6
Dividends received from joint venture		**0.2**	–
Taxation		**2.9**	(6.2)
Capital expenditure	22	**(108.9)**	(61.9)
Acquisitions and disposals	22	**–**	3.4
Cash inflow before management of liquid resources and financing		**87.1**	108.4
Management of liquid resources		**(14.2)**	4.8
Financing	22	**98.1**	66.5
Increase in cash in the year		**171.0**	179.7

Financing cash flow includes £2.0 million (2004: £8.8 million) in respect of the exercise of employee share options.

Reconciliation of net cash flow to movements in net funds

	Notes	2005 £million	2004 £million
Increase in cash in the year		**171.0**	179.7
Cash inflow from the increase in debt	22	**(96.1)**	(57.5)
Cash outflow/(inflow) for the increase/(decrease) in liquid resources		**14.2**	(4.8)
Change in net funds resulting from cash flows		**89.1**	117.4
Exchange difference on loans		**(1.4)**	10.5
Increase in net funds for the year		**87.7**	127.9
Net funds at the start of the year		**390.5**	262.6
Net funds at the end of the year		**478.2**	390.5

Net funds at the end of the year comprises:

	2005 £million	2004 £million
Cash at bank and in hand	**695.5**	510.3
Bank loans	**(217.3)**	(119.8)
	478.2	390.5

£28.5 million (2004: £14.3 million) of the cash at bank and in hand is subject to restrictions governing its use.

Consolidated statement of total recognised gains and losses

for the year ended 30 September

	2005 £million	2004 £million
Retained profit for the year	**42.6**	41.1
Currency translation differences on foreign currency net investments	**5.4**	(18.8)
Total recognised gains and losses for the year	**48.0**	22.3

Consolidated reconciliation of movements in shareholders' funds

for the year ended 30 September

	2005 £million	2004 £million
Retained profit for the year	**42.6**	41.1
Currency translation differences on foreign currency net investments	**5.4**	(18.8)
Shares issued by easyJet plc	**3.3**	15.9
Movement in shares held by easyJet trustees	**0.3**	0.2
Movement in reserves for employee share scheme	**(1.3)**	(7.1)
Net addition to shareholders' funds	**50.3**	31.3
Opening shareholders' funds	**789.4**	758.1
Closing shareholders' funds	**839.7**	789.4

Notes

forming part of the financial statements

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the consolidated financial statements of the Group.

Basis of preparation The consolidated financial statements have been prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom.

Basis of consolidation The consolidated financial statements incorporate those of the holding company and its subsidiaries for the years made up to 30 September 2005 and 2004. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

In accordance with Section 230 of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The Company's profit for the financial year was £2.0 million (2004: loss of £1.3 million).

Goodwill On the acquisition of a business fair values are attributed to the separable net assets acquired. Goodwill arises where the fair value of the consideration given and associated costs for a business exceeds the fair value of such net assets. Goodwill is capitalised and amortised to the profit and loss account in equal instalments over its estimated useful life, not to exceed 20 years.

Associates and joint ventures An associate is an undertaking, not being a subsidiary, in which the Group holds a long term interest and over whose commercial and financial policy decisions it actually exercises significant influence. The Group's share of the profit less losses from its associate is included in the consolidated profit and loss account on the equity accounting basis. The carrying value of associates in the Group's balance sheet is calculated by reference to the Group's share of the net assets of such undertakings.

A joint venture is an undertaking in which the Group has a long term interest and over which it exercises joint control. The Group's share of the profits and losses of joint ventures is included in the consolidated profit and loss account and its interest in their net assets is included in investments in the consolidated balance sheet on an equity basis.

Investments Fixed asset investments are stated at cost plus capitalised interest. To the extent that the carrying value exceeds the recoverable amount, an impairment loss is recognised in the profit and loss account.

Revenue Revenues comprise the invoiced value of airline services, net of passenger taxes, discounts, including internet booking discounts, plus ancillary revenue. Revenue from the sale of flight seats (passenger revenue) is recognised in the period in which the service is provided. Unearned revenue represents flight seats sold but not yet flown and is included in creditors. Refunds made to passengers in the pre-flight period are recorded as reductions in revenue and any refunds made post flight are ordinarily recorded as marketing expense in the profit and loss account.

Ancillary revenues include credit card fees, excess baggage charges, sporting equipment fees, infant fees, change fees and rescue fees; profit share from in-flight sales of food, beverages and boutique items (e.g. perfumes); commissions received from products and services sold such as hotel, car hire bookings and travel insurance; less chargebacks. These are recognised as revenue on the date that the right to receive consideration occurs.

1 Accounting policies continued

Tangible fixed assets and depreciation Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost, less estimated residual value, of assets, on a straight-line basis over their expected useful economic lives to the Group over the following periods:

	Period of depreciation
Boeing 737-300 aircraft	7 years
Airbus A319 aircraft	7 years
Aircraft improvements	3-7 years
Aircraft – prepaid maintenance	3-7 years
Aircraft – spares	10 years from date of purchase
Leasehold improvements	5 years
Fixtures, fittings and equipment	3 years
Computer hardware and software	3 years

The aircraft which the Group holds are expected to have an operational life of 20-30 years. However, the Group has a policy of using recently manufactured aircraft and, therefore, expects to hold them only for a period of approximately seven years before selling them.

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframe and is amortised over a period ranging from three to seven years from the date of manufacture. Subsequent costs incurred which lend enhancement to future periods such as long term scheduled maintenance and major overhaul of aircraft and engines are capitalised and amortised over the length of period benefiting from these enhancements. All other costs relating to maintenance are charged to the profit and loss account as incurred. The cost of new Airbus aircraft comprises the invoiced price of the aircraft from the supplier less the estimated value of other assets received by easyJet for no consideration in connection with the transaction to purchase aircraft. Principal assets received for no consideration in connection with the acquisition of aircraft include the following:

- Cash – The cash received is recognised as an asset in the balance sheet. The corresponding credits are treated as a discount and are spread equally across each of the 120 Airbus aircraft to be delivered.

- Aircraft spares – These are capitalised in the balance sheet at their list price and are then depreciated according to easyJet's stated accounting policies for spares. The corresponding credits are then spread equally across the cost of each of the 120 Airbus aircraft to be delivered.

Advance payments and option payments made in respect of aircraft purchase commitments and options to acquire aircraft are recorded at cost and separately disclosed. On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date.

Interest incurred on borrowings that specifically fund progress payments on assets under construction is capitalised, either as part of the asset or if that asset is subsequently sold and leased back, deferred and amortised over the term of the lease.

Disposal of fixed assets Profits and losses on the disposal of fixed assets are generally taken to the profit and loss account as incurred. However, where the Group sells its rights to acquire an aircraft to an external lessor and then leases the aircraft back then, subject to complying with the conditions of SSAP 21, the excess or deficit of net sale price over fair value on disposal is spread over the asset's lease term. The disposal of the purchase rights (being the amount of pre-delivery deposits paid) are recognised as a disposal from tangible fixed assets.

Notes continued

1 Accounting policies continued

Aircraft maintenance Provision is made for the estimated future costs of major overhauls of leased airframes, engines and auxiliary power units by making appropriate charges to the profit and loss account calculated by reference to the number of hours or cycles operated during the year as a consequence of aircraft rectification obligations placed on the Group by the operating lease agreements.

Leases All of the Group's lease contracts are of an operating lease nature and are accounted for as operating leases, where the rental charges are charged to the consolidated profit and loss account on a straight-line basis.

Employee share schemes The cost of performance-related awards to employees that take the form of rights to acquire or receive shares is recognised over the period of the employees' related performance. The cost represents the difference between the option exercise price (if any) and the market value of the shares at the date of gift or grant. Where there are no performance criteria, the cost is recognised over the period from gift or grant to when the employee becomes unconditionally entitled to the shares. Where contingently issuable shares are gifted the cost of the share gift is recognised upon the crystallisation of the contingency. Where performance criteria exist, the full potential cost is recognised over the period from gift or grant to when the employee becomes unconditionally entitled to the shares. If it becomes reasonably certain that certain performance criteria will not be met, the costs already accrued in respect of these are then credited to the profit and loss account. These costs are included in administrative expenses.

The Company operates an Employee Share Option Trust. Shares held by the Trust are included as a deduction from equity.

No expense is recognised in connection with the Sharesave scheme, under the exemption permitted by UITF 17 "Employee Share Schemes".

Pensions The Group contributes to defined contribution pension schemes for the benefit of employees. The assets of the schemes are held separately from those of the Group in independently administered funds. Group contributions are charged to the consolidated profit and loss account in the year in which they are incurred.

Deferred tax Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies The Group holds its aircraft through overseas subsidiaries. The functional currency of these subsidiaries is considered to be US dollars because they are funded substantially with US dollar loans and the aircraft are anticipated to be sold for dollars within approximately seven years of their acquisition. Profits and losses of these and other overseas subsidiaries are translated into sterling at average rates of exchange during the year, with the adjustments to closing rates at the year end being taken to consolidated reserves. The net assets of the overseas subsidiaries, including the advance payments made to secure the delivery of aircraft, are translated at closing rates, with gains and losses on re-translation also being taken to consolidated reserves. Exchange differences on foreign currency borrowings that hedge foreign currency net assets are also taken to reserves.

1 Accounting policies continued

Where foreign currency borrowings have been used to finance foreign equity investments or where those borrowings provide a hedge against the exchange risk associated with the existing foreign equity investments, the foreign equity investments are translated at the rate of exchange ruling at the balance sheet date. The resulting exchange difference on the foreign equity investments is taken to consolidated reserves and, to the extent thereof, the resulting exchange difference on the foreign borrowings is offset against these exchange differences.

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, other than as referred to above, are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the consolidated profit and loss account.

Financial instruments Gains and losses on derivative financial instruments are recognised in the profit and loss account when realised as an offset to the related income or expense, as the Group does not enter into any such transactions for speculative purposes. Costs of procuring derivative financial instruments are held in debtors and matched against the period to which they relate.

Cash and liquid resources Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand, where formal offset arrangements are in place.

Liquid resources comprise deposits which have restrictions governing their use.

2 Segmental information

All revenues derive from the Group's principal activity as an airline and include scheduled services, in-flight and related sales. Substantially all of the Group's external revenues are earned by companies incorporated in the United Kingdom.

The geographical analysis of turnover is as follows:

	2005 £million	2004 £million
Within the United Kingdom	**224.5**	224.1
Between the United Kingdom and the rest of Europe	**869.9**	728.5
Within the rest of Europe	**247.0**	138.4
	1,341.4	1,091.0

All revenue from easyJet's joint venture was derived within the United Kingdom. easyJet's share of joint venture revenue for the year was £2.0 million (2004: £1.4 million).

All the Group's operating profit arises from airline-related activities.

The only revenue earning assets of the Group are its aircraft fleet. Since the Group's aircraft fleet is employed flexibly across its route network, there is no suitable basis of allocating such assets and related liabilities to geographical segments.

Notes continued

3 Group operating profit

	2005 £million	2004 £million
Group operating profit is stated after charging/(crediting):		
Goodwill amortisation	**17.4**	17.1
Depreciation of tangible fixed assets:		
Accelerated depreciation of Boeing 737-300s	**2.7**	6.1
All other depreciation	**16.4**	19.2
	19.1	25.3
Loss on sale of fixed assets	**2.0**	–
Remuneration of the auditor and its associates (including foreign partners):		
Audit	**0.2**	0.2
Other:		
Tax compliance	**–**	0.1
Accounting advice	**–**	0.1
IFRS project advice	**0.1**	0.1
	0.1	0.3
Remuneration of other parties entitled to act as registered auditor:		
Audit	**–**	–
Other	**0.7**	0.5
Operating lease rentals:		
Aircraft	**107.6**	96.4
Other	**2.0**	1.0
Foreign currency translation differences	**3.8**	(0.1)

Auditor's remuneration for audit of the Company as a stand-alone entity was £15,000 (2004: £15,000).

Costs disclosed as "other parties entitled to act as registered auditors" comprise amounts paid to Deloitte & Touche, Ernst & Young, PricewaterhouseCoopers, BDO Stoy Hayward, Moore Stephens, Grant Thornton and Peters Elworthy and Moore.

4 Staff numbers and costs

The average number of persons employed by the Group (including Executive Directors) during the year, analysed by category, was as follows:

	Number of employees 2005	2004
Operations and administration	**3,622**	3,363
Sales and marketing	**253**	293
	3,875	3,656

The aggregate payroll costs of these persons were as follows:

	2005 £million	2004 £million
Wages and salaries	**132.7**	116.6
Social security costs	**12.9**	12.8
Pension costs	**7.1**	5.3
	152.7	134.7

Emoluments paid or payable to the Directors of easyJet plc for the year were as follows:

	2005 £million	2004 £million
Total emoluments:		
Remuneration	**1.4**	1.1
Pension contributions	**0.1**	–
Payments for loss of office	**0.1**	–
	1.6	1.1
In relation to the highest paid Director:		
Remuneration	**0.8**	0.5
Pension contributions	**–**	–
	0.8	0.5

Further details of Directors' remuneration, including share options and pension entitlements are set out in the report on Directors' remuneration.

Notes continued

5 Interest receivable and similar income

	2005 £million	2004 £million
Bank interest receivable	**27.2**	14.2
	27.2	14.2

6 Interest payable

	2005 £million	2004 £million
On bank loans	**6.3**	2.7
Other	**1.9**	–
	8.2	2.7

7 Taxation

The taxation charge is made up as follows:

	2005 £million	2004 £million
Current taxation:		
UK corporation tax		
Corporation tax at 30% (2004: 30%)	**13.6**	13.9
Adjustments in respect of prior periods	**2.8**	(4.7)
	16.4	9.2
Overseas tax		
Corporation tax	**1.5**	1.2
Adjustments in respect of prior periods	**0.1**	–
	1.6	1.2
Total current taxation	**18.0**	10.4
Deferred taxation		
Capital allowances in advance of depreciation	**10.9**	11.1
Future credits not taxable	**(1.6)**	1.8
Other fixed asset timing differences	**(2.0)**	(2.2)
Total deferred taxation	**7.3**	10.7
Total taxation	**25.3**	21.1
Effective tax rate	**37.2%**	33.9%

7 Taxation continued

The standard rate of current tax for the year, based on the UK standard rate of corporation tax is 30%. The actual current tax charge for the current and the previous year differs from the charge as calculated using the standard rate for the reasons set out in the following reconciliation:

	2005 £million	2004 £million
Profit on ordinary activities before tax	**67.9**	62.2
Tax charge at 30% (2004: 30%)	**20.4**	18.6
Expenses not deductible for tax purposes	**4.1**	1.8
Lower tax rates in certain overseas jurisdictions	**(3.4)**	(2.3)
Movement in share option scheme deduction	**(0.4)**	2.0
Purchased goodwill not deductible	**5.2**	5.1
Fixed asset timing differences	**(10.8)**	(10.1)
Adjustments in respect of prior periods	**2.9**	(4.7)
Total current taxation	**18.0**	10.4
Deferred tax	**7.3**	10.7
Total taxation	**25.3**	21.1

Tax losses There are no UK tax losses available for use in future periods. The amount of foreign tax losses available for use was less than £0.1 million in both the current and previous financial years.

easyJet Switzerland easyJet Switzerland, a Group member, has the benefit of an exemption from communal and cantonal taxes in Switzerland until 1 January 2008, subject to meeting certain conditions. The effective tax rate in Switzerland at present is 7.8%, but will rise to 27.5% from 1 January 2008 assuming that tax rates remain unchanged.

8 Earnings per share

Basic earnings per share has been calculated by dividing the profit for the year retained for equity shareholders by the weighted average number of shares in issue during the year after adjusting for changes to the capital structure of the Group and shares held by the Group in employee share option trusts.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. Share options granted to employees where the exercise price is less than the average market price of the Company's ordinary shares during the year are considered to be dilutive potential shares. Where share options are exercisable based on performance criteria and those performance criteria have been met during the period, those options are included in the calculation of dilutive potential shares.

Notes continued

8 Earnings per share continued

The earnings per share are based on the following:

	Year ended 30 September 2005	Year ended 30 September 2004
Profit for the year retained for equity shareholders (£million)	**42.6**	41.1
	Number	Number
Weighted average number of ordinary shares in issue during the year used to calculate basic earnings per share (millions)	**399.3**	397.7
Weighted average number of dilutive share options used to calculate dilutive earnings per share (millions)	**9.6**	8.7

The derivation of profit for the calculation of adjusted EPS before goodwill amortisation is as follows. This measure has been chosen to show the performance excluding goodwill amortisation, which is a significant non-cash balance in the profit and loss account:

	Year ended 30 September 2005 £million	Year ended 30 September 2004 £million
Profit for the year retained for equity shareholders	**42.6**	41.1
Add back: goodwill amortisation	**17.4**	17.1
	60.0	58.2

9 Intangible fixed assets

	Goodwill £million
Cost	
At 1 October 2004 and 30 September 2005	347.8
Amortisation	
At 1 October 2004	38.2
Charge for the year	17.4
At 30 September 2005	**55.6**
Net book value	
At 30 September 2005	**292.2**
At 30 September 2004	309.6

Goodwill, which arose on the acquisitions of Go Fly Limited and in easyJet Switzerland SA, is amortised to the consolidated profit and loss account over its estimated useful life of 20 years.

10 Tangible fixed assets

	Aircraft £million	Payments on account – aircraft deposits £million	Leasehold improvements – buildings £million	Fixtures, fittings and equipment £million	Total £million
Cost					
At 1 October 2004	207.6	165.4	4.0	14.8	391.8
Exchange differences	4.0	2.4	–	–	6.4
Additions	167.7	83.9	2.0	2.8	256.4
Disposals	(71.8)	(103.6)	–	(0.6)	(176.0)
Transfer to debtors	(14.4)	–	–	–	(14.4)
At 30 September 2005	**293.1**	**148.1**	**6.0**	**17.0**	**464.2**
Depreciation					
At 1 October 2004	48.3	–	2.3	10.8	61.4
Exchange differences	–	–	–	–	–
Charge for year	15.5	–	0.7	2.9	19.1
Disposals	(34.8)	–	–	(0.2)	(35.0)
Transfer to debtors	(7.1)	–	–	–	(7.1)
At 30 September 2005	**21.9**	**–**	**3.0**	**13.5**	**38.4**
Net book value					
At 30 September 2005	**271.2**	**148.1**	**3.0**	**3.5**	**425.8**
At 30 September 2004	159.3	165.4	1.7	4.0	330.4

At 30 September 2005, aircraft with a net book value of £225.5 million (2004: £120.7 million) were mortgaged to lenders as security for loans (see note 15).

easyJet reviewed the carrying value of its aircraft at September 2003 and concluded that the four oldest Boeing 737-300 aircraft required an acceleration in depreciation which caused an additional depreciation charge of £3.4 million prior to their disposal in 2004.

easyJet performed a similar residual value review of its aircraft during the year ended 30 September 2004 and concluded that the six remaining owned Boeing 737-300 aircraft required an acceleration in depreciation. This led to an additional charge of £2.7 million in 2005 (2004: £2.7 million). Five of these aircraft were disposed of during the year. One Boeing 737-300 aircraft was transferred to debtors (note 12) in September 2005 as a contract had been signed for its sale. The aircraft was delivered in November 2005. (Note 25).

Notes continued

11 Investments

	The Airline Group £million	The Big Orange Handling Company £million	Total £million
Cost			
At 1 October 2004	7.2	0.2	7.4
Share of retained profit earned during financial year	–	0.2	0.2
Dividends received	–	(0.2)	(0.2)
At 30 September 2005	**7.2**	**0.2**	**7.4**
Provisions			
At 1 October 2004 and at 30 September 2005	(7.2)	–	(7.2)
Net book value			
At 30 September 2005	**–**	**0.2**	**0.2**
At 30 September 2004	–	0.2	0.2

The Airline Group easyJet Airline Company Limited, a subsidiary of easyJet plc, is one of the seven shareholders in The Airline Group Limited, which is a consortium of airlines set up to bid for the partial ownership of the UK air traffic control system (NATS). Following the success of the bid in March 2001, easyJet invested £7.2 million (including £0.3 million legal and consultancy fees) as its investment to provide the Airline Group with the initial capital base needed for the purchase. This investment was written off during the year ended 30 September 2002. The amount written off includes loan notes of £6.6 million with a maturity date of 31 March 2020. The accrued interest on the loan notes (including that which has been internally capitalised within the Airline Group) is £2.9 million (2004: £2.2 million). This accrued interest has not been recognised since its recovery is uncertain.

The Big Orange Handling Company Limited The Big Orange Handling Company Limited is a joint venture company owned by Menzies Aviation Limited and easyJet. It was set up in January 2004 to provide ground handling services at London Luton airport. The Big Orange Handling Company is incorporated in England and Wales. easyJet owns 26% of the equity of Big Orange, and Menzies Aviation Group Limited owns the remainder.

Financial information relating to the Big Orange Handling Company Limited is as follows:

	easyJet share **Year ended 30 September 2005 £million**	Year ended 30 September 2004 £million
Profit and loss account:		
Turnover	**2.0**	1.4
Profit before tax	**0.2**	0.2
Taxation	**(0.1)**	(0.1)
Profit after tax	**0.1**	0.1
Net assets:		
Fixed assets	**0.2**	0.2
Current assets	**0.3**	0.4
Creditors: amounts falling due within one year	**(0.3)**	(0.4)
Creditors: amounts falling due after more than one year	**–**	–
	0.2	0.2

12 Debtors

	2005 £million	2004 £million
Trade debtors	**103.7**	99.2
Other debtors	**31.4**	29.0
Prepayments and accrued income	**54.8**	46.2
Assets held for sale (note 10)	**7.3**	–
	197.2	174.4

Included in prepayments and accrued income above is £2.3 million (2004: £6.3 million) in respect of amounts which are recoverable in more than one year.

13 Creditors: amounts falling due within one year

	2005 £million	2004 £million
Bank loans (note 15)	**16.3**	9.7
Trade creditors	**6.6**	17.6
Other taxes and social security	**3.7**	3.6
Other creditors	**16.9**	9.8
Corporation tax	**38.9**	18.0
Unearned revenue (including Government taxes)	**160.3**	143.0
Accruals and deferred income	**154.9**	113.0
	397.6	314.7

14 Creditors: amounts falling due after more than one year

	2005 £million	2004 £million
Bank loans (note 15)	**201.0**	110.1
Accruals and deferred income	**75.1**	47.6
	276.1	157.7

Accruals and deferred income includes the non-current excess of sales price over fair value of certain assets that were subject to sale and operating leaseback transactions. These amounts will be released to the profit and loss account over the respective asset's lease term.

Notes continued

15 Loans

	2005 £million	2004 £million
Amounts falling due:		
Within one year	**16.3**	9.7
Due within one to two years	**17.0**	10.1
Due in two to five years	**68.4**	37.2
Due after five years	**118.7**	62.8
	220.4	119.8
Less deferred financing costs	**(3.1)**	–
	217.3	119.8
Included within amounts falling due within one year	**(16.3)**	(9.7)
	201.0	110.1

The bank loans financed the acquisition of certain aircraft by the Group. The aircraft acquired with the loans are provided as security against the borrowings.

Interest and repayment terms and also maturity details for the bank loans are set out in note 23.

16 Provisions for liabilities and charges

	2005 £million	2004 £million
Maintenance liabilities	**70.0**	42.9
Deferred taxation	**27.5**	20.2
	97.5	63.1

Maintenance liabilities

	2005 £million	2004 £million
At the start of the financial year	**42.9**	31.6
Arising during the year	**34.7**	18.9
Utilised	**(8.4)**	(5.1)
Exchange adjustments	**0.8**	(2.5)
At the end of the financial year	**70.0**	42.9

Details of the accounting policy for maintenance provisions are given within the operational and financial review.

16 Provisions for liabilities and charges continued

Deferred taxation Deferred taxation provided in the accounts and amounts not provided are as follows:

	Provided 2005 £million	Provided 2004 £million	**Not provided 2005 £million**	Not provided 2004 £million
Capital allowances in advance of depreciation	**25.3**	14.4	**–**	–
Other fixed asset timing differences	**3.8**	5.8	**–**	–
Future credits not taxable	**(1.6)**	–	**(12.4)**	–
Deferred tax liability	**27.5**	20.2	**(12.4)**	–

Movements in amounts provided are as follows:

	2005 £million	2004 £million
At the start of the year	**20.2**	9.5
Capital allowances in advance of depreciation	**10.9**	11.1
Other fixed asset timing differences	**(2.0)**	(2.2)
Future credits not taxable	**(1.6)**	1.8
At the end of the year	**27.5**	20.2

Deferred tax assets of £12.4 million have not been recognised as it is unlikely that they will crystallise.

Notes continued

17 Called up share capital

	2005 £million	2004 £million
Authorised		
At beginning and end of the year (500 million shares of 25 pence each)	**125.0**	125.0
Allotted, called up and fully paid		
At beginning of the year	**99.8**	98.5
Issued during 2004:		
Share option schemes – 5.2 million ordinary shares of 25 pence each	**–**	1.3
Issued during 2005:		
Share option schemes – 1.2 million ordinary shares of 25 pence each	**0.3**	–
At end of the year:		
400.4 million (2004: 399.2 million) ordinary shares of 25 pence each	**100.1**	99.8

Between 1 October 2004 and 30 September 2005, 1.2 million new ordinary shares have been issued pursuant to the terms of the easyJet share option schemes (see note 19 below).

18 Share capital and reserves

	Share capital £million	Share premium £million	Profit and loss account £million	Total £million
At 1 October 2004	99.8	554.2	135.4	789.4
Issue of ordinary share capital:				
Share option schemes (see note 19)	0.3	3.0	–	3.3
Movement in shares held by trustees	–	–	0.3	0.3
Movement in profit and loss account for employee share schemes	–	–	(1.3)	(1.3)
Retained profit for the year	–	–	42.6	42.6
Currency translation differences on foreign currency net investments	–	–	5.4	5.4
At 30 September 2005	**100.1**	**557.2**	**182.4**	**839.7**

At 30 September 2005 there were no shares issued held in Employee Share Option Trusts which have not vested unconditionally with employees. At 30 September 2004 there were 194,842 unallocated shares which were excluded from equity. These shares are held by easyJet Trustees, the trust managing employee share schemes.

19 Share options and other share awards

The table below presents for the various share option schemes the options outstanding and their exercise price, together with an analysis of the movements in the number of options during the year.

	Exercise price £	At 1 October 2004 Number 000	Granted or issued Number 000	Lapsed Number 000	Exercised Number 000	**At 30 September 2005 Number 000**
i) Pre-flotation scheme						
	1.61	19,435	–	–	(959)	**18,476**
	1.81	1,266	–	–	(143)	**1,123**
	2.02	960	–	–	(56)	**904**
	2.74	227	–	–	–	**227**
Total		21,888	–	–	(1,158)	**20,730**
ii) Non-approved discretionary scheme	4.11	633	–	(66)	–	**567**
	4.02	618	–	(618)	–	**–**
	2.00	2,201	–	(512)	–	**1,689**
	3.60	2,065	–	(374)	–	**1,691**
	1.84	–	5,015	(166)	(2)	**4,847**
	2.32	–	388	–	–	**388**
Total		5,517	5,403	(1,736)	(2)	**9,182**
iii) Approved discretionary scheme	4.02	1,011	–	(1,011)	–	**–**
	2.00	3,753	–	(406)	(5)	**3,342**
	3.60	2,331	–	(193)	–	**2,138**
	1.84	–	6,526	(498)	(19)	**6,009**
	2.32	–	26	–	–	**26**
Total		7,095	6,552	(2,108)	(24)	**11,515**
iv) Management Combination Incentive Plan	Nil	929	–	(1)	(928)	**–**
v) Sharesave Scheme	1.86	–	2,042	(11)	–	**2,031**
vi) Share Incentive Plan	Nil	–	35	–	–	**35**
Total all schemes		35,429	14,032	(3,856)	(2,112)	**43,493**

Notes continued

19 Share options and other share awards continued

i) The easyJet Key Employee Pre-Flotation Share Option Scheme
Except for the 3,710,238 share options issued to Amir Eilon, a Non-Executive Director, which vested wholly upon Admission of the Company to the Official List of the UK Listing Authority during 2000, 25% of the share options granted vest or vested at the dates below:

- Date of Admission of the Company;
- First anniversary of Admission;
- Second anniversary of Admission; and
- Third anniversary of Admission.

Substantially all of the employees accepted employer's Secondary National Insurance contributions due on the exercise of the first tranche of options. It is a condition of those options granted since March 2000 that the option holders accept liability for the employer's Secondary National Insurance contributions due on the exercise of the options.

For UK employees, once vested, the options remain in place should the employee leave the Group and may be exercised within a period ending ten years from the date of grant. For Swiss employees, once vested, the options remain in place should the employee leave the Group and may be exercised within a period ending seven years from the date of grant.

An easyJet Supplemental Flotation Share Option Scheme was established in respect of both UK and Swiss employees to grant options to a number of participants who had inadvertently been issued with incorrect paperwork or who had been omitted from the original grants. These supplemental options replaced original options, which had lapsed, but which had been included in the aggregate totals disclosed in the Listing Particulars for the Company when it listed. These options are included in the table of share options and grants outstanding above.

ii) The easyJet Non-Approved Discretionary Share Option Scheme 2000
This award of options over ordinary shares in easyJet plc was granted in December 2000 to eligible employees of FLS easyTech Limited ("easyTech"), a 25% associate of easyJet Airline Company Limited with a three-year vesting period and no performance criteria. This grant was a catch-up, as it had not been possible to grant options to these employees under the easyJet Key Employee Pre-Flotation Share Option Scheme.

Further awards were made in December 2001, March 2003, January 2004 and December 2004 to all eligible easyJet employees, and in June 2005 to two employees. The options granted are subject to a three-year vesting period and will be exercisable subject to performance criteria.

iii) The easyJet Approved Discretionary Share Option Scheme
This award of options over ordinary shares in easyJet plc was granted in December 2001 to eligible employees of the Group on terms that meet Inland Revenue requirements for an approved share option scheme. Further awards were made in March 2003, January 2004, December 2004 and June 2005.

19 Share options and other share awards continued

iv) The easyJet Management Combination Incentive Plan

Since July 2002, a total of 3,148,572 shares have been granted under the terms of the plan, which rewarded key participants in the process of combining the businesses of easyJet and Go Fly with free shares when the three performance milestones of single brand, single AOC and combination completion were met. All milestones have been met. 95,063 shares have lapsed since the inception of the scheme, and all share options have now been exercised or have lapsed.

Employee Trusts have been set up to manage the share option schemes. easyJet Trustees Limited, a company incorporated in Jersey, manages two trusts, one for the benefit of UK employees and one for the benefit of Swiss employees. When an employee exercises a share option under either the easyJet Key Employee Pre-Flotation Share Option Plan, the easyJet Approved Discretionary Share Option Scheme or the easyJet Non-Approved Discretionary Share Option Scheme, new shares are issued for the benefit of the trust. Once the employee has made suitable arrangements for the funding of the option price and related tax liabilities (which may include sale of some of the shares), then the shares are transferred to the benefit of the employee, at which point they are then able to sell the shares if they wish. The period from the date of exercise to the date that the employee can first sell shares for their own benefit is usually four days. During this period, all share price movement risk is with the employee. Where shares are sold to meet tax liabilities, all transaction costs are met by the employee. For the Management Combination Incentive Plan, easyJet purchased shares on the open market, so does not need to issue shares on exercise of the options. Otherwise, the process of allocation of shares operates in a similar fashion.

v) Sharesave Scheme

Employees resident in the UK, including Executive Directors, are eligible to participate in UK Inland Revenue approved all-employee sharesave schemes, subject to eligibility of service. The Sharesave Scheme comprises employee savings-related share options to subscribe for ordinary shares in the Company. Participants contribute a monthly amount of between £5 and £250 for a fixed period of three years. At the end of the savings period, the contributions may be used to exercise options to subscribe for ordinary shares in the Company. The option price is determined at each grant date, and is capped at 20% of the market price of the Company's shares at the date of grant. The Company made a grant under the Sharesave Scheme in June 2005, with options being granted at a discount of 20% to the market price at the time of the grant. easyJet also operates an International Sharesave Scheme for employees who are not employed by UK Group companies. Similar terms and conditions apply to the UK scheme, albeit without the UK tax benefits.

vi) Share Incentive Plan

Employees resident in the UK, including Executive Directors, are eligible to participate in the Share Incentive Plan. Employees can allocate part of their pre-tax salary up to a maximum of £1,500 per annum, to purchase shares in easyJet through a partnership scheme without paying National Insurance contributions or income tax. For every share purchased through the partnership scheme, easyJet purchases a matching share. Employees must remain in employment with easyJet three years from the date of purchase of the first share in order to qualify for the second "matching" share, and for five years for the partnership shares to be transferred to them tax free. The employee retains rights over both their own shares and the matching shares, receives dividends and are able to vote at meetings once the shares are purchased. At 30 September 2005, 34,663 matching shares had been purchased. easyJet also operates an International Share Incentive Plan for employees who are not employed by UK Group companies. Similar terms and conditions apply to the UK scheme, albeit without the UK tax benefits.

Notes continued

20 Contingent liabilities

The Group is involved in various disputes or litigation in the normal course of business. Whilst the result of such disputes cannot be predicted with certainty, the Company believes that the ultimate resolution of these disputes will not have a material affect on the Group's financial position or results.

In 2002, Navitaire Inc., a former supplier of airline reservation software to easyJet Airline Company Limited, a Group company, issued proceedings against that Group company alleging copyright infringement in relation to airline reservations software. In November 2005, the parties reached an amicable agreement fully resolving the dispute, bringing the litigation to an end.

21 Commitments

a) Lease commitments Non-cancellable commitments under operating leases to pay rentals during the year following the year end analysed according to the period in which each lease expires were as follows:

	Land and buildings	
	2005 £million	2004 £million
Expiring less than one year	**0.4**	0.2
Expiring between two and five years	**0.1**	0.3
Expiring after more than five years	**0.4**	0.1
	0.9	0.6

	Aircraft	
	2005 £million	2004 £million
Expiring less than one year	**13.9**	6.2
Expiring between two and five years	**31.3**	50.7
Expiring after more than five years	**102.7**	43.2
	147.9	100.1

b) Other financial commitments As a result of a purchase agreement approved by shareholders in March 2003, the Group is contractually committed to the acquisition of a further 65 new Airbus A319 aircraft with a list price of approximately US $2.9 billion, being approximately £1.6 billion (before escalations, discounts and deposit payments already made). In respect of those aircraft, deposit payments amounting to US $262.0 million or £148.1 million (2004: US $299.4 million or £165.4 million) had been made as at 30 September 2005, for commitments for the acquisition of Airbus A319 aircraft.

At 30 September 2005 the Group had placed a series of orders to purchase aircraft spare parts, totalling approximately £nil (2004: £1.1million).

22 Notes to the cash flow statement

Analysis of amounts summarised in the cash flow statement

	2005 £million	2004 £million
Returns on investment and servicing of finance		
Interest received	**28.8**	15.2
Interest paid	**(5.7)**	(2.6)
Net cash inflow from returns on investment and servicing of finance	**23.1**	12.6
Capital expenditure		
Purchase of tangible fixed assets	**(247.9)**	(370.4)
Sale of tangible fixed assets	**139.0**	308.5
Net cash outflow for capital expenditure	**(108.9)**	(61.9)
Acquisitions and disposals		
Retention monies released on purchase of Go Fly	**–**	3.1
Investment in The Big Orange Handling Company	**–**	0.3
Net cash inflow for acquisitions	**–**	3.4
Financing		
New loans taken out	**146.2**	65.8
Financing fees paid on loans taken out	**(3.2)**	–
Decrease in loans	**(46.9)**	(8.3)
Issue of share capital	**2.0**	9.0
Net cash inflow from financing	**98.1**	66.5

23 Financial instruments

The objectives, policies and strategies applied by the Group with respect to financial instruments are determined at a Group level. The principal financial instruments used by the Group to finance its operations are cash and loans.

The significant financial risks faced by the Group and the policies that it applies are considered below.
No transactions of a speculative nature are undertaken.

Over the past year the Group has used a limited range of derivative financial instruments and forward contracts to hedge its exposure to US dollar rates and Jet A1 fuel costs. The Group has not used any financial instruments to hedge its exposure to other foreign currencies and interest rate fluctuations, although natural hedges limit the exposures to these risks.

The primary hedging approach implemented has been to limit exposure to significant adverse movements in US dollar exchange rates and Jet A1 fuel costs using a range of option products. In addition, forward contracts for jet fuel requirements were used in the second half of the reporting period. The level of hedging cover taken during the year has been up to 80% of projected cash flows for US dollar and up to 80% for Jet A1 fuel on a one year horizon, and to hedge a smaller percentage of estimated expense up to 36 months in advance.

At 30 September 2005, the hedging in place included a range of options on US dollar/sterling and Jet A1 fuel.

For the purposes of this note, other than currency disclosures, the only debtors and creditors included are bank and shareholder loans, in accordance with Financial Reporting Standard 13, "Derivatives and Other Financial Instruments".

Notes continued

23 Financial Instruments continued

Foreign currency risk The Group has an international business. Its reporting and principal trading currency is sterling. Aircraft purchases, sales and leasing transactions together with other aircraft related costs are denominated in US dollars. The Group also operates, to a lesser extent, in a number of other currencies.

The Group's trade activity is concentrated in Europe, where there is a matching, to some extent, of the cash inflows and outflows of different European currencies. The majority of the Group's trading revenue is derived in sterling, although a significant amount of revenue is also derived in other European currencies and, other than fuel, insurance, aircraft leases, interest expense on external borrowings and some maintenance costs, the Group's cost base has a similar profile. Fuel, insurance, aircraft leases, some interest expense on external borrowings and some maintenance costs are payable in US dollars and movements in the value of the US dollar against sterling impact these costs to the Group: a strong sterling against the US dollar reduces these costs to the Group.

30% of the total Group costs in the year ended 30 September 2005 were incurred by easyJet in the US dollar (2004: 30%). There were minimal US dollar revenues.

Approximately 27% (2004: 30%) of the Group's total assets (that is, its owned aircraft and deposits paid towards the future acquisition of aircraft) are denominated in US dollars, with the effect that the Group's balance sheet and, in particular, shareholders' funds, can be significantly affected by movements in the rate of sterling against the US dollar. The Group mitigates the effect of such movements by borrowing in the same currencies as those US dollar denominated assets. Owned aircraft are anticipated to be sold for US dollars within approximately seven years of their acquisition. The resulting sale proceeds are expected to be used largely to pay down US dollar loans and as a result these large US dollar inflows are not considered to create a significant currency exposure to the Group.

The US dollar/sterling exchange rates at the respective year end were as follows:

	Year end exchange rate (US$: £)
30 September 2005	1.7690
30 September 2004	1.8100

3% of the total Group costs in the year ended 30 September 2005 were incurred by easyJet Switzerland (2004: 3%), whose functional currency is the Swiss Franc. The costs of that business are translated into sterling at average exchange rates for the purposes of inclusion into the consolidated profit and loss account, and the net assets at the year-end exchange rate of the Swiss Franc against sterling. To a large extent, the exposure to the Swiss Franc is mitigated as revenue in that currency is also earned by the Group.

The table below summarises the Group's exposures that give rise to the net currency gains and losses recognised in the profit and loss account. Such exposures comprise the monetary assets and liabilities of the Group that are not denominated in the functional currency of the operation to which they relate.

	US dollars £million	Other £million	Total £million
Total assets	93.9	60.5	154.4
Total liabilities	(75.1)	(24.0)	(99.1)
Net assets as at 30 September 2005	**18.8**	**36.5**	**55.3**
Total assets	72.5	53.2	125.7
Total liabilities	(52.2)	(41.5)	(93.7)
Net assets as at 30 September 2004	20.3	11.7	32.0

23 Financial instruments continued

Interest rate risk The Group's exposure to fixed and floating rate leases for airplanes is monitored and the Group has a formal policy target on its interest rate profile to achieve an approximate 50/50 balance between fixed and floating rate leases. This target is to be achieved as leases on the new Airbus planes are implemented and the 16 remaining fixed rate leases acquired with Go Fly expire. The fixed and floating rate interest profile for leases at 30 September 2005 was 68%/32% for the Airbus aircraft and 59%/41% for the entire fleet (2004: 47%/53% for the Airbus aircraft and 58%/42% for the entire fleet). There is no such formal policy on bank loans, which are all at floating rates.

The Group's historical borrowings are analysed below between fixed-rate and variable-rate loans.

	Total £million	Fixed-rate borrowings £million	Variable-rate borrowings £million	Weighted average interest rate for fixed-rate borrowings %	Average time over which interest rate is fixed Months
Bank loans (sterling denominated)	88.1	–	88.1	–	–
Bank loans (US dollar denominated)	132.3	–	132.3	–	–
As at 30 September 2005	**220.4**	**–**	**220.4**	**–**	**–**
Bank loans (US dollar denominated)	119.8	–	119.8	–	–
As at 30 September 2004	119.8	–	119.8	–	–

The maturity of the bank loans is given in note 15.

The variable rate bank loans bear interest by reference to US dollar LIBOR or sterling LIBOR plus a margin.

The loans are repayable in quarterly and six monthly instalments.

The majority of the Group's financial assets comprise bank balances, which attract interest at the applicable money market deposit rates. At 30 September 2005, all of the Group's cash and liquid resources had a maturity of 180 days or less and attracted a weighted average rate of 4.3% (2004: 3.6%).

The Group also pays operating lease rentals for the lease of aircraft. The Group's commitment to aircraft operating lease rentals for the next financial year are analysed below between those on fixed rate and variable rate terms.

	Total £million	Fixed-rate aircraft leases £million	Variable-rate aircraft leases £million	Weighted average interest rate for fixed-rate leases %	Average time over which interest rate is fixed Months
Approximate aircraft operating lease payments due in the financial year ending 30 September 2006 (payable in US dollars)	147.9	79.9	68.0	4.6	59
Approximate aircraft operating lease payments due in the financial year ending 30 September 2005 (payable in US dollars)	100.1	58.7	41.4	5.2	37

Notes continued

23 Financial instruments continued

Liquidity risk The Group prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Group, to manage liquidity risk.

Credit risk Potential concentrations comprise principally cash, trade debtors and hedging relationships.

The majority of the Group's trade debtors are represented by amounts due from a few well established credit card acquirers. The cash balances are held with several major banks and rated money market funds. The credit ratings for the credit card acquirers, banks and money market funds do not suggest there to be significant exposure as a result of these concentrations. The hedging amounts due arise with major financial counterparties with credit ratings of A or better.

Funding risk The most significant investment activity undertaken by the Group historically has been the acquisition of aircraft. To a large extent, the Group sells and leases back the aircraft to manage its funding risks. The Group also owns planes which have been financed by asset-backed bank loans.

In March 2003, the Group agreed to purchase 120 new Airbus A319 planes for delivery over the next five years. At 30 September 2005, the Group had taken delivery of 55 Airbus aircraft and has plans to take delivery of a further 32 in the coming year. As a result of the order and expected deliveries, the Group continues to make significant deposits on aircraft. At the same time it is recovering deposits paid previously as aircraft are taken delivery of. As the Group has large cash resources to meet these payments and financing is arranged for the planes prior to delivery, no significant funding risk is perceived.

Fair values of financial assets and liabilities A comparison by category of book value and fair value of the Group's financial assets and liabilities is provided in the table below.

	30 September 2005		30 September 2004	
	Book value £million	**Fair value £million**	Book value £million	Fair value £million
Primary financial instruments held to finance the Group's operations:				
Fuel hedges	**–**	**10.3**	–	13.7
Currency hedges	**–**	**10.2**	–	(1.0)
Bank loans	**(217.3)**	**(217.3)**	(119.8)	(119.8)
Cash	**695.5**	**695.5**	510.3	510.3
	478.2	**498.7**	390.5	403.2

23 **Financial instruments** continued

As described above, in the current year the Group used options to hedge its future exposure to US dollar rates and Jet A1 fuel costs. Changes in the fair value of these instruments are not recognised in the financial statements until the hedged positions mature.

The variable rate interest terms on the bank loans are agreed on an arms length basis and, therefore, the fair value of those loans approximate to their book values. The fair value of the bank loans that are subject to fixed rate interest terms is not considered to be materially different from their book value on the basis that the period over which the interest terms are fixed is relatively short and that the fixed interest terms are agreed on an arms length basis.

The fair value of cash approximates to its book value in most cases due to its immediate availability. For cash that is subject to restrictions, the cash attracts variable rate interest, and therefore the fair value approximates to its book value.

In respect of the US dollar exchange rate, at 30 September 2005 the Group had currency hedges through options and forwards of $1.1 billion, $747 million of which will expire before 30 September 2006. At 30 September 2005, the total value of these instruments was a gain of £10.2 million. (2004: there was a loss of £1.0 million on hedging instruments.)

In respect of fuel, the Group had hedges for 206,000 tonnes of fuel through options at 30 September 2005. These all expire before 30 September 2006. At 30 September 2005, the total value of these instruments was a gain of £10.3 million. (2004: there was a gain of £13.7 million on hedging instruments.)

There were no further hedges outstanding at 30 September 2005 (2004: none).

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses on financial instruments are as follows:

	Gains £million	(Losses) £million	Net gains/(losses) £million
At 1 October 2004	13.7	(1.0)	12.7
(Gains)/losses arising before 1 October 2004 that were recognised during the year ended 30 September 2005	(13.7)	1.0	(12.7)
Gains/(losses) arising in the year that were not recognised during the year ended 30 September 2005	20.5	–	20.5
Gains at 30 September 2005	**20.5**	**–**	**20.5**
Of which:			
Gains expected to be recognised in less than one year	17.8	–	17.8
Gains expected to be recognised after more than one year	2.7	–	2.7
Gains at 30 September 2005	**20.5**	**–**	**20.5**

Notes continued

24 Related party transactions

In the course of business the Group has transacted with companies of which Stelios Haji-Ioannou is the majority shareholder. Stelios Haji-Ioannou is a Non-Executive Director of easyJet plc and was formerly the Chairman of the Group. The transactions principally relate to the charging of advertising costs and web page click-through revenues between the Group and these companies.

easyJet Airline Company Limited, a Group company, has signed an agreement with Eilon & Associates Limited, a company controlled by Amir Eilon, a Non-Executive Director. The contract is to provide consulting services to easyJet in respect of a specific business development project. Payment for services is based on a daily rate of £1,500 or £2,000. Total remuneration paid during the year was £85,643.

The Group has also transacted with The Big Orange Handling Company Limited, of which easyJet Airline Company Limited, a Group company, owns 26% of the equity.

The charges are summarised below for the years ended 30 September 2005 and 2004, together with the balances outstanding at those dates.

	The Big Orange Handling Company Limited		easyBus Limited		easyGroup IP Limited	
	2005 £million	2004 £million	**2005 £million**	2004 £million	**2005 £million**	2004 £million
Charges to the Group	**8.5**	5.7	**–**	–	**0.0**	0.1
Charges by the Group	**1.3**	1.7	**0.0**	–	**–**	–
Year end debtor/(creditor)	**0.2**	0.1	**0.0**	–	**–**	(0.1)

	Eilon & Associates Limited	
	2005 £million	2004 £million
Charges to the Group	**0.1**	–
Charges by the Group	**–**	–
Year end debtor/(creditor)	**0.0**	–

25 Post balance sheet events

David Bennett was appointed to the Board as a Non-Executive Director on 1 October 2005.

One Boeing 737-300 aircraft was transferred from fixed assets to debtors in September 2005 as a contract had been signed for its sale. The aircraft was delivered in November 2005.

In 2002, Navitaire Inc., a former supplier of airline reservation software to easyJet Airline Company Limited, a Group company, issued proceedings against that Group company alleging copyright infringement in relation to airline reservations software. In November 2005, the parties reached an amicable agreement fully resolving the dispute, bringing the litigation to an end.

Company balance sheet

at 30 September

	Notes	**2005 £million**	2004 £million
Fixed assets			
Investments	26a	**677.1**	704.8
		677.1	704.8
Current assets			
Debtors	26b	**309.3**	251.8
Cash at bank and in hand		**–**	1.6
		309.3	253.4
Creditors: amounts falling due within one year	26c	**(329.5)**	(306.6)
Net current liabilities		**(20.2)**	(53.2)
Net assets		**656.9**	651.6
Capital and reserves			
Called up share capital	26d	**100.1**	99.8
Share premium account	26d	**557.2**	554.2
Profit and loss account	26d	**(0.4)**	(2.4)
Shareholders' funds – equity	26e	**656.9**	651.6

These financial statements were approved by the Board of Directors on 21 November 2005 and were signed on its behalf by:

R Webster
Director

J Carr
Director

Notes to the Company balance sheet

26 Company information

a) Fixed asset investments

	Shares in subsidiary undertakings £million
At 1 October 2004	704.8
Redemption of preference shares	(27.7)
At 30 September 2005	**677.1**

The principal companies in which the Company has interests at 30 September 2005 are noted below. A full list of Group companies will be included in the Company's next annual return, in compliance with s231 and parts I and II of Schedule 5 of the Companies Act 1985.

Subsidiary undertakings	Country of incorporation	Principal activity	Class and percentage of shares held
easyJet Airline Company Limited	England and Wales	Airline operator	**100% of ordinary shares
easyJet Switzerland SA	Switzerland	Airline operator	*49% of ordinary shares
easyJet Aircraft Company Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares
easyJet Hamburg Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares
Yankee Bravo Aviation Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares
Yankee Charlie Aviation Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares
easyJet Sterling Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares
easyJet Leasing Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares

Notes

* The Company has a 49% interest in easyJet Switzerland SA with an option to acquire the remaining 51%. easyJet Switzerland SA has been consolidated as a subsidiary from 24 June 1999 on the basis that since that date the Company has actually exercised a dominant influence over the undertaking. A minority interest has not been reflected in the financial statements on the basis that holders of the remaining 51% of the shares in easyJet Switzerland SA have no entitlement to any dividends from that holding and easyJet plc has an option to acquire those shares for a predetermined consideration.

** Interest in other companies held by easyJet Airline Company Limited.

The Company has a 26% interest in the ordinary share capital of The Big Orange Handling Company Limited, a company incorporated in England and Wales, carrying on the business of providing ground handling services at London Luton airport. The investment in this joint venture has been equity accounted in the consolidated financial statements.

The Company also has a 25% interest in the ordinary share capital of FLS easyTech Limited, a company incorporated in England and Wales, carrying on the business activity of aircraft maintenance. The interest is held by easyJet Airline Company Limited. The investment in this associated undertaking has been equity accounted in the consolidated financial statements.

26 Company information continued

b) Debtors: amounts due within one year

	2005 £million	2004 £million
Amounts owed by subsidiaries	**309.3**	248.5
Prepayments and accrued income	**–**	3.3
	309.3	251.8

c) Creditors: amounts falling due within one year

	2005 £million	2004 £million
Amounts owed to subsidiaries	**327.4**	304.4
Corporation tax	**1.9**	1.9
Accruals and deferred income	**0.2**	0.3
	329.5	306.6

d) Reconciliation of movement in equity shareholders' funds

	Share capital £million	Share premium £million	Profit and loss account £million	Total £million
At 1 October 2004	99.8	554.2	(2.4)	651.6
Issue of ordinary share capital:				
Share option schemes (see note 19)	0.3	3.0	–	3.3
Retained profit/(loss) for the year	–	–	2.0	2.0
At 30 September 2005	**100.1**	**557.2**	**(0.4)**	**656.9**

e) Reconciliation of movement in equity shareholders' funds

	2005 £million	2004 £million
Retained profit/(loss) for the year	**2.0**	(1.3)
Issue of share capital during the year	**3.3**	15.9
Net movement in shareholders' funds	**5.3**	14.6
Opening shareholders' funds	**651.6**	637.0
Closing shareholders' funds	**656.9**	651.6

f) Guarantee and contingent liabilities

The Company has given a formal undertaking to the Civil Aviation Authority ("CAA") to guarantee the payment and discharge of all liabilities of easyJet Airline Company Limited, a subsidiary of the Company. The guarantee is required by the CAA for that company to maintain its operating licence under Regulation 3 of the Licensing of Air Carriers Regulations 1992.

Notes to the Company balance sheet continued

26 Company information continued

The Company has issued a guarantee in favour of easyJet Airline Company Limited, a subsidiary undertaking in relation to the processing of credit card transactions, and also in respect of hedging transactions carried out according to treasury policy.

The Company has guaranteed the contractual obligations of easyJet Leasing Limited, a subsidiary undertaking, in respect of its contractual obligations to Airbus GIE in respect of the supply of Airbus 320 family aircraft.

The Company has guaranteed the repayment of borrowings that financed the acquisition of aircraft of certain subsidiary undertakings. The Company has also guaranteed the payment obligations for the lease of aircraft by certain subsidiaries.

The Company has guaranteed certain letters of credit which have been issued by a bank on behalf of certain Group subsidiaries.

Summary of selected financial information for five years

Year ended 30 September

	2005 £million	2004 £million	2003 £million	2002 £million	2001 £million
Revenue	**1,341.4**	1,091.0	931.8	551.8	356.9
Total operating profit before exceptional costs	**48.9**	50.7	48.4	69.6	41.9
Profit on ordinary activities before taxation	**67.9**	62.2	51.5	71.6	40.1
Retained profit for the financial year	**42.6**	41.1	32.4	49.0	37.9
Fixed assets	**718.2**	640.2	650.6	541.4	216.6
Current assets	**892.7**	684.7	477.0	523.9	291.5
Creditors: amounts falling due within one year	**(397.6)**	(314.7)	(260.9)	(260.6)	(113.4)
Creditors: amounts falling due after more than one year	**(276.1)**	(157.7)	(65.3)	(48.6)	(76.3)
Provision for liabilities and charges	**(97.5)**	(63.1)	(42.9)	(28.4)	(1.9)
Net assets	**839.7**	789.4	758.5	727.7	316.5
Cash flow from operating activities	**169.8**	160.5	77.2	84.2	83.4
Committed contribution to associate	**–**	–	(1.9)	(0.8)	–
Dividend received from joint venture	**0.2**	–	–	–	–
Return on investment and servicing of finance	**23.1**	12.6	11.8	10.7	1.7
Taxation	**2.9**	(6.2)	(16.5)	0.5	–
Capital expenditure	**(108.9)**	(61.9)	(175.3)	(3.4)	(29.0)
Acquisitions and disposals	**–**	3.4	1.1	(267.2)	–
Management of liquid resources and financing	**83.9**	71.3	79.7	286.7	159.2
Increase/(decrease) in cash in the year	**171.0**	179.7	(23.9)	110.7	215.3

The financial performance and position reported above includes the results for and position of Go Fly since its acquisition on 31 July 2002.

Shareholder information

Financial calendar

Financial year end	30 September 2005
Annual General Meeting	February 2006
Release of reconciliations to International Financial Reporting Standards	January 2006

Announcement of 2005/6 results

Release of interim results to 31 March 2006	May 2006
Preliminary results year to 30 September 2006	November 2006
Report and accounts	January 2007

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Company number
3959649

Outside advisers:

Company registrar
Lloyds TSB Registrars

Auditors
KPMG Audit Plc

Solicitors
Norton Rose

easyJet route maps 1995-2005

95>05

easyJet route maps from 95 and 05
In early 1996, we were selling four routes to two countries. In November 2005 we've got Europe covered: we are now selling 223 routes to 18 European countries.

Designed and produced by 85four. Photography by Robert Wheeler. Printed in England by Cousin ISO 14001.

Come on, let's fly!