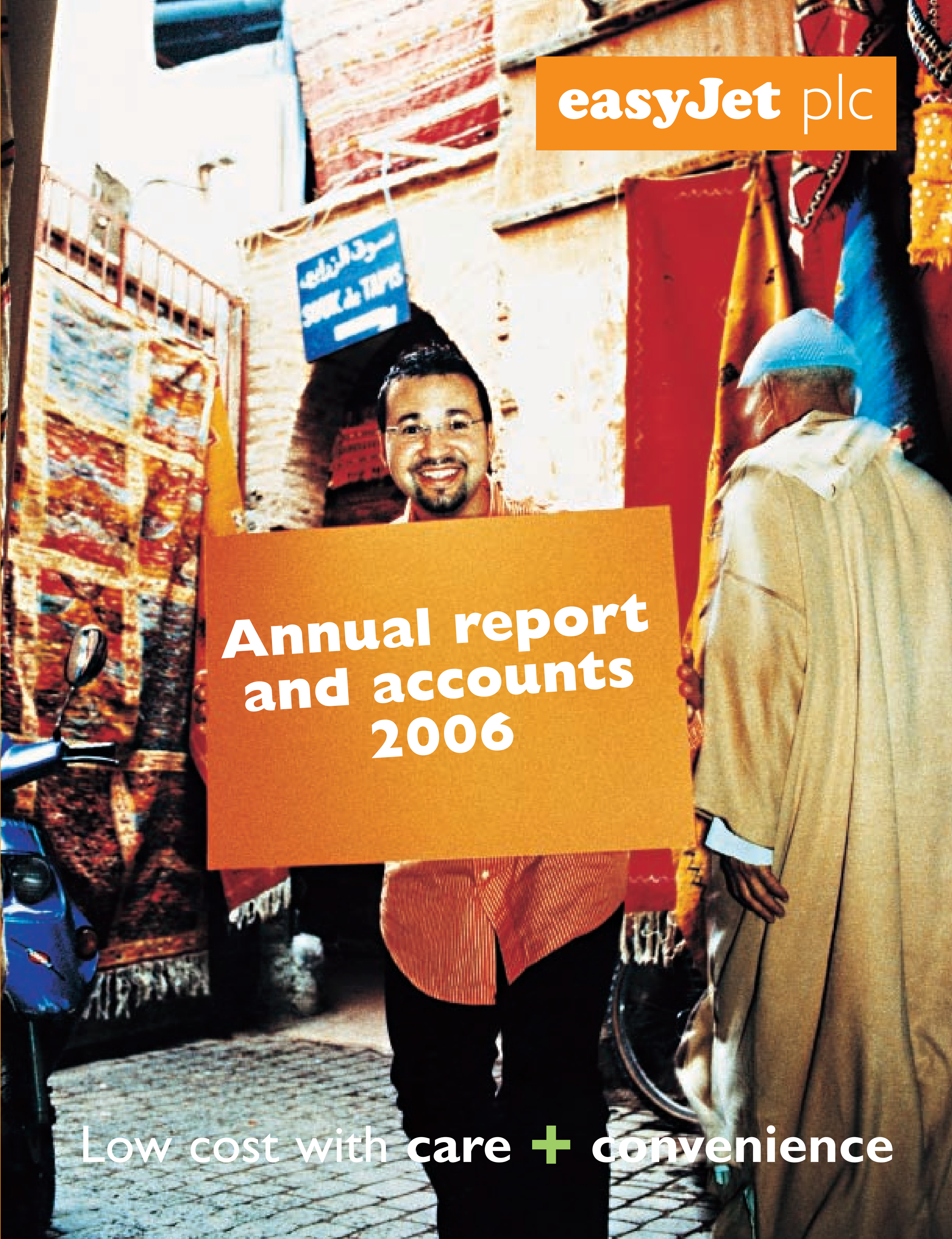


easyJet plc

Annual report and accounts 2006

Low cost with care + convenience


Revenues
up 21%
to
£1.6 billion
Profit
before tax
up 56%
to
£129 million

easyJet plc

Low cost with care + convenience

At the centre of easyJet's winning customer proposition is "low cost, with care and convenience". Low cost is by far the most important component. Convenience is not only about our award winning website but also our network of centrally located airports, which give our customers quick access to where they want to go. Care means that we look after our people and they will look after our customers. A smile costs nothing.

Contents

Low cost with care + convenience

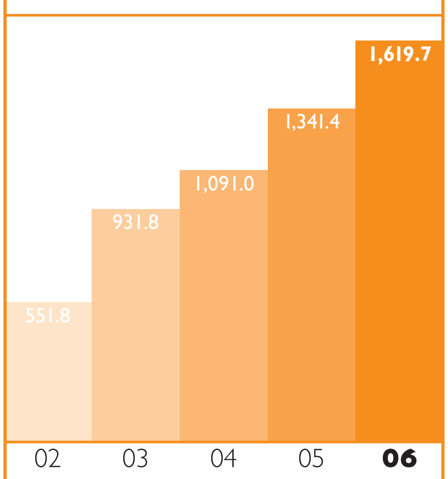
Year at a glance

7.8%
Total revenue per seat up to £41.66

34%
Ancillary revenue per seat up

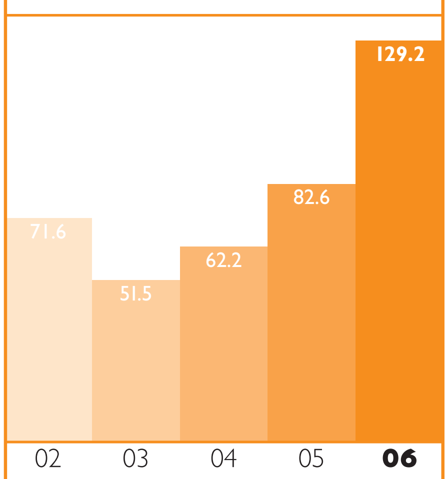
1.5%
Cost per seat before fuel down

Revenue
(million)



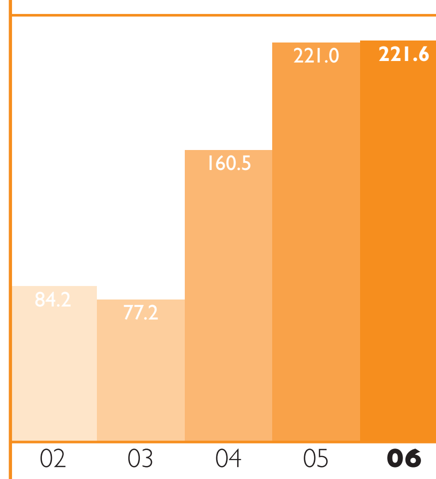
+21%
Revenues up to £1.6 billion

Profit before tax
(million)



+56%
Profit before tax

Cash flow from operations
(million)



+0.3%
Cash flow from operations

122

Increase in fleet from 109 to 122 aircraft

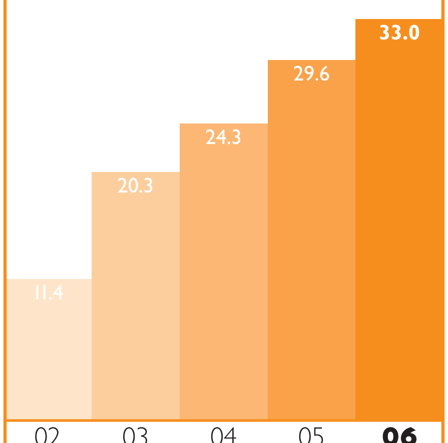
74

Number of airports increased from 64 to 74

11

Cities added to the network

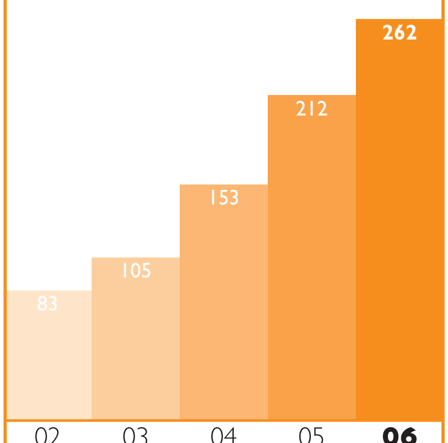
Passengers
(million)



+11.5%

Passengers (milions)

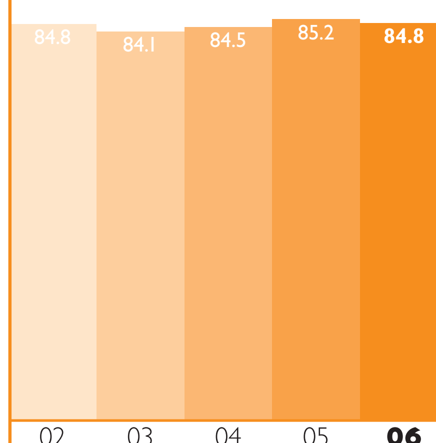
Number of routes operated at year end



262

Number of routes operated

Load factor
(%)



84.8%

Consistently high load factor

Low cost with care + convenience

Chairman and Chief Executive's review

easyJet has delivered profitable growth during 2006 with profit before tax rising 56% to a record £129 million. This has been driven by our winning combination of low fares with care and convenience, which in 2006 was chosen by 33 million passengers across 21 different European countries.

This performance is aligned with our targets and underpins the delivery of improved returns to shareholders. We remain focused on improving our return on equity as outlined in the long-term incentive plan for management put in place last year. During 2006 we improved the return on equity by 3 percentage points to 10.1% and increased our net profit by 59% to £94 million, thus providing confidence that the targets we have set, while challenging and demanding, are achievable.

Key business highlights for the year were as follows:

- Record profit before tax of £129 million, up 56% from £83 million in 2005.
- Passenger numbers rose by 11.5% to 33 million.
- Passenger revenues increased by 5.9% or £2.13 per seat, driven by strong summer trading.
- Ancillary revenues improved significantly in all areas, rising by 34% or £0.86 per seat.
- Unit costs excluding fuel fell by 1.5% or £0.42 per seat from £28.78 to £28.36.
- Unit fuel costs increased by 33% or £2.48 per seat.
- 58 new routes and 11 new destinations were launched, expanding the network to 262 routes and 74 airports in 21 countries.
- The fleet grew to 122 aircraft with an average age of 2.2 years, making it one of the most modern and environmentally friendly fleets in Europe.
- The balance sheet remains strong with cash of £861 million and gearing at 31%.

In May, we highlighted network development, revenue enhancement, cost reduction and development of our people as our main areas of focus. These goals remain unchanged.

Network

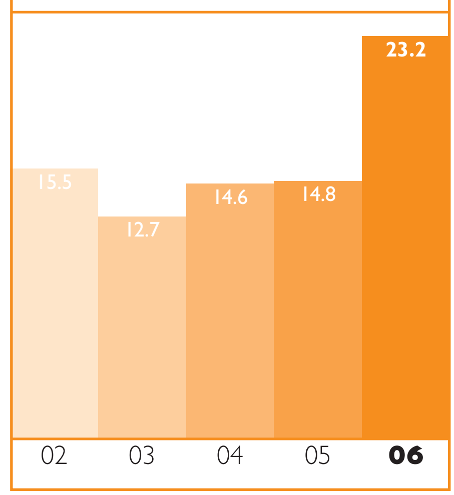
2006 saw the increased presence of easyJet in Italy with the successful launch of our 16th base at Milan Malpensa in March, and the addition of ten new routes bringing low-cost travel to Milan. From Milan we now fly domestically to Naples and Palermo; offer key city destinations including Berlin, London, Madrid and Paris; serve beach and leisure destinations; and have further expansion planned for the coming year.

Building on the addition of our second Swiss base in Basel during 2005, we increased our Swiss operations considerably in the year with 16 new routes launched in the Swiss market and increased frequencies offered in the winter season. Our successful expansion since launching the Geneva base in 1999 has seen easyJet become the largest airline in both Geneva and Basel.

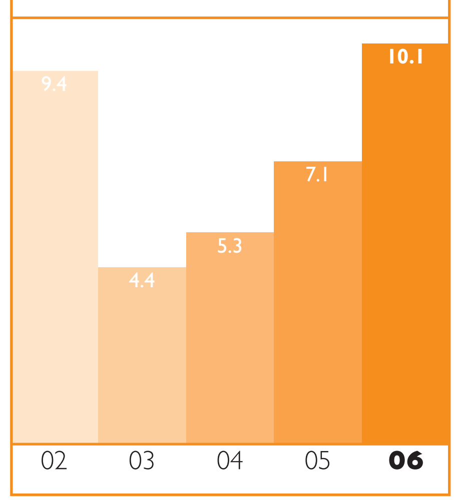
During the summer, we expanded into new markets with the introduction of flights to Croatia, Morocco and Turkey. As a proportion of our network these flights are not significant, but they indicate the continuing opportunities available both inside and outside the EU.

Overall, our highest rate of growth has been on intra-European (non-UK) flying, where we have seen revenues grow by 62% year on year. While we continue to see and take opportunities in the UK, we expect the higher rate of growth in Europe to continue. This has been reflected in our base selections in recent years, and the announcement of our next base in Madrid, opening in February 2007, continues this trend.

Basic earnings per share
(pence)



Return on equity
(%)



"This year's performance is aligned with our targets and underpins the delivery of improved returns to shareholders. We remain focused on improving our return on equity."

Sir Colin Chandler, Chairman

Low cost with care + convenience

Chairman and Chief Executive's review continued

Additional Airbus order

To sustain the continued growth of easyJet, we will be asking shareholders to approve the conversion of 52 Airbus purchase rights into firm orders. In combination with our original order for 120 Airbus and our conversion of 20 purchase rights into firm orders in December 2005, this takes our number of firm Airbus A319 orders to 192 aircraft, 87 of which had been delivered at the end of September 2006. The additional 52 firm orders, with a value of $2.3 billion at list price, are for A319 aircraft to be delivered mainly during 2009 and 2010, and supports our planned growth. In conjunction with this, we have agreed with Airbus 75 further purchase rights, additional to the 120 purchase rights agreed in 2002. The terms of the additional purchase rights are substantially the same as on the original Airbus order. This order ensures that easyJet will continue to operate a young fleet of modern aircraft secured at very competitive rates.

Environment

We take seriously our duty to ensure that we are operating and developing in a responsible manner. We have explained our environmental policy in detail in the separate report on corporate and social responsibility, however the fundamentals can be summarised here. The easyJet model is low cost, based on maximising operating efficiencies, achieving high asset utilisation and providing point-to-point services between convenient locations, operating in established markets whilst avoiding the largest, most congested hub airports. We use a modern fleet of young, fuel efficient, quiet aircraft, with a high seat density configuration and achieve consistently high load factors. Each of these factors helps make easyJet the environmentally friendly way to fly.

We have set ourselves the target of being a leading environmentally efficient and responsible airline, striving to be efficient in the air, efficient on the ground, and to lead the way in shaping a greener future for aviation.

Revenue

Passenger revenue per seat was down by 1.5% in the first half of the year, but rose 11.2% in the second half. The very strong performance in the second half was helped by the timing of Easter, but also reflected buoyant market conditions and good revenue management across the network.

Detailed route performance reviews and a strengthened yield management team helped ensure that suitable interventions were made in the revenue system to optimise contribution on flights. High-impact marketing also helped increase awareness and stimulate demand. The spring saw the launch of our "objects" marketing campaign, featuring iconic images associated with destinations on our network and the low fares we offer to fly to them – reinforcing our simple message of low fares with care and convenience. We also launched a business traveller campaign raising awareness of the frequency and flexibility of our services and the quality of our schedule on primary routes in specific markets.

Improvements to the easyJet.com website and a continued focus on non-ticket revenues allowed easyJet to deliver another year of high growth in ancillary revenues. Simple and direct delivery of insurance and car hire has helped increase conversion rates and income from partner revenues. Improved consistent application of charges has also driven increases across the other areas of ancillary revenue.

Costs and operational performance

Our focus on the cost base has continued throughout the year with particular progress coming from lower maintenance, improved ownership costs, and reduced ground handling rates in Spain.

Maintenance costs benefited from lower rates as a result of our contract for Airbus airframe maintenance with SR Technics. The fleet mix has improved with the retirement of the Boeing 737-300s, only three of which remained in the fleet at 30 September, all of which are due for return by December 2006. Ownership costs have improved as our financing margin has reduced, we have saved money through better management of end-of-lease aircraft returns, and we have increased the proportion of owned aircraft. The effect of increasing US interest rates during the year, however, offset these improvements, so that total ownership costs have remained largely flat on a per seat basis compared with 2005.

Ground handling improvements have come with dedication and persistence which overcame a number of hurdles. As a result, we are now either self-handling or have renegotiated our agreements with existing suppliers in seven airports in Spain which were among the most expensive in our network. This has resulted in more competitive costs in this area, ensuring the future growth of these destinations.

Overall, we have seen a reduction in unit costs excluding fuel of 1.5% for the year. The improvements in unit costs were largely accomplished in the first half, with the impact of wet leasing and disruption impacting the second half. Set against this, the effect of increasing fuel costs has continued, and including fuel, total costs per available seat flown rose by 5.7%. As we go into the 2007 financial year, we have hedged 59% of our fuel requirements, 28% is hedged using forwards with an average rate of $659 per metric tonne and 31% is hedged using collars with average floor and ceiling rates of $687 and $753 per metric tonne respectively.

The August 10th security alert caused easyJet to cancel nearly 500 flights and resulted in additional costs of approximately £4 million. The introduction of greater restrictions to carry-on items, and the inadequate resources of airports to cope with additional security procedures, resulted in pressures on passengers and operations. This led to reduced punctuality, and the proportion of our flights arriving within 15 minutes of scheduled arrival fell from 80.2% in 2005 to 75.6% in 2006. In addition, easyJet experienced some crew shortages in the summer resulting in low levels of standby crew. To minimise disruption to passengers, easyJet wet leased approximately three and a half lines of flying during the summer to help deliver the scheduled network flights. Disappointingly for all concerned, some disruption to the schedule was still experienced. At easyJet we are committed to delivering an excellent service and we can assure our passengers that recruitment and planning measures are now in place to ensure that the Company delivers the highest standard of service with care and convenience.

"We have set ourselves the target of being a leading environmentally efficient and responsible airline, striving to be efficient in the air, efficient on the ground, and to lead the way in shaping a greener future for aviation."

Andrew Harrison, Chief Executive

Low cost **with care + convenience**

Chairman and Chief Executive's review continued

People

In November 2005, we opened the easyJet Academy. Based in a low-cost building close to our Luton headquarters, the Academy provides first-class training facilities including a cabin simulator and aircraft slides. It provides the location for pilot, cabin crew and call centre training as well as housing the recruitment and training departments. Meanwhile, we are preparing to move our easyLand headquarters, taking up low-cost office space inside our new maintenance hangar at our Luton base. This move should take place in early 2007.

We recognise and appreciate the extra effort many of our people have made this year and extend our thanks to all our people for their continued dedication and hard work.

Board

Andrew Harrison joined easyJet as Chief Executive in December 2005. During the year David Bennett and Professor Rigas Doganis were also appointed to the Board as Non-Executive Directors, and Sir David Michels was appointed as the Senior Independent Non-Executive Director. The appointments in the year have brought a good balance of expertise and experience to the Board and these will be invaluable as easyJet continues to grow. We thank all the members of the Board for their commitment and contributions in the year.

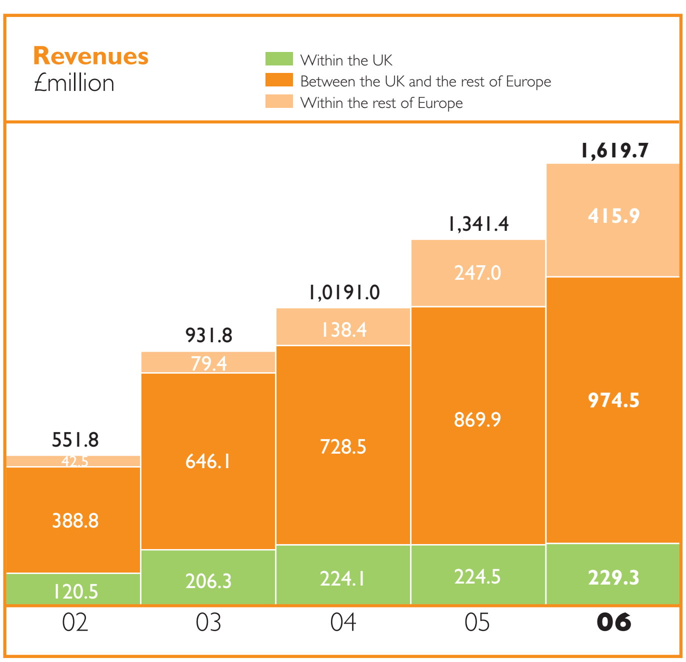
Outlook

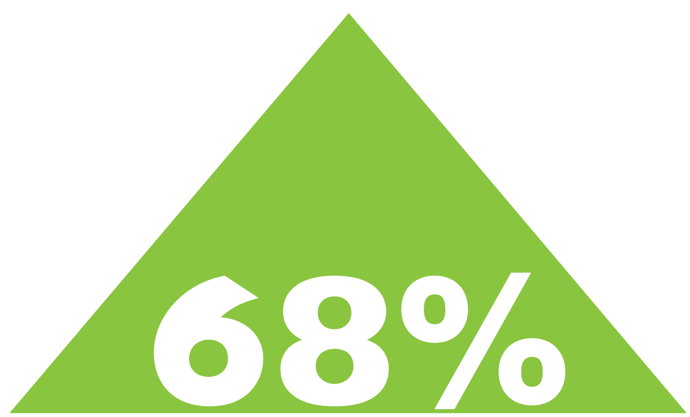
Today's Airbus order underpins our future growth and we expect to increase capacity in 2007 by 15%. Current trading is in line with our expectations and we see yields for winter broadly in line with last year. As we look further forward we anticipate more pressure on yields in the summer due to continued aggressive competition. We remain focused on improving execution and delivery of results by revenue enhancement, network development and cost reduction. This year has seen an encouraging step towards improved return on equity. The Board remains confident that the business will make good progress in the coming years.

Sir Colin Chandler
Chairman

Andrew Harrison
Chief Executive Officer

13 November 2006





Revenues from intra-European flights grew again in 2006

Continued network expansion in 2006

Low cost with care + convenience

Madrid

New low-cost airport facilities provide a cheaper way of accessing this important market giving Spanish air travellers access to a much wider range of cheap air services.

easyJet has announced that Madrid will become a base from February 2007 with routes to:

La Coruna, Oviedo, Toulouse, Lyon, Casablanca, Rome and Marrakech

in addition to existing routes to Basel, Berlin, Bristol, Geneva, Liverpool, London Gatwick, London Luton and Paris.


VILLA ROSA
Low cost
Managing costs at airports

Low cost **with care + convenience**

Geneva

We've added 11 new routes since October 2005 to: Bournemouth, Edinburgh, Glasgow, Hamburg, Ibiza, Lisbon, London Stansted, Malaga, Olbia, Palma and Prague.

This takes the number of routes from Geneva to 27. easyJet is the largest airline to operate from Geneva and is the only airline to operate a direct service on many of these routes providing a much greater level of convenience to passengers who would otherwise have travelled via Zurich.


Care
Always
service
with a
smile

Low cost **with care + convenience**

Milan

Milan was established as a base during the year with the addition of 11 routes, including our first domestic Italian flights to Naples and Palermo.

easyJet has invested in a much more convenient schedule from Milan for business passengers enabling full working days in a number of Europe's principal business cities.


Convenience
Quality
of flights
schedule

Marrakech

In early 2006 easyJet announced that it was seizing opportunities beyond the EU with flights to Croatia, Turkey and Morocco, making Marrakech a must-see destination, perfect for weekend breaks.


Network expansion
European route development
New non EU routes:
Istanbul, Marrakech,
Rijeka and Split.

Low cost with care + convenience

Directors

Sir Colin Chandler
(Non-Executive Chairman)

Colin (67) 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.

Andrew Harrison
(Chief Executive Officer)

Andrew (49) became Chief Executive Officer on 1 December 2005. He 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.

Jeff Carr
(Group Finance Director)

Jeff (45) 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.

Dawn Airey
(Independent Non-Executive Director)

Dawn (46) joined easyJet in April 2004. She is Managing Director of Channels and Networked Media at Sky. 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 21 years and began her career at Central TV as a management trainee. She is Vice President of the Royal Television Society, 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, an Honorary Committee Member of the Monte Carlo Television Festival, and a Director of Nickelodeon UK and National Geographic Europe.

David Bennett
(Independent Non-Executive Director)

David (44) was appointed to the Board on 1 October 2005. He is the Group Finance Director of the FTSE 100 bank Alliance & Leicester plc. Prior to joining Alliance & Leicester in 1999, David held a number of senior management positions at Cheltenham & Gloucester Building Society and Lloyds TSB. He was also an Executive Director of the National Bank of New Zealand Limited and is a member of the Association of Corporate Treasurers.

Professor Rigas Doganis
(Independent Non-Executive Director)

Rigas (67) was appointed to the Board on 1 December 2005. Rigas is an aviation consultant and strategy adviser to airlines, airports, banks and governments around the world. He is Chairman of the European Aviation Club in Brussels and a Non-Executive Director of GMR Hyderabad International Airport, India. He is currently a visiting Professor at Cranfield University where he was Head of the Department of Air Transport in the College of Aeronautics between 1991 and 1997. He is an author of books on aviation economics and management. He is also a fellow of the Royal Aeronautical Society and of the Royal Society of Arts.

Sir Stelios Haji-Ioannou
(Non-Executive Director)

Stelios (39) founded easyJet in 1995. He was easyJet's Non-Executive Chairman until 26 November 2002 and was reappointed to the Board on 16 May 2005. A graduate of the London School of Economics and City University Business School, Stelios founded Stelmar Tankers, a shipping company which listed on the New York Stock Exchange in 2001 and which was sold in 2005 to OSG shipping group. Since 1998 he has set up 14 other businesses under the easy brand through his private investment vehicle, the easyGroup, which owns the easy brand and licenses it to the various easy branded ventures. He was knighted in June 2006 for services to entrepreneurship.

Diederik Karsten
(Independent Non-Executive Director)

Diederik (50) joined easyJet in May 2001 and is currently Chief Executive Officer of UPC The Netherlands, a 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, both in the UK and Europe, 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.

Sir David Michels
(Senior Independent Non-Executive Director)

David (59) was appointed to the Board on 6 March 2006. He is currently Non-Executive Director of British Land Company, Marks and Spencer plc and Strategic Hotels and Resorts. David has held a number of senior management and plc Board positions in the leisure industry. He spent 15 years with Grand Metropolitan mainly in sales and marketing, which culminated in a Board position as Worldwide Marketing Director. In 1989, he became Deputy Chairman of Hilton UK and Executive Vice President, Hilton International. He joined Stakis in 1991 as Chief Executive and became Group Chief Executive of the Hilton Group (formerly Ladbroke Group) in June 2000, a position he held until 2006. He is the current President of the British Hospitality Association and was knighted in June 2006 for services to the hospitality industry.

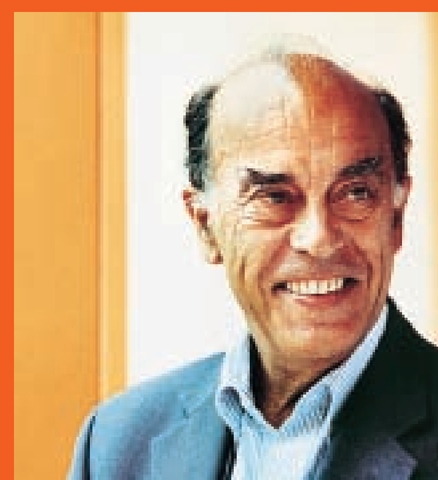
Sir Colin Chandler

Andrew Harrison

Jeff Carr

Dawn Airey

David Bennett



Professor Rigas Doganis

Sir Stelios Haji-Ioannou

Diederik Karsten

Sir David Michels

Low cost with care + convenience

Executive management team

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Saad Hammad
(Chief Commercial Officer)

Saad (44) joined easyJet in November 2005 and brings considerable commercial experience in international consumer-focused businesses. Prior to joining easyJet Saad was Managing Director – Europe with the third party logistics provider Tibbett & Britten, where he managed the outsourced supply chain operations across Europe of prominent manufacturers and retailers including P&G, Unilever, PepsiCo, Tesco, Wal-Mart, Carrefour and Metro. Prior to that Saad helped to modernise Minit, the multi-service retailer, where he was commercially responsible for 3,710 stores world-wide before becoming CEO of Autocascade, a pan-European web-based yield management start-up. Earlier in his career, Saad held roles in consumer retailing and brand management at Vision Express, Thorn EMI and Procter & Gamble. Saad holds an undergraduate degree from Oxford and an MBA from INSEAD. Saad is a UK national.

Andrew Barker
(Planning Director)

Andrew (41) joined easyJet in 2005 as Head of Investor Relations and was appointed Planning Director in February 2006. Andrew is responsible for guiding easyJet's network and fleet planning, as well as developing environmental and aero-political policies and interfacing with the relevant regulatory bodies. Prior to joining easyJet, Andrew was a Managing Director at UBS Investment Bank, where he worked for 16 years. At UBS he was head of the global transport research team for ten years during which time he was consistently rated by Institutional Investor Magazine as the number one analyst in the sector in both European and Global surveys. He then went on to head the UBS European Equity Strategy Team. Andrew is a UK national.

Mike Campbell
(People Director)

Mike (49) joined easyJet in October 2005 as People Director. Before joining easyJet Mike worked at Wedgwood in a broad role as Director of People and Brands and Managing Director for Canada, Australia and Pan-Asia. Prior to that Mike worked for 14 years at Fujitsu in a variety of development and personnel roles across Europe, Asia, Africa and the Middle East, ending up as Chief Personnel Officer. His early career was in education and research. Mike is a UK national.

Toby Nicol
(Communications Director)

Toby (36) joined easyJet in December 1999. He was appointed as Communications Director in September 2005 after six years in a range of communication-related roles within the Company. Previously, Toby was employed in senior positions for a leading communications consultancy undertaking work across a range of diverse clients from IBM to bmi British Midland. Toby is a UK national.

Cor Vrieswijk
(Operations Director)

Cor (48) joins us from Transavia.com which is a Dutch-based airline where he has been Chief Operations Officer for the last nine years together with 25 years' experience in the airline industry. His responsibilities at Transavia.com included flight operations, engineering and ground handling, together with relevant experience in marketing, human resources and IT. Cor's first degree was in engineering followed up by a Masters Degree in organisational sciences. Cor is a Dutch national.

Tim Newing
(IT Director)

Tim (47) has a wide range of experience across the technology spectrum and has played a major role in the development of the National Lottery over a ten-year period, first as Technical Manager for IT supplier GTECH UK before joining Camelot as Head of Projects and Networks in December 2000 and becoming IT Director in March 2002.

During this time, Tim has successfully developed and delivered a series of massive programs that saw a period of major technological innovation, significantly enhancing the systems architecture and key business processes within Europe's biggest lottery company, and, at the same time ensuring high reliability and availability from the production systems. His achievements saw him recognised as the 2005 IT Director of the Year in the Jaeger-LeCoultre Telegraph Business Awards.

Andrew Harrison

Jeff Carr

Saad Hammad

Andrew Barker

Mike Campbell

Toby Nicol

Cor Vrieswijk

Tim Newing

Low cost with care + convenience

Operational and financial review

Strategy and business model

easyJet is Europe's leading low fares airline. Formed in 1995 by Sir Stelios Haji-Ioannou, it has grown rapidly to become Europe's fourth largest airline by passengers carried. easyJet keeps costs low by eliminating the unnecessary costs and frills which characterise traditional airlines. This is done in a number of ways:

- The internet is used to reduce distribution costs. easyJet was one of the first airlines to embrace the opportunity of the internet when it sold its first seat online in April 1998. Now over 95% of all seats are sold online, making easyJet one of Europe's biggest internet retailers;
- Maximising the utilisation of substantial assets. We fly our aircraft intensively, with swift turnaround times each time we land. This gives us a very low unit cost;
- Ticketless travel. Passengers receive booking details via an e-mail rather than paper. This helps to significantly reduce the cost of issuing, distributing, processing and reconciling millions of transactions each year;
- No "free lunch". We eliminate unnecessary services which are complex to manage such as free catering, pre-assigned seats, interline connections and cargo services. This allows us to keep our total cost of production low; and
- Efficient use of airports. easyJet flies to main destination airports throughout Europe, but gains efficiencies compared to traditional carriers with rapid turnaround times, and progressive landing charge agreements with airports.

Many have tried to imitate easyJet's business model, but few have succeeded. In addition to all the factors above, our customer proposition is defined by "low cost with care and convenience". This means that whilst we are committed to keeping our costs low, we will provide our customers with a quality product and good service; we fly to main European destinations from convenient local airports; and provide friendly onboard service. People are a key point of difference at easyJet and are integral to our success. This allows us to attract the widest range of customers to use our services – both business and leisure.

We have a powerful business model, with a strong well-recognised brand across Europe. With a strong market presence and scale, we are well positioned to take advantage of growth opportunities in the European low-cost market. easyJet still has only 6% of the total European market, which is forecast to grow by 5% to 6% per annum. On this basis we have targeted an annual growth rate of 15% over the medium term. We will do this by reinforcing our presence on our key routes, whilst identifying new route development opportunities where the product offering meets our goals.

Competitors

The markets in which easyJet operates are highly competitive, both from traditional "flag carrier" airlines such as British Airways, Air France/KLM, Iberia and Swiss and from other low-cost carriers such as Ryanair, Air Berlin and Vueling. We face competition from other airlines on same city-pair routes, from indirect flights, from charter services and also from other forms of transport, such as rail. There are virtually no routes where we have no competition. The level of intensity of the competition varies on a route-by-route basis, and depends on the nature of the competitors. However, most of the competitors we encounter have significantly higher unit costs than us. As a result, whilst these competitors can on occasion offer lower fares than easyJet, they cannot compete with our fares every day without an adverse financial effect.

Network

We have continued to develop the network during the year in a manner that absorbed the 12.1% growth in new capacity. At 30 September 2006, the easyJet network covered 262 routes and 74 airports, compared to 212 and 64 at the same time last year.

During the year, we have added 11 new cities to the easyJet network: Bordeaux, Bournemouth, Bremen, Istanbul, Lisbon, Marrakesh, Palermo, Rijeka, Rimini, La Rochelle and Split. A new base was opened at Milan Malpensa during the year, and a further base has been announced at Madrid Barajas for the coming financial year.

"We remain focused on improving execution and delivery of results by revenue enhancement, network development and cost reduction".

Jeff Carr, Group Finance Director

Low cost with care + convenience

Operational and financial review continued

Resources and relationships

Fleet At the end of September 2006, the fleet comprised 35 Boeing 737s and 87 Airbus A319s, giving a total of 122 aircraft, up from the 54 Boeing 737s and 55 Airbus A319s at the start of the financial year. Details of the fleet at 30 September 2006 are as follows:

	Owned	Under operating lease	Under finance lease	Total	Changes in year	Future deliveries (including exercised options)	Unexercised options (note 1)
Airbus A319s	38	43	6	87	32	53	100
Boeing 737-700s	–	32	–	32	–	–	–
Boeing 737-300s	–	3	–	3	(19)	–	–
	38	**78**	**6**	**122**	**13**	**53**	**100**

Notes:
1 Options may be taken as any Airbus A320 family aircraft and are valid until 2012.

A further 53 Airbus A319 aircraft are planned to be delivered through to September 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 is currently 2.2 years (2005: 3.0 years).

During the year, 20 aircraft which had been under option at 30 September 2005 were converted into firm future deliveries.

On 13 November 2006, easyJet agreed that, subject to shareholder approval, it had converted a further 52 of its Airbus option aircraft to firm deliveries in 2008, 2009 and 2010; furthermore an additional 75 purchase rights had been obtained for aircraft which could be delivered during the period to 2015.

Fleet changes: The total fleet over the period to 30 September 2009 based on contractual commitments, excluding the order pending shareholder approval is as follows:

	Airbus A319s	Boeing 737-700s	Boeing 737-300s	Total aircraft
At 30 September 2005	55	32	22	109
At 30 September 2006	**87**	**32**	**3**	**122**
At 30 September 2007	107	30	–	137
At 30 September 2008	120	29	–	149
At 30 September 2009	140	18	–	158

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 32 aircraft that were delivered to easyJet during the year, 16 were mortgage financed through US dollar or sterling loans, two were temporarily cash acquired with mortgage finance drawn after year end, six were sold to lessors and leased back under operating leases, five were financed through sale and finance leasebacks, and three were cash acquired supported by a standby facility. In addition, one previously delivered mortgage-financed aircraft was restructured into sale and finance leaseback funding in the year.

During the year, we continued to secure financing for the Airbus delivery stream. We have now committed facilities available for 18 of the remaining 53 Airbus aircraft yet to be delivered. Three of these aircraft will be subject to sale and leaseback, eight will be financed through mortgage finance, and a further seven aircraft will be supported by the standby facility.

Our people

At 30 September 2006 there were 4,859 employees in easyJet, an increase of 17.0% during the year from 4,152 at 30 September 2005. Whilst this was in excess of the growth of the business, the principal reason for this was the commencement of self handling at some of our Spanish airports (Alicante, Almeria, Asturias, Palma and Malaga), which has added 204 employees during the year. After allowing for this change, the rate of increase was 12.1%, in line with the rate of growth of the business, and indicative of management's focus on cost control.

Our people are integral to differentiating easyJet from our competitors and allowing us to deliver low cost with care and convenience. In the corporate and social responsibility report we comment in detail on the way in which easyJet values and manages its people.

Relationship with our customers

easyJet has a strong and consistent brand positioning. easyJet is the smarter choice for both business and leisure travel because it allows customers the chance to travel with low fares, convenience and the care they deserve. People travel with easyJet out of choice rather than compromise.

easyJet offers consistently low prices.

Central to its core philosophy, easyJet offers:

- Safety first approach.
- New reliable fleet.
- Friendly attentive cabin crew trained in the easyJet way at our own accredited training academy.
- A customer service programme which listens to all customer queries and complaints in an honest and reasonable manner.
- Attractive in-flight refreshment and gift service.

easyJet strives to offer a convenient service to its passengers. easyJet offers:

- Flights to and from major airports.
- Multiple daily flights on major routes.
- Flexibility to take earlier or later flights.
- Easy to use website.
- Online check in.
- Hand baggage only check in.
- Speedy boarding.

Suppliers

We aim to have partnership agreements with our suppliers, which stress the importance of strong suppliers aligned to the success of easyJet as a business. We are committed to payment of suppliers within agreed terms. Many of our supply agreements are unique and tailored to the needs of our business, to make sure that our suppliers are rewarded appropriately for delivering services which meet pre-agreed performance targets and align with easyJet's own internal performance goals.

Low cost with care + convenience

Operational and financial review continued

Consolidated financial and operating data

(unaudited)	Year ended 30 September 2006	2005	Change %
Key performance indicators			
Return on equity [1]	**10.1%**	7.1%	3.0pp
Profit before tax per seat (£) [2]	**3.32**	2.38	39.6
Revenue per seat (£) [3]	**41.66**	38.66	7.8
Cost per seat (£) [4]	**38.34**	36.28	5.7
Cost per seat excluding fuel (£) [5]	**28.36**	28.78	(1.5)
Seats flown (millions) [6]	**38.9**	34.7	12.1
Output measures			
Passengers (millions) [7]	**33.0**	29.6	11.5
Number of aircraft owned/leased at end of period [8]	**122.0**	109.0	11.9
Average number of aircraft owned/leased during period [9]	**115.2**	102.6	12.3
Number of aircraft operated at end of period [10]	**118.0**	103.0	14.6
Average number of aircraft operated during period [11]	**107.0**	94.0	13.8
Sectors [12]	**253,548**	229,068	10.7
Block hours [13]	**454,823**	401,588	13.3
Number of routes operated at end of period	**262**	212	23.6
Number of airports served at end of period	**74**	64	15.6
Other performance measures			
Load factor [14]	**84.8%**	85.2%	(0.4)pp
Operated aircraft utilisation (hours per day) [15]	**11.6**	11.7	(0.5)
Owned/leased aircraft utilisation (hours per day) [16]	**10.8**	10.7	0.8
Available seat kilometres (ASK) (millions) [17]	**37,088**	32,141	15.4
Revenue passenger kilometres (RPK)(millions) [18]	**31,621**	27,448	15.2
Average sector length (kilometres)	**954**	926	3.0
Average fare (£) [19]	**45.17**	42.43	6.4
Revenue per ASK (pence) [20]	**4.37**	4.17	4.6
Cost per ASK (pence) [21]	**4.02**	3.92	2.6

Footnote references are defined on pages 27 and 28.

Consolidated income statement

	Year ended 30 September 2006	2005	Change %
Passenger revenue	**1,488.4**	1,254.2	18.7
Ancillary revenue [22]	**131.3**	87.2	50.6
Revenue [23]	**1,619.7**	1,341.4	20.7
Ground handling charges, including salaries	**(144.1)**	(130.5)	10.4
Airport charges	**(258.4)**	(230.1)	12.3
Fuel	**(387.8)**	(260.2)	49.0
Navigation charges	**(121.2)**	(108.6)	11.6
Crew costs, including training	**(160.0)**	(136.2)	17.5
Maintenance	**(109.5)**	(119.2)	(8.2)
Advertising	**(38.2)**	(32.8)	16.4
Merchant fees and incentive pay	**(17.9)**	(15.6)	14.5
Aircraft and passenger insurance	**(15.8)**	(19.3)	(18.0)
Other costs [24]	**(88.3)**	(82.4)	7.1
EBITDAR [25]	**278.5**	206.5	34.9
Depreciation	**(27.4)**	(15.8)	73.4
Amortisation of intangible assets	**(0.8)**	(0.8)	(5.7)
Aircraft dry lease costs	**(122.9)**	(123.7)	(0.6)
Aircraft long-term wet lease costs	**(9.6)**	–	–
Group operating profit (EBIT)	**117.8**	66.2	77.8
Interest and other financing income	**35.4**	27.2	30.1
Interest and other financing charges	**(24.1)**	(10.9)	121.1
Net financing income	**11.3**	16.3	(30.7)
Share of profit after tax of associate	**0.1**	0.1	8.5
Profit before tax	**129.2**	82.6	56.4
Tax	**(35.1)**	(23.6)	48.7
Profit after tax	**94.1**	59.0	59.4
Earnings per share (pence)			
Basic	**23.18**	14.78	56.8
Diluted	**22.64**	14.43	56.9

Footnotes
1 Represents the profit after tax divided by the average of opening and closing shareholders' funds.
2 Represents profit before tax divided by the number of flown seats available for passengers.
3 Revenue per seat represents total revenues divided by the number of seats flown available for passengers.
4 Represents total revenues less profit before tax, divided by the number of seats flown available for passengers.
5 Represents total revenues less profit before tax 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 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.
8 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 period.
9 Represents the average number of aircraft owned plus those held on lease arrangements of more than one month's duration during the relevant period.
10 Represents the number of owned/leased aircraft in service at the end of the relevant period.
11 Represents the average number of owned/leased aircraft in service during the relevant period.
12 Represents the number of one-way revenue flights.

Operational and financial review continued

Footnotes continued

13 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.
14 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.
15 Represents the average number of block hours per day per aircraft operated during the relevant period.
16 Represents the average number of block hours per day per aircraft owned/leased during the relevant period.
17 Represents the sum by route of seats available for passengers multiplied by the number of kilometres those seats were flown.
18 Represents the sum by route of passengers multiplied by the number of kilometres those passengers were flown.
19 Represents the passenger 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, divided by the total number of ASKs.
22 Includes credit card fees, excess baggage charges, extra bag charges, sporting equipment fees, speedy boarding fees, infant fees, changes fees, profit share from in-flight sale 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 Includes revenue from ticket sales and ancillary revenue.
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, share of profits of associates and lease payments (excluding the maintenance reserve component of operating lease payments). Maintenance reserve costs are charged to the cost heading "maintenance".

Financial year 2006 compared with financial year 2005

Key performance indicators

Return on equity The Board has set return on equity as the key financial measure at easyJet, since it best represents the return for the year attributable to the equity shareholders.

Return on equity for financial year 2006 was 10.1% up from 7.1% in financial year 2005. This was driven by a significant improvement in profit before tax and the effective tax rate of the business, but was partially offset by the introduction of new assets of £13.3 million relating to the value of financial instruments on adoption of IAS 39 on 1 October 2005, and £17.9 million relating to the exercise of employee share options.

Management is incentivised through the Long-Term Incentive Plan to deliver increases in return on equity to 15% by 2008.

Profit before tax per seat, revenue per seat and cost per seat Profit before tax per seat is a measure used internally to allow all our people to understand and focus on the return on equity target, since the measures are closely related. It is the difference between revenue per seat and cost per seat, which are important measures that are used to monitor certain areas of the business. Profit before tax per seat increased in financial year 2006 by 39.6% from £2.38 to £3.32 as a result of a 7.8% increase in revenue per seat from £38.66 to £41.66 (explained in more detail in "revenue" below), set off against an increase in cost per seat of 5.7% from £36.28 to £38.34.

Cost per seat, excluding fuel Since the significant volatility in easyJet's fuel cost is largely dictated by external economic and political factors, we consider that the movement in cost per seat excluding fuel is the best indicator of management's performance in keeping unit costs low.

Cost per seat excluding fuel reduced by 1.5% from £28.78 to £28.36 in financial year 2006. This was as a result of direct management action to control overheads, despite cost increases resulting from disruption.

Seats flown Seats flown is considered by management to be the best measure of output units of production. The number of seats flown in financial year 2006 increased by 12.1% from 34.7 million to 38.9 million, as a result of the introduction of new aircraft into the fleet.

Income statement

Revenue easyJet's revenue increased 20.7% from £1,341.4 million to £1,619.7 million, from financial year 2005 to financial year 2006. Revenue per seat increased 7.8% from £38.66 to £41.66.

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 18.7% from £1,254.2 million to £1,488.4 million, driven by an 11.5% growth in passenger numbers from 29.6 million to 33.0 million, and a 6.4% increase in average fares. The number of passengers carried reflected a 13.8% increase in the size of the easyJet fleet in operation from an average of 94.0 aircraft to an average of 107.0 aircraft offset by a small decrease in the average load factor achieved from 85.2% to 84.8%.

Growth was particularly strong in continental Europe, with intra-European passenger revenues growing by 61.7%. The performance at our German bases and the successes of our new bases at Basel and Milan Malpensa were the key drivers to this growth.

Ancillary revenue includes fees and charges (including credit card fees, excess baggage charges, sporting equipment fees, infant fees, change fees and rescue fees), profit share from in-flight sales (including food, beverages, and boutique items), and commissions received from products and services sold (such as hotel bookings, car hire bookings and travel insurance), less chargebacks from credit cards. In 2006, £131.3 million was earned from ancillary revenues, up 50.6% from 2005. This has been driven by the 11.5% growth in passengers carried, the positive effect of changes in arrangements for car hire, insurance and in-flight catering and increases in rates for change fees and credit card fees.

Ground handling charges, including salaries easyJet's ground handling charges increased by 10.4% from £130.5 million to £144.1 million, from financial year 2005 to financial year 2006. The increase in ground handling charges reflects the 10.7% increase in the number of sectors flown, alongside mix costs as a result of network expansion decisions. Cost savings were achieved as a result of self handling and renegotiated third-party handling in Spain. As a result, ground handling cost per seat decreased by 1.5% from £3.76 to £3.71.

Airport charges easyJet's external airport charges increased by 12.3% from £230.1 million to £258.4 million from financial year 2005 to financial year 2006. This increase was attributable to the growth in passengers carried of 11.5% and inflationary cost increases at regulated airports. On a per seat basis, costs increased by 0.2% from £6.63 to £6.65.

Fuel easyJet's fuel costs increased by 49.0% from £260.2 million to £387.8 million from financial year 2005 to financial year 2006. This change is primarily due to a 22.9% increase in easyJet's average US dollar fuel cost per tonne (excluding hedging), compared with the previous year, resulting in additional costs to easyJet of £69.4 million. The weakening of the value of sterling against the US dollar, the currency in which fuel prices are denominated, provided an additional cost of approximately £11.5 million. The impact of a significant increase in flying and our hedging activities amounted to £52.5 million. Set against this was a more fuel efficient fleet of aircraft which provided a benefit of £5.8 million. On a per seat basis, costs increased by 33.0% from £7.50 to £9.98.

Navigation charges easyJet's navigation charges increased by 11.6% from £108.6 million to £121.2 million from financial year 2005 to financial year 2006. This increase was principally attributable to a 15.4% increase in the ASKs flown in financial year 2006. Cost savings were derived from lower unit charges and a weaker euro. On a per seat basis, costs decreased by 0.4% from £3.13 to £3.12.

Crew costs easyJet's crew costs increased by 17.5% from £136.2 million to £160.0 million from financial year 2005 to financial year 2006. The increase in crew costs resulted from an increase in headcount during the financial year 2006 to service the additional sectors and aircraft operated by easyJet during the year, the increase in salaries, following a new pay deal agreed with our flight crew and cabin crew employees, and the costs of recruitment. On a per seat basis, costs increased by 4.9% from £3.92 to £4.12.

Maintenance Maintenance expenses decreased by 8.2% from £119.2 million to £109.5 million from financial year 2005 to financial year 2006. 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 decrease in maintenance costs was largely due to the benefits of new contractual arrangements being negotiated with lower prices, such as with SR Technics, offset by the additional cost of a 10.7% increase in the number of sectors flown. On a per seat basis, costs reduced by 18.1% from £3.44 to £2.82.

Advertising easyJet continues to advertise to consolidate the awareness of the brand and its low fares philosophy. Advertising costs increased by 16.4% from £32.8 million to £38.2 million from financial year 2005 to financial year 2006. Advertising cost per seat increased by 3.9% from £0.94 to £0.98 principally due to the effect of entering new markets such as Milan during the year.

Low cost with care + convenience

Operational and financial review continued

Merchant fees and incentive pay Merchant fees and incentive pay increased by 14.5% from £15.6 million to £17.9 million from financial year 2005 to financial year 2006. 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 is reflective of a larger volume of transactions in line with the growth of the business. On a per seat basis, costs increased by 2.2% from £0.45 to £0.46.

Aircraft insurance Aircraft insurance costs reduced by 18.0% from £19.3 million in financial year 2005 to £15.8 million in financial year 2006, despite an 11.5% increase in passenger numbers. This was as a result of lower rates being negotiated offset by the effect of the weakening of sterling against the US dollar. On a per seat basis, costs decreased by 26.8% from £0.56 to £0.41.

Other costs Other costs increased by 7.1% from £82.4 million to £88.3 million from financial year 2005 to financial year 2006. 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 other related disruption costs, the cost of share option schemes and management bonuses.

Depreciation Depreciation charges increased by 73.4% from £15.8 million to £27.4 million from financial year 2005 to financial year 2006. The depreciation charge reflects depreciation on owned aircraft and capitalised aircraft maintenance charges, and also includes depreciation on computer hardware and other assets. easyJet has owned an average of 29.2 Airbus A319 aircraft during the financial year 2006 (2005: 4.1 Boeing 737-300 aircraft and 10.6 Airbus A319 aircraft). The increase in depreciation reflects the introduction of new owned Airbus aircraft, and a weakening in the average value of sterling against the US dollar. Aircraft are purchased in US dollars, and a stronger dollar will mean higher depreciation charges over the life of the asset. On a per seat basis, depreciation increased by 54.7% from £0.46 to £0.71.

Aircraft dry lease costs easyJet's aircraft dry lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to dry operating leases and end of operating lease return costs. Aircraft dry lease costs decreased by 0.6% from £123.7 million to £122.9 million from financial year 2005 to financial year 2006. During the period six new Airbus A319 aircraft were added to the fleet on lease agreements and 19 Boeing 737-300s were retired. The average number of leased aircraft during the year decreased by 2.2% to 86.0. Year over year, easyJet has been impacted by the weakening of the value of sterling against the US dollar, the currency in which lease costs are denominated, and rising dollar interest rates. Despite this, easyJet has seen its average leasing cost per aircraft decrease by around 1.7% year on year. On a per seat basis aircraft dry lease costs decreased by 11.3% from £3.56 to £3.16.

Aircraft long-term wet lease costs easyJet's aircraft wet lease costs comprise the lease payments paid by easyJet in respect of aircraft pursuant to wet leases (that is, leases of aircraft plus crew, maintenance, and insurance) of a duration of one month or more. The £9.6 million charge in 2006 relates to the costs incurred of leasing aircraft for the summer 2006 season in order to deliver three and a half lines of flying in the light of crew shortages. Wet leased aircraft are not included in fleet numbers discussed elsewhere in the operating and financial review.

Interest and other finance income Interest and other finance income represents interest received or receivable by easyJet offset by the revaluation of financing assets and liabilities. Interest and other finance income increased by 30.1% from £27.2 million in 2005 to £35.4 million in 2006. This reflects an increase in the cash and restricted cash balances during the year from £695.5 million to £899.0 million.

Interest and other finance charges Interest and other finance charges represents interest paid or payable by easyJet offset by the revaluation of financing assets and liabilities. Finance charges relate predominantly to easyJet borrowings through either loans or sale and finance leasebacks. The average number of aircraft held under these arrangements increased by 82.3% from 14.7 in 2005 to 26.8 in 2006. Interest and other finance charges increased 120.9% from £10.9 million in 2005 to £24.1 million in 2006. This primarily reflects an increase in bank loans from £217.3 million to £479.7 million due to the financing of new Airbus aircraft. In addition there was an increase in US dollar and sterling interest rates. Foreign exchange revaluations on financing items produced a net expense of £1.4 million during 2006.

Share of profit after tax 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 2006, the share (26%) of the profit after tax attributable to easyJet was £0.1 million (2005: £0.1 million).

Taxation In financial year 2006, easyJet incurred a tax charge of £35.1 million, an effective tax rate of 27.2% (2005: £23.6 million charge, being 28.6% effective tax rate). The effective tax rate is lower than the UK standard rate of tax principally due to some of the Group's income being taxed in other jurisdictions, where lower tax rates apply. A more detailed explanation may be found in note 5 to the accounts.

The net deferred tax liability increased by £9.5 million from £22.2 million to £31.7 million, primarily due to capital allowances taken being in excess of depreciation charges.

Profit after tax For the reasons described above, easyJet's profit after tax increased by 59.4% from £59.0 million in financial year 2005 to £94.1 million in financial year 2006.

Earnings per share The basic earnings per share increased by 56.8% from 14.78 pence in the financial year 2005 to 23.18 pence in the financial year 2006.

Balance sheet

Goodwill Goodwill relates to the purchases of TEA Basel and Go Fly. No impairment was made to the carrying value of either asset in either the current or previous financial year.

Property, plant and equipment Property, plant and equipment comprises principally owned aircraft, spares and deposits paid to Airbus in respect of the delivery of future aircraft which are not to be financed according to sale and leaseback arrangements. The net book amount attributable to property, plant and equipment increased from £398.6 million at 30 September 2005 to £695.7 million at 30 September 2006. The increase is due to capital expenditure of £413.2 million, set out in more detail in "capital expenditure" below, set off against disposals of £88.7 million and depreciation of £27.4 million.

Other non-current assets Other non-current assets comprise principally capitalised software and software development costs, restricted cash, deposits paid in respect of Airbus aircraft to be financed by sale and leaseback which deliver in more than one year. The total of other non-current assets has increased from £30.7 million at 30 September 2005 to £31.1 million at 30 September 2006.

Cash and cash equivalents Cash and cash equivalents, excluding restricted cash, has increased by 29.0% from £667.0 million to £860.7 million.

Other current assets Other current assets comprise trade and other receivables, restricted cash, derivative financial instruments and assets held for sale. Other current assets increased by 1.2% from £223.9 million at 30 September 2005 to £226.5 million at 30 September 2006.

Trade and other receivables comprise principally trade receivables, amounts due from credit card companies in respect of seat sales, supplier and lease deposits and prepayments. Trade and other receivables have increased by 1.2% from £210.7 million at 30 September 2005 to £213.3 million at 30 September 2006, principally due to the growth of the business.

Current liabilities Current liabilities have increased by 22.8% from £414.5 million at 30 September 2005 to £509.0 million at 30 September 2006, principally due to the growth of the business.

Non-current borrowings Non-current borrowings all relate to debt related to owned aircraft. The amount increased by 122.3% from £201.0 million at 30 September 2005 to £446.9 million at 30 September 2006, due to the acquisition of more owned aircraft subject to debt finance arrangements, set off against the weakening of the US dollar compared to sterling.

Other non-current liabilities Other non-current liabilities include provisions for maintenance liabilities, deferred surpluses on the sale and leaseback of aircraft and deferred tax provisions. The amount increased by 22.5% from £150.9 million at 30 September 2005 to £184.8 million at 30 September 2006. Whilst the deferred tax provision increased by £9.8 million, the deferred surplus on sale and leaseback reduced due to the small number of aircraft taken under sale and leaseback during 2006, whilst the maintenance provisions reduced due to the weakening of the US dollar, the currency in which much of the provision is denominated.

Low cost with care + convenience

Operational and financial review continued

Cash flow

Capital expenditure Group capital expenditure on property, plant and equipment is set out in note 9 to the financial statements, and is summarised as follows:

	2006 £million	2005 £million
Aircraft	**353.7**	162.3
Prepayments on account – aircraft deposits	**49.8**	71.3
Leasehold improvements	**0.9**	2.0
Fixtures, fittings and equipment	**3.9**	1.4
Total cash capital expenditure	**408.3**	237.0
Aircraft spares received free of charge (non-cash capital expenditure)	**4.9**	8.5
Total	**413.2**	245.5

As a result of a purchase agreement approved by shareholders in March 2003, the Group is contractually committed to the acquisition of a further 53 Airbus A319 aircraft with a list price of approximately US$2.3 billon, being approximately £1.3 billion (before escalations, discounts and deposits already paid). In respect of those aircraft deposit payments amounting to US$164.3 million or £90.9 million (2005: US$262.0 million, £145.5 million) had been made as at 30 September 2006 for commitments for acquisition of Airbus A319s. 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.

Working capital At 30 September 2006, net current assets were £578.2 million, up £101.8 million from £476.4 million at 30 September 2005. This change principally reflects an increase in cash, an increase in debtors due to increased sales volumes offset by an increase in creditors.

Unearned revenue increased from £160.3 million to £179.3 million due to increased volumes.

Cash flow Net cash inflow from operating activities totalled £225.2 million, a decrease of £21.8 million from £247.0 million in 2005 primarily due to changes in working capital.

Financing arrangements The following table sets out the movements in financing for the two years ended 30 September 2006:

	2006 £million	2005 £million
Balance at 1 October	**217.3**	119.8
New loans and finance leases raised	**309.8**	146.2
Capital repayments of loans and finance leases	**(31.4)**	(46.9)
Effect of exchange rates	**(12.9)**	1.4
Effect of deferred financing fees	**(3.1)**	(3.2)
Balance at 30 September	**479.7**	217.3

Of the 32 Airbus A319s that were delivered during the year, 16 were financed through US dollar or sterling mortgage loans, two were temporarily cash acquired with mortgage finance drawn after year end, six were sold to lessors and leased back under operating leases, five were sold to lessors and leased back under finance leases, and three were cash acquired supported by a standby facility. In addition, one previously delivered mortgage-financed aircraft was restructured into sale and finance leaseback funding in the year.

Share capital The number of shares allotted, called up and fully paid on 30 September 2006 was 410.5 million (2005: 400.4 million). During 2006, 10.1 million shares were issued on exercise of options under employee share option schemes (2005: 1.2 million).

Principal risks and uncertainties

This section describes the principal risks and uncertainties which may affect easyJet's business and financial results and prospects.

Demand for air travel easyJet is dependent on the demand for European air travel and its business can be affected by macro issues outside its control, such as global (or even local) economic conditions, the continued acceptance of the low-cost model, and the willingness of potential customers to fly. Changes in any of these will affect the demand for our services and could have a material effect on the financial results of the business.

Competition easyJet operates in competitive marketplaces against both flag carriers and other low-cost airlines. An increase in competition from any of these sources could result in an adverse effect on easyJet's performance.

Terrorism/catastrophic loss The attacks and attempted attacks on the aviation industry of 11 September 2001 in the United States and 10 August 2006 in the UK show that easyJet's business is exposed to potential terrorist attacks, even if easyJet is not a direct target, and even if an attack is not successful. easyJet's business can be affected in a number of ways, including loss of key national infrastructure (which may have a knock-on effect), loss of restricted access to the airport infrastructure which easyJet uses, increased security costs, potential restriction or removal of insurance cover, and a reduction in the propensity of customers to fly. Any one of these issues could have a material adverse effect on the business.

Fleet grounding easyJet now operates only two types of aircraft, the Boeing 737 and the Airbus A319. Were there an accident or discovered defect on these aircraft types, even if related to another airline elsewhere in the world, this could result in some or all of easyJet's aircraft fleet being grounded for an indeterminable period of time.

Outbreak of epidemics or pandemics An outbreak of a contagious disease such as avian influenza could affect the propensity of passengers to travel, or in extreme circumstances could affect easyJet's ability to continue to operate its planned schedule. These could have a material adverse impact on the business.

Government or EU taxes may be imposed Air passenger and other taxes are levied by many European countries. Due to the low fares charged by easyJet, these taxes can form a significant proportion of the total fare paid by a passenger. These taxes could increase in the future. Furthermore, there has been much discussion about the possibility of environmental or other social taxes being levied by the EU or other governments. Any increase in taxes may lead to loss of customers who are highly sensitive to changes in prices.

Fuel price fluctuations Fuel is a significant cost to easyJet, being 26.0% of the cost base during the 2006 financial year. During the last ten years, the price of fuel has been subject to significant volatility. Whilst the Group's hedging activities can provide some degree of protection against short-term price volatility, easyJet is exposed to fuel price movements over longer time periods, which could be material to the cost base.

Currency fluctuations easyJet has significant US dollar denominated costs relating to the purchase price of an aircraft, aircraft financing costs, maintenance reserve payments, engine maintenance costs and fuel purchases. The US dollar is subject to significant volatility against sterling. Whilst the Group's hedging activities can provide some degree of protection against short-term exchange rate movements, easyJet is exposed over longer time periods, which could be material to the cost base.

Landing charges and airport access Many of the airports which easyJet fly to are regulated, and charges are levied by way of regulatory decision rather than by commercial negotiation. As such, easyJet has little influence in the future level and even the basis of charges, which may result in costs increasing at beyond the level of inflation.

Airport access The availability of suitable landing slots at airports is key to easyJet's continued growth. Many airports are slot constrained and are subject to regulation. This means that there is a risk that slots may not become available. Furthermore, environmental regulation such as noise restrictions and curfews may further restrict availability.

easyJet does not own its name or branding easyJet does not own its trade marks, domain names or any rights to its orange and white livery. These are licensed from easyGroup IP Licensing, which is controlled by Stelios Haji-Ioannou, a director and the major shareholder. The licence imposes duties on easyJet to maintain high standards in the use of the brand and also restricts the business activities that easyJet can carry on. A loss of the licence to use the brand could have a substantial adverse effect on the business of the Group. Furthermore, the easy brand is used by a number of other franchises and companies controlled by Stelios Haji-Ioannou. easyJet may be adversely affected should there be failures or problems in these businesses.

Dependence on technology easyJet is heavily dependent on technology to operate its business. In particular, there are three key systems: eRes, which is used to process seat purchases and manage reservations; RMS, which is used for yield management; and AIMS, which is used to manage operational data and crew positioning. Whilst easyJet has a comprehensive system of back up and protection, an outage of any of these systems could result in a material adverse effect for the business.

Dependence on third-party service providers easyJet has entered into agreements with third-party service providers for services covering a significant proportion of its cost base. This includes aircraft maintenance, pilot training, and ground handling services at airports, where easyJet considers that such services can be provided more efficiently and effectively by third parties. The loss of any of these contracts, any inability to renew them or any inability to negotiate suitable replacement contracts could have a material adverse effect. Furthermore, there can be no assurance that contract renewals will be at favourable rates.

Industrial action Large parts of the easyJet workforce is unionised. Collective bargaining takes place on a regular basis. If there is a breakdown in this process, then operations could be disrupted with a resultant adverse effect on the business. The same applies to many of our key third-party service providers, where similar issues exist. easyJet is proud of its good relationship with the unions, and has never been subject to significant strike action, but there is no guarantee that this will continue into the future.

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Operational and financial review continued

Treasury management

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, cash equivalent and restricted cash balances at 30 September 2006 totalled £899.0 million (2005: £695.5 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 of loans and finance leases is shown in note 16. The Group demonstrated its continued ability to raise new committed financing, with 18 of the 53 Airbus aircraft to be delivered through 2009 having committed financing in place at 30 September 2006 (2005: 42 of 65).

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 2006 approximately 56% of lease payments were based on fixed interest rates and 44% were based on floating interest rates (2005: 59% fixed, 41% floating). The finance leases put in place during the year were predominantly based on floating interest rates.

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 68% of loans outstanding at 30 September 2006 were priced in US dollars and 32% in sterling (2005: 60% US dollars, 40% sterling).

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, fuel, 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 forward foreign exchange contracts and zero cost collars.

The Group has substantial liabilities denominated in US dollars. Some aircraft-owning companies had been treated as US dollar branches, and consequently movements in the aircraft values acted as a natural hedge against the loans. Under International Financial Reporting Standards, this natural accounting hedge no longer exists, and consequently volatility in the income statement increases with changes in foreign exchange rates. We are managing this risk through a mixture of drawing down loans in sterling, holding cash in US dollars and the use of forward foreign exchange contracts.

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 2006 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.

Derivative financial instruments The Group uses derivative financial instruments ("derivatives") selectively for currency and fuel risk management purposes as described above. The Group's policy is not to speculatively 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 2006 are summarised in note 23.

The Group does not permit selling of currency and jet fuel options, except on a fully matched basis, to create a 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 International Financial Reporting Standards. 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 differences may be material. Critical accounting policies are defined as those which are material to easyJet's financial statements, but yet require a significant amount of judgement from management. The policies used in determining aircraft maintenance liabilities and corporation tax are deemed to be the most critical accounting policies.

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 income statement 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 the Group 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 the Group's effective tax rate.

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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 four 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 four 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 have now been exercised. 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 Company did not have a Senior Independent Non-Executive Director for the entire year. Following the resignation of the previous Senior Independent Non-Executive Director, Tony Illsley, on 30 September 2005, the Board conducted a search for a suitable replacement culminating in the appointment of Sir David Michels as Senior Independent Non-Executive Director on 6 March 2006.
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. Following the resignation of Amir Eilon during the year, there are no Non-Executive Directors currently holding share options. In addition, the Board have decided not to grant any further options to Non-Executive Directors.
d) During at least part of the year, Sir Colin Chandler (Chairman) has sat on each of the Audit, Nominations and Remuneration Committees. Sir Colin's appointment to the Audit and Remuneration Committees was a transitional arrangement until the appointment of a further Independent Non-Executive Director to the Board. Sir David Michels was appointed as Chairman of the Remuneration Committee and as a member of the Audit Committee in April 2006 following which Sir Colin stepped down from each of these Committees. 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 Nominations Committee.

Board of Directors
As at 30 September 2006, the Board comprised seven Non-Executive Directors (including the Chairman) and two Executive Directors.

The roles of Chairman (Sir Colin Chandler) and Chief Executive (Andrew Harrison) are separated, clearly defined, and approved by the Board. Sir David Michels is the Senior Independent Non-Executive Director. The Company regards David Bennett, Prof Rigas Doganis, Dawn Airey, and Diederik Karsten as Independent Non-Executive Directors. Sir Stelios Haji-Ioannou is not regarded as independent due to his significant beneficial shareholding in the Company and his prior involvement in an executive management capacity. Ray Webster and Amir Eilon resigned from the Board on 30 November 2005 and 22 February 2006 respectively.

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 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 delegation is reviewed regularly by the Board and was reviewed during the course of the year.

The Chairman participates in investor meetings and makes himself available for questions, in person, at the time of major announcements. Since his appointment in March, Sir David Michels has also made himself available to participate in investor meetings as an alternative point of contact and in order to help develop a balanced understanding of the issues and concerns of major shareholders. This direct contact, together with feedback from management and from the Company's two corporate brokers (ABN Amro and Credit Suisse), 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 primary conduit with investors given his experience in liaising with shareholders over the past few years. During the year, the Chairman has updated the whole Board on the results of his meetings and the opinions of the investors. However, all Directors have a standing invitation to participate in meetings with investors.

The Board meets regularly, with ten meetings being held during the year ended 30 September 2006. 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	10	10
Dawn Airey	10	10
Diederik Karsten	10	10
Sir Stelios Haji-Ioannou	10	10
Jeff Carr	10	10
David Bennett (appointed 1 October 2006)	9	10
Andrew Harrison (appointed 1 December 2006)	9	9
Prof Rigas Doganis (appointed 1 December 2006)	8	9
Sir David Michels (appointed 6 March 2006)	7	7
Directors who resigned during the year:		
Ray Webster (resigned 30 November 2005)	1	1
Amir Eilon (resigned 22 February 2006)	1	2

The Chairman discusses governance and strategy with major shareholders when required and communicates the results of these discussions to the Board. If a major shareholder requests the attendance of a specific Non-Executive Director at a meeting they will be made available. However, there are no instances of shareholders having made such requests during the year.

It is standard practice for the Chairman to meet and confer with other Non-Executive Directors prior to each scheduled Board meeting 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 sourcing appropriate 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. During the course of the year, Jeff Carr held the office of Company Secretary on an interim basis following the resignation of Deborah Abrehart in December 2005. Giles Pemberton was appointed by the Board to act as Company Secretary in April 2006.

Directors and officers' 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 Remuneration, Nomination and Audit Committees and also that of the individual Board Directors. Separately, Sir David Michels has met during the year with the other Non-Executive Directors (excluding the Chairman) to appraise the Chairman's performance.

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. It is now the Company's standard policy to engage with new Non-Executive Directors on contractual terms based upon the Institute of Chartered Secretaries and Administrators' (ICSA) standard letter of appointment as appended to the Combined Code.

Corporate governance continued

Remuneration Committee

The Remuneration Committee did not comprise three Independent Non-Executive Directors during the entire year. Sir Colin Chandler was Chairman of the Remuneration Committee until Sir David Michels' appointment to the Committee on 6 March 2006. Sir Colin Chandler's appointment to the Remuneration Committee at the start of the year was a transitional arrangement until the appointment of a further Independent Non-Executive Director to the Board and to this Committee. At 30 September 2006, the Committee comprised at least three Independent Non-Executive Directors, namely Sir David Michels (Committee Chairman), David Bennett, Prof Rigas Doganis and Dawn Airey. 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 seven 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 is 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.

The record of attendance is:

	Number of meetings attended	Total number of meetings
Dawn Airey	7	7
David Bennett (with effect from 1 October 2005)	7	7
Prof Rigas Doganis (with effect from 1 December 2005)	4	5
Sir David Michels (with effect from 1 March 2006)	4	4
Sir Colin Chandler (between 22 August 2005 and 1 March 2006)	3	3
By invitation:		
Andrew Harrison (appointed 1 December 2005)	3	3

Shareholders are required to approve all new long-term incentive plans. 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 David Bennett (Chairman), Sir David Michels and Diederik Karsten. For part of the year, (prior to the appointment of Sir David Michels,) Sir Colin Chandler was a member of the Audit Committee under a transitional arrangement until the appointment of an additional Independent Non-Executive Director to the Board and to the Committee. 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 Audit Committee has met four times during the course of the year.

The terms of reference of the Audit Committee are documented and agreed by the main Board. The full text of the terms of reference is 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. PricewaterhouseCoopers LLP were appointed auditors of the Group at the Annual General Meeting, held in February 2006. They replaced KPMG Audit plc who resigned in January 2006.

In order to preserve auditor independence, the Board has decided that the auditor will not be asked to provide consulting services unless this is in the best interests of the Company. The auditor is asked on a regular basis to articulate the steps that it has taken to ensure its independence. easyJet monitors the auditor's performance and behaviour during the exercise of its duties. In the financial year, easyJet spent £0.5 million with PricewaterhouseCoopers LLP (£0.4 million of which was incurred prior to their appointment) and £nil with KPMG during their respective periods as auditor to the Company (2005: £0.1 million – with KPMG) in respect of non-audit services and £1.0 million (2005: £0.7 million) with other parties who are entitled to act as registered 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. David Bennett has served as the Chairman of the Committee during the year. David was appointed to the Board and to the Committee on 1 October 2005. He is the Group Finance Director of Alliance and Leicester plc, a major FTSE 100 company; experience which the Board considers to be recent and relevant for the purposes of undertaking the role as Chairman of the Committee.

The record of attendance is:

	Number of meetings attended	Total number of meetings
Diederik Karsten	4	4
David Bennett (appointed 1 October 2005)	4	4
Sir Colin Chandler (between 22 August 2005 and 13 June 2006)	4	4
Sir David Michels (appointed 6 March 2006)	1	2
By invitation:		
Jeff Carr	4	4
Andrew Harrison (appointed 1 December 2005)	2	2
Ray Webster (resigned 30 November 2005)	1	1

Nominations Committee

The Nominations Committee comprises at least three members. During the year, the Nominations Committee members were Sir Colin Chandler (Chairman), David Bennett, Prof Rigas Doganis and Dawn Airey. Sir Colin Chandler is not considered to be independent as he is Chairman of the Group. However, 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 Andrew Harrison, David Bennett, Prof Rigas Doganis and Sir David Michels. The Nominations Committee has met two times during the year.

Corporate governance continued

The terms of reference of the Nominations Committee are documented and agreed by the main Board. The full text of the terms of reference is available in the investor relations section of the easyJet website, 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 re-appointment 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.

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. During the course of the year, Andrew Harrison, David Bennett, Prof Rigas Doganis and Sir David Michels joined the Board. 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	2	2
Dawn Airey	2	2
David Bennett (appointed 1 October 2005)	2	2
Prof Rigas Doganis (appointed 1 December 2005)	1	1

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 of easyJet, including the post of Pro-Chancellor of Cranfield University. 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 to facilitate engagement with investors.

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.

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.

During the course of the year, the formal process established to identify, evaluate, manage and report upon significant risks faced by the Company has been reviewed and upgraded by the Company Secretary under the direction of the Audit Committee. The process has been strengthened by a more rigorous mandatory reporting regime involving greater involvement of middle-tier management. Reporting of risks is now subject to the regular review of a cross-functional executive committee which produces detailed risk reports to the Board and is responsible for monitoring progress in mitigating all reported risks. The new process has been reviewed and endorsed by the Audit Committee on behalf of the Board.

Also during the year, the Audit Committee reviewed the need for a whistleblower function and decided that such a system should be implemented with a view to enhancing the internal control environment. This system is being implemented by management with the involvement of a specialist external third-party service provider. The Audit Committee has approved the processes and reporting structure for the new function.

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 functional meetings.
- The Airline Management Board meets monthly to consider current significant risks. Individual department and overall business performance is reviewed. The reporting of significant risks to the Airline Management Board and the Board of the Company has been enhanced by the new risk management processes referred to above. 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 had an internal control function which considered, reviewed and tested internal control matters throughout the Group. This was not an internal audit function but was in addition to existing processes within easyJet. This has now been superseded by the creation of a new internal audit function with effect from 1 October 2006, further details of which are set out below.
- Comprehensive operational 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.
- 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;
- Consideration by the Audit Committee of any reports from external auditors; and
- 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.

Internal audit

The Board has reviewed the need for an internal audit function regularly over the past few years. This year, it was decided that the continued growth in the Company's size and the consequent increase in the complexity of its operations and number of relationships with third parties merited the implementation of an internal audit function with a broader remit to police and protect the Company's interests than the previous internal control function. This was approved by the Audit Committee at a meeting in June 2006 and management is in the process of implementing the new internal audit function.

Low cost with care + convenience

Corporate and social responsibility report

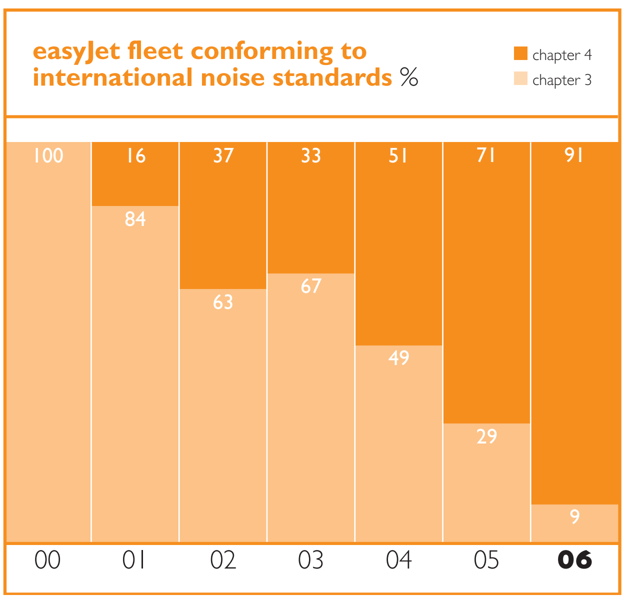
easyJet and the environment

easyJet's goal is to ensure that its existing business is as efficient as possible, both in the air and on the ground, and to strive to find ways to minimise its environmental impact in the future. Below are the details of how easyJet will monitor and manage its environmental impact.

easyJet's impact on the environment involves the following:

- Greenhouse gas emissions: carbon dioxide (CO_2), water vapour, nitric oxide and nitrogen dioxide (together NO_x), some of which at altitude;
- Particulate emissions: sulphate particles (formed from sulphur oxides) and soot, some of which at altitude;
- Waste: chemicals involved in aircraft maintenance, onboard waste and office waste; and
- Noise.

Noise As of September 2006 all of the aircraft in easyJet's fleet were compliant with the latest international noise standards, known as "Chapter 3". Beyond this, 91% of easyJet's fleet as of September 2006 conformed to a more stringent standard, known as "Chapter 4".



Emissions and waste One gramme (g) of CO_2 emitted from an aircraft has the same climatic effect as 1g of CO_2 emitted from a ground source. The scientific understanding of the effects of CO_2 emissions is well advanced. The non-CO_2 environmental effects of aircraft are not well characterised by the Kyoto Global Warming Potential metric (GWP). According to the first Intergovernmental Panel on Climate Change (IPCC) special report on aviation the non-CO_2 effects of aircraft are not as well understood "because of the many scientific uncertainties" remaining. For example, NO_x emissions at altitude have both a warming and cooling effect.

The IPCC considered the best measure of the combined effects of greenhouse gas (GHG) emissions, particulate emissions and contrail formation from aviation to be radiative forcing. According to the IPCC the best estimate (for 1992) of the radiative forcing by aircraft is 0.05Wm-2, or about 3.5% of the total radiative forcing by all anthropogenic activities . The IPCC will report on aviation again in 2007, but more recent estimates suggest that (for 2000) radiative forcing by global aviation has remained at a similar proportion to that seen in 1992[2].

According to the Stern Review on the Economics of Climate Change, aviation CO_2 emissions currently account for 0.7 Gt CO_2 (1.6% of global GHG emissions). In 2050 under "business as usual" projections, CO_2 emissions from aviation would represent 2.5% of global GHG emissions. However, taking into account the non-CO_2 effects of aviation would mean that it would account for around 5% of the total warming effect (radiative forcing) in 2050[3].

1 IPCC special report "Aviation and the global atmosphere" 1999.
2 Ingenta Connect Aviation radiative forcing in 2000: An update on IPCC (1999) Meteorologische Zeitschrift, Volume 14, Number 4, August 2005, pp. 555-561(7).
3 Stern Review on the Economics of Climate Change, 30/10/06.

easyJet's business is to fly passengers between European cities. easyJet does not carry cargo. Therefore, for easyJet, the most appropriate measures of environmental efficiency with regard to CO_2 emissions are: grammes per passenger kilometre and kilogrammes per passenger flight. **In 2006, easyJet flights produced an average CO_2 emission of 95.7g per passenger kilometre and 91.8 kg per passenger flight.**

All aspects of easyJet's business model are designed around safety and efficiency. This focus on efficiency minimises easyJet's and the airline industry's environmental footprint. From its inception in 1995, easyJet's network development has focused on substituting services in markets dominated by inefficient former state-owned airlines with its more efficient product. easyJet stimulates demand through its low fares when it enters a market: the efficiency that easyJet brings to a market, though, can mean an overall reduction in emissions in absolute terms.

easyJet's network development has the following attributes:

- **80% of easyJet's current and future capacity is employed in established markets;** easyJet aims to grow those markets but in the process easyJet aims to substitute existing, less efficient services.
- easyJet also competes on some of its routes against rail and road transportation; however, there are only two routes (London to Newcastle, and London to Paris) where the city-centre to city-centre rail journey would be less than four hours. These routes represented less than 2% of passengers carried by easyJet in 2006. In both cases, easyJet caters for demand which is not necessarily travelling city-centre to city-centre.

There is no accepted single measure for an airline's environmental efficiency. In the absence of such a measure, easyJet has set itself the target of being a leading environmentally efficient and responsible airline. easyJet has established an environmental code, which it aims to use to monitor progress towards this target. The environmental code is centred around three promises:

1) easyJet strives to be efficient in the air.
2) easyJet strives to be efficient on the ground.
3) easyJet aims to lead the way in shaping a greener future for aviation.

The easyJet environmental code

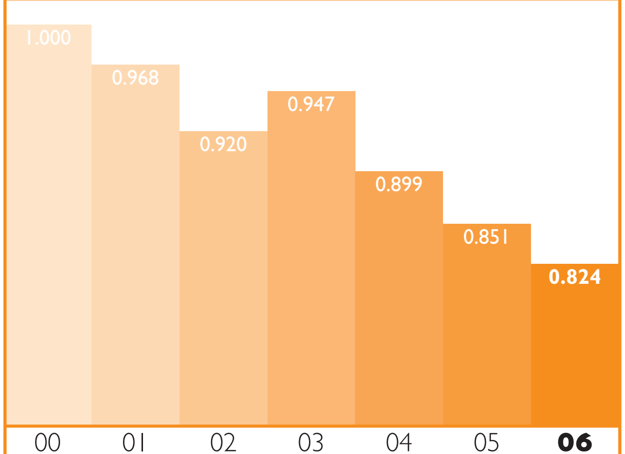
1 easyJet strives to be efficient in the air

A Investment in the latest technology

easyJet's policy is to grow its fleet using the latest technology aircraft, whilst retiring older aircraft usually within seven to ten years of delivery. New technology aircraft are more fuel efficient than older models. At 30 September 2006, easyJet's fleet had an average age of 2.2 years, a reduction of 0.8 years from September 2005.

Since FY 2000 easyJet's emissions of CO_2 per passenger kilometre has reduced by 18%.

easyJet CO_2 emissions passenger km (2000 = 1)



Low cost with care + convenience

Corporate and social responsibility report
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B Efficient use of aircraft
Our standard aircraft is the Airbus A319.

The typical seating configuration of an Airbus A319 is 124 seats (source: Airbus). Our no-frills service allows us to reduce the space and weight inside the plane devoted to galleys, lavatories and storage. Our Airbus A319s fly with 156 seats.

Each of our Airbus A319s carries 26% more seats than the norm.

Our simple automated pricing allows us to sell significantly more seats than a typical European airline. Our average load factor (percentage of seats sold) in 2006 was 84.8%; the average load factor for European airlines in 2005 was 68.3%[4]. easyJet sells on average 132 seats per flight; a typical European airline would sell 84 seats per flight.

Each of our Airbus A319s potentially carries 57% more passengers per flight than the European norm.

Using a conservative estimate and assuming the carriage of no cargo (plus the same baggage allowance) the weight of the additional passengers carried by easyJet in this calculation would require an additional 23% more fuel for the same route length than carriers flying with 84 passengers.

easyJet estimates that, compared to easyJet, the typical European airline operating an Airbus A319 would burn 27% more fuel per passenger.

C Direct point-to-point flights, no connections
Conventional airlines operate networks based on a "hub and spoke" system. In these networks, the majority of passengers will take two flights to reach their destination, connecting through the hub. easyJet always flies direct, or "point to point", and does not offer any connecting services. A direct service between two points will produce lower emissions than two flights via a hub.

Example: easyJet offers a direct service from Berlin to Madrid. If a customer chooses to fly the same route via Paris Orly, which lies on the path of the direct flight, easyJet estimates that this routing would result in 19% more CO_2 emissions than if the customer had taken the direct flight.

Example: on a shorter route, the effect of changing aircraft at an airport positioned away from the direct route adds considerably more to the fuel burn per passenger trip. easyJet estimates that a trip from Berlin to Nice via Paris Orly would add 45% to the direct route distance and would add 57% to the CO_2 emissions generated per passenger.

A small proportion of easyJet's customers do buy combinations of flights to reach their final destination, where a direct easyJet service does not exist. If numbers of customers build up on certain routings, easyJet will actively look to open direct services to satisfy this demand.

Example: in July 2006, easyJet opened a direct service to Malaga from Glasgow, after having seen an increasing trend in our customers choosing to fly that route via one of our three London airports. easyJet believes this flight will give our passengers a better, quicker service, reduce congestion at the London airports and reduce fuel burn per passenger trip.

D Avoidance of air congestion
easyJet prefers to avoid the largest, most congested hub airports. easyJet does not fly to London Heathrow or to Frankfurt Main. It should be noted that easyJet's network is very different to that of a conventional "hub and spoke" carrier. easyJet has no hubs but places capacity at the airports that local demand requires – airports serve no other operational purpose than to allow passengers to board or leave an aircraft. easyJet therefore has 16 local crew and aircraft bases in five countries.

Example: large central hubs such as London Heathrow and Frankfurt tend to require aircraft to fly longer holding patterns and longer taxi times to and from the runway. Below are the average time each aircraft spends in a holding pattern, the proportion of aircraft held plus the proportion of easyJet flights at each of the four main London Airports for January to June 2006:

London airport	Average time held (mins)	Proportion of aircraft held %	Number of easyJet aircraft based	Proportion of easyJet's fleet %
Heathrow	4.4	54	0	0
Gatwick	1.06	19	18	16
Stansted	0.79	16	13	11
Luton	0.17	4	17	15

Source: NATS Operational Performance Report: July 2006

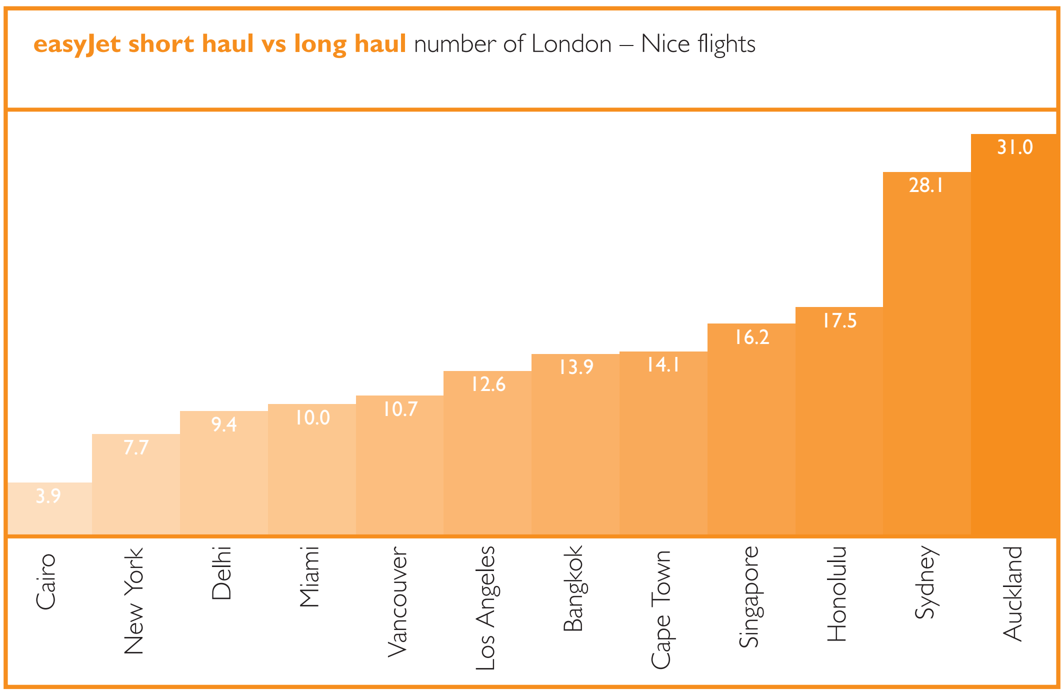
4 Association of European Airlines (AEA) Annual Results 2006.

E easyJet monitors its performance relative to other transport options

Comparison with long-haul flying

Many of easyJet's passengers are using easyJet to fly to specific destinations. A proportion of easyJet's passengers have a choice of holiday destination. In making this choice, length of flight is the major determinant of the total emissions produced per passenger. easyJet's average length of flight in FY 2006 was 954 kilometres.

Example: the chart below benchmarks a typical easyJet passenger journey (London to Nice, 1050 kilometres) against a range of long-haul alternatives. A typical long-haul flight to Miami would create approximately ten times more emissions per passenger than an easyJet flight from London to Nice. (source: climatecare.org).



Source: easyJet based on climatecare.org data for long haul.

Comparison with rail In contrast to aviation, data on the fully-costed environmental impact of rail journeys is poor.

The comparison with rail journeys should include some assessment of the environmental cost of the infrastructure used to provide the service, rather than just the marginal energy use of the single train journey. The environmental cost of rail infrastructure is unclear, but considerable.

According to the Association of Train Operating Companies[5], the average CO_2 emissions (ie. directly-attributable marginal impact, as opposed to full impact) for passenger rail in the UK were 49g per passenger kilometre in 2004.

Comparison with road The European Environment Agency estimates that the average specific CO_2 emissions of the total EU15 passenger car fleet were 164g per kilometre in 2003. Its estimate for average car occupancy is 1.6 passengers. This equates to 102.5g of CO_2 per passenger kilometre, or 7.1% more than easyJet's average.

5 "Rail and the Environment", 1994 http://www.atoc-comms.org/Document/c423969.pdf#search=%22atoc%20rail%20environment%22).

Corporate and social responsibility report
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The EU's key instrument for reducing emissions from passenger cars is the voluntary commitment agreed to by the European, Japanese and Korean car industries to reduce average CO_2 emissions from new passenger cars; a target of 140g per kilometre for 2008 in the EU and 2009 in Japan and Korea has been set[6]. The EU's aim is to reach, by 2010, an average CO_2 emission figure of 120g per kilometre for all new passenger cars marketed in the Union[7].

According to the Stern Review, transport accounts for 14% of global greenhouse-gas emissions, three-quarters of these emissions are from road transport, while aviation accounts for around one-eighth and rail and shipping make up the remainder[8].

2 easyJet strives to be efficient on the ground

A Short dwell time on ramp – quick turns
easyJet's business model is designed to achieve high aircraft utilisation. Key to this is minimising the turnaround time (measured as the time between the aircraft arriving at the gate and pushing back for departure). During a turnaround, the crew secure and prepare the aircraft for the next flight before boarding passengers and their baggage. This process includes safety checks, cleaning the aircraft cabin and in most cases refuelling.

By operating to this standard, to service the same number of passengers through the day, easyJet requires fewer gates and other airport infrastructure than full-service airlines.

B Minimal use of ground equipment
easyJet's policy is to use the most efficient and simple ground equipment in order to facilitate our quick turnaround time. As such, easyJet prefers, where possible, not to use air bridges. easyJet also prefers not to use motorised steps. As a no-frills airline, easyJet typically loads catering onto the aircraft only twice a day, which further reduces the amount of ground activity and related emissions involved in every flight. easyJet cabin crew clean the cabin interior; a full-service airline will require a separate cleaning crew to be delivered to each turnaround.

C Simple airport infrastructure
easyJet has simple airport infrastructure requirements. As a short-haul point-to-point airline with one class of service and no cargo offering, easyJet has no need for segregated check-in areas or for complex baggage handling systems and facilities to transfer passengers between flights.

Wherever possible, easyJet works with airports to adapt and develop existing facilities efficiently to minimise airport capital expenditure, and reduce environmental impact. easyJet is launching an online check-in product, which helps reduce the need for expensive airport infrastructure.

D easyJet keeps surface journeys to a minimum
easyJet prefers to use local, convenient airports connected to good public transport links. As part of our airport selection process, easyJet assesses the convenience of an airport with respect to surface transport options.

According to latest census data, 200 million people in Europe live within 60 minutes local journey of an easyJet airport. easyJet analyses address data supplied by customers when they book, in order to draw conclusions about how far customers are travelling to their departure airport. Where a particular destination appears to be drawing customers from a very wide field, easyJet will actively look to serve that destination from multiple departure airports.

Example: in easyJet's 2006 summer schedule, half of the daily departures at easyJet's three London airports (Gatwick, Luton and Stansted) were to destinations served from all three airports, allowing customers in South-East England to travel from their most convenient airport, reducing the emissions from ground transport.

Example: 5.4 million people live within 30 miles of Stansted Airport, according to the 2002 census. On routes that easyJet serves from all three of its London airports, typically between 45% and 50% of outbound passengers have given easyJet an address within 30 miles of Stansted. In contrast, on a route which is only served from one of easyJet's London airports, the proportion of outbound passengers giving easyJet an address within this catchment can be as low as 15%.

E Minimal waste
easyJet's no frills service is designed to reduce waste in all areas.

6 EEA Report No 9/2006 Greenhouse gas emission trends and projections in Europe 2006, 27/10/06.
7 EEA Report No 3/2006 Transport and environment: facing a dilemma, TERM 2005: indicators tracking transport and environment in the European Union, 28/03/06.
8 Stern Review on the Economics of Climate Change, 30/10/06.

Office waste easyJet is a ticketless airline and also has a policy of operating a near paperless office, where the majority of paper documents including all post are scanned into a document management system. All paper is disposed of through our recycling programme. This programme principally covers papers, including printer toner cartridges. Paper sent for recycling represented 13% of all waste by weight generated by head office activities

Onboard waste By not offering free food, easyJet eliminates meals that people do not want. At the same time, the food that easyJet sells in-flight does not require preparation on board. At present, the small volume of food waste contained within easyJet's onboard waste generally means it cannot be accepted for recycling. easyJet is initiating a programme to collect paper waste separately so that it can be sent for recycling at as many airports as possible. If this is successful, other recyclable waste may also be segregated.

Chemicals easyJet monitors closely its use of fluids for aircraft de-icing. The majority of de-icing fluid used by easyJet have been designed to meet stringent environmental requirements (i.e. do not contain triazole) and are considered to be non-hazardous and readily biodegradable. The transfer and shipment of oils is maintained to a level as low as is practicable. Solvents and oils used in aircraft maintenance are either recycled or treated through approved licensed operators.

3 easyJet leads the way in shaping a greener future

A Shaping European policy on emissions trading

easyJet has the chair of the European Low Fares Airlines Association (ELFAA) environment working group and in that capacity was invited to join the European Commission's Aviation Working Group set-up to review how international aviation could be included into the EU Emissions Trading Scheme (ETS). easyJet supports the inclusion of aviation into the EU ETS, but not at any cost. A legislative proposal is due to be published by the EU at the end of 2006. easyJet has been pressing for a scheme that will cover the largest carbon footprint i.e. include flights both within Europe and all departing and arriving flights, and reward airlines that are environmentally efficient and punish those that are not.

B Shaping European policy on making ATC more efficient

The implementation of the EU's Single European Sky (SES) legislation is fundamental to improving the safety, reducing the cost and increasing the productivity of Europe's highly fragmented and inefficient air traffic management (ATM) system. easyJet is actively supporting the delivery of the SES initiatives, especially through its involvement in ELFAA and ELFAA's participation in the SESAR programme. SESAR is the operational part of SES, which is proposing a new approach to reform the ATM structure in Europe.

C Actively engaging with aircraft manufacturers to influence next generation technology

With new aerospace technologies emerging and their application primarily directed at the new generation of wide-body long-haul aircraft, easyJet is actively engaging with both airframe and engine manufacturers in a dialogue aimed at the application of these technologies to a new generation of short-haul aircraft. However it is not currently anticipated that a new generation of short-haul aircraft will come to market before 2015.

easyJet and its people

As an employer, easyJet's aim is to create an environment where people feel that easyJet is a great place 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. Our aspiration to be the best is underpinned by our five pillars of safety, customers, people, operational excellence and shareholder return together with our cultural values.

A 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 2006, easyJet employed 4,859 (2005: 4,152) persons as set out below:

Location of employees (including secondments)	**2006**	2005
UK	**3,648**	3,131
Switzerland	**364**	506
Germany	**387**	355
France	**167**	158
Spain	**201**	2
Italy	**92**	–
	4,859	4,152

Age of employees	**2006**	2005
Under 20	**288**	147
21 – 30	**2,133**	1,833
31 – 40	**1,543**	1,360
41 – 50	**693**	612
Over 50	**202**	200
	4,859	4,152

Our growth across Europe is reflected in our multinational workforce.

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Corporate and social responsibility report
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Pilot retirement age In order to ensure compliance with the new laws against age discrimination in October 2006, easyJet is raising the normal retirement age for all pilots to 65, the maximum age limit allowable under the regulatory regime in force. Prior to this it was compulsory for pilots to retire at the age of 60. Now all pilots have a choice as to whether they wish to keep flying until they are 65.

B Training and development
easyJet is 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, the easyJet Academy opened a 30,000 square foot training facility, which will contribute towards achieving these objectives.

easyJet Academy The easyJet Academy has now completed its first successful year and has seen approximately 5,000 pilots, cabin crew and contact centre and management and administrative staff pass through its doors, along with an additional 3,500 people passing through our recruitment and assessment centres. The facility is a state-of-the-art training centre, primarily for the flight crew, but with facilities for training telesales and customer service agents for our contact centre. The 30,000 square foot building is home to easyJet's flight crew recruitment and training teams, as well as its ID processing cell, which produces all employee IDs in-house. The facility also houses a cabin simulator and aircraft slides that are used to train cabin crew and pilots.

Employee induction In addition to our already well-established and thorough induction training programme for crew, all new employees to easyJet management and administration functions can now look forward to a thorough induction process that will take three months to complete. easyJet wants new people to the organisation to settle in as quickly and efficiently as possible, and has introduced a new process to ensure that this happens.

C Employee information and consultation
The process of designing efficiency into easyJet's core business extends to a "flat" management structure, where few organisational layers exist between the operational and customer-facing teams. easyJet is committed to providing open information to its people, and to consulting over key issues. A number of forums exist where issues of concern can be raised across the board. easyJet's business forum allows for high level consultations with both staff groups and recognised unions.

easyJet has a good relationship with its Management and Administration Consultative Group and recognised trade unions, Amicus, BALPA and the TGWU. easyJet has lost no days to industrial action during the year.

easyJet has also developed a new Culture Network, which recognises the airline's European personality and the location of staff. This Network gives everyone an opportunity to get involved in communicating issues and ideas to management. The goals of the Network are to support the aspirations, vision and values of the Company and its employees.

easyJet has a number of means of keeping its people informed about both internal and external news. The easyJet intranet 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.

A measurement of travel delivery achievement to our customers is a key performance indicator. easyJet reports the end result of its efforts by publishing the preceding day's on-time performance on the 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 instigated a monthly online 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.

People opinion survey In May 2006 easyJet launched its new annual people opinion survey – easyJet Pulse – in order to fully understand its people's issues and measure progress. With a commitment from the Board to share the results of Pulse "warts and all" 67% of easyJet people responded to Pulse (higher than average for a first survey, particularly in the airline industry) with an overall satisfaction score of 68%. Linked to an engagement "index", Pulse not only measured satisfaction, but also levels of motivation, pride, commitment, engagement and advocacy. A key positive headline for easyJet was the high degree in which easyJet people are advocates of the Company and the service it provides, while there is more work to be done in the areas of employee engagement communication. Corporate and local level action plans have been drawn up throughout the business and targets have already been set to better the response and satisfaction rates in Pulse 2007.

New employee uniform One of the things our uniform-wearing staff were keen to let us know about was their opinion on our current uniform. As a result of their feedback, Chief Executive Andrew Harrison initiated "Project Uniform", the aim of which is to give easyJet employees the uniform they want at no extra cost. All easyJet employees were invited to submit their designs for their dream uniform and the best three designs were put on the easyJet intranet for the people to choose their favourite two. The final two designs have now been chosen and both are being put into production so the crew can make the decision about which one they want to wear. easyJet expects crew to be in their new uniform early in 2007.

Flight Plan 2007 To improve two-way communication around easyJet and to galvanise our people behind our strategy for the next three years, our Directors have taken easyJet's "Flight Plan" for 2007 out to the network and across the whole Company. Through a series of roadshows delivered to crew and support functions, easyJet people have heard all about easyJet's performance last year and the part everyone can play to reach our targets for next year and beyond.

D Staff rewards and recognition

Share schemes easyJet once again offered all employees the opportunity to join its popular all employee share plans – easyJet Shares 4 Me – through our Save As You Earn (SAYE) and Buy As You Earn (BAYE) schemes. Take-up of the schemes is very positive with 40% of eligible staff participating in one or both plans. These are HM Revenue & Customs (HMRC) approved schemes open to all employees on the UK payroll.

Under SAYE participants may elect to save up to £250 per month under a three-year savings contract. An option is granted by the Company to buy shares at a price based on the market price of the shares at the time of the grant. At the end of the savings period, a tax-free bonus is applied to the savings and the option becomes exercisable for a period of six months. The Company made grants under the Sharesave scheme in June 2005 and June 2006, with options being granted at a discount of 20% to the market price at the time of the grant. For those employees who are on non-UK payrolls, an international scheme has been established with similar terms and conditions to the UK scheme, albeit without the UK tax benefits.

BAYE is a share incentive plan and is open all year. This scheme is open to all employees on the UK payroll. Employees can allocate part of their pre-tax salary up to a maximum of £1,500 per annum, to purchase "partnership" shares in easyJet. For every share purchased through the partnership scheme, easyJet purchases a "matching" share. Employees must remain in employment with easyJet for three years from the date of purchase of partnership shares in order to qualify for matching shares, and for five years for shares to be transferred to them tax free. The employee retains rights over both their own shares and the matching shares, receives dividends and is able to vote at meetings once the shares are purchased. For those employees who are not paid on the UK payroll, an international scheme has been established with similar terms and conditions to the UK scheme, albeit without the UK tax benefits.

Free shares To further encourage share ownership, easyJet has given all employees a one-off award of free easyJet shares, equivalent to two weeks' pay. This is also under the HMRC approved Share Incentive Plan. Employees who are not paid on the UK payroll are included in the international Share Incentive Plan.

easyJet Shares 4 Me has been the recipient of three major industry awards this year:

"Best New Share Plan" at the ifsProShare Annual Awards 2005.

"Most Effective All-Employee Share Plan Strategy Award" from Employee Benefits magazine.

"Most Innovative Employee Share Plan" at the Institute of Chartered Secretaries and Administrators Company Secretary Awards 2006.

Staff Travel In April 2006, easyJet introduced an improved staff travel incentive for all employees. Without adding any further cost to the business, a team of people from within easyJet implemented a number of enhancements to the system already in place, which meant that staff could be on more of our seats that would have departed empty. Part of the development programme was to widen the number of people who could use the easyJet staff travel facility. Each employee now has three named others on their staff travel account, plus dependants up to the age of 21. The result saw a year-on-year increase in use of staff travel by almost 100%.

Go the Extra Mile Awards One of the key differentiators between easyJet and other low-cost carriers is our people. Regardless of where in the Company our people are working, they work hard and give their all. For this reason, easyJet introduced a new employee incentive scheme called the "GEM" (Go the Extra Mile) awards. The awards are designed to recognise employees who go beyond what can rightly be expected of them in the role they are in. There are five different types of GEMs which recognise different areas of an employee's contribution and these are matched by an exciting range of rewards. This year, 253 people have been recognised with GEMs, and five have been awarded the ultimate accolade of a diamond GEM.

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E Health and safety
Safety is the number one priority for the business. easyJet aims to provide a safe and efficient work environment for all its people. Beyond those engaged in office-based work, the large majority of people are aircrew. They have been one of the mainstays to easyJet's success, giving a great deal of effort to their role. easyJet is continuing to invest substantial effort and money into rostering practices and systems. easyJet is committed to the development of an industry leading Fatigue Risk Management System (FRMS) for its pilots, as an integral part of the airline's safety management processes. The aim of the programme is to detect any sources of fatigue risk within the airline operation and act upon them.

F Charitable donations
Our charity policy is to recognise and devote efforts to a single charity each year. This year the charity, chosen for the first time by a staff vote, was The Anthony Nolan Trust.

easyJet has worked with The Anthony Nolan Trust to help promote the Trust, with activities including onboard collections, a "click and give" campaign from our website, staff fundraising, being featured in the in-flight magazine and other public relations activities. Close to £560,000 was raised to 30 September 2006 and the Anthony Nolan Trust received coverage in European press, UK regional press and national television. easyJet also donated £50,000 to the Anthony Nolan Trust.

Money raised from onboard collections was also donated to other bone marrow registers in Europe; close to £15,000 to the German register, DKMS and over £5,000 to the Italian register IBMDR.

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

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

Gifts and gratuities Some easyJet employees are sent gifts from various companies throughout the year. The airline has a strict policy that prevents any employee accepting gifts over a nominal value. Every Christmas (and less frequently, at various times through the year) easyJet holds a staff raffle of all the gifts that are received. Every employee across Europe is entered into the draw and allocated a unique reference number. Numbers are then drawn at random and winners have the gifts sent directly to their home in time for Christmas.

Directors' report

The Directors present the audited consolidated financial statements for easyJet plc ("the Company") for the year ended 30 September 2006.

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 2006 was £94.1 million (2005: £59.0 million). The Directors do not recommend the payment of a dividend (2005: £nil).

Key performance indicators

The Company's key performance indicators are considered in the key performance indicators section of the operational and financial review included in the annual report and accounts.

Share capital

Details of the movements in authorised and issued share capital during the period are provided in note 19 to the financial statements.

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. Further details can be found in the corporate and social responsibility report.

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. Further details can be found in the corporate and social responsibility report.

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. Further details can be found in the corporate and social responsibility report.

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' report continued

Directors and Directors' interests

Non-Executive:
Sir Colin Chandler
Dawn Airey
David Bennett (appointed 1 October 2005)
Diederik Karsten
Sir Stelios Haji-Ioannou
Prof Rigas Doganis (appointed 1 December 2005)
Amir Eilon (resigned 22 February 2006)
Sir David Michels (appointed 6 March 2006)

Executive
Andrew Harrison (appointed 1 December 2005)
Jeff Carr
Ray Webster (resigned 30 November 2005)

Executive Directors are deemed to be interested in the shares held by the easyJet UK Employee Share Ownership Trust, the easyJet Overseas Employee Share Ownership Trust and the Share Incentive Plan Trust (the "Trusts"). At 30 September 2006, ordinary shares held in the Trusts were as follows:

Long-Term Incentive Plan (unallocated as employees are not entitled to these shares until the performance conditions attached to them are met)	15,925
Share Incentive Plan Trust (unallocated as employees are not entitled to these shares until performance conditions attached to them are met)	187,544
Total unallocated	203,469
Total held by UK Trust (allocated)	11,945
Total held by Overseas Trust (allocated)	88,184
Management Combination Incentive Plan Trust (allocated)	369,606
Total allocated	469,735
Total	**673,204**

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

Overseas branches

Details of the Company's subsidiaries are given in the notes to the Company balance sheet. One of the Company's wholly-owned subsidiaries, easyJet Airline Company Limited, operates a Spanish branch which performs self handling operations.

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 2006, the number of creditor days outstanding for the Group was nine days (2005: two days), and the Company, nil days (2005: nil days).

Political and charitable contributions

During the year, the Group made charitable contributions totalling £52,000 (2005: £110,033). The Group also performs onboard collections on behalf of charitable organisations. 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 corporate and social responsibility report. There were no contributions made for political purposes.

Post balance sheet events
On 13 November 2006, easyJet agreed that, subject to shareholder approval, it had converted a further 52 of its Airbus option aircraft to firm deliveries in 2008, 2009 and 2010; furthermore an additional 75 purchase rights had been obtained for aircraft which could be delivered during the period to 2015.

Substantial interests
As at 9 November 2006, 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	16.00
Polys Holdings Limited (holding vehicle for Polys Haji-Ioannou)	47,954,575	11.61
Clelia Holdings Limited (holding vehicle for Clelia Haji-Ioannou)	47,954,575	11.61
Standard Life Investments	42,263,153	10.23
Deutsche Bank AG	24,308,793	5.88

Auditors
Each Director has taken steps that they ought to have taken in their duty as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

So far as each Director is aware, there is no relevant information of which the Company's auditors is unaware.

A resolution to re-appoint PricewaterhouseCoopers LLP as auditors of the Company will be put to shareholders at the forthcoming Annual General Meeting.

By order of the Board

G Pemberton
Company Secretary

easyLand
London Luton Airport
Luton
Bedfordshire LU2 9LS
13 November 2006

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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 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.

The Remuneration Committee continues to use New Bridge Street Consultants LLP whom the Committee originally appointed as remuneration advisers. Apart from advice regarding the design, establishment and operation of remuneration arrangements, New Bridge Street Consultants LLP provide 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 market place in order to ensure that they are properly motivated to perform in the best interests of the Company and its shareholders. The Committee also oversees any significant changes to pay and conditions elsewhere in easyJet and sets Directors' remuneration in the context of these pay and conditions. 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 Executive 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 Andrew Harrison started on a salary of £540,000 and there was no increase to Jeff Carr's salary which is £250,000.

Pension contributions

Pension contributions for Executive Directors are set at 7% of their basic salaries. While this is a non-contributory arrangement, easyJet operates a pension salary sacrifice arrangement where individuals can exchange their salary for Company paid pension contributions. Where individuals exchange salary this reduces easyJet's National Insurance contributions. easyJet credits half of this saving to the individual's pension (currently 6.4% of the amount exchanged).

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.

Bonus targets are aligned to easyJet's visions and values. For the financial year ending 30 September 2007, 70% of Executive Directors' bonus opportunity is subject to achieving demanding profit before tax targets related to the expected rate of return on equity. The remaining 30% is subject to the achievement of demanding quantifiable business targets related to customers, people and operational excellence. If the profit before tax measure is not achieved, payment on all other measures will be halved.

Andrew Harrison will be paid a bonus of £900,000 (200% of salary paid) in the year ending 30 September 2007 to reflect performance in the year ended 30 September 2006. Jeff Carr will be paid a bonus of £250,000 (100% of salary) in the year ending 30 September 2007 to reflect performance in the year ended 30 September 2006. These bonuses reflect the year's financial performance and the Directors' contribution to this.

This was calculated according to the bonus targets for the year ended 30 September 2006, whereby 80% of the annual bonus opportunity is subject to achieving demanding financial targets, with the remaining 20% subject to the achievement of other demanding business targets. The financial targets are based on profit before tax performance related to expected return on equity.

Long-term incentive plans

Share-based long-term incentives were previously provided to Executive Directors and other staff under Inland Revenue approved and unapproved Executive Share Option Schemes (the ESOS).

However, in 2005, the ESOS were replaced by a new Long-Term Incentive Plan (the LTIP). The Executive Share Option Schemes have been retained for flexibility, e.g. options were granted to the Chief Executive under the ESOS on his appointment described in the notes to Directors' share options. However there is no current intention to make regular grants of options under the ESOS.

In summary, the LTIP is structured to tie in directly with the Company's current circumstances and 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.

Performance shares and matching shares awards normally vest three years after grant, subject to continued employment. It is currently intended that the vesting of all such regular annual LTIP awards will be subject to the satisfaction of return on equity (ROE) targets. These are defined as post-tax profit 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 vest according to the achievement of the following ROE targets relating to the Group's ROE in the year ending 30 September 2009.

	Threshold (25% vests)	Target (50% vests)	Maximum (100% vests)
Return on equity	12.5%	14%	16.5%

It should, therefore, be noted that the performance conditions that will apply to awards granted under the LTIP in the forthcoming year will be structured in a more typical manner than were the performance conditions that were applied to the initial LTIP awards that are described in the notes to Directors' share options.

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. When determining the extent to which the ROE targets (and, indeed, the earnings per share (EPS) targets that apply to awards made under other long-term incentive schemes operated by the Company) are met.

In addition to the proposed regular annual LTIP grants, a one-off "FTSE 100" award was granted shortly following the establishment of the LTIP to provide senior executives with a simple, transparent incentive to increase materially easyJet's market capitalisation. This FTSE 100 award was 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).

Although these FTSE 100 awards (that the Remuneration Committee views as a one-off grant) form a smaller part of the overall incentive arrangements compared to the annual bonus opportunity and the regular annual LTIP awards, they are 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.

Report on Directors' remuneration continued

Andrew Harrison matching award To facilitate Andrew Harrison's recruitment as CEO and to ensure that his interests were directly and immediately aligned with those of easyJet shareholders, a matching award was introduced. This was covered in detail in last year's report. However in summary, Andrew acquired and will retain £1,000,000 worth of easyJet shares using his own funds. In recognition of this, he was 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 EPS and ROE performance conditions described more fully in the notes to Directors' share options.

Andrew also received the one-off FTSE 100 award, together with the grant of options under the ESOS described above, but he did not receive a "normal" LTIP award in the last year.

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.

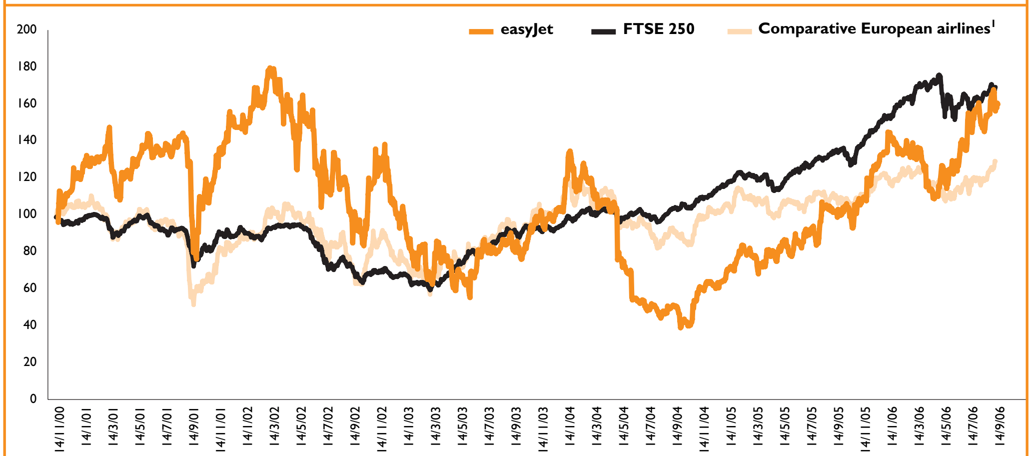
All-employee share participation

easyJet encourages share ownership throughout the Company by the use of a Share Incentive Plan and a Sharesave Plan. At 30 September 2006, the Company had committed to grant free shares under its Share Incentive Plan to all employees.

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 (note 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.

Total shareholder return



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 one appointment on an external board or committee so long as this is 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.

Andrew Harrison is a Non-Executive on the board of EMAP. 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.

Andrew Harrison's service contract is 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.

Jeff Carr's notice period is six months. There are no other provisions 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. Sir Stelios Haji-Ioannou does not have a service contract and his appointment is of no fixed term. He is however subject to re-election by the shareholders every three years and was last re-elected by shareholders in February 2006. Sir David Michels is employed through MYCO 2006 Limited.

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	3 months	Fixed term	None
Dawn Airey	5 April 2004	5 months	Fixed term	None
David Bennett (appointed 1 October 2005)	1 September 2005	1 year and 11 months	Fixed term	None
Sir David Michels (appointed 6 March 2006)	3 January 2006	2 years 2 months	3 months	None
Diederik Karsten	11 May 2004	6 months	Fixed term	None
Sir Stelios Haji-Ioannou	n/a	n/a	n/a	n/a
Prof Rigas Doganis (appointed 1 December 2005)	1 December 2005	2 years 1 month	Fixed term	None
Executive				
Andrew Harrison (appointed 1 December 2005)	15 September 2005	n/a	12 months (6 months from executive)	12 months
Jeff Carr	24 November 2004	n/a	6 months	6 months
Ray Webster (resigned 30 November 2005)	18 June 2002	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.

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

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Report on Directors' remuneration continued

Audited information

Directors' emoluments

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

	Salary/fees 2006 £000	Bonus 2006 £000	Total 2006 £000	Total 2005 £000	Pension contributions 2006 £000	Pension contributions 2005 £000
Non Executive:						
Sir Stelios Haji-Ioannou	–	–	–	–	–	–
Sir Colin Chandler	150	–	150	150	–	–
Amir Eilon (resigned 22 February 2006)	16	–	16	40	–	–
Sir David Michels (appointed 6 March 2006)	29	–	29	–	–	–
David Bennett (appointed 1 October 2005)	50	–	50	–	–	–
Dawn Airey	40	–	40	40	–	–
Prof Rigas Doganis (appointed 1 October 2005)	33	–	33	–	–	–
Diederik Karsten	40	–	40	40	–	–
Executive						
Andrew Harrison (appointed 1 December 2006)	450	900	1,350	–	37**	–
Ray Webster (resigned 30 November 2005)	67	134	201	752*	5	28
Jeff Carr	250	250	500	196	18**	10
	1,125	1,284	2,409	1,218	60	38

easyJet Airline Company Limited, a Group company, has signed an agreement with Eilon & Associates Limited, a company controlled by Amir Eilon, who served as a Non-Executive Director. The contract was to provide consulting services to easyJet in respect of a specific business development project. Payment for services was based on a daily rate of between £1,500 and £2,000. Total remuneration relating to the year was £nil (2005: £85,643).

The table above excludes gains as a result of the exercise of share options. Details of share options and share awards and any movements during the year are shown on the following page.

* Targets for the Executive Directors' bonus calculation for the year ended 30 September 2005 were directly based on information published in the annual report and accounts for the year ended 30 September 2005. For the year ended 30 September 2004, the equivalent targets were subjective and were only able to be determined after the publication of the annual report and accounts for the year ended 30 September 2004. The remuneration for Ray Webster for 2005 includes a bonus of £117,000 in respect of the 2004 financial year and a bonus of £232,811 in respect of the 2005 financial year. Jeff Carr's bonus included in 2005 related solely to the 2005 financial year.

** Pension contributions for Andrew Harrison and Jeff Carr are greater than 7% of salary as they include additional amounts resulting from the Group's salary exchange scheme as described above.

Directors' share options

Details of share options and share awards under the schemes described above granted to the Directors of the Company and any movements during the year are shown in the following table:

Director	Scheme	Number of shares/ options at 30/09/05	Options granted in year	Options exercised in year	Options lapsed in year	Number of shares/options at 30/09/06 (or date of resignation, if earlier)	Date of grant	Exercise price	Date from which exercisable	Expiry date
Amir Eilon										
(resigned 22 February 2006)	A	3,103,407	–	(500,000)	–	2,603,407	29 Feb 00	1.6112	22 Nov 02	29 Feb 10
	A	106,830	–	–	–	106,830	26 Sep 00	1.6112	22 Nov 02	26 Sep10
Andrew Harrison										
(appointed 1 December 2006) *	C	–	736,153	–	–	736,153	1 Dec 05	3.2985	1 Dec 08	1 Dec 15
	D	–	9,095	–	–	9,095	1 Dec 05	3.2985	1 Dec 08	1 Dec 15
	F	–	267,109	–	–	267,109	8 Feb 06	0.0000	8 Feb 09	8 Aug 09
Ray Webster										
(resigned 30 November 2005)	B	4,304,544	–	–	–	4,304,544	29 Feb 00	1.6112	22 Nov 00	29 Feb 10
	B	142,442	–	–	–	142,442	26 Sep 00	1.6112	22 Nov 00	26 Sep10
	C	151,088	–	–	(151,088)	–	6 Mar 03	1.9995	6 Mar 06	6 Mar 13
	C	102,874	–	–	(102,874)	–	19 Jan 04	3.6015	19 Jan 07	19 Jan 14
	C	222,860	–	–	(222,860)	–	8 Dec 04	1.8415	8 Dec 07	8 Dec 14
	D	16,291	–	–	(16,291)	–	8 Dec 04	1.8415	8 Dec 07	8 Dec 14
Jeff Carr	C	108,079	–	–	–	108,079	2 Jun 05	2.3205	2 Jun 08	2 Jun 15
	D	12,928	–	–	–	12,928	2 Jun 05	2.3205	2 Jun 08	2 Jun 15
	E	–	75,793	–	–	75,793	1 Dec 05	0.0000	1 Dec 08	1 Jun 09

* At 30 September 2006, the Company had committed to grant free shares under its Share Incentive Plan to all employees. Andrew Harrison applied to receive free shares worth £3,000. The number of free shares granted was 612, determined by the share price on 11 October 2006.

Aggregate gains made on share options during the year were £843,150. This was made by Amir Eilon prior to his resignation from the Board. In addition Amir Eilon made gains of £2,748,800 on exercise of some of the options still outstanding after his resignation from the Board and £3,496,447 was made by Ray Webster on exercise of some of the options still outstanding subsequent to his resignation from the Board.

Andrew Harrison and Jeff Carr will be eligible for shares under the FTSE 100 award described above if the conditions pertaining to this award are met.

Sir Colin Chandler, Sir David Michels, Dawn Airey, David Bennett, Prof Rigas Doganis and Sir Stelios Haji-Ioannou have not been granted any share options or awards.

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 Performance shares granted under LTIP scheme.

F Matching shares granted under Andrew Harrison's matching award.

Performance criteria for C & D 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, the options lapsed on 1 December 2005.

January 2004: Based on diluted earnings per share achieved in the year ending 30 September 2006. If diluted earnings per share exceed 36.96 pence, then all options vest. If diluted earnings per share 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 are exactly 20.47 pence, then 50% of the options vest. If diluted earnings per share are below 20.47 pence then no options vest. It is anticipated that some of these options will vest in January 2007.

Report on Directors' remuneration continued

December 2004 and June 2005 and Andrew Harrison's recruitment option award in December 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.

Performance criteria for E

Tranche and financial year	Threshold (25% vests)	Target (50% vests)	Maximum (100% vests)
Tranche 1: FY06	8.4%	8.8%	10%
Tranche 2: FY07	11.8%	12.4%	13%
Tranche 3: FY08	12.5%	13.2%	15%

Straight-line vesting will occur between the threshold, target and maximum targets set out above. If a tranche satisfies its annual ROE target then it will vest three years after grant. In addition, if ROE in FY08 is between threshold and maximum the relevant portion of the entire LTIP Award will vest 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.

Performance criteria for F 50% of award 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.

50% of award will be based on the same criteria as note E above.

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 29 September 2006 was 485.38 pence and the range during the year to 29 September 2006 was 261.25 pence to 488.75 pence.

The options granted on 29 February 2000, 26 September 2000 and 22 November 2000 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.

Share options granted to Directors on 7 December 2001 and 6 March 2003 did not vest since the performance conditions pertaining to these option grants were not met. A proportion of the share options granted to Directors on 19 January 2004 are expected to vest on 19 January 2007 as the performance conditions pertaining to the options have been met in part.

Directors' share interests

The following Directors held direct interests in the share capital of the Company:

	30 September 2006	1 October 2005 (or date of appointment if later)
Sir Colin Chandler	**39,700**	29,700
Dawn Airey	**10,000**	10,000
Sir Stelios Haji-Ioannou	**66,076,451**	66,076,451
David Bennett (appointed 1 October 2005)	**10,000**	–
Prof Rigas Doganis (appointed 1 December 2005)	**9,000**	3,301
Sir David Michels (appointed 6 March 2006)	**3,500**	–
Andrew Harrison (appointed 1 December 2005)	**267,109**	–
Jeff Carr	**5,000**	5,000

The interests of Sir Stelios Haji-Ioannou are held through easyGroup Holdings Limited.

On behalf of the Board

Sir Colin Chandler
Chairman
13 November 2006

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 the Group 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.

Each of the persons who is a Director at the date of the approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Group's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s.234ZA of the Companies Act 1985.

Independent auditor's report to the members of easyJet plc

We have audited the Group and parent company financial statements (the "financial statements") of easyJet plc for the year ended 30 September 2006 which comprise the Group income statement, the Group and parent company balance sheets, the Group and parent company cash flow statements, the Group and parent company statement of change in shareholders' equity and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the annual report, the Directors' remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of Directors' responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' remuneration report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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 and Article 4 of the IAS Regulation. We report to you whether in our opinion the information given in the Directors' report is consistent with the financial statements. The information given in the Directors' report includes that specific information presented in the operating and financial review that is cross referred from the business review section of the Directors' report. We also report to you if, in our opinion, 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 other transactions is not disclosed.

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

We read other information contained in the annual report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' report, the unaudited part of the Directors' remuneration report, the Chairman and Chief Executive's review, the operating and financial review, the corporate and social responsibility report and the corporate governance statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 and Company'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 Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the Group's affairs as at 30 September 2006 and of its profit and cash flows for the year then ended;
- the parent company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent company's affairs as at 30 September 2006 and cash flows for the year then ended;
- 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 and Article 4 of the IAS Regulation; and
- the information given in the Directors' report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
St Albans, 13 November 2006

Consolidated income statement

for the year ended 30 September

	Notes	**2006 £million**	2005 £million
Passenger revenue		**1,488.4**	1,254.2
Ancillary revenue		**131.3**	87.2
Revenue		**1,619.7**	1,341.4
Ground handling charges, including salaries		**(144.1)**	(130.5)
Airport charges		**(258.4)**	(230.1)
Fuel		**(387.8)**	(260.2)
Navigation charges		**(121.2)**	(108.6)
Crew costs, including training		**(160.0)**	(136.2)
Maintenance		**(109.5)**	(119.2)
Advertising		**(38.2)**	(32.8)
Merchant fees and incentive pay		**(17.9)**	(15.6)
Aircraft and passenger insurance		**(15.8)**	(19.3)
Other costs		**(88.3)**	(82.4)
EBITDAR		**278.5**	206.5
Depreciation		**(27.4)**	(15.8)
Amortisation of other intangible assets		**(0.8)**	(0.8)
Aircraft dry lease costs		**(122.9)**	(123.7)
Aircraft long-term wet lease costs		**(9.6)**	–
Group operating profit – EBIT		**117.8**	66.2
Interest and other financing income		**35.4**	27.2
Interest and other financing charges		**(24.1)**	(10.9)
Net financing income	4	**11.3**	16.3
Share of profit after tax of The Big Orange Handling Company	12b	**0.1**	0.1
Profit before tax for the year	2	**129.2**	82.6
Tax	5	**(35.1)**	(23.6)
Profit after tax for the year		**94.1**	59.0
Earnings per share, pence			
Basic	6	**23.18**	14.78
Diluted	6	**22.64**	14.43

Consolidated balance sheet

as at 30 September

	Notes	2006 £million	2005 £million
Non-current assets			
Goodwill	7	**309.6**	309.6
Other intangible assets	8	**1.1**	1.4
Property, plant and equipment	9	**695.7**	398.6
Financial instruments			
Restricted cash	10	**26.1**	22.4
Derivative financial instruments	23	**0.4**	–
Other non-current assets	11	**2.9**	6.7
Investments accounted for using the equity method	12b	**0.3**	0.2
Deferred tax assets	5d	**0.3**	–
		1,036.4	738.9
Current assets			
Trade and other receivables	13	**213.3**	210.7
Asset held for sale	14	**–**	7.1
Financial instruments			
Restricted cash	10	**12.2**	6.1
Derivative financial instruments	23	**1.0**	–
Cash and cash equivalents	10	**860.7**	667.0
		1,087.2	890.9
Current liabilities			
Trade and other payables	15	**(414.1)**	(342.9)
Borrowings	16	**(32.8)**	(16.3)
Derivative financial instruments	23	**(15.3)**	–
Current tax liabilities		**(46.8)**	(38.9)
Provisions	18	**–**	(16.4)
		(509.0)	(414.5)
Net current assets		**578.2**	476.4
Non-current liabilities			
Borrowings greater than one year	16	**(446.9)**	(201.0)
Derivative financial instruments	23	**(4.8)**	–
Other non-current liabilities	17	**(74.8)**	(75.1)
Provisions	18	**(73.2)**	(53.6)
Deferred tax liabilities	5d	**(32.0)**	(22.2)
		(631.7)	(351.9)
Net assets		**982.9**	863.4
Shareholders' funds – equity			
Ordinary shares	19	**102.6**	100.1
Share premium	21	**591.4**	557.2
Retained earnings	21	**298.4**	206.0
Other reserves	21	**(9.5)**	0.1
		982.9	863.4

The financial statements were approved by the Board of Directors and authorised for issue on 13 November 2006 and signed on behalf of the Board.

A Harrison
Director

J Carr
Director

Consolidated statement of cash flows

for the year ended 30 September

	Notes	**2006 £million**	2005 £million
Cash flows from operating activities			
Cash generated from operations	22	**221.6**	221.0
Interest received		**32.5**	28.8
Interest paid		**(24.4)**	(5.7)
Tax (paid)/received		**(4.5)**	2.9
Net cash from operating activities		**225.2**	247.0
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**87.4**	75.5
Purchase of property, plant and equipment		**(408.3)**	(237.0)
Proceeds from sale of asset held for resale		**7.1**	–
Purchase of other intangible assets		**(0.5)**	(1.4)
Dividends received from joint ventures		**–**	0.2
Net cash used in investing activities		**(314.3)**	(162.7)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**17.9**	2.0
Purchase of shares for employee share schemes		**(0.6)**	–
Net proceeds from drawdown of new bank loans		**201.2**	146.2
Net proceeds from sale and finance leasebacks		**108.6**	–
Repayment of bank loans		**(30.4)**	(46.9)
Repayment of capital elements of finance leases		**(1.0)**	–
Management of liquid resources		**(11.2)**	(14.2)
Net cash generated in financing activities		**284.5**	87.1
Effects of exchange rate changes		**(1.7)**	(0.4)
Net increase in cash and cash equivalents		**193.7**	171.0
Cash and cash equivalents at beginning of year		**667.0**	496.0
Cash and cash equivalents at end of year		**860.7**	667.0

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Consolidated statement of recognised income and expense

for the year ended 30 September

	Notes	2006 £million	2005 £million
Cash flow hedges			
Fair value losses in year, net of tax		**(17.6)**	–
Transfers to net profit		**(2.7)**	–
Translation differences on foreign currency net investments		**–**	0.1
Income and expense recognised directly in equity		**(20.3)**	0.1
Profit for the year		**94.1**	59.0
Total recognised income and expense for the year attributable to shareholders of the Company		**73.8**	59.1
On adoption of IAS 32 and IAS 39	28m	**13.3**	–
		87.1	59.1

Notes

forming part of the financial statements

1 Accounting policies

Basis of preparation easyJet's (the Group's or the Company's) financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). IFRS as adopted by the EU differs in certain respects from IFRS as issued by the International Accounting Standards Board (IASB). However the consolidated financial statements for the periods presented would be no different had the Group applied IFRS as issued by the IASB. References to IFRS hereafter should be construed as references to IFRS as adopted by the EU. These financial statements are prepared on the historical cost convention except for certain financial assets and liabilities including derivative financial instruments that are measured at fair value and aircraft whose fair values were deemed as their cost on adoption of IFRS.

easyJet has historically prepared its audited annual financial statements under UK Generally Accepted Accounting Practice (UK GAAP) and this is the first year that easyJet has prepared financial statements that comply with IFRS. As such, the accounting policies and basis of preparation differ from those set out in the report and accounts for the year ended 30 September 2005. The disclosures required by IFRS 1, First-time Adoption of International Financial Reporting Standards for the transition from UK GAAP to IFRS are included in the notes to the financial statements.

As permitted under IFRS 1, easyJet elected to apply the provisions of IAS 32, Financial Instruments – Disclosure and Presentation and IAS 39, Financial Instruments – Recognition and Measurement from 1 October 2005 and applied the exemption not to restate its comparative information for the impact of these standards. The impact of adopting IAS 32 and IAS 39 is explained below.

Significant judgements and estimates The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions may mean that actual results ultimately differ from those estimates. The policies used in determining aircraft maintenance liabilities, and corporation tax are material to easyJet's financial statements and require a significant amount of management judgement. Further details are given in the critical accounting policies section of the operational and financial review.

Basis of consolidation The consolidated financial statements incorporate those of easyJet plc and its subsidiaries for the years, made up to 30 September 2005 and 2006, together with the attributable share of results and reserves of associated undertakings, adjusted where appropriate to conform with easyJet's accounting policies.

A subsidiary is an entity controlled by easyJet. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities. A minority interest is the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the Company.

Associates are those entities in which easyJet has significant influence, but not control over the financial and operating policies. Associates are equity accounted for.

Intergroup balances and transactions and any unrealised gains and losses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Revenue recognition Revenues comprise the invoiced value of airline services, net of passenger taxes, discounts, plus ancillary and advertising 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 trade and other payables.

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; commissions received from products and services sold such as hotel and car hire bookings, and travel insurance; less chargebacks. These are recognised on the date that the right to receive consideration occurs.

Financial instruments – policy effective 1 October 2005 Financial assets and financial liabilities are recognised when easyJet becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

Non-derivative financial assets are classified as loans and receivables, cash and cash equivalents, deposits maturing in between three months and one year, or deposits maturing in greater than one year.

Cash and cash equivalents includes cash in hand and deposits repayable on demand or maturing within three months of inception, less any overdrafts repayable on demand.

Restricted cash comprises cash deposits which have restrictions governing its use, all of which expire in more than three months from inception of the deposit. Classification of restricted cash as a current or non-current asset is based on the remaining length of the restriction governing its use.

Notes continued
forming part of the financial statements

1 Accounting policies continued

Loans are initially recorded at fair value of net proceeds. They are then stated at their amortised cost which is based on the effective interest rate method.

Non-derivative financial liabilities are stated at amortised cost using the effective interest rate method. For borrowings, their carrying value includes accrued interest payable and any unamortised issue costs.

Derivative financial instruments are used by easyJet to hedge its exposure to movements in foreign exchange rates and jet fuel prices, as well as for translation protection of balance sheet assets and liabilities.

Derivative financial assets and liabilities are stated at fair value. All derivatives to which hedge accounting is applied are designated as cash flow hedges. Changes to fair values are recognised directly in equity, to the extent that they are effective, with the ineffective portion being recognised in the income statement. With respect to zero cost collars, the movement in the intrinsic value of derivatives is taken to reserves and the time value portion is taken to the income statement. As easyJet's hedging instruments primarily comprise zero cost collars, the income statement impact of time value will revert to zero over the full life of the instrument. Where the hedged item results in a non-financial asset, the accumulated gains and losses previously recognised in equity are included in the initial carrying value of the asset. Otherwise accumulated gains and losses are recognised in the income statement in the same period in which the hedged item affects the income statement.

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry or disposal), or no longer qualifies for hedge accounting. Where the hedged item is a highly probable forecast transaction, the related gains and losses remain in equity until the transaction takes place, when they are removed from equity and recognised in the income statement.

When a hedged future transaction is no longer expected to occur, any related gains and losses previously recognised in equity are immediately recognised in the income statement.

Where derivatives have been entered into for translation protection of balance sheet assets and liabilities, hedge accounting is not applied. Movements in fair values of these instruments are taken to the income statement in the month that they occur, to set off gains and losses resulting from the retranslation of foreign currency denominated assets and liabilities.

Financial instruments – policy until 30 September 2005 Gains and losses on derivative financial instruments are recognised in the income statement 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.

Foreign currencies The primary economic environment in which an easyJet subsidiary operates determines its functional currency. The functional currency of easyJet plc is considered to be sterling. Certain subsidiaries have operations that are primarily influenced by a currency other than sterling. Exchange differences arising on the translation of these foreign operations are taken to reserves until all or part of the interest is sold, when the relevant portion of the exchange is recognised in income. Under IFRS 1, exchange differences arising prior to 1 October 2004 are deemed to be nil. Profits and losses of foreign operations are translated into sterling at average rates of exchange during the year.

Transactions arising 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 in to sterling using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies are translated into sterling at foreign exchange rates ruling at the dates the transactions were effected.

Leases Rental charges on operating leases are charged to the income statement on a straight-line basis over the life of the lease.

easyJet enters into sale and leaseback transactions whereby it sells to a third party rights to acquire aircraft. On delivery of the aircraft, easyJet subsequently leases the aircraft back, by way of operating lease. Any excess on the disposal, where the price that the aircraft is sold for is not considered to be fair value, is deferred and amortised over the lease term of the asset. Purchase rights (being the amount of pre-delivery deposits paid) for aircraft that are expected to be sold and leased back to lessors are considered to be monetary assets. These are disclosed separately from fixed assets.

Finance leases, which transfer to easyJet substantially all the risks and benefits incidental to ownership of the leased item, are recognised at the inception of the lease at the fair value of the leased property, or, if lower, at the present value of the minimum lease payments. Any directly attributable costs of entering into financing sale and leasebacks are included in the value of the asset recognised. Assets held under finance leases are depreciated as described below. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included in interest and other finance charges.

1 Accounting policies continued

Aircraft maintenance provisions The accounting for the cost of providing major airframe and certain engine maintenance checks for owned aircraft is described in the accounting policy for property, plant and equipment.

Where easyJet has a commitment to maintain aircraft held under operating leases, provision is made during the lease term for the rectification obligations contained within lease agreements. The provisions are based on estimated future costs of major airframe, certain engine maintenance checks and one-off costs incurred at the end of lease by making appropriate charges to the income statement calculated by reference to the number of hours or cycles operated during the year.

Property, plant and equipment Tangible fixed assets are stated at cost, less accumulated depreciation, except for the Boeing 737-300s for which the fair value at 1 October 2004 was deemed to be their cost as allowed under IFRS 1. Fair value was determined as market price less costs to sell. 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. Expected useful economic lives are reviewed annually.

During the year ended 30 September 2006, the Group revised the period over which it depreciates Airbus A319 aircraft. Aircraft that the Group holds are expected to have an operational life of 20 to 30 years. Prior to 30 September 2006 the Group depreciated its aircraft over seven years, which was the period that it expected to hold those assets for. The Group now holds aircraft over any period of up to the end of their operational life as deemed appropriate. Therefore the assets are depreciated to their residual value over a period of 23 years, which is estimated to be the operational life of an Airbus A319. Previously, the Group expected to hold aircraft for a period of approximately seven years before selling them. This change in estimate of useful economic life did not have a material impact on depreciation in the year ended 30 September 2006, and is not expected to have a material impact going forwards.

	Period of depreciation
Boeing 737-300 aircraft	Seven years (aircraft only held in year ended 30 September 2005)
Airbus A319 aircraft	23 years
Aircraft improvements	Three to seven years
Aircraft – prepaid maintenance	Three to ten years
Aircraft – spares	Ten years from date of purchase
Leasehold improvements	Five years or the length of lease
Fixtures, fittings and equipment	Three years or length of lease of property where equipment is used
Computer hardware	Three years

Residual values, where applicable, are reviewed annually against prevailing market rates at the balance sheet date for equivalently aged assets and depreciation rates adjusted accordingly on a prospective basis. The carrying value is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable.

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance and is amortised over a period ranging from three to ten 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 income statement 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 120 Airbus aircraft. Principal assets received for no consideration in connection with the acquisition of these 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 where the balance is expected to be funded by mortgage financing are recorded at cost. On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date. Where the balance of payment is expected to be funded by lease financing, the advance payments are classified as deposits.

Notes continued

forming part of the financial statements

1 Accounting policies continued

Goodwill Where the cost of a business acquisition exceeds the fair values attributable to the separable net assets acquired, the resulting goodwill is capitalised. Goodwill has an indefinite useful life and is tested for impairment annually or where indicators imply that the carrying value is not recoverable.

Other intangible assets Computer software is carried at cost less accumulated amortisation. It is amortised on a straight-line basis over its useful economic life of three years. Computer software is all purchased outside the Group, with no internal costs capitalised.

Impairment of assets Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events indicate that the carrying value may not be recoverable. An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less cost to sell and its value in use.

Employee expenses easyJet 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 income statement in the year in which they are incurred.

The expected cost of compensated holidays is recognised at the time that the related service is provided.

Taxation including deferred tax The charge for current taxation is based on the results for the year as adjusted for income that is exempt and expenses that are not deductible using taxation rates that are applicable to the taxable income. Deferred taxation is recognised in profit or loss except when it relates to items credited or charged directly to equity, in which case it is recognised in equity.

Deferred taxation is provided in full on temporary differences relating to the carrying amount of assets and liabilities, where it is probable that the recovery or settlement will result in an obligation to pay more, or a right to pay less, taxation in the future. Deferred taxation is measured at the tax rates that are expected to apply in the periods in which recovery of assets and settlement of liabilities are expected to take place, based on tax rates or laws enacted or substantively enacted at the balance sheet date.

Deferred taxation assets represent amounts recoverable in future periods in respect of deductible temporary differences, losses and taxation credits carried forwards. Deferred taxation assets are recognised to the extent that it is probable that there will be suitable taxable profits from which they can be deducted.

Deferred taxation liabilities represent the amount of income taxes payable in future periods in respect of taxable temporary differences. Deferred taxation liabilities are recognised for taxable temporary differences, unless specifically exempt.

Deferred taxation assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit. Deferred taxation arising on investments in subsidiaries, associates and joint ventures, is not recognised where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally-enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Share-based payments easyJet has equity-settled share-based payment compensation plans. The fair value of equity-settled share-based payments is measured at the date of grant using the Binomial Lattice option pricing model. The fair value of the estimate of the number of options that are expected to vest is expensed on a straight-line basis over the period that employees services are rendered. When it becomes reasonably certain that performance criteria attached to the share options will not be met, the cumulative expense previously recognised for those options is reversed.

In accordance with the transition provisions of IFRS 1, easyJet has not applied this fair value calculation to share option grants that were made before 7 November 2002, but which had not vested by 1 January 2005.

The cost of shares that are held by employee benefit trusts, and that are not allocated to specific grants of shares to employees, is deducted from equity.

Segmental disclosures The Group has only one business segment: the provision of a low-cost airline service within Europe. The Group has only one geographical segment relating to the origin of its turnover which is Europe.

1 Accounting policies continued

Investments in subsidiaries Investments in subsidiaries and associates that are not classified as held for sale are stated at cost in the entity financial statements.

Assets held for resale Where assets are available for sale in their current condition, and their disposal is highly probable, they are reclassified as held for resale. Assets held for resale are measured at the lower of their carrying value and the fair value less costs to sell. Depreciation on assets held for resale ceases at the point of their reclassification from fixed assets.

IFRS transitional arrangements easyJet has applied the optional transitional exemptions under IFRS 1 in the preparation of these financial statements as follows:

1 Business combinations prior to 1 October 2004 have not been restated in accordance with IFRS 3, Business Combinations.
2 Cumulative translation differences arising on consolidation of companies qualifying as foreign operations under IAS 21, The Effects of Changes in Foreign Exchange Rates, have been designated to be nil at 1 October 2004.
3 IFRS 2, Share-based Payments, has been applied only to equity instruments that were granted after 7 November 2002, and which had not vested before 1 January 2005.
4 IAS 32, Financial Instruments: Disclosure and Presentation and IAS 39, Financial Instruments: Recognition and Measurement has been adopted from 1 October 2005 and comparative information for the impact of these standards has not been restated.
5 The fair value of certain items of property plant and equipment has been taken as their deemed cost at 1 October 2004.

New standards and interpretations not applied During the year ended September 30, 2006, the IASB and IFRIC have issued the following standards and interpretations with an effective date for easyJet of accounting periods beginning on or after 1 October 2006, the start date of the first financial year subsequent to these financial statements.

		Effective date
International Accounting Standards (IFRS)		
IFRS 4	Insurance Contracts (Amendments to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 Jan 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 Jan 2006
IFRS 7	Financial Instruments: Disclosure	1 Jan 2007
IAS 1	Amendment – Presentation of Financial Statements – Capital Disclosures	1 Jan 2007
IAS 19	Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	1 Jan 2006
IAS 21	Amendment to IAS 21 – Net Investment in a Foreign Operation	1 Jan 2006
IAS 39	Amendments to IAS 39 – Fair Value Option	1 Jan 2006
IAS 39	Amendments to IAS 39 – Cash Flow Hedge Accounting of Forecast Intragroup Transactions	1 Jan 2006
IAS 39	Amendments to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 Jan 2006
International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining Whether an Arrangement Contains a Lease	1 Jan 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 Jan 2006
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 Dec 2005
IFRIC 7	Applying the Restatement Approach under IAS 29 "Financial Reporting in Hyperinflationary Economies"	1 Mar 2006
IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 Jun 2006
IFRIC 10	Interims and Impairment	1 Nov 2006

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements. Certain of these standards and interpretations will require additional disclosures over and above those currently included in these financial statements in the period of initial application.

Notes continued

forming part of the financial statements

2 Profit before tax

The following has been included in arriving at profit before tax:

	2006 £million	2005 £million
Employee costs (note 3)	**182.0**	154.7
Depreciation of property, plant and equipment		
Owned assets	**25.6**	15.8
Under finance leases	**1.8**	–
Profit/(loss) on disposal of property, plant and equipment	**1.3**	(2.4)
Operating lease rentals		
Aircraft	**119.5**	107.6
Other	**2.0**	2.0
Foreign exchange gains/(losses) on operating items (note 23)	**6.2**	(3.6)
Foreign exchange gains/(losses) on foreign currency borrowings less deposits (note 23)	**8.9**	(2.7)
(Loss) from time value of financial instruments *	**(9.8)**	–
Remuneration of the auditor and its associates (including foreign partners)**	**0.8**	0.3

* Time value of financial instruments is the ineffective portion of movement in the fair value of financial instruments designated as cash flow hedges. Since easyJet's hedging instruments primarily comprise zero cost collars, the income statement impact of the time value of instruments will be zero over the full life of the instrument. On implementation of IAS 39 on 1 October 2005 (note 28), a time value asset of £5.0 million was recognised before the impact of deferred taxes.

** For the financial year 2006, this refers to PricewaterhouseCoopers LLP. For the financial year 2005 this refers to KPMG Audit PLC who were auditors of the Group for that financial year. Remuneration disclosed below as "other parties entitled to act as registered auditors" comprises amounts paid to Deloitte & Touche, BDO Stoy Hayward, Moore Stephens, Grant Thornton, Peters Elworthy and Moore and Bentley Jennison. During 2005, amounts paid to PricewaterhouseCoopers LLP were included in this category, and during 2006, amounts paid to KPMG were included in this category.

Auditors' remuneration

During the year the Group obtained the following services from the Group's auditor at cost as detailed below:

	2006 £million	2005 £million
Fees for the audit of the Company's annual accounts	**0.1**	0.1
Fees for other services		
Audit of subsidiaries, pursuant to legislation	**0.2**	0.1
Other assurance services	**–**	0.1
Corporate finance services	**0.4**	–
All other services	**0.1**	–
Remuneration of other parties entitled to act as registered auditor		
Audit of subsidiaries, pursuant to legislation	**0.1**	–
Fees for other services	**1.0**	0.7

3 Employees

The average number of persons (including Executive Directors) employed by the Group was as follows:

	2006	2005
Operations and administration	**4,104**	3,622
Sales and marketing	**255**	253
	4,359	3,875

The employee costs for the Group during the year was as follows:

	2006 £million	2005 £million
Wages and salaries	**155.1**	132.7
Social security costs	**12.0**	12.9
Pension costs	**10.7**	7.1
Share-based payments	**4.2**	2.0
	182.0	154.7

Key management compensation (including Directors) was as follows:

	2006 £million	2005 £million
Short-term employee benefits	**3.3**	2.8
Post-employment benefits	**0.1**	0.1
Payments for loss of office	**0.2**	0.2
Share-based payments	**0.8**	0.2
	4.4	3.3

Key management are defined as the Executive Management Team as they are considered to have the authority and responsibility for planning, directing and controlling the activities of the Group. Other than pensions, no long-term benefits were provided to key management in 2006 or 2005. At 30 September 2006, key management comprised eight individuals (2005: seven).

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

	2006 £million	2005 £million
Remuneration	**2.4**	1.4
Pension contributions	**0.1**	0.1
Payment for loss of office	**–**	0.1
Aggregate gains made on the exercise of share options	**0.8**	0.4
	3.3	2.0

In relation to the highest paid Director:

	2006 £million	2005 £million
Remuneration	**1.4**	0.8
Pension contributions	**–**	–
Aggregate gains made on the exercise of share options	**–**	0.2
	1.4	1.0

Further details of Directors' remuneration including share options and pension entitlements are set out in the audited section of the report on Directors' remuneration, which forms part of the audited financial statements.

Notes continued

forming part of the financial statements

4 Net financing income

	2006 £million	2005 £million
Interest expense		
Interest payable on bank borrowings	**16.9**	6.4
Interest payable on finance leases	**2.8**	–
Other interest payable	**3.0**	1.8
Net exchange differences on financing items (note 23)	**1.4**	2.7
Interest and other financing expense	**24.1**	10.9
Interest income	**(35.4)**	(27.2)
Net financing income	**(11.3)**	(16.3)

5 Taxation

a) Tax on profit on ordinary activities:

	2006 £million	2005 £million
Current income tax		
United Kingdom corporation tax	**15.2**	17.1
Foreign tax	**2.1**	1.1
Total current income tax charge	**17.3**	18.2
Deferred taxation		
Originating and reversal of fixed-asset related temporary differences	**22.0**	9.6
Other temporary differences	**(4.2)**	(4.2)
Total deferred tax charge	**17.8**	5.4
Total taxation charge in the income statement	**35.1**	23.6
Effective tax rate	**27.2%**	28.6%

b) Tax on items charged to equity comprises:

	2006 £million	2005 £million
Deferred tax credit on stock options	**5.9**	7.7
Deferred tax credit on fair value movements of cash flow hedges	**8.7**	–
Current tax	**4.9**	0.3
Tax credit reported directly in reserves	**19.5**	8.0

c) Reconciliation of the total tax charge

The tax for the period is lower (2005: lower) than the standard rate of corporation tax in the UK (30%).

	2006 £million	2005 £million
Profit on ordinary activities before tax	**129.2**	82.6
Tax charge at 30% (2005: 30%)	**38.8**	24.8
Attributable to rate other than 30%	**(6.4)**	(3.4)
Expenses not deductible for tax purposes	**2.0**	4.1
Share-based payments	**(0.3)**	–
Adjustments in respect of prior periods – current taxation	**1.6**	2.9
Adjustments in respect of prior periods – deferred taxation	**(0.6)**	(4.8)
Total taxation	**35.1**	23.6

5 Taxation continued

d) Net deferred tax liability

The net deferred tax liability included in the balance sheet is as follows:

	Accelerated capital allowances £million	Short-term timing differences £million	Fair value gains/(losses) £million	Share-based payments £million	Future credits not taxable £million	Total £million
At 1 October 2005	28.7	3.7	–	(8.6)	(1.6)	22.2
Change in accounting policy (note 28)			6.3			6.3
At 1 October 2005 – as restated	28.7	3.7	6.3	(8.6)	(1.6)	28.5
Credited/(charged) to the income statement	18.1	2.3	(2.9)	(1.3)	1.6	17.8
Credited/(charged) to equity			(8.7)	(5.9)		(14.6)
At 30 September 2006	**46.8**	**6.0**	**(5.3)**	**(15.8)**	**–**	**31.7**

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority. As a result the net deferred tax liability is £31.7 million (2005: £22.2 million), which comprises a deferred tax liability of £32.0 million offset by a deferred tax asset of £0.3 million.

No deferred tax liability has been recognised on the unremitted earnings of overseas subsidiaries as no tax is expected to be payable on in the foreseeable future based on the current repatriation policy of the Group.

There are no tax losses available for use in either the current or the prior period.

6 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.

The earnings per share are based on the following:

	2006 £million	2005 £million
Profit for the period retained for equity shareholders	**94.1**	59.0

	million	million
Weighted average number of ordinary shares in issue during the period used to calculate basic earnings per share	**405.7**	399.3
Weighted average number of dilutive share options used to calculate diluted earnings per share	**9.7**	9.6

Notes continued

forming part of the financial statements

7 Goodwill

	2006 £million
Cost and net book value at 1 October 2005 and 30 September 2006	**309.6**

Goodwill arose on the purchases of TEA Basel and Go Fly.

easyJet has only one cash generating unit, which is its airline network. Goodwill arising through business combinations all relates to this one cash generating unit. The recoverability of goodwill has been determined based on value in use. This has been assessed by applying cashflow projections based on three-year financial forecasts approved by the Board. The pre-tax discount rate applied to the cash flow projections is 11.3%.

The calculation of value in use is most sensitive to the following assumptions: operating margin and discount rate. Operating margins and growth rates are based on the estimated effects of planned business efficiency and operational growth, however the trading environment is subject to both regulatory and competitive pressures that can have a material effect on the operating performance of the business. Forseeable events are unlikely to result in a change in the projections to a significant enough extent to result in the carrying value of the network failing to exceed its recoverable amount. The discount rate reflects management's estimate of the long-term return on capital employed for the business units. Changes in sources of funding or the cost of the funding could result in changes to discount rates used. An increase in the discount rate by 9.5 percentage points would result in the carrying amount of assets being equal to their recoverable amount.

8 Other intangible assets

	Software development costs £million
Cost	
At 1 October 2005	4.3
Additions	0.5
Disposals	–
At 30 September 2006	**4.8**
Amortisation	
At 1 October 2005	2.9
Charge for the year	0.8
Disposals	–
At 30 September 2006	**3.7**
Net book value	
At 30 September 2006	**1.1**
At 30 September 2005	1.4
Cost	
At 1 October 2004	3.3
Additions	1.4
Disposals	(0.4)
At 30 September 2005	4.3
Amortisation	
At 1 October 2004	2.2
Charge for the year	0.8
Disposals	(0.1)
At 30 September 2005	2.9
Net book value	
At 30 September 2005	1.4
At 30 September 2004	1.1

9 Property, plant and equipment

	Aircraft £million	Aircraft deposits £million	Leasehold improvements – buildings £million	Fixtures and fittings £million	Total £million
Cost					
At 1 October 2005	299.3	117.7	6.0	12.8	435.8
Additions	358.6	49.8	0.9	3.9	413.2
Disposals	(9.8)	(83.7)	–	(0.8)	(94.3)
Transfers to other non-current assets	–	(2.6)	–	–	(2.6)
At 30 September 2006	**648.1**	**81.2**	**6.9**	**15.9**	**752.1**
Depreciation					
At 1 October 2005	23.5	–	3.0	10.7	37.2
Charge for the year	23.9	–	1.9	1.6	27.4
Disposals	(7.6)	–	–	(0.6)	(8.2)
At 30 September 2006	**39.8**	**–**	**4.9**	**11.7**	**56.4**
Net book value					
At 30 September 2006	**608.3**	**81.2**	**2.0**	**4.2**	**695.7**
At 30 September 2005	275.8	117.7	3.0	2.1	398.6

	Aircraft £million	Aircraft deposits £million	Leasehold improvements – buildings £million	Fixtures and fittings £million	Total £million
Cost					
At 1 October 2004	211.7	86.5	4.0	11.6	313.8
Additions	170.8	71.3	2.0	1.4	245.5
Disposals	(76.1)	(40.1)	–	(0.2)	(116.4)
Transfers to asset held for sale	(7.1)	–	–	–	(7.1)
At 30 September 2005	**299.3**	**117.7**	**6.0**	**12.8**	**435.8**
Depreciation					
At 1 October 2004	49.1	–	2.3	8.6	60.0
Charge for the year	12.9	–	0.7	2.2	15.8
Disposals	(38.5)	–	–	(0.1)	(38.6)
Transfers	–	–	–	–	–
At 30 September 2005	**23.5**	**–**	**3.0**	**10.7**	**37.2**
Net book value					
At 30 September 2005	**275.8**	**117.7**	**3.0**	**2.1**	**398.6**
At 30 September 2004	162.6	86.5	1.7	3.0	253.8

The net book value of aircraft held under finance leases at 30 September 2006 was £80.9 million (2005 £nil). £1.8 million of the related accumulated depreciation was charged in the year ended 30 September 2006.

At 30 September 2006, aircraft with a net book value of £418.0 million (2005: £228.8 million) were mortgaged to lenders as security for loans.

Aircraft spares totalling £4.9 million (2005 £8.5 million) were received free of charge during the year. Accounting for these transactions is described in note 1.

Notes continued

forming part of the financial statements

10 Cash, cash equivalents and restricted cash

	2006 £million	2005 £million
Cash and cash equivalents	**860.7**	667.0
Current restricted cash	**12.2**	6.1
Non-current restricted cash	**26.1**	22.4
	899.0	695.5

Interest rates earned on cash and cash equivalents are repriced within 90 days or less based on prevailing market rates of interest. Interest rates earned on restricted cash are repriced within 185 days or less based on prevailing market rates of interest.

Restricted cash consists of: £12.0 million of customer payments for packaged holidays which is restricted in use until the holiday has occurred; £0.2 million held as collateral for debt financing agreements; £24.6 million placed on deposit relating to certain operating lease arrangements; and £1.5 million held in escrow relating to ongoing overseas taxation investigations.

11 Other non-current assets

	2006 £million	2005 £million
Prepayments recoverable in more than one year	**2.9**	2.3
Aircraft payments on account recoverable in more than one year	**–**	4.4
	2.9	6.7

12 Investments

a) Investments

	2006 £million
The Airline Group	
Cost, at 1 October 2005 and 30 September 2006	**7.2**
Provisions, at 1 October 2005 and 30 September 2006	**(7.2)**
Net book value, at 1 October 2005 and 30 September 2006	**–**

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 £3.7 million (2005: £2.9 million). This accrued interest has not been recognised since its recovery is uncertain.

12 Investments continued

b) Investments accounted for under the equity method

The Big Orange Handling Company Limited

	2006 £million
Cost	
At 1 October 2005	**0.2**
Share of retained profits earned during year	**0.1**
Dividends received	**–**
Cost and net book value at 30 September 2006	**0.3**

The Big Orange Handling Company Limited is a 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 and Menzies Aviation Group Limited owns the remainder.

In relation to the Group's interests in The Big Orange Handling Company Limited, the assets, liabilities, income and expenses are shown below:

	2006 £million	2005 £million
Current assets	**0.2**	0.3
Long-term assets	**0.3**	0.2
Current liabilities	**(0.2)**	(0.3)
Long-term liabilities	**–**	–
	0.3	0.2
Revenue	**2.1**	2.0
Expenses	**(2.0)**	(1.8)
Profit before tax	**0.1**	0.2
Tax	**–**	(0.1)
Share of post tax results from associate	**0.1**	0.1

13 Trade and other receivables

	2006 £million	2005 £million
Trade receivables	**129.4**	104.3
Less: provision for impairment of receivables	**(1.4)**	(0.6)
Net trade debtors	**128.0**	103.7
Other receivables	**38.6**	54.5
Prepayments and accrued income	**46.7**	52.5
	213.3	210.7

Concentrations of credit risk with respect to trade receivables are limited as the majority of easyJet's trade debtors are represented by amounts due from a few well established credit card acquirers.

Notes continued

forming part of the financial statements

14 Asset held for resale

One Boeing 737-300 aircraft was held for resale as at 30 September 2005 as a contract had been signed for its sale. The aircraft was delivered in November 2005.

15 Trade and other payables

	2006 £million	2005 £million
Trade payables	**31.5**	6.6
Other taxes and social security	**4.3**	3.7
Other creditors	**12.8**	16.9
Unearned revenue (including Government taxes)	**179.4**	160.3
Accruals and deferred income	**186.1**	155.4
	414.1	342.9

16 Financial liabilities – borrowings

	2006 £million	2005 £million
Current		
Bank loans (a)	**30.2**	16.3
Finance lease obligations (b)	**2.6**	–
	32.8	16.3

	2006 £million	2005 £million
Non-current		
Bank loans (a)	**346.9**	201.0
Finance lease obligations (b)	**100.0**	–
	446.9	201.0

a) The bank loans financed the acquisition of certain of the Group's aircraft. The aircraft purchased with the loans are provided as security against the borrowings. Bank loans are denominated in either US dollars or sterling and bear interest based upon the relevant national LIBOR equivalent. See note 23.

b) Finance lease obligations are secured against certain of the Group's aircraft. See note 9.

16 Financial liabilities – borrowings continued

Maturity of financial liabilities
The below maturities are based on contractual repayment dates:

	Bank loans £million	Finance leases £million	Total £million
30 September 2006			
Within one year	**30.2**	**2.6**	**32.8**
Between one and two years	**31.7**	**2.8**	**34.5**
Between two and five years	**131.1**	**9.7**	**140.8**
After five years	**184.1**	**87.5**	**271.6**
	377.1	**102.6**	**479.7**
30 September 2005			
Within one year	16.3	–	16.3
Between one and two years	17.0	–	17.0
Between two and five years	68.4	–	68.4
After five years	115.6	–	115.6
	217.3	–	217.3

Currency of borrowings	US dollar denominated £million	Sterling denominated £million	Total £million
30 September 2006			
Due within one year	**20.0**	**12.8**	**32.8**
Due within greater than one year	**306.2**	**140.7**	**446.9**
	326.2	**153.5**	**479.7**
30 September 2005			
Due within one year	9.8	6.5	16.3
Due within greater than one year	121.3	79.7	201.0
	131.1	86.2	217.3

17 Other non-current liabilities

	2006 £million	2005 £million
Accruals and deferred income	**74.8**	75.1
	74.8	75.1

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

Notes continued

forming part of the financial statements

18 Provisions

Provisions for maintenance liabilities:

	2006 £million	2005 £million
At the start of the financial year	**70.0**	42.9
Charged to income statement	**21.7**	34.7
Utilised in the year	**(20.5)**	(8.4)
Exchange adjustments	**2.0**	0.8
	73.2	70.0

Provisions have been analysed between current and non-current as follows:

	2006 £million	2005 £million
Current	**–**	16.4
Non-current	**73.2**	53.6
	73.2	70.0

The nature of the provision for maintenance liabilities is considered within the critical accounting policies in the operating and financial review. The provision for maintenance liabilities is expected to be utilised by April 2016 (2005: July 2015)

19 Called up share capital

	2006 £million	2005 £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 the beginning of the period	**100.1**	99.8
Issued during the year under share option schemes		
2005: 1.2 million ordinary shares of 25 pence each		0.3
2006: 10.1 million ordinary shares of 25 pence each	**2.5**	
At the end of each period, 410.5 million shares of 25 pence each (2005: 400.4 million shares of 25 pence each)	**102.6**	100.1

20 Share-based payments

During the year ended 30 September 2006, the Group had the following share-based payment arrangements. Further details are given in the Directors' remuneration report.

i) Employee share option schemes

The easyJet Key Employee Pre-Flotation Share Option Scheme

The share options granted vested in tranches of 25% of the total options at dates following the Admission of the Company to the Official List of the UK Listing Authority during 2000.

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.

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.

The easyJet Non-Approved Discretionary Share Option Scheme 2000

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

An initial 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.

The easyJet Approved Discretionary Share Option Scheme

Awards were made in December 2001, March 2003, January 2004, December 2004, June 2005 and December 2005 to eligible employees of the Group on terms that meet Inland Revenue requirements for an approved share option scheme.

ii) Sharesave scheme

This scheme is open to all UK resident employees. Participants may elect to save up to £250 per month under a three-year savings contract. An option is granted by the Company to buy shares at a price based on the market price of the shares at the time of the grant. The option price is capped at 20% of the market price of the Company's shares at the date of grant. At the end of the savings period, a tax-free bonus is applied to the savings and the option becomes exercisable for a period of six months. The Company made grants under the Sharesave scheme in June 2005 and June 2006, with options being granted at a discount of 20% to the market price at the time of the grant. For those employees who are not employed by UK Group companies, similar terms and conditions apply to the UK scheme, albeit without the UK tax benefits.

iii) Share incentive plan

The scheme is open to all employees. 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 is able to vote at meetings once the shares are purchased. For those employees who are not employed by UK Group companies, similar terms and conditions apply to the UK scheme, albeit without the UK tax benefits.

In October 2006, the Company has granted free shares to all employees at 1 August 2006 under this scheme. The value of shares allocated to each employee was equal to two weeks' salary, with a minimum award of £600 and a maximum of £3,000. These shares are not included in the table below as the free shares had not been allocated at 30 September 2006.

iv) Long-term Incentive Plan

The Long-term Incentive Plan (LTIP) is open, by invitation, to the Airline Management Board and Senior Management Group (SMG). The LTIP has been structured to provide for regular annual awards of (a) performance shares worth up to 100% of salary each year (up to 50% for SMG) and (b) 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. The vesting of all regular annual LTIP awards is dependent on return on equity targets being achieved. These targets are measured by a reference to a three-year performance period commencing in the financial year that the grant is made. In addition the LTIP provides for a one-off "FTSE 100" award to senior executives. This award is 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 receive easyJet shares worth up to 100% of salary. Grants were made under the LTIP in December 2005.

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20 Share-based payments continued

v) Chief Executive matching award
On Andrew Harrison acquiring and retaining £1,000,000 worth of easyJet shares using his own funds, he was granted an equal number of shares. 50% of this matching share award vests three years after grant subject to performance conditions relating to the growth in the normalised EPS over the three years. The other 50% of this matching award vests three years after grant subject to the same ROE targets as the LTIP. The grant was made in December 2005.

	Share options 000	Share incentive plan 000	Sharesave 000	Long-term Incentive Plan 000	Chief Executive matching 000
Outstanding at 1 October 2005	41,427	35	2,031	–	–
Granted	745	162	663	938	267
Expired/cancelled	(8,213)	(9)	(231)	(320)	–
Exercised	(10,139)	(2)	(8)	–	–
Outstanding at 30 September 2006	**23,820**	**186**	**2,455**	**618**	**267**
Exercisable at 30 September 2006	**11,734**	**–**	**–**	**–**	**–**
At 30 September 2006:					
Weighted average exercise price, £	2.03	n/a	2.06	n/a	n/a
Range of exercise prices for options outstanding, £	1.61 – 3.65	n/a	1.86 – 2.61	n/a	n/a
Weighted average remaining contractual life, years	5.68	4.37	2.61	2.67	2.86

The weighted average share price during the period for options exercised over the year was £3.93 (2005: £2.77).

It is anticipated that shares to settle the share incentive plan, the long-term incentive plan and the Chief Executive matching award will be purchased in the market rather than issued as new shares.

The estimated fair values of share options are calculated by applying a binomial option pricing model. The assumptions used in the model are as follows:

	Share options	Share incentive plan	Sharesave	Long-term Incentive Plan	Chief Executive matching
Share price, £ *	1.81 – 3.80	2.80 – 4.51	2.45 – 3.66	3.42	3.76
Exercise price, £ *	1.84 – 3.60	0.00	1.86 – 2.61	0.00	0.00
Expected volatility	40 – 42%	n/a	42%	n/a	n/a
Option life, years	6.5	n/a	3.5	n/a	n/a
Expected dividend yield	0%	0%	0%	0%	0%
Risk-free interest rate	4.15 – 4.62%	n/a	4.09 – 4.68%	n/a	n/a

Share price is the closing share price on the date of grant of each tranche of options. Exercise price is determined by the terms of each option plan, as discussed above. Differences between share price and exercise price are because of the use of a five-day weighted average price to determine option price. In addition for the Sharesave scheme, a 20% discount is given between option price and share price. Levels of early exercises and lapses are estimated using historical averages.

The total charge for the year relating to employee share-based payment plans was £4.2 million (2005: £2.0 million), all of which related to equity settled share-based payment transactions.

20 Share-based payments continued

The following shares were held by the Group's Employee Share Trusts as at 30 September in order to satisfy share-based payment schemes. The cost of these shares is deducted from retained earnings:

	2006	2005
Share Incentive Plan		
Number of shares	**187,544**	34,680
Cost £000	**666**	99
Market value at year end £000	**911**	101
Long-Term Incentive Plan		
Number of shares	**15,925**	–
Cost £000	**55**	–
Market value at year end £000	**77**	–

21 Equity

	Share capital £million	Share premium £million	Other reserves – hedging £million	Other reserves – translation £million	Retained earnings £million	Total £million
At 30 September 2005	100.1	557.2	–	0.1	206.0	863.4
Adoption of IAS 32 and IAS 39 net of deferred tax	–	–	10.8	–	2.5	13.3
At 1 October 2005	100.1	557.2	10.8	0.1	208.5	876.7
Profit for the period					94.1	94.1
Cash flow hedges						
Fair value losses in period, net of deferred tax	–	–	(17.6)	–	–	(17.6)
Transfers to net profit, net of tax	–	–	(2.7)	–	–	(2.7)
Translation differences on foreign currency net investments	–	–	–	(0.1)	–	(0.1)
Share options						
Proceeds from shares issued	2.5	34.2	–	–	(18.8)	17.9
Value of employee services net of deferred tax	–	–	–	–	15.2	15.2
Employee share schemes – purchase of shares	–	–	–	–	(0.6)	(0.6)
At 30 September 2006	**102.6**	**591.4**	**(9.5)**	**–**	**298.4**	**982.9**

Retained earnings is stated net of £0.7 million (2005: £0.1 million) relating to the cost of unallocated shares held by the Company's Employee Share Option Trusts. This represents the cost of shares which were acquired in the open market using funds provided by the Group to meet obligations under the Long-Term Incentive Plan and the Share Incentive Plan.

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments relating to hedge transactions that are extant at 30 September 2006.

The foreign currency translation reserve contains the accumulated foreign exchange differences from the translation of the financial statements of the Group's foreign operations with a non-sterling functional currency, arising when the this entity is consolidated.

Cash proceeds from share options exercised totalled £17.9 million, representing amounts received from third parties. £18.8 million was received from Group subsidiaries on exercise of share options by third parties.

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22 Reconciliation of net profit to net cash inflow from operating activities

	2006 £million	2005 £million
Cash generated from operations		
Profit after tax	**94.1**	59.0
Adjustments for:		
Tax charge	**35.1**	23.6
Depreciation charge	**27.4**	15.8
(Profit)/loss on disposal of property, plant and equipment	**(1.3)**	2.4
Amortisation of other intangibles	**0.8**	0.8
Interest income	**(35.4)**	(27.2)
Interest expense	**22.7**	8.2
Share-based payments	**4.7**	2.0
Share of results of joint ventures before taxation	**(0.1)**	(0.1)
Financial Instruments – time value	**9.8**	–
Foreign exchange (note 23)	**(17.3)**	5.3
Changes in working capital:		
(Increase)/decrease in trade and other receivables	**(6.9)**	21.1
Increase in payables	**79.0**	43.3
Increase in provisions	**3.2**	27.2
Decrease in other non-current assets	**5.7**	12.2
Decrease in financial instruments	**0.4**	–
(Decrease)/increase in other non-current liabilities	**(0.3)**	27.4
Cash generated from continuing operations	**221.6**	221.0

23 Financial instruments

a) Disclosures in accordance with IAS 32 and IAS 39

The Group adopted IAS 32 and IAS 39 on 1 October 2005. The following disclosures are included as of 30 September 2006 to meet the disclosure requirements of IAS 32.

Numerical financial instruments disclosures are set out below and also in note 21. For the impact of adoption of IAS 32 and IAS 39 at 1 October 2005 see note 28.

The fair values of derivative financial instruments at 30 September 2006 were as follows:

	Assets £million	Liabilities £million
At 30 September 2006		
Forward foreign currency contracts – held for trading	**–**	**(0.4)**
Forward foreign currency contracts – cash flow hedge	**0.3**	**–**
Forward jet fuel contracts – cash flow hedge	**0.3**	**(0.9)**
Zero cost foreign currency collars – cash flow hedge	**0.8**	**(12.0)**
Zero cost jet fuel collars – cash flow hedge	**–**	**(6.8)**
	1.4	**(20.1)**

	Assets £million	Liabilities £million
Current	**1.0**	**(15.3)**
Non-current	**0.4**	**(4.8)**
	1.4	**(20.1)**

The fair values disclosed above are based on the market prices of comparable instruments at the balance sheet date .

23 Financial instruments continued

Amounts recorded in the income statement relating to derivative financial instruments were as follows:

	£million
Gains on cash flow hedges	**3.8**
Undesignated portion of cash flow hedges (time value)	**(9.8)**
Gains on derivatives held for trading	**0.5**
Net derivative gains and (losses) in operating profit	**(5.5)**
Financing costs – loss on derivatives held for trading	**(10.7)**
Net derivative losses in financing costs	**(10.7)**
Net derivative gains and losses in income statement	**(16.2)**

Cash flow hedges At 30 September 2006, the Group had two principal risk management activities that were designated as hedges of future forecast transactions. These were:

- A hedge of certain short- to medium-term foreign currency operational payments by forward exchange contracts and collars hedging future foreign exchange risk.
- A hedge of future jet fuel purchases by forward jet derivative contracts hedging future fuel price risk.

To the extent that these hedges were assessed as highly effective, a summary of the amounts included in equity and the periods in which the related cash flows are expected to occur are summarised below. The net fair value gains and losses will be transferred to the income statement when the related expense is recognised.

	Within 1 year £million	Within 1 – 2 years £million	Within 2-3 years £million	Total £million
Hedges of future operating payments against US dollars	(5.5)	(2.4)	(0.3)	(8.2)
Hedges of future jet fuel purchases	(5.3)	–	–	(5.3)
	(10.8)	**(2.4)**	**(0.3)**	**(13.5)**

Related deferred tax	4.0
Total losses included within equity	(9.5)

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23 Financial instruments continued

Currency risk

Translation As noted below owned aircraft and deposits paid are now sterling denominated. Group policy seeks to minimise the impact of translation adjustments as a result of the monthly revaluation of US dollar denominated liabilities. This is achieved through drawing down loans in sterling, holding some US dollar cash and the use of forward foreign exchange contracts.

Forward foreign currency contracts have been entered into to purchase $562.0 million at future dates. These mature within one year. Hedge accounting is not sought for these derivatives as they are used to manage exposures arising from the Group's net US dollar financial liabilities which totalled $566.7 million at 30 September 2006.

Transaction Group policy is to hedge a percentage of US dollar expenditure in order to reduce the impact of adverse foreign currency movements on the profit and loss account. This is managed using both forward foreign exchange contracts and zero cost collars. The amounts hedged are based on a percentage of the forecast US dollar expenditure.

Foreign currency zero cost collars have been entered into to purchase $1,031.0 million at future dates. Forward foreign currency contracts have been entered into to purchase $28.0 million at future dates. Hedge accounting is applied to these derivatives as they hedge future payments for jet fuel, aircraft leases and aircraft leased maintenance reserves.

Amounts recorded in the income statement relating to foreign exchange gains and losses, and the derivative financial instruments entered into to manage this foreign exchange risk were as follows:

	£million
Unrealised revaluation gains/(losses) included in operating profit	8.4
Realised foreign exchange (losses) included in operating profit	(2.2)
Realised gains/(losses) on derivatives held for trading	0.5
Net foreign exchange gains and (losses) in operating profit	**6.7**
Unrealised revaluation gains/(losses) included in operating profit	9.3
Unrealised fair value movements on derivatives held for trading	(0.4)
Realised gains/(losses) on derivatives held for trading	(10.3)
Net foreign exchange gains and (losses) in financing costs (note 4)	**(1.4)**
Net foreign exchange gains and (losses) in income statement	**5.3**

Jet fuel price risk Group policy is to hedge a percentage of anticipated jet fuel expenditure in order to reduce the impact of adverse fuel price movements on the profit and loss account. This is managed using both forward foreign transactions and zero cost collars. The amounts hedged are based on a percentage of the forecast jet fuel requirement.

Jet fuel zero cost collars have been entered into to protect the price volatility of 321,000 metric tonnes of fuel. Forward contracts have been entered into to fix the price of 154,250 metric tonnes of fuel. Hedge accounting is applied to these derivatives as they hedge future payments of jet fuel.

Financing and interest rate risk In order to provide flexibility the Group seeks to have a mix of both owned and leased aircraft. The Group has a target policy for the interest exposure on operating leases of 50/50. Bank loans are all at floating rate and the finance leases put in place during the year are predominantly floating rate.

The effective interest rates at the balance sheet dates were as follows:

	2006
Bank borrowings	**6.28%**
Finance lease borrowings	**5.60%**

Bank borrowings are all variable rate and bear interest by reference to US dollar LIBOR or sterling LIBOR plus a margin

The Group is also exposed to interest rate risk as operating lease rentals for the lease of aircraft are based on fixed or variable interest rate terms.

23 Financial instruments continued

Credit risk The maximum credit risk exposure of the Group's financial assets at 30 September 2006 is represented by the amounts reported under the corresponding balance sheet headings. The Group considers that it is not exposed to major concentrations of credit risk: the majority of the Group's trade debtors are represented by amounts due from a few well established credit card acquirers, and cash balances are held with several major banks and rated money market funds. The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments, but does not expect any counterparties to fail to meet their obligations. The Group limits the amount of credit exposure to any one counterparty. Currently the Group makes use of standard International Swaps and Derivative Associate (ISDA) documentation.

Fair value of non-derivative financial instruments The carrying value of financial assets is approximate or equal to their fair value.

The carrying value of short-term borrowings approximates fair value. All bank loans are based on variable interest rates and therefore their carrying value approximates their fair value.

Finance lease borrowings are based partly on variable interest rates, and partly on fixed interest rates. The book value of finance leases totals £102.6 million whereas the fair value, calculated on a discounted cash flow basis, totals £96.4 million.

Where market values are not available, fair values of financial assets and liabilities have been calculated by discounting cash flows at prevailing interest rates and by applying year-end exchange rates.

b) UK GAAP disclosures

The following disclosures are included at 30 September 2005 to meet the requirements of Financial Reporting Standard 13, Derivatives and Other Financial Instruments: Disclosure.

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.

During the year ended 30 September 2005, the Group 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.

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 predominantly 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 US dollars. There were minimal US dollar revenues.

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23 Financial instruments continued

£137.8 million (or $243.7 million) of the Group's total liabilities at 30 September 2005 were denominated in US dollars, with the effect that the Group's profits can be significantly affected by movements in the rate of sterling against the US dollar. Under UK GAAP, approximately 27% of the Group's total assets were denominated in US dollars. This change occurred due to the adoption of IAS 21 (note 28). Under UK GAAP, owned aircraft, and deposits paid towards the funding of aircraft were denominated in US dollars, whereas under IAS 21, these items are considered to be sterling denominated. Under UK GAAP, The Group mitigated the effect of such movements in the value of the US dollar denominated assets by borrowing in the same currencies as those US dollar denominated assets. Under UK GAAP, owned aircraft were anticipated to be sold for US dollars within approximately seven years of their acquisition. The resulting sale proceeds were expected to be used largely to pay down US dollar loans and as a result these large US dollar inflows were not considered to create a significant currency exposure to the Group.

The US dollar/sterling exchange rate at 30 September 2005 was 1.769.

3% of the total Group costs in the year ended 30 September 2005 were incurred by easyJet Switzerland, 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 income statement, 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 income statement. 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 (restated for IFRS) £million	Other £million	Total £million
Total assets	131.5	60.5	154.4
Total liabilities	(269.2)	(24.0)	(293.2)
As at 30 September 2005	**(137.7)**	**36.5**	**(101.2)**

Interest rate risk The Group's exposure to fixed and floating rate leases for aircraft 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. 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**	**–**	**–**

Maturity of loans is given in note 16.

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%.

23 Financial instruments continued

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)	128.6	70.6	58.0	4.6	59

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 aircraft which have been financed by asset-backed bank loans.

In March 2003, the Group agreed to purchase 120 new Airbus A319 aircraft 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 delivery is taken of aircraft. As the Group has large cash resources to meet these payments and financing is arranged for the aircraft 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 Book value £million	Fair value £million
Primary financial instruments held to finance the Group's operations:		
Fuel hedges	–	10.3
Currency hedges	–	10.2
Bank loans	(217.3)	(217.3)
Cash	695.5	695.5
	478.2	**498.7**

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 arm's-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 arm's-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.

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23 Financial instruments continued

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.

In respect of fuel, the Group had hedges for 206,000 tonnes of fuel through options at 30 September 2005. These all expired before 30 September 2006. At 30 September 2005, the total value of these instruments was a gain of £10.3 million.

There were no further hedges outstanding at 30 September 2005.

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

24 Commitments

a) Commitments under operating leases

	Aircraft 2006 £million	Aircraft 2005 £million
Total commitments under non-cancellable operating leases due:		
Within one year	**117.1**	128.6
Greater than one and less than five years	**387.8**	393.9
After five years	**134.9**	160.7
	639.8	683.2

	Land and buildings **2006 £million**	Land and buildings 2005 £million
Total commitments under non-cancellable operating leases due:		
Within one year	**2.2**	2.7
Greater than one and less than five years	**4.2**	5.1
After five years	**5.1**	5.6
	11.5	13.4

24 Commitments continued

b) Minimum lease payments under finance leases fall due as follows:

	2006 £million	2005 £million
Not later than one year	**7.8**	–
Later than one year but not more than five years	**31.5**	–
More than five years	**104.8**	–
	144.1	–
Future finance charges on finance leases	**(41.5)**	–
Present value of finance lease liabilities	**102.6**	–

c) 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 53 new Airbus A319 aircraft with a list price of approximately US $2.3 billion, being approximately £1.3 billion (before escalations, discounts and deposit payments already made). In respect of those aircraft, deposit payments amounting to $164.3 million or £90.9 million (2005: $262.0 million or £145.5 million) had been made as at 30 September 2005, for commitments for the acquisition of Airbus A319 aircraft.

25 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.

26 Related party transactions

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

easyJet Airline Company Limited, a Group company, signed an agreement with Eilon & Associates Limited, a company controlled by Amir Eilon, who served as a Non-Executive Director of easyJet plc until February 2006. 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 £nil (2005: £85,643).

The charges are summarised below for the years ended 30 September 2006 and 2005, together with the balances outstanding at those dates.

	The Big Orange Handling Company Limited		Eilon & Associates Limited	
	2006 £million	2005 £million	**2006 £million**	2005 £million
Charges to the Group	**8.4**	8.5	**–**	0.1
Charges by the Group	**1.5**	1.3	**–**	–
Year-end debtor/(creditor)	**0.3**	0.2	**–**	–

In the course of business the Group has also transacted with companies of which Stelios Haji-Ioannou is the majority shareholder: easyBus Limited and easyGroup IP Limited. 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. The amounts charged to the Group, charged by the Group and the year-end balance position with these companies is less than £0.1 million therefore they are not included in the table above.

27 Post balance sheet events

On 13 November 2006, easyJet agreed that, subject to shareholder approval, it had converted a further 52 of its Airbus option aircraft to firm deliveries in 2008, 2009 and 2010; furthermore an additional 75 purchase rights had been obtained for aircraft which could be delivered during the period to 2015.

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28 Transition to IFRS

For all periods up to and including 30 September 2005, easyJet prepared its financial statements in accordance with UK GAAP. These financial statements are the first that the Group is required to prepare under IFRS.

In preparing financial statements under IFRS, easyJet has started from an opening balance sheet as at 1 October 2004, easyJet's transition date, and made changes in accounting policies and other restatements required by IFRS 1 for the first adoption of IFRS. This note explains the adjustments made in restating easyJet's UK GAAP balance sheet at the transition date and its previously published UK GAAP financial statements for the year ended 30 September 2005. There were no material adjustments to the Group cash flow statement as a result of adoption of IFRS.

The exemptions applied on transition are included in note 1, accounting policies.

a) Presentation adjustments

The financial information is in IFRS format, and reflects a number of differences in presentation between UK GAAP and IFRS as follows:

i) The disclosure of goodwill as separate from other intangible assets on the balance sheet;
ii) The classification of software that is not an integral part of operating hardware as another intangible asset separate from property, plant and equipment on the balance sheet, and the classification of the related depreciation as amortisation;
iii) The classification of long-term assets previously included in current assets;
iv) The reclassification of cash on deposit with a maturity of greater than one year or between three months and one year, previously classified as liquid resources in the cash flow statement, as a long-term or current financial asset;
v) The separate classification of a Boeing 737-300 which was held for resale at 30 September 2005;
vi) The reclassification of provisions as current or non-current liabilities;
vii) The reclassification of foreign exchange reserves arising on the retranslation of subsidiaries with a functional currency other than sterling from retained earnings to other reserves; and
viii) The format of the income statement will be substantially similar to that of the results of operations included in the operating and financial review in the Group's previous UK GAAP financial statements. The Companies Act Schedule 4 format of the profit and loss account is no longer required to be used under IFRS and use of this alternative format is more relevant to how the business is managed;

b) IAS 21 – The Effects of Changes in Foreign Exchange Rates, and IFRS 1 – First Time Adoption of IFRS

Under UK GAAP, certain US dollar denominated assets and liabilities are treated as a foreign operation (branch) with the US dollar as their functional currency. As a result, exchange movements on retranslation of assets and liabilities are taken to reserves rather than through the income statement. IAS 21 provides additional criteria to allow the functional currency of a foreign operation to be determined. Certain aircraft-owning companies within the Group will cease to be classified as US dollar branches under IAS 21, and will have a sterling functional currency.
On implementing IAS 21, non-monetary assets have been restated at historic exchange rates, with no translation differences arising subsequent to their purchase. Exchange differences on retranslation of monetary items are taken to the income statement. This has resulted in an additional £2.6 million loss being recognised during the year to 30 September 2005.

The net book value of the airbus fixed assets was restated to remove the impact of historic foreign exchange differences recognised on retranslation of the US dollar denominated assets into sterling under UK GAAP. Depreciation has also been restated to take into account the new cost base of the aircraft fixed assets. This resulted in an increase in the net book value of fixed assets of £11.1 million at 1 October 2004. As a result of these changes to the cost of Airbus aircraft fixed assets, depreciation increased by £1.1 million in the year ended 30 September 2005.

Under the exemptions allowed by IFRS 1, the fair value at 1 October 2004 of the Boeing 737-300 aircraft has been taken as their deemed cost. This has resulted in a one-off valuation decrease in property, plant and equipment of £3.7 million at 1 October 2004, a decrease in accelerated depreciation of £2.7 million and a decrease in depreciation of £0.9 million for the year to 30 September 2005, and an increase in the loss on disposal of fixed assets of £0.4 million for the year to 30 September 2005. One of the aircraft was held for sale at 30 September, 2005, and as a result of its revaluation assets held for resale decreased by £0.2 million at 30 September 2005.

Certain payments on account made prior to delivery of aircraft are monetary assets, as the aircraft that will be delivered as a result of these payments are expected to be sold to lessors and leased back under operating leases on the basis of commercial arrangements in place. These pre-delivery deposits have been classified separately on the balance sheet, resulting in a decrease in the book value of fixed assets of £83.0 million on transition.

Adoption of IAS 21 may cause additional volatility in the income statement due to changes in foreign exchange rates. This risk will be managed through a mixture of drawing down loans in sterling, holding cash and cash equivalents in US dollars and entering into foreign exchange derivative instruments.

28 Transition to IFRS continued

c) IFRS 2 – Share-based Payment

IFRS 2 requires a charge to be made to the income statement for the cost of providing share options to employees. The expense is calculated as the fair value of the award on the date of grant, and is recognised over the vesting period of the scheme. A binomial model has been used to calculate the fair value of options on their grant date. easyJet has applied the provisions of IFRS 2 only to awards made after 7 November 2002, an exemption allowed on transition by IFRS 1. There was no net impact on the balance sheet at 1 October 2004 as a result of adopting IFRS 2.

In the year to 30 September 2005, the application of IFRS 2 results in a pre-tax charge to the income statement of £2.0 million.

d) IFRS 3 – Business Combinations

Under UK GAAP, goodwill arising on business combinations is amortised over a period not exceeding 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.

Amortisation of goodwill arising on the purchase of TEA Basel AG (now easyJet Switzerland) and Newgo 1 Limited, the parent company of Go Fly ceased on 1 October 2004, resulting in an increase of pre-tax profits of £17.4 million in the year ended 30 September 2005.

e) IAS 19 – Employee Benefits

Under UK GAAP, no provision is made for annual leave accrued. Under IAS 19, the expected cost of compensated short-term absences should be recognised at the time the related service is provided. As a result, on transition, a provision of £0.4 million has been recognised. The result on pre-tax income for the year ended 30 September 2005 is an additional expense of £0.1 million.

f) IAS 12 – Income Taxes

Under UK GAAP, deferred tax was provided on timing differences that had originated, but had not reversed, before the balance sheet date. Under IAS 12, deferred tax is provided on temporary differences based upon the future recovery or settlement of assets and liabilities recognised in the balance sheet.

As a result of accounting policy changes resulting from the implementation of IFRS, and the implementation of IAS 12, a total additional deferred tax liability of £4.3 million has been provided on transition, and the tax expense under IFRS has been reduced by £1.6 million in the year to 30 September 2005 by comparison to UK GAAP. These changes are as a result of the following items:

- As a result of changes in asset values as described in 4b) above, a deferred tax liability of £4.7 million was recognised on transition. The deferred tax charge for the year ended 30 September 2005 was reduced by £1.3 million;
- No deferred tax on share options was recognised on transition as the market value of an easyJet share on 30 September 2004 was £1.27, less than the exercise price of all the options which were issued after 7 November 2002 and which are accounted for under IFRS 2 (4c above). A deferred tax asset of £0.3 million has been recognised on transition in respect of share options issued prior to 7 November 2002. At 30 September 2005, a deferred tax asset of £8.2 million was recognised on all options. This caused a £7.9 million increase in equity, a £0.6 million reduction in the deferred tax charge and a £0.3 million increase in the current tax charge in the income statement. The increase in the deferred tax asset partly reflects the increase in the share price at 30 September 2005 to £2.92, above the exercise price for the majority of the options in issue on that date; and
- Other adjustments as a result of accounting policy changes resulted in the recognition of an additional deferred tax asset of £0.1 million on transition, and no additional expense arose in the year ended 30 September 2005.

g) IAS 28 – Investments in Associates

Associated undertakings are equity accounted for under both IAS 28 and UK GAAP. The only difference between the treatment of associates under IFRS compared to UK GAAP is the disclosures in the income statement. easyJet's share of the post-tax profits of its associate are shown on a single line in the income statement under IFRS, whereas under UK GAAP easyJet's share of the pre-tax profits of its associate were separately disclosed, with the associate's tax charge included in the Group's tax charge. This reduces tax expense by £0.1 million in the year.

Notes continued

forming part of the financial statements

28 Transition to IFRS continued

h) Consolidated balance sheet at 1 October 2004, presentation reconciliation

UK GAAP	UK GAAP £m	(i) Goodwill	(ii) Software	For details of adjustments see (a) Long-term asset	(iv) Cash	Asset held for resale	(vi) Provision	(vii) Forex	UK GAAP £m	IFRS presentation
		309.6							309.6	Goodwill
Other intangible assets	309.6	(309.6)	1.1						1.1	Other intangible assets
Tangible assets	330.4		(1.1)						329.3	Property, plant and equipment
					10.2				10.2	Financial assets – deposits
				6.3					6.3	Other long-term assets
Other investments	0.2								0.2	Investments accounted for using the equity method
Fixed assets	**640.2**	**–**	**–**	**6.3**	**10.2**	**–**	**–**	**–**	**656.7**	**Non-current assets**
Debtors	174.4			(6.3)					168.1	Trade and other receivables
					4.1				4.1	Financial assets – deposits
Cash at bank and in hand	510.3				(14.3)				496.0	Cash and cash equivalents
Current assets	**684.7**	**–**	**–**	**(6.3)**	**(10.2)**	**–**	**–**	**–**	**668.2**	**Current assets**
Bank loans	9.7								9.7	Borrowings
Trade and other payables	287.0								287.0	Trade and other payables
Corporation tax	18.0								18.0	Current tax liabilities
							10.4		10.4	Provisions
Creditors: due within one year	**314.7**	**–**	**–**	**–**	**–**	**–**	**10.4**	**–**	**325.1**	**Current liabilities**
Net current assets	**370.0**	**–**	**–**	**(6.3)**	**(10.2)**	**–**	**(10.4)**	**–**	**343.1**	**Net current assets**
Bank loans	110.1								110.1	Borrowings > one year
Accruals and deferred income	47.6								47.6	Other non-current liabilities
							32.5		32.5	Provisions
							20.2		20.2	Deferred tax liabilities
Creditors: due after one year	**157.7**	**–**	**–**	**–**	**–**	**–**	**52.7**	**–**	**210.4**	**Non-current liabilities**
Provisions for liabilities and charges	**63.1**	**–**	**–**	**–**	**–**	**–**	**(63.1)**	**–**	**–**	
Net assets	**789.4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**789.4**	**Net assets**
Called up share capital	99.8								99.8	Ordinary shares
Share premium account	554.2								554.2	Share premium
Profit and loss account	135.4								135.4	Retained earnings
									–	Other reserves
Shareholders' funds – equity	**789.4**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**789.4**	**Shareholders' funds – equity**

28 Transition to IFRS continued

i) Consolidated balance sheet at 1 October 2004, IFRS reconciliation

	UK GAAP £million	(b) Foreign exchange	(c) Share options	(d) Goodwill	(e) Employee benefits	(f) Taxation	IFRS £million
		For details of adjustments see above					
Goodwill	309.6						309.6
Other intangible assets	1.1						1.1
Property, plant and equipment	329.3	(75.6)					253.7
Financial assets – deposits	10.2						10.2
Other long-term assets	6.3	14.1					20.4
Investments accounted for using the equity method	0.2						0.2
Non-current assets	**656.7**	**(61.5)**	**–**	**–**	**–**	**–**	**595.2**
Trade and other receivables	168.1	68.9					237.0
Financial assets – deposits	4.1						4.1
Cash and cash equivalents	496.0						496.0
Current assets	**668.2**	**68.9**	**–**	**–**	**–**	**–**	**737.1**
Borrowings	9.7						9.7
Trade and other payables	287.0				0.4		287.4
Current tax liabilities	18.0						18.0
Provisions	10.4						10.4
Current liabilities	**325.1**	**–**	**–**	**–**	**0.4**	**–**	**325.5**
Net current assets	**343.1**	**68.9**	**–**	**–**	**(0.4)**	**–**	**411.6**
Borrowings > one year	110.1						110.1
Other non-current liabilities	47.6						47.6
Provisions	32.5						32.5
Deferred tax liabilities	20.2					4.3	24.5
Non-current liabilities	**210.4**	**–**	**–**	**–**	**–**	**4.3**	**214.7**
Net assets	**789.4**	**7.4**	**–**	**–**	**(0.4)**	**(4.3)**	**792.1**
Ordinary shares	99.8						99.8
Share premium	554.2						554.2
Other reserves	–						–
Retained earnings	135.4	7.4			(0.4)	(4.3)	138.1
Shareholders' funds – equity	**789.4**	**7.4**	**–**	**–**	**(0.4)**	**(4.3)**	**792.1**

Notes continued

forming part of the financial statements

28 Transition to IFRS continued

j) Consolidated income statement reconciliation for the year ended 30 September 2005

	UK GAAP £million	(a) (ii) Software	(b) Foreign exchange	(c) Share options	(d) Goodwill	(e) Employee benefits	(g) Tax	(f) Associate	IFRS £million
			For details of adjustments see (a) above						
Passenger revenue	1,254.2								1,254.2
Ancillary revenue	87.2								87.2
Revenue	**1,341.4**	**–**	**–**	**–**			**–**	**–**	**1,341.4**
Ground handling charges	(130.5)								(130.5)
Airport charges	(230.1)								(230.1)
Fuel	(260.2)								(260.2)
Navigation charges	(108.6)								(108.6)
Crew costs	(136.2)								(136.2)
Maintenance	(119.2)								(119.2)
Advertising	(32.8)								(32.8)
Merchant fees and incentive pay	(15.6)								(15.6)
Aircraft insurance	(19.3)								(19.3)
Other costs	(80.0)		(0.3)	(2.0)		(0.1)			(82.4)
EBITDAR [1]	208.9	–	(0.3)	(2.0)	–	(0.1)	–	–	206.5
Depreciation	(16.4)	0.8	(0.2)						(15.8)
Accelerated depreciation of 737–300 aircraft	(2.7)		2.7						–
Goodwill amortisation	(17.4)				17.4				–
Amortisation of other intangible assets	–	(0.8)							(0.8)
Aircraft dry lease costs	(123.7)								(123.7)
Group operating profit (EBIT)	**48.7**	**–**	**2.2**	**(2.0)**	**17.4**	**(0.1)**	**–**	**–**	**66.2**
Share of profit after tax of associate	0.2							(0.1)	0.1
Interest receivable and other income	27.2								27.2
Interest payable and other charges	(8.2)		(2.7)						(10.9)
Financing incomes	19.0	–	(2.7)	–	–	–	–	–	16.3
Profit before tax	67.9		(0.5)	(2.0)	17.4	(0.1)	–	(0.1)	82.6
Tax	(25.3)						1.6	0.1	(23.6)
Retained profit for the year	**42.6**	**–**	**(0.5)**	**(2.0)**	**17.4**	**(0.1)**	**1.6**	**–**	**59.0**

1 EBITDAR is defined as earnings before interest, tax, depreciation, amortisation, share of profit of associates and lease payments (excluding the maintenance reserve component of operating lease payments).

28 Transition to IFRS continued

k) Consolidated balance sheet at 30 September 2005, presentation reconciliation

UK GAAP	UK GAAP £m	(i) Goodwill	(ii) Software	(iii) Long-term assets	(iv) Cash	(v) Assets held for resale	(vi) Provisions	(vii) Forex	UK GAAP £m	IFRS presentation
		Presentation adjustments – see (a)								
		292.2							292.2	Goodwill
Other intangible assets	292.2	(292.2)	1.4						1.4	Other intangible assets
Tangible assets	425.8		(1.4)						424.4	Property, plant and equipment
					22.4				22.4	Financial assets – deposits
				2.3					2.3	Other long-term assets
Other investments	0.2								0.2	Investments accounted for using the equity method
Fixed assets	**718.2**	**–**	**–**	**2.3**	**22.4**	**–**	**–**	**–**	**742.9**	**Non-current assets**
Debtors	197.2			(2.3)		(7.3)			187.6	Trade and other receivables
						7.3			7.3	Asset held for resale
					6.1				6.1	Financial assets – deposits
Cash at bank and in hand	695.5				(28.5)				667.0	Cash and cash equivalents
Current assets	**892.7**	**–**	**–**	**(2.3)**	**(22.4)**	**–**	**–**	**–**	**868.0**	**Current assets**
Bank loans	16.3								16.3	Borrowings
Trade and other payables	342.4								342.4	Trade and other payables
Corporation tax	38.9								38.9	Current tax liabilities
							16.4		16.4	Provisions
Creditors: due within one year	**397.6**	**–**	**–**	**–**	**–**	**–**	**16.4**	**–**	**414.0**	**Current liabilities**
Net current assets	**495.1**	**–**	**–**	**(2.3)**	**(22.4)**	**–**	**(16.4)**	**–**	**454.0**	**Net current assets**
Bank loans	201.0								201.0	Borrowings >one year
Accruals and deferred income	75.1								75.1	Other non-current liabilities
							53.6		53.6	Provisions
							27.5		27.5	Deferred tax liabilities
Creditors: due after one year	**276.1**	**–**	**–**	**–**	**–**	**–**	**81.1**	**–**	**357.2**	**Non-current liabilities**
Provisions for liabilities and charges	**97.5**						**(97.5)**		**–**	
Net assets	**839.7**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**839.7**	**Net assets**
Called up share capital	100.1								100.1	Ordinary shares
Share premium	557.2								557.2	Share premium
Profit and loss account	182.4							(0.1)	182.3	Retained
								0.1	0.1	Other reserves
Shareholders' funds – equity	**839.7**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**839.7**	**Shareholders' funds**

Notes continued

forming part of the financial statements

28 Transition to IFRS continued

l) Consolidated balance sheet at 30 September 2005, IFRS reconciliation

	UK GAAP £million	For details of adjustments see above (b) Foreign exchange	(c) Share options	(d) Goodwill	(e) Employee benefits	(f) Taxation	IFRS £million
Goodwill	292.2			17.4			309.6
Other intangible assets	1.4						1.4
Property, plant and equipment	424.4	(25.8)					398.6
Financial assets – deposits maturing > one year	22.4						22.4
Other long-term assets	2.3	4.4					6.7
Investments accounted for for using the equity method	0.2						0.2
Non-current assets	**742.9**	**(21.4)**	**–**	**17.4**	**–**	**–**	**738.9**
Trade and other receivables	187.6	23.1					210.7
Asset held for resale	7.3	(0.2)					7.1
Financial assets – deposits	6.1						6.1
Cash and cash equivalents	667.0						667.0
Current assets	**868.0**	**22.9**	**–**	**–**	**–**	**–**	**890.9**
Borrowings	16.3						16.3
Trade and other payables	342.4	–			0.5		342.9
Current tax liabilities	38.9						38.9
Provisions	16.4						16.4
Current liabilities	**414.0**	**–**	**–**	**–**	**0.5**	**–**	**414.5**
Net current assets	**454.0**	**22.9**	**–**	**–**	**(0.5)**	**–**	**476.4**
Borrowings > one year	201.0						201.0
Other non-current liabilities	75.1						75.1
Provisions	53.6						53.6
Deferred tax liabilities	27.5					(5.3)	22.2
Non-current liabilities	**357.2**	**–**	**–**	**–**	**–**	**(5.3)**	**351.9**
Net assets	**839.7**	**1.5**	**–**	**17.4**	**(0.5)**	**5.3**	**863.4**
Ordinary shares	100.1						100.1
Share premium	557.2						557.2
Other reserves	0.1						0.1
Retained earnings	182.3	1.5		17.4	(0.5)	5.3	206.0
Shareholders' funds – equity	**839.7**	**1.5**	**–**	**17.4**	**(0.5)**	**5.3**	**863.4**

28 Transition to IFRS continued

m) Adoption of IAS 32 and 39, Financial Instruments

As permitted by IFRS 1, IAS 32 and IAS 39 have been adopted prospectively from 1 October 2005 and as a consequence the fair value of certain financial instruments have been measured and adjustments have been made to the balance sheet at that date.

At 1 October 2005, easyJet has met the criteria to adopt hedge accounting for foreign exchange and fuel derivative instruments. These instruments comprise forwards and zero cost collars. As a result of applying hedge accounting, at 1 October 2005 the fair value of the financial instruments has been recognised as a financial asset on the balance sheet, with the intrinsic value of the instruments at that date being recognised in reserves, and the time value portion being an adjustment to retained earnings.

Effect of changes on consolidated balance sheet at 1 October 2005:

	At 30 September 2005 £million	Impact of adoption IAS 32 and 39 £million	At 1 October 2005 £million
Non-current assets	738.9	–	738.9
Financial assets – derivative financial instruments	–	21.0	21.0
Other current assets	890.9	(1.4)	889.5
Current assets	890.9	19.6	910.5
Current liabilities	(414.5)	–	(414.5)
Deferred taxation	(22.2)	(6.3)	(28.5)
Other non-current liabilities	(329.7)	–	(329.7)
Non-current liabilities	(351.9)	(6.3)	(358.2)
Net assets	**863.4**	**13.3**	**876.7**
Share capital and share premium	657.3	–	657.3
Retained earnings	206.0	2.5	208.5
Other reserves	0.1	10.8	10.9
Shareholders' equity	**863.4**	**13.3**	**876.7**

Company balance sheet

as at 30 September

	Notes	30 September 2006 £million	30 September 2005 £million
Non-current assets			
Investments in subsidiaries	b	**686.1**	681.1
Loans receivable from subsidiaries	c	**50.3**	53.2
		736.4	734.3
Current assets			
Trade and other receivables	d	**540.1**	256.1
Cash and cash equivalents		**–**	–
		540.1	256.1
Current liabilities			
Trade and other payables	e	**(521.1)**	(327.6)
Current tax liabilities		**–**	(1.9)
		(521.1)	(329.5)
Net current assets/(liabilities)		**19.0**	(73.4)
Net assets		**755.4**	660.9
Shareholders' funds – equity			
Ordinary shares	g	**102.6**	100.1
Share premium	g	**591.4**	557.2
Retained earnings	g	**61.4**	3.6
Shareholders' funds – equity		**755.4**	660.9

The financial statements were approved by the Board of Directors and authorised for issue on 13 November 2006 and signed on behalf of the Board.

A Harrison
Director

J Carr
Director

Company statement of cash flows

	Notes	Year ended 30 September 2006 £million	Year ended 30 September 2005 £million
Cash flows from operating activities			
Cash generated from operations	f	**(91.2)**	(151.0)
Interest received		**2.6**	1.1
Interest paid		**(0.5)**	(2.8)
Net cash from operating activities		**(89.1)**	(152.7)
Cash flows from investing activities			
Investment in subsidiaries		**(6.2)**	27.7
Dividends from subsidiaries		**58.6**	10.9
Proceeds from sale of intercompany loan note to subsidiary		**–**	109.2
Net cash used in investing activities		**52.4**	147.8
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		**36.7**	3.3
Net (decrease)/increase in cash and cash equivalents		**–**	(1.6)
Cash and cash equivalents at beginning of period		**–**	1.6
Cash and cash equivalents at end of period		**–**	–

Notes to the Company balance sheet

29 Notes to the Company balance sheet

a) Income statement and statement of recognised income and expense

In accordance with Section 230 of the Companies Act 1985, the Company is exempt from the requirement to present its own income statement. The Company's profit for the financial year was £54.1 million (2004: £2.0 million).

The Company has no employees (2005: nil)

The audit fee for the Company for the year was £0.1 million (2005: £0.1 million).

The Company recognised no income and expenses in the current or prior year other than the profit for the period.

b) Investments in subsidiaries

	2006 £million
At 1 October 2005	**681.1**
Investments in subsidiaries incorporated in the period	**6.2**
Liquidation of subsidiaries	**(4.9)**
Capital contributions to subsidiaries	**3.7**
At 30 September 2006	**686.1**

Principal subsidiary undertakings

The principal subsidiaries as at 30 September 2006, all of which are included in the consolidated financial statements, are shown 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 % of ordinary shares held
easyJet Airline Company Limited	England and Wales	Airline operator	** 100%
easyJet Switzerland Company Limited	Switzerland	Airline operator	* 49%
easyJet Aircraft Company Limited	Cayman Islands	Aircraft trading and leasing	100%
easyJet Sterling Limited	Cayman Islands	Aircraft trading and leasing	100%
easyJet Leasing Limited	Cayman Islands	Aircraft trading and leasing	100%
easyJet Malta Limited	Malta	Aircraft trading and leasing	100%
Aero Invest (Jersey) LP	Jersey	Investment activities	100%

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 joint venture has been equity accounted in the consolidated financial statements.

29 Notes to the Company balance sheet continued

c) Loans receivable from subsidiaries

	2006 £million	2005 £million
Amounts owed by subsidiary undertakings	**50.3**	53.2
	50.3	53.2

Loans receivable from subsidiary undertakings are all denominated in US dollars, bear a floating rate of interest, and are repayable in two to five years. The effecitve interest rate at 30 September 2006 was 6.28%. The fair value of the loans receivable approximates book value as the rate of interest receivable is a floating rate.

d) Trade and other receivables

	2006 £million	2005 £million
Amounts owed by subsidiary undertakings	**540.1**	256.1
	540.1	256.1

e) Trade and other payables

	2006 £million	2005 £million
Amounts owed to subsidiary undertakings	**521.1**	327.4
Accruals and deferred income	**–**	0.2
	521.1	327.6

f) Reconciliation of net profit to net cash inflow from operating activities

	2006 £million	2005 £million
Cash generated from operations		
Net profit	**54.1**	2.0
Adjustments for:		
Tax credit	**(1.9)**	–
Interest income	**(2.6)**	(1.1)
Interest expense	**0.5**	2.8
Accretion of loan note	**–**	6.9
Loss on sale of loan note	**–**	(5.6)
Foreign exchange	**4.4**	(1.9)
Dividends received from subsidiary	**(58.6)**	(10.9)
Changes in working capital:		
(Increase)/decrease in trade and other receivables	**(284.0)**	(187.7)
Increase/(decrease) in payables	**196.9**	44.5
Cash generated from continuing operations	**(91.2)**	(151.0)

g) Reconciliation of movement in shareholders' funds

	Share capital £million	Share premium £million	Retained earnings £million	Total £million
At 1 October 2005	100.1	557.2	3.6	660.9
Profit for the period			54.1	54.1
Share options				
Proceeds from shares issued	2.5	34.2		36.7
Movement in reserves for employee share scheme			3.7	3.7
At 30 September 2006	**102.6**	**591.4**	**61.4**	**755.4**

Notes to the Company balance sheet continued

29 Notes to the Company balance sheet continued

For details of authorised and allotted share capital as well as movement in ordinary shares during 2006, see note 19 of the Group financial statements.

h) 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.

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.

i) Related party transactions

The Company had transactions in the ordinary course of business during the financial year under review with related parties

	2006 £million	2005 £million
Sales to subsidiaries	**–**	109.2
Purchases from subsidiaries	**4.0**	2.5
Amounts owed by subsidiaries	**540.1**	256.1
Amounts owed to subsidiaries	**(521.1)**	(327.4)

Transactions with subsidiaries are carried out on an arm's-length basis. Outstanding balances that relate to trading balances are placed on intercompany accounts with no specified credit period. Intercompany balances owed to and from the Company by subsidiary undertakings bear market rates of interest in accordance with intercompany loan agreements. The sale to a subsidiary in 2005 was the sale of an intercompany loan note to a subsidiary at market value.

j) Transition to IFRS

For all periods up to and including 30 September 2005, the Company prepared its financial statements in accordance with UK GAAP. These financial statements are the first that the Group is required to prepare under IFRS.

In preparing financial statements under IFRS, the Company has started from an opening balance sheet as at 1 October 2004, the Company's transition date, and made changes in accounting policies and other restatements required by IFRS 1 for the first adoption of IFRS. This note explains the adjustments made in restating easyJet's UK GAAP balance sheet at the transition date and its previously published UK GAAP financial statements for the year ended 30 September 2005.

Where a parent company issues options over its shares to employees of a subsidiary company, IFRS 2 requires the parent to show a capital contribution to the subsidiary for the cost of providing share options to the subsidiary's employees. The contribution is calculated as the fair value of the award on the date of grant, and is recognised over the vesting period of the scheme. A binomial model has been used to calculate the fair value of options on their grant date. easyJet has applied the provisions of IFRS 2 only to awards made after 7 November 2002, an exemption allowed on transition by IFRS 1. This has no impact on the income statement of easyJet plc.

Restatements of equity from UK GAAP to IFRS for the Company were as follows:

	30 September 2005 £million	1 October 2004 £million
Shareholders' funds – equity – UK GAAP	656.9	651.6
Adoption of IFRS 2	4.0	2.1
Shareholders' funds – equity – IFRS	660.9	653.7

Summary of selected financial information for five years

Year end to 30 September

	2006 £ millions	2005 £ millions	2004 £ millions	2003 £ millions	2002 £ millions
Financial performance measures					
Revenue [23]	**1,619.7**	1,341.3	1,091.0	931.8	551.8
EBITDAR [25]	**278.5**	206.6	189.6	179.5	132.4
Group operating profit (EBIT)	**117.7**	66.2	50.5	46.9	69.6
Profit before tax	**129.2**	82.6	62.2	51.5	71.6
Retained profit for the year	**94.1**	59.0	41.1	32.3	49.0
Earnings per share (basic)	**23.2**	14.8	14.6	12.7	15.5
Earnings per share (diluted)	**22.6**	14.4	14.3	12.4	14.8
Balance sheet					
Non-current assets	**1,036.4**	738.9	640.2	650.6	541.4
Current assets	**1,087.2**	890.9	684.7	477.0	523.9
Current liabilities	**(509.0)**	(414.5)	(314.7)	(260.9)	(260.6)
Non-current liabilities	**(631.7)**	(351.9)	(220.8)	(108.2)	(77.0)
Net assets	**982.9**	863.4	789.4	758.5	727.7
Cash flow statement					
Cash flow from operating activities	**221.6**	221.0	160.5	77.2	84.2
Net interest received	**8.1**	23.1	12.6	11.8	10.7
Taxation	**(4.5)**	2.9	(6.2)	(16.5)	0.5
Investing activities	**(314.3)**	(162.7)	(58.5)	(176.1)	(271.4)
Financing activities	**284.5**	87.1	71.3	79.7	286.7
Exchange rates	**(1.7)**	(0.4)	n/a	n/a	n/a
Increase in cash and cash equivalents	**193.7**	171.0	179.7	(23.9)	110.7
Key performance indicators					
Return on equity [1]	**10.1%**	7.1%	5.3%	4.4%	9.4%
Profit before tax per seat (£) [2]	**3.32**	2.38	2.16	2.13	5.34
Revenue per seat [3]	**41.66**	38.66	37.88	38.53	41.21
Cost per seat [4]	**38.34**	36.28	35.72	36.40	35.86
Cost per seat excluding fuel [5]	**28.36**	28.78	30.63	31.41	31.74
Seats flown (millions) [6]	**38.9**	34.7	28.8	24.2	13.4

Note: 2006 & 2005 figures are presented under IFRS. 2004 and earlier years are presented under UK GAAP. The information provided above includes results and position of Go Fly since its acquisition on 31 July 2002.

easyJet plc

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Shareholder information

Financial calendar

Financial year end	30 September 2006
Annual General Meeting	1 March 2007

Announcement of 2006/7 results

Release of interim results to 31 March 2007	9 May 2007
Preliminary results year to 30 September 2007	20 November 2007

Registered office

easyLand
London Luton Airport
LU2 9LS

Company number

3959649

Outside advisers:

Company registrar

Lloyds TSB Registrars

Auditors

PricewaterhouseCoopers LLP

Thank you to all easyJet people and particularly the following who appear in this report:

Catherine Bachmann, Flight Attendant – Geneva
Sarah Bishop, Rostering Officer – easyLand, Luton
Ally Campbell, Captain – Luton
Jess de Groot, Cabin Crew Trainer – Luton
Jane Dowse, Senior Cabin Crew – Luton
Ben Fidge, Flight Crew Rostering Manager – easyLand, Luton
Carmen Garcia, On Board Performance Manager – Gatwick
Yassine Guebli, Flight Attendant – Geneva
Yolanda Harris, Flight Attendant – Milan
Richard Jones, Captain – Luton
Ben Law, Captain – Luton
Farid Mazouz, Sales Team Manager – easyLand, Luton
Melanie Puleston, Senior Cabin Crew – Luton
Marcia Sanchez–Allen, Senior Cabin Crew – Luton
Jenni Sheehan, Flight Attendant – Luton
Ebon Trenchfield, Flight Attendant – Luton
Paul Wheeler, Flight Attendant – Luton

Designed and produced by 85four
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Board photography by Robert Wheeler
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environmentally accredited printers

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Come on, let's fly!