

Annual report  
and accounts 2010

**easyJet** plc



# Annual report and accounts 2010

## Welcome aboard!

### Navigating your way around this report...

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#### Directors' report

easyJet plc is incorporated as a public limited company and is registered in England with the registered number 3959649. easyJet plc's registered office is Hangar 89, London Luton Airport, Bedfordshire LU2 9PF. The Directors present the Annual report and accounts for the year ended 30 September 2010. References to 'easyJet', the 'Group', the 'Company', 'we', or 'our' are to easyJet plc or to easyJet plc and its subsidiary companies where appropriate. Pages 01 to 53, inclusive, of this Annual report comprise the Directors' report that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

# Overview

## 2010 Business highlights

### Results at a glance

	2010	2009	Change
Total revenue (£ million)	<b>2,973.1</b>	2,666.8	+11.5%
Profit before tax – reported (£ million)	<b>154.0</b>	54.7	+181.5%
Profit before tax – underlying <sup>1</sup> (£ million)	<b>188.3</b>	43.7	+330.9%
Pre tax margin – underlying <sup>1</sup> (%)	<b>6.3</b>	1.6	+4.7ppt
Return on equity (%)	<b>8.6</b>	5.5	+3.1ppt
Return on capital employed <sup>2</sup> (%)	<b>8.8</b>	4.0	+4.8ppt
Basic EPS – (pence)	<b>28.4p</b>	16.9p	+68.0%

### Financial highlights

**Continued growth in total revenue per seat up 5.1%** (3.3% at constant currency), following strong growth in the prior year (up 4.1% at constant currency) driven by the strength of the easyJet network and good underlying consumer demand

**Passenger numbers up 7.9%** to 48.8 million and load factor increased by 1.5ppt to 87.0%

**Reported profit before tax of £154.0 million** delivered ahead of our original guidance, this includes £27.3 million of costs resulting from volcanic ash disruption. Total impact of the volcano, including lost contribution, estimated to be £57 million

**Improvement in margins** as underlying profit before tax<sup>1</sup> increased by £144.6 million to £188.3 million, primarily driven by a unit fuel cost reduction equivalent to £122.7 million

**Disruption costs have had a significant impact** on the financial results with a £97.9 million increase versus the prior year. £27.3 million volcano related, £20.8 million snow related and £49.8 million of costs (wet leasing and other costs, mainly EU2004/261 related), as a result of Air Traffic Control (ATC) strike action and easyJet's operational difficulties over the summer

**Total underlying cost per seat<sup>1</sup>** (excluding fuel and currency movement) up 5.2% mainly driven by disruption costs. Excluding the impact of additional disruption costs, underlying cost per seat<sup>1</sup> (excluding fuel and currency movement) rose 2.2%

**Continued strong cash generation**, net cash flow from operations improved by £228.9 million to £363.4 million. Gearing fell from 37.6% to 31.8%

**Return on equity** increased to 8.6% from 5.5% as easyJet delivered both capacity growth and margin improvement

Note 1: Underlying measures exclude £27.3 million of cost relating to the volcanic ash cloud and £7.0 million loss on disposal of A321 aircraft in 2010 and £11.0 million profit on disposal of A321 aircraft in 2009.

Note 2: Return on capital employed is calculated by dividing normalised operating profit after tax by average net debt plus average shareholders' equity.

# easyJet at a glance

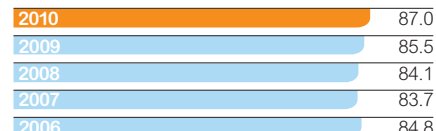
In 2010 we continued to expand our presence across Europe as we realise our vision to 'Turn Europe Orange', building on our strong positions at major airports and adding two new countries to our network at the end of the year.

easyJet successfully grew its seats flown by 6.0%, improving its load factor and flying 48.8 million passengers.

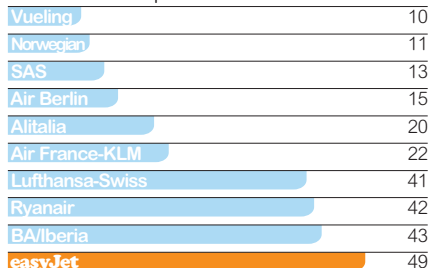
**Over 56 million seats flown** **+6.0%**  
Seats flown million



**Consistently high load** **+1.5ppt**  
Load factor %



**Present on the most top 100 European routes** **49 top routes**  
Presence on top 100 routes

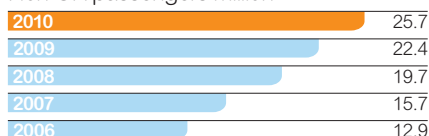


We carried almost 49 million passengers, of which 53% originated from outside of the UK.

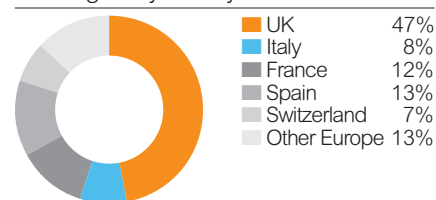
We now have 509 routes serving 125 airports in 29 countries.

196 aircraft situated in 19 bases.

**Focused on European short-haul aviation** **+14.7%**  
Non-UK passengers million



**Increasing easyJet's geographic diversity**  
Passengers by country



# 125

Airports

# 29

Countries

- Aberdeen
- Agadir
- Ajaccio
- Alicante
- Almeria
- Amsterdam
- Antalya
- Athens
- Barcelona
- Bari
- Basel
- Bastia
- Belfast City
- Belfast
- Berlin Schönefeld
- Biarritz
- Bilbao
- Birmingham
- Bodrum
- Bordeaux
- Bournemouth
- Brécia
- Brest
- Bríndisi
- Bristol
- Brussels
- Bucharest
- Budapest
- Cagliari
- Casablanca
- Catania
- Chania
- Cologne
- Copenhagen
- Corfu
- Dalaman
- Doncaster
- Dortmund
- Dubrovnik
- Dusseldorf
- Edinburgh
- Faro
- Fez
- Fuerteventura
- Funchal
- Geneva
- Gibraltar
- Glasgow
- Gothenburg
- Gran Canaria
- Grenoble
- Hamburg
- Helsinki
- Heraklion
- Hurghada
- Ibiza
- Innsbruck
- Inverness
- Isle of Man
- Istanbul
- Ivalo
- Jersey
- Kos
- Krakow
- Dusseldorf
- La Rochelle
- Lamezia-Terre
- Lanzarote
- Larnaca
- Lisbon
- Liverpool
- Ljubljana
- London Gatwick
- London Luton
- London Stansted
- Lyon
- Madrid
- Mahon
- Malaga
- Malta
- Manchester
- Marrakech
- Marseilles
- Mykonos
- Milan Linate
- Milan Malpensa
- Montpellier
- Munich
- Murcia
- Nantes
- Naples
- Newcastle
- Nice
- Olbia
- Oviedo/Asturias
- Palermo
- Palma
- Paphos
- Paris Charles de Gaulle
- Paris Orly
- Pisa
- Porto
- Prague
- Pristina
- Rhodes
- Rome Ciampino
- Rome Fiumicino
- Rovaniemi
- Salzburg
- Santorini
- Sharm El Sheikh
- Sofia
- Split
- Stockholm
- Tallin
- Tangier
- Tel Aviv
- Tenerife
- Thessaloniki
- Toulouse
- Valencia
- Venice
- Vienna
- Zagreb
- Zakynthos
- Zurich





# 15 years of continued success



## 1995

easyJet founded by Sir Stelios Haji-Ioannou. Inaugural flights go from Luton to Edinburgh and Glasgow.

## 1996

easyJet takes delivery of its first wholly-owned aircraft and goes international with flights to Amsterdam from Luton.

## 1997

easyJet launches easyJet.com to provide information on the airline. Four years later the airline sells its 10 millionth online seat.

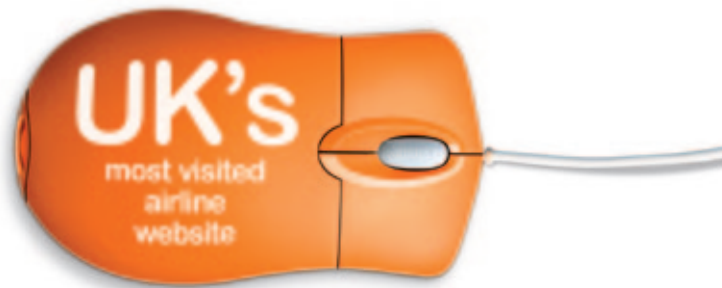
## 1998

easyJet buys 40% of Swiss charter operation, TEA Basel AG, later renamed 'easyJet Switzerland'.



## 2003

The first Airbus A319 goes into service in Geneva, 12 months after the deal to purchase up to 240 aircraft was announced.



## 2004

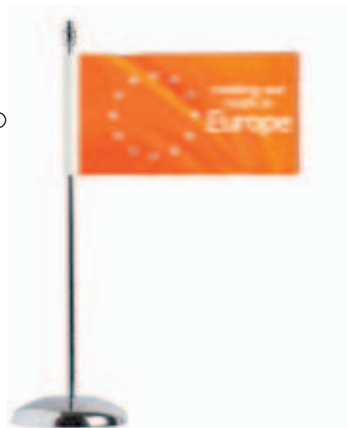
The airline becomes the first to take advantage of the newly-enlarged European Union by starting flights to Hungary and Slovenia.

## 2005

easyJet takes delivery of its 100th aircraft. It's a monumental change from the two leased aircraft it started with 10 years previously.

## 2006

Speedy Boarding is introduced, giving passengers greater choice over their seating arrangements.





**1999**

The first series of 'Airline', which follows the lives of easyJet's staff and passengers, is shown on ITV, regularly attracting over 10 million viewers.

**2000**

easyJet floats on the London Stock Exchange at an offer price of 310p, valuing the Company at £777m. Shortly after, easyJet joins the FTSE 250 list of companies.

**2001**

easyJet makes Gatwick its fifth base and becomes the second largest scheduled airline at the airport.

**2002**

easyJet purchases Stansted-based low-cost airline Go (which had originally been set up by British Airways) to create Europe's number one air transport network.



**2007**

easyJet moved to its new headquarters in an aircraft hangar at Luton airport.

**2008**

easyJet completes the acquisition of GB Airways, a London Gatwick-based airline operating to destinations across Southern Europe and North Africa.

**2009**

easyJet truly becomes a pan European airline, operating over 400 routes with over 175 aircraft in 27 countries. For the first time, over 50% of easyJet's passengers originate from outside the UK.

**2010**

easyJet reaffirms its strategy of Turning Europe Orange.



# Chairman's statement

easyJet's continued strong performance in the face of major disruption is a tribute to the professionalism and commitment of all of easyJet's people and the Board and I would like to thank them for their efforts which are very much appreciated.



**Sir Michael Rake**  
Non Executive Chairman

In the past year, easyJet delivered a considerably improved financial result as pre-tax profit increased by £99.3 million to £154.0 million despite some significant challenges. External factors such as the disruption to European airspace due to the eruption of the Eyjafjalla volcano, unprecedented levels of snow disruption and high levels of ATC industrial action have combined with some operational problems to make this past year an exceptionally tough one.

easyJet's continued strong performance in the face of major disruption is a tribute to the professionalism and commitment of all of easyJet's people and the Board and I would like to thank them for their efforts which are very much appreciated.

## The Board and strategy

Carolyn McCall OBE and Chris Kennedy joined the easyJet Board in July of this year as Chief Executive and Chief Financial Officer, respectively. Both bring significant experience in operational roles within consumer facing businesses and the Board and I are delighted to be working alongside them as they take easyJet forward.



# 100%

Professionalism & commitment  
of **easyJet** people

Where people make a difference.



As Carolyn outlines in her Chief Executive's review, she has over the past few months concluded a review of the business. Whilst it is clear from the operational issues experienced this summer that the business had lost focus on some of the basics, the financial results demonstrate that easyJet continues to make progress against its goal of delivering market share growth and improving returns thus underlining that easyJet's business model and strategy are sound. Carolyn and Chris will provide the Company with a leadership and focus that will ensure improved execution of the strategy going forward and a renewed focus on customers and the engagement of our people.

easyJet is strongly positioned to take advantage of the continuing profitable growth opportunities in European short-haul aviation. This growth, combined with the margin improvement through a tight focus on costs and accessing new revenue opportunities, means that easyJet is poised to continue the strong operating cash generation of the past few years. Consequently, the Board now feel that the time is right to set in place a formula to trigger a dividend payment in years when the Company is profitable whilst at the same time ensuring that the Company remains prudently financed with a strong, liquid balance sheet. This will ensure that shareholders are able to benefit directly from the Company's success as easyJet continues to take market share.

### Brand licence

On 11 October 2010, your Board announced that easyJet, Sir Stelios Haji-Ioannou and easyGroup had agreed, subject to independent shareholder approval, to a variation of the licence agreement providing for the Company's use of the easyJet brand and to remove the rights granted to Sir Stelios to appoint himself Chairman and to easyGroup to appoint Board Directors. The Board believes that the revised agreement better aligns the interests of easyJet shareholders and the licensor and that it is beneficial to end the uncertainty caused by this long running dispute and enables the Company to move forward.

### Industry regulation

The aviation industry plays a central role in global wealth creation and in the UK alone it contributes £11 billion to GDP. However, this does have an environmental impact. Aviation contributes 2% of global man-made greenhouse gas emissions and we know it is important that our industry addresses its wider responsibilities, in particular to ensure that we play our part in tackling climate change.

However, if this is done through purely constraining demand the economic and social benefits of travel will be put at risk. It is therefore critical that the right policy framework is put in place to deliver sustainable aviation, allowing continued growth while putting emissions on a downward trend. This means creating a framework that drives airlines to use existing aircraft more efficiently but which also ensures airframe and engine manufacturers bring forward the next generation of aircraft as soon as possible. We also need to ensure that air travel taxes are not blunt, ineffective taxes on passengers such as APD in the UK, but emissions based taxes that are designed to encourage airlines to minimise their impact upon the environment.

The regulatory framework that easyJet operates in is crucial, as alongside ensuring that we can operate in a safe environment, it has a significant effect on both our cost base and the opportunities available for future growth. We are working across Europe to persuade governments and the European Commission to deliver regulation that provides stability, is sensible and allows us to compete fairly.

### Conclusion

This is my first year as Chairman of easyJet and I am delighted to have taken over the Chairmanship of a company which has achieved so much since it started 15 years ago. I look forward to working with the whole team at easyJet to continue to unlock the Company's potential.



**Sir Michael Rake**  
Non Executive Chairman



# £154m

### Pre-tax profit

Increase of £99 million in pre-tax profits despite some significant challenges in the year.

# Business review

## Chief Executive's statement



**Carolyn McCall OBE**  
Chief Executive

**The leading positions that easyJet has built at primary airports gives easyJet the platform for future expansion in Europe.**

### Introduction

This is my first Chief Executive's review at easyJet and I am proud to be leading a company that has achieved so much in the past 15 years.

easyJet was born out of the liberalisation of European aviation by 'Open Skies'. It has been a true industry innovator pioneering the use of the web and low cost air travel centred around a transparent pricing model. Post 9/11, easyJet took bold strategic moves that have been the foundation of the Company's present day success including the initial entry into primary airports such as London Gatwick. Over the past five years, easyJet has grown from a UK centric airline to develop a significant presence in mainland Europe built around valuable positions at slot constrained airports.

The strength of easyJet's business model, which is centred around offering low fares to convenient airports, is reflected in the performance of the past year: easyJet has delivered a robust financial result against a difficult backdrop. Reported pre-tax profit grew by £99.3 million to £154.0 million driven by a strong revenue performance as total revenue grew by 11.5% to £2,973.1 million. Return on equity grew by 3.1 percentage points to 8.6%. easyJet also generated significant positive cash flows in the period with cash and money market deposits at 30 September 2010 totalling £1,171.9 million (30 September 2009: £1,074.9 million).

Since I joined the Company in July, my priorities have been to spend as much time as possible out in the network with our people to understand their perspective on the business; the mitigation of the operational issues experienced in July; resolution of the Brand Licence dispute; and importantly, taking a fresh look at the business to assess the opportunities available to it, in conjunction with a review of easyJet's capital structure to ensure easyJet has the financial resources necessary to support its future plans.

### Our people make a difference

I have been truly impressed by easyJet's people. Our front line cabin crew and pilots are highly trained and committed. Their warmth and focus on passenger care helps create a connection with our customers which makes us a more popular and successful airline and they need to be recognised for this. Our engineering, management and administration teams are equally important to the success of the business and I'd like to thank the whole team at easyJet for their commitment and hard work over what has been a very tough year in the airline industry.

### Taking a fresh look at the business

Over the past couple of months the senior management team has conducted an end to end review of the business. We have examined all of the assumptions that underline our business plan. We have looked carefully at the broader market in which we operate and the trends that will challenge us and provide us with opportunities.

Our conclusion is that the business model and strategy is delivering for customers and shareholders. We have a unique network which will enable us to expand in Europe as our routes and low fares are attractive to customers.

### Market place review

We see clear opportunities for easyJet to continue to take market share as charter traffic continues to decline, as weaker short-haul carriers retrench or fail and as new infrastructure capacity comes on stream. Low cost carrier penetration across Europe is expected to increase as several major markets including France, Switzerland, Italy, Netherlands and Portugal see the penetration of low cost carrier traffic increase to around 50% in line with that now seen in the UK and Spain.

Passenger growth in the European short-haul market is expected to continue at between 3% and 4% per annum, with the majority of the growth in point to point business and leisure travel.

Around 200 carriers currently compete in the European short-haul aviation market and the top five players, including easyJet, account for around 60% of seats flown with the rest of the market being highly fragmented. The average growth of the market over the past 20 years or so has been 4.5% per annum. In the past year, overall capacity in the European short-haul market grew by 4.2%.

easyJet is the only pan European short-haul carrier with a significant position in major airports and operates the leading network in European short-haul aviation measured by presence on the top 100 routes. Our network not only ensures that easyJet is well positioned to capture leisure traffic but also will enable easyJet to continue to build its share of the £18 billion per annum European short-haul air travel market.

Whilst we anticipate that the European short-haul market will continue to grow, the industry is clearly cyclical and profitable opportunities for expansion will not be linear. Therefore flexibility in fleet planning will be key in order to seize strategic opportunities when they emerge whilst not putting excess capacity into uneconomic markets. Consequently, easyJet has built flexibility into its fleet planning arrangements that means that its growth rate in terms of seats flown can be flexible and dependant on the opportunities available and economic conditions.

## Business model and vision

easyJet's vision is to 'Turn Europe Orange'. This will be achieved by:

- Ensuring no compromise on safety;
- Giving our customers low fares to convenient airports at convenient times of the day combined with helpful and friendly service that is reliable and punctual;
- Smart cost management so we can continue to offer competitive fares;
- Attracting talented people to easyJet and keeping them with us because easyJet is an enjoyable and challenging place to work; and
- Delivering a good return to shareholders by focusing on improving margins to achieve a profit per seat of £5.

easyJet has a number of opportunities to drive margin improvement:

- To grow fares through continued network optimisation and driving the business traveller proposition harder;
- To grow ancillary revenues through both yield management of fees and charges and partner and in-flight revenues through better execution and innovation such as easyJet Holidays; and
- Smart cost management by reducing complexity and disruption costs in the business and continuing to drive procurement initiatives in airports, ground handling and maintenance.

## Capital structure review

It is vital that easyJet has the financial resources in place to support its expansion plans and to ensure it can withstand external shocks. Consequently, we have performed a rigorous review of the balance sheet including modelling downside scenarios such as extreme fuel prices to ensure that we have the appropriate capital structure going forward.

We will continue with a conservative policy including a liquidity target of £4 million cash per aircraft, a leverage cap of £10 million adjusted gross debt per aircraft and a 50% limit on net gearing.

easyJet is highly cash generative and will continue to be as the business grows and improves its margins. easyJet has also been able to access financing for its aircraft at attractive rates. Consequently, the Board is confident that easyJet has the ability to maintain a conservative balance sheet whilst funding growth and a regular formulaic return to shareholders. We therefore intend to commence the payment of an annual dividend based on a dividend cover of five times. The first dividend will be payable in 2012 in respect of the year ending 30 September 2011.

Return on equity (ROE) has been an important target for easyJet. We continue to target improvement in ROE however; with the introduction of a dividend policy and the belief that easyJet needs to maintain a strong balance sheet, the Board is of the view that Return on capital employed (ROCE) is a more relevant target. Our aim will be to achieve an average post tax ROCE of 12% through the cycle.

## Disruption

easyJet's results this year reflect the high levels of disruption from snow, volcanic ash, ATC strike action and easyJet's own operational difficulties. The combination of these events led to incremental costs of £97.9 million versus the prior year.

During December 2009 and January 2010, Europe experienced exceptional snowfall causing the closure of many airports. Despite this easyJet managed to fly 90% of its programme during the affected period. Nonetheless, the impact of this disruption on our customers and people was significant. easyJet incurred £20.8 million of additional costs associated with this disruption and the pre-tax result, including lost contribution, in the first half of the year was adversely impacted by £25 million.

The disruption to European airspace due to the Eyjafjalla volcano in April and May was significant. easyJet was forced to cancel 7,314 flights, disrupting 960,000 passengers. The lost contribution and additional cost as a result of this event were £30 million and £27.3 million respectively.

easyJet gave priority to supporting its customers affected by the volcanic ash disruption and was able to repatriate approximately 200,000 stranded passengers within five days by implementing the following special measures:

- Operating effectively a full flying programme as soon as the skies reopened;
- Operating special rescue flights to hot spot areas where many passengers were stranded. These flights were operated with additional aircraft leased at easyJet's expense;
- Prioritising stranded passengers over new sales. easyJet suspended sales on many routes to give priority to our repatriation efforts; and
- Allowing customers to fly on stand-by. easyJet set up stand-by desks in airports to try to help stranded passengers get on the next available flight.



# 200,000

**Prioritising stranded passengers**

easyJet repatriated around 200,000 passengers within five days during the volcanic ash disruption.

# Chief Executive's statement

continued

Over the summer, easyJet experienced operational difficulties, including a high level of cancellations and poor on time performance (OTP). Following a thorough review, it is clear that the root cause of these operational problems was that easyJet did not have the right number of crew in the right locations at the right times. High levels of ATC industrial action across Europe further exacerbated the problems.

When the extent of the problems came to light, easyJet swiftly put in place a series of mitigating actions including sub-chartering aircraft. Throughout this period our priority was ensuring no compromises on safety and seeking to minimise the impact of these issues on our passengers. Subsequently, we have seen an improvement in OTP while the number of cancellations has reduced. Our objective now is to ensure acceptable levels of OTP return for summer 2011.

Going forward we have implemented a series of measures to ensure these issues are fundamentally resolved including ensuring realistic planning assumptions for crew numbers, greater use of flexible rosters, a more robust management structure and more effective communication with the crew. These measures will not incur additional net costs to easyJet but will deliver savings as disruption costs are reduced.

## Brand licence resolution

On 11 October 2010, we announced a resolution to the ongoing brand licence dispute. The proposed variations to the brand licence will ensure that we have a more workable agreement going forward that allows easyJet to carry out all current commercial activities and innovate without restriction within the parameters of the airline and airport environment. The proposed variations will be the subject of a shareholder circular that was issued on 16 November 2010.

## Business performance

easyJet's strategy is centred around achieving profitable growth and delivering improved returns. Therefore, the management team continually focuses its efforts on both driving revenue and managing costs. Margins improved in the period, mainly driven by a unit fuel cost decrease equivalent to £122.7 million, offset by lower interest income of £11.3 million and £97.9 million of additional disruption costs.

## Revenue

Total revenue per seat was £53.07 in the year, an increase of 3.3% at constant currency; a good performance against a difficult backdrop and strong comparators driven by the strength of easyJet's network, good route management and growth in ancillary revenues.

## Focused network development

easyJet's unique differentiator is its network, with a leading presence on the top 100 routes in Europe and positions at primary airports that are attractive to time sensitive consumers. Additionally, 53% of easyJet's passengers now originate from outside the UK, an increase of 3 percentage points compared with the prior year.

easyJet has continued to manage the performance of its network by careful allocation of aircraft to routes and optimisation of its flying schedule. During the past year, 28 underperforming routes were closed and 115 new routes were launched. easyJet closed its base at East Midlands airport and reallocated the aircraft to bases where it will be able to drive an improved return. easyJet now operates 25 A320 aircraft across the network and this has enabled us both to extend our network to longer range destinations such as Israel, Egypt and Turkey and to fly a higher number of passengers at highly slot congested airports such as Paris Orly.

easyJet continues to focus its efforts on the business travel market through adding new routes to business destinations, improving frequencies and increasing the proportion of flights at peak times of the day. easyJet continues to see a yield premium of about 20% to 30% from flights booked via the GDS and Business API.

Overall, easyJet's capacity (measured in seats flown) grew by 6% during the year, with an increase of 16% in mainland Europe with growth focused on France, Italy, Spain and Switzerland.

## UK

### Consolidating UK performance

The network strategy in the UK is focused around consolidating our position as the UK's leading airline. Capacity in the UK was flat overall but careful capacity allocation decisions delivered a good revenue performance across all of our UK bases.

At London Gatwick seats flown grew by 9% and we increased based capacity by a further three aircraft to 42 over the summer following the withdrawal of Aer Lingus from the routes on which they competed directly with easyJet.

Capacity elsewhere in the UK reduced by 6% as easyJet closed its base at East Midlands in January 2010 and terminated underperforming routes in Luton. There were good performances at a number of UK regional bases, particularly at Belfast and Edinburgh following competitor retreat. We continue to invest in our Manchester base with a range of business and leisure routes.



# No.1

Leading the way

We have a leading presence at a number of airports across Europe.





# 22%

## easyJet grows French capacity

We increased capacity in the year by 22% against a total market growth of only 1%.

### Mainland Europe

#### Growing our footprint through increased based capacity in Switzerland, France and Italy

In Switzerland three new aircraft were introduced and seats flown grew by 12%. Frequencies were increased on routes such as Geneva to London Gatwick, Paris Orly and Barcelona. An A320 was introduced at Geneva to enable flights to longer range destinations such as Sharm El Sheikh. easyJet also took advantage of Ryanair's retreat from Basel to add additional capacity into the market.

France is a compelling investment opportunity for easyJet. Low cost carrier penetration is half the European average and easyJet is uniquely positioned to grow in France due to its decision to put its crew onto local terms and conditions. easyJet grew capacity by 22% in France in the year, against market growth of just 1%. At Paris Orly, easyJet has added a seventh aircraft and now has ten aircraft deployed at Paris Charles De Gaulle. At Lyon, a third aircraft has been added as we have taken advantage of Air France's reduced capacity on routes such as Madrid and Barcelona; a fourth aircraft will be added over the winter.

Capacity in Italy increased by 25%, with 16 aircraft now based at Milan Malpensa where easyJet launched eight new routes and increased frequencies on business routes such as Rome, Madrid, Barcelona and Amsterdam.

#### Growing our footprint through increased inbound flying in Germany and Spain

In Germany, easyJet continued to refocus its offering. We have increased capacity on key business routes out of Berlin such as Brussels, Copenhagen and London Gatwick. easyJet has also increased its presence in Scandinavia and we now have thirteen routes operating out of the region.

In Madrid, capacity grew by 20% in the period, with eight aircraft now deployed there. The Spanish market continues to be competitive however both city and beach in-bound routes continue to perform well.

Portugal is an important market for easyJet and we are already its second largest airline. In October, we announced that we are opening a base at Lisbon in winter 2011. This will enable us to further develop our business there.

### Ancillary revenues

Ancillary revenues grew in the year by 43 pence per seat to £10.20 despite regulatory changes to the sales process for insurance products which led to a reduction in insurance income of £8 million in the year and changes in VAT legislation which negatively impacted in-flight income by £2 million. There were improved performances in fees and charges and bag revenue.

However, hotel and car hire revenues were down versus the prior year. This performance is disappointing and we are reviewing this area to ensure that we have the correct product offerings to underpin our growth plans going forward.

### Smart cost management

It is vital that easyJet effectively manages its cost base so that it can continue to offer competitive fares profitably. However, it is important that cost management is sensibly executed and does not lead to sub-optimal decisions such as those made around crewing this year.

Total cost per seat excluding fuel, rose by 5.2% at constant currency to £36.15 in the period, principally due to disruption and wet leasing costs. Excluding the effect of additional disruption, cost per seat rose by 2.2% at constant currency to £35.14 as improvements in aircraft ownership and maintenance costs partially offset increased airport and navigation charges. We are making good progress to be on track to deliver against our £190 million savings programme.

### Systems implementation to drive reduced fuel consumption and improvements in crew efficiency

easyJet has maintained the level of fuel burn in the period. Whilst crew productivity savings were delivered in the year, the way in which these savings were achieved drove substantially more cost in the business as we suffered disruption due to crew shortages in part of the network. Consequently, we have decided to stabilise the operation during 2011 and have built more resilience into our crew planning. These additional costs will be offset by reduced disruption and wet leasing costs.



# 20%

## Capacity growth in Madrid

In Madrid, we have 8 aircraft and increased capacity by 20% in the year.



# Chief Executive's statement

continued

## £17m

### Annual maintenance savings

easyJet expects to make around £17 million of savings per annum following the renegotiation of the SR Technics contract.

### Leverage scale and the recession to deliver procurement efficiencies

The renegotiation of our maintenance contract with SR Technics will drive savings of around £17 million per annum. We have also maintained our approach of leveraging our scale and buying power to challenge airports on the charges they levy.

### Efficient fleet management

easyJet continues to make good progress towards its goal of operating a common aircraft fleet. Eliminating the Boeing and ex-GB Airways sub-fleets will take cost out of the business and simplify our operations. The intention is to exit all aircraft in the two sub-fleets by 2012 to complete the realisation of ownership cost savings of around £30 million per annum. Nine Boeing 737s and three ex-GB Airways A320s were returned to lessors in the year. The remaining four ex-GB Airways A321s exited the fleet in November 2010.

We have benchmarked easyJet cost categories against other low cost carriers and identified further efficiencies. We have named this programme easyJet Lean and the £190 million cost savings programme will be folded up into this initiative. One of our cost saving plans we have already stepped up is to build a greater proportion of A320s into our fleet plan. There are currently 25 easyJet 180 seat A320s in the fleet and our review of their introduction has shown a reduction in cost per seat which has led to a significant increase in contribution, although as you might expect there is a slight yield decrease. This is a perfect example of how we aim to balance yield and cost to improve margins.

### Regulated costs

A significant proportion of easyJet's cost base is determined by governments and regulators and we continue to constructively engage with them on a number of issues that will impact easyJet's cost base in the future. The closure of European airspace because of volcanic ash and the wide scale air traffic control disruption across Europe have highlighted some of the weaknesses of the current policy framework. We are supporting efforts to put in place a European framework to deal with future crises. The volcanic ash disruption also exposed the weaknesses in EU2004/261, which effectively requires airlines to act as insurer of last resort.

We will work with the EU on consumer rules to ensure that they strike the right balance between the benefits that regulation brings to consumers over its costs to the industry. The strike disruption to air traffic control is due to the wider economic pressures facing Europe and union concerns about the forthcoming Single European Sky programme. We expect disruption to continue in 2011; we will press for measures to be put in place that alleviate the impact of these strikes and push for faster reform.

Our increasing focus on primary airports increases the importance of regulated airport charges to the business. We continue to work with airports and regulators to ensure that charges are as low as possible and also that charging structures do not discriminate against easyJet. In the UK, we are active participants in the CAA's work on airport regulation methodologies and competition; we are also involved in regulation in the Netherlands, France and Belgium.

We are now at the initial stages of aviation's entry into the EU Emissions Trading System (ETS); 2010 is a monitoring year ahead of the requirement in 2012 to have permits to cover emissions. We support moves towards a global framework for addressing aviation's impact on climate change. However, this must not come at the expense of schemes such as ETS. These schemes are the right way to address aviation's environmental obligations. We also remain concerned about the imposition of passenger taxes across Europe, with Germany introducing a €8 passenger tax for European flights. We can see no rationale for these taxes and where they remain we will continue to argue for their reform of any passenger taxes into environmentally efficient plane taxes, which tax flights rather than passengers.

### Fleet plan

In the period, easyJet took delivery of eight A320 aircraft and nineteen A319 aircraft under the terms of the easyJet Airbus agreement. Configured with 180 seats, the A320 is enabling us to increase our capacity at peak times at slot constrained airports. The aircraft also operates with a cost per seat that is around 6% lower than the A319.

The total fleet at 30 September 2010 comprised 196 aircraft. A further 45 easyJet specification aircraft deliveries are currently planned for arrival over the next three years. The fleet is expected to comprise 220 aircraft by 30 September 2013.

easyJet has flexibility in its fleet planning arrangements and thus is able to manage the total number of aircraft in the fleet through a combination of deferrals and lease extensions.

## 25 A320s

### 25 A320 aircraft within our fleet

We have 25 A320 aircraft within our fleet at 30 September, after taking delivery of 8 new A320 aircraft in the year. This aircraft operates with a cost per seat that is around 6% lower than the A319.

## 196 aircraft

### A flexible approach to fleet planning

27 new aircraft have been delivered in the year and we are able to manage our future fleet size through deferrals and lease extensions.



Fleet as at 30 September 2010:

	Owned	Operating leases	Finance leases	Total	Changes in the year	Future committed deliveries <sup>3</sup>	Unexercised purchase rights <sup>4</sup>
easyJet A320 family	122	52	8	182	27	45	88
Boeing 737-700	–	8	–	8	(9)	–	–
GB Airways A320 family	4	2	–	6	(3)	2	–
	126	62	8	196	15	47	88

Note 3: The 45 future easyJet deliveries and 2 ex-GB Airways deliveries are anticipated to be delivered over the next three financial years, 25 in 2011, 18 in 2012 and 4 in 2013.

Note 4: Purchase options and rights may be taken on any A320 family aircraft and are valid until 2015.

The total fleet plan over the period to 30 September 2013 is as follows:

	easyJet A320 family	Boeing 737-700	GB Airways A320 family <sup>5</sup>	Total aircraft <sup>5</sup>
At 30 September 2010	182	8	6	196
At 30 September 2011	202	2	–	204
At 30 September 2012	214	–	–	214
At 30 September 2013	218	–	2	220

Note 5: Four ex-GB Airways A321 aircraft exited the fleet in November 2010.

### Hedging positions

easyJet operates under a clear set of treasury policies agreed by the Board. The aim of easyJet's hedging policy is to reduce short term earnings volatility and therefore the Company hedges forward, on a rolling basis, between 50% and 80% of the next 12 months anticipated requirements and between 20% and 50% of the following 12 months anticipated requirements. Details of our current hedging arrangements are set out below:

Percentage of anticipated requirement hedged	Fuel requirement	US dollar requirement	Euro surplus sale
Full year ending 30 September 2011	70%	66%	64%
Rate	\$734/MT	\$1.60	€1.10
Full year ending 30 September 2012	23%	40%	21%
Rate	\$802/MT	\$1.57	€1.11

### Outlook

Capacity measured in seats flown, adjusting for the impact of disruption is expected to increase compared to the prior year by around 8% as easyJet continues with its strategy of carefully targeting growth. On a reported basis capacity is expected to be up by 12% for the full year and 14% in the first half. The current expectation is that competitor capacity on easyJet routes will be up by low single digits.

Over 45% of the available first half seats now sold and forward bookings are in line with the prior year. Total revenue per seat in the first half is expected to be broadly flat on a reported basis (at current exchange rates)<sup>6</sup> versus the prior year and slightly up by at constant currency despite a greater proportion of A320 aircraft in the fleet and the impact of increased APD in the UK and its introduction into Germany.

Total reported cost per seat excluding fuel (at current exchange rates)<sup>6</sup> is anticipated to fall by around 4% on an underlying basis, assuming normal levels of disruption. Improvements in maintenance and ownership costs and a reduction in disruption related costs will offset the impact of planned increases in crew costs as we build more resilience in to the operation.

The economic outlook in Europe remains uncertain and the continuing level of ATC industrial action is causing disruption to our flying programme and driving additional cost. However, the strength of the easyJet network combined with its proposition of offering consumers the best value fares to convenient airports means that easyJet is well positioned for future success.

Note 6: US\$1.60/£, €1.18/£ and US\$788 per metric tonne at noon on 15 November 2010.



# 70%

### Hedged against fuel price increases

We have 70% of our anticipated fuel requirement for 2011 hedged using forwards at \$734/MT.

**Carolyn McCall** OBE  
Chief Executive



# Strategy and Key Performance Indicators

**easyJet's vision is to Turn Europe Orange.**

We will do this by delivery against the following strategic priorities.

## Financial discipline

We are committed to improving shareholder returns whilst remaining prudently financed with a strong, liquid balance sheet.

**Profit before tax (underlying)** **330.9%**  
£ million

2010	188.3
2009	43.7
2008	123.1
2007	191.3
2006	129.2

**Earnings per share (basic)** **68.0%**  
pence

2010	28.4
2009	16.9
2008	19.8
2007	36.6
2006	23.2

**Return on equity** **3.1ppt**  
%

2010	8.6
2009	5.5
2008	6.8
2007	14.3
2006	10.1

**Gearing** **5.8ppt**  
%

2010	31.8
2009	37.6
2008	28.7
2007	20.4
2006	31.0

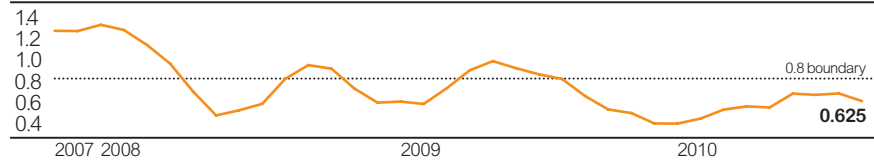
**Net debt** **£40.1**  
£ million

2010	40.1
2009	45.7
2008	-235.6
2007	-393.4
2006	-381.0

## No compromise on safety

We will never compromise our commitment to safety, which is always the first priority for all our people.

### Composite risk value (CRV) index



The Composite risk value index is an internal benchmark to monitor average risk value per sector flown over time. It is calculated by assigning a numerical weighting to every safety occurrence report received. The total weighting is then normalised by the number of sectors flown in the period. Management sets a nominal boundary of 0.8 which assists in monitoring performance over time.

## End-to-end customer proposition

### Focused on network development

We are focusing on improving our routes, slots and bases to build on our leading presence across Europe.

### Presence on top 100 routes (ranked by primary airport)

easyJet	49
BA/Iberia	43
Lufthansa-Swiss	41
Air France-KLM	22
Alitalia	20
Air Berlin	15
SAS	13
Vueling	11
Norwegian	10
Ryanair	42

■ Number of market pairs operated between primary airports  
■ Non-primary airports

### Airports where we are No.1 or No.2 airline

2010	19
2009	18
2008	16

### Profit before tax per seat (underlying) £

2010	3.36
2009	0.83
2008	2.37

## Differentiated brand & product

We are continuing to refine our winning proposition to a wide range of business and leisure customers.

### Revenue per seat £

2010	53.07
2009	50.47
2008	45.51

### Likely to be recommended %

2010	80
2009	89
2008	90

Results based on customer survey responses.

## Where people make a difference

We are committed to ensuring high employee satisfaction and engagement levels across the business.

### Staff turnover %

2010	7.6
2009	6.9
2008	12.0

### Employee satisfaction %

2010	35
2009	66
2008	72

Results in 2010 relate to the uSay survey, which used a different methodology to calculate satisfaction. The results for 2008 and 2009 were based on the Pulse survey results.

### Attendance %

2010	95.3
2009	95.2
2008	96.5

## Operational excellence

We are working to ensure we have a robust operation that delivers a satisfactory customer service.

### On time performance %

2010	65.8
2009	79.5
2008	75.4

Arrival within 15 minutes of scheduled arrival time.

### Bags lost

2010	99,419
2009	91,930
2008	90,388

### Flights cancelled on the day

2010	15,976
2009	1,102
2008	1,315

2010 figure includes 7,314 flights cancelled due to volcanic ash cloud.

## Smart cost management

We continue to focus on managing costs to ensure we offer our customers competitive fares.

### Cost ex fuel per seat (underlying) £

2010	36.62
2009	34.36
2008	29.49

# Financial review

2010 confirmed the underlying strength of easyJet's business model and customer proposition. The Company continued to develop Europe's No.1 air transport network by increasing presence at the premier airports and continuing to enhance the route offering and timing and frequency of the schedule.

# £363.4m

## Strong operating cash flow

Net cash generated from operating activities.



**Chris Kennedy**  
Chief Financial Officer

### Introduction

	2010			2009		
	£ million	£ per seat	Pence per ASK	£ million	£ per seat	Pence per ASK
Total revenue	<b>2,973.1</b>	<b>53.07</b>	<b>4.72</b>	2,666.8	50.47	4.58
Profit before tax	<b>154.0</b>	<b>2.75</b>	<b>0.24</b>	54.7	1.04	0.09
Profit after tax	<b>121.3</b>	<b>2.17</b>	<b>0.19</b>	71.2	1.35	0.12

2010 confirmed the underlying strength of easyJet's business model and customer proposition. The Company continued to develop Europe's No.1 air transport network by increasing presence at primary airports and continuing to enhance the route offering and timing and frequency of the schedule.

This investment in the network has resulted in increased revenue yields and profitability despite the backdrop of a recessionary economic environment across Europe.

Total revenue grew 11.5% to £2,973.1 million and reported profit before tax was £154.0 million or £2.75 per seat (2009: £54.7 million or £1.04 per seat). This result was achieved despite the significant impact of disruption on the business during the year.

easyJet continues to generate strong operating cash flows and maintain a strong balance sheet. Gearing levels remain low and the Company has sufficient liquidity to fund its future growth.

The reported financial performance in the year has been significantly impacted by the following factors:

- Network improvement;
- Fuel prices
- Volcanic ash disruption
- Winter snow disruption
- Air traffic control and strike action



### Network improvement

The move in capacity towards continental Europe continued in 2010. Of the 6.0% overall growth in seats flown, the increase at continental European bases was 15.9%, with investment being focused in Milan Malpensa, Rome Fiumicino, and Paris Charles de Gaulle. London bases in aggregate grew by 4.5% with investment continuing at Gatwick but being reduced at Luton. Capacity was reduced across the UK regions by 6.3% with only Manchester showing any significant growth.

easyJet has continued to grow in both 2009 and 2010 and has returned growth in total revenue per seat at constant exchange in both years. The strong 2009 comparators make the 2010 performance stand out amongst European short-haul competitors.

A consequence of investment in higher yielding routes is a mix impact on cost. However, the overall cost impact across the airport charges, ground handling and crew lines was more than recovered through additional revenue yield.

### Fuel prices

	2010			2009		
	£ million	£ per seat	Pence per ASK	£ million	£ per seat	Pence per ASK
Fuel	<b>733.4</b>	<b>13.09</b>	<b>1.17</b>	807.2	15.28	1.39

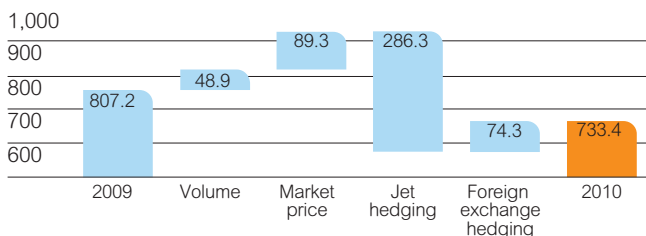
Total fuel cost for 2010 was £733.4 million, a £73.8 million decrease on 2009. After taking into account a 6% increase in volume, fuel cost per seat was £13.09, down £2.19 from £15.28 per seat in 2009. The market cost of fuel, excluding fees and charges, increased in the year from \$595 per metric tonne to \$688. However, the effective price for fuel, after taking into account jet fuel hedging, decreased significantly from \$951 per metric tonne to \$732 as higher cost hedges matured.

The effective US dollar exchange rate reduced in the year from 1.78/£ to 1.64/£ resulting in a sterling cost of fuel (excluding fees and charges) of £445 per metric tonne compared to £536 in 2009.

Fuel burn was flat year-on-year at 715 US gallons per block hour. The introduction of additional heavier A320 aircraft and a 1.5 percentage point increase in load factor being offset by fuel conservation initiatives in the year.

### Fuel cost

£ million



### Volcanic ash disruption

As discussed in the Chief Executive's review, the aviation industry was subject to the unprecedented closures of European airspace during April and May 2010 following the eruption of the Eyjafjalla volcano in Iceland. easyJet was forced to cancel over 7,000 sectors during this period. Costs of customer compensation, direct operating costs and additional resource in our contact centres totalled £27.3 million or £0.49 per seat. In addition, the Company estimates the lost contribution from these incidents at approximately £30 million.

### Winter snow disruption

During December 2009 and January 2010, Europe experienced heavier than normal snowfall which caused the closure of many airports and the loss of nearly 2,800 sectors. As reported in the Company's interim report, operating costs and customer compensation associated with the snow totalled £20.8 million or £0.37 per seat. Additional lost contribution from the snow disruption is estimated at £4 million.

### Air traffic control and strike action

As a result of the recessionary environment across Europe and austerity measures introduced by national governments the operation has been affected by significant levels of industrial action and work to rule by ground handling suppliers and air traffic control. This caused a large number of cancelled flights and significant lost contribution and cost in the form of customer compensation. Industrial action has continued into the early part of the 2011 financial year particularly in France. These issues and operational difficulties during the summer resulted in additional costs of £49.8 million in 2010 including £13.7 million of aircraft wet leasing.

# Financial review

continued

## Operational measures

	2010	2009	Change
Seats flown (millions)	<b>56.0</b>	52.8	6.0%
Passengers (millions)	<b>48.8</b>	45.2	7.9%
Load factor	<b>87.0%</b>	85.5%	+1.5pts
Available Seat Kilometres (ASK) (millions)	<b>62,945</b>	58,165	8.2%
Revenue Passenger Kilometres (RPK) (millions)	<b>56,128</b>	50,566	11.0%
Average sector length (kilometres)	<b>1,123</b>	1,101	2.1%
Sectors	<b>353,080</b>	337,266	4.7%
Block hours	<b>689,316</b>	645,446	6.8%
Number of aircraft owned/leased at end of year	<b>196</b>	181	8.3%
Average number of aircraft owned/leased during year	<b>187.9</b>	174.1	7.9%
Number of aircraft operated at end of year	<b>186</b>	170	9.4%
Average number of aircraft operated during year	<b>174.9</b>	160.1	9.2%
Operated aircraft utilisation (hours per day)	<b>10.8</b>	11.0	(2.2)%
Number of routes operated at end of year	<b>509</b>	422	20.6%
Number of airports served at end of year	<b>125</b>	114	9.6%

# 5.1%

## Revenue per seat growth

Revenue per seat increased by 5.1% compared to 2009.

# 509

## Number of routes operated at end of year

We now have more than 500 routes across our network, and continue to add to our network in our vision to 'Turn Europe Orange'.

## Financial measures

	2010	2009	Change
<b>General</b>			
Return on equity	<b>8.6%</b>	5.5%	+3.1pts
(Underlying)*			
Profit before tax per seat (£)	<b>3.36</b>	0.83	306.3%
Profit before tax per ASK (pence)	<b>0.30</b>	0.08	298.1%
<b>Revenue</b>			
Per seat measures (underlying)*			
Revenue per seat (£)	<b>53.07</b>	50.47	5.1%
Revenue per seat at constant currency (£)	<b>52.15</b>	50.47	3.3%
Per ASK measures (underlying)*			
Revenue per ASK (pence)	<b>4.72</b>	4.58	3.0%
Revenue per ASK at constant currency (pence)	<b>4.64</b>	4.58	1.2%
<b>Costs</b>			
Per seat measures (underlying)*			
Total cost per seat (£)	<b>49.71</b>	49.64	0.1%
Total cost per seat excluding fuel (£)	<b>36.62</b>	34.36	6.6%
Total cost per seat excluding fuel at constant currency (£)	<b>36.15</b>	34.36	5.2%
Operational cost per seat (£)	<b>46.13</b>	46.21	(0.2)%
Operational cost per seat excluding fuel (£)	<b>33.04</b>	30.93	6.8%
Operation cost per seat excluding fuel at constant currency (£)	<b>32.99</b>	30.93	6.7%
Ownership cost per seat (£)	<b>3.58</b>	3.43	4.1%
Per ASK measures (underlying)*			
Total cost per ASK (pence)	<b>4.43</b>	4.51	(1.7)%
Total cost per ASK excluding fuel (pence)	<b>3.26</b>	3.12	4.4%
Total cost per ASK excluding fuel at constant currency (pence)	<b>3.22</b>	3.12	3.1%
Operational cost per ASK (pence)	<b>4.11</b>	4.20	(2.2)%
Operational cost per ASK excluding fuel (pence)	<b>2.94</b>	2.81	4.6%
Operation cost per ASK excluding fuel at constant currency (pence)	<b>2.94</b>	2.81	4.5%
Ownership cost per ASK (pence)	<b>0.32</b>	0.31	2.0%

\* Underlying measures exclude £27.3 million of cost relating to the volcanic ash cloud and £7.0 million loss on disposal of A321 aircraft in 2010 and £11.0 million profit on disposal of A321 aircraft in 2009.

## Underlying financial performance

	2010 £ million	2009 £ million
Underlying profit before tax	<b>188.3</b>	43.7
Volcanic ash disruption	<b>(27.3)</b>	–
(Loss)/profit on disposal of assets held for sale	<b>(7.0)</b>	11.0
Reported profit before tax	<b>154.0</b>	54.7

The reported profit for the year includes £27.3 million of cost relating to the volcanic ash cloud disruption in April and May 2010 as detailed above and a £7.0 million loss associated with the disposal of the final four ex-GB Airways A321 aircraft in November 2010. This now completes the sale of ex-GB Airways A321 sub-fleet, generating an overall net profit of £4.0 million on the disposal of the seven aircraft.

Excluding these one off items underlying profit before tax for 2010 was £188.3 million or £3.36 per seat (2009: £43.7 million or £0.83 per seat).

## Exchange rates

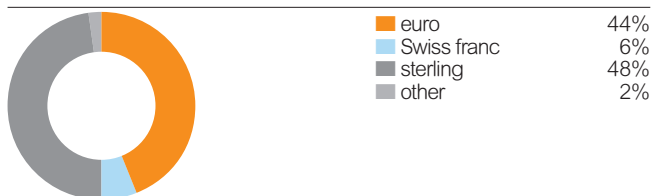
Movements in exchange rates, principally the US dollar and euro, are a key factor in determining the Company's financial performance. The underlying average market rate for the US dollar in 2010 was flat compared to the prior year at 1.56/£. However, after taking into account hedging, the effective average rate for the year was 1.64/£, down from 1.78/£ in 2009. The Company has no US dollar revenue but significant US dollar costs within fuel, leasing, maintenance and interest, therefore this movement has had an adverse impact on the result for the year compared to 2009.

The average euro market rate in 2010 has strengthened marginally from 1.16/£ in 2009 to 1.15/£ in 2010. With 44% of revenue and 34% of costs denominated in euro, this results in a net surplus position therefore the movement in the euro has contributed positively to the result in 2010.

The following charts illustrate easyJet's exposure to foreign currency in both revenue and cost terms:

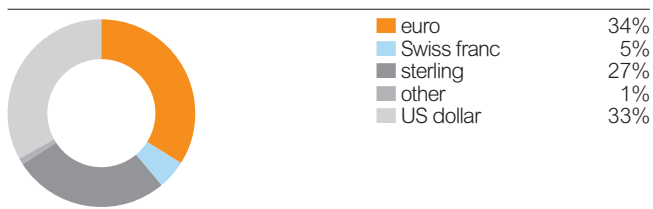
### Total revenue

2010 currency split



### Total costs

2010 currency split



## Revenue

	2010			2009		
	£ million	£ per seat	Pence per ASK	£ million	£ per seat	Pence per ASK
Passenger revenue	<b>2,401.7</b>	<b>42.87</b>	<b>3.81</b>	2,150.5	40.70	3.69
Ancillary revenue	<b>571.4</b>	<b>10.20</b>	<b>0.91</b>	516.3	9.77	0.89
Total revenue	<b>2,973.1</b>	<b>53.07</b>	<b>4.72</b>	2,666.8	50.47	4.58

In spite of the challenging economic environment, the Company returned a strong commercial performance in 2010. Total revenue increased 11.5% to £2,973.1 million.

Disruption in the year meant that seat capacity increased by 6.0% whilst there was an increase of 9.2% in the average number of aircraft operated. This contributed to a 1.5 percentage point increase in load factor.

Total revenue per seat increased 5.1% to £53.07 with a particularly strong second half performance. After accounting for the positive impact of foreign exchange, total revenue per seat at constant currency grew by 3.3%. Non-sterling currencies accounted for 52% of revenue in 2010 (2009: 51%).

This revenue increase was driven by:

- Improvements in route mix with investment in higher yielding European routes and some capacity re-alignment within the UK (including the closure of the East Midlands base); and
- Encouraging year-on-year performance on routes from the UK, these performed well throughout the summer with high levels of demand for both beach and European cities.

Ancillary revenue grew by 10.7% in 2010, or 4.4% on a per seat basis. This was driven by a 3.3% increase in checked bag revenue per seat and price optimisation across other fees and charges. Partner revenue was impacted by the regulatory change which forced travel insurance to be presented on an opt-in basis.

# Financial review

continued

## Costs

	2010			2009		
	£ million	£ per seat	Pence per ASK	£ million	£ per seat	Pence per ASK
Underlying costs *						
Operating costs	<b>1,851.1</b>	<b>33.04</b>	<b>2.94</b>	1,634.5	30.93	2.81
Fuel	<b>733.4</b>	<b>13.09</b>	<b>1.17</b>	807.2	15.28	1.39
Net ownership costs	<b>200.3</b>	<b>3.58</b>	<b>0.32</b>	181.4	3.43	0.31
Total costs	<b>2,784.8</b>	<b>49.71</b>	<b>4.43</b>	2,623.1	49.64	4.51
Total costs excluding fuel	<b>2,051.4</b>	<b>36.62</b>	<b>3.26</b>	1,815.9	34.36	3.12

\* Underlying measures exclude £27.3 million of cost relating to the volcanic ash cloud and £7.0 million loss on disposal of A321 aircraft in 2010 and £11.0 million profit on disposal of A321 aircraft in 2009.

Total cost per seat increased by £0.07 to £49.71 per seat. Excluding fuel costs, the increase was £2.26 or 6.6% to £36.62 per seat. Adjusting for the impact of foreign exchange, total cost per seat excluding fuel was up 5.2% compared to 2009.

The costs of non-volcanic ash related disruption and wet leasing in the year; the impact of network mix on airport, ground handling and crew costs and the significant reduction in interest income have all been factors in the increase in total costs year-on-year.

## Operating costs

	2010			2009		
	£ million	£ per seat	Pence per ASK	£ million	£ per seat	Pence per ASK
Underlying costs *						
Ground handling	<b>274.4</b>	<b>4.90</b>	<b>0.44</b>	255.9	4.84	0.44
Airport charges	<b>529.8</b>	<b>9.46</b>	<b>0.84</b>	481.5	9.11	0.83
Navigation	<b>256.0</b>	<b>4.57</b>	<b>0.41</b>	232.3	4.40	0.40
Crew	<b>336.0</b>	<b>6.00</b>	<b>0.53</b>	306.6	5.80	0.53
Maintenance	<b>176.8</b>	<b>3.16</b>	<b>0.28</b>	161.6	3.06	0.28
Advertising	<b>49.8</b>	<b>0.89</b>	<b>0.08</b>	47.0	0.89	0.08
Merchant fees and commissions	<b>42.4</b>	<b>0.75</b>	<b>0.06</b>	33.5	0.64	0.06
Aircraft and passenger insurance	<b>10.2</b>	<b>0.18</b>	<b>0.02</b>	11.3	0.21	0.02
Aircraft wet leasing	<b>13.7</b>	<b>0.24</b>	<b>0.02</b>	–	–	–
Other costs	<b>162.0</b>	<b>2.89</b>	<b>0.26</b>	104.8	1.98	0.17
Total operating costs excluding fuel	<b>1,851.1</b>	<b>33.04</b>	<b>2.94</b>	1,634.5	30.93	2.81

\* Underlying measures exclude £27.3 million of cost relating to the volcanic ash cloud and £7.0 million loss on disposal of A321 aircraft in 2010 and £11.0 million profit on disposal of A321 aircraft in 2009.

Operating costs increased by £2.11 or 6.8% per seat compared to 2009. Adjusting for foreign exchange, the increase was £2.06 per seat principally due to network mix, as we increased our presence in the top European airports, wet leasing and the costs of snow and other disruption.

Ground handling includes significant additional de-icing costs following the exceptional winter snow. After adjusting for foreign exchange and the impact of network mix, underlying price shows a decrease per seat year-on-year. The majority of the increase in airport charges can also be attributed to mix and foreign exchange. Approximately two-thirds of all ground handling and airports costs are now denominated in foreign currency.

The combined impact of mix across ground handling, airports and crew costs is estimated at £0.45 per seat, this has been more than recovered through additional revenue per seat.

The increase in navigation costs per seat is driven by continued regulated cost increases from Eurocontrol and the 2.1% increase in average sector length in the year. Average cost increases across the major European countries covered by easyJet routes was approximately 3.5%.

Crew costs have increased as we continue our expansion into Europe. Per head costs including social security at our European bases are higher than those in the UK but are a necessary part of our growth strategy. In 2009 one third of crew costs were denominated in euro or Swiss francs, in 2010 this proportion has risen to 40% therefore this has resulted in an increase in sterling cost as the euro and Swiss franc have strengthened year-on-year.

Crew pay negotiations and contract changes have also added cost in 2010. Despite the expansion into Europe, the UK is still the largest country in terms of crew heads and, along with the introduction of German contracts, has been the biggest driver of the cost increase.

The reduction in utilisation due to disruption has also impacted cost per seat as the fixed cost element of our crew establishment is spread over fewer seats. Crew costs remain the key cost challenge for the Company in 2011.

Maintenance costs show an increase of £0.10 per seat but decreased after adjusting for foreign exchange, benefiting from the new SR Technics contract completed in 2009. Maintenance costs have also benefited from the reduction in the number of leased aircraft compared to 2009. During the year nine Boeing 737s and three ex-GB Airways A320s were returned to lessors.

Aircraft wet leasing costs totalled £13.7 million or £0.24 per seat as the Company complemented its fleet with additional wet leased Boeing 757s during the summer period to deal with short-term operational crew shortages and to improve operational resilience.

Other costs show a significant £0.91 per seat increase year-on-year. This line includes the operational costs and compensation relating to the winter snow and other ATC and strike related disruption and is also impacted by the reduction in utilisation. In addition 2009 cost per seat was flattered by the Boeing spares sale.

After excluding foreign exchange, the costs of network mix and disruption, the underlying cost per seat was broadly flat, demonstrating the strong underlying cost control now evident across the business.

**-25p per seat**

### Ownership costs

We achieved a 25p per seat reduction in ownership costs in the year at constant currency.

### Ownership costs

Underlying costs *	2010			2009		
	£ million	£ per seat	Pence per ASK	£ million	£ per seat	Pence per ASK
Depreciation	<b>72.5</b>	<b>1.29</b>	<b>0.12</b>	55.4	1.05	0.10
Amortisation of intangible assets	<b>6.2</b>	<b>0.11</b>	<b>0.01</b>	4.4	0.08	0.01
Aircraft dry leasing	<b>102.0</b>	<b>1.82</b>	<b>0.16</b>	116.2	2.20	0.20
Interest receivable and other financing income	<b>(7.1)</b>	<b>(0.13)</b>	<b>(0.01)</b>	(22.5)	(0.43)	(0.04)
Interest payable and other financing charges	<b>26.7</b>	<b>0.49</b>	<b>0.04</b>	27.9	0.53	0.04
Net ownership costs	<b>200.3</b>	<b>3.58</b>	<b>0.32</b>	181.4	3.43	0.31

\* Underlying measures exclude £27.3 million of cost relating to the volcanic ash cloud and £7.0 million loss on disposal of A321 aircraft in 2010 and £11.0 million profit on disposal of A321 aircraft in 2009.

Ownership costs increased by £0.15 per seat, however after adjusting for foreign exchange, ownership costs were down £0.25 per seat reflecting the change in the owned/leased mix of aircraft. Average owned aircraft in 2010 was 123.7 compared to 98.1 in 2009 an increase of 26%. An additional 23 owned aircraft were added in the year.

The average number of leased aircraft decreased from 76.0 in 2009 to 64.2 in 2010 as the Boeing 737 and ex-GB Airways A320 return programmes continued. Return of the higher cost Boeings and reductions in variable rates also contributed to a positive price variance compared to 2010.

The net of interest receivable and interest payable shows a £0.26 per seat increase year-on-year. However, excluding foreign exchange, the net of the two lines is constant year-on-year on a per seat basis as interest rates have fallen. All current debt is floating rate and re-fixes on either a three month or six month basis. Interest payable includes the effects of realised and unrealised foreign exchange adjustments on the financing element of US dollar balance sheet hedging, the impact of which was significant year-on-year. Ownership costs were also impacted by spreading costs over a smaller number of seats as capacity was reduced and utilisation impacted as a result of disruption.



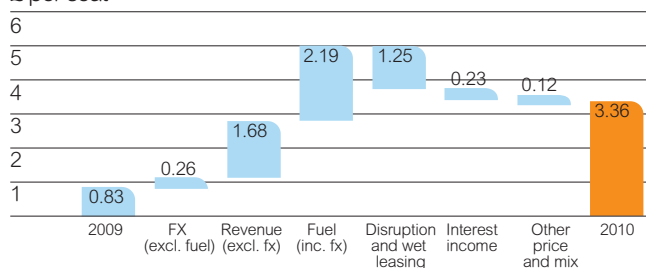
# Financial review

continued

## Build up of underlying pre-tax profit per seat

### Underlying PBT per seat

£ per seat



### Profit after tax

Profit after tax was £121.3 million (2009: £71.2 million) resulting in a return on equity of 8.6% (2009: 5.5%). The current year tax charge was £32.7 million resulting in an effective tax rate of 21.2% (2009: tax credit of £16.5 million or 30.2%).

The difference between the effective and the statutory rate is primarily driven by:

- Profits arising overseas being subject to lower tax rates than the UK;
- Non-taxable foreign exchange gains; and
- The future lowering of the UK rate to 27% resulting in a lower deferred tax charge.

### Earnings per share and dividends

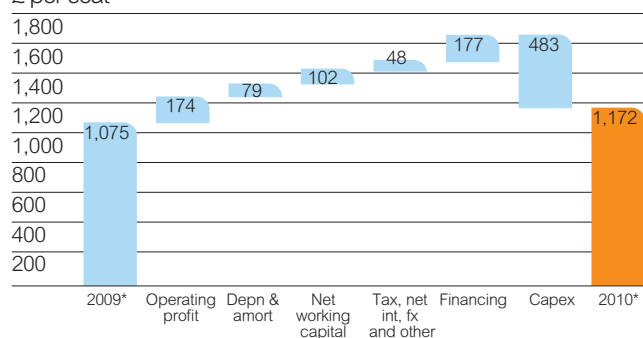
Basic earnings per share was 28.4 pence, a 68.0% increase on the 16.9 pence achieved in 2009. No dividends have been paid or proposed in either the current or prior financial year.

### Summary consolidated statement of cash flows

£ million	2010	2009	Change
Net cash generated from operating activities	363.4	134.5	228.9
Capital expenditure (net of disposal proceeds of £90.2 million in 2009)	(482.6)	(430.3)	(52.3)
Net loan and lease finance drawdown	177.3	470.1	(292.8)
Net decrease/(increase) in money market deposits	31.1	(29.0)	60.1
Other including the effect of exchange rates	34.1	11.1	23.0
Net increase in cash and cash equivalents	123.3	156.4	(33.1)
Cash and cash equivalents at beginning of year	788.6	632.2	156.4
Cash and cash equivalents at end of year	911.9	788.6	123.3
Money market deposits at end of year	260.0	286.3	(26.3)
Cash and money market deposits at end of year	1,171.9	1,074.9	97.0

### Cash flow

£ per seat



\*Includes money market deposits but excludes restricted cash.

easyJet generated a strong operating cash flow for the year; driven by growth in forward bookings and revenue per seat. Net cash generated from operating activities totalled £363.4 million.

Net capital expenditure of £482.6 million was incurred, principally driven by the acquisition of a further 27 A320 family aircraft.

Net loan and lease finance drawdown was £177.3 million, comprising mortgages on 13 aircraft, finance leases on two aircraft and the sale and operating leaseback of six aircraft, net of repayments on mortgages and finance leases. easyJet continues to be an attractive proposition to providers of aircraft finance in both the mortgage and lease markets and had \$754 million of undrawn committed facilities at 30 September 2010.

US\$ million	1 October 2009	Facilities negotiated	Facilities utilised	30 September 2010
Revolving credit facility – mortgages	250	–	–	250
December 2007 facility – mortgages	278	–	(278)	–
November 2009 facility – operating leases	–	222	(222)	–
Summer 2010 facilities – mortgages and finance leases	–	615	(111)	504
	528	837	(611)	754
Operating leases facility secured after the year end				237
<b>Committed financing facilities</b>				<b>991</b>

The combination of available cash, committed financing facilities and 38 unencumbered cash acquired aircraft in the fleet at 30 September 2010 leaves easyJet well positioned to finance committed aircraft orders.

## Summary consolidated statement of financial position

	30 September 2010 £ million	30 September 2009 £ million	Change £ million
Goodwill	365.4	365.4	–
Property, plant and equipment	1,928.1	1,612.2	315.9
Net working capital	(589.8)	(503.9)	(85.9)
Restricted cash	55.6	72.3	(16.7)
Current and deferred taxation	(175.4)	(134.0)	(41.4)
Net debt	(40.1)	(45.7)	5.6
Other non-current assets and liabilities	(43.1)	(59.0)	15.9
Net assets	1,500.7	1,307.3	193.4
Opening shareholders' equity	1,307.3	1,278.2	29.1
Profit in year	121.3	71.2	50.1
Change in hedging reserve	58.7	(51.5)	110.2
Other movements	13.4	9.4	4.0
	1,500.7	1,307.3	193.4

Net assets increased by £193.4 million over the year, driven by the profit for the year and an increase of £58.7 million in the hedging reserve as high cost jet swaps matured, offset in part by the US dollar strengthening against sterling.

The net book value of property, plant and equipment increased by £315.9 million, driven principally by the addition of a net 21 owned A320 family aircraft.

Net working capital improved by £85.9 million to a net negative £589.8 million. As easyJet's passengers pay for their flights at the time of booking, the key component of this balance is unearned revenue of £356.5 million; an increase of £32.2 million during the year driven by increased bookings and improvements in yield. A further benefit was derived from renegotiating contract terms with key card acquirers, contributing to a reduction in trade receivables of £81.9 million.

Restricted cash principally relates to operating lease deposits and customer payments for holidays and decreased by £16.7 million to £55.6 million. This reduction was driven by the implementation of insurance arrangements to meet our obligations under the Package Holiday Regulations and reductions in operating lease deposits as we continued to return the Boeing 737 fleet to lessors.

# \$754m

## Committed financing facilities

We had \$754 million of financing committed as at 30 September 2010.

Current and deferred taxation liabilities increased by £41.4 million to £175.4 million, driven by higher profitability and deferred taxation on the gains recognised on derivatives accounted for as cash flow hedges.

	30 September 2010 £ million	30 September 2009 £ million	Change £ million
Cash and cash equivalents	911.9	788.6	123.3
Money market deposits	260.0	286.3	(26.3)
	1,171.9	1,074.9	97.0
Bank loans	(1,057.0)	(1,010.7)	(46.3)
Finance lease obligations	(155.0)	(109.9)	(45.1)
	(1,212.0)	(1,120.6)	(91.4)
<b>Net debt</b>	<b>(40.1)</b>	<b>(45.7)</b>	<b>5.6</b>

easyJet ends the period with £1,171.9 million in cash and money market deposits; an increase of £97.0 million compared with 30 September 2009. Net borrowings increased by £91.4 million in the period.

The majority of mortgage and finance lease debt and all money market deposits are denominated in US dollars and the sterling value of this net liability increased by £9.1 million during the year as a consequence of the strengthening of the US dollar against sterling.

Net debt at 30 September 2010 was £40.1 million compared with £45.7 million at 30 September 2009. Strong operating cash flow and the increase in net assets delivered a reduction in gearing of six percentage points to 32% at 30 September 2010.

## Going concern

In adopting the going concern basis for preparing the accounts, the Directors have considered the business activities as set out on pages 8 to 13 as well as easyJet's principal risks and uncertainties as set out on pages 25 to 27. Based on easyJet's cash flow forecasts and projections, the Board is satisfied that easyJet will be able to operate within the level of its facilities and available cash for the foreseeable future. For this reason, easyJet continues to adopt the going concern basis in preparing its accounts.

# Financial review

continued

## Significant contracts

easyJet operates a fleet constituted mainly of Airbus\* aircraft with some Boeings which are being phased out. Engines are provided by CFM International and IAE and the maintenance of the aircraft and engines is undertaken by SRT, Virgin Atlantic Engineering\*, Aerotron\*, GE, MTU, BF Goodrich and Lufthansa Technik. The major lessors of aircraft to easyJet are AWAS\*, BOC Aviation\*, GECAS\*, Nomura Babcock & Brown\*, Royal Bank of Scotland\*, Sumisho\*, and Santander\*. The major lenders to easyJet for aircraft purchase are Alliance & Leicester\*, Bank of Tokyo-Mitsubishi\*, BNP Paribas\*, Calyon\*, HSH Nordbank\*, KfW\*, Natixis\*, PK AirFinance\*, Royal Bank of Scotland\*, Sumitomo Mitsui Banking Corporation\* and WestLB\*.

Our main insurers are Global, La Reunion, AIG, Canada Life, QBE, Chubb and Houston Casualty Company Europe.

One of our biggest costs is fuel and our main suppliers are Shell, Air BP, Exxon and Q8. Our IT systems include agreements with AIMS, who provide crew, aircraft and flight management control and operation software; SAVVIS who provide data centre hosting facilities; Lufthansa Systems who provide flight planning systems; SOPRA who develop our reservations system; AD OPT Technologies who provide our pairings and roster optimiser; and Agresso who provide our accounting system.

On 30 September 2010 the Company had 19 bases and they were operated by:

BAA  
Global Infrastructure Partners  
AdP  
EuroAirport Basel-Mulhouse-Freiburg  
Manchester Airports Group  
South West Airports  
Abertis  
Peel Holdings  
Aeroports de Lyon  
Flughafen Berlin-Schoenefeld  
Aeroporti Di Milano  
Newcastle Airport  
Geneva International Airport  
AENA  
Aeroporti di Roma

At these airports our ground handling was carried out by:

Menzies Aviation  
Servisair  
Group Europe Handling  
Aviapartner  
Swissport  
SEA Handling  
Globeground Berlin  
Swissport Menzies  
Gate Aviation  
Aviation Service

Our main ancillary partners are Gate Gourmet, who provide our in-flight merchandise, Europcar, who provide car rental, Hotelopia and Laterooms who broker hotels and Alvia who, through the Mondial brand, provide insurance.

Our credit card acquirers are Elavon, Lloyds TSB, Euroconnect, Barclays Merchant Services and American Express. Our payment service provider is CyberSource.

The Company is regulated by the CAA and easyJet Switzerland is regulated by FOCA. We have important relationships with NATS and Eurocontrol in relation to air traffic services.

The main unions we deal with in the UK are BALPA, UNITE and Prospect; in France they are SNPL and UNAC/CFTC; in Spain they are SEPLA and CCOO; in Italy ANPAC CISL; in Germany Verdi; and in Switzerland BALPA and ESPA.

We use contract pilots from Airline Recruitment and Parc Aviation and flight simulation services from CAE.

We have a key relationship with easyGroup IP Licensing who own the easyJet brand.

\* These contracts contain provisions giving the other party the right to terminate if there is a change in control of easyJet.

## Policy and practice on payment of creditors

easyJet aims to have partnership agreements with suppliers, which stresses the importance of strong suppliers aligned to the success of easyJet as a business. Many of our supply agreements are unique and tailored to the needs of the business, to make sure that suppliers are rewarded appropriately for delivering services which meet pre-agreed performance targets and align with easyJet's own internal performance goals. Our 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 the payments
- Pay in accordance with contractual and other legal obligations

At 30 September 2010, the number of creditors days outstanding for the Group was 6 days (2009: 15 days), and for the Company was nil days (2009: nil days).

## Principal risks and uncertainties

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

Risk description	Potential impact	Mitigation
<b>Safety and security</b>		
<p><b>Safety/security incident</b> Failure to prevent a safety or security incident or deal with it effectively.</p>	Adversely affect our reputation, operational and financial performance.	<p>Our number one priority is the safety of our customers and people. We operate a strong safety management system through:</p> <ul style="list-style-type: none"> <li>– Fatigue Risk Management System;</li> <li>– Incident reporting;</li> <li>– Safety Review Board;</li> <li>– Safety Action Group.</li> </ul> <p>We also have response systems in place and provide training for crisis management.</p>
<b>External risks</b>		
<p><b>Macroeconomic environment</b> easyJet's business can be affected by macroeconomic issues outside of its control such as weakening consumer confidence or inflationary pressure.</p>	Adverse pressure on revenue, load factors and residual values of aircraft.	<p>Regular monitoring of markets and route performance by our network and fleet management teams.</p> <p>A strong balance sheet supports the business through fluctuations in the economic conditions for the sector.</p> <p>Appropriate mix of owned and leased aircraft reduces residual value exposure.</p>
<p><b>Competition and industry consolidation</b> easyJet operates in competitive marketplaces against both flag carriers and other low-cost airlines. Industry consolidation will affect the competitive environment in a number of markets.</p>	Loss of market share and erosion of revenue.	<p>Regular monitoring of competitor activity and potential impact of any consolidation activity.</p> <p>Rapid response in anticipation of and to changes.</p>
<p><b>Regulator intervention</b> The airline industry is currently heavily regulated, with expected increased regulator intervention; this includes environmental, security and airport regulation which have charges levied by regulatory decision rather than by commercial negotiation. easyJet is exposed to various regulators across our network, which will increase as the Company grows geographically.</p>	<p>Adverse impact to our reputation, cost base and market share.</p> <p>Lack of adequate knowledge or misinterpretation of local regulations can result in fines or enforcement orders.</p>	<p>easyJet has a key role in influencing the future state of regulations.</p> <p>Country oversight boards are being established for our main markets.</p>
<p><b>Environmental factors</b> Changing consumer attitude to environment factors, e.g. climate change.</p>	Potential impact on consumer demand for the core business.	<p>Environmental Management Group that co-ordinates environmental policy and policy communications.</p> <p>easyJet operates modern, fuel-efficient aircraft operating at high capacity and flies to conveniently located airports.</p>

# Financial review

continued

Risk description	Potential impact	Mitigation
<b>Reputation</b>		
<p><b>Business continuity: access to facilities and key IT systems</b> easyJet is dependent on a number of key IT systems and processes operated at London Luton airport and other key facilities.</p>	A loss of systems and access to facilities could lead to disruption.	A business continuity programme, including disaster recovery is in place. This covers alternative sites being available should there be a need to relocate at short notice due to loss of facilities.
<p><b>Event causing wide-spread network disruption</b> A number of factors can lead to wide-spread disruption to our network, including epidemics/pandemics, forces of nature (extreme weather, volcanic ash, etc.) and acts of terrorism.</p>	Adversely affect our reputation, operational and financial performance.	Processes in place to adapt to wide-spread disruption. A business continuity programme is in place.
<p><b>IT security and fraud exposure</b> easyJet faces external and internal IT security risk. The Company receives most of its revenue through credit cards and operates as an e-commerce business.</p>	A security breach could result in a material adverse impact for the business and reputational damage.	Systems are secured and monitored against unauthorised access; this will receive continued focus. Scanning software for fraudulent customer activity is monitored and controlled by the Revenue Protection team.
<p><b>Brand ownership and brand reputation</b> easyJet does not own its company name or branding which is licensed from easyGroup IP Licensing.</p>	As for all brand licensees, the easyJet brand could be impacted through actions of easyGroup or other easyGroup licensees.	easyJet works closely with easyGroup to ensure the integrity of the brand.
<p><b>Major shareholder</b> easyJet has a major shareholder (easyGroup Holdings Limited) controlling over 25% of ordinary shares.</p>	Shareholder activism could adversely impact the reputation of the Company.	Dedicated investor relations team, utilising a shareholder engagement programme.
<b>People</b>		
<p><b>Industrial action</b> Large parts of the easyJet workforce are unionised. The same applies for our key third-party service providers, where similar issues exist.</p>	Adversely affect our reputation, operational and financial performance.	Employee and union engagement takes place on a regular basis.
<p><b>Retention of key management</b> Due to easyJet's lean business model, the Company is reliant on certain key managers.</p>	Loss of key personnel could result in short-term lack of necessary expertise in certain positions.	Bi-annual talent management and succession planning of key positions.
<b>Supplier</b>		
<p><b>Dependence on third-party service providers</b> easyJet has entered into agreements with third-party service providers for services covering a significant proportion of its operation and cost base.</p>	Failure to adequately manage third-party performance could affect our reputation, operation and financial performance. Loss of these contracts, inability to renew or negotiate favourable replacement contracts could have a material adverse effect on future operating costs.	Processes in place to manage third-party service provider performance. Centralised procurement department that negotiates key contracts. Most developed markets have suitable alternative service providers.



Risk description	Potential impact	Mitigation
<b>Financial risks</b>		
<p><b>Fuel price and currency fluctuations</b> Sudden and significant increases in jet fuel price and movements in foreign exchange rates would significantly impact fuel costs and other foreign currency denominated costs.</p>	<p>If not protected against, this would have a material adverse affect on financial performance.</p>	<p>Policy to hedge within a percentage band for rolling 24 month period. To provide protection, the Group uses a limited range of hedging instruments traded in the over the counter (OTC) markets, principally forward purchases, with a number of approved counterparties.</p>
<p><b>Financing and interest rate risk</b> All of the Group's debt is asset related, reflecting the capital intensive nature of the airline industry.</p>	<p>Market conditions could change the cost of finance which may have an adverse affect on the financial performance.</p>	<p>Group interest rate management policy aims to provide certainty in a proportion of its financing. Operating lease rentals are a mix of fixed and floating rates (currently 66% to 34%). All on balance sheet debt is floating rate, re-priced up to six months. A portion of US dollar mortgage debt is matched with US dollar money market deposits.</p>
<p><b>Liquidity risk</b> The Group continues to hold significant cash or liquid funds as a form of insurance.</p>	<p>Lack of sufficient liquid funds could result in business disruption and have a material adverse affect on financial performance.</p>	<p>Board policy is to maintain an absolute minimum level of free cash and money market deposits. Allows business to ride out downturns in business or temporary curtailment of activities (e.g. fleet grounding, security incident, extended industrial dispute at key supplier). Committed borrowing facilities of US\$0.75 billion at 30 September 2010.</p>
<p><b>Credit risk</b> Surplus funds are invested in high quality short-term liquid instruments, usually money market funds or bank deposits.</p>	<p>Possibility of material loss arising in the event of non-performance of counterparties.</p>	<p>Cash is placed on deposit with institutions base upon credit rating with a maximum exposure of £100 million for AAA ratings.</p>



**Chris Kennedy**  
Chief Financial Officer



# Corporate responsibility

The success of our business is inextricably linked to the well-being of our customers, our people and the communities where we live and work.



## safety first

During the year, the CRV index showed a steady improvement, continuing a long term trend to reduce risk to well within the assigned boundary level.

Our long-term performance and sustainability are dependent upon their understanding, goodwill and active support. Accordingly, we strive to achieve excellence in safety and embrace the highest standards of environmental, social and ethical behaviour.

Safety is our No.1 priority and is embedded deep within the fabric of easyJet. It comes first at all times, for every person, regardless of role or seniority. Dedicated structures and processes are in place to manage and monitor safety risk throughout the business.

At easyJet, one strength above all others marks us apart: our people. Their passion, expertise and commitment is at the heart of our emphasis on customer satisfaction and therefore our ongoing success as a business. We continue to focus on developing and improving the ways which we treat our people in order to maintain their engagement with our customers and business.

The environment is a key issue within our industry. We work hard to identify ways to minimise our environmental impact, so that our business and the aviation industry as a whole can continue to thrive. In particular, our investment in a young and fuel-efficient fleet, together with an ongoing review of how we deploy our aircraft, will help ensure that we minimise our impact on the environment while generating superior returns for our shareholders.

## Safety

The safety of our customers and people is easyJet's No.1 priority; it is part of our DNA. From the boardroom to the flight deck and the check-in desk to the maintenance bay, safety informs everything we do and is the starting point for every decision, at all times.

We have an open and just culture that encourages the reporting of all safety-related incidents, no matter how minor they may appear at first glance. At easyJet, we aim to maintain structures and processes to manage and monitor safety related risk throughout our business. Our Chief Executive, Carolyn McCall OBE, and Group Operations Director, Warwick Brady, are responsible for all aspects of safety delivery, including our compliance obligations under the Air Operator's Certificate (AOC). The Accountable Safety Executive is Carolyn McCall OBE and she chairs our Safety Review Board which meets monthly to assess reports from the Safety Action Groups across the business. This review and assessment process delivers monthly reports to both the UK Civil Aviation Authority (UK CAA) and the easyJet Board. Our Director of Safety, Captain Dave Prior, makes an independent safety report directly to the Board each month.

The reported safety-related incidents are assessed and categorised, with risk values assigned and aggregated to form our Composite Risk Value (CRV) index. During the year, the index showed a steady improvement, continuing a long-term trend reducing risk to well within the assigned boundary level.

The Safety Management System (SMS) launched in 2009 has now been successfully embedded throughout easyJet. The SMS is a continuous improvement process that focuses on identifying hazards, assessing the risks associated with those hazards, managing those risks and then ensuring that any changes have had the desired impact. During 2010, we configured a number of SMS tools and carried out a range of activities such as the integration of SMS derived data into the easyJet advanced pilot training system. In doing so, easyJet has been able to target training resources in a safety beneficial way whilst at the same time delivering cost efficiencies.

As part of the SMS, we are continuing to study fatigue and its effects in the pursuit of operational safety. We are working alongside industry organisations, including the UK CAA, to evolve our Fatigue Risk Management System (FRMS), building an understanding of the relationships between rostering, operational variables, crew performance and workload. Our work in fatigue management is respected throughout the industry and the FRMS developed at easyJet is now being replicated by many of our peers.

In 2010, our flying capabilities were significantly impacted by a number of weather conditions, first from the heavy snow during December and January and then from the ash cloud from the Eyjafjalla volcano in April and May. Following the full eruption of the volcano on 14 April, airspace across Europe was closed leading to the disruption of the entire flying schedule. During the period of closure and in the following weeks, we worked with the regulators to identify ways in which the airspace could be opened, such as flying our own test flights behind Met Office aircraft and liaising with engine manufacturers to establish sensible limits on ash contamination. On 23 April, the UK CAA, working with the engine manufacturers, set out guidelines on the level of ash that was deemed safe to fly in. The initial assessment set levels of ash between 200 and 2,000 microgrammes per cubic metre within which flying was deemed to be safe. These levels were reviewed and revised on 18 May to extend the fly zones to enable flying where ash density levels did not exceed 4mg per cubic metre.

During the ash cloud crisis, we continued to explore innovative solutions for future volcanic incidents. easyJet, working alongside the Norwegian Institute for Air Research, is the first airline in the world to start trials of a new technology, invented by Dr Fred Prata, known as AVOID (Airborne Volcanic Object Identifier and Detector). AVOID is a system which uses infrared technology on the aircraft, similar to weather detectors currently in use, to enable pilots and flight control to see an ash cloud up to 100km ahead and at altitudes of between 5,000ft and 50,000ft, and, if necessary, to amend their course to avoid areas of ash cloud thereby opening up a larger area of airspace than might be available using Met Office data alone.

## People

Our business is only as good as the people working within it, across all areas, from cabin crew and pilots through to our engineering teams, management and administration teams and ground staff in Spain. Our focus is to attract the right person regardless of level within the business, and to ensure everyone is engaged and works together:

We also look for ways to operate more efficiently across all areas of the business to provide the best returns for our shareholders whilst maintaining the level of service and employee satisfaction to provide a quality service to our customers. In 2010, we introduced a new IT system to improve the rostering of our cabin crew, to enhance the productivity by an estimated 8–10%. Unfortunately, the implementation of this system was overly aggressive and resulted in a shortage of crew during our busiest period in the summer in a year when we also experienced unprecedented natural, economic and social disruption to the industry. Our short-term resolution to protect our customers, and to cancel as few flights as possible, was to lease additional aircraft and crew during the summer period and to increase the level of recruitment in this period. Our longer term solution has been to reassess the levels of productivity we would hope to gain from this system and to make these more aligned to the strategic requirement of the business recognising the volatility of the market in which we operate.

## Strategy

We have developed a three-part strategy to find and retain the best people for our organisation.

### Talent

During the year we added to our existing talent pool by recruiting some 1,300 cabin crew, 250 new pilots and 125 management and administrative staff.

As well as recruiting our customer facing roles and support roles within the business, this year we have seen a number of changes across our leadership team. During the last 12 months we have seen the arrival of a new Chairman, Chief Executive, Chief Financial Officer, Chief Commercial Officer and IT Director. We have seized the opportunity to refresh our top management team, recruiting high quality people who are keen to look to the future and drive the Company forward after a difficult operational year.

To ensure that our people remain at their highest level and to support their progression, we have provided training at the easyJet Academy in the last year to ensure our crews are up to date on the latest industry news. We have also refreshed our induction programme, to ensure that our new joiners understand the easyJet culture and values and how they can contribute towards our success from their first day.

Our partnerships with Cranfield University and London City University are still in place to ensure that our managers get high quality support to develop their technical and management skills.

### Engagement

There are proven links between an engaged workforce and excellence in customer service. The attitude and passion of our staff was ably demonstrated by their support for customers and flexibility through the periods of bad weather and, most notably, the ash cloud.



# 465

## Continually developing

During the year we ran over 465 pilot training courses.

# Corporate responsibility

continued

Recognising that needs and circumstances are different, we have developed a new, more targeted survey for our employees in 2010 to gauge the opinions of our team in the four main communities; Pilots, Cabin Crew, Management & Administration and Engineering & Maintenance. The overall response rate for completion of the uSay survey was 60%, and we will be reviewing the results of this in the first quarter of 2011.

## Communication

We understand that good communication is vital within a business, especially one which has such an extensive staff base, to ensuring that key issues and matters are discussed with people so that we can react quickly and to ensure that everyone remains engaged in the business.

We work with our employee representatives and recognise a number of trade unions across Europe. Over the last year there has been a significant increase in the level of union activity and we have not been immune to this, but did not lose any days through internal industrial action.

## uSay

As mentioned above, we have introduced a new staff survey this year that has been tailored to be more specific to each of our main communities, so that our employees comment on the areas that affect them within the business. The results of this survey were received in October 2010 and we will be working to improve our processes and systems to action suggestions.

In its inaugural year, 60% of easyJet employees responded to the survey. We are in the process of analysing the results across our communities so that we are able to respond to our people in 2011.

The results of the survey showed that only 35% of our people currently feel satisfied in their jobs and environment. Due to the differing nature of the staff survey this year, we have enabled our people to give us their honest and open feedback on our organisation. Whilst the result is disappointing, it is not a surprise when many of our people were impacted by the summer's operational issues. The responses and results of this survey will be reviewed and actions will be taken to improve the working environment for our people so that their levels of engagement are improved in the future.

## Spirit

In 2010 we launched a new employee awards scheme; Spirit. This scheme rewards our people for their commitment and hard work and recognises where our people go above and beyond to enable our business to succeed. During the course of the year, we have monthly, quarterly and annual awards recognising achievement across the different communities within our business.

## Organisation

To succeed in our corporate ambitions, we need to have high quality people with the right skills in the right place at the right time. Our aim is to ensure that our people contribute more to our business than they have ever done for any other employer. We aim to ensure that we continue to recruit the best people and keep these people engaged in the business so that we can achieve these objectives.

As with all businesses there are levels of staff attrition that will occur, and in 2010 our overall unforced staff turnover was 7.6%, which increased slightly from the historically low level in 2009.

## Turning Europe Orange

Following the growth of our network, we continue to grow our presence across Europe to further strengthen our position as a truly pan-European air transport network.

As at 30 September 2010, easyJet employed 7,359 people (2009: 6,666), based throughout Europe as illustrated below:

United Kingdom	4,634
Switzerland	554
France	640
Spain	595
Italy	646
Germany	290
<b>Total</b>	<b>7,359</b>

## Reward

easyJet offers a competitive rewards package and reviews salaries annually in line with market rates to ensure continued alignment to the market. For most employees the rewards package includes an annual performance-driven bonus, based on personal and Company performance, which encourages all employees to contribute towards achieving our strategic objectives. Employees are also eligible to participate in a Group personal pension towards which easyJet contributes, as well as having the option to make their own contributions through salary sacrifice arrangements.

## Share schemes

easyJet once again offered all employees the opportunity to join its popular all-employee share plan, easyJet Shares 4 Me. The plan has won five major awards to date and involves three elements: Save As You Earn (SAYE); Buy As You Earn (BAYE) and Free Shares. Each scheme is Her Majesty's Revenue & Customs (HMRC) approved and is open to all employees on the UK payroll. For employees who are on non-UK payrolls, international schemes have been established with similar terms and conditions to the UK scheme, albeit without the UK tax benefits. Participation in the scheme remains very strong, with over 80% of eligible staff now taking part in one or more of the plans.

## Your benefits

UK staff continued to be entitled to select from a number of benefits available to them through "Your Benefits". This enables employees to access programmes and savings which would not be available to them on an individual basis. The benefit choices for 2010 were extended to also include "Computers at work" as well as the standard offers already available. The "lifestyle benefits" scheme also remained in the year and we continue to offer discounts on a wide range of products and services.

Employees make further savings in tax and National Insurance for many of these benefits, through salary sacrifice. easyJet's National Insurance savings contribute to the financing of the scheme, which is fully outsourced.

## Equality and diversity

easyJet is an equal opportunities employer. We ensure that our employees and applicants do not receive 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. Applications from disabled employees are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event that one of our people becomes disabled every effort is made to ensure that their employment at easyJet continues and training is arranged where appropriate.

## Charitable donations

easyJet supports a "charity of the year". The airline provides access to staff and customers to raise funds and promotes the charity through brand awareness. Following a Europe-wide staff vote, easyJet is proud to support the Alzheimer's Society.

The partnership raises money to support people with dementia and their carers. As easyJet's charity of the year, Alzheimer's Society receives donations from summer onboard collections where passengers are asked to donate their spare change to support the charity. The Society also receives a percentage of all scratch cards sold on easyJet flights.

Throughout the year, our staff have also been actively involved in fundraising for the charity and have undertaken a variety of fundraising events, including the London Marathon and the Three Peaks Challenge.

The Society is a member of Alzheimer's Europe. Through this organisation the Society plays an important part in raising the profile of dementia throughout the European Union and has recently been involved in obtaining support in the European Parliament for making dementia a health priority throughout the Union. There are over five million people with dementia in Europe so it's not surprising that staff across the business chose Alzheimer's Society as the charity of the year.



# £2,230

## Three peaks challenge

Fundraising events included a gruelling ascent of the three largest peaks in England, Scotland and Wales, where our team raised more than £2,230.

## Political donations

easyJet does not make any donations to any political party. This is not in line with our values and would be deemed as inappropriate.

## Gifts and gratuities

easyJet employees are sometimes sent gifts from various companies throughout the year. In order to provide clear guidance to employees and avoid potential conflicts of interest, we have a strict policy that prevents any employee accepting gifts over a nominal value of £35. 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.

## easyJet and the environment

The aviation industry is highly regulated, both for safety and many of its wider operations, so we therefore operate within a very defined framework. Similarly, our environmental impact is almost entirely from aviation activity – flying planes. Fuel is our largest single cost item, so we are heavily incentivised to minimise its use, and therefore CO<sub>2</sub> emissions. But this also means that there are no easy ways to further reduce our emissions.

Unlike many companies we face a very limited set of choices in our efforts to reduce our environmental impact. We are constrained by the technology available to us, the development of which is a highly regulated and lengthy process. Our steady growth almost inevitably means that easyJet's total emissions will increase, as we are already at the front of the technology curve. However, easyJet is one of the most efficient airlines for short-haul European travel, an easyJet passenger is responsible for 22% fewer emissions than a passenger on traditional airline to the same destination and using the same plane. So as we gain market share over other less efficient operators we are improving the overall efficiency of European air travel. Significantly reducing our environmental impact requires technological change across the industry, so our environment policy focuses on these long-term gains. easyJet is actively engaged with the major manufacturers and providing operational data to influence new technology.

## Environment

The aim of our business is to be as efficient as we can be – this applies to our environmental impact as well. Our environmental policy is governed by three promises:

- To be efficient in the air
- To be efficient on the ground
- To lead in shaping a greener future for aviation

## Governance

Many people within easyJet help deliver our environmental aims. Oversight of our environmental policy is carried out by a manager in our regulatory team, and the executive management team receives regular updates on environmental policy as part of the reporting on regulatory issues.



# Corporate responsibility

continued

## Environment data

In total we emitted 4.51 tonnes of CO<sub>2</sub> in the year and per passenger trip this was 96.9kg. Our CO<sub>2</sub> emissions per passenger kilometre decreased again in 2010 to 84.4 grams per kilometre.

g CO<sub>2</sub>/passenger Km

-2.9ppt

2010	84.40
2009	87.30
2008	90.31
2007	95.56
2006	95.70
2005	98.80
2004	104.50
2003	110.00
2002	106.90
2001	112.50
2000	116.20

## Progress over time

We believe the most important environmental issue facing the industry is climate change. We have focused on ensuring the industry plays its role in tackling climate change and on improving the efficiency of our flying in terms of CO<sub>2</sub> emissions.

Over the last ten years, easyJet has successfully improved its CO<sub>2</sub> efficiency every single year. Emissions per passenger km (the standard industry measure of efficiency) has improved every year, from 116.2 g/km in 2000 to 83.1 g/km in 2010. We have continued to reduce CO<sub>2</sub> emissions per passenger journey, from 97.7 kg in 2009 to 96.9 kg in 2010.



# 3.3%

## Environmental efficiency

We improved our CO<sub>2</sub> emissions per passenger kilometre by a further 3.3% in 2010.

## Aviation and the environment

Aviation has three main environmental impacts:

### On climate change

Aviation contributes to climate change through both the direct emission of CO<sub>2</sub> from fuel burn and due to other non-CO<sub>2</sub> effects from the emission of Nitrogen Oxides (NO<sub>x</sub>), particles and aerosols and cloud formation. The science surrounding the impact of aviation's CO<sub>2</sub> emissions is very well developed, while the science surrounding non-CO<sub>2</sub> effects remains uncertain. It is clear, however, that the long-lasting impact is from CO<sub>2</sub> emissions.

### On local air quality

Local air quality impacts arise from NO<sub>x</sub> emissions during aircraft take-offs and landings. We operate the latest standard CFM (with the Tech Insertion upgrade) engines on 40% of our fleet, and are continuing to invest in this upgrade so that it will be in place across the fleet. This reduces emissions (by about 1%) but also reduces NO<sub>x</sub> emissions by 20% to 30%. These engines are the best in class and help minimise our impact on local air quality.

### On noise levels

Aircraft noise clearly has an impact on residents around airports. easyJet complies with local rules that govern noise at airports (such as curfews and routings to avoid built up areas). Our aircraft meet the tightest international noise standards (ICAO chapter 4). Our focus on improving the efficiency of our flying has also reduced our noise impact; by changing the flap settings used for landings we have both improved fuel efficiency and reduced noise levels at landing.

Climate change is the dominant global environmental issue and it is also of long-term strategic importance to the airline industry. We have therefore focused our reporting and public policy work on this issue.

## Why the environment matters

Addressing our environmental impact is clearly part of our responsibility as an airline. However, it is also a business imperative. Environmental concerns have a significant impact on public policy towards aviation, from restrictions on airport expansion to passenger taxes. It is therefore in our own interest to ensure that both we and the wider industry properly address environmental concerns. This is why we have focused on considering public policy solutions to the challenges the industry faces.

## Long-term sustainability of the industry

Aviation emissions have increased steadily over time, despite significant improvement in environmental efficiency – the growth in air traffic has outweighed the efficiency gains. Over the last ten years, global aviation traffic has grown by over 5% a year, while efficiency gains have been about 2%. This has led to concerns that aviation emissions will continue to grow into the future and that this will be inconsistent with the overall reductions in greenhouse gas emissions that are needed to limit the impact of climate change. This is clearly unsustainable and needs to change going forward.

We believe that the main environmental challenge facing the industry is to ensure that emissions are put on a downwards path. There is a real risk that if the industry does not achieve this on its own, it will have growth constraints placed up on it. We have already seen suggestions of this in the UK, where the Committee on Climate in its December 2009 report on aviation emissions suggested the growth of the industry would need to be limited to 60% over the next 40 years to control UK emissions.

To ensure the industry does not face any artificial constraints we need to significantly improve the efficiency of flying, through step-changes in technology and the right incentives to ensure that airlines and passengers fly as efficiently as possible.

### Delivering our environmental promises

Our promises revolve around actions we can take in the short-term to directly improve the environmental efficiency of our business and at the same time working to deliver a sustainable long-term outcome for the industry. The latter involves changing the framework within which the industry operates to ensure it delivers sustainable outcomes.

### easyJet's actions

We are continually working to improve the environmental impact of our current operations, by improving our fuel efficiency. These measures are incremental by nature, given that we operate under the constraints of defined technology. We have a fuel efficiency programme which is continually monitored. While some of these measures save relatively small amounts of CO<sub>2</sub> per flight, as we average nearly 1,000 flights a day, the total savings can be very large.

In 2010, our fuel efficiency and therefore our environmental efficiency, improved by 1.6%.

Examples of this programme are:

- We have instituted a policy of using ground based power where possible (rather than the Auxiliary Power Unit on the aircraft); this is considerably more efficient;
- We have reduced the height at which the landing lights gear are lowered on landing (reducing drag);
- We now use a single engine to taxi the aircraft before departure and upon arrival at airports where it is possible to do so.

### Entry into ETS

Aviation entered ETS in 2010, which is the monitoring year for the reporting of our CO<sub>2</sub> emissions and the Revenue Tonne Kilometres flown by easyJet. From 2012, we will be required to surrender permits to cover CO<sub>2</sub> emissions. We have put in place the required systems and processes to ensure compliance with the monitoring and reporting plans approved by the Environment Agency. An external verifier, accredited for aviation will be appointed in due course.

### Changing the industry framework

Achieving step change in the environmental efficiency of aviation will require significant progress in the development of next-generation aircraft. Without significant improvements in fuel efficiency it will not be possible to increase the rate of environmental efficiency improvement.

We are concerned that the current effective duopoly in the production of large commercial aircraft is restricting the development of next-generation aircraft. Whilst there has been some discussion around re-engineing current generation aircraft, this will at best deliver only half the fuel efficiency of a next-generation short-haul aircraft which appears to be a decade away. We are continuing to press the manufacturers to hasten the introduction of new technology.

It is also vital that the policy framework set out by governments supports these objectives. We believe there are three parts to this, only one of which is currently in place.

#### - Aviation in ETS

Aviation entered the EU Emissions Trading Scheme (EU ETS) in 2010, and airlines will have to surrender permits in 2013 to cover their 2012 emissions. We were a strong supporter of aviation's entry and we continue to believe that this is the best way to ensure aviation makes its fair contribution to tackling climate change.

#### - Ensuring any taxes support environmental objectives

We do not support the imposition of aviation specific taxes. However, where they are in place (such as the UK) we believe they must be designed to provide incentives for more environmentally efficient flying. This means the tax base must be flights, not passengers.

#### - Minimum standards for aircraft

International minimum standards are needed to drive the development of new technology aircraft.



# Governance

## Directors' profiles



From left to right  
Keith Hamill, Sir Michael Rake, John Browett,  
Carolyn McCall oae, David Michels, Chris Kennedy,  
Professor Rigas Doganis, David Bennett.  
(Sven Boinet not photographed).

## 01 Sir Michael Rake

### Non Executive Chairman

Michael (1948) was appointed to the Board of easyJet as Deputy Chairman on 1 June 2009 and became Chairman on 1 January 2010. He is Chairman of BT Group plc, as well as a Non Executive Director of Barclays PLC, McGraw Hill Inc and the Financial Reporting Council. He is also Chairman of the private equity oversight group; the Guidelines Monitoring Committee.

From May 2002 to September 2007, Sir Michael Rake was Chairman of KPMG International. Prior to his appointment as Chairman of KPMG International he was Chairman of KPMG in Europe and Senior Partner of KPMG in the UK.

## 02 Sir David Michels

### Non Executive Deputy Chairman and Senior Independent Director

David (1946) was appointed to the Board of easyJet on 6 March 2006 and became the Deputy Chairman on 1 January 2010. He is currently Deputy Chairman of Marks and Spencer plc and is also Non Executive Director of Strategic Hotels and Resorts Inc and Jumeirah Group. 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 was previously Senior Independent Director at British Land Plc and Arcadia Plc. He is the current President of the British Hospitality Association and was knighted in June 2006 for services to the hospitality industry.

## 03 Carolyn McCall OBE

### Chief Executive

Carolyn (1961) joined easyJet on 1 July 2010 as Chief Executive. Prior to this, she was Chief Executive of Guardian Media Group plc.

Carolyn was a Non Executive Director of Lloyds TSB from 2008 to 2009, Non Executive Director of Tesco Plc from 2005 to 2008 and Non Executive Director of New Look from 1999 to 2005. She was Chair of Opportunity Now and a former President of Women in Advertising and Communications London (WACL).

Carolyn was awarded the OBE for services to women in business in June 2008. In April 2008, she was named Veve Clicquot Business Woman of the Year.

She graduated from Kent University with a BA in History and Politics and from London University with a Masters in Politics.

## 04 Chris Kennedy

### Chief Financial Officer

Chris (1964) joined easyJet on 1 July 2010 in the position of Chief Financial Officer. Chris joined easyJet from EMI Music where he has had a successful career covering a range of international roles including Chief Financial Officer. Chris has considerable experience of working within a high profile international, fast changing consumer facing business, strong financial skills and a demonstrable track record of delivering operational improvement.

## 05 David Bennett

### Independent Non Executive Director

David (1962) was appointed to the Board of easyJet on 1 October 2005 and is Chairman of the Audit Committee. He has had a long career in the financial services sector and was Group Chief Executive of Alliance & Leicester plc until its sale to Santander in 2008. David has also held a number of positions at Abbey, Cheltenham & Gloucester, Lloyds TSB and the National Bank of New Zealand. He is currently Chairman of Pacnet, a Pan-Asian provider of telecommunications/internet systems connectivity and a Non Executive Director of CMC Markets plc and software solutions provider Clarity Commerce. He is a member of the Association of Corporate Treasurers.

## 06 Sven Boinet

### Independent Non Executive Director

Sven (1953) was appointed to the Board of easyJet on 1 March 2008. A graduate of Stanford University, he is currently CEO of Pierre & Vacances/Center Parcs Group, a €1.5 billion turnover company and leader on the continent of resort and leisure lodging. Prior to this, he was CEO of Lucien Barrière Group. He previously held a number of senior management roles over a 15 year period at the French hotels group, Accor. He was also a Non Executive Director of Lastminute.com from 2003 until its sale to Sabre in 2005.

## 07 John Browett

### Independent Non Executive Director

John Browett (1963) was appointed to the Board of easyJet on 27 September 2007. He is currently Chief Executive Officer of Dixons Retail plc, a position he has held since December 2007. Prior to joining Dixons Retail, John was the Operations Development Director of Tesco plc. He joined Tesco as Group Strategy Director in 1998 and held a number of Executive Director positions in the company including running Tesco.com from 2000 to 2004 where he was responsible for formulating and delivering its strategy from launch to profitability.

A graduate of Cambridge University and Wharton Business School, John was at the Boston Consulting Group between 1993 and 1998.

## 08 Professor Rigas Doganis

### Independent Non Executive Director

Rigas (1939) was appointed to the Board of easyJet 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 a former Chairman/CEO of Olympic Airways and was formerly a Non Executive Director of South African Airways. Rigas is also a visiting Professor at Cranfield University and the author of books on aviation economics and management.

## 09 Keith Hamill

### Independent Non Executive Director

Keith (1952) was appointed to the Board of easyJet on 1 March 2009. He is a Fellow of the Institute of Chartered Accountants, is Deputy Chairman of Travelodge, which he previously chaired for eight years and was Chairman of Go prior to its acquisition by easyJet in 2002. He has considerable experience as a Director of listed companies, is currently the Chairman of Tullett Prebon, Alterian and Heath Lambert and was previously Chairman of Collins Stewart, Luminar and Moss Bros. He is also a Director of Samsonite and has previously been a Director of Electrocomponents and Cadmus Communications Corp. He was Finance Director of WH Smith, Forte and United Distillers and a partner in PricewaterhouseCoopers. He also chairs the Board of the University of Nottingham.



# Governance

## Corporate governance

### Principles statement

easyJet is committed to meeting the required standards of corporate governance.

### Statement of compliance

During the year, the Board considers that it and the Company have complied without exception with the best practice provisions of Section 1 of the Combined Code on Corporate Governance of June 2008. The Combined Code is issued by the Financial Reporting Council and is available on the Financial Reporting Council's website, <http://www.frc.org.uk/corporate>.

### Board of Directors

As at 30 September 2010, the Board comprised seven Non Executive Directors (including the Chairman) and two Executive Directors.

The roles of Chairman (as fulfilled by Sir David Michels as Interim Chairman and subsequently Sir Michael Rake) and Chief Executive (as fulfilled by Andrew Harrison and subsequently Carolyn McCall OBE) are separated, clearly defined, and approved by the Board. Sir David Michels is the Senior Independent Non Executive Director and holds the post of Deputy Chairman.

The Company regards David Bennett, Professor Rigas Doganis, John Browett, Sven Boinet and Keith Hamill as Independent Non Executive Directors.

Sir Stelios Haji-Ioannou (who served until 14 May 2010) was not regarded as independent due to his significant beneficial shareholding in the Company and his prior involvement in an executive management capacity. Bob Rothenberg (who also served until 14 May 2010) was not considered to be independent due to his appointment by Sir Stelios Haji-Ioannou pursuant to Article 87 of the Company's Articles of Association.

### Board engagement with investors

The Board continues to consider that it is appropriate for the Chairman to be the primary conduit with investors given his experience in liaising with shareholders.

The Chairman has made himself available for investor meetings and questions, in person, during the year and has updated the whole Board on the results of these meetings and the opinions of investors. The Senior Independent Non Executive Director has also acted as an alternative point of contact and attended meetings in order to help develop a balanced understanding of the issues and concerns of major shareholders. Regular feedback is provided to the Board on the opinions of shareholders and an investor perception audit is carried out by an independent third party on an annual basis.

The Board meets regularly, with 10 meetings having been held during the year ended 30 September 2010. All members of the Board are supplied in advance with appropriate information covering matters which are to be considered. It is standard practice for the Non Executive Directors to meet without any Executive Directors present on a regular basis during the year, usually prior to or immediately after each Board meeting.

The appointments of Carolyn McCall OBE and Chris Kennedy as Executive Directors during the year were the result of search processes carried out using external recruitment consultants in accordance with longstanding Board practice.

### Meetings attended

Director	Board	Audit Committee	Remuneration Committee	Nominations Committee	Litigation Committee
Carolyn McCall OBE (appointed 1 July 2010)	2	n/a	n/a	n/a	6
Chris Kennedy (appointed 1 July 2010)	2	n/a	n/a	n/a	6
Andrew Harrison (resigned 30 June 2010)	7	2*	1*	n/a	5
Sir Michael Rake	10	n/a	n/a	n/a	12
Sir David Michels	10	n/a	2*	2	10
David Bennett	9	3	2	1	10
Sven Boinet	7	n/a	1	n/a	8
John Browett	7	3	n/a	n/a	10
Professor Rigas Doganis	10	n/a	2	2	10
Keith Hamill	9	3	2	n/a	8
Sir Stelios Haji-Ioannou (resigned 14 May 2010)	0	n/a	n/a	n/a	n/a
Bob Rothenberg (resigned 14 May 2010)	5	2*	n/a	n/a	n/a

\*By invitation.

With effect from 1 January 2010, Sir David Michels stood down from the post of Interim Chairman, taking up the post of Deputy Chairman (and Senior Independent Non Executive Director) and Sir Michael Rake was appointed Chairman.

The Board has taken advice during the year from expert management search and development consultants with a view to both enhancing its development of key managers and reviewing its succession planning for the top executive roles in the Company.

Directors and officers insurance cover has been established for all Directors to provide cover against their reasonable actions on behalf of easyJet. During the year a performance review of the Board was undertaken using an external evaluation tool provided by a corporate advisory company. This process involved a detailed questionnaire completed by each of the Directors and one on one discussions with individual Directors. The performance of the Board (including the Chairman), the Board's Committees and also that of the individual Board Directors was reviewed as part of the same process. The Senior Independent Director led the Non Executive Directors in a review of the Chairman's performance which also involved feedback from the Executive Directors.

The Board regularly receives updates, via the Company Secretary, on relevant legislation, regulation and governance best practice.



## Board Committees

### Remuneration Committee

At 30 September 2010, the Remuneration Committee comprised four Independent Non Executive Directors, namely Keith Hamill (Chairman), David Bennett, Professor Rigas Doganis and Sven Boinet. 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 two times during the year.

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

Shareholders are generally required to approve all new Long Term Incentive Plans and significant changes to existing plans. Further details of these plans can be found in the Report on Directors' remuneration and the full text of the terms of reference for the Remuneration Committee is available in the governance section of easyJet's corporate website, <http://corporate.easyjet.com>.

### Audit Committee

The Audit Committee comprises three Non Executive Directors, all of whom are independent. At 30 September 2010, the Audit Committee members were David Bennett (Chairman), John Browett and Keith Hamill. 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 three times during the course of the year.

The Audit Committee is charged with reviewing the effectiveness of internal control, approving and monitoring the internal audit work plan, considering issues arising from internal audit's work, reviewing management's response to internal control issues, approving the external audit fee, considering the external audit strategy and plans, reviewing the external auditors' reports and reviewing and approving the annual accounts. Both internal and external auditors are given the opportunity to meet privately with the Audit Committee without any member of management present. It is standard practice for the external auditors to meet with the Audit Committee without the Executive Directors being present at each Audit Committee meeting.

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 governance section of easyJet's corporate website, <http://corporate.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 auditors (in particular, in the context of the provision of additional services to the Company);
- Review and ensure the effectiveness of the risk management processes of the Company;
- Review and monitor the effectiveness of the internal audit function and management's responsiveness to any findings and recommendations; and
- Assess potential conflicts of interest of Directors on behalf of the Board.

The Audit Committee has the responsibility for appointing the external auditors. PricewaterhouseCoopers LLP were reappointed auditors of the Group at the Annual General Meeting held in February 2010. In order to preserve auditor objectivity and independence, PricewaterhouseCoopers LLP will not be asked to provide consulting services unless this is in the best interests of the Company. Clause 9 of the Audit Committee's terms of reference sets out the formal policy on non-audit work. The auditors are asked on a regular basis to articulate the steps that they have taken to ensure objectivity and independence. easyJet monitors the auditors' performance, behaviour and effectiveness during the exercise of their duties, which informs, on an annual basis, the Audit Committee's decision to recommend re-appointment. This included this year obtaining a report on the auditors' own quality control procedures and a consideration of their annual audit quality and transparency report. In the financial year, easyJet spent £0.1 million with PricewaterhouseCoopers LLP (2009: £0.1 million) in respect of non-audit services.

The Board is satisfied that the Directors who are currently members of this Committee are those who are best able to contribute to the Committee's objectives. David Bennett has served as the Chairman of the Committee during the year. David was until 31 July 2009 an Executive Director of Abbey National plc prior to which he was Chief Executive Officer and Finance Director of Alliance and Leicester plc, experience which the Board considers to be recent and relevant for the purposes of undertaking the role as Chairman of the Committee.

# Corporate governance

continued

## Nominations Committee

The Nominations Committee comprises at least three members. During the year, the Nominations Committee members were Sir David Michels (Chairman), David Bennett and Professor Rigas Doganis.

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 external recruitment consultants.

The Nominations Committee has met twice during the year to deal with the appointments of the Chief Executive and Chief Financial Officer. The searches for the Chief Executive and Chief Financial Officer both involved the use of independent recruitment consultants.

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 governance section of easyJet's corporate website, <http://corporate.easyjet.com>.

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

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

Contracts and letters of appointment with Directors are made available at the Annual General Meeting or on request.

## Litigation Committee

As a result of the proceedings brought by easyGroup IP Licensing Limited (a company under the ultimate control of Sir Stelios Haji-loannou) in 2008 in relation to the clarification of the brand licence, the Board continues to operate a separate Litigation Committee to deal with the proceedings and all matters related to them. Neither Sir Stelios Haji-loannou nor Bob Rothenberg (as his nominee) sat on this Committee which comprises every other Director of the Board. It is anticipated that the Committee shall continue to exist until the proceedings and any related circumstances giving rise to a conflict of interest between Sir Stelios Haji-loannou's interests and those of the Company have been resolved.

## 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 on key business issues. easyJet has an investor relations department which runs an active investor relations programme to facilitate engagement with investors including one on one meetings, visits to easyJet's operations and presentations. The investor relations website can be accessed at <http://corporate.easyjet.com>.

## 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.

The Board has conducted an annual review of the effectiveness of the system of internal control during the year under the auspices of the Audit Committee. No material failings or weaknesses were identified during the course of this review.

The internal control regime is enhanced by the operation of a whistleblower reporting function. The system is operated by a specialist external third-party service provider and allows employees to report concerns in confidence on a no names basis. The Audit Committee has approved the processes and reporting structure for the function and receives regular reports on the operation of the function.

## Risk management

A formal process is in place to identify, evaluate, manage and report upon significant risks faced by the Company. The process involves a regular, rigorous, mandatory reporting regime across middle tier management with reporting of risks subject to review by the Executive Management Team which produces consolidated risk reports to the Board. As at year end the Internal Audit and Company Secretarial functions were undertaking a review of risk reporting with a view to enhancing the process.

An ongoing process for the effective management of risk has been defined by the 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 Executive Management Team meets quarterly to consider significant current risks. Individual department and overall business performance is reviewed. The reporting of significant risks to the Executive Management Team and the Board of the Company has been enhanced by the risk management processes referred to above;
- Written reporting of current significant risks is provided to the Board on a quarterly basis. Control weaknesses or failings are considered by the Board if they arise;

- Internal audit considers, reviews and tests internal control and business risk matters throughout the Group. Further details of the internal audit function's operations are set out below;
- As described above, a quarterly risk and control identification process, together with an annual control effectiveness review, is conducted. The key risks are identified and the key controls to manage these risks to the desired level are also identified; and
- Action plans are set to address any control weaknesses or gaps in controls identified.

The Directors review 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 internal and external auditors; and
- The controls, which mitigate or minimise the high-level risks, are reviewed to ensure that they are in operation. The results of this review are reported to the Board which considers whether these high-level risks are effectively controlled.

### Internal audit

Internal audit's work is focused primarily on areas of greatest risk to easyJet, as determined by management's risk identification and assessment processes as validated by the Executive Directors. The output from this process is summarised in an audit plan, which is approved by the Board and Audit Committee, and updated on a rolling quarterly basis.

The Head of Internal Audit reports to the Chief Financial Officer and the Chairman of the Audit Committee. The Head of Internal Audit was invited to and attended all of the Audit Committee meetings in the year (with the exception of one meeting when the post of Head of Internal Audit was vacant but which has now been filled) and reported regularly on internal audit reviews to the Executive Management Team meetings during the course of the year. A formal audit charter is in place.

The internal audit department reviews the extent to which systems of internal control:

- are effective;
- are adequate to manage easyJet's significant risks; and
- safeguard the Company's assets.

The key objectives are to provide independent and objective assurance on risks and controls to the Board and senior management and to assist the Board with meeting its corporate governance and regulatory responsibilities.

The role of internal audit and the scope of its work continue to evolve to take account of changes within the business and emerging best practice.

# Shareholder information

## Share capital

Details of the movements in authorised and issued share capital during the year are provided in note 18 to the accounts.

The rights and obligations attaching to the Company's ordinary shares are set out in the Articles.

## Voting rights and restrictions on transfer of shares

None of the ordinary shares carry any special rights with regard to control of the Company. There are no restrictions on transfers of shares other than:

- Certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- Pursuant to the Company's code for securities transactions whereby the Directors and designated employees require approval to deal in the Company's shares;
- Where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares;
- Where a proposed transferee of the Company's shares has failed to furnish to the Directors a declaration of nationality (together with such evidence as the Directors may require) as required by the Company's Articles of Association; and
- The powers given to the Directors by the Company's Articles of Association to limit the ownership of the Company's shares by non UK nationals and powers to enforce this limitation including the right to force a sale of any affected shares.

The Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

## Employee share schemes – rights of control

The trustee of the easyJet Share Incentive Plan (the Plan) will, on receipt of any offer, compromise, arrangement or scheme which affects ordinary shares held in the Plan, invite participants to direct the trustee on the exercise of any voting rights attaching to the ordinary shares held by the trustee on their behalf and/or direct how the trustee shall act in relation to those ordinary shares. The trustee shall take no action in respect of ordinary shares for which it has received no directions or ordinary shares which are unallocated. Generally, on a poll the trustee shall vote in accordance with directions given by participants. In the absence of directions or on a show of hands the trustee shall not vote.

The trustee of the easyJet Employee Share Trust (the Trust), which is used in connection with the easyJet Long Term Incentive Plan, has the power to vote or not vote at its discretion in respect of any shares in the Company held in the Trust.

## Substantial interests

In accordance with the Disclosure and Transparency Rules DTR 5, the Company as at 11 November 2010, has been notified of the following disclosable interests of 3% or more in its issued ordinary shares:

	%
easyGroup Holdings Limited (holding vehicle for Sir Stelios Haji-loannou)	26.2
Polys Holdings Limited (holding vehicle for Polys Haji-loannou)	11.3
Standard Life Investments	6.0
Schroders plc	5.5
Prudential plc	5.1
Sanderson Asset Management	3.1

## Financial calendar

<b>Financial year end</b>	30 September 2010
<b>Annual General Meeting</b>	17 February 2011
<b>Announcement of 2011 results</b>	
Release of interim results to 31 March 2011	10 May 2011
Preliminary results year to 30 September 2011	15 November 2011

## Registered office

Hangar 89  
London Luton Airport  
Bedfordshire  
LU2 9PF

## Company registrar

Equiniti Limited  
Aspect House  
Spencer Road  
Lancing  
West Sussex  
BN99 6DA

## Auditors

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

## Company number

3959649

# Report on Directors' remuneration

## Introduction

This report sets out details of the remuneration policy for Directors, describes its implementation and discloses the amounts paid in the year ended 30 September 2010. The report has been prepared in accordance with the provisions of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. Those sections of the report that have been subject to audit, in accordance with corporate governance requirements, are identified below.

The Committee has, wherever practical, taken due account of best practice guidelines, including guidance given by the Association of British Insurers and the National Association of Pension Funds.

Included within the report, are the following areas:

- Membership and responsibilities of the Remuneration Committee
- Activities of the Committee
- Remuneration policy
  - Basic salary
  - Annual bonus
  - Long Term Incentive Plan
  - All-employee share plan participation
  - Previous share awards
  - Shareholding guideline
  - Pension contributions
  - Benefits
  - External appointments
  - Service contracts
  - Non Executive Directors (NEDs)
  - Total shareholder return

Tables and text summarising Directors' emoluments in 2010:

- Directors' emoluments (audited)
- Arrangements relating to Andrew Harrison
- Directors' remuneration 2010
- Directors' interests
- Directors' share awards (audited)
- Position against dilution limits
- Potential vesting of outstanding awards

## Membership and responsibilities of the Remuneration Committee

The responsibilities of the Remuneration Committee are disclosed in the Corporate governance section on page 37. The members of the Committee are: Keith Hamill (Chairman), David Bennett, Sven Boinet and Professor Rigas Doganis.

The Committee appointed and the Company continues to use Hewitt New Bridge Street ("HNBS") as remuneration advisers. Apart from advice regarding the design, establishment and operation of remuneration arrangements, HNBS provides no other services to the Company.



# Report on Directors' remuneration

continued

## Activities of the Committee

The Committee has responsibility for determining, within agreed terms of reference, the specific remuneration packages for each of the Executive Directors and the Chairman and making recommendations to the Board on the remuneration of the Company's senior executives.

During the year ended 30 September 2010, the Committee considered the following items of business:

- Executive Director and senior executive remuneration, including those for the recruitment of the new Chief Executive and Chief Financial Officer;
- The fee of the new Chairman and Deputy Chairman;
- Annual bonus awards for the financial year ended 30 September 2009;
- The structure and targets of the annual bonus scheme for the financial year ended 30 September 2010;
- All-employee Save As You Earn scheme grants;
- The performance targets and award levels for grants during the financial year ended 30 September 2010 under the Long Term Incentive Plan;
- The structure and targets of the annual bonus scheme for the financial year ending 30 September 2011 and the targets for the Long Term Incentive Plan grants during that year;
- Testing of performance conditions and vesting of Long Term Incentive Plan awards granted in December 2006; and

The Committee also approved proposals relating to the retention for a fixed-term period of the former Chief Executive when previous retention arrangements expired on 1 April 2010. These enabled the Company to continue to operate its activities as an airline on the basis of appropriate management resources and structure while it undertook an effective recruitment process for a new Chief Executive and a Chief Financial Officer. These arrangements, which are described later in this report, are not in compliance with normal good corporate governance remuneration practices or the Company's normal remuneration policies and their approval reflected the exceptional circumstances and difficulties with which the Company was confronted. The Remuneration Committee will not approve such arrangements in the future.

## Remuneration policy

easyJet's remuneration policy is to reward the Company's Executive Directors and senior executives competitively against the comparative market place, in order to recruit and retain Executive Directors and ensure that they are properly motivated to perform in the best interests of the Company and its shareholders.

The Committee considers remuneration of directors in companies of broadly equivalent size on the structure of the remuneration packages and also considers the budget for pay of employees within the Company as a whole, to assess the appropriateness of remuneration arrangements for Executive Directors.

Significant changes in the employee remuneration structure are also considered by the Committee (via regular liaison with the Company's People Director and Head of Reward).

The Company aims to provide competitive 'total pay' for 'on target' performance, with superior rewards for exceptional performance.

The remuneration packages of the Executive Directors and senior executives comprise a combination of basic salary, annual bonus, participation in share-based Long Term Incentive Plans and a very low level of benefits provision. easyJet has a "no frills" approach to pension and benefit provision 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 and senior executives.

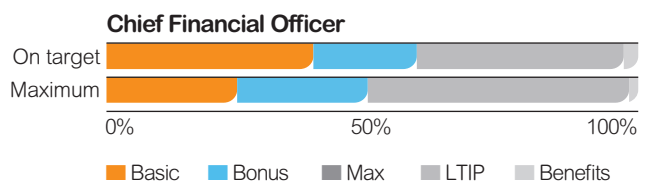
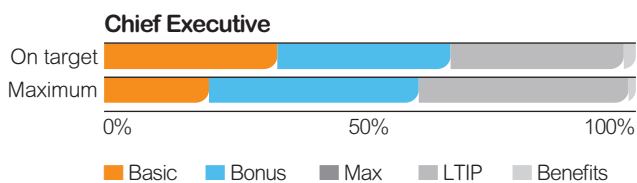
Reflecting best practice, the Committee regularly reviews the structure of its incentive arrangements and, in particular, the balance between short and long-term incentives in light of the circumstances prevailing each year.

In line with the Association of British Insurers' Guidelines on Responsible Investment Disclosure, the Committee considers whether the incentive policies for Executive Directors and senior executives will raise unacceptable environmental, social or governance ('ESG') risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration policies, there is no restriction on the Committee which prevents it from taking into account corporate governance on ESG matters and the Committee takes due account of issues relating to risk when structuring incentive policies (via, for example, regular liaison with the Audit Committee to ensure that the remuneration policies adopted do not encourage inappropriate risk-taking).

easyJet's current remuneration policies are summarised below:

Element	Purpose	Policy	Delivery
Basic salary	<ul style="list-style-type: none"> <li>– Reflect the value of the individual and their role</li> <li>– Reflect skills and experience</li> </ul>	<ul style="list-style-type: none"> <li>– Reviewed annually, effective 1 October</li> <li>– Agreed when results for the previous year are finalised</li> <li>– Benchmarked against similar sized companies and industry comparators</li> <li>– Targeted at or around median</li> <li>– Considers individual contribution</li> </ul>	<ul style="list-style-type: none"> <li>– Cash</li> <li>– Paid monthly</li> <li>– Pensionable</li> </ul>
Annual bonus	<ul style="list-style-type: none"> <li>– Incentivise year on year delivery of performance linked to easyJet's strategic goals</li> </ul>	<ul style="list-style-type: none"> <li>– Major measure is profit before tax aligned to long-term targets</li> <li>– Other measures based on:                             <ul style="list-style-type: none"> <li>– Customer satisfaction</li> <li>– Cost</li> <li>– Operational excellence</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>– Paid as cash</li> <li>– Not pensionable</li> <li>– May defer up to half of bonus into LTIP</li> </ul>
Long Term Incentive Plan	<ul style="list-style-type: none"> <li>– Aligned to business plan</li> <li>– Incentivise long-term growth in return on equity (ROE)</li> </ul>	<ul style="list-style-type: none"> <li>– Vests after three years</li> <li>– Subject to stretching ROE targets</li> <li>– Subject to 175% of salary shareholding requirement</li> </ul>	<ul style="list-style-type: none"> <li>– Annual grant of performance shares</li> <li>– Opportunity to defer bonus and obtain future matching share awards</li> </ul>
Pension	<ul style="list-style-type: none"> <li>– Provide modest retirement benefits</li> <li>– Opportunity for Executive to contribute to their own retirement plan</li> </ul>	<ul style="list-style-type: none"> <li>– Defined contribution</li> <li>– HMRC approved salary sacrifice arrangement</li> </ul>	<ul style="list-style-type: none"> <li>– Monthly employer contribution of 7% of basic salary</li> <li>– Non-contributory</li> <li>– Salary sacrifice for employee contribution</li> </ul>

The balance between fixed and variable pay is shown in the charts below. This demonstrates that a significant proportion of remuneration is linked to performance, particularly at maximum performance levels.



# Report on Directors' remuneration

continued

## Basic salary

The basic salaries of the Executive Directors are reviewed annually and are set taking account of the salary required to deliver an overall total package that reflects a number of factors including:

- practice adopted in companies of a broadly similar size. This is taken to be the thirty companies larger and smaller than easyJet by reference to comparative market capitalisation;
- a formal appraisal of their contribution to the business;
- the competitive environment; and
- pay and employment conditions of employees elsewhere within easyJet.

## Annual bonus

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 (pro-rata for service), with a 100% of salary maximum for other senior executives. The maximum will remain at these levels during the financial year ending 30 September 2011.

Bonus targets are aligned with easyJet's strategic objectives, with specific targets around its key performance indicators. Performance targets for Executive Directors' annual bonus opportunities in the financial year ending 30 September 2011 are as follows:

Measure	% maximum bonus opportunity
Profit before tax	70%
Customer satisfaction targets	10%
Operating costs (exc fuel) per seat at constant currency	10%
On time performance	10%

The safety of our customers and people underpins all of the operational activities and is required to be achieved before any bonus would be payable and therefore is not included in the bonus targets.

Performance against the targets set for the year under review is discussed below.

## Long Term Incentive Plan

The easyJet Long Term Incentive Plan ("LTIP") provides for annual awards of performance shares and matching shares. The plan was approved by shareholders at the AGM in 2005 and amended at the 2008 AGM.

The annual award limit for performance shares is 200% of basic salary.

Matching share awards are linked to the investment of up to 50% of annual bonus earned into easyJet shares, which are then matched on a 1:1 gross basis.

Performance and matching share awards vest three years after grant, subject to continued employment and the satisfaction of challenging performance conditions (which to date have largely related to ROE performance).

### LTIP awards to be granted in 2011

The policy for future LTIP awards and targets will be determined in line with the outcome of reviews being undertaken by management and the Board which are described in the Chief Executive's statement. An announcement relating to grants and targets will be made as soon as is practical. Any significant changes in policy will be discussed with shareholder representative bodies and major shareholders.

A full summary of the performance targets applying to all subsisting LTIP awards are set out on pages 51 and 52.

### All-employee share plan participation

easyJet encourages share ownership throughout the Company by the use of a Share Incentive Plan and a Sharesave Plan. Take up of the schemes remains very positive with over 80% of eligible staff now participating in one or more of the plans. Executive Directors may also participate in these plans. They are summarised in the Corporate responsibility section on page 30.

### Previous share awards

#### Executive Share Option Scheme

The LTIP replaced the existing Approved and Unapproved Executive Share Option Schemes (the "ESOS") as the primary long term incentive arrangement for the Executive Directors and other senior employees although the ESOS was retained for flexibility, but lapsed on 30 October 2010. There were no grants during the year.

#### Shareholding guideline

Executive Directors are required to build up a shareholding equivalent to 175% of basic salary. There is no specific timeframe within which the shares must be acquired. However, executives must retain all the shares acquired on the vesting of LTIP awards (net of tax) until the required holding is attained. Any shares already held by the executive will count towards the guideline, as will shares bought by participants as "Investment Shares" under the Matching Shares element of the LTIP, together with any shares held on an executive's behalf through participation in the Company's all-employee share plans. These shares are owned absolutely by the executive. Any unvested performance shares or matching shares granted under the LTIP will not count since they are subject to future performance.

For senior executives who report to the Executive Management Team and receive LTIP awards, a 50% share ownership guideline will apply.

#### Pension contributions

easyJet makes a contribution for Executive Directors to a defined contribution pension scheme of 7% of basic salary. While individuals are not obliged to make a contribution, 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). Executive Directors cannot contribute to a pension during their first three months of employment. Where an Executive Director has reached the lifetime pension limit, a cash alternative may be paid with the agreement of the Committee.

# Report on Directors' remuneration

continued

## Benefits

easyJet has a very low level of benefits provision and does not include, for example, company cars or final salary pensions as part of the package.

## 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. No fees were received by Executive Directors during the year ended 30 September 2010.

## Service contracts

Carolyn McCall's contract provides for 12 months' notice by either party. On termination by the Company, she will continue to receive 12 monthly instalments of basic salary and benefits that would cease to the extent that commensurate alternative employment was taken up. Alternatively, by mutual consent, the Company may elect to make a payment to the value of 12 months basic salary only. With regard to bonus, this would be included in a termination payment, payable on a pro-rata basis, only for the period of time served from the start of the financial year to the date of termination and not for any period in lieu of notice. Any bonus paid would be subject to the normal bonus targets, tested at the end of the year.

Chris Kennedy's notice period is six months by either party, during the first six months of employment and twelve months by either party thereafter. There is no provision for bonus to be paid on termination.

In recognition of the Company's low level of benefits provision and to avoid consolidation into basic salary, the absence of future benefit provision equivalent to those provided under previous employment arrangements for Chris Kennedy was compensated by two payments each of £25,000, one made in the month of joining (July 2010) and one made three months later (October 2010). As payments are intended to compensate future benefit provision, these will be repayable if Chris Kennedy were to leave within 12 months of his start date.

The arrangements in place for Andrew Harrison throughout the year under review are set out on pages 48 and 49.

The Company's relationship with its Non Executive Directors is governed by letters of appointment. The Non Executive Directors are appointed for a period not exceeding three years and their appointment may be terminated with three months' notice without compensation.

Sir Stelios Haji-Ioannou did not have a letter of appointment and his appointment was of no fixed term.

Details of the service contracts and letters of appointment currently in place for Directors who served during the year are as follows:

	Date of current service contract or letter of appointment	Unexpired term at 30 September 2010	Notice period	Provision for compensation
<b>Executive</b>				
Carolyn McCall OBE (appointed 1 July 2010)	1 July 2010	n/a	12 months	12 months
Chris Kennedy (appointed 1 July 2010)	1 July 2010	n/a	6 months	6 months
Andrew Harrison (resigned 30 June 2010)	15 September 2005 (amended 15 May 2009 and 1 April 2010)	n/a	12 months	12 months
<b>Non-Executive</b>				
Sir Michael Rake	1 April 2010	2 years 6 months	3 months	None
Sir David Michels	27 September 2010	3 years	3 months	None
David Bennet	27 September 2010	3 years	3 months	None
Sven Boinet	11 February 2008	5 months	3 months	None
John Browett	27 September 2010	3 years	3 months	None
Professor Rigas Doganis	27 September 2010	3 years	3 months	None
Keith Hamill	23 December 2008	1 year 3 months	3 months	None
Sir Stelios Haji-Ioannou (resigned 14 May 2010)	n/a	n/a	n/a	n/a
Bob Rothenberg (resigned 14 May 2010)	29 July 2009	n/a	3 months	None

## Non Executives Directors (NEDs)

The NEDs, including the Chairman, have letters of appointment which set out their duties and responsibilities. The key terms of the appointments are set out in the table below:

Provision	Policy
Appointment letters	Aligned to the standard terms appended to the UK Corporate Governance Code. Copies of the service contracts and letters of appointment are available on request from the Company Secretary
Period	Three year term
Termination	By the Director or the Company at their discretion and without compensation
Fees	See below
Expenses	Reimbursement of reasonable travel and other expenses incurred in the performance of their duties
Time Commitment	Anticipated to be twelve days per annum depending on Board and Committee requirements and corporate activity

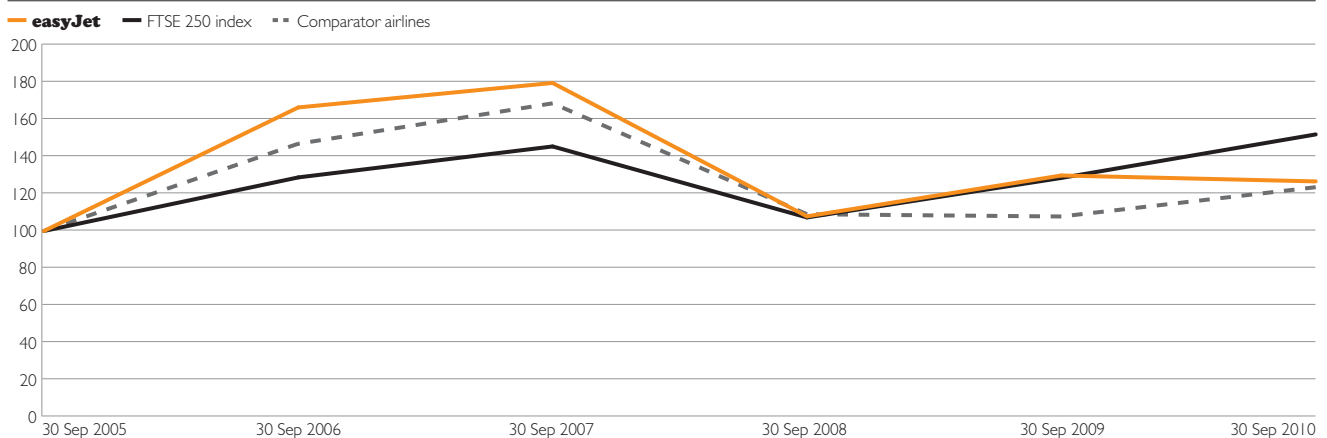
The Board as a whole determines the remuneration of the Company's Non Executive Directors, with Non Executive Directors exempting themselves from discussions and voting as appropriate. When determining the remuneration of Non Executive Directors, account is taken of practice adopted in competitors and other similar sized organisations, committees chaired and anticipated time commitment. With the exception of the Chairman and Deputy Chairman during the year under review the NEDs received a basic annual fee of £45,000 in respect of their Board duties. A further fee of £10,000 is paid in respect of Chairmanship of Board committees. The annual fee for the Chairman from 1 January 2010 was £250,000 and for the Deputy Chairman was to £70,000.

Fees are regularly reviewed and are set by the Board to attract individuals with the required range of skills and experience. The basic annual fee increased to £55,000 with effect from 1 October 2010. The fee for the Chairman increased to £300,000 and the fee for Deputy Chairman increased to £90,000.

## Total shareholder return

Given the nature of easyJet's operations, the Committee does not consider that there is a suitable comparator group against which to measure total shareholder return. However, for completeness, the following graphs show the Company's performance compared with the performance of the FTSE 250 and that of a group of European Airlines<sup>1</sup>. The FTSE 250 has been chosen as it is the FTSE index in which the Company resides. The group of European Airlines comprises companies operating in a comparable sector.

### Total shareholder return



Source: Thomson Financial

This graph shows the value, by 30 September 2010 of £100 invested in easyJet on 30 September 2005 compared with the value of £100 invested in the FTSE 250 index or a comparator group of airlines. The other points plotted are the values at intervening financial year-ends.

Note 1: British Airways, Lufthansa, Air France-KLM and Iberia have been included in the comparative European Airlines group.



# Report on Directors' remuneration

continued

## Directors' emoluments (audited)

Details of emoluments, paid or payable by easyJet to the Directors of easyJet plc who served in the financial year ended 30 September 2010 are as follows:

Figures stated in £'000s	Salary/fee 2010	Bonus 2010	Total 2010	Total 2009	Pension contributions	
					2010	2009
<b>Executive</b>						
Carolyn McCall OBE (appointed 1 July 2010)	178	–	178	–	–	–
Chris Kennedy (appointed 1 July 2010)	150	–	150	–	–	–
Andrew Harrison (resigned 30 June 2010)	2,266	250	2,516	1,633	47	53
<b>Non Executive</b>						
Sir Michael Rake	205	–	205	23	–	–
Sir David Michels	135	–	135	114	–	–
David Bennett	55	–	55	55	–	–
Sven Boinet	45	–	45	45	–	–
John Browett	45	–	45	45	–	–
Professor Rigas Doganis	45	–	45	45	–	–
Keith Hamill	55	–	55	29	–	–
Sir Stelios Haji-Ioannou (resigned 14 May 2010)	–	–	–	–	–	–
Bob Rothenberg (resigned 14 May 2010)	28	–	28	8	–	–
	<b>3,207</b>	<b>250</b>	<b>3,457</b>	1,997	<b>47</b>	53

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 pages 50 and 51.

The annual basic salary of Carolyn McCall OBE is £665,000, plus £48,000 as a cash alternative to a contribution to a pension scheme made by the Company. The annual basic salary for Chris Kennedy is £400,000.

The salary payment for Andrew Harrison includes a payment in lieu of notice on the termination of his contract of £1,221,300, plus revised remuneration arrangements from 1 April 2010 as detailed below.

Pension contributions for Andrew Harrison shown above are greater than 7% of salary for the period to 31 March 2010 as they include half of the National Insurance saving resulting from employee contributions made through easyJet's salary exchange scheme (equivalent to 6.4% of the sum sacrificed). Andrew Harrison exchanged £96,000 for additional pension contributions in the period to 31 March 2010 (2009: £195,000).

## Arrangements relating to Andrew Harrison

Andrew Harrison ceased to be Chief Executive and stepped down from the Board on 30 June 2010.

As was reported in the 2009 Report on Directors' remuneration, the Company entered into a retention agreement with him on 15 May 2009. The terms and reasons for that agreement are set out in that report. This agreement effectively expired on 31 March 2010.

Under the terms of this agreement, Andrew Harrison continued to receive a salary equivalent to £590,000 per annum plus benefits. In the event of resignation or termination (other than for bad leaver reasons) at any time after 31 March 2010 he would also receive a lump sum payment in lieu of notice in respect of his full 12 month notice period with no obligation to mitigate the payment. The payment in lieu of notice would include the value of 12 months' salary; 12 months' pension contributions and the on target level of annual bonus equivalent to 100% of salary. In addition, he would receive a pro rata bonus for the year in which he left the Company based on performance and would be considered a good leaver in relation to an LTIP award made in December 2007, subject to a pro rata amount for his period of service. The maximum number of shares which could vest under this provision was 193,325. The agreement precluded the Company from commencing the recruitment of his successor until after 31 March 2010.

In order to enable the Company to operate its activities as an airline on the basis of appropriate management resources and structure while it undertook an effective recruitment process for a new Chief Executive and Chief Financial Officer, the Remuneration Committee subsequently approved a further fixed term agreement covering the period 1 April to 30 September 2010. Under these arrangements, Andrew Harrison agreed that he would continue to act as Chief Executive until 30 June 2010 and that he would be available for consultation and to provide advice as requested for the three months to 30 September 2010. The total remuneration for the period from 1 April to 30 September 2010 was fixed at £750,000 plus a bonus of £250,000. Also, under these arrangements he agreed that the previous entitlement under the 15 May 2009 agreement relating to the 2007 LTIP of up to 193,325 shares would not apply.

For reasons explained below in the section "2010 Bonus", Andrew Harrison has also agreed to waive a potential claim for a pro rata bonus for the period 1 October 2009 to 31 March 2010 which could have amounted up to £590,000.

The amount shown in the Directors' emoluments table above for Andrew Harrison includes a lump sum payment of £1,221,300 under the 15 May 2009 agreement and the amounts paid under the 1 April 2010 fixed term agreement covering the period 1 April to 30 September 2010.

### Directors' remuneration 2010

There was a pay freeze in place during the year under review for Executive Directors and the wider senior management population. Remuneration for the new Chief Executive and Chief Financial Officer was agreed with them to secure their recruitment and is consistent with the Company's remuneration policies.

#### 2010 Bonus

The results and performance targets for the year were not achieved in full. However, these were materially affected by the substantial disruption following the eruption of the Eyjafjalla volcano, which increased costs by £27.3 million and resulted in lost contribution estimated at approximately £30 million. In view of this it was decided that certain management and staff with bonus entitlements, excluding the Executive Management Team, would benefit from discretion on the profit element of their bonuses at 50% of their maximum entitlements. The Executive Management Team (including Carolyn McCall OBE and Chris Kennedy who joined the Company in July 2010) informed the Board and Remuneration Committee, that in view of the effect of the further operating problems over the summer and the resulting difficulties experienced by customers and staff, they did not consider that it would be appropriate for its members to receive bonuses, even if it were deemed to be appropriate to make an adjustment for the effect of volcanic ash.

Accordingly, no bonus will be paid to the Executive Directors or other members of the Executive Management Team. Had it been appropriate for the discretion applied to certain management and staff to be applied in the same way for Executive Directors, Carolyn McCall OBE would have received £159,000 and Chris Kennedy would have received £48,000. Andrew Harrison would have received £267,000.

# Report on Directors' remuneration

continued

## Directors' interests

The following Directors hold direct interests in the share capital of easyJet:

Number	30 September 2010	30 September 2009
Carolyn McCall OBE	6,141	–
Chris Kennedy	6,141	–
Sir Michael Rake	6,200	3,100
Sir David Michels	12,100	12,100
David Bennett	10,000	10,000
John Browett	4,705	4,705
Professor Rigas Doganis	13,600	13,600

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, the Long Term Incentive Plan and the Share Incentive Plan Trust (the "Trusts"). At 30 September 2010, ordinary shares held in the Trusts were as follows:

	Number
Share Incentive Plan Trust (unallocated as employees are not entitled to these shares until the performance conditions attached to them are met)	1,409,658
Total unallocated	1,409,658
Long Term Incentive Plan (allocated)	12,202
Share Incentive Plan (allocated)	728,607
Total held by UK Trust (allocated)	9,229
Total held by Overseas Trust (allocated)	18,274
Total allocated	768,312
	2,177,970

## Directors' share awards (audited)

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 tables:

### Andrew Harrison

Scheme	No. of shares/ options at 30 September 2009 <sup>1</sup>	Share/ options granted in year	Shares/ options lapsed in year	Shares/ options exercised in year	No. of shares/ options at 30 September 2010 <sup>1</sup>	Date of grant	Exercise price (£)	Market price on exercise date (£)	Date from which exercisable	Expiry date
A	397,523	–	–	–	397,523	1 Dec 2005	3.30	–	1 Dec 2008	30 Dec 2010
B	4,912	–	–	–	4,912	1 Dec 2005	3.30	–	1 Dec 2008	30 Dec 2010
C	90,756	–	90,756	–	–	1 Dec 2006	–	–	1 Dec 2009	1 Jun 2010
C	104,796	–	104,796	–	–	3 Dec 2007	–	–	3 Dec 2010	3 Jun 2011
C	102,135	–	102,135	–	–	29 Feb 2008	–	–	28 Feb 2011	28 Aug 2011
C	358,818	–	358,818	–	–	16 Jan 2009	–	–	16 Jan 2012	16 Jul 2012
D	75,630	–	75,630	–	–	1 Dec 2006	–	–	1 Dec 2009	1 Jun 2010
D	88,529	–	88,529	–	–	3 Dec 2007	–	–	3 Dec 2010	3 Jun 2011
E	612	–	–	612	–	1 Dec 2006	–	4.14	1 Dec 2009	n/a
E	487	–	487	–	–	1 Dec 2007	–	–	1 Dec 2010	n/a
F	1,337	280	1,238	379	–					See note 2 below

### Carolyn McCall OBE

Scheme	No. of shares/ options at 30 September 2009 <sup>1</sup>	Share/ options granted in year	Shares/ options lapsed in year	Shares/ options exercised in year	No. of shares/ options at 30 September 2010 <sup>1</sup>	Date of grant	Exercise price (£)	Market price on exercise date (£)	Date from which exercisable	Expiry date
C	–	335,096	–	–	<b>335,096</b>	5 July 2010	–	–	5 July 2013	5 Jan 2014

### Chris Kennedy

Scheme	No. of shares/ options at 30 September 2009 <sup>1</sup>	Share/ options granted in year	Shares/ options lapsed in year	Shares/ options exercised in year	No. of shares/ options at 30 September 2010 <sup>1</sup>	Date of grant	Exercise price (£)	Market price on exercise date (£)	Date from which exercisable	Expiry date
C	–	201,562	–	–	<b>201,562</b>	5 July 2010	–	–	5 July 2013	5 Jan 2014

No Non Executive Director has been granted any share options or awards.

The closing share price of the Company's ordinary shares at 30 September 2010 was £3.70 and the range during the year ended 30 September 2010 was £3.40 to £5.00.

#### Notes

- A Non-Approved Discretionary Share Option Scheme
- B Approved Discretionary Share Option Scheme
- C Long Term Incentive Plan – Performance Shares
- D Long Term Incentive Plan – Matching Shares
- E Share Incentive Plan – Free Shares
- F Share Incentive Plan – Matching Shares

Note 1: The number of shares are calculated according to the scheme rules of individual plans based on the middle-market closing share price of the day prior to grant (except for the June 2005 ESOS award which was based on the previous practice of the average middle-market price of the five days prior to grant). As is usual market practice, the option price for SAYE awards is determined by the Committee in advance of the award, by reference to the share price following announcements of results.

Note 2: Participants purchase shares monthly under the plan and the Company provides one matching share for each share purchased. These are first available for vesting three years after purchase.

The potential vesting of outstanding awards if the performance were based on that for the year under review is nil as shown at the end of this section.

The performance criteria for vesting of these share options and awards are as follows:

#### Discretionary Share Option Schemes (A&B)

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

#### Long Term Incentive Plan (C&D)

Awards prior to those made during the year under review were subject to the achievement of the following ROE targets:

Grant date	Basis year	Threshold (25% vests)	Target (50% vests)	Maximum (100% vests)
December 2007	30 September 2010	12.5%	14.0%	16.5%
February 2008	30 September 2010	13.5%	15.5%	17.5%
January 2009 (awards up to 100% of salary)	30 September 2011	7.0%	10.0%	13.0%
January 2009 (awards over 100% of salary)	30 September 2011	11.0%	13.0%	15.0%

Straight-line vesting will occur between the threshold, target and maximum targets set out above. The returns on equity shown for the February 2008 grant relate to awards in excess of 100% of basic salary.

The December 2007 and February 2008 award is due to be tested against the performance targets in December 2010. The award has performance targets relating to return on equity achieved in the year ended 30 September 2010. However, the targets have not been met and the award will not vest.

# Report on Directors' remuneration

continued

The actual targets that applied to the awards of performance shares made to Executive Directors during the year under review were as follows:

## Awards up to 100% of salary

	Threshold (25% vests)	Target (50% vests)	Maximum (100% vests)
Return on equity (year ending 30 September 2012)	9.0%	12.0%	15.0%

## Awards over to 100% of salary

	Threshold (25% vests)	Target (50% vests)	Maximum (100% vests)
Return on equity (year ending 30 September 2012)	11.0%	13.0%	15.0%

## Matching Share Awards

No matching shares were granted to Executive Directors in the year under review.

## Position against dilution limits

easyJet complies with the 5% in five years guidelines on share dilution and current dilution is 2.5%. It is the intention of easyJet to source shares by market purchase, rather than by the issue of new shares. The requirement for shares under all current share-based schemes will be met by market purchased shares (LTIP, Share Saving and Share Incentive Plans). The remaining options under the Discretionary Share Option Schemes will continue to be met from new issue shares.

## Potential vesting of outstanding awards

The table below shows how vesting of outstanding share awards would take place if the performance was based on that for the year under review.

Grant date	Actual basis year	Vesting
December 2007	30 September 2010	0%
February 2008	30 September 2010	0%
January 2009	30 September 2011	0%
December 2009 and July 2010	30 September 2012	0%

On behalf of the Board



### Keith Hamill

Remuneration Committee Chairman  
15 November 2010

# Statement of Directors' responsibilities

The Directors are responsible for preparing the annual report, the Report on Directors' remuneration and the accounts in accordance with applicable law and regulations.

Company law requires the Directors to prepare accounts for each financial year. Under that law the Directors have prepared the Group and parent company accounts in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing these accounts, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the accounts and the Report on Directors' remuneration comply with the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

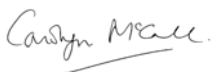
Each of the Directors, whose names and functions are listed on page 35 confirm that, to the best of their knowledge:

- the Group and the Company accounts, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group and the Company; and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that they face.

In the case of each Director in office at the date the Directors' report is approved and in accordance with Section 418 of the Companies Act 2006:

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

The annual report on pages 1 to 53 was approved by the Board of Directors and authorised for issue on 15 November 2010 and signed on behalf of the Board by:



**Carolyn McCall OBE**  
Chief Executive



**Chris Kennedy**  
Chief Financial Officer



# Accounts

## Independent auditors' report to the members of **easyJet** plc

We have audited the accounts of easyJet plc for the year ended 30 September 2010 which comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows, Company statement of financial position, Company statement of changes in equity, Company statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company accounts, as applied in accordance with the provisions of the Companies Act 2006.

### Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 53, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view. Our responsibility is to audit the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

### Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the accounts.

### Opinion on accounts

In our opinion:

- the accounts give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2010 and of the Group's profit and the Group's and Company's cash flows for the year then ended;
- the Group accounts have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company accounts have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the accounts have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Report on Directors' remuneration to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' report for the financial year for which the accounts are prepared is consistent with the accounts.

### Matters on which we are required to report by exception


We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Company accounts and the part of the Report on Directors' remuneration to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 23, in relation to going concern; and
- the parts of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



### Roger de Peyrecave (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors St Albans, Hertfordshire

15 November 2010

# Consolidated income statement

	Notes	Year ended 30 September 2010 £ million	Year ended 30 September 2009 £ million
Passenger revenue		<b>2,401.7</b>	2,150.5
Ancillary revenue		<b>571.4</b>	516.3
<b>Total revenue</b>		<b>2,973.1</b>	2,666.8
Ground handling		<b>(274.4)</b>	(255.9)
Airport charges		<b>(529.8)</b>	(481.5)
Fuel		<b>(733.4)</b>	(807.2)
Navigation		<b>(256.0)</b>	(232.3)
Crew		<b>(336.0)</b>	(306.6)
Maintenance		<b>(176.8)</b>	(161.6)
Advertising		<b>(49.8)</b>	(47.0)
Merchant fees and commissions		<b>(42.4)</b>	(33.5)
Aircraft and passenger insurance		<b>(10.2)</b>	(11.3)
Aircraft wet leasing		<b>(13.7)</b>	–
Volcanic ash disruption		<b>(27.3)</b>	–
Other costs		<b>(162.0)</b>	(104.8)
<b>EBITDAR</b>		<b>361.3</b>	225.1
Amortisation of intangible assets	7	<b>(6.2)</b>	(4.4)
Depreciation	8	<b>(72.5)</b>	(55.4)
(Loss) / profit on disposal of assets held for sale	11	<b>(7.0)</b>	11.0
Aircraft dry leasing		<b>(102.0)</b>	(116.2)
<b>Operating profit</b>		<b>173.6</b>	60.1
Interest receivable and other financing income		<b>7.1</b>	22.5
Interest payable and other financing charges		<b>(26.7)</b>	(27.9)
Net finance charges	2	<b>(19.6)</b>	(5.4)
<b>Profit before tax</b>	3	<b>154.0</b>	54.7
Tax (charge) / credit	5	<b>(32.7)</b>	16.5
<b>Profit for the year</b>		<b>121.3</b>	71.2
<b>Earnings per share, pence</b>			
Basic	6	<b>28.4</b>	16.9
Diluted	6	<b>28.0</b>	16.6

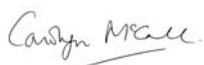
# Consolidated statement of comprehensive income

	<b>Year ended 30 September 2010 £ million</b>	Year ended 30 September 2009 £ million
<b>Profit for the year</b>	<b>121.3</b>	71.2
<b>Other comprehensive income</b>		
Cash flow hedges		
Fair value gains / (losses) in year	<b>90.3</b>	(214.3)
(Gains) / losses transferred to income statement	<b>(9.1)</b>	228.8
Gains transferred to property, plant and equipment	<b>–</b>	(85.9)
Related tax (note 5)	<b>(22.5)</b>	19.9
	<b>58.7</b>	(51.5)
Currency translation differences	<b>1.2</b>	(0.5)
<b>Total comprehensive income for the year</b>	<b>181.2</b>	19.2

# Consolidated statement of financial position

	Notes	30 September 2010 £ million	30 September 2009 £ million
<b>Non-current assets</b>			
Goodwill	7	365.4	365.4
Other intangible assets	7	86.8	81.7
Property, plant and equipment	8	1,928.1	1,612.2
Derivative financial instruments	22	8.2	7.8
Loan notes	9	13.1	12.6
Restricted cash	13	32.5	48.0
Other non-current assets	10	53.5	62.7
Deferred tax assets	5	–	0.4
		<b>2,487.6</b>	2,190.8
<b>Current assets</b>			
Assets held for sale	11	73.2	73.2
Trade and other receivables	12	194.1	241.8
Derivative financial instruments	22	52.6	68.0
Restricted cash	13	23.1	24.3
Money market deposits	13	260.0	286.3
Cash and cash equivalents	13	911.9	788.6
		<b>1,514.9</b>	1,482.2
<b>Current liabilities</b>			
Trade and other payables	14	(828.7)	(750.7)
Borrowings	15	(127.4)	(117.6)
Derivative financial instruments	22	(9.6)	(91.1)
Current tax liabilities		(27.5)	(57.7)
Maintenance provisions	17	(71.4)	(45.1)
		<b>(1,064.6)</b>	(1,062.2)
<b>Net current assets</b>		<b>450.3</b>	420.0
<b>Non-current liabilities</b>			
Borrowings	15	(1,084.6)	(1,003.0)
Derivative financial instruments	22	(4.0)	(2.6)
Non-current deferred income	16	(56.6)	(52.6)
Maintenance provisions	17	(144.1)	(168.6)
Deferred tax liabilities	5	(147.9)	(76.7)
		<b>(1,437.2)</b>	(1,303.5)
<b>Net assets</b>		<b>1,500.7</b>	1,307.3
<b>Shareholders' equity</b>			
Share capital	18	107.3	106.0
Share premium		651.6	642.5
Hedging reserve		34.8	(23.9)
Translation reserve		0.8	(0.4)
Retained earnings		706.2	583.1
		<b>1,500.7</b>	1,307.3

The accounts on pages 55 to 89 were approved by the Board of Directors and authorised for issue on 15 November 2010 and signed on behalf of the Board.



**Carolyn McCall OBE**  
Director



**Chris Kennedy**  
Director

# Consolidated statement of changes in equity

	Share capital £ million	Share premium £ million	Hedging reserve £ million	Translation reserve £ million	Retained earnings £ million	Total £ million
<b>At 1 October 2009</b>	<b>106.0</b>	<b>642.5</b>	<b>(23.9)</b>	<b>(0.4)</b>	<b>583.1</b>	<b>1,307.3</b>
Total comprehensive income	–	–	<b>58.7</b>	<b>1.2</b>	<b>121.3</b>	<b>181.2</b>
Share incentive schemes						
Proceeds from shares issued	<b>1.3</b>	<b>9.1</b>	–	–	<b>(1.2)</b>	<b>9.2</b>
Value of employee services	–	–	–	–	<b>4.8</b>	<b>4.8</b>
Related tax (note 5)	–	–	–	–	<b>(0.5)</b>	<b>(0.5)</b>
Purchase of own shares	–	–	–	–	<b>(1.3)</b>	<b>(1.3)</b>
<b>At 30 September 2010</b>	<b>107.3</b>	<b>651.6</b>	<b>34.8</b>	<b>0.8</b>	<b>706.2</b>	<b>1,500.7</b>

	Share capital £ million	Share premium £ million	Hedging reserve £ million	Translation reserve £ million	Retained earnings £ million	Total £ million
<b>At 1 October 2008</b>	105.7	640.2	27.6	0.1	504.6	1,278.2
Total comprehensive income	–	–	(51.5)	(0.5)	71.2	19.2
Share incentive schemes						
Proceeds from shares issued	0.3	2.3	–	–	–	2.6
Value of employee services	–	–	–	–	7.4	7.4
Related tax (note 5)	–	–	–	–	1.5	1.5
Purchase of own shares	–	–	–	–	(1.6)	(1.6)
<b>At 30 September 2009</b>	<b>106.0</b>	<b>642.5</b>	<b>(23.9)</b>	<b>(0.4)</b>	<b>583.1</b>	<b>1,307.3</b>

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments relating to highly probable transactions that are forecast to occur after the year end.

# Consolidated statement of cash flows

	Notes	Year ended 30 September 2010 £ million	Year ended 30 September 2009 £ million
<b>Cash flows from operating activities</b>			
Cash generated from operations	20	<b>364.8</b>	164.5
Net interest and other financing charges received / (paid)		<b>12.7</b>	(20.6)
Tax paid		<b>(14.1)</b>	(9.4)
<b>Net cash generated from operating activities</b>		<b>363.4</b>	134.5
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		<b>(471.3)</b>	(515.0)
Proceeds from sale of assets held for sale		–	77.8
Proceeds from sale of property, plant and equipment		–	12.4
Purchase of other intangible assets		<b>(11.3)</b>	(5.5)
Redemption of loan notes		<b>0.6</b>	0.3
<b>Net cash used by investing activities</b>		<b>(482.0)</b>	(430.0)
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital		<b>9.2</b>	2.6
Purchase of own shares for employee share schemes		<b>(1.3)</b>	(1.6)
Proceeds from drawdown of bank loans		<b>213.3</b>	543.1
Repayment of bank loans		<b>(188.4)</b>	(69.4)
Proceeds from drawdown of finance leases		<b>47.1</b>	–
Repayment of capital elements of finance leases		<b>(4.0)</b>	(3.6)
Net proceeds from sale and operating leaseback of aircraft		<b>109.3</b>	–
Net decrease / (increase) in money market deposits		<b>31.1</b>	(29.0)
Decrease / (increase) in restricted cash		<b>16.5</b>	(1.9)
<b>Net cash generated from financing activities</b>		<b>232.8</b>	440.2
Effect of exchange rate changes		<b>9.1</b>	11.7
<b>Net increase in cash and cash equivalents</b>		<b>123.3</b>	156.4
Cash and cash equivalents at beginning of year		<b>788.6</b>	632.2
<b>Cash and cash equivalents at end of year</b>	13	<b>911.9</b>	788.6



# Notes to the accounts

## 1 Accounting policies

### Statement of compliance

easyJet plc (the "Company") and its subsidiaries ("easyJet" or the "Group" as applicable) is a low cost airline carrier operating principally in Europe. The Company is a public limited company whose shares are listed on the London Stock Exchange under the ticker symbol EZJ and is incorporated and domiciled in the United Kingdom. The address of its registered office is Hangar 89, London Luton Airport, Bedfordshire LU2 9PF.

The accounts are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, taking into account International Financial Reporting Interpretations Committee (IFRIC) interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

### Basis of preparation

The accounts are prepared based on the historical cost convention except for certain financial assets and liabilities including derivative financial instruments that are measured at fair value.

The accounting policies set out below have been applied consistently to all years presented in these accounts.

In adopting the going concern basis for preparing the accounts, the Directors have considered the business activities as set out on pages 8 to 13 as well as easyJet's principal risks and uncertainties as set out on pages 25 to 27. Based on easyJet's cash flow forecasts and projections, the Board is satisfied that easyJet will be able to operate within the level of its facilities and available cash for the foreseeable future. For this reason easyJet continues to adopt the going concern basis in preparing its accounts.

### Significant judgements, estimates and critical accounting policies

The preparation of accounts 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 accounts and the reported amounts of income 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, and these differences may be material. The estimates and the underlying assumptions are reviewed regularly.

The following three accounting policies are considered critical accounting policies as they require a significant amount of management judgement and the results are material to easyJet's accounts.

#### *Goodwill and landing rights (note 7)*

Goodwill and landing rights are tested for impairment at least annually. easyJet has one cash-generating unit, being its route network. In making this assessment, easyJet has considered the manner in which the business is managed including the centralised nature of its operations and the ability to open or close routes and redeploy aircraft and crew across the whole route network.

The value in use of the cash-generating unit is determined by discounting future net cash flows to their present value. When applying this method, easyJet relies on a number of estimates including its strategic plans, fuel prices, exchange rates, long-term economic growth rates for the principal countries in which it operates and its pre-tax weighted average cost of capital.

#### *Aircraft maintenance provisions (note 17)*

easyJet incurs liabilities for maintenance costs in respect of aircraft leased under operating leases during the term of the lease. These arise from legal and constructive contractual obligations relating to the condition of the aircraft when it is returned to the lessor. To discharge these obligations, easyJet will also normally need to carry out one heavy maintenance check on each of the engines and the airframe during the lease term.

A charge is made in the income statement based on hours or cycles flown to provide for the cost of these obligations. Estimates required include the likely utilisation of the aircraft, the expected cost of the heavy maintenance check at the time it is expected to occur, the condition of the aircraft and the lifespan of life-limited parts.

The bases of all estimates are reviewed annually, and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or changes in the cost of heavy maintenance services.

#### *Tax (note 5)*

In drawing up the accounts, estimates are made of current and deferred tax assets and liabilities for each jurisdiction in which easyJet operates. These estimates are affected by transactions and calculations where the ultimate tax determination was uncertain at the time the accounts were finalised. The issues involved are often complex and may take an extended period to resolve. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is made.

### Basis of consolidation

The consolidated accounts incorporate those of easyJet plc and its subsidiaries for the years ended 30 September 2009 and 2010.

A subsidiary is an entity controlled by easyJet. Control exists when easyJet has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to benefit from its activities.

Intragroup balances, transactions and any unrealised gains and losses arising from intragroup transactions are eliminated in preparing the consolidated accounts.

### Foreign currencies

The primary economic environment in which a subsidiary operates determines its functional currency. The consolidated accounts of easyJet are presented in sterling, which is the Company's functional currency and the Group's presentation currency. 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 gains or losses is recognised in the income statement. Profits and losses of foreign operations are translated into sterling at average rates of exchange during the year, since this approximates the rates on the dates of the transactions.

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 are translated into sterling using the rate of exchange ruling at the balance sheet date and (except where the asset or liability is designated as a cash flow hedge) the gains or losses on translation are included in the 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.

### Revenue recognition

Revenues comprise the invoiced value of airline services (net of air passenger duty, VAT and discounts), and ancillary revenue.

Passenger revenue arises from the sale of flight seats and is recognised when the service is provided. Unearned revenue represents flight seats sold but not yet flown and is included in trade and other payables until it is realised in the income statement when the service is provided.

Ancillary revenue is generally recognised when the flight to which it relates departs. Certain types of ancillary revenue are recognised at the time the benefit of the service provided passes to the customer.

Amounts paid by "no-show" customers are recognised as passenger or ancillary revenue as appropriate when the booked service is provided as such customers are not generally entitled to change flights or seek refunds once a flight has departed.

### Business combinations

Business combinations in prior years were accounted for by applying the purchase method. The cost of the acquisition was measured at the aggregate of the fair values, at the date of exchange, of assets given and liabilities incurred or assumed plus any costs directly attributable to the business combination. The acquiree's identifiable assets and liabilities were recognised at their fair values at the acquisition date. There have been no business combinations since the effective date of IFRS 3 Business Combinations (Revised).

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over easyJet's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised.

### Goodwill and other intangible assets

Goodwill is stated at cost less any accumulated impairment losses. It has an indefinite expected useful life and is tested for impairment at least annually or where there is any indication of impairment.

Landing rights are stated at cost less any accumulated impairment losses. They are considered to have an indefinite useful life as they will remain available for use for the foreseeable future provided minimum utilisation requirements are observed, and are tested for impairment at least annually or where there is any indication of impairment.

Other intangible assets are stated at cost less accumulated amortisation, which is calculated to write-off their cost, less estimated residual value, on a straight-line basis over their expected useful lives. Expected useful lives and residual values are reviewed annually.

	Expected useful life
Computer software	3 years
Contractual rights	Over the length of the related contracts

# Notes to the accounts

continued

## 1 Accounting policies continued

### Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation. Depreciation is calculated to write off the cost, less estimated residual value, of assets on a straight-line basis over their expected useful lives. Expected useful lives are reviewed annually.

	Expected useful life
Aircraft	23 years
Aircraft spares	14 years
Aircraft improvements	3–7 years
Aircraft – prepaid maintenance	3–10 years
Leasehold improvements	5–10 years or the length of lease if shorter
Fixtures, fittings and equipment	3 years or length of lease of property where equipment is used if shorter
Computer hardware	5 years

Items held under finance leases are depreciated over the shorter of the lease term and their expected useful lives, as shown above.

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 depreciated 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 depreciated over the length of period benefiting from these enhancements. All other maintenance costs are charged to the income statement as incurred.

The cost of new aircraft comprises the invoiced price of the aircraft from the supplier less the estimated value of other assets received by easyJet for nil consideration. These other assets principally comprise cash (recognised as an asset) and aircraft spares and service credits.

Pre delivery and option payments made in respect of aircraft are recorded in property, plant and equipment at cost. These amounts are not amortised.

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised in the income statement.

### Impairment of non-current assets

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. Impairment losses recognised on assets other than goodwill are only reversed where changes in the estimates used result in an increase in recoverable amount. Impairment losses recognised on goodwill are not reversed.

### Leases

Non-contingent operating lease rentals are charged to the income statement on a straight-line basis over the life of the lease. A number of operating leases require easyJet to make contingent rental payments based on variable interest rates; these are expensed as incurred.

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 an operating lease. Surpluses arising on disposal, where the price that the aircraft is sold for is above fair value, are recognised in deferred income and amortised on a straight-line basis over the lease term of the asset.

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 asset 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. 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 payable and other financing charges.

## Financial instruments

Financial instruments 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.

Where market values are not available, the fair value of financial instruments is calculated by discounting cash flows at prevailing interest rates and by applying year end exchange rates.

### Non-derivative financial assets

Non-derivative financial assets are recorded at amortised cost and include loan notes, trade receivables, cash and money market deposits. Investments in equity instruments are carried at cost where fair value cannot be reliably measured due to significant variability in the range of reasonable fair value estimates.

Restricted cash comprises cash deposits which have restrictions governing their use and is classified as a current or non-current asset based on the estimated remaining length of the restriction. Cash and cash equivalents comprise cash held in bank accounts with no access restrictions and bank or money market deposits repayable on demand or maturing within three months of inception. Interest income on cash and money market deposits is recognised using the effective interest method.

Impairment losses are recognised on financial assets carried at amortised cost where there is objective evidence that an impairment loss has been incurred. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of future cash flows, discounted at the original effective interest rate.

If, subsequently, the amount of the impairment loss decreases, and the decrease can be related objectively to an event that occurred after the impairment was recognised, the appropriate portion of the loss is reversed. Both impairment losses and reversals are recognised in the income statement as components of net finance charges.

### Non-derivative financial liabilities

Non-derivative financial liabilities are initially recorded at fair value less directly attributable transaction costs, and subsequently at amortised cost. Interest expense on loans is recognised using the effective interest method.

Borrowings are classified as current liabilities unless there is an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

### Derivative financial instruments

Derivative financial instruments are measured at fair value.

Derivative financial instruments designated as cash flow hedges are used to mitigate operating and investing transaction exposures to movements in jet fuel prices and currency exchange rates. Hedge accounting is applied to these instruments.

Changes in intrinsic fair value are recognised in other comprehensive income to the extent that the cash flow hedges are determined to be effective. All other changes in fair value are recognised immediately in the income statement. Where the hedged item results in a non-financial asset or liability the accumulated gains and losses previously recognised in other comprehensive income form part of the initial carrying amount of the asset or liability. Otherwise accumulated gains and losses are recognised in the income statement in the same period in which the hedged items affect 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 other comprehensive income until the transaction takes place.

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

### Financial guarantees

If a claim on a financial guarantee given to a third party becomes probable, the obligation is recognised at fair value. For subsequent measurement, the carrying amount is the higher of initial measurement and best estimate of the expenditure required to settle the obligation on the statement of financial position date.

# Notes to the accounts

continued

## 1 Accounting policies continued

### Tax

Tax expense in the income statement consists of current and deferred tax. The charge for current tax is based on the results for the year as adjusted for income that is exempt and expenses that are not deductible using tax rates that are applicable to the taxable income. Tax is recognised in the income statement except when it relates to items credited or charged directly to other comprehensive income or shareholders' equity, in which case it is recognised in other comprehensive income or shareholders' equity.

Deferred tax 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, tax in the future, with the following exceptions:

- where 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 tax arising on investments in subsidiaries is not recognised where easyJet 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 tax is measured on an undiscounted basis 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 tax assets represent amounts recoverable in future periods in respect of deductible temporary differences, losses and tax credits carried forward. Deferred tax assets are recognised to the extent that it is probable that there will be suitable taxable profits from which they can be deducted.

Deferred tax liabilities represent the amount of income taxes payable in future periods in respect of taxable temporary differences.

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

### Aircraft maintenance provisions

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

easyJet has contractual obligations to maintain aircraft held under operating leases. Provisions are created over the term of the lease based on the estimated future costs of major airframe checks, engine shop visits and end of lease liabilities. These costs are discounted to present value where the amount of the discount is considered material.

A number of leases also require easyJet to pay supplemental rent to the lessor. Payments may be either a fixed monthly sum up to a cap or are based on usage. The purpose of these payments is to provide the lessor with collateral should an aircraft be returned in a condition that does not meet the requirements of the lease. Supplemental rent is either refunded when qualifying maintenance is performed, or is offset against end of lease liabilities. Where the amount of supplemental rent paid exceeds the estimated amount recoverable from the lessor, provision is made for the non-recoverable amount.

### Employee benefits

easyJet contributes to defined contribution pension schemes for the benefit of employees. easyJet has no further payment obligations once the contributions have been paid. The assets of the schemes are held separately from those of easyJet in independently administered funds. easyJet's contributions are charged to the income statement in the year in which they are incurred.

The expected cost of compensated holidays is recognised at the time that the related employees' services are provided.

### Share-based payments

easyJet has a number of equity-settled share incentive schemes. The fair value of share options is measured at the date of grant using the Binomial Lattice option pricing model. The fair value of awards under the Long Term Incentive and Share Incentive Plans is the share price at the date of grant.

The fair value of the estimated number of options and awards that are expected to vest is expensed to the income statement on a straight-line basis over the period that employees' services are rendered, with a corresponding increase in shareholders' equity. Where performance criteria attached to the share options and awards are not met, any cumulative expense previously recognised is reversed. The social security obligations payable in connection with grant of the share options is an integral part of the grant itself and the charge is treated as a cash-settled transaction.

easyJet settles share awards under the Long Term Incentive and Share Incentive Plans by purchasing its own shares on the market through employee share trusts. The cost of such purchases is deducted from retained earnings in the period that the transaction occurs.

### Segmental disclosures

easyJet has one operating segment, being its route network, based on management information provided to the Executive Management Team; which is easyJet's Chief Operating Decision Maker. Resource allocation decisions are made for the benefit of the route network as a whole, rather than for individual routes within the network. Performance of the network is assessed based on the consolidated profit or loss before tax for the year.

Revenue is allocated to geographic segments on the following bases:

- Revenue earned from passengers is allocated according to the location of the first departure airport on each booking;
- Commission revenue earned from partners is allocated according to the domicile of each partner.

### Assets held for sale

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

### Impact of new International Financial Reporting Standards

The following standards and interpretations have been implemented for the year ended 30 September 2010:

#### *New and revised standards*

IAS 1	Presentation of Financial Statements (Revised)
IAS 23	Borrowing Costs (Revised)
IAS 27	Consolidated and Separate Financial Statements (Revised)
IFRS 1	First Time Adoption of IFRS (Revised)
IFRS 3	Business Combinations (Revised)
IFRS 8	Operating Segments

#### *Amendments to standards*

IAS 1	Presentation of Financial Statements (Puttable Financial Instruments and Obligations Arising on Liquidation)
IAS 32	Financial Instruments: Presentation (Puttable Financial Instruments and Obligations Arising on Liquidation)
IAS 39	Financial Instruments: Recognition and Measurement (Eligible Hedged Items)
IAS 39	Financial Instruments: Recognition and Measurement (Embedded Derivatives)
IFRS 1	First-time Adoption of IFRS (Investment in Subsidiaries)
IFRS 2	Share-based Payment (Vesting Conditions and Cancellations)
IFRS 7	Financial Instruments: Disclosures (Improving Disclosures about Financial Instruments)
Improvements to IFRS (2007)	
Improvements to IFRS (2009) – items with an effective date of 1 July 2009	

#### *New and revised interpretations*

IFRIC 9	Reassessment of Embedded Derivatives (Amended)
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 17	Distribution of Non-Cash Assets to Owners
IFRIC 18	Transfers of Assets from Customers

The adoption of these standards and interpretations has not led to any changes in accounting policies.

The Directors have concluded that under IFRS 8 easyJet continues to have one operating segment. As a consequence of the adoption of the revised IAS 1, a consolidated statement of changes in equity has been included in the primary statements, showing changes in each component of equity, together with a separate consolidated statement of comprehensive income.



# Notes to the accounts

continued

## 1 Accounting policies *continued*

### New standards and interpretations not applied

The following standards and interpretations have not been applied in preparing these accounts as their effective dates fall in periods beginning after 1 October 2009.

#### Effective for the year ending 30 September 2011

##### Amendments to standards and interpretations

IAS 24 Related Party Disclosures

IAS 32 Financial Instruments: Presentation (Classification of Rights Issues)

IFRS 1 First-time Adoption of IFRS (Additional Exemptions for First-time Adopters)

IFRS 2 Share-based Payment (Group cash-settled share-based payment transactions)

IFRIC 14 Prepayments of a Minimum Funding Requirement

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

Improvements to IFRS (2009) – items with an effective date of 1 January 2010

#### Effective for the year ending 30 September 2012

##### Amendments to standards

Improvements to IFRS (2010)

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on easyJet's accounts. Certain of these standards and interpretations will, when adopted, require addition to or amendment of disclosures in the accounts.

## 2 Net finance charges

	2010 £ million	2009 £ million
<b>Interest receivable and other financing income</b>		
Interest income	(7.1)	(18.4)
Net exchange gains on financing items (note 22)	–	(4.1)
	<b>(7.1)</b>	<b>(22.5)</b>
<b>Interest payable and other financing charges</b>		
Interest payable on bank loans	20.3	26.2
Interest payable on finance lease obligations	2.9	3.9
Other interest payable	(3.7)	(2.2)
Net exchange losses on financing items (note 22)	7.2	–
	<b>26.7</b>	<b>27.9</b>
	<b>19.6</b>	<b>5.4</b>

Other interest payable includes a credit of £6.0 million (2009: £3.3 million) reversing previous interest accruals.

### 3 Profit before tax

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

	2010 £ million	2009 £ million
Depreciation of property, plant and equipment		
Owned assets	<b>68.4</b>	52.0
Assets held under finance leases	<b>4.1</b>	3.4
Loss / (profit) on disposal of property, plant and equipment	<b>1.5</b>	(7.5)
Operating lease rentals		
Aircraft	<b>99.4</b>	125.1
Other assets	<b>3.4</b>	2.7

#### Auditors' remuneration

During the year easyJet obtained the following services from easyJet's auditors and their associates (including foreign partners):

	2010 £ million	2009 £ million
Group audit fee	<b>0.3</b>	0.3
Fees for other services (principally tax services)	<b>0.1</b>	0.1
	<b>0.4</b>	0.4

### 4 Employees

The average number of persons employed by easyJet was:

	2010	2009
Flight and ground operations	<b>6,577</b>	6,186
Sales, marketing and administration	<b>310</b>	292
	<b>6,887</b>	6,478

Employee costs for easyJet were:

	2010 £ million	2009 £ million
Wages and salaries	<b>299.7</b>	279.2
Social security costs	<b>39.2</b>	33.8
Pension costs	<b>23.2</b>	22.5
Share-based payments	<b>4.8</b>	7.4
	<b>366.9</b>	342.9

# Notes to the accounts

continued

## 4 Employees continued

Key management compensation was:

	<b>2010</b> £ million	2009 £ million
Short-term employee benefits	<b>5.6</b>	4.5
Pension costs	<b>0.2</b>	0.2
Payments for loss of office	<b>0.3</b>	–
Share-based payments	<b>1.4</b>	0.7
	<b>7.5</b>	5.4

The Directors of easyJet plc and the other members of the Executive Management Team are easyJet's key management as they have collective authority and responsibility for planning, directing and controlling the business.

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

	<b>2010</b> £ million	2009 £ million
Remuneration	<b>3.5</b>	2.5
Gains made on the exercise of share options	–	0.1
Pension costs – one Director (2009: two Directors)	<b>0.1</b>	0.1
	<b>3.6</b>	2.7

Details of Directors' remuneration are disclosed in the Report on Directors' remuneration.

## 5 Tax charge / (credit)

Tax on profit on ordinary activities

	<b>2010</b> £ million	2009 £ million
<b>Current tax</b>		
United Kingdom corporation tax	–	6.9
Foreign tax	<b>4.7</b>	12.1
Prior year adjustments	<b>(18.4)</b>	(27.4)
Total current tax credit	<b>(13.7)</b>	(8.4)
<b>Deferred tax</b>		
Temporary differences relating to property, plant and equipment	<b>14.6</b>	(13.1)
Other temporary differences	<b>19.0</b>	9.3
Prior year adjustments	<b>15.2</b>	(4.3)
Change in tax rate	<b>(2.4)</b>	–
Total deferred tax charge / (credit)	<b>46.4</b>	(8.1)
	<b>32.7</b>	(16.5)
Effective tax rate	<b>21.2%</b>	(30.2)%

### Reconciliation of the total tax charge / (credit)

The tax for the year is lower than the standard rate of corporation tax in the UK as set out below:

	2010 £ million	2009 £ million
Profit on ordinary activities before tax	<b>154.0</b>	54.7
Tax charge at 28%	<b>43.1</b>	15.3
Attributable to rates other than standard UK rate	<b>(1.7)</b>	(1.3)
Income not chargeable for tax purposes	<b>(6.0)</b>	(2.5)
Expenses not deductible for tax purposes	<b>2.1</b>	2.5
Share-based payments	<b>0.8</b>	1.2
Adjustments in respect of prior years – current tax	<b>(18.4)</b>	(27.4)
Adjustments in respect of prior years – deferred tax	<b>15.2</b>	(4.3)
Change in tax rate	<b>(2.4)</b>	–
	<b>32.7</b>	(16.5)

The prior year adjustments in 2010 reflect the resolution and reassessment of various tax matters following discussions with the UK tax authorities. This has resulted in the net credits to prior year current tax and debits to prior year deferred tax referred to above. During 2009, agreement was reached with the UK tax authorities on certain tax matters, resulting in the release to the income statement of £30.7 million relating to current tax liabilities provided for in prior years.

Current tax liabilities at 30 September 2010 amounted to £27.5 million (2009: £57.7 million), of which £25.6 million relates to years prior to 2010 which remain open with the relevant tax authorities. As in prior years a significant portion of this balance may not be settled in cash but accounted for as a movement in the deferred tax liability. During the year ended 30 September 2010, cash tax paid amounted to £14.1 million (2009: £9.4 million), which principally comprises foreign taxes paid.

### Tax on items recognised directly in other comprehensive income or shareholders' equity

	2010 £ million	2009 £ million
<b>(Charge) / credit to other comprehensive income</b>		
Deferred tax (charge) / credit on fair value movements of cash flow hedges	<b>(22.5)</b>	19.9
<b>(Charge) / credit to shareholders' equity</b>		
Current tax credit on share-based payments	<b>2.2</b>	0.4
Deferred tax (charge) / credit on share-based payments	<b>(2.7)</b>	1.1
	<b>(0.5)</b>	1.5

# Notes to the accounts

continued

## 5 Tax charge / (credit) continued

### Deferred tax

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

	Accelerated capital allowances £ million	Short-term timing differences £ million	Tax losses £ million	Fair value (gains)/losses £ million	Share-based payments £ million	Total £ million
At 1 October 2009	35.5	51.7	(16.0)	11.2	(6.1)	76.3
Charged / (credited) to the income statement	26.2	5.6	15.8	(0.4)	(0.8)	46.4
Charged to other comprehensive income	–	–	–	22.5	–	22.5
Charged to shareholders' equity	–	–	–	–	2.7	2.7
<b>At 30 September 2010</b>	<b>61.7</b>	<b>57.3</b>	<b>(0.2)</b>	<b>33.3</b>	<b>(4.2)</b>	<b>147.9</b>

	Accelerated capital allowances £ million	Short-term timing differences £ million	Tax losses £ million	Fair value (gains)/losses £ million	Share-based payments £ million	Total £ million
At 1 October 2008	49.7	30.3	–	31.1	(3.8)	107.3
Charged / (credited) to the income statement	(14.2)	23.3	(16.0)	–	(1.2)	(8.1)
Transfer from current tax liabilities	–	(1.9)	–	–	–	(1.9)
Credited to other comprehensive income	–	–	–	(19.9)	–	(19.9)
Credited to shareholders' equity	–	–	–	–	(1.1)	(1.1)
<b>At 30 September 2009</b>	<b>35.5</b>	<b>51.7</b>	<b>(16.0)</b>	<b>11.2</b>	<b>(6.1)</b>	<b>76.3</b>

It is estimated that deferred tax liabilities of approximately £12.2 million (2009: assets of £7.4 million) will reverse during the next financial year. Deferred tax assets and liabilities have been offset where they relate to taxes levied by the same taxation authority. There are no unrecognised deferred tax assets.

## 6 Earnings per share

Basic earnings per share has been calculated by dividing the profit for the year by the weighted average number of shares in issue during the year after adjusting for shares held in employee share trusts.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential 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 year, these options are included in the calculation of dilutive potential shares.

Earnings per share is based on:

	<b>2010</b>	2009
	<b>£ million</b>	£ million
Profit for the year	<b>121.3</b>	71.2
	<b>2010</b>	2009
	<b>million</b>	million
Weighted average number of ordinary shares in issue during the year used to calculate basic earnings per share	<b>426.5</b>	421.9
Weighted average number of dilutive share options	<b>6.0</b>	6.4
Weighted average number of ordinary shares used to calculate diluted earnings per share	<b>432.5</b>	428.3
<b>Earnings per share</b>	<b>2010</b>	2009
	<b>pence</b>	pence
Basic	<b>28.4</b>	16.9
Diluted	<b>28.0</b>	16.6

## 7 Goodwill and other intangible assets

	Other intangible assets				Total £ million
	Goodwill £ million	Landing rights £ million	Contractual rights £ million	Computer software £ million	
<b>Cost</b>					
At 1 October 2009	365.4	74.0	2.5	16.7	93.2
Additions	–	–	1.2	–	1.2
Transfer from property, plant and equipment	–	–	–	10.1	10.1
<b>At 30 September 2010</b>	<b>365.4</b>	<b>74.0</b>	<b>3.7</b>	<b>26.8</b>	<b>104.5</b>
<b>Amortisation</b>					
At 1 October 2009	–	–	1.7	9.8	11.5
Charge for the year	–	–	0.7	5.5	6.2
<b>At 30 September 2010</b>	<b>–</b>	<b>–</b>	<b>2.4</b>	<b>15.3</b>	<b>17.7</b>
<b>Net book value</b>					
<b>At 30 September 2010</b>	<b>365.4</b>	<b>74.0</b>	<b>1.3</b>	<b>11.5</b>	<b>86.8</b>
At 1 October 2009	365.4	74.0	0.8	6.9	81.7

	Other intangible assets				Total £ million
	Goodwill £ million	Landing rights £ million	Contractual rights £ million	Computer software £ million	
<b>Cost</b>					
At 1 October 2008	365.4	72.6	2.5	12.6	87.7
Additions	–	1.4	–	4.1	5.5
<b>At 30 September 2009</b>	<b>365.4</b>	<b>74.0</b>	<b>2.5</b>	<b>16.7</b>	<b>93.2</b>
<b>Amortisation</b>					
At 1 October 2008	–	–	0.7	6.4	7.1
Charge for the year	–	–	1.0	3.4	4.4
<b>At 30 September 2009</b>	<b>–</b>	<b>–</b>	<b>1.7</b>	<b>9.8</b>	<b>11.5</b>
<b>Net book value</b>					
<b>At 30 September 2009</b>	<b>365.4</b>	<b>74.0</b>	<b>0.8</b>	<b>6.9</b>	<b>81.7</b>
At 1 October 2008	365.4	72.6	1.8	6.2	80.6

easyJet has one cash-generating unit, being its route network. The recoverable amount of goodwill and other assets with indefinite expected useful lives has been determined based on value in use calculations of the route network.

Pre-tax cash flow projections have been derived from the five-year strategic plan approved by the Board in November 2010, using the following key assumptions:

Pre-tax discount rate (derived from weighted average cost of capital)	9–10%
Fuel price, per metric tonne, in US dollars	720
Exchange rates:	
US dollar	1.50
Euro	1.20
Swiss franc	1.65

Both fuel price and exchange rates are volatile in nature, and the assumptions used represent management's view of reasonable average rates. Operating margins are sensitive to significant changes in these rates.



# Notes to the accounts

continued

## 7 Goodwill and other intangible assets continued

Cash flow projections beyond the forecast period have been extrapolated using growth rate scenarios ranging from zero up to an estimated average of long term economic growth rates for the principal countries in which easyJet operates. No impairment resulted from any of these scenarios.

No reasonably possible combination of changes to the key assumptions above would result in the carrying value of the cash-generating unit exceeding its recoverable amount.

## 8 Property, plant and equipment

	Aircraft £ million	Leasehold improvements £ million	Other £ million	Total £ million
<b>Cost</b>				
At 1 October 2009	1,747.1	12.5	30.1	1,789.7
Additions	441.7	–	9.7	451.4
Aircraft sold and leased back	(51.7)	–	–	(51.7)
Transfer to intangible assets	–	–	(10.1)	(10.1)
Disposals	(7.8)	–	(0.8)	(8.6)
<b>At 30 September 2010</b>	<b>2,129.3</b>	<b>12.5</b>	<b>28.9</b>	<b>2,170.7</b>
<b>Depreciation</b>				
At 1 October 2009	153.3	7.1	17.1	177.5
Charge for the year	69.2	0.7	2.6	72.5
Aircraft sold and leased back	(0.3)	–	–	(0.3)
Disposals	(6.5)	–	(0.6)	(7.1)
<b>At 30 September 2010</b>	<b>215.7</b>	<b>7.8</b>	<b>19.1</b>	<b>242.6</b>
<b>Net book value</b>				
<b>At 30 September 2010</b>	<b>1,913.6</b>	<b>4.7</b>	<b>9.8</b>	<b>1,928.1</b>
At 1 October 2009	1,593.8	5.4	13.0	1,612.2

	Aircraft £ million	Leasehold improvements £ million	Other £ million	Total £ million
<b>Cost</b>				
At 1 October 2008	1,177.8	12.5	26.6	1,216.9
Additions	511.5	–	3.5	515.0
Transfer from assets held for sale	67.9	–	–	67.9
Disposals	(10.1)	–	–	(10.1)
<b>At 30 September 2009</b>	<b>1,747.1</b>	<b>12.5</b>	<b>30.1</b>	<b>1,789.7</b>
<b>Depreciation</b>				
At 1 October 2008	93.1	6.4	14.8	114.3
Charge for the year	52.4	0.7	2.3	55.4
Transfer from assets held for sale	13.0	–	–	13.0
Disposals	(5.2)	–	–	(5.2)
<b>At 30 September 2009</b>	<b>153.3</b>	<b>7.1</b>	<b>17.1</b>	<b>177.5</b>
<b>Net book value</b>				
<b>At 30 September 2009</b>	<b>1,593.8</b>	<b>5.4</b>	<b>13.0</b>	<b>1,612.2</b>
At 1 October 2008	1,084.7	6.1	11.8	1,102.6

During the year ended 30 September 2010, six aircraft were sold and leased back under operating leases. Two of these aircraft were acquired during the year ended 30 September 2009. The amounts shown above under the caption "aircraft sold and leased back" relate to these two aircraft and deposits paid on the other four aircraft before 1 October 2009.

During the year ended 30 September 2009, five A319 aircraft were transferred back to property, plant and equipment from assets held for sale.

The net book value of aircraft includes £153.2 million (2009: £148.5 million) relating to advance and option payments for future deliveries of aircraft. This amount is not depreciated.

Aircraft with a net book value of £1,107.6 million (2009: £984.5 million) are mortgaged to lenders as loan security.

Aircraft with a net book value of £105.4 million (2009: £71.1 million) are held under finance leases.

easyJet is contractually committed to the acquisition of 47 (2009: 74) Airbus A320 family aircraft with a total list price of US\$2.2 billion (2009: US\$3.4 billion) before escalations and discounts, for delivery in the period to May 2013.

## 9 Loan notes

In 2001, easyJet in consortium with six other UK airlines formed The Airline Group Limited in order to acquire a non-controlling interest in NATS, the company that owns the UK air traffic control system. easyJet's investment is principally in the form of unsecured loan notes bearing interest at a fixed rate of 8%. Interest receivable is settled by the issue of additional loan notes. Redemption is governed by a priority agreement among the consortium members.

	2010 £ million	2009 £ million
At 1 October	12.6	12.0
Interest receivable converted to loan notes	1.1	0.9
Redemption of loan notes	(0.6)	(0.3)
<b>At 30 September</b>	<b>13.1</b>	<b>12.6</b>

## 10 Other non-current assets

	2010 £ million	2009 £ million
Recoverable supplemental rent on leased aircraft (pledged as collateral)	48.6	57.3
Deposits held by aircraft lessors	1.1	2.3
Other	3.8	3.1
	<b>53.5</b>	<b>62.7</b>

Supplemental rent is pledged to lessors to provide collateral should an aircraft be returned in a condition that does not meet the requirements of the lease and is refunded when qualifying heavy maintenance is performed, or is offset against the costs incurred at the end of the lease.

## 11 Assets held for sale

Following the acquisition of GB Airways in the year ended 30 September 2008, seven A321 aircraft were classified as assets held for sale.

During the year ended 30 September 2009 three of these aircraft were sold realising a net profit of £11.0 million. At 30 September 2009, easyJet continued to market the remaining four A321 aircraft and although the period over which the assets were classified as held for sale exceeded one year, the Directors considered that this classification remained appropriate.

easyJet has entered into an arrangement to dispose of the remaining four aircraft. Subsequent to the year end, in November 2010, the legal title to these four aircraft was transferred. The total cash consideration to be received is £75.2 million. easyJet has incurred certain costs in connection with the disposal and the aggregate net loss on the disposal of £7.0 million has been charged to the income statement in the year ended 30 September 2010.

# Notes to the accounts

continued

## 12 Trade and other receivables

	2010 £ million	2009 £ million
Trade receivables	<b>76.5</b>	158.4
Less: provision for impairment of trade receivables	<b>(2.8)</b>	(2.9)
	<b>73.7</b>	155.5
Other receivables	<b>30.9</b>	22.8
Recoverable supplemental rent on leased aircraft (pledged as collateral)	<b>13.0</b>	4.5
Prepayments and accrued income	<b>76.5</b>	59.0
	<b>194.1</b>	241.8

Supplemental rent is pledged to lessors to provide collateral should an aircraft be returned in a condition that does not meet the requirements of the lease and is refunded when qualifying heavy maintenance is performed, or is offset against the costs incurred at the end of the lease.

### Allowance for credit losses

Movements in the provision for impairment of trade receivables are shown below:

	2010 £ million	2009 £ million
At 1 October	<b>2.9</b>	2.6
Increase in provision (included in "other costs")	<b>1.0</b>	0.9
Amounts written off	<b>(1.1)</b>	(0.6)
At 30 September	<b>2.8</b>	2.9

Trade receivables are monitored and allowances are created when there is evidence that amounts due, according to the terms of the receivable, may not be collected.

The following amounts of trade and other receivables are past due but not impaired:

	2010 £ million	2009 £ million
Up to three months past due	<b>21.5</b>	21.1
Over three months past due	<b>0.1</b>	0.3
	<b>21.6</b>	21.4

With respect to trade receivables that are neither impaired nor past due, there are no indications at the reporting date that the payment obligations will not be met. Amounts due from trade receivables are short term in nature and largely comprise credit card receivables due from financial institutions with credit ratings of at least A and, accordingly, the possibility of significant default is considered to be unlikely.

## 13 Cash and money market deposits

	2010 £ million	2009 £ million
Cash and cash equivalents (original maturity less than three months)	<b>911.9</b>	788.6
Money market deposits (original maturity over three months)	<b>260.0</b>	286.3
Current restricted cash	<b>23.1</b>	24.3
Non-current restricted cash	<b>32.5</b>	48.0
	<b>1,227.5</b>	1,147.2

Interest rates on money market deposits and restricted cash are repriced within 185 days based on prevailing market rates of interest. Carrying value is not significantly different from fair value.

Restricted cash comprises:

	2010 £ million	2009 £ million
Customer payments for packaged holidays	<b>18.0</b>	23.4
Pledged as collateral to third parties:		
Aircraft operating lease deposits	<b>29.7</b>	44.4
Other	<b>7.9</b>	4.5
	<b>55.6</b>	72.3

## 14 Trade and other payables

	2010 £ million	2009 £ million
Trade payables	<b>79.2</b>	99.2
Unearned revenue	<b>356.5</b>	324.3
Accruals and deferred income	<b>328.2</b>	255.8
Other taxes and social security	<b>9.2</b>	7.8
Other creditors	<b>55.6</b>	63.6
	<b>828.7</b>	750.7

## 15 Borrowings

	Current £ million	Non-current £ million	Total £ million
<b>At 30 September 2010</b>			
Bank loans	<b>121.8</b>	<b>935.2</b>	<b>1,057.0</b>
Finance lease obligations	<b>5.6</b>	<b>149.4</b>	<b>155.0</b>
	<b>127.4</b>	<b>1,084.6</b>	<b>1,212.0</b>
<b>At 30 September 2009</b>			
Bank loans	113.8	896.9	1,010.7
Finance lease obligations	3.8	106.1	109.9
	117.6	1,003.0	1,120.6

Bank loans, which bear interest at variable rates linked to LIBOR, were drawn down to finance the acquisition of aircraft that have been mortgaged to the lender to provide security. None of the agreements contain financial covenants to be met.

Finance lease obligations relate to aircraft and bear interest partly at fixed rates and partly at variable rates linked to LIBOR.

The maturity profile of borrowings is set out in note 23.

## 16 Non-current deferred income

Deferred income principally comprises the non-current excess of sale proceeds over fair value of aircraft that have been sold and leased back under operating leases. This balance will be realised in the income statement over the next eight years.

# Notes to the accounts

continued

## 17 Maintenance provisions

£ million

At 1 October 2009	213.7
Exchange adjustments	3.0
Charged to income statement	50.5
Utilised in the year	(51.7)
<b>At 30 September 2010</b>	<b>215.5</b>

Maintenance provisions are analysed as follows:

	<b>2010</b> £ million	2009 £ million
Current	<b>71.4</b>	45.1
Non-current	<b>144.1</b>	168.6
	<b>215.5</b>	213.7

The provision for maintenance liabilities is expected to be utilised within eight years.

## 18 Share capital

	<b>2010</b> million	Number 2009 million	<b>2010</b> £ million	Value 2009 £ million
<b>Authorised</b>				
At beginning and end of the year, ordinary shares of 25 pence each	<b>500.0</b>	500.0	<b>125.0</b>	125.0
<b>Allotted, called up and fully paid</b>				
At 1 October	<b>424.9</b>	422.7	<b>106.0</b>	105.7
Issued during the year under share incentive schemes	<b>4.6</b>	2.2	<b>1.3</b>	0.3
<b>At 30 September</b>	<b>429.5</b>	424.9	<b>107.3</b>	106.0

The weighted average share price for options exercised during the year was £4.01 (2009: £3.09).

easyJet's employee share trusts hold the following shares. The cost of these has been deducted from retained earnings:

	<b>2010</b>	2009
Number of shares (million)	<b>1.4</b>	2.0
Cost (£ million)	<b>5.9</b>	9.7
Market value (£ million)	<b>5.2</b>	7.5

## 19 Share incentive schemes

easyJet operates the following share incentive schemes, all of which are equity-settled. The change in the number of awards outstanding and weighted average exercise prices during the year, and the number exercisable at each year end were as follows:

Awards by grant date	1 October 2009 million	Granted million	Forfeited million	Lapsed million	Exercised million	Expired million	30 September 2010 million
<b>Pre-flotation scheme</b>							
29 February 2000	3.3	–	–	–	(3.1)	(0.2)	–
26 September 2000	0.5	–	–	–	(0.4)	(0.1)	–
<b>Discretionary schemes</b>							
18 January 2001	0.1	–	–	–	–	–	<b>0.1</b>
19 January 2004	0.5	–	(0.1)	–	–	–	<b>0.4</b>
8 December 2004	3.8	–	–	–	(0.9)	–	<b>2.9</b>
1 December 2005	0.4	–	–	–	–	–	<b>0.4</b>
<b>Long Term Incentive Plan</b>							
1 December 2006	0.6	–	–	(0.6)	–	–	–
3 December 2007	0.7	–	(0.3)	–	–	–	<b>0.4</b>
29 February 2008	0.2	–	–	–	–	–	<b>0.2</b>
16 January 2009	2.1	–	(0.6)	–	–	–	<b>1.5</b>
16 December 2009	–	1.6	(0.1)	–	–	–	<b>1.5</b>
5 July 2010	–	0.5	–	–	–	–	<b>0.5</b>
<b>Sharesave</b>							
2 June 2006	0.2	–	–	–	(0.2)	–	–
8 June 2007	0.3	–	–	–	–	–	<b>0.3</b>
6 June 2008	3.1	–	(0.2)	–	–	–	<b>2.9</b>
5 June 2009	1.4	–	(0.2)	–	–	–	<b>1.2</b>
10 June 2010	–	0.6	–	–	–	–	<b>0.6</b>
<b>Share incentive plan</b>	<b>2.2</b>	<b>0.3</b>	<b>(0.1)</b>	<b>–</b>	<b>(0.1)</b>	<b>–</b>	<b>2.3</b>
	<b>19.4</b>	<b>3.0</b>	<b>(1.6)</b>	<b>(0.6)</b>	<b>(4.7)</b>	<b>(0.3)</b>	<b>15.2</b>

Weighted average exercise prices	1 October 2009 £	Granted £	Forfeited £	Lapsed £	Exercised £	Expired £	30 September 2010 £
Pre-flotation scheme	1.66	–	–	–	1.65	1.73	–
Discretionary schemes	2.16	–	2.69	–	1.89	–	<b>2.21</b>
Sharesave	2.56	3.49	2.70	–	2.59	–	<b>2.66</b>

The exercise price for all awards save those disclosed in the above table is £nil.

# Notes to the accounts

continued

## 19 Share incentive schemes continued

The number of awards exercisable at each year end and their weighted average exercise price is as follows:

Awards exercisable	Price (£)		Number (million)	
	2010	2009	2010	2009
Pre-flotation scheme	–	1.66	–	3.8
Discretionary schemes	<b>2.21</b>	2.16	<b>3.8</b>	4.8
Sharesave	<b>4.79</b>	2.56	<b>0.3</b>	0.2
Share incentive plan	–	–	<b>0.7</b>	0.2
			<b>4.8</b>	9.0

The weighted average remaining contractual life for each class of share award at 30 September 2010 is as follows:

	Years
Discretionary schemes	4.1
Long Term Incentive Plan	2.1
Sharesave	1.8
Share incentive plan	1.0

### Pre-flotation scheme

Options vested in tranches of 25% ending on the third anniversary of easyJet's admission to the Official List on 22 November 2000, and have now expired.

### Discretionary schemes

Options awarded in 2001 in connection with easyJet's admission to the Official List had a three year vesting period and no performance conditions.

All other awards had a three year vesting period and performance conditions based on growth in earnings per share. All options expire ten years after grant.

### Long Term Incentive Plan

The plan is open, by invitation, to Executive Directors and senior management, and provides for annual awards of performance shares worth up to 200% of salary each year and matching shares linked to the investment of up to 50% of annual bonus in easyJet shares. The vesting of these awards is dependent on return on equity targets being achieved.

### Sharesave

Sharesave is open to all employees on the UK payroll. 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 discount of 20% from market price 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.

Employees who are not paid through the UK payroll may save under similar terms and conditions, albeit without tax benefits.

### Share incentive plan

The share incentive plan is open to all employees on the UK payroll. Participants may invest up to £1,500 of their pre-tax salary each year to purchase partnership shares in easyJet. For each partnership share acquired easyJet purchases a matching share. Employees must remain with easyJet for three years from the date of purchase of each partnership share in order to qualify for the matching share, and for five years for the shares to be transferred to them tax free. The employee is entitled to dividends and to vote at shareholder meetings.

Employees on the Swiss payroll may save under similar terms and conditions, albeit without tax benefits.



The fair value of grants under the discretionary and sharesave schemes is estimated by applying the Binomial Lattice option pricing model using the following key assumptions. The fair value of grants under all other schemes is the share price on the date of grant.

<b>Awards by grant date</b>	Share price (£)	Exercise price (£)	Expected volatility (%)	Option life (years)	Risk-free interest rate (%)	Fair value (£)
<b>Discretionary schemes</b>						
19 January 2004	3.80	3.60	40%	6.5	4.62%	1.90
8 December 2004	1.81	1.84	42%	6.5	4.45%	0.88
1 December 2005	3.42	3.30	42%	6.5	4.15%	1.42
<b>Long Term Incentive Plan</b>						
1 December 2006	5.95	–	–	–	–	5.95
3 December 2007	5.63	–	–	–	–	5.63
29 February 2008	4.33	–	–	–	–	4.33
16 January 2009	2.88	–	–	–	–	2.88
16 December 2009 and 5 July 2010	3.49	–	–	–	–	3.49
<b>Sharesave</b>						
2 June 2006	3.66	2.61	42%	3.5	4.68%	1.79
8 June 2007	5.19	4.79	32%	3.5	5.76%	1.82
6 June 2008	2.86	2.40	41%	3.5	4.92%	1.16
5 June 2009	3.02	2.43	53%	3.5	2.52%	1.40
10 June 2010	4.36	3.49	53%	3.5	1.20%	1.96
<b>Share incentive plan</b>	2.71–7.27	–	–	–	–	2.71–7.27

Share price is the closing share price from the last working day prior to the date of grant.

Exercise price for the discretionary schemes was determined using a five-day weighted average price. For the Sharesave scheme, a 20% discount has been given between share price and exercise price.

Expected volatility is based on historical volatility over a period comparable to the expected life of each type of option.

In all cases the assumed dividend yield is zero as easyJet does not currently pay dividends.

Levels of early exercises and lapses are estimated using historical averages.

The weighted average fair value of shares granted under the share incentive plan during the year was £4.15 (2009: £3.00).

# Notes to the accounts

continued

## 20 Reconciliation of operating profit to cash generated from operations

	2010 £ million	2009 £ million
Operating profit	<b>173.6</b>	60.1
<b>Adjustments for non-cash items:</b>		
Depreciation	<b>72.5</b>	55.4
Loss / (profit) on disposal of property, plant and equipment	<b>1.5</b>	(7.5)
Loss / (profit) on disposal of assets held for sale	<b>7.0</b>	(11.0)
Amortisation of intangible assets	<b>6.2</b>	4.4
Share-based payments	<b>4.8</b>	7.4
Derivative financial instruments – time value	<b>–</b>	0.3
Unrealised foreign exchange differences	<b>(3.1)</b>	(6.2)
<b>Changes in working capital and other items of an operating nature</b>		
Decrease in trade and other receivables	<b>43.4</b>	3.2
Increase in trade and other payables	<b>44.9</b>	104.9
Decrease in provisions	<b>(1.2)</b>	(27.8)
Decrease / (increase) in other non-current assets	<b>9.2</b>	(1.6)
Decrease / (increase) in derivative financial instruments	<b>2.0</b>	(0.9)
Increase / (decrease) in non-current deferred income	<b>4.0</b>	(16.2)
	<b>364.8</b>	164.5

## 21 Reconciliation of net cash flow to movement in net debt

	1 October 2009 £ million	Exchange differences £ million	Loan issue costs £ million	Net cash flow £ million	30 September 2010 £ million
Cash and cash equivalents	788.6	9.1	–	114.2	<b>911.9</b>
Money market deposits	286.3	4.8	–	(31.1)	<b>260.0</b>
	1,074.9	13.9	–	83.1	<b>1,171.9</b>
Bank loans	(1,010.7)	(21.0)	(0.4)	(24.9)	<b>(1,057.0)</b>
Finance lease obligations	(109.9)	(2.0)	–	(43.1)	<b>(155.0)</b>
	(1,120.6)	(23.0)	(0.4)	(68.0)	<b>(1,212.0)</b>
<b>Net debt (non-GAAP measure)</b>	<b>(45.7)</b>	<b>(9.1)</b>	<b>(0.4)</b>	<b>15.1</b>	<b>(40.1)</b>

## 22 Financial instruments

### Carrying value and fair value of financial assets and liabilities

The fair values of financial assets and liabilities, together with carrying values, at each reporting date are as follows:

	Amortised cost		Held at fair value			Carrying value £ million	Fair value £ million
	Loans and receivables £ million	Financial liabilities £ million	Cash flow hedge £ million	Held for trading £ million	Other £ million		
<b>At 30 September 2010</b>							
Loan notes	13.1	–	–	–	–	13.1	13.4
Other non-current assets	49.7	–	–	–	3.8	53.5	53.5
Trade and other receivables	129.9	–	–	–	64.2	194.1	194.1
Trade and other payables	–	(398.8)	–	–	(429.9)	(828.7)	(828.7)
Derivative financial instruments	–	–	48.5	(1.3)	–	47.2	47.2
Restricted cash	55.6	–	–	–	–	55.6	55.6
Money market deposits	260.0	–	–	–	–	260.0	260.0
Cash and cash equivalents	911.9	–	–	–	–	911.9	911.9
Borrowings	–	(1,212.0)	–	–	–	(1,212.0)	(1,220.9)

	Amortised cost		Held at fair value			Carrying value £ million	Fair value £ million
	Loans and receivables £ million	Financial liabilities £ million	Cash flow hedge £ million	Held for trading £ million	Other £ million		
<b>At 30 September 2009</b>							
Loan notes	12.6	–	–	–	–	12.6	12.9
Other non-current assets	59.6	–	–	–	3.1	62.7	62.7
Trade and other receivables	193.1	–	–	–	48.7	241.8	241.8
Trade and other payables	–	(338.6)	–	–	(412.1)	(750.7)	(750.7)
Derivative financial instruments	–	–	(30.6)	12.7	–	(17.9)	(17.9)
Restricted cash	72.3	–	–	–	–	72.3	72.3
Money market deposits	286.3	–	–	–	–	286.3	286.3
Cash and cash equivalents	788.6	–	–	–	–	788.6	788.6
Borrowings	–	(1,120.6)	–	–	–	(1,120.6)	(1,132.3)

Amounts disclosed in the “other” column are items that do not meet the definition of a financial instrument. They are disclosed to facilitate reconciliation of the carrying values of financial instruments to line items presented in the statement of financial position.

### Fair value calculation methodology

Derivative financial instruments are forward contracts and are valued based on market rates and market-accepted models. Fair value for financial instruments held at amortised cost has been estimated by discounting cash flows at prevailing interest rates and by applying year end exchange rates.

# Notes to the accounts

continued

## 22 Financial instruments continued

### Fair value of derivative financial instruments

At 30 September 2010	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
<b>Forward contracts</b>						
Designated as cash flow hedges:						
US dollar	911.3	1.6	13.7	(3.9)	(2.2)	9.2
Euro	263.3	2.5	11.6	–	–	14.1
Swiss franc	69.0	–	–	(0.6)	–	(0.6)
Jet fuel	1.5	4.1	27.3	(3.8)	(1.8)	25.8
Designated as held for trading:						
US dollar	1,055.0	–	–	(1.3)	–	(1.3)
		<b>8.2</b>	<b>52.6</b>	<b>(9.6)</b>	<b>(4.0)</b>	<b>47.2</b>

At 30 September 2009	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
<b>Forward contracts</b>						
Designated as cash flow hedges:						
US dollar	874.2	2.5	37.4	(6.2)	(0.7)	33.0
Euro	200.0	–	0.1	(15.4)	–	(15.3)
Jet fuel	1.2	5.3	17.8	(69.5)	(1.9)	(48.3)
Designated as held for trading:						
US dollar	825.0	–	12.7	–	–	12.7
		<b>7.8</b>	<b>68.0</b>	<b>(91.1)</b>	<b>(2.6)</b>	<b>(17.9)</b>

For currency contracts, quantity represents the nominal value of currency contracts held, disclosed in the contract currency. For jet fuel contracts, quantity represents contracted metric tonnes.

All derivative financial instruments are in level 2 of the IFRS 7 fair value hierarchy.

#### Derivatives designated as cash flow hedges

All derivatives to which hedge accounting is applied are designated as cash flow hedges.

Changes in fair value are recognised directly in other comprehensive income, to the extent that they are effective, with the ineffective portion being recognised in the income statement.

Where the hedged item is a non financial asset or liability, the accumulated gains and losses previously recognised in other comprehensive income are included in the carrying value of that asset or liability. Otherwise accumulated gains and losses are recognised in the income statement in the same period in which the hedged items affects the income statement.

easyJet uses forward contracts to hedge US dollar transaction currency risk (comprising fuel, leasing and maintenance payments and, in the prior year only, capital expenditure), jet fuel price risk and euro and Swiss franc revenues. Where these hedges are assessed as highly effective, gains and losses are deferred in other comprehensive income and transferred to the income statement or cost of property, plant and equipment when the related cash flow occurs.

The cumulative net gains / (losses) deferred in shareholders' equity and their expected maturities are as follows:

<b>At 30 September 2010</b>	<b>Within 1 year £ million</b>	<b>1–2 years £ million</b>	<b>Total £ million</b>
Hedges of transaction currency risk	<b>20.4</b>	<b>1.8</b>	<b>22.2</b>
Hedges of jet fuel price risk	<b>23.5</b>	<b>2.3</b>	<b>25.8</b>
	<b>43.9</b>	<b>4.1</b>	<b>48.0</b>
Related deferred tax			<b>(13.2)</b>
Net gains			<b>34.8</b>

<b>At 30 September 2009</b>	<b>Within 1 year £ million</b>	<b>1–2 years £ million</b>	<b>Total £ million</b>
Hedges of transaction currency risk	13.4	1.8	15.2
Hedges of jet fuel price risk	(53.1)	4.7	(48.4)
	(39.7)	6.5	(33.2)
Related deferred tax			9.3
Net losses			(23.9)

	<b>2010 £ million</b>	2009 £ million
Gains / (losses) on cash flow hedges recycled from other comprehensive income into income statement captions:		
Revenue	<b>1.3</b>	(30.5)
Fuel	<b>1.1</b>	(209.3)
Maintenance	<b>0.5</b>	1.3
Other costs	<b>0.3</b>	1.4
Profit on disposal of assets held for sale	–	(4.4)
Aircraft dry leasing	<b>5.2</b>	13.2
	<b>8.4</b>	(228.3)

#### Derivatives designated as held for trading

easyJet has material net monetary liabilities denominated in US dollars at each balance sheet date. In accordance with IAS 21, monetary assets and liabilities are revalued using exchange rates at the balance sheet date. This exposure is managed by the use of forward foreign exchange contracts.

The net US dollar position at each balance sheet date was as follows:

	<b>2010 \$ million</b>	2009 \$ million
Cash and money market deposits	<b>708.9</b>	896.4
Borrowings	<b>(1,571.0)</b>	(1,498.9)
Maintenance provisions	<b>(299.0)</b>	(289.5)
Other	<b>78.4</b>	97.1
Net monetary liabilities	<b>(1,082.7)</b>	(794.9)
Forward US dollar contracts	<b>1,055.0</b>	825.0
	<b>(27.7)</b>	30.1

# Notes to the accounts

continued

## 22 Financial instruments continued

Amounts recorded in the income statement in respect of revaluation of monetary assets and liabilities and the gains and losses on derivatives designated as held for trading are as follows:

	2010 £ million	2009 £ million
<b>Operating profit (in "other costs")</b>		
Unrealised revaluation gains on non-derivative financial instruments	<b>8.5</b>	30.9
Unrealised revaluation losses on other monetary assets and liabilities	<b>(3.0)</b>	(25.9)
Realised foreign exchange gains / (losses) on financial instruments	<b>1.5</b>	(16.4)
Unrealised (losses) / gains on derivatives	<b>(2.5)</b>	1.3
Realised gains on derivatives	<b>3.9</b>	16.6
	<b>8.4</b>	6.5
<b>Net finance charges</b>		
Unrealised revaluation (losses) / gains on non-derivative financial instruments	<b>(16.1)</b>	12.8
Unrealised (losses) / gains on derivatives	<b>(11.5)</b>	10.1
Realised gains / (losses) on derivatives	<b>20.4</b>	(18.8)
	<b>(7.2)</b>	4.1
<b>Net gains</b>	<b>1.2</b>	10.6

## 23 Financial risk and capital management

easyJet is exposed to financial risks including fluctuations in exchange rates, jet fuel prices and interest rates. Financial risk management aims to limit these market risks with selected derivative hedging instruments being used for this purpose. easyJet policy is not to trade in derivatives but to use the instruments to hedge anticipated exposure. Gains and losses arising on derivative financial instruments designated as hedging instruments are offset by the outcome of the underlying exposure being hedged. In addition to market risks, easyJet is exposed to credit and liquidity risk.

The Board is responsible for setting financial risk and capital management policy and objectives which are implemented by the treasury function on a day-to-day basis. The policy outlines the approach to risk management and also states the instruments and time periods which the treasury function is authorised to use in managing financial risks. The policy is regularly reviewed to ensure best practice, however there have been no significant changes during the current year.

### Capital management

The objective of capital management is to ensure that easyJet is able to continue as a going concern whilst delivering shareholder expectations of a strong capital base as well as returning benefits for other stakeholders and optimising the cost of capital.

easyJet manages its capital structure in response to changes in both economic conditions and strategic objectives. The cash and net debt position, together with the maturity profile of existing debt, is monitored to ensure the continuity of funding. During the year funding totalling \$837 million was put in place of which \$333 million was utilised during the year.

The principal measure used by easyJet to manage capital risk is the gearing ratio of debt (defined as debt plus seven times aircraft operating lease payments less cash, including money market deposits and restricted cash) to shareholders' equity. Gearing decreased in the year from 38% to 32%, principally due to the strong operating cash flow.

### Liquidity risk management

The objective of liquidity risk management is to ensure sufficient cash resources and the availability of funding as required. easyJet holds financial assets either for which there is a liquid market or which are expected to generate cash inflows that are available to meet liquidity needs.

easyJet continues to hold significant cash and liquid funds to mitigate the impact of potential business disruption events with policy stating an absolute minimum level of liquidity that must be maintained at all times. Total cash (including restricted cash) and money market deposits at 30 September 2010 was £1,227.5 million (2009: £1,147.2 million). Surplus funds are invested in high quality short-term liquid instruments, usually money market funds or bank deposits.

In addition, easyJet has committed undrawn bank facilities of \$754 million (2009: \$528 million), comprising a \$250 million revolving credit facility and \$504 million of mortgage and finance lease facilities available to finance a significant proportion of the aircraft due to be delivered during the next eighteen months. Since the year end further funding totalling \$237 million has been arranged.

The maturity profile of financial liabilities based on estimated undiscounted gross cash flows and contractual maturities is as follows:

<b>30 September 2010</b>	<b>Within 1 year £ million</b>	<b>1–2 years £ million</b>	<b>2–5 years £ million</b>	<b>Over 5 years £ million</b>
Borrowings	<b>148.1</b>	<b>158.6</b>	<b>444.1</b>	<b>572.9</b>
Trade and other payables	<b>398.8</b>	–	–	–
Derivative contracts – receipts	<b>(1,838.0)</b>	<b>(368.8)</b>	–	–
Derivative contracts – payments	<b>1,844.1</b>	<b>390.8</b>	–	–

<b>30 September 2009</b>	Within 1 year £ million	1–2 years £ million	2–5 years £ million	Over 5 years £ million
Borrowings	138.5	150.5	418.9	525.1
Trade and other payables	338.6	–	–	–
Derivative contracts – receipts	(1,482.2)	(217.7)	–	–
Derivative contracts – payments	1,541.3	232.8	–	–

The maturity profile has been calculated based on spot rates for the US dollar, euro, Swiss franc and jet fuel at close of business on 30 September each year.

### Credit risk management

easyJet is exposed to credit risk arising from liquid funds, derivative financial instruments and trade and other receivables. Credit risk management aims to reduce the risk of default through setting credit exposure limits to counterparties based on credit ratings, which also determine the maximum period of investment. Counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the probability of material loss arising in the event of non-performance by counterparties is considered to be low.

Credit risk is limited to the carrying amount recognised at the balance sheet date. Disclosure relating to the credit quality of trade and other receivables is detailed in note 12. The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counterparties are reputable banks with external credit ratings. For deposits with financial institutions, internal limits are placed on the maximum exposure to individual counterparties and a minimum external credit rating of A is required.

### Foreign currency risk management

The principal exposure to currency exchange rates arises from fluctuations in both the US dollar and euro rates which impact operating, financing and investing activities. The aim of foreign currency risk management is to reduce the impact of exchange rate volatility on the results of easyJet. Foreign exchange exposure arising from transactions in various currencies is reduced through a policy of matching, as far as possible, receipts and payments in each individual currency. Any remaining significant anticipated exposure is managed through the use of forward foreign exchange contracts. In addition, easyJet has substantial US dollar balance sheet liabilities, partly offset by holding US dollar cash; any residual net liability is managed through the use of forward foreign exchange contracts.

### Financing and interest rate risk management

Interest rate cash flow risk arises on floating rate borrowings and cash investments.

Interest rate risk management policy aims to provide certainty in a proportion of financing while retaining the opportunity to benefit from interest rate reductions. Interest rate policy is used to achieve the desired mix of fixed and floating rate debt. All borrowings are at floating interest rates repricing every three to six months. A significant proportion of US dollar loans by value are matched with US dollar cash, with the cash being invested to coincide with the repricing of the debt. Operating leases are a mix of fixed and floating rates. Of the operating leases in place at 30 September 2010 approximately 66% of lease payments were based on fixed interest rates and 34% were based on floating interest rates (2009: 60% fixed, 40% floating).

All debt is asset related, reflecting the capital intensive nature of the airline industry and the attractiveness of aircraft as security to lenders. These factors are also reflected in the medium term profile of easyJet's borrowings and operating leases. During the year nine aircraft were cash acquired (2009: four aircraft).



# Notes to the accounts

continued

## 23 Financial risk and capital management continued

### Fuel price risk management

easyJet is exposed to fuel price risk. The objective of the fuel price risk management policy is to provide protection against sudden and significant increases in jet fuel prices, thus mitigating volatility in the income statement in the short term. In order to manage the risk exposure, forward contracts are used in line with policy to hedge between 50% and 80% of estimated exposures up to 12 months in advance, and to hedge between 20% and 50% of estimated exposures from 13 up to 24 months in advance. In exceptional market conditions, the Board may accelerate or limit the implementation of the hedging policy.

### Market risk sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits, trade and other receivables, trade and other payables and derivative financial instruments. The following analysis illustrates the sensitivity of such financial instruments to changes in relevant foreign exchange rates, interest rates and fuel prices. It should be noted that the analysis reflects the impact on profit or loss after tax for the year and other comprehensive income on financial instruments held at the reporting date. It does not reflect changes in revenue or costs that may result from changing currency rates, interest rates or fuel prices. Sensitivity is calculated based on all other variables remaining constant. The analysis is considered representative of easyJet's exposure over the 12 month period.

The currency sensitivity analysis is based on easyJet's foreign currency financial instruments held at each balance sheet date taking into account forward exchange contracts that offset effects from changes in currency exchange rates. The increased sensitivity in the US dollar and euro rate represents sterling weakening against each variable currency with the -10% sensitivity reflecting stronger sterling.

The interest rate analysis assumes a 1% change in interest rates over the reporting year applied to end of year financial instruments.

The fuel price sensitivity analysis is based on easyJet's fuel related derivative financial instruments held at the end of each reporting period.

The impact of a 1% increase in interest rates and a 10% increase in the fuel price is disclosed. A corresponding decrease results in an equal and opposite impact on the income statement and other comprehensive income in both reporting periods.

Sensitivities are calculated based on a reasonably possible change in the rate applied to the value of financial instruments held at each balance sheet date.

	Currency rates					
	US dollar +10% £ million	US dollar -10% £ million	Euro +10% £ million	Euro -10% £ million	Interest rates 1% increase £ million	Fuel price 10% increase £ million
<b>At 30 September 2010</b>						
Income statement impact: gain / (loss)	12.5	(15.0)	(4.2)	5.3	0.6	-
Impact on other comprehensive income: increase / (decrease)	42.7	(52.1)	(13.6)	19.5	-	46.9

	Currency rates					
	US dollar +10% £ million	US dollar -10% £ million	Euro +10% £ million	Euro -10% £ million	Interest rates 1% increase £ million	Fuel price 10% increase £ million
<b>At 30 September 2009</b>						
Income statement impact: gain / (loss)	17.9	(13.8)	(1.1)	0.9	0.4	-
Impact on other comprehensive income: increase / (decrease)	44.9	(37.6)	(14.5)	12.0	-	31.4

The market risk sensitivity analysis has been calculated based on spot rates for the US dollar, euro and jet fuel at close of business on 30 September each year.

## 24 Leasing commitments

### Commitments under operating leases

	Aircraft		Other assets	
	2010 £ million	2009 £ million	2010 £ million	2009 £ million
<b>Total commitments under non-cancellable operating leases due:</b>				
Not later than one year	<b>97.3</b>	101.0	<b>2.0</b>	2.3
Later than one year and not later than five years	<b>238.5</b>	223.0	<b>3.0</b>	3.7
Later than five years	<b>50.4</b>	37.9	<b>3.1</b>	3.5
	<b>386.2</b>	361.9	<b>8.1</b>	9.5

easyJet holds 62 aircraft (2009: 68 aircraft) under operating leases, with initial lease terms ranging from seven to ten years. easyJet is contractually obliged to carry out maintenance on these aircraft, and the cost of this is provided based on the number of flying hours and cycles operated. Further details are given in the critical accounting policies section of note 1.

### Commitments under finance leases

	2010 £ million	2009 £ million
<b>Minimum lease payments fall due as follows:</b>		
Not later than one year	<b>9.4</b>	6.6
Later than one year and not later than five years	<b>41.2</b>	28.7
Later than five years	<b>129.4</b>	92.3
	<b>180.0</b>	127.6
Future finance charges on finance leases	<b>(25.0)</b>	(17.7)
<b>Carrying value of finance lease liabilities</b>	<b>155.0</b>	109.9

easyJet holds eight aircraft under finance leases with ten year initial lease terms. Further details are given in note 15.

# Notes to the accounts

continued

## 25 Contingent liabilities

easyJet is involved in various disputes or litigation in the normal course of business. Whilst the result of such disputes cannot be predicted with certainty, management considers that the ultimate resolution of these disputes will not have a material effect on easyJet's financial position, results or cash flows.

At 30 September 2010 easyJet had outstanding letters of credit, guarantees and performance bonds totalling £32.1 million (2009: £29.4 million), of which £27.7 million (2009: £28.7 million) expires within one year. The fair value of these instruments at each year end was negligible.

No amount is recognised on the statement of financial position in respect of any of these financial instruments as it is not probable that there will be an outflow of resources.

## 26 Geographical revenue analysis

	<b>2010</b>	2009
	<b>£ million</b>	£ million
United Kingdom	<b>1,422.7</b>	1,323.4
Southern Europe	<b>1,022.5</b>	888.0
Northern Europe	<b>504.1</b>	437.2
Other	<b>23.8</b>	18.2
	<b>2,973.1</b>	2,666.8

Southern Europe comprises countries lying wholly or mainly south of the border between Italy and Switzerland, plus France.

easyJet's non-current assets principally comprise its fleet of aircraft (including 62 held under operating leases). All of these aircraft are registered in the United Kingdom except for 15 registered in Switzerland. These assets are used flexibly across the entire route network, and accordingly there is no suitable basis for allocating them to geographic segments.

## 27 Subsequent events

On 11 October 2010, easyJet announced that, subject to shareholder approval in an Extraordinary General Meeting ('EGM'), agreement had been reached to resolve its ongoing dispute with easyGroup IP Licensing Ltd ('easyGroup') and Sir Stelios Haji-loannou over the terms and operation of the 'easyJet' brand licence.

Under the present brand licence terms, the Company pays easyGroup an annual fee of £1 for use of the 'easyJet' brand, but is subject to certain limitations, for example, in relation to the extent of revenues to be derived from ancillary activities (the '75/25 rule'). In addition easyJet has made contributions totalling £0.4 million in the last two years towards the costs incurred by easyGroup in protecting the 'easy' brand name.

In addition, easyGroup currently has the right to appoint up to two non-executive directors of the Company and Sir Stelios Haji-loannou has the right to appoint himself Chairman of the Company. At the forthcoming EGM a special resolution will be proposed to amend the Articles of Association of the Company to remove these rights. If this resolution is passed, easyGroup will have no rights beyond those afforded to an equivalent shareholder by the general law.

The principal effects of the variations to the brand licence are as follows:

- The Company will continue to have exclusive worldwide rights to use the easyJet brand in relation to operating passenger carrying flights using fixed wing aircraft under an AOC for a period of 50 years;
- The Company will commit to the brand for a minimum of ten years, with any earlier termination requiring a payment to easyGroup of the residue of the 10-year royalty (based on a set formula);
- The Company will pay an annual royalty of 0.25% of total revenue, fixed at £3.9 million for the year ending 30 September 2011 and £4.95 million for the year ending 30 September 2012;
- The 75/25 Rule and other commercial and operational freedoms and limitations will be replaced by various new rights, freedoms and limitations on the conduct its commercial operations to the mutual benefit of both the Company and easyGroup;
- The Company will adopt certain service level indices. The service levels will be reviewed annually and performance against these will be reported to easyGroup on a monthly basis. Failure to meet service levels will entitle easyGroup to serve a cure notice and ultimately a termination notice for continued failure to comply;
- There will be a new brand protection regime whereby enforcement costs to protect the 'easy' and 'easyJet' brands will be shared between the Company and easyGroup in a ratio of 10:1 up to a combined cost contribution of £5.5 million per annum for any individual action. All costs over this limit will be met by the Company, which will then have the right to conduct any such actions; and
- easyGroup will have greater freedom to license or use the 'easy' brand to provide tour operator, travel agency and flight price comparison services potentially in competition with easyJet.

Sir Stelios Haji-loannou has entered into a separate agreement under which, in return for a fee of £300,000 per annum for a period of five years from 1 October 2010, he has undertaken:

- To procure that easyGroup does not license the 'easy' brand to an ATOL holder on terms permitting the sale of airline seats for a period of 12 months;
- Not to sell the shares in easyGroup or the easyJet brand or any part of it for a period of two years and not to any airline (or the owner of any airline) licensed in the EEA or Switzerland for a period of three years;
- Not to acquire an interest in any other airline licensed in any EEA country (nor Switzerland) for a period of two years (unless the interest is less than 10% and he is not involved in an executive capacity);
- Not to use his own name or a derivation of it to brand any other airline which flies to or from any country in Europe for a period of five years; and
- To abide by the mutual brand respect provisions and certain public communication protocols agreed with easyJet.

# Company statement of financial position

	Notes	30 September 2010 £ million	30 September 2009 £ million
<b>Non-current assets</b>			
Investments in subsidiary undertakings	b	270.5	65.7
<b>Current assets</b>			
Amounts due from subsidiary undertakings		917.2	1,049.0
<b>Current liabilities</b>			
Amounts due to subsidiary undertakings		(39.5)	(1.7)
Current tax liabilities		–	(2.8)
Other payables		–	(1.7)
		<b>(39.5)</b>	<b>(6.2)</b>
<b>Net current assets</b>		<b>877.7</b>	<b>1,042.8</b>
<b>Net assets</b>		<b>1,148.2</b>	<b>1,108.5</b>
<b>Shareholders' equity</b>			
Share capital		107.3	106.0
Share premium		651.6	642.5
Retained earnings		389.3	360.0
		<b>1,148.2</b>	<b>1,108.5</b>

The accounts on pages 90 to 94 were approved by the Board of Directors and authorised for issue on 15 November 2010 and signed on behalf of the Board.



**Carolyn McCall OBE**  
Director



**Chris Kennedy**  
Director

# Company statement of changes in equity

	Share capital £ million	Share premium £ million	Retained earnings £ million	Total £ million
<b>At 1 October 2009</b>	<b>106.0</b>	<b>642.5</b>	<b>360.0</b>	<b>1,108.5</b>
Comprehensive income for the year	–	–	24.5	24.5
Share incentive schemes				
Proceeds from shares issued	1.3	9.1	–	10.4
Movement in reserves for employee share schemes	–	–	4.8	4.8
<b>At 30 September 2010</b>	<b>107.3</b>	<b>651.6</b>	<b>389.3</b>	<b>1,148.2</b>

	Share capital £ million	Share premium £ million	Retained earnings £ million	Total £ million
<b>At 1 October 2008</b>	105.7	640.2	89.0	834.9
Comprehensive income for the year	–	–	263.6	263.6
Share incentive schemes				
Proceeds from shares issued	0.3	2.3	–	2.6
Movement in reserves for employee share schemes	–	–	7.4	7.4
<b>At 30 September 2009</b>	<b>106.0</b>	<b>642.5</b>	<b>360.0</b>	<b>1,108.5</b>

The disclosures required in respect of share capital are shown in note 18 to the consolidated accounts.

# Company statement of cash flows

	Notes	Year ended 30 September 2010 £ million	Year ended 30 September 2009 £ million
<b>Cash flows from operating activities</b>			
Cash generated from / (used by) operations	c	<b>156.3</b>	(4.6)
Interest received		<b>13.7</b>	2.0
Dividends received		<b>19.6</b>	–
<b>Net cash generated from / (used by) operating activities</b>		<b>189.6</b>	(2.6)
<b>Cash flows from investing activities</b>			
Investment in subsidiaries		<b>(200.0)</b>	–
<b>Cash flows from financing activities</b>			
Net proceeds from issue of ordinary share capital		<b>10.4</b>	2.6
<b>Net movement in cash and cash equivalents</b>		<b>–</b>	–
Cash and cash equivalents at beginning of year		<b>–</b>	–
<b>Cash and cash equivalents at end of year</b>		<b>–</b>	–



# Notes to the Company accounts

## a) Income statement and statement of comprehensive income

In accordance with Section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement. The Company's profit for the year was £24.5 million (2009: £263.6 million). Included in this amount are dividends received of £19.6 million (2009: £261.7 million), which are recognised when the right to receive payment is established. The Company recognised no other income or expenses in either the current or prior year.

The Company has seven employees at 30 September 2010 (2009: nine). These are the Non Executive Directors of easyJet plc; their remuneration is paid by easyJet Airline Company Limited. The Executive Directors of easyJet plc are employed and paid by easyJet Airline Company Limited. Details of Directors' remuneration are disclosed in the Report on Directors' remuneration and in note 4 to the consolidated accounts.

## b) Investments in subsidiary undertakings

Investments in subsidiary undertakings were as follows:

	2010 £ million	2009 £ million
At 1 October	65.7	700.2
Investments	200.0	–
Capital contributions	4.8	7.4
Capital distributions	–	(641.9)
<b>At 30 September</b>	<b>270.5</b>	<b>65.7</b>

Investments in subsidiaries are stated at cost, less any provision for impairment. Where subsidiary undertakings incur charges for share-based payments in respect of share options and awards granted by the Company, a capital contribution in the same amount is recognised as an investment in subsidiary undertakings with a corresponding credit to shareholders' equity.

During the prior year a Group reorganisation was effected whereby a number of subsidiaries distributed their retained earnings and the majority of their share capital to easyJet plc. These distributions, being satisfied by the transfer of amounts due from another subsidiary undertaking, are non-cash transactions and have therefore been excluded from the Company cash flow statement.

The principal trading subsidiary undertakings, all of which are included in the consolidated accounts, are shown below. A full list of Group companies will be included in the Company's next annual return, in accordance with Section 410 of the Companies Act 2006.

	Country of incorporation	Principal activity	Class and percentage of ordinary shares held
easyJet Airline Company Limited	England and Wales	Airline operator	<b>100%</b>
easyJet Switzerland S.A.	Switzerland	Airline operator	<b>49%</b>
easyJet Aircraft Company Limited	Cayman Islands	Aircraft trading and leasing	<b>100%</b>
easyJet Sterling Limited	Cayman Islands	Aircraft trading and leasing	<b>100%</b>
easyJet Leasing Limited	Cayman Islands	Aircraft trading and leasing	<b>100%</b>

The Company has a 49% interest in easyJet Switzerland S.A. with an option that expires in 2014 to acquire the remaining 51%. easyJet Switzerland S.A. is consolidated as a subsidiary on the basis that the Company exercises a dominant influence over the undertaking. A non-controlling interest has not been reflected in the accounts on the basis that holders of the remaining 51% of the shares have no entitlement to any dividends from that holding and the Company has an option to acquire those shares for a predetermined consideration.

# Notes to the Company accounts

continued

## c) Reconciliation of operating profit to cash generated from operations

	2010 £ million	2009 £ million
Operating profit	8.0	264.4
<b>Adjustments for non-cash items:</b>		
Unrealised foreign exchange differences	11.6	(8.5)
Dividends received from subsidiary undertakings	–	(261.7)
<b>Changes in working capital:</b>		
Decrease in amounts due from subsidiary undertakings	112.2	217.0
Increase / (decrease) in amounts due to subsidiary undertakings	24.5	(215.8)
	<b>156.3</b>	<b>(4.6)</b>

## d) Guarantees and contingent liabilities

The Company has given a formal undertaking to the Civil Aviation Authority to guarantee the payment and discharge of all liabilities of easyJet Airline Company Limited, a subsidiary of the Company. The guarantee is required 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 Airline Company Limited and easyJet Leasing Limited, both subsidiary undertakings, in respect of their contractual obligations to Airbus SAS in respect of the supply of Airbus 320 family aircraft.

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

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

No amount is recognised on the Company statement of financial position in respect of any of these guarantees as it is not probable that there will be an outflow of resources.

## e) Related party transactions

Transactions with subsidiary undertakings, which principally relate to the provision of funding within the Group, are carried out on an arm's-length basis. Outstanding balances are placed on intercompany accounts with no specified credit period, are unsecured, and bear market rates of interest.

## f) Subsequent events

On 11 October 2010 the Company announced that, subject to shareholder approval in an Extraordinary General Meeting, agreement had been reached to resolve its ongoing dispute with easyGroup IP Licensing Ltd and Sir Stelios Haji-Ioannou over the terms and operation of the 'easyJet' brand licence. Further details are given in note 27 to the consolidated accounts.

# Five year summary

Year end to 30 September

	2010 £ million	2009 £ million	2008 £ million	2007 £ million	2006 £ million (re-presented)
<b>Income statement</b>					
Revenue	<b>2,973.1</b>	2,666.8	2,362.8	1,797.2	1,619.7
EBITDAR	<b>361.3</b>	225.1	248.6	298.2	278.5
Operating profit	<b>173.6</b>	60.1	91.0	172.0	117.7
Profit before tax	<b>154.0</b>	54.7	110.2	201.9	129.2
Profit for the year	<b>121.3</b>	71.2	83.2	152.3	94.1
Profit before tax (underlying)	<b>188.3</b>	43.7	123.1	191.3	129.2
Basic earnings per share (pence)	<b>28.4</b>	16.9	19.8	36.6	23.2
Diluted earnings per share (pence)	<b>28.0</b>	16.6	19.4	35.6	22.6
<b>Statement of financial position</b>					
Non-current assets	<b>2,487.6</b>	2,190.8	1,680.8	1,350.0	1,088.3
Current assets	<b>1,514.9</b>	1,482.2	1,415.0	1,166.4	1,101.1
Current liabilities	<b>(1,064.6)</b>	(1,062.2)	(909.8)	(621.3)	(522.9)
Non-current liabilities	<b>(1,437.2)</b>	(1,303.5)	(907.8)	(742.7)	(683.6)
Net assets	<b>1,500.7</b>	1,307.3	1,278.2	1,152.4	982.9
<b>Statement of cash flows</b>					
Operating activities	<b>363.4</b>	134.5	296.2	270.8	225.2
Investing activities	<b>(482.0)</b>	(430.0)	(417.6)	(272.1)	(314.3)
Financing activities	<b>232.8</b>	440.2	5.9	(128.9)	284.5
Exchange activities	<b>9.1</b>	11.7	28.6	(11.4)	(1.7)
Increase / (decrease) in cash and cash equivalents	<b>123.3</b>	156.4	(86.9)	(141.6)	193.7
<b>Key performance indicators</b>					
Return on equity	<b>8.6%</b>	5.5%	6.8%	14.3%	10.1%
Gearing	<b>31.8%</b>	37.6%	28.7%	20.4%	31.0%
Net debt / (cash)	<b>40.1</b>	45.7	(235.6)	(393.4)	(381.0)
Profit before tax per seat (£)	<b>2.75</b>	1.04	2.12	4.54	3.32
Revenue per seat (£)	<b>53.07</b>	50.47	45.51	40.42	41.66
Cost per seat (£)	<b>50.32</b>	49.43	43.39	35.88	38.34
Cost per seat excluding fuel (£)	<b>37.23</b>	34.16	29.74	26.31	28.36
Seats flown (millions)	<b>56.0</b>	52.8	51.9	44.5	38.9

# Glossary

<b>Aircraft dry / wet leasing</b>	Payments to lessors under dry leasing arrangements relate solely to the provision of an aircraft. Payments to lessors under wet leasing arrangements relate to the provision of aircraft, crew, maintenance and insurance.
<b>Aircraft owned / leased at end of year</b>	Number of aircraft owned or on lease arrangements of over one month's duration at the end of the year.
<b>Available Seat Kilometres (ASK)</b>	Seats flown multiplied by the number of kilometres flown.
<b>Average fare</b>	Passenger and ancillary revenue divided by passengers.
<b>Block hours</b>	Hours of service for aircraft, measured from the time that the aircraft leaves the terminal at the departure airport to the time that it arrives at the terminal at the destination airport.
<b>Cost per ASK</b>	Revenue less profit before tax, divided by available seat kilometres.
<b>Cost per seat</b>	Revenue less profit before tax, divided by seats flown.
<b>Cost per seat, excluding fuel</b>	Revenue, less profit before tax, plus fuel costs, divided by seats flown.
<b>EBITDAR</b>	Earnings before interest, taxes, depreciation, amortisation, aircraft dry leasing costs, and profit or loss on disposal of assets held for sale.
<b>Gearing</b>	Net debt (adjusted by adding seven times aircraft dry leasing payments for the year and deducting restricted cash) divided by the sum of shareholders' equity and adjusted net debt.
<b>Load factor</b>	Number of passengers as a percentage of number of seats flown. The load factor is not weighted for the effect of varying sector lengths.
<b>Operated aircraft utilisation</b>	Average number of block hours per day per aircraft operated.
<b>Other costs</b>	Administrative and operational costs not reported elsewhere, including some employee costs, compensation paid to passengers, exchange gains and losses and the profit or loss on the disposal of property plant and equipment.
<b>Passengers</b>	Number of earned seats flown. Earned seats comprises seats sold to passengers (including no-shows), seats provided for promotional purposes and seats provided to staff for business travel.
<b>Profit before tax per seat</b>	Profit before tax divided by seats flown.
<b>Return on capital employed (ROCE)</b>	Normalised profit after tax divided by average net debt plus average shareholders' equity
<b>Return on equity (ROE)</b>	Profit for the year divided by the average of opening and closing shareholders' funds.
<b>Revenue</b>	The sum of revenue from ticket sales and ancillary revenue.
<b>Revenue Passenger Kilometres (RPK)</b>	Number of passengers multiplied by the number of kilometres those passengers were flown.
<b>Revenue per ASK</b>	Revenue divided by available seat kilometres.
<b>Revenue per seat</b>	Revenue divided by seats flown.
<b>Seats flown</b>	Seats available for passengers.
<b>Sector</b>	A one-way revenue flight.

# Thank you!

**We'd like to thank everyone who helped to produce this report:**

Paul Ablin, Mark Adams, Angela Bennett, Andy Berks, Warwick Brady, Mike Campbell, Joanne Flynn, Chris Gadsden, Paul Gibson, Val Goldine, Pamela Harrison, Andy Hodges, Bruce James, Chris Kennedy, Rachel Kentleton, Ken Lawrie, Thomas Loizeau, Cath Lynn, Carolyn McCall OBE, Shuhall Miah, Jonny Oser, Captain Jim Pegram, Giles Pemberton, Captain Dave Prior, Sir Michael Rake, Tom Smethers, Andrew Tempest, Bunmi Williams, Eira Williams and all of our employees across our network.



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