easyJet plc

Annual report and accounts 2004

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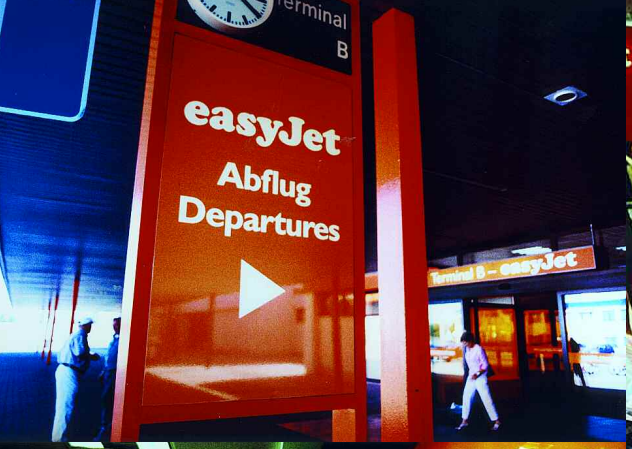

07.20 HRS Berlin, Germany

It's early in the morning, but easyJet's wide awake. Airbus A319 G-EZEG one of easyJet's new deliveries during the year is about to start its day. It's one of five new aircraft based permanently at Berlin Schönefeld, easyJet's big new European base and hopping-on point for 20 destinations across Europe. This one's bound for Basel-Mulhouse airport on the French/Swiss border.

We offer 163 million Europeans the chance to fly from convenient local airports to Europe's most attractive destinations, saving both time and money.

Contents

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Come on, let's fly!

Chairman's statement

During a year when most airline companies suffered a fall in returns or in some cases registered losses, easyJet was one of the very few which increased profit before tax and earnings per share by 20.8% and 25.5% respectively. Passenger numbers and load factors also increased, as the Chief Executive's report shows. At a time of intensifying competition, this performance serves to underline the inherent strength of easyJet's business model.

Despite those results, complacency can never be a feature of our business and we are dealing with five key challenges. The first of these, affecting all airlines, is the price of oil which constituted some 14% of our costs for the year ended 30 September 2004. To offset this, we are concentrating both on operating the most fuel efficient aircraft and reducing costs elsewhere. However, easyJet's returns will be adversely affected if there is not some abatement of the price of oil during the coming year.

Increased competition, the second challenge, continues and all of our planning assumes that this will be sustained for the foreseeable future. We will continue to offer an attractive product to our marketplace and, as these results have demonstrated, many people have a preference for our combination of price, frequency, on time performance, convenient airports for both departure and destination, modern equipment and courteous and efficient staff.

easyJet has benefited from remarkable rates of growth since its beginnings. The Chief Executive's report emphasises our attention to developing new destinations and intensifying operations in these. Aligning the rate of growth of our capacity to the clear market opportunities is the third of our major challenges.

Our fourth key issue is volume. With the number of passengers we now fly, any small movement in revenue per passenger can have a significant effect on our results. Unrelenting attention to cost reduction and revenue enhancement are the watchwords of easyJet in meeting this challenge.

Judging the levels of external influences, which are out of our control, can be difficult and, as a consequence, while easyJet's performance showed a clear improvement on last year, it was not as good as we had originally hoped for. We strive to keep shareholders informed of change and believe this is our fifth challenge.

There have been two notable changes in the composition of the Board of Directors in this financial year. Nick Hartley decided to step down from the Board in August having served easyJet from its inception. Nick was a significant contributor to the Board's deliberations and we miss his experience and wise counsel. We were delighted to welcome Dawn Airey, the Managing Director of BSkyB Networks as a non-executive director. Dawn's creative talent and consumer understanding are already evident and fit well with a Board whose members have a balance of expertise and experience relevant to easyJet.

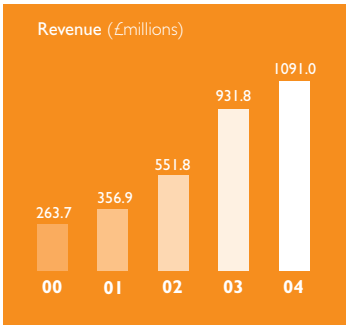
Despite the trading conditions faced by all airlines, easyJet has performed creditably and this would not have been possible without the efforts of our hard-working and committed staff. To all of them, I offer many thanks from the Board – you are much appreciated. Looking ahead, the fundamental task is to continue to develop and maintain a growth business. I have great confidence that this will be achieved.

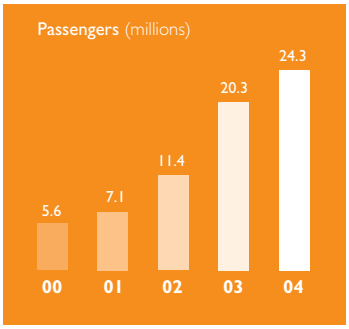
Sir Colin Chandler
Chairman

22 November 2004

easyJet at a glance

Passengers	**+20%**
Profit before tax	**+21%**
Cash on balance sheet rises to £510 million	**+52%**
Revenues up to £1.1 billion	**+17%**
Number of new aircraft that entered service during the year	**26**
Number of airports served	**44**





New routes for 2004

- Six new cities to the easyJet network
  – Basel, Berlin Schönefeld, Budapest, Dortmund, Cologne-Bonn and Ljubljana
- Berlin and Dortmund are new bases
  – demonstrating our commitment to the German market
- Berlin Schönefeld
  – 13 new routes
  – dedicated easyJet branded terminal
  – model for future development across Europe
- Dortmund
  – eight new routes
- Budapest
  – four new routes

08.55 HRS Basel, Switzerland

A short flight later and we touch down at Basel-Mulhouse airport for a rapid 20 minute turnaround, one of the key drivers of easyJet's high aircraft utilisation and low cost base. Captain Ulrich Puddig has time to inspect the aircraft to check that all is OK, and then it's back to Berlin.

10.55 HRS Berlin, Germany

Back in Berlin again, another 20 minute turnaround means that the aircraft is ready for another load of leisure and business passengers.

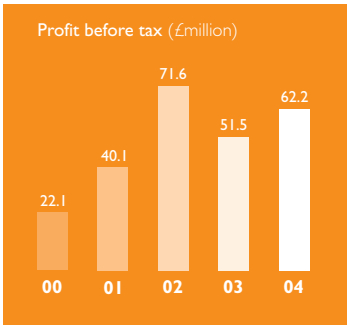
Chief Executive's review

In the year ended 30 September 2004, easyJet made a profit before tax of £62.2 million, an increase of 20.8% on the prior year. The underlying profit before tax was £85.4 million (2003: £96.3 million). Details of underlying items may be found in the footnote below.

Overview

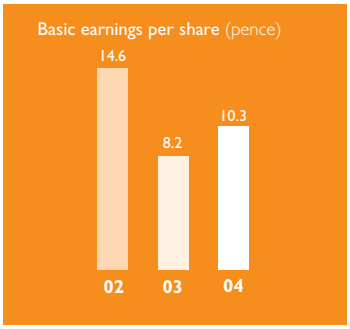
Earnings per share for the year were 10.34 pence (2003: 8.24 pence).

The year demonstrated the resilience of easyJet's business model, particularly in a challenging environment for the airline industry. Despite difficult market conditions, easyJet's point-to-point low-cost short haul network, connecting major and convenient European airports, has continued to attract business and leisure travellers alike, with our load factor rising from 84.1% in 2003 to 84.5% in 2004.



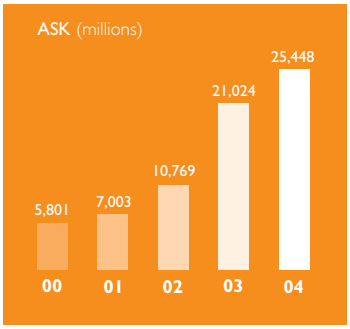
During the year, there have been increasing numbers of entrants into the low cost airline marketplace in Europe. There are now at least 47 low cost airlines in Europe, compared to only seven three years ago. This is clearly not sustainable in the longer term, and we expect consolidations and liquidations – indeed these have started to appear in recent months. The key success criteria will be to have the lowest cost base between any two airports and to repeat this again and again. Our strategy ensures that our cost base is amongst the lowest in the industry.

Increasing levels of overall competition have led to falls in yield from £43.28 in 2003 to £42.28 in 2004. However, costs have been kept under control through careful management and identification of strategic cost reduction opportunities. Cost per Available Seat Kilometre ("ASK") fell from 4.19 pence in 2003 to 4.04 pence in 2004, or on an underlying basis, was level year-on-year (3.97 pence in 2003 to 3.95 pence in 2004).



With the increasing load factor offset off by the decline in average fare, total revenues grew 17.1% to £1,091.0 million. The number of passengers rose 19.7% to 24.3 million.

Over the year, ASKs were 25,448 million (2003: 21,024 million), with the average sector length up 1.7% to 884 km. Revenue per ASK was down 3.2% to 4.29 pence.



Strategy and business model

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

Capacity growth is a lever that we can use to influence our profitability in the face of increased competition. We have announced that our 2005 capacity growth rate, measured by the number of aircraft in the fleet at

Footnote

The adjusting items are goodwill amortisation charge of £17.1 million (2003: £17.6 million), accelerated depreciation of certain owned aircraft of £6.1 million (2003: £10.2 million), the committed contribution to Deutsche BA of £nil (2003: £1.3 million), the write off of investments of £nil (2003: Deutsche BA totalling £7.8 million), and the costs of integrating the businesses of Go Fly and easyJet of £nil (2003: £7.9 million).

12.50 HRS Budapest, Hungary

Flight EZY 4585 arrives in Budapest, another new city added to the network during the year, showing our commitment to providing the entire EU with low fares to convenient destinations that save passengers both time and money.

14.55 HRS Berlin, Germany

Back to Berlin. easyJet has created over 300 jobs in the Berlin area as a result of its arrival and carried over 500,000 passengers in the five months since we started flying.

year end, has been reduced to 17% (an increase of 16 aircraft). It is likely that the growth rates for 2006 and 2007 will also be lower, reflecting our ability to flex capacity according to market conditions.

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

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

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

Reduce our costs
Management is focussed on increasing the operating margin. We will continue to challenge industry norms and further reduce our cost base through being highly productive, innovative and taking advantage of our scale and local knowledge in procuring goods and services. For example, in the coming year we will see benefit from the increasing number of Airbus A319s in the fleet, and an increase in both fleet utilisation and crew productivity.

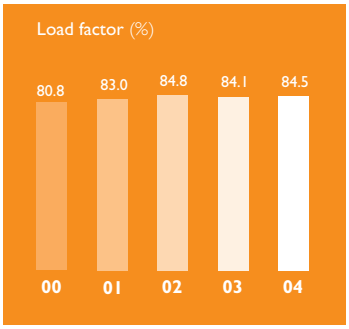
We will withdraw capacity from any existing markets that are poorly performing or airports which are over-priced and do not meet our strategy. We have already taken action in this regard by removing Zurich from our network and reducing capacity at Copenhagen and Amsterdam.

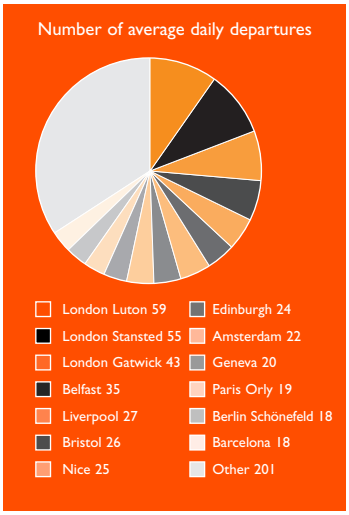
I am confident that this strategy will bring clarity and focus to the efforts of our people and will provide easyJet with its unique strength to become best in class, with a leading position in the growing European air travel market.

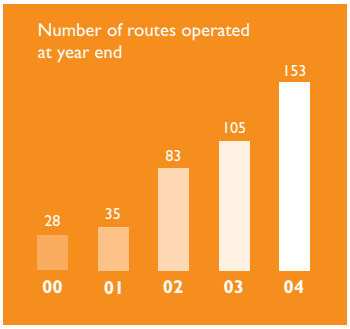
Network

We have continued to develop the network during the year in a manner that absorbed the 18.4% growth in new capacity, measured by sectors operated, without affecting operational performance. At 30 September 2004, the easyJet network covered 153 routes and 44 airports, compared to 105 and 38 at the same time last year. Three routes ceased operations in the year due to excessive airport costs.

During the year, we have added six new cities to the easyJet network: Basel, Berlin Schönefeld, Budapest, Dortmund, Cologne-Bonn and Ljubljana. Berlin and Dortmund are new bases and demonstrate our commitment to the German market. From Berlin we have started 13 routes during the year. In addition, at Berlin, we have worked closely with airport management and now have a dedicated easyJet branded terminal, which will become a model for our future development across Europe. We started eight routes from Dortmund and four from Budapest in the year, which we expect to generate more than 1.5 million extra passengers during the first year of operation.







Other locations where we grew during the year included Belfast with new routes to Paris, Alicante and Malaga.

Further growth is planned for the winter, and we have already announced 12 new cities: Almeria, Bratislava, Cork, Grenoble, Knock, Krakow, Murcia, Riga, Shannon, Tallinn, Valencia and Warsaw. These reflect the expansion of the European Union during the year. We have now announced services to six of the new accession states. Further growth is taking place from Geneva, Berlin, Budapest, Dortmund and London Luton.

Fleet

At the end of the financial year the fleet comprised 71 Boeing 737s and 21 Airbus A319s, giving a total of 92 aircraft, up from the 73 Boeing 737s and one Airbus A319 at the start of the year.

A further 99 Airbus A319 aircraft will be delivered through to December 2007. This will give us a modern fleet of aircraft that will underpin our high levels of asset utilisation, increase our operational efficiency and reduce our unit cost base. The average fleet age, currently four and a half years, is expected to fall to approximately three years by 30 September 2006.

Planned fleet changes – additions/(retirements):
The planned composition of the fleet over the period to 30 September 2007 is as follows:

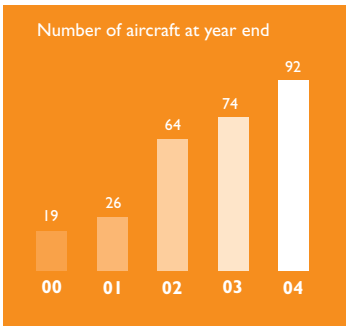
	Airbus 319s	Boeing 737-700s	Boeing 737-300s	Total
At 30 September 2003	1	27	46	74
Year ending 30 September 2004	21	33	38	92
Year ending 30 September 2005	55	32	21	108
Year ending 30 September 2006	86	32	8	126
Year ending 30 September 2007	117	32	–	149

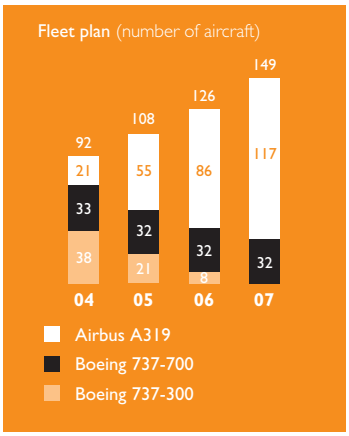
Whilst we are very confident of growing the business at this rate, we have negotiated with Airbus flexibility that allows us to moderate, or accelerate, our capacity growth should the external environment necessitate any changes. We have already used this flexibility by deferring three A319 aircraft into the 2008 financial year at no cost.

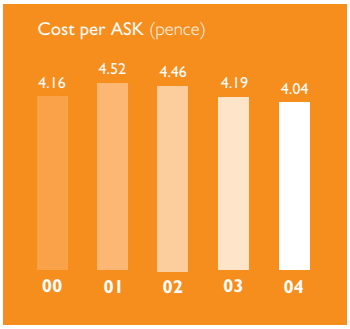
During the year, the first five Airbus aircraft were introduced into Geneva which became our first dedicated Airbus base, enabling us to establish and test operations with the new type of aircraft before rolling out the subsequent deliveries to other bases. This was done successfully, and new Airbus aircraft have now been introduced to our London Gatwick, Paris and Berlin crew bases. Although Airbus is assisting with some of the costs of introducing the new aircraft, easyJet will also incur some introductory costs in the current year. In the last financial year, additional costs of £6.4 million were incurred, primarily due to the need to hire extra crew during the training period.

Available Seat Kilometres are expected to increase by approximately 25% during fiscal 2005. The full-year effect of aircraft added during 2004 means that growth is weighted towards the first half.

We are the fourth biggest intra-European airline, by passengers carried







18.45 HRS Palma, Majorca

Another destination this time, giving second-home owners and holidaymakers the opportunity for a low-cost conveniently timed flight to a great destination. On board, our friendly cabin crew Annika Crimmann offers a range of snacks and drinks from the easyKiosk whilst Matt Bass takes passengers through the safety demonstrations. On the ground, there's time to check that all is in order before the return flight.

22.20 HRS Berlin, Germany

The end of a long day - 12 block hours and six flights, with 800 passengers carried. It's time for Berlin to sleep, but not for easyJet. The aircraft will undergo overnight maintenance inspections to make sure that everything's fine for another early start the next day.

Chief Executive's review continued

Aircraft financing

Of the 26 new aircraft that were delivered to easyJet during the year, 21 were sold to lessors and leased back under operating leases, and five were financed by debt.

At the year end, 12 aircraft were owned and 80 were under operating lease.

During the year, we have secured financing for the majority of the Airbus deliveries. 82 of the 120 Airbus aircraft ordered have now been financed. The arrangements included almost all deliveries for 2004 and 2005, and a proportion of those in 2006 and 2007.

Operations

Safety is our primary concern, and our internal procedures and processes ensured that there were no significant incidents during the year.

The operation has run superbly during the year – with on-time performance increasing from 74.3% to 80.5% of flights within 15 minutes of scheduled arrival time. This improved performance was achieved alongside the addition of 51 new routes and the introduction of a new aircraft type.

Our people

At 30 September 2004 there were 3,727 employees in easyJet, an increase of 355 during the year, well below the overall growth rate in the business.

To maintain the rate of growth, particularly whilst dealing with a difficult operating environment and a number of other significant challenges, and still keep the downward pressure on our unit costs, is testament to the focus of all of our staff.

It has been a challenging year for many of easyJet's people and I am grateful to them for their professionalism and dedication to our values and customer service. Our success is rooted in them and their ability to adapt, innovate and act, and we look forward to many more years of continued growth.

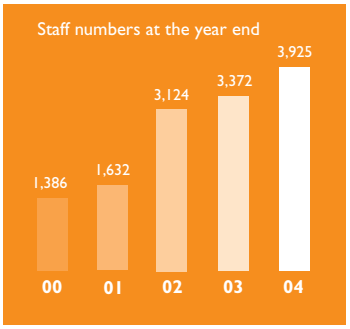
Trading outlook

In this first quarter, we expect to see the load factor and total revenue per passenger broadly the same as last year. We continue to have limited visibility in regard to future fares, however we expect the remaining months of winter to be challenging and that competition will be intense. In addition, fuel prices and foreign exchange remain unknown factors.

Nevertheless, we have a resilient business, operating in a growth market, which we can readily tailor to a variety of market conditions. As such we have considerable confidence in what can be achieved.

Ray Webster
Chief Executive

22 November 2004



On time performance in 2004

81%
of flights arriving within 15 minutes

7%
better than in 2003

94%
of flights arriving within one hour

2%
better than in 2003

Operational and financial review

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

Selected consolidated operating data

(Unaudited)

	Year ended 30 September	
	2004	2003
Number of aircraft owned/leased at end of year[1]	**92**	74
Average number of aircraft owned/leased during year[2]	**85.0**	67.8
Number of aircraft operated at end of year[3]	**90**	71
Average number of aircraft operated during year[4]	**79.9**	66.0
Sectors[5]	**192,742**	162,758
Block hours[6]	**328,074**	274,567
Number of routes operated at end of year	**153**	105
Number of airports served at end of year	**44**	38
Owned/leased aircraft utilisation (hours per day)[7]	**10.5**	11.1
Operated aircraft utilisation (hours per day)[8]	**11.2**	11.4
Available seat kilometres ("ASK")(millions)[9]	**25,448**	21,024
Passengers (millions)[10]	**24.3**	20.3
Load factor[11]	**84.5%**	84.1%
Revenue passenger kilometres ("RPK")(millions)[12]	**21,566**	17,735
Average internet sales percentage during the year[13]	**95.7%**	93.8%
Internet sales percentage during final month of financial year[14]	**96.9%**	96.3%
Average sector length (kilometres)	**884**	869
Average fare (£)[15]	**42.28**	43.28
Revenue per ASK (pence)[16]	**4.29**	4.43
Cost per ASK (pence)[17]	**4.04**	4.19
Cost per ASK before goodwill and non-recurring items (pence)[18]	**3.95**	3.97

Footnotes can be found at the end of this section.

Results of operations

(Unaudited)

	2004 £million	%	Year ended 30 September 2003 £million	%	Year-on-year change 2003
Passenger revenue	**1,029.3**	**94.3**	880.0	94.4	17.0
Non-ticket revenue[19]	**61.7**	**5.7**	51.8	5.6	19.1
Revenue[20]	**1,091.0**	**100.0**	931.8	100.0	17.1
Ground handling charges, including salaries	**(111.3)**	**10.2**	(95.2)	10.2	16.9
Airport charges	**(191.4)**	**17.5**	(149.3)	16.0	28.2
Fuel	**(146.9)**	**13.5**	(120.6)	12.9	21.8
Navigation charges	**(87.7)**	**8.0**	(72.0)	7.7	21.8
Crew costs, including training (includes initial costs of £6.4 million)	**(126.8)**	**11.6**	(96.8)	10.4	31.0
Maintenance	**(102.0)**	**9.3**	(89.1)	9.6	14.5
Advertising	**(30.5)**	**2.8**	(27.7)	3.0	10.1
Merchant fees and incentive pay	**(13.6)**	**1.2**	(13.7)	1.5	(0.7)
Aircraft insurance	**(19.8)**	**1.8**	(21.2)	2.3	(6.6)
Costs of integrating businesses of easyJet and Go Fly	**–**	**–**	(7.9)	0.8	(100.0)
Other costs[21]	**(71.7)**	**6.6**	(57.4)	6.2	24.9
EBITDAR[22]	**189.3**	**17.4**	180.9	19.4	4.6
Depreciation	**(19.2)**	**1.8**	(19.9)	2.2	3.5
Accelerated depreciation of 737-300 aircraft	**(6.1)**	**0.6**	(10.2)	1.1	40.2
Goodwill amortisation	**(17.1)**	**1.6**	(17.6)	1.9	(2.8)
Aircraft dry lease costs	**(96.4)**	**8.8**	(82.7)	8.8	16.6
Aircraft long-term wet lease costs	**–**	**–**	(2.1)	0.2	(100.0)
Group operating profit (EBIT)	**50.5**	**4.6**	48.4	5.2	4.3
Share of operating profit of					
The Big Orange Handling Company	**0.2**	**–**	–	–	100.0
Net interest receivable/(payable)	**11.5**	**1.1**	12.2	1.3	(5.7)
Committed contribution to Deutsche BA	**–**	**–**	(1.3)	0.1	(100.0)
Amounts written off investments	**–**	**–**	(7.8)	0.9	(100.0)
Income before tax	**62.2**	**5.7**	51.5	5.5	20.8
Tax	**(21.1)**	**1.9**	(19.1)	2.0	10.5
Retained profit for the year	**41.1**	**3.8**	32.4	3.5	26.9
Earnings per share (pence)					
Basic	**10.34**		8.24		
Diluted	**10.11**		8.04		
Basic, before goodwill amortisation	**14.64**		12.72		
Diluted, before goodwill amortisation	**14.33**		12.40		
Basic, before goodwill amortisation, accelerated depreciation of certain owned aircraft, committed contribution to Deutsche BA, amounts written off investments, and costs of integrating businesses of easyJet and Go Fly.	**15.71**		18.01		
Diluted, before goodwill amortisation, accelerated depreciation of certain owned aircraft, committed contribution to Deutsche BA, amounts written off investments, and costs of integrating businesses of easyJet and Go Fly.	**15.38**		17.56		

Footnotes can be found at the end of this section.

Financial year 2004 compared with financial year 2003

Revenue

easyJet's revenue increased 17.1% from £931.8 million to £1,091.0 million, from financial year 2003 to financial year 2004. Passenger revenue, the largest component, increased by 17.0% from £880.0 million to £1,029.3 million, driven by a 19.7% growth in passenger numbers from 20.3 million to 24.3 million, partly offset by a 2.3% decline in average fares. The number of passengers carried reflected an increase in the size of the easyJet fleet in operation from an average of 66.0 aircraft to an average of 79.9 aircraft and a small increase in the average load factor achieved from 84.1% to 84.5%.

Revenue from non-ticket sources, within ongoing operations, includes in-flight sales of food and beverages, excess baggage charges, change fees, credit card booking fees and commissions received from products and services sold such as hotel and car hire bookings and travel insurance. In financial year 2004, £61.7 million was earned from non-ticket sources, up 19.1% from the prior year.

Ground handling charges, including salaries

easyJet's ground handling charges increased by 16.9% from £95.2 million to £111.3 million, from financial year 2003 to financial year 2004. The increase in third-party ground handling charges reflects the 18.4% increase in the number of sectors flown, and the reduction in unit costs at London Luton airport due to increased throughput and the migration of the operations into a joint venture.

Airport charges

easyJet's external airport charges increased by 28.2% from £149.3 million to £191.4 million from financial year 2003 to financial year 2004. This increase was attributable to the increase of 18.4% in the number of sectors flown, and the higher rates charged at certain primary airports where much of easyJet's organic growth was centred in 2004.

Fuel

easyJet's fuel costs increased by 21.8% from £120.6 million to £146.9 million from financial year 2003 to financial year 2004. The increase was higher than the 19.5% increase in number of block hours flown. This is primarily due to approximately a 14.7% increase in easyJet's average unit US dollar fuel cost, compared with the previous year, resulting in additional costs to easyJet of approximately £21.3 million. The strengthening of the value of sterling against the US dollar, the currency in which fuel prices are denominated, over the course of financial year 2004 provided a set off benefit of approximately £17.0 million. In addition, a 1.7% increase in sector length, the introduction of new aircraft, and increased optimisation of route planning aided the efficiency of easyJet's fuel consumption. Benefits obtained from Group hedging activities were approximately £11.0 million.

Navigation charges

easyJet's navigation charges increased by 21.8% from £72.0 million to £87.7 million from financial year 2003 to financial year 2004. This increase was principally attributable to a 21% increase in the ASKs flown in financial year 2004.

Crew costs, including training

easyJet's crew costs increased by 31.0% from £96.8 million to £126.8 million from financial year 2003 to financial year 2004. The increase in crew costs resulted from an increase in headcount during the financial year 2004 to service the additional sectors and aircraft operated by easyJet during the year, the increase in salaries, and the costs of recruitment and crew in training necessary for aircraft not yet delivered. It also resulted from the need to hire additional crew during the migration of certain operations from Boeing to Airbus aircraft. These costs amounted to some £6.4 million in the financial year 2004.

Maintenance

Maintenance expenses increased by 14.5% from £89.1 million to £102.0 million from financial year 2003 to financial year 2004. easyJet's maintenance expenses consist primarily of the cost of routine maintenance and spare parts and provisions for the estimated future cost of heavy maintenance and engine overhauls on aircraft operated by easyJet pursuant to dry operating leases. The extent of the required annual maintenance reserve charges is determined by reference to the number of flight hours and cycles permitted between each engine shop visit and heavy maintenance overhaul on aircraft airframes. The increase in maintenance costs was largely due to the addition of further leased aircraft to the fleet during the year.

Aircraft financed by operating lease incur reserves for maintenance, while the corresponding maintenance effect for owned aircraft is dealt with through a depreciation charge of the capitalised maintenance costs under aircraft ownership.

Advertising

Advertising costs increased by 10.1% from £27.7 million to £30.5 million from financial year 2003 to financial year 2004. Spend per passenger was approximately 8% lower than the previous year which is principally due to market maturation and the synergistic benefits of the integration of the businesses of Go Fly and easyJet. In 2004, a number of new markets were entered into, such as Berlin and Dortmund, which resulted in additional advertising expenditure to create brand awareness.

Merchant fees and incentive pay

Merchant fees and incentive pay reduced by 0.7% from £13.7 million to £13.6 million from financial year 2003 to financial year 2004. Merchant fees and incentive pay includes the costs of processing fees paid to credit card companies on all of easyJet's credit and debit card sales and the per-seat sold/transferred commission paid as incentive pay to easyJet's telesales staff. In financial year 2004, approximately 75% of bookings were made using credit cards, the same as in financial year 2003. Incentive pay paid to telesales personnel remained flat year-on-year due to the rise in initial sales made over the internet, from 93.8% of initial seats sold during financial year 2003 to 95.7% of initial seats sold during financial year 2004, and the increase in on line change transactions from 6% in financial year 2003 to 73% in financial year 2004.

Cost of integrating businesses of easyJet and Go Fly

Costs of integrating the businesses of Go Fly and easyJet were £nil in financial year 2004 (2003: £7.9 million). Integration, which was substantially complete at 30 September 2003, was considered to have been finalised by the Board in March 2004.

Aircraft insurance costs

Aircraft insurance costs reduced from £21.2 million in financial year 2003 to £19.8 million in financial year 2004. The increase is significantly less than the growth in capacity. This was as a result of lower rates being negotiated, and also due to the exchange rate between sterling and the US dollar.

Other costs

Other costs increased by 24.9% from £57.2 million to £71.7 million from financial year 2003 to financial year 2004. Items in this cost category include administrative and operational costs (not included elsewhere) including some salary expenses. Also this cost category includes short-term aircraft wet leases, compensation paid to passengers, certain other items, such as currency exchange gains and losses and the profit or loss on the disposal of fixed assets. The major influence of this category of costs was the growth in the scope of the operation.

Depreciation

Depreciation charges decreased by 3.5% from £19.9 million to £19.2 million from financial year 2003 to financial year 2004. The depreciation charge reflects depreciation on owned aircraft and capitalised aircraft maintenance charges, and also includes depreciation on computer systems and other assets. easyJet has owned an average of 8.0 B737-300 aircraft and 4.9 A319 aircraft during the financial year 2004 (2003: 10.0 B737-300 aircraft and 0.02 A319 aircraft). The decrease in depreciation reflects the additional number of owned aircraft set off against the 9.1% improvement in the value of sterling against the US dollar, the currency in which the majority of easyJet's assets are denominated, and the additional depreciation of other assets such as spares and leasehold improvements.

Accelerated depreciation of 737-300 aircraft

In 2003, management provided £10.2 million additional depreciation in respect of the four oldest owned Boeing 737-300 aircraft, due to the distressed nature of the second-hand aircraft market. In 2004, a further £3.4 million was charged in respect of accelerated deprecation, to align the aircraft carrying value with the residual value. The residual values of six owned Boeing 737-300 aircraft held in easyJet Hamburg Limited and easyJet Aircraft Limited have also been reassessed. This has led to an additional £2.7 million of accelerated depreciation being recognised on these aircraft during the financial year.

Goodwill amortisation

Goodwill amortisation charges reduced slightly from £17.6 million to £17.1 million from financial year 2003 to financial year 2004. The decrease reflects the reduction in the goodwill balance as the result of the return of certain retention monies during the financial year in relation to the purchase of Go Fly in 2002.

Aircraft dry lease costs

easyJet's aircraft dry lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to dry operating leases. Aircraft dry lease costs increased by 16.6% from £82.7 million to £96.4 million from financial year 2003 to financial year 2004. During the period six new Boeing 737-700 aircraft, and 15 new Airbus A319 aircraft were added to the fleet. Over the period, easyJet has benefited from the strengthening of the value of sterling against the US dollar, the currency in which lease costs are denominated, low dollar interest rates, and the benefit of the lower cost of the new Airbus A319 aircraft. As a consequence, easyJet has seen its average leasing cost per aircraft fall by around 9%, year-on-year.

Aircraft long-term wet lease costs

easyJet's aircraft wet lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to "ACMI" leases (that is, leases of an aircraft plus crew, maintenance and insurance) of a duration of more than one month. The £2.1 million charge in financial year 2003 relates to the costs incurred leasing two aircraft for 2.5 months under wet leases for part of the summer 2003 season. One aircraft was procured in order to be able to commence new routes from Paris Orly earlier than would otherwise have been possible. The other aircraft was procured to cover for the long-term unavailability of an aircraft which was subject to hail damage.

Share of operating profit of The Big Orange Handling Company

In January 2004, easyJet announced that it had sold 74% of its ground handling operations at London Luton Airport to Menzies Aviation Limited. The joint venture company to manage this is called The Big Orange Handling Company Limited. During the financial year 2004, the share (26%) of the turnover attributable to easyJet was £1.4 million, and the share of operating profit was £0.2 million.

Net interest

Net interest reflects interest paid or payable by easyJet net of interest received or receivable by easyJet. easyJet's net interest receivable decreased from £12.2 million in financial year 2003 to £11.5 million in financial year 2004. This reflects the increase in loans (due to the financing of new Airbus aircraft) from £72.8 million to £119.8 million, set off against the increase in the cash balance during the year from £335.4 million to £510.3 million and also increasing interest rates, particularly in the UK, since easyJet's cash surplus is predominantly held in sterling.

Committed contribution to result of Deutsche BA

In August 2002, easyJet and British Airways entered into an option agreement under which the Group was granted an option to acquire 100% of the share capital of British Airways' wholly owned subsidiary Deutsche BA Holding GmbH ("Deutsche BA"). The Group was obliged to make monthly capital contributions to British Airways whilst the option remained unexercised. Although the decision to terminate the option was made in March 2003, a total of €3.0 million (£1.9 million) was paid. After a release of accruals made in 2002 not required, Deutsche BA related costs were £1.3 million in 2003. No costs were incurred in financial year 2004.

Amounts written off investments

In the financial year 2003, easyJet wrote off its investment in Deutsche BA after deciding not to exercise its option to purchase. The total amount written off of £7.8 million included £3.1 million for the cost of the option, plus £4.7 million of related professional costs. No costs were incurred in financial year 2004.

Taxation

In financial year 2004, easyJet incurred a tax charge of £21.1 million, an effective tax rate of 34% (2003: £19.1 million charge, being 37% effective tax rate). The effective tax rate is higher than the UK standard rate of tax which is principally due to purchased goodwill not being tax deductible. A more detailed explanation may be found in note 7 to the accounts.

Retained profit for the year

For the reasons described above, easyJet's retained profit after interest and taxes increased by 26.9% from £32.4 million in financial year 2003 to £41.1 million in financial year 2004.

Earnings per share

The basic earnings per share increased by 25.5% from 8.24 pence in the financial year 2003 to 10.34 pence in the financial year 2004.

The basic earnings per share, before goodwill amortisation, increased by 15.1% from 12.72 pence in the financial year 2003 to 14.64 pence in the financial year 2004.

The basic earnings per share, before goodwill amortisation, accelerated depreciation of certain owned aircraft, committed contribution to Deutsche BA, amounts written off investments, and costs of integrating the businesses of easyJet and Go Fly, reduced by 12.8% from 18.01 pence in the financial year 2003 to 15.71 pence in the financial year 2004.

Other matters

Critical accounting policies

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

Carrying value of aircraft

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

Aircraft maintenance costs

easyJet incurs liabilities for maintenance costs in respect of its leased aircraft during the course of the lease term. These are as a result of legal and constructive obligations in the lease contract in respect of the return conditions applied by lessors, which require aircraft airframes, engines, landing gear and auxiliary power units to reach at least a specified condition on their return at the end of the lease term. In most instances, to reach the specified conditions, easyJet will need to carry out a heavy duty maintenance check on each of the engines and the airframe once during the lease term, usually towards the end of the lease. Other work may be required on landing gear and auxiliary power units. The cost of heavy duty maintenance checks for airframe and engines are substantial (airframe checks may cost between $1.0 million and $2.2 million, and engine shop visits may cost between $1.0 million and $2.4 million). In accordance with FRS12, as there is a legal and constructive obligation to return the aircraft in a specified condition, a charge is made in the profit and loss account each month based on the number of flight hours or cycles used to allow the creation of a provision which is designed to cover the cost of heavy duty maintenance checks when they occur. The cost of each heavy duty maintenance check is subject to uncertainty.

Management is required to make numerous estimates in calculating the provision required. These include the expected date of the check (since costs generally rise over time), market conditions for heavy duty maintenance checks pertaining at the expected date of check, the condition of asset at the time of the check (this is particularly true of engines, whose true condition can only be established once it is off wing), the likely utilisation of the asset in terms of either flying hours or cycles, and the regulations in relation to extensions to lives of life limited parts, which form a significant proportion of the cost of heavy duty maintenance costs of engines. In arriving at these estimates, management uses its historic experience, its assessment of future operational performance and market conditions, and also examines advice from industry specialists.

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

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

Corporation tax

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

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

Liquidity and investments

The Group holds significant cash or liquid funds as a form of insurance to mitigate the impact of potential business disruption events. The cash and liquid investment balances at 30 September 2004 totalled £510 million (2003: £335 million).

The robust increase in cash and liquid investment balances from prior year represents continued cash inflows generated from the operation of the business together with cash inflows generated from aircraft financing activities. Group cash resources are used to fund payments made to Airbus in advance of taking delivery of aircraft, and drawdown of the full committed aircraft financing is made only when the aircraft is delivered. As a result aircraft deliveries are cash generative for the Group. The Group has committed financing in place for 82 of the 120 Airbus aircraft on order, stretching through September 2007.

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

Management of financial and fuel price risks

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

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

Financing and interest rate risk

All of the Group's debt is asset related, reflecting the capital intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers. These factors are also reflected in the medium term profile of the Group's loans and operating leases. The incidence of repayments is shown in note 23. The Group demonstrated its continued ability to raise new committed financing by financing 82 of the 120 Airbus aircraft to be delivered through September 2007.

Group interest rate management policy aims to provide certainty in a proportion of its financing; all Group loans are at floating interest rates (repricing every three to six months) while a minimum of 40% of operating leases are fixed at time of aircraft delivery. At 30 September 2004 the Group had a net cash balance, however 100% of the Group's gross loan borrowings were at floating rates of interest; this proportion is unchanged from prior year. Of the operating leases in place at 30 September 2004 approximately 58% were based on fixed interest rates and 42% were based on floating interest rates.

The Group's loan borrowings and operating leases are denominated in US dollars. The Group's aircraft are priced in and transacted in US dollars and therefore all financing transactions to 30 September 2004 have been transacted in US dollars.

Fuel price risk

The Group fuel risk management policy aims to provide protection against sudden and significant increases in jet fuel price while ensuring that the Group may also benefit from price reductions. In order to provide protection the Group uses a limited range of hedging instruments traded on the Over The Counter markets (principally zero-cost collars), with approved counterparties and within approved limits. Group policy at 30 September 2004 is to hedge a maximum of 80% of estimated exposures up to 12 months in advance, and to hedge a smaller percentage of estimated expense up to 36 months in advance. Further details can be found in note 23 below.

Derivative financial instruments

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

Forward foreign exchange and fuel contracts and zero-cost collars are used to cover currency and jet fuel exposures. All contracts outstanding at 30 September 2004 are summarised at note 23.

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

International Financial Reporting Standards

European legislation, introduced in June 2002, requires that easyJet adopts International Financial Reporting Standards ("IFRS") from 1 October 2005. This means that both its interim financial statements at 31 March 2006 and its Group report and accounts at 30 September 2006 will be prepared under IFRS, rather than UK Generally Accepted Accounting Principles ("UK GAAP"). These financial statements will also include comparatives for the prior year.

The change from UK GAAP to IFRS will require substantial change to both easyJet's published financial statements and its underlying financial reporting processes and procedures. A comprehensive programme has been formulated by easyJet to facilitate a timely transition. A project team was created in November 2003, with a full time dedicated project manager. Representatives from all relevant areas of the business have been formed into a team to oversee the transition. A series of workstreams has been initiated which cover the areas of financial accounting, management accounting, taxation, treasury, contracts, business planning, IT systems, training, human resources and investor relations. The project team has its own budget and is adequately resourced to meet its objectives. Regular meetings are held between key personnel. Throughout the transition, regular consultation has occurred with KPMG Audit Plc, the Group's auditor. Regular updates have also been given to the Audit Committee.

The project has been subdivided into three main time periods:

- Phase one – November 2003 to 30 September 2004 – Planning phase. Diagnostic assessment of the impact of IFRS, with planning and preparation for production of the IFRS opening balance sheet, and resolution of most of the key technical issues.
- Phase two – 1 October 2004 to 30 September 2005 – Transition phase. Dual reporting in both IFRS and UK GAAP; finalisation of technical issues.
- Phase three – post 1 October 2005 – Completion phase. Full IFRS accounting and monthly reporting, to produce first interim and full year IFRS financial statements.

Significant progress has been made to date, with the following key milestones from phase one of the project having already been met:

- Assessments have been made of the effect of each IFRS on easyJet. Detailed technical accounting papers have been written for each standard, summarising the effect of the new IFRS compared to UK GAAP, and easyJet's proposed accounting treatment. Systems, resource and logistical issues associated with the implementation of the IFRS have also been considered;
- Formulation of the first draft of the new IFRS accounting policies and procedures manual, a summary of which has been presented to the Audit Committee;
- Amendment of internal systems to allow for collection of data suitable for use in preparing IFRS financial statements from the transition date of 1 October 2004;
- Dry runs of monthly reporting systems to ensure that an IFRS compliant balance sheet could be produced at 1 October 2004;
- Communicating the effect of IFRS to relevant finance department personnel. All qualified and part qualified accounting staff have undergone both general IFRS technical training, and training that is specific to their own area of expertise;
- A detailed review has been carried out of easyJet's material contractual arrangements to search for hybrid financial instruments.

Phase one of the project ended on 30 September 2004. There are no material incomplete issues. A detailed project plan for phase two of the project has been prepared and is operational.

Based upon standards issued to date, easyJet has identified a number of significant divergences between IFRS and UK GAAP, which are set out below. In phase two of the project, as expected, the project team is still evaluating certain issues, so it is possible that further significant divergences may become apparent. In addition, the International Accounting Standards Board ("IASB") has a number of ongoing projects which could affect the divergences set out below between IFRS and UK GAAP. The full population of divergences will only be known after 1 October 2005, the date that easyJet is to adopt IFRS.

Key divergences

IAS 32 and 39 – Financial instruments

IAS 32 and 39 specify accounting treatments for financial instruments which are radically different from UK GAAP. The current rules for the introduction of IFRS allow for IAS 32 and 39 to be adopted only on 1 October 2005 rather than 1 October 2004, for all other IFRS. easyJet has no plans to adopt IAS 32 and 39 early. However, the project team is continuing with its work on the assumption that easyJet will need to be ready to adopt these standards from 1 October 2005.

Under UK GAAP, gains and losses on derivative financial instruments are recognised in the profit and loss account when realised as an offset to the related income or expense. Under IAS 39, financial instruments will be valued on the balance sheet at fair value. Such hedges will be subject to strict tests in terms of both their effectiveness and documentation. If these tests are not satisfied, then movements in the fair value of financial instruments will be taken to the profit and loss account.

Included within financial instruments under IAS 39 is also the requirement that certain purchase options should be valued on the balance sheet. At present the Company has options to purchase aircraft in the future at a price that has already been determined. To the extent that these options remain at the date at which the Group implements IAS 39 they will be valued and included within the Group balance sheet under IFRS.

IFRS 3 – Business combinations

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

IFRS 2 – Share based payments

Under UK GAAP, no charge is reflected in the profit and loss account for easyJet's share options. However, easyjet has been disclosing (by way of a note to the financial statements) the value of all options issued since the inception of the Group, under the terms of FRED 31, a proposed UK accounting standard. FRED 31 has been superceded by UK accounting standard FRS 20, "Share-Based Payment", which is effective for schemes issued after 7 November 2002 which have not vested prior to 1 January 2005. This year's footnote disclosure meets FRS 20 requirements.

The requirements of IFRS 2 are identical to those of FRS 20, except that the charge will be recognised in the profit and loss account rather than by way of a footnote.

IAS 12 – Income taxes

Under UK GAAP, deferred tax assets and liabilities are calculated on a timing difference basis, with the calculation having a predominantly profit and loss account focus. Under IAS 12, deferred tax will be calculated on a temporary difference basis with a more balance sheet focus, with provision for many more timing differences. In particular, there are differences in the provision requirements for revaluations of non-monetary items, sale of assets where rollover relief may be available and unremitted earnings from subsidiaries and associates.

At the date of this report, easyJet has reviewed the guidance issued thus far from the Inland Revenue (including that in the Finance Act 2004) as to the basis on which they will tax companies using IFRS. easyJet is working closely with its advisors to ensure that the taxation impact of this new regime is fully understood and managed.

Other information

Given the date of easyJet's year end (September), which makes it a relatively late adopter of IFRS, the project team will be analysing in detail actual published financial statements to determine the extent to which a "best practice" emerges. The project team will then make recommendations to amend proposed accounting treatments and disclosures, should it consider this to be necessary.

Footnotes

1) Represents the number of aircraft owned (including those held on lease arrangements of more than one month's duration) at the end of the relevant financial year.
2) Represents the average number of aircraft owned (including those held on lease arrangements of more than one month's duration) during the relevant financial year.
3) Represents the number of owned/leased aircraft in service at the end of the relevant financial year. Owned/leased aircraft in service exclude those in maintenance and those which have been delivered but have not yet entered service, or those out of service prior to disposal or return.
4) Represents the average number of owned/leased aircraft in service during the relevant financial year. Owned/leased aircraft in service exclude those in maintenance and those, which have been delivered but have not yet entered service, or those out of service prior to disposal or return.
5) Represents the number of one-way revenue flights.
6) Represents the number of hours that aircraft are in actual service, measured from the time that each aircraft leaves the terminal at the departure airport to the time that such aircraft arrives at the terminal at the arrival airport.
7) Represents the average number of block hours per day per aircraft owned/leased during the relevant financial year.
8) Represents the average number of block hours per day per aircraft operated during the relevant financial year.
9) Represents the sum by route of seats available for passengers multiplied by the number of kilometres those seats were flown.
10) Represents the number of earned seats flown by easyJet. Earned seats include seats that are flown whether or not the passenger turns up, because easyJet is generally a no-refund airline and once a flight has departed a no-show customer is generally not entitled to change flights or seek a refund. Earned seats also include seats provided for promotional purposes and to easyJet staff for business travel.
11) Represents the number of passengers as a proportion of the number of seats available for passengers. No weighting of the load factor is carried out to recognise the effect of varying flight (or "stage") lengths.
12) Represents the sum by route of passengers multiplied by the number of kilometres those passengers were flown.
13) Represents the number of seats initially sold over the internet divided by the total number of seats initially sold, during the relevant financial year. Sales that are originally made via the internet, but are later amended by phone, are included.
14) Represents the number of seats initially sold over the internet divided by the total number of seats initially sold, during the final month of the relevant financial year. Sales that are originally made via the internet, but are later amended by phone, are included.
15) Represents the passenger revenue divided by the number of passengers carried.
16) Represents the total revenue divided by the total number of ASKs.
17) Represents the difference between total revenue and profit before tax, divided by the total number of ASKs.
18) Represents the difference between total revenue and profit before tax less the amounts charged in respect of goodwill amortisation, committed contribution to Deutsche BA, amounts written off investments, costs of integrating the businesses of easyJet and Go Fly and accelerated depreciation of owned aircraft.
19) Includes revenue from in-flight sales, excess baggage charges, booking charge fees, credit card booking fees and commissions received from products and services sold such as hotel and car hire bookings and travel insurance.
20) When easyJet makes refunds to customers, it records refunds made in the pre-flight period as reductions in revenue and any refunds made post-flight as marketing expenses, included in "Other costs", above.
21) Includes principally administrative and operational costs not included elsewhere, the costs associated with short-term aircraft wet leases, insurance and any post-flight refunds, together with certain other items, such as currency exchange gains and losses and profit or loss on the disposal of fixed assets.
22) EBITDAR is defined by the company as earnings before interest, taxes, depreciation, amortisation and lease payments (excluding the maintenance reserve component of operating lease payments). Maintenance reserve costs are charged to the cost heading, "Maintenance".

Corporate governance

Principles statement

easyJet is committed to high standards of corporate governance. The Combined Code has recently been revised and the latest version applies to all reporting periods beginning after 1 November 2003. Notwithstanding this, easyJet has adopted the revised Combined Code early. During the year, it has complied with the best practice provisions of section 1 of the Combined Code, with four exceptions which are set out below.

Statement of compliance

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

a) Prior to admission to the Official List of the UK Listing Authority, the easyJet Group granted share options without performance criteria attached to them. The majority of these options remain outstanding. Options granted since December 2000 have had performance conditions attached. The Group does not intend to grant further share options to employees without attaching performance conditions to their exercise.
b) The Senior Independent Non-Executive Director does not have regular meetings with major external shareholders, on the basis that the Board considers this more appropriate to be carried out by the Chairman.
c) Where non-executive directors exercise share options, they are not required to retain these until at least one year after they have resigned from the Board. However, given that the Board has decided not to grant any further options to non-executive directors, this only relates to existing options held.
d) Whilst the terms of reference of various committees and contracts of directors are made available at the Annual General Meeting and on request, they will not be available on the Company website until early 2005.

Board of Directors

As at 30 September 2004, the Board comprised six non-executive directors, including the Chairman, and two executive directors, as set out on page 28 of this report.

The roles of Chairman (Sir Colin Chandler) and Chief Executive (Ray Webster) are separated and clearly defined. Tony Illsley is the Senior Independent Non-Executive Director. The Company regards Sir Colin Chandler, Dawn Airey, Colin Day, Tony Illsley and Diederik Karsten as independent non-executive directors.

Nick Hartley resigned from the Board on 2 August 2004. Until November 2002, Nick Hartley provided services to private companies in which Stelios Haji-Ioannou had an interest. Since that time, his consultancy services have ceased and he has stepped down from the boards of easyCar Limited and easyInternetcafe Limited. He remains the Chairman of Stelmar Shipping. As a consequence, the easyJet Board debated whether Nick Hartley should be considered independent and agreed that he should be considered to be so, on the basis that he had severed most of his links with the Haji-Ioannou businesses and therefore was independent.

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

There are matters which are reserved to the Board by virtue of a resolution of the Board. These include matters relating to share issues, material acquisitions and disposals of assets, connected party transactions, borrowings and guarantees, material contracts, capital expenditure, shareholder and investor relations, officers and employees, treasury policies, risk management policies, donations, litigation, strategy, internal control, budgets, accounting issues and authority levels. By resolution, the Board has delegated certain authorities to management. This delegation covers areas such as finance (expenditure, treasury and the sale of assets), revenue management, customer compensation, contracts, leases, employment and business development.

The Chairman participates in investor meetings and makes himself available for questions, in person, at the time of major announcements. This direct contact, together with feedback from management and from the Company's two sponsors (ABN Amro and Credit Suisse First Boston), is used to brief the Board. ABN Amro replaced UBS in September 2004. In addition, the Board has sought direct feedback from sources who are independent of easyJet. The Board considers that it is appropriate for the Chairman to be the conduit with investors, rather than the Senior Independent Non-Executive Director. The Chairman regularly updates the Board and particularly the Senior Independent Non-Executive Director on the results of his meetings and the opinions of the investors. On this basis, easyJet considers that the Senior Independent Non-Executive Director is able to gain full awareness of the issues and concerns of major shareholders. Notwithstanding this policy, all directors have a standing invitation to participate in meetings with investors.

The Senior Independent Non-Executive Director has met during the year with the other non-executive directors (excluding the Chairman) to appraise the Chairman's performance.

The Board meets regularly, with ten meetings being held during the year ended 30 September 2004. All members of the Board are supplied in advance with appropriate information covering matters which are to be considered.

	Number of meetings attended	Total number of meetings
Sir Colin Chandler	10	10
Tony Illsley	9	10
Dawn Airey (appointed 6 April 2004)	6	7
Amir Eilon	10	10
Colin Day	9	10
Diederik Karsten	7	10
Ray Webster	10	10
Chris Walton	10	10
Directors who resigned during the year:		
Nick Hartley (resigned 2 August 2004)	7	7

The Chairman discusses governance and strategy with major shareholders on a regular basis and communicates the results of these visits to the Board. All non-executive directors have been offered the opportunity to attend meetings with major shareholders. Similarly, if a major shareholder requests the attendance of a specific non-executive director at a meeting, then they will be made available. However, there are no instances of shareholders having made such requests during the year.

The Chairman confers with other non-executive directors on a regular basis, without the executive directors present.

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

All directors, both executive and non-executive are encouraged to request inclusion of any unresolved concerns that they may have in the Board minutes.

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

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

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

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

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

Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors, Tony Illsley, the Chairman, Colin Day and Dawn Airey. This Committee, which meets at least twice per year, has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the executive directors. In addition to meetings to allot shares under the Company's share option schemes, the Committee has met five times during the year.

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

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

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

The record of attendance is:

	Number of meetings attended	Total number of meetings
Tony Illsley	5	5
Colin Day	5	5
Dawn Airey (appointed 6 April 2004)	2	3
Director who resigned during the year:		
Nick Hartley (resigned 2 August 2004)	3	3
By invitation:		
Ray Webster	5	5

Audit Committee

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

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

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

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

In order to preserve auditor independence, the Board has decided that the auditor will not be used for consulting services unless this is in the best interests of the Company. The auditors are asked on a regular basis to articulate the steps that they have taken to ensure their independence. easyJet then monitors the auditor's performance and behaviour during the exercise of their duties. In the financial year, easyJet spent £0.3 million (2003: £0.5 million) with KPMG in respect of non-audit services and £0.5 million (2003: £1.0 million) with other parties who are entitled to act as registered auditors.

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

The record of attendance is:

	Number of meetings attended	Total number of meetings
Colin Day	3	3
Tony Illsley	3	3
Diederik Karsten	3	3
By invitation:		
Ray Webster	2	3
Chris Walton	3	3

Nominations Committee

As at 30 September 2004, the Nominations Committee members are Sir Colin Chandler (Chairman), Colin Day and Tony Illsley.

This Committee is responsible for nominating candidates to fill Board positions and for making recommendations on Board composition and balance. In appointing non-executive directors, the Board's practice is to use an external recruitment agency. This has been the case for the most recent appointments to the Board, including Dawn Airey, the only director to have been appointed during the year.

The terms of reference of the Nominations Committee have been documented and agreed by the main Board. The full text of the terms of reference will be available in the investor relations section of the easyJet website, www.easyJet.com. The key terms are as follows:

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

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

The record of attendance is:

	Number of meetings attended	Total number of meetings
Sir Colin Chandler	1	1
Colin Day	1	1
Tony Illsley	1	1
Director who resigned during the year:		
Nick Hartley (resigned 2 August 2004)	–	–
By invitation:		
Ray Webster	–	–

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

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

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

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

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

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

Internal control

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

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

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

- Ongoing assurance and risk management is provided through the various monitoring reviews and reporting mechanisms embedded into the business operations. Key monitoring reviews include those conducted continuously by the Quality Group, in weekly meetings, including Commercial Operations, Marketing and Finance, and in monthly Executive Committee meetings, where individual department and overall business performance is reviewed. Control weaknesses or failings are considered by the Board if they arise;
- An internal control function has been established which considers, reviews and tests internal control matters throughout the Group. This is not an internal audit function, but is an addition to existing processes within easyJet;
- The Board considers the current significant risks at each of its formal meetings;
- Management considers current significant business risks in formal monthly meetings;
- Risk reviews form an integral part of specific projects, such as the acquisition of Go Fly and the decision to select Airbus as a new aircraft fleet supplier;
- An annual risk and control identification process, together with control effectiveness testing, is conducted. The key risks to significant business objectives are identified and the key controls to manage these risks to the desired level are identified. The controls, which mitigate or minimise the high level risks, are tested to ensure that they are in operation. The results of this testing are reported to the Board who consider whether these high level risks are effectively controlled;
- Action plans are set to address any control weaknesses or gaps in controls identified; and
- A register of all risks has been created forming a key risk register for the Company.

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

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

Internal audit

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

Going concern

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

Social, environmental and ethical report

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

Environment

We are the largest intra-United Kingdom and fifth largest intra-European airline in terms of passengers carried. With this commercial success, we acknowledge that as an operator of aircraft, we are impacting the environment in two key areas, namely aircraft noise and aircraft engine emissions affecting air quality.

Even though considerable aviation industry reductions in emissions have been achieved, the success of the deregulation of air transport is delivering higher growth rates than other modes of transport, which is giving a higher growth particularly in emissions.

The Intergovernmental Panel on Climate Change 1999 report on "Aviation and Climate Change" estimates aviation contributes 3.5% of human-induced global warming which may increase to 15% by 2050.

The major recent world effort to reduce emissions, the 1997 Kyoto Protocol, in which aviation emissions are treated as a special case, is gathering momentum for formal adoption. Meanwhile there are active discussions as to how to reduce aviation emissions.

The principal area of concern is emission of the so-called greenhouse gases notably carbon dioxide, nitrous oxides, sulphur oxides and water vapour. Further to these, because of the specific nature of these emissions, the total effect of aviation greenhouse gases increases the impact beyond that of carbon dioxide alone.

For noise, the most recent development of a way forward has been the ICAO "Balanced Approach" to improvement. This has been generally adopted and given legal force by the EU.

We aim to minimise our effect on the environment by taking maximum advantage of the many benefits of efficient modern aircraft, high utilisation operations, good environmental practices and working with others in the air transport value chain to improve the overall air transport system.

We believe that our business model is a most effective basic means to combat the environmental effects of aviation as a transport mode. Three elements predominate in this view: Firstly, we seek to remove unnecessary flights entirely. A fundamental approach is the use of "point-to-point" (origin airport direct to destination airport) flight schedules. This concept removes the need for a hub airport (and the flight to it) and more simply aims to fly "the shortest distance between two airports", so giving an immediate environmental benefit. Secondly, we maximise the use of our aircraft and associated resources. We provide efficient cabin configurations consistent with our low cost approach with customer comfort and fly intensively with an average flight time of 1.69 hours with regular turnaround time standard of 20 minutes giving a daily utilisation of 11.2 block hours. Thirdly, we minimise "flight waste" by providing a strong value proposition that achieves one of the industry's highest annual passenger load factor of 84.5% in the year to September 2004.

To underpin our business efficiency and environmental performance, our policy is to grow the business using new aircraft, while continuing to retire older aircraft, resulting in a fleet average age of 4.5 years as at 30 September 2004 (6.0 years at 30 September 2003). This will reduce year on year as we bring the balance of our Airbus aircraft order into service by 2007. To further support the goal of a young fleet, we have a policy of replacing individual aircraft within ten years of purchase.

We have an ongoing fuel efficiency programme which reviews operational procedures and monitors the performance of the fleet to ensure that accurate fuel burn information is provided to the crew. Changes to operational techniques this year have resulted in a reduction in fuel burn and further refinements to the flight planning system have contributed to this by reducing the amount of fuel needed. In the forthcoming year, further operational changes are to be made, and this together with the introduction of the new A319 fleet is expected to result in a further 2% reduction in fuel used.

Social, environmental and ethical report continued

Beyond the largely internal actions already discussed, we are taking a global view on how we might further minimise the environmental impact of our operations.

European air transport is continuing to grow (estimated by Eurocontrol at 3-4% per year between 2004-2010) and this growth has highlighted limitations to its efficiency, most noticeable in the form of flight delays and longer flight tracks. A call for action by the EU to significantly reduce delays and their associated effects has led to the introduction of the European Single Sky Regulations which will be progressively implemented from January 2005; among many benefits will be more efficient flights and consequent lower emissions. We have been actively participating in public meetings and formally commenting on the drafting of regulations that will implement the Single Sky.

We are actively participating in and contributing to a number of European air traffic management improvement initiatives in support of the Single Sky including one which will define the European air traffic master plan from 2007 through to 2020. This aims to ensure efficiency and environmental effects are as positive as our industry, its knowledge and technology will allow, to provide a sustainable air transport system.

In parallel with this activity, we are in discussions with our UK aviation partners and regulator on combined initiatives, such as the use of precision area navigation and continuous descent approaches, to increase the flight efficiency of our aircraft and so reduce noise and emissions.

We have voluntarily given our support to aviation generally and easyJet specifically, joining the EU Emissions Trading Scheme, proposed to start in 2008. This is essentially an emissions balancing market, which incentivises participants to reduce emissions to avoid the cost to the business of purchasing energy credits from other businesses that have low emissions.

We have engaged with other transport suppliers and negotiated incentive pricing offers that encourage our people and customers to use more environmentally efficient methods of airport access. Notable of these in London is reduced price tickets on selected train and bus services when purchased through our website.

We minimise waste of resources in a number of ways. Key amongst these is our policy of operating a near paperless office, where the majority of hard copy documents are scanned into electronic format before disposing of the paper through our recycling programme. This programme principally covers paper, including a special secure disposal for commercially sensitive waste and printer toner cartridges.

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

Social

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

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

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

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

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

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

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

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

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

We aim to provide a safe and efficient work environment for all our people. Beyond those engaged in office-based work, the large majority of our people are aircrew. They have been one of the mainstays to our success, giving high effort to their role. The rapid expansion of the airline has from time to time created extra load from events such as service disruption and this coupled with the effect on fatigue, subsequent rest and lifestyle, proved challenging for them all. To improve this situation we are continuing to invest substantial effort and money into rostering practice and systems. This year we completed a unique study on the effect of fatigue on our flight crew. This gave sufficient empirical evidence to the UK Civil Aviation Authority to obtain their approval to change our Flight Time Limitations Scheme to both minimise fatigue and improve the lifestyle opportunity of our aircrew.

We introduced the GoMAD rewards scheme to give social and financial recognition, on a monthly basis, to those of our people who so often go beyond their normal duties to assist others.

easyJet is a committed equal opportunities employer. Our policy aims to ensure that no job applicant or employee receives less favourable treatment on the basis of their age, colour, creed, disability, full or part time status, gender, marital status, nationality or ethnic origin, race, religion or sexual orientation. We are building a workforce that has a balanced age profile and intends to maintain opportunities for younger and older people alike. A visible industry-leading example of this is that we now have no age limit for the employment of cabin crew.

During October 2003 we supported Cancer Research UK's Breast Cancer Awareness Month with a variety of fund-raising events involving both staff and passengers throughout the UK and onboard European flights. We raised a total of £235,000 and we also assisted in raising the profile of the charity by promoting its goals through our website and in-flight magazine supported by provocative posters. In addition, the services of the call-centre were volunteered for BBC Sport Relief and Children in Need.

In November, we introduced a new charity policy to recognise and devote efforts to a single charity each year. The charity chosen was Whizz-Kidz which was set up to help provide mobility for children. The partnership began with great success as the airline sponsored the launch of the new Whizz-Kidz website with a click and give campaign, raising £50,000 within the first month. The campaign was further promoted on our website, in emails to customers and our in-flight magazine. The partnership continued with a variety of internal and external fund-raising events throughout the year and introduced the brand to over 20 million passengers. Over £345,000 was raised by the end of the partnership and Whizz-Kidz received coverage in major national, regional press and television.

Following the success of our partnership with Whizz-Kidz, we look forward to continuing the charity of the year policy with the National Society for Epilepsy in the 2005 financial year.

Ethical

easyJet insists that every employee must:

- Keep all dealings open and legitimate. Ensure that these are always consistent with good business practices;
- Keep full and accurate records of all business dealings;
- Avoid any suspicion of a conflict of interest; and
- Refuse any gifts or gratuities, which may be considered to be bribes from any organisation with which they have, or might have, business dealings concerned with easyJet's affairs.

easyJet prides itself on the efficient and friendly service that it offers to its customers. Each employee contributes to this and easyJet requires that they must perform their duties with efficiency and diligence and behave towards fellow employees and customers with courtesy and decorum. They must not misuse, damage or misappropriate easyJet's property and not cause offence to customers or potential customers.

easyJet does not tolerate the verbal or physical assault of its customers or employees. An employee's actions when dealing with easyJet's customers, agents and suppliers should always be those of a competent ambassador.



Directors

From top left: Sir Colin Chandler, Ray Webster, Chris Walton.
From bottom left: Dawn Airey, Colin Day, Amir Eilon, Tony Illsley, and Diederik Karsten.





Sir Colin Chandler (Non-Executive Chairman)
Colin (64) joined easyJet in April 2002 and was appointed Chairman in November 2002. He is currently Non-Executive Deputy Chairman of Smiths Group plc, having been a non-executive director of TI Group since 1992. Colin has been variously Managing Director, Chief Executive and then Chairman of Vickers plc. Earlier he was seconded from British Aerospace to the role of Head of Defence Export Services, Ministry of Defence. He was Chairman of Racal Electronics plc. He is Chairman of TI Automotive Limited, Chairman of Automotive Technik Limited and Pro-Chancellor of Cranfield University.

Ray Webster (Chief Executive)
Prior to joining easyJet in March 1996, Ray (58) had 27 years of experience in the airline industry at Air New Zealand. In his career with Air New Zealand he held various positions within the engineering business unit, formed their cargo business unit and had responsibility for marketing, sales and operations within the Americas market. His last role at Air New Zealand was as General Manager of Strategic Planning, where he was responsible for the identification, evaluation and implementation of corporate development options, including the concept development, planning and implementation of a start up "value based" (low-cost) airline serving short-haul routes within the Australasian market.

Directors continued

Chris Walton (Finance Director and CFO)
Chris (47) joined easyJet in 1999. Chris is also a director of easyJet Switzerland S.A. (owned 49% by easyJet plc). He has 18 years of experience in the airline and logistics industries working in senior finance and commercial capacities for Qantas Airways, Air New Zealand, Australia Post and Australian Airlines. At various times, his roles in these companies have included responsibility for sales and marketing, strategic planning and the negotiation of strategic alliances. Earlier in his career, he worked in non-financial roles in the mining and energy sectors, and in the Australian Senate. His financial experience includes a corporate trade sale, an IPO, corporate reconstructions, M&A transactions and cross border financings. Chris is a member of the Regional Economic Advisory Panel (South East & Anglia) of the Bank of England.

Dawn Airey (Independent Non-Executive Director)
Dawn (43) joined easyJet in April 2004. As Managing Director, Sky Networks, Dawn is responsible for 79 wholly owned channels, including Sky One, Sky News, Sky Movies and Sky Media (the ad sales department). Prior to joining Sky in January 2003, Dawn was Chief Executive of Channel five (2000-2002); Director of Programmes, Channel Five (1996-2000); Controller of Arts and Entertainment at Channel 4 (1994-1996) and Controller of Network Children's and Daytime Programmes at ITV (1993-1994). Dawn has worked in television for 19 years and began her career at Central TV as a management trainee. She is Vice President of the Royal Television Society, the Executive Chair of the Media Guardian Edinburgh International Television Festival and a trustee of the Media Trust. Dawn is a member of the board of the International Emmy Awards, a governor of the Banff Television Festival and an honorary committee member of the Monte Carlo Television Festival.

Colin Day (Independent Non-Executive Director)
Colin (49) joined easyJet in September 2000 and is Chairman of the Audit Committee. He is currently Chief Financial Officer for Reckitt Benckiser Plc, the world's largest household cleaning products company. Before that Colin was Group Finance Director of Aegis Plc, Europe's leading media buying and planning company. Prior to joining Aegis, Colin spent six years in a number of divisional finance director positions with ABB, latterly as Group Finance Director of ABB Instrumentation. Much of his earlier career was spent in various finance positions with De La Rue Group. Colin was previously a non-executive director of Bell Group Plc and Vero Group.

Amir Eilon (Non-Executive Director)
Amir (55) spent the major part of his career working for investment banks specialising in particular in global capital markets. Before joining easyJet in March 1999, Amir was at Credit Suisse First Boston private equity group where he had joint responsibility for western Europe within its international group. Prior to that, Amir was at Barclays de Zoette Wedd for eight years where he was Head of Global Capital Markets. Since then Amir has established his own consultancy group in Eilon & Associates. Amir is also a non-executive director of Flamingo Holdings and Tidal Electric.

Tony Illsley (Independent Senior Non-Executive Director)
Tony (48) joined the Board of easyJet plc in September 2000 and is Chairman of the Remuneration Committee. He was formerly Chief Executive Officer of Telewest plc prior to the merger with Flextech plc. Prior to this, he was with PepsiCo as President of Walkers Snack Foods and before this he was President of Pepsi-Cola Asia Pacific. He is also a non-executive director of Capital Radio plc, and non-executive chairman of Lionhead Studios plc, Leisure Link Group Limited and Power Paper Limited.

Diederik Karsten (Independent Non-Executive Director)
Diederik (47) joined easyJet in May 2001 and is currently Chief Executive Officer of UPC The Netherlands, the country's leading cable TV company. From February 2000 to November 2001, he was Chief Executive Officer of KPN Mobile N.V. Previously he was Director of the business unit Mobile Telephony and Director of The Mobile Net, parts of KPN Telecom. Prior to joining KPN in 1996, Diederik held various management and marketing positions at Pepsi Co, including Vice President of Sales and Marketing at Snacks Ventures Europe and Sales and Marketing Director Pepsi Cola, Germany. Before that, Diederik held various marketing positions at Procter & Gamble. Diederik is also a non-executive director of BGN B.V. (Bookstores Group, The Netherlands).

Directors' report

The directors present the audited consolidated financial statements for easyJet plc ("the Company") for the year ended 30 September 2004.

Principal activity

The principal activity of the Company and its subsidiary companies ("the Group" or "easyJet") is the provision of a "low-cost, good value" airline service.

Business review

easyJet operates one of Europe's leading low-fare scheduled passenger airline businesses. It provides high frequency services on short-haul and medium-haul point-to-point routes within Europe from its 14 crew bases at Belfast, Berlin Schönefeld, Bristol, Dortmund, East Midlands, Edinburgh, Geneva, Glasgow, Liverpool, London Luton, London Stansted, London Gatwick, Newcastle and Paris.

easyJet offers a simple, "no frills" service aimed at both the leisure and business travel markets. Fares are, on average, significantly below those offered by traditional full service, or "multi-product", airlines.

During the year ended 30 September 2002, easyJet acquired all the share capital of Newgo1 Limited, which was the ultimate holding company of Go Fly, a low cost airline. The merger of the businesses of Go Fly and easyJet was completed in March 2004, with the milestone of combination completion being announced.

During the year ended 30 September 2004, easyJet flew 24.3 million passengers. This represented an increase of 19.7% on the previous year. Load factors remained strong at 84.5% (2003: 84.1%), but due to competitive pressures, the average net fare fell 2.3% from £43.28 to £42.28.

Profit before tax for the year was £62.2 million, (2003: £51.5 million), which, after adding back goodwill amortisation of £17.1 million (2003: £17.6 million), accelerated depreciation of certain owned aircraft of £6.1 million (2003: £10.2 million), expenses related to the Deutsche BA option of £nil (2003: £9.1 million) and Go Fly integration costs of £nil (2003: £7.9 million), amounted to £85.4 million (2003: £96.3 million).

Retained profit for the year was £41.1 million (2003: £32.4 million). The directors do not recommend the payment of a dividend (2003: £nil).

As at 30 September 2004 easyJet operated on 153 routes, serving 44 cities, and had a fleet of 71 Boeing B737 aircraft and 21 Airbus A319 aircraft. easyJet flew 192,742 sectors during the year, an increase of 18.4% over the prior year.

During the year, six new cities were added to the easyJet network – Basel, Berlin, Budapest, Cologne, Dortmund and Ljubljana – as easyJet expanded into eastern Europe at the same time as the enlargement of the EU came into effect. Overall, 51 new routes were started in 2004. Two of the new cities, Berlin and Dortmund, were established as bases. Rapid expansion has taken place at both bases, with Berlin having 13 routes in operation at 30 September 2004, with a further seven routes announced to commence during the coming winter. Dortmund had eight routes in operation at 30 September 2004.

Further growth is planned for the winter, and many announcements have been made. We have announced 12 new cities: Almeria, Bratislava, Cork, Grenoble, Knock, Krakow, Murcia, Riga, Shannon, Tallinn, Valencia and Warsaw. These reflect the expansion in the EU during the year. We have now announced services to six of the new accession states. Further growth has been announced from a number of cities on our network including Geneva, Berlin, Budapest, Dortmund and London Luton.

easyJet has a purchase agreement with Airbus for 120 new A319 aircraft. As of 30 September 2004, 21 of these have been delivered with the remainder being due for delivery over the period up until December 2007.

Additional information on a review of the development of the business during the financial year, the position at the end of the financial year and likely future developments are given in the Chairman's statement, Chief Executive's review and the operational and financial review.

Safety and security

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

Customer service

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

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

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

People and culture

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

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

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

It is the Group's policy to give full and fair consideration to applications for employment from disabled individuals, having regard to their particular aptitudes and abilities, and to provide such individuals with equal training, development, and opportunities for promotion.

easyJet is committed to generating an awareness among its employees of the Group's performance, development and progress, and to providing employees with information on matters of concern to them. It achieves this through regular communication meetings, employee newsletters and management briefings. Also, communication meetings are used by employee representatives to air the views of employees.

Internet sales

easyJet sells the majority of its seats via its own websites. In the year to 30 September 2004, 95.7% (2003: 93.8%) of initial bookings were made via the internet.

Directors and directors' interests

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

Non-executive:
Sir Colin Chandler
Dawn Airey (appointed 6 April 2004)
Amir Eilon
Nick Hartley (resigned 2 August 2004)
Anthony Illsley
Colin Day
Diederik Karsten

Executive
Ray Webster
Chris Walton

Executive directors are deemed to be interested in the shares held by the easyJet UK Employee Share Ownership Trust and the easyJet Overseas Employee Share Ownership Trust (the "Trusts"). At 30 September 2004, ordinary shares held in the Trusts were as follows:

	Ordinary shares
Total held by UK Trust (unallocated)	84,809
Total held by Overseas Trust (unallocated)	15,472
MCIP (allocated but now lapsed)	94,561
Total unallocated/lapsed	**194,842**
Total held by UK Trust (allocated)	15,511
Total held by Overseas Trust of which (allocated)	57,037
Total allocated	**72,548**
Total	**267,390**

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

Policy and practice on payment of creditors

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

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

At 30 September 2004, the number of creditor days outstanding for the Group was seven days (2003: ten days), and the Company, nil days (2002: nil days).

Political and charitable contributions

During the year, the Group made charitable contributions totalling £64,321 (2003: £486). In addition, the Group provides free flights to selected charities. There is minimal incremental cost to the Group associated with these gifts.

There were no contributions made for political purposes.

Post balance sheet events

During October 2004 easyJet has indicated its intention to invoke certain rights under its lease agreements to reduce the lease term by three years of six leased aircraft previously due to return in 2009 and 2010. It has also made adjustments to the arrival date of three Airbus aircraft.

easyJet Airline Company Limited, a Group company, has signed an agreement with Amir Eilon, a non-executive director, to provide consulting services to easyJet in the six months ending 31 March 2005 in respect of a specific business development project. Payment for services is based on a daily rate of £1,500. Total remuneration is not expected to exceed £100,000.

Substantial interests

As at 15 November 2004, the Company has been notified of the following disclosable interests of 3% or more in its ordinary shares:

	Number of shares	Percentage
easyGroup Limited (holding vehicle for Stelios Haji-Ioannou)	66,076,451	16.57%
Polys Holdings Limited (holding vehicle for Polys Haji-Ioannou)	47,954,575	12.02%
Clelia Holdings Limited (holding vehicle for Clelia Haji-Ioannou)	47,954,575	12.02%
Flugleidir Fjarfestingarfelag ehf. (Icelandair Investments)	40,307,173	10.11%
MFS Investment Management	13,627,792	3.41%

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditor to the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

C Walton
Director

easyLand
London Luton Airport
Luton
Bedfordshire LU2 9LS

22 November 2004

Report on directors' remuneration

This report has been prepared in accordance with the directors' remuneration report regulations 2002 (the "Regulations"), which introduced new statutory requirements for the disclosure of directors' remuneration.

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

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

Unaudited information

Membership and responsibilities of the Remuneration Committee

The Remuneration Committee comprises three independent non-executive directors, Tony Illsley, the Chairman, Colin Day and Dawn Airey. During the year, Nick Hartley also sat on the Committee. During the financial year, the Committee has met five times, in addition to meetings to allot shares under the Company's share option schemes. The Committee 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.

The Board has delegated to the Remuneration Committee responsibility to:

- Make recommendations to the Board in respect of the remuneration policy for executive directors and the Group's other senior management;
- Approve any new service agreement entered into between the Group and any executive director; and
- Make recommendations to the Board on the implementation of the Group's performance bonus scheme, share option schemes and the Management Combination Incentive Plan.

The Company appointed and the Committee took advice from KPMG in respect of the operation of the easyJet Management Combination Incentive Plan. KPMG are also the Company auditors. The Company appointed and the Committee took advice from the Monks Partnership in determining executive remuneration during the year.

The Committee has appointed New Bridge Street Consultants, LLP as remuneration advisers with effect from 30 June 2004. Apart from advice regarding the design, establishment and operation of remuneration arrangements, New Bridge Street Consultants provides no other services to the Company. The Committee's terms of reference, together with an explanation of New Bridge Street Consultants' connection with the Company, will be available on the Company's website (www.easyJet.com) within the investor relations section.

Policy

The objective of the Committee's remuneration policy is to reward the Company's executives competitively having regard to the comparative marketplace in order to ensure that they are properly motivated to perform in the best interests of the Company and its shareholders. The Company aims to provide competitive "Total pay" for "on target" performance, with superior awards for exceptional performance. The remuneration package provides an appropriate balance of short and long-term rewards consisting of:

- Market mid-level base salaries
- Material annual bonus opportunity for high performance against stretching performance targets
- Competitive levels of long-term incentives which deliver rewards if stretching performance targets are met
- "Lean" benefits provision. easyJet has a "no frills" approach and does not include, for example, company cars, final salary pensions or private medical insurance as part of the package.

Service contracts

The Company has service contracts with all its executive directors of no fixed term. It is Company policy that, for executive directors, such contracts should contain notice periods of not more than six months. There is no provision for compensation for loss of office other than the notice period of six months. In the event of such

termination, when determining the amount of compensation that is paid, the Committee will take into account the departing director's duty to mitigate his loss. The Committee believes that this approach provides an appropriate balance between the interests of the Company and the executives, and also reflects best practice.

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

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

	Date of contract	Unexpired term	Notice period	Provision for compensation
Non-executive				
Sir Colin Chandler	26 February 2004	2 years 3 months	3 year fixed term	None
Amir Eilon	22 October 2003	2 years	3 year fixed term	None
Dawn Airey	5 April 2004	2 years 5 months	3 year fixed term	None
Anthony Illsley	22 October 2003	1 year 10 months	3 year fixed term	None
Colin Day	22 October 2003	1 year 10 months	3 year fixed term	None
Diederik Karsten	11 May 2004	2 years 6 months	3 year fixed term	None
Executive				
Ray Webster	18 June 2002	n/a	6 months	6 months
Chris Walton	18 June 2002	n/a	6 months	6 months

Copies of all the service contracts for both executive and non-executive directors will be available within the investor relations section of the easyJet website, www.easyJet.com .

Remuneration packages

The remuneration packages of the executive directors comprise a combination of basic salary, annual bonus, pension contributions and participation in long-term incentive schemes. The Committee has concluded that performance related elements form a significant proportion of the remuneration of the executive directors. Full details of the executive directors' remuneration are set out on page 46 below (for their remuneration) and page 48 below (for their share options).

In addition, the Committee has, with the assistance of New Bridge Street Consultants, recently carried out a review of all aspects of remuneration of its senior executives, with particular emphasis on long-term incentive provision. The main conclusion of this review was that the Executive Share Option Schemes should, in the future, cease to be the sole share-based long-term incentive arrangement for these senior executives. Instead, the Committee believes that a new Long Term Incentive Plan should be established, further details of which are set out below and in the Notice of Annual General Meeting (AGM). The Company is also looking to extend share ownership throughout the Company by commencing operation of its Share Incentive Plan (the establishment of which has been previously authorised) and the introduction of a new Save As You Earn Plan (further details of which are also set out in the Notice of AGM).

The Board as a whole determines the remuneration of the Company's non-executive directors with non-executive directors exempting themselves from voting as appropriate. When determining the remuneration of non-executive directors, account is taken of practice adopted in other similar organisations.

Basic salary

Salaries are reviewed annually for directors and are considered in light of: independent market comparisons against similar positions, Retail Price Index movements and a formal appraisal of their contribution to the business. Salary increases for Ray Webster and Chris Walton in October 2003 reflected the increase in Company size since last formal review and the competitive environment, where senior executives from easyJet were potential targets for other low cost start-ups and other companies in the airline sector.

Pension contributions

The Group pays into a defined contribution pension scheme for executive directors at 7% of their base salaries. Executive directors are in the same pension plan as all eligible UK staff.

Annual bonus scheme

An annual bonus scheme exists for all executive directors. The annual bonus opportunity of the Chief Executive and other senior executives of 200% and 100% of salary respectively remains unchanged. Annual bonuses are subject to achieving very demanding financial (profit before tax) and personal performance targets. These elements are felt to be challenging, aligned to shareholder interests and appropriate. Actual payments reported reflect performance in 2003 and represent 30% of basic salary for Ray Webster and 9% for Chris Walton.

Long Term Incentive Plans

Share-based long-term incentives are currently provided to executive directors and other staff members under an Executive Share Option Scheme ("ESOS"). Under the ESOS, options over shares worth up to one times remuneration may be granted each year. Options vest subject to a sliding scale of real EPS growth targets that are measured over the three-year period following grant.

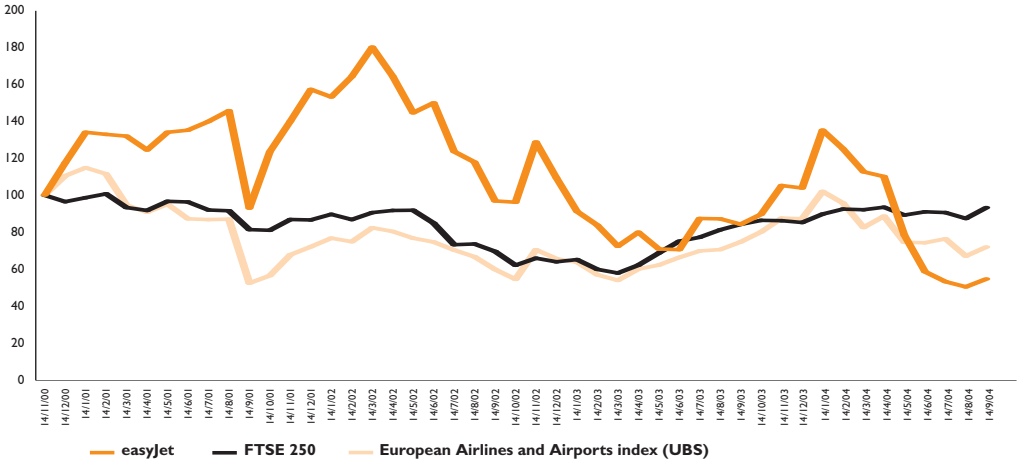
As set out above, shareholder approval is being sought at the forthcoming AGM for the establishment of a new Long-Term Incentive Plan (LTIP), which it is intended will become the main share-based incentive arrangement for senior executives. The ESOS will be retained for flexibility following the establishment of the LTIP, although it is the Committee's current intention that, following the establishment of the new LTIP, further grants under the ESOS will only be made in exceptional circumstances.

The main features of the new LTIP arrangements are set out in the appendix to the shareholder circulars attached and are deemed to be included in this annual report.

The option grants that it is intended to be made in this financial year will be subject to a performance condition that requires the Company's diluted normalised EPS (being that before goodwill and exceptional items) to grow between RPI plus 5% and 20% p.a. over the three-year period following grant. 30% of options become exercisable for achieving the lower EPS growth hurdle, with straight-line vesting up to the higher EPS growth hurdle where options become exercisable in full.

Total shareholder return

The following graphs show the Company's performance, measured by total shareholder return, compared with the performance of the FTSE Mid 250 and the European Airlines & Airports indices. The FTSE 250 index has been chosen since it is an index of companies of similar size to easyJet and the European Airlines and Airports index as it comprises companies in a similar sector. The total shareholder return index has been set to 100 as at 14 November 2000.



External appointments

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

Audited information

Directors' emoluments

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

	Emoluments excluding pension contributions				Pension contributions	
	2004 Salary/fees £000	**2004 Bonus £000**	**2004 Total £000**	2003 Total £000	**2004 £000**	2003 £000
Non-executive						
Stelios Haji-Ioannou *(resigned 26 November 2002)*	**–**	**–**	**–**	–	**–**	–
Sir Colin Chandler	**150**	**–**	**150**	139	**–**	–
Amir Eilon	**40**	**–**	**40**	38	**–**	–
Nick Hartley *(resigned 2 August 2004)*	**33**	**–**	**33**	38	**–**	–
Anthony Illsley	**50**	**–**	**50**	48	**–**	–
Dawn Airey *(appointed 6 April 2004)*	**17**	**–**	**17**	–	**–**	–
Colin Day	**50**	**–**	**50**	48	**–**	–
Diederik Karsten	**40**	**–**	**40**	38	**–**	–
John Quelch *(resigned 14 February 2003)*	**–**	**–**	**–**	14	**–**	–
Executive						
Ray Webster	**390**	**98**	**488**	421	**27**	23
Chris Walton	**215**	**16**	**231**	202	**15**	12
	985	**114**	**1,099**	986	**42**	35

An accrual has been made for directors' bonuses for the 2004 financial year, but no agreement has been reached as to the amounts to be paid to individual directors. The bonuses reflected in the table above represent the amounts paid to the directors during the relevant financial year for their services during the preceding financial year.

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

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

		2004		2003	
		Number of shares	**Value £000**	Number of shares	Value £000
Non-executive					
Nick Hartley	Key employee pre flotation share scheme	–	–	29,731	14
(resigned 2 August 2004)					
Anthony Illsley	Key employee pre flotation share scheme	–	–	3,666	–
Colin Day	Key employee pre flotation share scheme	–	–	3,666	–
John Quelch	Key employee pre flotation share scheme	–	–	3,666	–
(resigned 14 February 2003)					
Executive					
Ray Webster	Management Combination Incentive Plan	**76,927**	**262**	153,855	289
	Key Employee Pre-Flotation Share Option Scheme	**–**	**–**	1,236,746	565
Chris Walton	Management Combination Incentive Plan	**48,382**	**165**	96,764	182
	Key Employee Pre-Flotation Share Option Scheme	**–**	**–**	150,142	69
		125,309	**427**	1,678,236	1,119

Out of the directors, only Ray Webster, Amir Eilon and Anthony Illsey exercised options during the year. Details can be found below:

Name	Exercise date	Scheme	Number of shares exercised	Option exercise price (£)	Mid market price on date of exercise (£)	Gain (£)
Ray Webster	8 January 2004	B	500,000	1.6112	3.3385	863,650
Ray Webster	8 January 2004	E	153,855	Nil cost	3.3385	513,645
Amir Eilon	8 January 2004	A	500,000	1.6112	3.3385	863,650
Anthony Illsey	25 November 2003	B	3,666	2.0184	2.79	2,826

Directors' share options

Details of unexpired share options and awards under the schemes described above granted to the directors of the Company are as follows:

Director	Grant date	Interest in options and awards over ordinary shares	Exercise price £	Date from which exercisable	Expiry date of grant or award	Notes
Non-executive						
Sir Colin Chandler	–	–	–	–	–	–
Amir Eilon	29 Feb 2000	3,103,407	1.6112	22 Nov 2002	29 Feb 2010	A
	26 Sep 2000	106,830	1.6112	22 Nov 2002	26 Sep 2010	A
	7 Dec 2001	931	4.0192	7 Dec 2004	7 Dec 2011	C
Anthony Illsley	7 Dec 2001	931	4.0192	7 Dec 2004	7 Dec 2011	C
Colin Day	26 Sep 2000	14,667	2.0184	22 Nov 2000	26 Sep 2010	B
	7 Dec 2001	931	4.0192	7 Dec 2004	7 Dec 2011	C
Diederik Karsten	7 Dec 2001	15,599	4.0192	7 Dec 2004	7 Dec 2011	C
Executive						
Ray Webster	29 Feb 2000	4,304,544	1.6112	22 Nov 2000	29 Feb 2010	B
	26 Sep 2000	142,442	1.6112	22 Nov 2000	26 Sep 2010	B
	7 Dec 2001	51,029	4.0192	7 Dec 2004	7 Dec 2011	C
	7 Dec 2001	7,459	4.0192	7 Dec 2004	7 Dec 2011	D
	1 Aug 2002	76,927	nil	1 Aug 2002	31 Jan 2005	E
	6 Mar 2003	151,088	1.9995	6 Mar 2006	6 Mar 2013	C
	19 Jan 2004	102,874	3.6015	19 Jan 2007	19 Jan 2014	C
Chris Walton	29 Feb 2000	600,568	1.6112	22 Nov 2000	29 Feb 2010	B
	7 Dec 2001	28,994	4.0192	7 Dec 2004	7 Dec 2011	C
	7 Dec 2001	7,459	4.0192	7 Dec 2004	7 Dec 2011	D
	1 Aug 2002	145,146	Nil	1 Aug 2002	31 Jan 2005	E
	6 Mar 2003	79,186	1.9995	6 Mar 2006	6 Mar 2013	C
	19 Jan 2004	52,756	3.6015	19 Jan 2007	19 Jan 2014	C

Notes

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

B Key employee pre flotation share scheme. 25% of the share options granted vest at the dates below:
- Date of admission of the Company;
- First anniversary of admission;
- Second anniversary of admission; and
- Third anniversary of admission.

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

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

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

Performance criteria for C and D

December 2001: Based on diluted earnings per share pre-goodwill achieved in the year ending 30 September 2004. If diluted earnings per share pre-goodwill exceeds 37.3 pence, then all options will vest on 7 December 2004. If diluted earnings per share pre-goodwill exceeds 20.6 pence but is less than 37.3 pence, then between 50% and 100% of the options vest, on a pro rata basis. If diluted earnings per share pre-goodwill is exactly 20.6 pence, then 50% of the options vest. If diluted earnings per share pre-goodwill is below 20.6 pence then no options vest. Given actual earnings per share for the year ended 30 September 2004 have fallen below 20.6 pence, it is expected that none of the options will vest on 7 December 2004.

March 2003: Based on diluted earnings per share pre-goodwill achieved in the year ending 30 September 2005. If diluted earnings per share pre-goodwill exceeds 37.87 pence, then all options vest. If diluted earnings per share pre-goodwill exceeds 20.97 pence but is less than 37.87 pence, then between 50% and 100% of the options vest, on a pro rata basis. If diluted earnings per share pre-goodwill are exactly 20.97 pence, then 50% of the options vest. If diluted earnings per share pre-goodwill are below 20.97 pence then no options vest.

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

Milestones for E

1) The single brand milestone, triggered if within 12 months of completion of the purchase of Go Fly, the combined business had common inventory held on eRes (easyJet's booking system), yield managed in an identical way and sold off the same website, together with common check-in services around the combined network.
2) The single AOC milestone, triggered if within 18 months of completion the combined business commenced operation in the United Kingdom under one AOC.
3) The combination completion milestone, triggered if within 24 months of completion all substantial issues arising from the integration of the businesses of easyJet and Go Fly were complete.

During the year, shares vested for Ray Webster (76,927) and Chris Walton (48,382) under the Management Combination Incentive Plan that reflects the integration of easyJet and Go Fly. An independent assessment by KPMG ascertained that the third milestone was complete and this was ratified by the Remuneration Committee on 26 February 2004. The closing mid- market price on that day was £3.395 pence. The first two milestones had been met in 2003.

The middle market price of the Company's ordinary shares at 30 September 2004 was 127 pence and the range during the year to 30 September 2004 was 380.50 pence to 118.25 pence.

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

Report on directors' remuneration continued

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

	Key Employee Pre-Flotation Share Scheme	Non-Approved Discretionary Share Option Scheme	Approved Discretionary Share Option Scheme	Management Combination Incentive Plan	Total
Amir Eilon					
At 1 October 2003	3,710,237	931	–	–	3,711,168
Granted	–	–	–	–	–
Exercised	(500,000)	–	–	–	(500,000)
At 30 September 2004	**3,210,237**	**931**	**–**	**–**	**3,211,168**
Nick Hartley					
At 1 October 2003	118,924	931	–	–	119,855
Granted	–	–	–	–	–
Exercised	–	–	–	–	–
At 2 August 2004 *(date of resignation)*	**118,924**	**931**	**–**	**–**	**119,855**
Anthony Illsley					
At 1 October 2003	3,667	931	–	–	4,598
Granted	–	–	–	–	
Exercised	(3,667)	–	–	–	(3,667)
At 30 September 2004	**–**	**931**	**–**	**–**	**931**
Colin Day					
At 1 October 2003	14,667	931	–	–	15,598
Granted	–	–	–	–	–
Exercised	–	–	–	–	–
At 30 September 2004	**14,667**	**931**	**–**	**–**	**15,598**
Diederik Karsten					
At 1 October 2003	–	15,599	–	–	15,599
Granted	–	–	–	–	–
Exercised	–	–	–	–	–
At 30 September 2004	**–**	**15,599**	**–**	**–**	**15,599**
Ray Webster					
At 1 October 2003	4,946,986	202,117	7,459	230,782	5,387,344
Granted	–	102,874	–	–	102,874
Exercised	(500,000)	–	–	(153,855)	(653,855)
At 30 September 2004	**4,446,986**	**304,991**	**7,459**	**76,927**	**4,836,363**
Chris Walton					
At 1 October 2003	600,568	108,180	7,459	145,146	861,353
Granted	–	52,756	–	–	52,756
Exercised	–	–	–	–	–
At 30 September 2004	**600,568**	**160,936**	**7,459**	**145,146**	**914,109**

Neither Sir Colin Chandler nor Dawn Airey have been granted any share options or awards.

Share options granted to directors on 7 December 2001 are not expected to vest on 7 December 2004 since the performance conditions pertaining to the options have not been met.

Directors' share interests

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

	30 September 2004	1 October 2003
Sir Colin Chandler	**29,700**	9,700
Dawn Airey *(appointed 6 April 2004)*	**10,000**	n/a
Colin Day	**30,454**	20,454
Amir Eilon	**8,627**	–
Nick Hartley *(resigned 2 August 2004)*	**n/a**	116,542
Tony Illsley	**15,000**	11,000
Chris Walton	**7,279**	–
Ray Webster	**1,778,830**	2,104,975

The interests of Ray Webster are held indirectly through Elura Investments Limited.

On behalf of the Board

Sir Colin Chandler
Chairman

22 November 2004

Statement of directors' responsibilities

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

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

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

Independent auditor's report to the members of easyJet plc

We have audited the financial statements on pages 54 to 85. We have also audited the information in the directors' remuneration report that is described as having been audited.

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

Respective responsibilities of directors and auditors

The directors are responsible for preparing the annual report and the directors' remuneration report. As described on page 52, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

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

We review whether the statement on pages 27 to 32 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report on whether it does not. We are not required to consider whether the Board's statements on internal controls cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risks and other control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 September 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the directors' remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc, Chartered Accountants
Registered Auditor, London

22 November 2004

Consolidated profit and loss account

for the year ended 30 September

	Notes	2004 £million	2003 £million
Turnover: Group and share of joint ventures	1,2	**1,092.4**	931.8
Less: share of turnover of joint ventures		**(1.4)**	–
Group turnover		**1,091.0**	931.8
Cost of sales		**(929.3)**	(775.0)
Gross profit		**161.7**	156.8
Distribution and marketing expenses		**(55.7)**	(61.0)
Administrative expenses	3	**(55.5)**	(47.4)
Group operating profit		**50.5**	48.4
Share of operating profit of joint venture		**0.2**	–
Loss from interest in associated undertaking:			
– committed contribution to Deutsche BA		**–**	(1.3)
Total operating profit: Group and share of joint ventures and associates		**50.7**	47.1
Interest receivable and similar income	5	**14.2**	13.7
Amounts written off investments	11	**–**	(7.8)
Interest payable	6	**(2.7)**	(1.5)
Profit on ordinary activities before taxation	3	**62.2**	51.5
Tax on profit on ordinary activities	7	**(21.1)**	(19.1)
Retained profit for the financial year	18	**41.1**	32.4

		Pence	Pence
Earnings per share			
Basic	8	**10.34**	8.24
Diluted	8	**10.11**	8.04
Basic, before goodwill amortisation	8	**14.64**	12.72
Diluted, before goodwill amortisation	8	**14.33**	12.40
Basic, before goodwill amortisation, accelerated depreciation of certain owned aircraft, committed contribution to Deutsche BA, amounts written-off investments and costs of integrating the businesses of easyJet and Go Fly	8	**15.71**	18.01
Diluted, before goodwill amortisation, accelerated depreciation of certain owned aircraft, committed contribution to Deutsche BA, amounts written-off investments and costs of integrating the businesses of easyJet and Go Fly	8	**15.38**	17.56

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

Consolidated balance sheet

as at 30 September

	Notes	2004 £million	2004 £million	2003 (restated) £million	2003 (restated) £million
Fixed assets					
Intangible assets	9		**309.6**		329.8
Tangible assets	10		**330.4**		320.8
Investments	11		**–**		–
Joint venture arrangements:					
Share of gross assets		**0.6**		–	
Share of gross liabilities		**(0.4)**		–	
			0.2		–
			640.2		650.6
Current assets					
Debtors	12	**174.4**		141.2	
Cash at bank and in hand		**510.3**		335.4	
		684.7		476.6	
Creditors: amounts falling due within one year	13	**(314.7)**		(260.9)	
Net current assets		**370.0**			215.7
Total assets less current liabilities			**1,010.2**		866.3
Creditors: amounts falling due after more than one year	14		**(157.7)**		(65.3)
Provisions for liabilities and charges	16		**(63.1)**		(42.9)
Net assets			**789.4**		758.1
Capital and reserves					
Called up share capital	17		**99.8**		98.5
Share premium account	18		**554.2**		539.6
Profit and loss account	18		**135.4**		120.0
Shareholders' funds – equity			**789.4**		758.1

These financial statements were approved by the Board of Directors on 22 November 2004 and were signed on its behalf by:

R Webster
Director

C Walton
Director

Cash flow information

for the year ended 30 September

Reconciliation of operating profit to net cash flows from operating activities

	2004 £million	2003 £million
Group operating profit	**50.5**	48.4
Goodwill amortisation	**17.1**	17.6
Depreciation of tangible fixed assets	**25.3**	30.1
Increase in debtors	**(36.1)**	(43.4)
Increase in creditors and provisions	**103.7**	24.5
Cash flow from operating activities	**160.5**	77.2

Consolidated cash flow statement

	Notes	2004 £million	2003 £million
Cash flow from operating activities		**160.5**	77.2
Committed contribution to associate		**–**	(1.9)
Returns on investments and servicing of finance	22	**12.6**	11.8
Taxation		**(6.2)**	(16.5)
Capital expenditure	22	**(61.9)**	(175.3)
Acquisitions and disposals	22	**3.4**	1.1
Cash outflow before management of liquid resources and financing		**108.4**	(103.6)
Management of liquid resources		**4.8**	68.6
Financing	22	**66.5**	11.1
Increase/(decrease) in cash in the year		**179.7**	(23.9)

Financing cash flow in includes £8.8 million (2003: £3.8 million) in respect of the exercise of employee share options.

Reconciliation of net cash flow to movements in net funds

	Notes	2004 £million	2003 £million
Increase/(decrease) in cash in the year		**179.7**	(23.9)
Cash inflow from the increase in debt	22	**(57.5)**	(7.3)
Cash inflow for decrease in liquid resources		**(4.8)**	(68.6)
Change in net funds resulting from cash flows		**117.4**	(99.8)
Exchange difference on loans		**10.5**	4.2
Increase/(decrease) in net funds for the year		**127.9**	(95.6)
Net funds at the start of the year		**262.6**	358.2
Net funds at the end of the year		**390.5**	262.6

Net funds at the end of the year comprises:

	2004 £million	2003 £million
Cash at bank and in hand	**510.3**	335.4
Bank loans	**(119.8)**	(72.8)
	390.5	262.6

£14.3 million (2003: £19.1 million) of the cash at bank and in hand is subject to restrictions governing its use.

Consolidated statement of total recognised gains and losses

for the year ended 30 September

	2004 £million	2003 £million
Retained profit for the year	**41.1**	32.4
Foreign currency translation differences	**(18.8)**	(5.5)
Total recognised gains and losses for the year	**22.3**	26.9

Consolidated reconciliation of movements in shareholders' funds

for the year ended 30 September

	2004 £million	2003 (restated) £million
Retained profit for the year	**41.1**	32.4
Foreign currency translation differences	**(18.8)**	(5.5)
Shares issued by easyJet plc	**15.9**	7.0
Movement in shares held by easyJet trustees	**0.2**	–
Movement in reserves for employee share scheme	**(7.1)**	(3.1)
Net addition to shareholders' funds	**31.3**	30.8
Opening shareholders' funds (restated)	**758.1**	727.3
Closing shareholders' funds (restated)	**789.4**	758.1

Shareholders funds at the beginning of the year, as previously reported, were £758.5 million (2003: £727.7 million) before the prior year adoption of UITF Abstract 38 "Accounting for ESOP Trusts" of £0.4 million (2003: £0.4 million). For further information see note 1.

Notes
(forming part of the financial statements)

1 Accounting policies

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

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

Implementation of UITF 38
The Accounting Standards Board issued UITF Abstract 38 – "Accounting for ESOP Trusts" – in December 2003. The abstract is effective for accounting periods ending on or after 22 June 2004. The abstract requires that shares which have been issued, but which are held by the employee share trusts, are deducted from equity rather than shown as an asset on the balance sheet. As a result, an adjustment of £0.4 million has been made in the prior year to restate 195,737 shares previously disclosed within debtors. There is no impact on the profit and loss account in either the current or prior financial year.

Basis of consolidation
The consolidated financial statements incorporate those of the holding company and its subsidiaries for the years made up to 30 September 2004 and 2003. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

In accordance with Section 230 of the Companies Act 1985, the Company is exempt from the requirement to present its own profit and loss account. The Company's loss for the financial year was £1.3 million (2003: loss of £8.1 million).

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

On the subsequent disposal or termination of a business, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

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

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

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

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

Ancillary revenues (comprising principally commissions, change fees and credit card fees) are recognised as revenue on the date that the right to receive consideration occurs.

Tangible fixed assets and depreciation

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

	Period of depreciation	Residual value
Boeing 737-300 aircraft	– 7 years	$12 million to $13 million
Airbus A319 aircraft	– 7 years	$20 million
Aircraft improvement	– 3-7 years	Nil
Aircraft – prepaid maintenance	– 3-10 years	Nil
Aircraft – spares	– 10 years from date of purchase	Nil
Leasehold improvements	– 5 years	Nil
Fixtures, fittings and equipment	– 3 years	Nil
Computer hardware and software	– 3 years	Nil

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

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframe and is amortised over a period ranging from three to ten years from the date of manufacture. Subsequent costs incurred which lend enhancement to future periods such as long-term scheduled maintenance and major overhaul of aircraft and engines are capitalised and amortised over the length of period benefiting from these enhancements. All other costs relating to maintenance are charged to the profit and loss account as incurred.

The cost of new Airbus aircraft comprises the invoiced price of the aircraft from the supplier less the estimated value of other assets received by easyJet for no consideration in connection with the transaction to purchase aircraft. Principal assets received for no consideration in connection with the acquisition of aircraft include the following:

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

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

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

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

1 Accounting policies continued

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

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

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

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

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

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

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

1 Accounting policies continued

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

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

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

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

Liquid resources comprise deposits which have restrictions governing their use.

2 Segmental information

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

The geographical analysis of turnover is as follows:

	2004 £million	2003 £million
Within the United Kingdom	**224.1**	206.3
Between the United Kingdom and the rest of Europe	**728.5**	646.1
Within the rest of Europe	**138.4**	79.4
	1,091.0	931.8

All revenue from easyJet's joint ventures (share: £1.4 million in 2004) was derived within the United Kingdom.

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

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

3 Profit on ordinary activities before taxation

	2004 £million	2003 £million
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Amortisation of goodwill	**17.1**	17.6
Depreciation of tangible fixed assets:		
Accelerated depreciation of Boeing 737-300s	**6.1**	10.2
All other depreciation	**19.2**	19.9
	25.3	30.1
Remuneration of the auditor and its associates (including foreign partners):		
Audit	**0.2**	0.2
Other:		
Tax compliance	**0.1**	0.1
Indirect tax advice	**–**	0.1
Advice in connection with Airbus circular	**–**	0.1
Accounting advice	**0.1**	0.1
IFRS project advice	**0.1**	–
IT consultancy and risk management services	**–**	0.1
	0.3	0.5
Remuneration of other parties entitled to act as registered auditor:		
Audit	**–**	–
Other	**0.5**	1.0
Operating lease rentals:		
Aircraft	**96.4**	84.8
Other	**1.0**	1.0
Foreign currency translation differences	**(0.1)**	(1.4)
Costs of integrating the businesses of Go Fly and easyJet	**–**	7.9

Auditor's remuneration for audit of the Company as a stand-alone entity was £15,000 (2003: £15,000).

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

4 Staff numbers and costs

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

	Number of employees	
	2004	2003
Operations and administration	**3,363**	2,862
Sales and marketing	**293**	364
	3,656	3,226

The aggregate payroll costs of these persons were as follows:

	2004 £million	2003 £million
Wages and salaries	**116.6**	100.9
Social security costs	**12.8**	10.9
Pension costs	**5.3**	4.1
	134.7	115.9

Details relating to the emoluments paid by the Group to the directors of easyJet plc for the year as directors of that company are as follows:

	2004 £million	2003 £million
Total emoluments:		
Remuneration	**1.1**	1.0
Pension contributions	**–**	–
	1.1	1.0
In relation to the highest paid director:		
Remuneration	**0.5**	0.4
Pension contributions	**–**	–
	0.5	0.4

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

5 Interest receivable and similar income

	2004 £million	2003 £million
Bank interest receivable	**14.2**	12.0
Exchange gain	**–**	1.7
	14.2	13.7

6 Interest payable

	2004 £million	2003 £million
On bank loans	**2.7**	1.5
	2.7	1.5

7 Taxation

The taxation charge is made up as follows:

	2004 £million	2003 £million
Current taxation:		
UK corporation tax	**9.2**	11.7
Overseas taxation	**1.2**	0.5
Total current taxation	**10.4**	12.2
Deferred taxation		
Capital allowances in advance of depreciation	**11.1**	6.9
Future credits not taxable	**1.8**	(1.8)
Other fixed asset timing differences	**(2.2)**	1.8
Total deferred taxation	**10.7**	6.9
Total taxation	**21.1**	19.1
Effective tax rate	**33.9%**	37.1%

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

	2004 £million	2003 £million
Profit on ordinary activities before tax	**62.2**	51.5
Tax charge at 30% (2003: 30%)	**18.6**	15.4
Expenses not deductible for tax purposes	**1.8**	–
Income not taxable	**–**	(1.7)
Lower tax rates in certain overseas jurisdictions	**(2.3)**	(3.5)
Movement in share option scheme deduction	**2.0**	2.1
Purchased goodwill not deductible	**5.1**	5.3
Fixed asset timing differences	**(10.1)**	(6.4)
Capital gains in excess of profit realised	**–**	3.8
Adjustments in respect of prior periods	**(4.7)**	(2.8)
Total current taxation	**10.4**	12.2
Deferred tax	**10.7**	6.9
Total taxation	**21.1**	19.1

Tax losses

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

Share options

The introduction of new UK legislation governing corporate tax deductions for share options schemes means that for accounting periods commencing after 31 December 2002 a deduction is no longer available, on an accruals basis, for the difference between the market value of the shares and the share option price. Instead this difference will be deductible when the share options are exercised. The accounting period to 30 September 2004 is the first period to fall under the new rules.

7 Taxation continued

These changes will lead to a deferred tax timing difference in respect of the accrual for the share option costs and hence the effective tax rate will not be affected by the new legislation.

As before, a tax deduction is available for Swiss employees upon exercise.

The closing share price at 30 September 2004 was £1.27 (2003: £2.1975).

easyJet Switzerland, a Group member, has the benefit of an exemption from communal and cantonal taxes in Switzerland until 1 January 2008, subject to meeting certain conditions. The effective tax rate in Switzerland at present is 7.6%, but will rise to 27.5% from 1 January 2008 assuming that tax rates remain unchanged.

8 Earnings per share

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

The calculation for diluted earnings per share uses the weighted average number of ordinary shares in issue adjusted by the effects of all dilutive potential ordinary shares. The dilution effect is calculated on the full exercise of all ordinary share options granted by the Group including other share schemes, which the Group considers to have been earned. The calculation compares the difference between the exercise price of exercisable share options, weighted for the period over which they were outstanding during the year, with the average daily mid-market closing price over the period when they were in existence as options.

The earnings per share are based on the following:

	Year ended 30 September 2004	Year ended 30 September 2003
Profit for the year retained for equity shareholders (£ million)	**41.1**	32.4

	Number	Number
Weighted average number of ordinary shares in issue during the year used to calculate basic earnings per share (millions)	**397.7**	393.2
Weighted average number of dilutive share options used to calculate dilutive earnings per share (millions)	**8.7**	10.1

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

	Year ended 30 September 2004 £million	Year ended 30 September 2003 £million
Profit for the year retained for equity shareholders	**41.1**	32.4
Add back: goodwill amortisation	**17.1**	17.6
	58.2	50.0

The derivation of profit for the calculation of adjusted EPS before goodwill amortisation, accelerated depreciation of certain owned aircraft, committed contribution to Deutsche BA, amounts written off investments and costs of integrating the businesses of easyJet and Go Fly is as follows. This measure has been chosen because it removes the effects of non-recurring items, significant non-cash items and items which have had a disproportional effect on the earnings of the business during the year:

8 Earnings per share continued

Year ended 30 September 2004:	**Pre-tax amount £million**	**Tax effect £million**	**Post-tax amount £million**
Profit for the year retained for equity shareholders	**62.2**	**(21.1)**	**41.1**
Add back:			
Goodwill amortisation	**17.1**	**–**	**17.1**
Accelerated depreciation of certain owned aircraft	**6.1**	**(1.8)**	**4.3**
	85.4	**(22.9)**	**62.5**

Year ended 30 September 2003:	Pre-tax amount £million	Tax effect £million	Post-tax amount £million
Profit for the year retained for equity shareholders	51.5	(19.1)	32.4
Add back:			
Goodwill amortisation	17.6	–	17.6
Committed contribution to Deutsche BA	1.3	–	1.3
Amounts written off investments	7.8	(0.9)	6.9
Costs of integrating the businesses of easyJet and Go Fly	7.9	(2.4)	5.5
Accelerated depreciation of certain owned aircraft	10.2	(3.1)	7.1
	96.3	(25.5)	70.8

9 Intangible fixed assets

	Goodwill £million
Cost	
At 1 October 2003	350.9
Additions – adjustments to purchase consideration (see below)	(3.1)
At 30 September 2004	**347.8**
Amortisation	
At 1 October 2003	21.1
Charge for the year	17.1
At 30 September 2004	**38.2**
Net book value	
At 30 September 2004	**309.6**
At 30 September 2003	329.8

Goodwill, which arose on the initial investment in easyJet Switzerland SA and the subsequent acquisition of that undertaking, is amortised to the consolidated profit and loss account over its estimated useful life of 20 years.

On 31 July 2002, the Group acquired Newgo1 Limited, the ultimate holding company of Go Fly Limited, an operator of low cost airline services. Adjustment has been made to the goodwill arising on the basis that additional cashflows occurred during the year relating to the acquisition of Go Fly which had not been provided for at 30 September 2002. In particular, during the year, a further £3.1 million of retention monies were received, reducing the cost of the investment. The fair value of the net assets acquired has not changed. Goodwill on this acquisition is amortised to the consolidated profit and loss account over its estimated useful life of 20 years.

10 Tangible fixed assets

	Aircraft £million	Payments on account-aircraft deposits £million	Leasehold improvements – buildings £million	Fixtures, fittings and equipment £million	Total £million
Cost					
At 1 October 2003	222.0	176.8	3.6	12.7	415.1
Exchange differences	(14.9)	(17.8)	–	–	(32.7)
Additions	262.3	103.7	0.5	3.9	370.4
Disposals	(261.8)	(97.3)	(0.1)	(1.8)	(361.0)
At 30 September 2004	**207.6**	**165.4**	**4.0**	**14.8**	**391.8**
Depreciation					
At 1 October 2003	85.0	–	1.8	7.5	94.3
Exchange differences	(6.0)	–	–	–	(6.0)
Charge for year	21.3	–	0.6	3.4	25.3
Disposals	(52.0)	–	(0.1)	(0.1)	(52.2)
At 30 September 2004	**48.3**	**–**	**2.3**	**10.8**	**61.4**
Net book value					
At 30 September 2004	**159.3**	**165.4**	**1.7**	**4.0**	**330.4**
At 30 September 2003	137.0	176.8	1.8	5.2	320.8

At 30 September 2004, aircraft with a net book value of £120.7 million (2003: £74.4 million) were mortgaged to lenders as security for loans (see note 15).

easyJet reviewed the carrying and residual value of its aircraft at 30 September 2003 and concluded that the four oldest owned Boeing 737-300 aircraft required an acceleration in depreciation. The aircraft were retired in 2004, earlier than originally planned. Given the distressed nature of the second-hand aircraft market at the time, the residual values were reassessed. As a result, management provided £10.2 million additional depreciation in the financial year 2003 and £3.4 million additional depreciation in the financial year 2004 prior to their disposal.

easyJet performed a similar residual value review of its aircraft during the year ended 30 September 2004 and concluded that the six remaining owned Boeing 737-300 aircraft required an acceleration in depreciation. This has led to an additional charge of £2.7 million in the current financial year.

11 Investments

	The Airline Group £million	The Big Orange Handling Company £million	Total £million
Cost			
At 1 October 2003	7.2	–	7.2
Assets transferred to joint venture company	–	0.1	0.1
Share of retained profit earned during financial year	–	0.1	0.1
At 30 September 2004	**7.2**	**0.2**	**7.4**
Provisions made			
At 1 October 2003 and at 30 September 2004	(7.2)	–	(7.2)
	(7.2)	–	(7.2)
Net book value			
At 30 September 2004	**–**	**0.2**	**0.2**
At 30 September 2003	–	–	–

The Airline Group
easyJet Airline Company Limited, a subsidiary of easyJet plc, is one of the seven shareholders in the Airline Group, which is a consortium of airlines set up to bid for the partial ownership of the UK air traffic control system (NATS). Following the success of the bid in March 2001, easyJet invested £7.2 million (including £0.3 million legal and consultancy fees) as its investment to provide the Airline Group with the initial capital base needed for the purchase. This investment was written off during the year ended 30 September 2002. The amount written off includes loan notes of £6.6 million. The accrued interest on the loan notes (including that which has been internally capitalised within the Airline Group) is £2.2 million (2003: £1.5 million). This accrued interest has not been recognised since its recovery is uncertain.

Deutsche BA
In the financial year 2003, easyJet wrote off its investment in Deutsche BA after deciding not to exercise its option to purchase. The total amount written off, of £7.8 million, included £3.1 million for the cost of the option, plus £4.7 million of related professional costs. No costs were incurred in financial year 2004.

The Big Orange Handling Company Limited
In January 2004, easyJet Airline Company Limited, a Group company, entered into arrangement with Menzies Aviation Group Limited to carry out ground handling at London Luton Airport on a joint venture basis. As part of the transaction, easyJet transferred the assets and liabilities of its existing ground handling business at London Luton Airport to The Big Orange Handling Company Limited ("Big Orange") at their net book value. The Big Orange Handling Company is incorporated in England and Wales. easyJet owns 26% of the equity of Big Orange, and Menzies Aviation Group Limited owns the remainder.

11 Investments continued

Financial information relating to the Big Orange Handling Company Limited during financial year 2004 is as follows:

	easyJet share £million
Profit and loss account:	
Turnover	**1.4**
Profit before tax	**0.2**
Taxation	**(0.1)**
Profit after tax	**0.1**
Net assets:	
Fixed assets	**0.2**
Current assets	**0.4**
Creditors : amounts falling due within one year	**(0.4)**
Creditors : amounts falling due in more than one year	**–**
	0.2

12 Debtors

	2004 £million	2003 £million (restated)
Trade debtors	**99.2**	76.2
Other debtors	**29.0**	14.0
Deferred tax	**–**	1.8
Prepayments and accrued income	**46.2**	49.2
	174.4	141.2

Included in prepayments and accrued income above is £6.3 million (2003: £9.1 million) in respect of amounts which are recoverable in more than one year.

13 Creditors: amounts falling due within one year

	2004 £million	2003 £million
Bank loans (note 15)	**9.7**	7.5
Trade creditors	**17.6**	20.6
Other taxes and social security	**3.6**	2.8
Other creditors	**9.8**	7.1
Corporation tax	**18.0**	13.8
Unearned revenue (including Government taxes)	**143.0**	105.0
Accruals and deferred income	**113.0**	104.1
	314.7	260.9

14 Creditors: amounts falling due after more than one year

	2004 £million	2003 £million
Bank loans (note 15)	**110.1**	65.3
Accruals and deferred income	**47.6**	–
	157.7	65.3

The long-term portion of accruals and deferred income represents the excess of sales price over fair value of certain assets that were subject to sale and operating leaseback transactions that is non-current. These amounts will be released to the profit and loss account over the respective assets' lease term.

15 Loans

	2004 £million	2003 £million
Amounts falling due:		
Within one year	**9.7**	7.5
Due within one to two years	**10.1**	5.9
Due in two to five years	**37.2**	25.3
Due after five years	**62.8**	34.1
	119.8	72.8
Included within amounts falling due in more than one year	**(9.7)**	(7.5)
	110.1	65.3

The bank loans financed the acquisition of certain aircraft by the Group. The aircraft acquired with the loans are provided as security against the borrowings. The bank loans are subject to certain financial and operating covenants that were taken out prior to flotation.

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

16 Provisions for liabilities and charges

	2004 £million	2003 £million
Maintenance liabilities	**42.9**	31.6
Deferred taxation	**20.2**	11.3
	63.1	42.9

Maintenance liabilities

	2004 £million	2003 £million
At 1 October 2003	**31.6**	25.8
Arising during the year	**17.4**	13.4
Utilised	**(5.1)**	(7.7)
Reclassified from debtors	**1.5**	0.5
Exchange adjustments	**(2.5)**	(0.4)
At 30 September 2004	**42.9**	31.6

16 Provisions for liabilities and charges continued

Aircraft maintenance costs

easyJet incurs liabilities for maintenance costs in respect of its leased aircraft during the course of the lease term. These are as a result of legal and constructive obligations in the lease contract in respect of the return conditions applied by lessors, which require aircraft airframes, engines, landing gear and auxiliary power units to reach at least a specified condition on their return at the end of the lease term. In most instances, to reach the specified conditions, easyJet will need to carry out a heavy duty maintenance check on each of the engines and the airframe once during the lease term, usually towards the end of the lease. Other work may be required on landing gear and auxiliary power units. The cost of heavy duty maintenance checks for airframe and engines are substantial (airframe checks may cost between $1.0 million and $2.2 million, and shop visit checks may cost between $1.0 million and $2.4 million). In accordance with FRS12, as there is a legal and constructive obligation to return the aircraft in a specified condition, a charge is made in the profit and loss account each month based on the number of flights hours or cycles used to allow the creation of a provision which is designed to cover the cost of heavy duty maintenance checks when they occur. The cost of each heavy duty maintenance check is subject to uncertainty. Management is required to make numerous estimates in calculating the provision required. These include the expected date of the check (since costs generally rise over time), market conditions for heavy duty maintenance checks pertaining at the expected date of check, the condition of asset at the time of the check (this is particularly true of engines, whose true condition can only be established once it is off wing), the likely utilisation of the asset in terms of either flying hours or cycles, and the regulations in relation to extensions to lives of life limited parts, which form a significant proportion of the cost of heavy duty maintenance costs of engines. In arriving at these estimates, management uses its historic experience, its assessment of future operational performance and market conditions, and also examines advice from industry specialists.

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

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

Deferred taxation

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

	Provided 2004 £million	Provided 2003 £million	**Not provided 2004 £million**	Not provided 2003 £million
Capital allowances in advance of depreciation	**14.4**	3.3	**–**	–
Other fixed asset timing differences	**5.8**	8.0	**–**	–
Future credits not taxable	**–**	(1.8)	**–**	–
Deferred tax liability	**20.2**	9.5	**–**	–

Deferred taxation provided is included in the balance sheet as follows:

	2004 £million	2003 £million
Deferred tax liability (provisions for liabilities and charges)	**20.2**	11.3
Deferred tax asset (debtors, note 12)	**–**	(1.8)
	20.2	9.5

16 Provisions for liabilities and charges continued

Movements in amounts provided are as follows:

	2004 £million	2003 £million
At 1 October 2003	**9.5**	2.6
Capital allowances in advance of depreciation	**11.1**	(6.9)
Other fixed asset timing differences	**(2.2)**	1.8
Future credits not taxable	**1.8**	(1.8)
At 30 September 2004	**20.2**	9.5

Deferred tax liabilities not provided are subject to set off against deferred tax assets in each individual company in which they arise.

17 Called up share capital

	2004 £million	2003 £million
Authorised		
At beginning and end of the year	**125.0**	125.0
Allotted, called up and fully paid		
At beginning of the year	**98.5**	97.9
Issued during 2003:		
Share Option Schemes – 2.3 million ordinary shares of 25 pence each	**–**	0.6
Issued during 2004:		
Share Option Schemes – 5.2 million ordinary shares of 25 pence each	**1.3**	–
At end of the year:		
399.2 million (2003: 394.0 million) ordinary shares of 25 pence each	**99.8**	98.5

Between 1 October 2003 and 30 September 2004, a further 5.2 million new ordinary shares have been issued pursuant to the terms of the easyJet Share Option Schemes (see note 19 below).

18 Share capital and reserves

	Share capital £million	Share premium £million	Profit and loss account £million	Total £million
At 1 October 2003	98.5	539.6	120.4	758.5
Prior year adjustment (see note 1)	–	–	(0.4)	(0.4)
At 1 October 2003 (restated)	98.5	539.6	120.0	758.1
Issue of ordinary share capital:				
Share option schemes (see note 19)	1.3	14.6	–	15.9
Loss in value of shares held by trustees	–	–	0.2	0.2
Movement in profit and loss account for employee share schemes	–	–	(7.1)	(7.1)
Retained profit for the year	–	–	41.1	41.1
Foreign currency translation differences	–	–	(18.8)	(18.8)
At 30 September 2004	**99.8**	**554.2**	**135.4**	**789.4**

As described in note 1, in accordance with UITF 38, 194,842 shares issued (2003: 195,737) but which have not vested unconditionally with the employees, and have been excluded from equity. These shares are held by easyJet Trustees, the trust managing employee share schemes.

19 Share options and other share awards

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

	Exercise price £	At 1 October 2003 Number 000	Granted or issued Number 000	Lapsed Number 000	Exercised Number 000	**At 30 September 2004 Number 000**
i) Pre-flotation scheme	1.61	23,629	–	(152)	(4,042)	**19,435**
	1.81	1,822	–	(37)	(519)	**1,266**
	2.02	1,143	–	(47)	(136)	**960**
	2.74	299	–	–	(72)	**227**
Total		26,893	–	(236)	(4,769)	**21,888**
ii) Non-approved discretionary scheme	4.11	655	–	(22)	–	**633**
	4.02	713	–	(95)	–	**618**
	2.00	2,756	–	(418)	(137)	**2,201**
	3.60	–	2,125	(60)	–	**2,065**
Total		4,124	2,125	(595)	(137)	**5,517**
iii) Approved discretionary scheme	4.02	1,212	–	(201)	–	**1,011**
	2.00	4,959	–	(972)	(234)	**3,753**
	3.60	–	2,506	(175)	–	**2,331**
Total		6,171	2,506	(1,348)	(234)	**7,095**
iv) Management Combination Incentive Plan	nil	1,916	–	–	(987)	**929**
Total all schemes		39,104	4,631	(2,179)	(6,127)	**35,429**

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

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

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

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

19 Share options and other share awards continued

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

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

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

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

iv) The Management Combination Incentive Plan
Since July 2002, a total of 3,148,572 shares have been granted under the terms of the plan, which rewarded key participants in the process of combining the businesses of easyJet and Go Fly with free shares when the three performance milestones of single brand, single AOC and combination completion were met. All milestones have been met. 94,561 shares have lapsed since the inception of the scheme.

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

Alternative accounting treatment
Financial Reporting Standard "FRS 20 – Share-Based payment" is changing the accounting for share options. This includes expensing the fair value of the share options. Application of this standard is mandatory for accounting periods beginning on or after 1 January 2005 and is effective for share options issued after 7 November 2002. Had this accounting treatment been mandatory for the year ended 30 September 2004, the profit and loss account would have been subject to an additional charge of £2.3 million (2003: £0.7 million).

20 Contingent liabilities

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

In 2002, Navitaire Inc. ("Navitaire"), a former supplier of airline reservation software to easyJet Airline Company Limited, a Group company, issued proceedings against that Group company alleging copyright infringement in relation to airline reservations software. easyJet Airline Company Limited vigorously defended the claims. In July 2004, judgment was given on the proceedings in the UK, which found that in all material respects, easyJet had not infringed any copyrights. However, Navitaire may take leave to appeal, or refer the case to the European Court of Justice. Proceedings have also been brought in the United States. The directors consider that, in the event of Navitaire being successful in any claim, any award of damages is unlikely to be material to the Group.

21 Commitments

a) Lease commitments

Commitments under operating leases to pay rentals during the year following the year end analysed according to the period in which each lease expires were as follows:

	Land and buildings	
	2004 £million	2003 £million
Expiring less than one year	**0.2**	0.1
Expiring between two and five years	**0.3**	0.2
Expiring after more than five years	**0.1**	0.1
	0.6	0.4

	Aircraft	
	2004 £million	2003 £million
Expiring less than one year	**6.2**	4.5
Expiring between two and five years	**50.7**	50.6
Expiring after more than five years	**43.2**	27.3
	100.1	82.4

b) Other financial commitments

As a result of a purchase agreement approved by shareholders in March 2003, the Group is contractually committed to the acquisition of a further 99 new Airbus A319 aircraft with a list price of approximately US$4.4 billion, being approximately £2.4 billion (before escalations, discounts and deposit payments already made). In respect of those aircraft, deposit payments amounting to US$299.4 million (£165.4 million) had been made as at 30 September 2004, for commitments for the acquisition of Airbus A319 aircraft.

At 30 September 2004 the Group had placed a series of orders to purchase aircraft spare parts, totalling approximately £1.1 million (2003: £8.1 million).

The Group is also contractually committed to the purchase of other assets totalling approximately £nil million (2003: £0.4 million).

22 Notes to the cash flow statement

Analysis of amounts summarised in the cash flow statement

	2004 £million	2003 £million
Returns on investment and servicing of finance		
Interest received	**15.2**	13.3
Interest paid on bank and all other loans	**(2.6)**	(1.5)
Net cash inflow from returns on investment and servicing of finance	**12.6**	11.8
Capital expenditure		
Purchase of tangible fixed assets	**(370.4)**	(233.9)
Sale of tangible fixed assets	**308.5**	58.6
Net cash outflow for capital expenditure	**(61.9)**	(175.3)
Acquisitions and disposals		
Retention monies released on purchase of Go Fly (see note 9)	**3.1**	2.3
Investment in Deutsche BA	**–**	(1.2)
Investment in Big Orange Limited	**0.3**	–
Net cash inflow for acquisitions	**3.4**	1.1
Financing		
New loans taken out	**65.8**	13.9
Decrease in loans	**(8.3)**	(6.6)
Issue of share capital	**9.0**	3.8
Net cash inflow from financing	**66.5**	11.1

23 Financial instruments

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

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

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

The primary hedging approach implemented has been to limit exposure to significant adverse movements in US dollar exchange rates and Jet A1 fuel costs using a range of option products. In addition, forward contracts for US dollar requirements were used in the first half of the reporting period. The level of hedging cover taken has been up to 85% of projected cash flows for US dollar and up to 80% for Jet A1 fuel on a one year horizon.

At 30 September 2004, the hedging in place included a range of options on US dollar/pound sterling and Jet A1 fuel. There were no outstanding forward contracts at that date.

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

23 Financial instruments continued

Foreign currency risk

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

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

30% of the total Group costs in the year ended 30 September 2004 were incurred by easyJet in the US dollar (2003: 27%). There were minimal US dollar revenues.

Approximately 30% (2003: 32%) of the Group's total assets (that is, its owned aircraft and deposits paid towards the future acquisition of aircraft) are denominated in US dollars, with the effect that the Group's balance sheet and, in particular, shareholders' funds, can be significantly affected by movements in the rate of pounds sterling against the US dollar. The Group mitigates the effect of such movements by borrowing in the same currencies as those US dollar denominated assets. Owned aircraft are anticipated to be sold for US dollars within approximately seven years of their acquisition. The resulting sale proceeds are expected to be used largely to pay down US dollar loans and as a result these large US dollar inflows are not considered to create a significant currency exposure to the Group.

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

	Year end exchange rate ($: £)
30 September 2004	1.81
30 September 2003	1.66

3% of the total Group costs in the year ended 30 September 2004 were incurred by easyJet Switzerland (2003: 3%), whose functional currency is the Swiss Franc. The costs of that business are translated into pounds sterling at average exchange rates for the purposes of inclusion into the consolidated profit and loss account, and the net assets at the year-end exchange rate of the Swiss Franc against pounds sterling. To a large extent, the exposure to the Swiss Franc is mitigated as revenue in that currency is also earned by the Group.

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

	US dollars £million	Other £million	Total £million
Total assets	72.5	53.2	125.7
Total liabilities	(52.2)	(41.5)	(93.7)
Net assets as at 30 September 2004	**20.3**	**11.7**	**32.0**
Total assets	28.7	22.7	51.4
Total liabilities	(46.9)	(15.5)	(62.4)
Net (liabilities)/assets as at 30 September 2003	(18.2)	7.2	(11.0)

23 Financial instruments continued

Interest rate risk

The Group's exposure to fixed and floating rate leases for airplanes is monitored and the Group has a formal policy target on its interest rate profile to achieve an approximate 50/50 balance between fixed and floating rate leases. This target is to be achieved as leases on the new Airbus planes are implemented and the 23 fixed rate leases acquired with Go Fly expire. The fixed and floating rate interest profile for leases at 30 September 2004 was 47%/53% for the Airbus aircraft and 58%/42% for the entire fleet (2003: 69%/31% entire fleet). There is no such formal policy on bank loans, which are all at floating rates. The Group's historical borrowings are analysed below between fixed rate and variable rate loans.

	Total £million	Fixed rate borrowings £million	Variable rate borrowings £million	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed Months
Bank loans (US dollar denominated)	**119.8**	**–**	**119.8**	**–**	**–**
As at 30 September 2004	**119.8**	**–**	**119.8**	**–**	**–**
Bank loans (US dollar denominated)	72.8	–	72.8	–	–
As at 30 September 2003	72.8	–	72.8	–	–

The maturity of the bank loans is set out below:

	2004 £million	2003 £million
Bank loans		
Due within one year	**9.7**	7.5
Due between one and two years	**10.1**	5.9
Due between two and five years	**37.2**	25.3
Due over five years	**62.8**	34.1
	119.8	72.8

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

The loans are repayable in quarterly and six monthly instalments.

The majority of the Group's financial assets comprise bank balances, which attract interest at the applicable money market deposit rates. At 30 September 2004, all of the Group's cash and liquid resources had a maturity of seven days or less and attracted a weighted average rate of 3.6% (2003: 3.2%).

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

	Total £million	Fixed rate aircraft leases £million	Variable rate aircraft leases £million	Weighted average interest rate for fixed rate leases %	Average time over which interest rate is fixed Months
Approximate aircraft operating lease payments due in the financial year ending 30 September 2005 (payable in US dollars)	**100.1**	**58.7**	**41.4**	**5.2**	**37**
Approximate aircraft operating lease payments due in the financial year ending 30 September 2004 (payable in US dollars)	82.4	56.5	25.9	6.4	44

23 Financial instruments continued

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

Credit risk
Potential concentrations comprise principally cash and trade debtors.

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

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

In March 2003, the Group agreed to purchase 120 new Airbus A319 planes for delivery over the next five years. At 30 September 2004, the Group had taken delivery of 21 Airbus aircraft and has plans to take delivery of a further 34 in the coming year. As a result of the order and expected deliveries, the Group continues to make significant deposits on aircraft. At the same time it is recovering deposits paid previously as aircraft are taken delivery of. As the Group has large cash resources to meet these payments and financing is arranged for the planes prior to delivery, no significant funding risk is perceived.

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

	30 September 2004		30 September 2003	
	Book value £million	**Fair value £million**	Book value £million	Fair value £million
Primary financial instruments held to finance the Group's operations:				
Fuel hedges	**–**	13.7	1.5	1.1
Currency hedges	**–**	(1.0)	0.7	0.2
Bank loans	**(119.8)**	(119.8)	(72.8)	(72.8)
Cash	**510.3**	510.3	335.4	335.4
	390.5	403.2	264.8	263.9

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

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

23 Financial instruments continued

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

In respect of the US dollar exchange rate, at 30 September 2004 the Group had $400 million of currency hedges through options, all of which expire before 30 September 2005. At 30 September 2004, the total value of these instruments was £(1.0) million representing a loss of £1.0 million. (2003: There was a loss of £0.5 million on hedging instruments.)

In respect of fuel, the Group had hedges for 210,000 tonnes of fuel through options at 30 September 2004. These all expire before 31 May 2005. At 30 September 2004, the total value of these instruments was £13.7 million, representing a gain of £13.7 million. (2003: There was a loss of £0.4 million on hedging instruments.)

There were no further hedges outstanding at 30 September 2004 (2003: none).

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

	Gains £million	(Losses) £million	Net gains/ (losses) £million
At 1 October 2003	–	(0.9)	(0.9)
Losses arising before 1 October 2003 that were recognised during the year ended 30 September 2004	–	0.9	0.9
Gains/(losses) arising in the year that were not recognised during the year ended 30 September 2004	13.7	(1.0)	12.7
Gains/(losses) at 30 September 2004	13.7	(1.0)	12.7
Of which:			
Gains/(losses) expected to be recognised in less than one year	13.7	(1.0)	12.7
Gains/(losses) expected to be recognised after more than one year	–	–	–
Gains/(losses) at 30 September 2004	13.7	(1.0)	12.7

24 Related party transactions

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

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

The charges are summarised below for the years ended 30 September 2004 and 2003, together with the balances outstanding at those dates.

	easyValue Limited		easyCar Limited		easyInternetCafé Limited	
	2004 £million	2003 £million	**2004 £million**	2003 £million	**2004 £million**	2003 £million
Charges to the Group	**–**	–	**–**	0.1	**–**	–
Charges by the Group	**–**	–	**–**	0.6	**–**	–
Year end debtor/(creditor)	**–**	–	**–**	–	**–**	–

	easyMoney Limited		easyGroup Limited		The Big Orange Handling Company Limited	
	2004 £million	2003 £million	**2004 £million**	2003 £million	**2004 £million**	2003 £million
Charges to the Group	**–**	–	**–**	–	**5.7**	–
Charges by the Group	**–**	–	**–**	–	**1.7**	–
Year end debtor/(creditor)	**–**	–	**–**	–	**0.1**	–

	easyGroup IP Limited	
	2004 £million	2003 £million
Charges to the Group	**0.1**	–
Charges by the Group	**–**	–
Year end debtor/(creditor)	**(0.1)**	–

25 Post balance sheet events

During October 2004 easyJet has indicated its intention to invoke certain rights under its lease agreements to reduce the lease term by three years of six leased aircraft previously due to return in 2009 and 2010. It has also made adjustments to the arrival date of three Airbus aircraft.

easyJet Airline Company Limited, a Group company, has signed an agreement with Amir Eilon, a non executive director, to provide consulting services to easyJet in the six months ending 31 March 2005 in respect of a specific business development project. Payment for services is based on a daily rate of £1,500. Total remuneration is not expected to exceed £100,000.

Company balance sheet

at 30 September

	Notes	2004 £million	2003 £million
Fixed assets			
Tangible assets	26a	**–**	21.0
Investments	26b	**704.8**	704.8
		704.8	725.8
Current assets			
Debtors	26c	**251.8**	156.3
Cash at bank and in hand		**1.6**	–
		253.4	156.3
Creditors: amounts falling due within one year	26d	**(306.6)**	(245.1)
Net current liabilities		**(53.2)**	(88.8)
Net assets		**651.6**	637.0
Capital and reserves			
Called up share capital	26e	**99.8**	98.5
Share premium account	26e	**554.2**	539.6
Profit and loss account	26e	**(2.4)**	(1.1)
Shareholders' funds – equity	26f	**651.6**	637.0

These financial statements were approved by the Board of Directors on 22 November 2004 and were signed on its behalf by:

R Webster
Director

C Walton
Director

26 Company information

a) Tangible fixed assets

	Aircraft £million
Cost	
At 1 October 2003	21.4
Additions	37.9
Disposals	(59.3)
At 30 September 2004	**–**
Depreciation	
At 1 October 2003	0.4
Charge for year	0.1
Disposals	(0.5)
At 30 September 2004	**–**
Net book value	
At 30 September 2004	**–**
At 30 September 2003	21.0

b) Fixed asset investments

	Shares in subsidiary undertakings £million
At 1 October 2003 – cost	704.8
Additions	–
Disposals	–
At 30 September 2004 – cost	**704.8**

The principal companies in which the Company has interests at 30 September 2004 are noted below. A full list of Group companies will be included in the Company's next annual return, in compliance with s231 and parts I and II of Schedule 5 of the Companies Act 1985.

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

Notes

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

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

26 Company information continued

The Group has a 26% interest in the ordinary share capital of The Big Orange Handling Company Limited, a company incorporated in England and Wales, carrying on the business of providing ground handling services at London Luton airport. The investment in this associated undertaking has been equity accounted in the financial statements on the basis that its results are immaterial to the Group.

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

c) Debtors: amounts due within one year

	2004 £million	2003 £million
Amounts owed by subsidiaries	**248.5**	140.0
Deferred tax	**–**	1.8
Prepayments and accrued income	**3.3**	14.5
	251.8	156.3

Included within prepayments and accrued income is £nil million (2003: £3.4 million) in respect of amounts which are recoverable in more than one year.

Movement in the deferred tax asset during the year is as follows:

	2004 £million
At 1 October 2003	**1.8**
Deferred income taxable under capital gains legislation	**(1.8)**
At 30 September 2004	**–**

d) Creditors: amounts falling due within one year

	2004 £million	2003 £million
Amounts owed to subsidiaries	**304.4**	234.3
Corporation tax	**1.9**	1.9
Accruals and deferred income	**0.3**	8.9
	306.6	245.1

e) Reconciliation of movement in equity shareholders' funds

	Share capital £million	Share premium £million	Profit and loss account £million	Total £million
At 1 October 2003	98.5	539.6	(1.1)	637.0
Issue of ordinary share capital:				
Share option schemes (see note 19)	1.3	14.6	–	15.9
Retained loss for the year	–	–	(1.3)	(1.3)
At 30 September 2004	**99.8**	**554.2**	**(2.4)**	**651.6**

26 Company information continued

f) Reconciliation of movement in equity shareholders' funds

	2004 £million	2003 £million
Retained loss for the year	**(1.3)**	(8.1)
Issue of share capital during the year	**15.9**	6.9
Net movement in shareholders' funds	**14.6**	(1.2)
Opening shareholders' funds	**637.0**	638.2
Closing shareholders' funds	**651.6**	637.0

g) Guarantee and contingent liabilities

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

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

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

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

Selected financial unaudited information in Euros

Basis of preparation

The consolidated financial statements of the Group are presented in pounds sterling. The proforma consolidated profit and loss account statement and proforma statement of net assets have been presented below in Euros for convenience only, using the average exchange rate during the year of €1.4720: £1 and €1.4872: £1 for the years ended 30 September 2004 and 2003, respectively, and at the year end exchange rate of €1.457: £1 and €1.427: £1 at 30 September 2004 and 30 September 2003, respectively, between pounds sterling and the Euro. The presentations below are for illustrative purposes only and should not be construed as representations that the Euro amounts actually represent such pounds sterling amounts or could have been or could be converted into Euro at the rate indicated or at any other rates.

Consolidated profit and loss account
Proforma presentation in Euros

for the year ended 30 September

	2004 €million	2003 €million
Turnover: Group and share of joint ventures	**1,607.6**	1,385.8
Less: share of turnover of joint ventures	**(2.1)**	–
Group turnover	**1,605.5**	1385.8
Cost of sales	**(1,367.6)**	(1,152.6)
Gross profit	**237.9**	233.3
Distribution and marketing expenses	**(82.0)**	(90.7)
Administrative expenses	**(81.6)**	(70.5)
Group operating profit	**74.3**	72.1
Share of operating profit of joint venture	**0.3**	–
Loss from interest in associated undertaking – committed contribution to Deutsche BA	**–**	(2.0)
Total operating profit: Group and share of associate	**74.6**	70.1
Interest receivable	**20.9**	20.4
Amounts written off investments	**–**	(11.6)
Interest payable	**(4.0)**	(2.3)
Profit on ordinary activities before taxation	**91.5**	76.6
Tax on profit on ordinary activities	**(31.1)**	(28.4)
Retained profit for the financial year	**60.4**	48.2

Consolidated net assets
Proforma presentation in Euros

as at 30 September

	2004 €million	2004 €million	2003 (restated) €million	2003 (restated) €million
Fixed assets				
Intangible assets		**451.1**		470.6
Tangible assets		**481.4**		457.8
Investments		**–**		–
Joint ventures				
Share of gross assets	**0.9**		–	
Share of gross liabilities	**(0.6)**		–	
	0.3		–	
		932.8		928.4
Current assets				
Debtors	**254.1**		201.5	
Cash at bank and in hand	**743.5**		478.6	
	997.6		680.1	
Creditors: amounts falling due within one year	**(458.5)**		(372.3)	
Net current assets		**539.1**		307.8
Total assets less current liabilities		**1,471.9**		1,236.2
Creditors: amounts falling due after more than one year		**(229.8)**		(93.2)
Provisions for liabilities and charges		**(91.9)**		(61.2)
Net assets		**1,150.2**		1,081.8

Summary of selected financial information for five years

Year ended 30 September

	2004 £million	2003 £million	2002 £million	2001 £million	2000 £million
Revenue	**1,091.0**	931.8	551.8	356.9	263.7
Operating profit before exceptional costs	**50.7**	48.4	69.6	41.9	28.7
Profit on ordinary activities before taxation	**62.2**	51.5	71.6	40.1	22.1
Retained profit for the financial year	**41.1**	32.4	49.0	37.9	22.1
Fixed assets	**640.2**	650.6	541.4	216.6	205.3
Current assets	**684.7**	477.0	523.9	291.5	55.0
Creditors: amounts falling due within one year	**(314.7)**	(260.9)	(260.6)	(113.4)	(84.5)
Creditors: amounts falling due after more than one year	**(157.7)**	(65.3)	(48.6)	(76.3)	(108.2)
Provision for liabilities and charges	**(63.1)**	(42.9)	(28.4)	(1.9)	(1.9)
Net assets	**789.4**	758.5	727.7	316.5	65.7
Cash flow from operating activities	**160.5**	77.2	84.2	83.4	60.6
Committed contribution to associate	**–**	(1.9)	(0.8)	–	–
Return on investment and servicing of finance	**12.6**	11.8	10.7	1.7	(7.9)
Taxation	**(6.2)**	(16.5)	0.5	–	(0.5)
Capital expenditure	**(61.9)**	(175.3)	(3.4)	(29.0)	(36.3)
Acquisitions and disposals	**3.4**	1.1	(267.2)	–	–
Management of liquid resources and financing	**71.3**	79.7	286.7	159.2	(31.5)
Increase/(decrease) in cash in the year	**179.7**	(23.9)	110.7	215.3	(15.8)

easyJet plc was incorporated on 24 March 2000 and, following a Group reorganisation effected on 30 April 2000, it acquired from the former parent undertaking, easyJet Holdings Limited, its interests in the Group subsidiaries and substantially all the assets and liabilities in consideration for the issue of shares. The Group reorganisation qualifies for merger accounting and, accordingly, the above summary of selected financial information has been prepared as if easyJet plc has always been the parent company of the Group.

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

For prior years information is as previously disclosed and has not been restated for UITF 38 adjustments (see note 1 for further details).

Designed and produced by 85four. Photography by Chris Moyse. Printed in England by Cousin ISO 14001.