easyJet Airline Company Limited

Directors' report and accounts

30 September 2012

Registered Number 03034606

Contents

Directors' report

The Directors present their report and the audited accounts for the year ended 30 September 2012

Principal activity and business review

easyJet Airline Company Ltd is incorporated in the United Kingdom and is a principal operating subsidiary of easyJet plc The Company is an airline carrier operating principally in Europe The easyJet group is managed on a unified basis, and a full business review for the year may be found in easyJet plc's published Annual report and accounts for the year ended 30 September 2012

easyJet group delivered record profit before tax of £317 million up by £69 million from 2011 The result was delivered despite the increase in fuel costs and on-going consumer pressure from the weak European economy combined with the increase in Air Passenger Duty charges in the UK

Total group revenue grew by 11 6% to £3,854 million easyJet group's returns have improved year on year and its ROCE continues to be in excess of its cost of capital

When easyJet introduced ROCE as a key performance indicator in 2010, the decision was taken not to adjust the calculation for leases in the expectation that the International Accounting Standards Board (IASB) would shortly be concluding a review of the most appropriate accounting treatment of lease financing

Over the last year it has become clear that the process is far from complete and the accounting position is not expected to change before 2016 at the earliest As a consequence of the delay and following shareholder consultation, easyJet decided to amend its ROCE methodology to reflect the impact on returns of aircraft held under operating leases by capitalising them at seven times the annual lease rental in line with market practice

ROCE excluding operating leases for the group increased 1 8 percentage points from prior year to 14 5% ROCE including operating leases was 11 3%, an increase of 1 5 percentage points from prior year

Gearing for the group was stable at 29% (2011 28%)

easyJet group is focused on four key objectives

- Build strong number 1 and 2 network positions
- Maintain cost advantage
- Drive demand, conversion and yields across Europe
- Disciplined use of capital

easyJet group is structurally positioned as the strongest pan European airline due to its cost advantage, leading market positions at convenient airports and great customer proposition of low fares with friendly and efficient service supported by one of the strongest balance sheets in European aviation

Key performance indicators

The easyJet group uses a range of both financial and non-financial key performance indicators, as described in its published Annual report and accounts for the year ended 30 September 2012 The group is managed as a single entity and accordingly key performance indicators are monitored at group level, rather than on an individual entity basis

Principal risks and uncertainties

The easyJet group is affected by a number of principal risks and uncertainties as described in its published Annual report and accounts for the year ended 30 September 2012 easyJet Airline Company Limited is exposed to the same risks and uncertainties

Results and dividends

The profit after tax for the year was £135 million (2011 £17 million) No dividends were paid in either year, and the directors do not recommend the payment of a final dividend

Going concern

In adopting the going concern basis for preparing the accounts, the Directors have considered current and on-going business activities of the Company as well as the principal risks and uncertainties

The Company holds cash and cash equivalents of £589 million as at 30 September 2012 Total debt of £528 million is free from financial covenants, with £57 million due for repayment in the year to 30 September 2013

The business is exposed to fluctuations in fuel prices and US dollar and euro exchange rates The Company's policy is to hedge between 65% and 85% of estimated exposures 12 months in advance, and 45% and 65% of estimated exposures from 13 up to 24 months in advance The Company was compliant with this policy at the date of this Directors' report and accounts

After making enquiries, the Directors have a reasonable expectation that the Company will be able to operate within the level of available facilities and cash for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the accounts

Directors

The Directors who held office during the year and up to the date of this report are as follows

Carolyn McCall
Chris Kennedy
Warwick Brady
Mike Campbell
Cath Lynn
Trevor Didcock
Paul Moore
Peter Duffy
Alita Benson

Employees

The Company is an equal opportunities employer It ensures that employees and applicants do not receive less favourable treatment on the basis of their age, colour, creed, disability, full or part time status, gender, marital status, nationality or ethnic origin, race or sexual orientation

Applications for employment from disabled persons are always fully considered, bearing in mind the aptitudes of the person concerned In the event that an employee becomes disabled every effort is made to ensure that their employment continues and training is arranged where appropriate

It is understood that good communication within the business is vital, especially one that has such an extensive staff base The Company ensures that key issues and matters are discussed with employees so that it can react quickly and ensure that everyone remains engaged The Company works with employee representatives and recognises a number of trade unions Over the last year there has been a significant increase in the level of union activity The Company has not been immune to this, but did not lose any days through internal industrial action

The Company encourages the involvement of employees in the Company's performance through the use of employee share schemes, settled in the shares of the Company's parent undertaking, easyJet plc

Policy and practice on payment of creditors

The Company does not follow a universal code which deals specifically with payments to suppliers but, where appropriate, its 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 2012, the number of creditor days outstanding for the Company was 10 days (2011 8 days)

Political and charitable contributions

The Company made no political contributions during either year Donations to UK charities amounted to £15,000 (2011 £20,000)

Principal subsidiaries and overseas branches

Details of the Company's principal subsidiaries are given in the notes to the accounts The Company also operates two Spanish branches (one performing self-handling and the other dealing with employment matters) and an Italian branch (also dealing with employment matters)

Audit information

In accordance with the provisions of Section 418 of the Companies Act 2006, each of the persons who are Directors of the Company at the date of approval of this report confirms that

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

Auditors

The auditors, PricewaterhouseCoopers LLP have expressed their willingness to continue in office

On behalf of the board

Chris Kennedy
Director
30 January 2013

Hangar 89
London Luton Airport
Luton
Bedfordshire
LU2 9PF

Registered Number 3034606

Statement of Directors' responsibilities

The Dırectors are responsıble for preparıng the Dırectors' report and the accounts ın accordance wıth applıcable law and regulatıons

Company law requıres the Dırectors to prepare accounts for each financıal year Under that law the Dırectors have elected to prepare the accounts ın accordance wıth Internatıonal Fınancıal Reportıng Standards (IFRSs) as adopted by the European Unıon Under Company law the Dırectors must not approve the accounts unless they are satısfied that they gıve a true and faır vıew of the state of affaırs and of the profit or loss of the Company for that perıod In preparıng these accounts, the Dırectors are requıred to

- select suıtable accountıng polıcıes and then apply them consıstently,
- make ȷudgements and accountıng estımates that are reasonable and prudent,
- state whether applıcable IFRSs as adopted by the European Unıon have been followed, subȷect to any materıal departures dısclosed and explaıned ın the accounts, and
- prepare the accounts on the goıng concern basıs unless ıt ıs ınapproprıate to presume that the Company wıll contınue ın busıness

The Dırectors are responsıble for keepıng adequate accountıng records that are sufficıent to show and explaın the Company's transactıons and dısclose wıth reasonable accuracy at any tıme the financıal posıtıon of the Company and enable them to ensure that the accounts comply wıth the Companıes Act 2006 They are also responsıble for safeguardıng the assets of the Company and hence for takıng reasonable steps for the preventıon and detectıon of fraud and other ırregularıtıes

Each of the Dırectors, whose names are lısted on page 2 confirms that, to the best of theır knowledge

- the accounts, whıch have been prepared ın accordance wıth IFRS as adopted by the EU, gıve a true and faır vıew of the assets, lıabılıtıes, financıal posıtıon and profit of the Company, and
- the Dırectors' report ıncludes a faır revıew of the development and performance of the busıness and the posıtıon of the Company, together wıth a descrıptıon of the prıncıpal rısks and uncertaıntıes that ıt faces

In accordance wıth Sectıon 418 of the Companıes Act 2006, each Dırector ın office at the date the Dırectors' report ıs approved, confirms that

(a) so far as the Dırector ıs aware, there ıs no relevant audıt ınformatıon of whıch the Company's audıtors are unaware, and
(b) he/she has taken all the steps that he/she ought to have taken as Dırector ın order to make hımself/herself aware of any relevant audıt ınformatıon and to establısh that the Company's audıtors are aware of that ınformatıon

The Dırectors' report on pages 1 to 4 was approved by the Board of Dırectors and authorısed for ıssue on 30 January 2013 and were sıgned on behalf of the Board

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF EASYJET AIRLINE COMPANY LIMITED

We have audited the accounts of easyJet Airline Company Limited for the year ended 30 September 2012 which comprise the Income statement, Statement of comprehensive income, Statement of financial position, Statement of changes in equity, Statement of cash flows, and the related notes The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union

Respective responsibilities of Directors and auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 4, the Directors are responsible for the preparation of the accounts and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the accounts in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the accounts

An audit involves obtaining evidence about the amounts and disclosures in the accounts sufficient to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the accounts In addition we read all the financial and non-financial information in the Directors' report to identify material inconsistencies with the audited accounts If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

Opinion on accounts

In our opinion the accounts

- give a true and fair view of the state of the Company's affairs as at 30 September 2012 and of its profit and cash flows for the year then ended,
- have been properly prepared in accordance with IFRSs as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the accounts are prepared is consistent with the accounts

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

John Minards (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans, Hertfordshire
United Kingdom
30 January 2013

Income statement

Year ended 30 September	Notes	2012 £ million	2011 £ million
Seat revenue		**3,794**	3,389
Non-seat revenue		**60**	63
Operating lease revenue		**36**	32
Total revenue		**3,890**	3,484
Fuel		**(1,149)**	(917)
Ground operations		**(955)**	(923)
Crew		**(381)**	(360)
Navigation		**(280)**	(285)
Maintenance		**(182)**	(171)
Selling and marketing		**(104)**	(102)
Aircraft wet leasing		**(139)**	(121)
Other costs		**(204)**	(170)
EBITDAR		**496**	435
Aircraft dry leasing		**(198)**	(269)
Depreciation	7	**(64)**	(34)
Amortisation of intangible assets	6	**(8)**	(7)
Operating profit		**226**	125
Interest receivable and other financing income		**9**	10
Interest payable and other financing charges		**(46)**	(34)
Net exchange losses		**(23)**	(65)
Net finance charges	2	**(60)**	(89)
Profit before tax	3	**166**	36
Tax charge	5	**(31)**	(19)
Profit for the year		**135**	17

Statement of comprehensive income

Year ended 30 September	Notes	2012 £ million	2011 £ million
Profit for the year		**135**	17
Other comprehensive income			
Cash flow hedges			
Fair value gains in the year		**109**	122
Gains transferred to income statement		**(74)**	(152)
Related tax	5	**(7)**	9
		28	(21)
Total comprehensive income for the year		**163**	(4)

Statement of financial position

At 30 September	Notes	2012 £ million	2011 £ million
Non-current assets			
Goodwill	6	**367**	367
Other intangible assets	6	**91**	86
Property, plant and equipment	7	**1,821**	1,467
Investments in subsidiaries	8	**132**	132
Derivative financial instruments	21	**21**	24
Loan notes	9	**10**	11
Restricted cash	12	**24**	29
Other non-current assets	10	**38**	44
		2,504	2,160
Current assets			
Trade and other receivables	11	**415**	189
Derivative financial instruments	21	**73**	76
Current tax assets		**11**	-
Restricted cash	12	**130**	90
Money market deposits	12	**238**	300
Cash and cash equivalents	12	**589**	1,041
		1,456	1,696
Current liabilities			
Trade and other payables	13	**(2,715)**	(2,565)
Borrowings	14	**(57)**	(62)
Derivative financial instruments	21	**(20)**	(52)
Maintenance provisions	16	**(41)**	(51)
		(2,833)	(2,730)
Net current liabilities		**(1,377)**	(1,034)
Non-current liabilities			
Borrowings	14	**(471)**	(644)
Derivative financial instruments	21	**(24)**	(27)
Non-current deferred income	15	**(46)**	(60)
Maintenance provisions	16	**(82)**	(102)
Deferred tax liabilities	5	**(107)**	(72)
		(730)	(905)
Net assets		**397**	221
Shareholders' equity			
Share capital	17	**214**	214
Hedging reserve		**42**	14
Translation reserve		**1**	1
Retained earnings / (deficit)		**140**	(8)
		397	221

The accounts on pages 6 to 33 were approved by the Board of Directors and authorised for issue on 30 January 2013 and signed on behalf of the Board

Chris Kennedy
Director

Statement of changes in equity

	Share capital £ million	Hedging reserve £ million	Translation reserve £ million	Retained earnings £ million	Total £ million
At 01 October 2011	**214**	**14**	**1**	**(8)**	**221**
Total comprehensive income	**-**	**28**	**-**	**135**	**163**
Share incentive schemes					
Value of employee services	**-**	**-**	**-**	**10**	**10**
Related tax (note 5)	**-**	**-**	**-**	**3**	**3**
At 30 September 2012	**214**	**42**	**1**	**140**	**397**

	Share capital £ million	Hedging reserve £ million	Translation reserve £ million	Retained earnings £ million	Total £ million
At 01 October 2010	214	35	1	(30)	220
Total comprehensive income	-	(21)	-	17	(4)
Share incentive schemes					
Value of employee services	-	-	-	6	6
Related tax (note 5)	-	-	-	(1)	(1)
At 30 September 2011	214	14	1	(8)	221

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

Statement of cash flows

Year ended 30 September	Notes	2012 £ million	2011 £ million
Cash flows from operating activities			
Cash generated from operations	19	**172**	363
Net interest and other financing charges paid		**(28)**	(70)
Tax (paid) / received		**(13)**	3
Net cash generated from operating activities		**131**	296
Cash flows from investing activities			
Purchase of property, plant and equipment		**(372)**	(543)
Proceeds from sale of assets held for sale		**-**	75
Proceeds from sale of property, plant and equipment		**1**	-
Purchase of other intangible assets		**(13)**	(6)
Redemption of loan notes		**2**	3
Net cash used by investing activities		**(382)**	(471)
Cash flows from financing activities			
Proceeds from drawdown of bank loans		**-**	172
Repayment of bank loans		**(195)**	(38)
Proceeds from drawdown of finance leases		**-**	71
Repayment of capital elements of finance leases		**(5)**	(4)
Net proceeds from sale and operating leaseback of aircraft		**-**	273
Net decrease / (increase) in money market deposits		**55**	(38)
Increase in restricted cash		**(36)**	(67)
Net cash (used by) / generated from financing activities		**(181)**	369
Effect of exchange rate changes		**(20)**	(5)
Net (decrease) / increase in cash and cash equivalents		**(452)**	189
Cash and cash equivalents at beginning of year		**1,041**	852
Cash and cash equivalents at end of year	12	**589**	1,041

NOTES TO THE ACCOUNTS

1 Accounting policies

Statement of compliance

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

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

Basis of preparation

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

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

easyJet's business activities, together with factors likely to affect its future development and performance, are described within the group accounts Note 22 to the accounts sets out the Company's objectives, policies and procedures for managing its capital and gives details of the risks related to financial instruments held by the Company

The Company holds cash and cash equivalents of £589 million as at 30 September 2012 Total debt of £528 million is free from financial covenants, with £57 million due for repayment in the year to 30 September 2013

The business is exposed to fluctuations in fuel prices and US dollar and euro exchange rates At a group level, the Group's policy is to hedge between 65% and 85% of estimated exposures 12 months in advance, and 45% and 65% of estimated exposures from 13 up to 24 months in advance The Company was compliant with this policy at the date of this Directors' report and accounts

After making enquiries, the Directors have a reasonable expectation that the Company will be able to operate within the level of available facilities and cash for the foreseeable future Accordingly, they continue to adopt the going concern basis in preparing the accounts

The Company is not required to prepare consolidated accounts and has elected not to do so

Significant judgements, estimates and critical accounting policies

The preparation of accounts in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the accounts and the reported amounts of income and expenses during the reporting period Although these estimates are based on management's best knowledge of the amount, events or actions may mean that actual results ultimately differ from those estimates, and these differences may be material The estimates and the underlying assumptions are reviewed regularly

The following accounting policies are considered critical accounting policies as they require a significant amount of management judgment and the results are material to the Company's accounts

Goodwill and landing rights (Note 6)

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

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

Aircraft maintenance provisions (Note 16)

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

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

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

Foreign currencies

The Company's functional currency, determined by reference to the primary economic environment in which it operates, is sterling

Transactions arising in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date and (except where the asset or liability is designated as a cash flow hedge) the gains or losses on translation are included in the income statement Non-monetary assets and liabilities denominated in foreign currencies are translated into sterling at foreign exchange rates ruling at the dates the transactions were effected

Revenue recognition

Revenue comprises seat revenue, being the value of airline services (net of air passenger duty, VAT and discounts), and non-seat revenue

Seat revenue arises from the sale of flight seats, including the provision of checked baggage, speedy (priority) boarding services, booking, credit card and change fees

Seat revenue is recognised when the service is provided This is generally when the flight takes place, but in the following cases, this is at the time of booking

- Booking and credit card fees as they are contractually non-refundable,
- Change fees as the service provided is that of allowing customers to change bookings

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

Unearned revenue represents flight seats, including the provision of checked baggage and speedy (priority) boarding services, sold but not yet flown and is included in trade and other payables until it is realised in the income statement when the service is provided

Non-seat revenue arises from commissions earned from services sold on behalf of partners Non seat revenue is recognised when the service is provided This is generally when the related flight takes place In the case of commission earned from travel insurance, revenue is recognised at the time of booking as easyJet acts solely as appointed representative of the insurance company

During the year, the classification between seat and non-seat revenue has been revised and the comparative data has been reclassified to conform to the current year presentation

Goodwill and other intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

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

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance and is depreciated over a period ranging from three to ten years from the date of manufacture Subsequent costs incurred which lend enhancement to future periods, such as long term scheduled maintenance and major overhaul of aircraft and engines, are capitalised and depreciated over the length of period benefiting from these enhancements All other maintenance costs are charged to the income statement as incurred

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

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

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

Impairment of non-current assets

An impairment loss is recognised to the extent that the carrying value exceeds the higher of the asset's fair value less cost to sell and its value in use Impairment losses recognised on assets other than goodwill are only reversed where changes in the estimates used result in an increase in recoverable amount Impairment losses recognised on goodwill are not reversed

Leases

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

The Company enters into sale and leaseback transactions whereby it sells to a third party rights to acquire aircraft On delivery of the aircraft, the Company subsequently leases the aircraft back, by way of an operating lease Surpluses arising on disposal, where the price that the aircraft is sold for is above fair value, are recognised in deferred income and amortised on a straight-line basis over the lease term of the asset

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

Financial instruments

Financial instruments are recognised when the Company becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions

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

Non-derivative financial assets

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

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

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

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

Non-derivative financial liabilities

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

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

Derivative financial instruments

Derivative financial instruments are measured at fair value

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

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

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

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

Financial guarantees

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

Tax

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

Deferred tax is provided in full on temporary differences relating to the carrying amount of assets and liabilities, where it is probable that the recovery or settlement will result in an obligation to pay more, or a right to pay less, tax in the future, with the following exceptions

- where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit
- deferred tax arising on investments in subsidiaries is not recognised where easyJet is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which recovery of assets and settlement of liabilities are expected to take place, based on tax rates or laws enacted or substantively enacted at the balance sheet date

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

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

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

Aircraft maintenance provisions

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

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

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

Employee benefits

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

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

Share-based payments

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

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

Share awards under the Long Term Incentive, Sharesave and Share Incentive Plans are settled by the purchase of easyJet plc shares on the market through employee share trusts The cost of such purchases is deducted from retained earnings in the period that the transaction occurs

Investments in subsidiaries

Investments in subsidiaries are stated at cost, less any provision for impairment

Assets held for sale

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

Impact of new standards and interpretations

The following standards and interpretations issued by the International Accounting Standards Board have been implemented for the year ended 30 September 2012

Amendments to standards

IAS 24	Related party disclosures
IFRS 1	First-time Adoption of IFRS (Hyperinflation and Removal of Fixed Dates for First-time Adopters)
IFRS 7	Financial Instruments Disclosures

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

New standard and interpretations not applied

The following standards and interpretations issued by the International Accounting Standards Board have not been applied in preparing these accounts as their effective dates fall in periods beginning after 01 October 2012

Effective for the year ending 30 September 2013
Amendments to standards

IAS 1	Presentation of Items of Other Comprehensive Income
IAS 12	Deferred Tax (Recovery of Underlying Assets)

Effective for the year ending 30 September 2014
New and revised standards

IAS 27	Separate Financial Statements
IAS 28	Investments in Associates and Joint Ventures
IFRS 10	Consolidated Financial Statements
IFRS 11	Joint Arrangements
IFRS 12	Disclosures of Interests in Other Entities
IFRS 13	Fair Value Measurement

Amendments to standards

IAS 19	Employee Benefits

Effective for the year ending 30 September 2015
Amendments to standards

IAS 32	Financial Instruments Presentation (Offsetting Financial Assets and Financial Liabilities)

Effective for the year ending 30 September 2016
New standards

IFRS 9	Financial Instruments

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

2 Net finance charges

	2012 £ million	2011 £ million
Interest receivable and other financing income		
Interest income from fellow group undertakings	-	1
External interest income	9	9
	9	10
Interest payable and other financing charges		
Interest payable to fellow group undertakings	(31)	(27)
Interest payable on bank loans	(12)	(6)
Interest payable on finance lease obligations	(3)	(2)
Other interest payable	-	1
	(46)	(34)
Net exchange losses (note 21)	(23)	(65)
	(60)	(89)

Other interest payable in 2011 includes a credit of £1 million reversing previous interest accruals

3 Profit before tax

The following have been included in arriving at profit before tax

	2012 £ million	2011 £ million
Depreciation of property, plant and equipment		
Owned assets	60	31
Assets held under finance leases	4	3
Loss on disposal of property, plant and equipment	1	-
Operating lease rentals		
Aircraft - dry leases	194	263
Aircraft - wet leases	139	121
Other assets	4	3

Auditors' remuneration

During the year the Company obtained the following services from the Company's auditors

	2012 £ million	2011 £ million
Company audit fee	0 3	0 2
Fees for other services (including audit of other group entities)	0 1	0 1
	0 4	0 3

4 Employees

Average number of persons employed	2012	2011
Flight and ground operations	7,090	6,752
Management and administration (including IT)	434	342
	7,524	7,094

Employee costs	2012 £ million	2011 £ million
Wages and salaries	337	313
Social security costs	52	47
Pension costs	26	22
Share-based payments	10	6
	425	388

Key management compensation	2012 £ million	2011 £ million
Short-term employee benefits	6	5
Share-based payments	4	2
	10	7

Directors' emoluments	2012 £ million	2011 £ million
Remuneration	6	5
	6	5

The members of the Executive Management Team including Directors of the Company are key management as they have collective responsibility for planning, directing and controlling the business

The highest paid Director received remuneration totalling £2 0 million (2011 £1 5 million)

All Directors (excluding the Chief Executive), after completing their first three months of employment, are accruing retirement benefits under the easyJet group defined contribution pension scheme

5 Tax charge

	2012 £ million	2011 £ million
Current tax		
United Kingdom corporation tax	4	2
Prior year adjustments	(3)	(30)
	1	(28)
Deferred tax		
Temporary differences relating to property, plant and equipment	41	49
Other temporary differences	(2)	-
Prior year adjustments	(1)	4
Change in tax rate	(8)	(6)
	30	47
	31	19

Reconciliation of the total tax charge

The tax for the year is lower (2011 higher) than the standard rate of corporation tax in the UK as set out below

	2012 £ million	2011 £ million
Profit on ordinary activities before tax	**166**	36
Tax charge at 25% (2011 27%)	**42**	10
Income not chargeable for tax purposes	**-**	(10)
Group relief surrendered for nil consideration	**4**	37
Share-based payments	**1**	1
Other permanent differences	**1**	13
Adjustments in respect of prior years - current tax	**(3)**	(30)
Adjustments in respect of prior years - deferred tax	**(1)**	4
Utilisation of previously unrecognised losses	**(5)**	-
Change in tax rate	**(8)**	(6)
	31	19

In the year ended 30 September 2011 the adjustments in respect of prior year reflect the resolution and reassessment of various tax matters following discussions with the UK and European tax authorities This has resulted in the net credits to the prior year current tax, and debits to prior year deferred tax referred to above

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

	2012 £ million	2011 £ million
(Charge)/credit to other comprehensive income		
Deferred tax (charge) / credit on fair value movements of cash flow hedges	**(7)**	9
Credit / (charge) to shareholders' equity		
Current tax credit on share-based payments	**1**	-
Deferred tax credit / (charge) on share-based payments	**2**	(1)
	3	(1)

Deferred tax

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

	Accelerated capital allowances £ million	Fair value (gains) / losses £ million	Share-based payments £ million	Total £ million
At 01 October 2011	**53**	**22**	**(3)**	**72**
Charged / (credited) to income statement	**30**	**1**	**(1)**	**30**
Charged to other comprehensive income	**-**	**7**	**-**	**7**
Credited to shareholders' equity	**-**	**-**	**(2)**	**(2)**
At 30 September 2012	**83**	**30**	**(6)**	**107**

	Accelerated capital allowances	Fair value (gains) / losses	Share-based payments	Total
	£ million	£ million	£ million	£ million
At 01 October 2010	4	33	(4)	33
Charged / (credited) to income statement	49	(2)	-	47
Credited to other comprehensive income	-	(9)	-	(9)
Charged to shareholders' equity	-	-	1	1
At 30 September 2011	53	22	(3)	72

It is estimated that deferred tax liabilities of approximately £11 million (2011 assets of £5 million) will reverse during the next financial year There are no unrecognised deferred tax assets

6 Goodwill and other intangible assets

		Other intangible assets			
	Goodwill	Landing rights	Contractual rights	Computer software	Total
	£ million	£ million	£ million	£ million	£ million
Cost					
At 01 October 2011	367	74	4	25	103
Transferred from property, plant and equipment	-	-	-	13	13
Disposals	-	-	(3)	(3)	(6)
At 30 September 2012	367	74	1	35	110
Amortisation					
At 01 October 2011	-	-	3	14	17
Charge for the year	-	-	-	8	8
Disposals	-	-	(3)	(3)	(6)
At 30 September 2012	-	-	-	19	19
Net book value					
At 30 September 2012	**367**	**74**	**1**	**16**	**91**
At 01 October 2011	367	74	1	11	86

	Goodwill	Other intangible assets: Landing rights	Contractual rights	Computer software	Total
	£ million	£ million	£ million	£ million	£ million
Cost					
At 01 October 2010	367	74	4	27	105
Transferred from property, plant and equipment	-	-	-	6	6
Disposals	-	-	-	(8)	(8)
At 30 September 2011	367	74	4	25	103
Amortisation					
At 01 October 2010	-	-	3	15	18
Charge for the year	-	-	-	7	7
Disposals	-	-	-	(8)	(8)
At 30 September 2011	-	-	3	14	17
Net book value					
At 30 September 2011	367	74	1	11	86
At 01 October 2010	367	74	1	12	87

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

Pre-tax cash flow projections have been derived from the strategic plan for the period up to 2017 approved by the Board, using the following key assumptions

Pre-tax discount rate (derived from weighted average cost of capital)	9-10%
Fuel price (US dollars per metric tonne)	1,100
Exchange rates	
US dollar	1 58
Euro	1 27
Swiss franc	1 50

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

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

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

7 Property, plant and equipment

	Aircraft and spares £ million	Leasehold improvements £ million	Other £ million	Total £ million
Cost				
At 01 October 2011	1,570	8	19	1,597
Additions	364	7	14	385
Transfer from other group undertaking	109	-	-	109
Transfer to intangible assets	-	-	(13)	(13)
Disposals	(36)	-	(6)	(42)
At 30 September 2012	2,007	15	14	2,036
Depreciation				
At 01 October 2011	118	4	8	130
Charge for the year	61	1	2	64
Transfer from other group undertaking	27	-	-	27
Disposals	(1)	-	(5)	(6)
At 30 September 2012	205	5	5	215
Net book value				
At 30 September 2012	**1,802**	**10**	**9**	**1,821**
At 01 October 2011	1,452	4	11	1,467

	Aircraft and spares £ million	Leasehold improvements £ million	Other £ million	Total £ million
Cost				
At 01 October 2010	779	13	29	821
Additions	513	-	9	522
Transfer from other group undertaking	448	-	-	448
Aircraft sold and leased back	(158)	-	-	(158)
Transfer to intangible assets	-	-	(6)	(6)
Disposals	(12)	(5)	(13)	(30)
At 30 September 2011	1,570	8	19	1,597
Depreciation				
At 01 October 2010	53	8	19	80
Charge for the year	31	1	2	34
Transfer from other group undertaking	36	-	-	36
Aircraft sold and leased back	(2)	-	-	(2)
Disposals	-	(5)	(13)	(18)
At 30 September 2011	118	4	8	130
Net book value				
At 30 September 2011	1,452	4	11	1,467
At 01 October 2010	726	5	10	741

The net book value of aircraft includes £88 million (2011 £164 million) relating to advance and option payments for future deliveries of aircraft This amount is not depreciated

Aircraft with a net book value of £652 million (2011 £605 million) are mortgaged to lenders as loan security

Aircraft with a net book value of £91 million (2011 £94 million) are held under finance leases

The Company is contractually committed to the acquisition of 18 (2011 37) Airbus A320 family aircraft, with a total list price of US$1 0 billion (2011 US$1 9 billion) before escalations and discounts for delivery in the period to April 2015

8 Investments in subsidiary undertakings

	2012 £ million	2011 £ million
At 01 October	132	132
At 30 September	**132**	132

The principal subsidiary undertaking is shown below A full list of subsidiaries will be included in the Company's next annual return, in accordance with section 410 of the Companies Act 2006

	Country of incorporation	Principal activity	Percentage of ordinary shares held %
GB Airways Limited	England and Wales	Non-trading	100
(Registered number 2294109)			

9 Loan notes

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

	2012 £ million	2011 £ million
At 01 October	11	13
Interest receivable converted to loan notes	1	1
Redemption of loan notes	(2)	(3)
At 30 September	**10**	11

10 Other non-current assets

	2012 £ million	2011 £ million
Recoverable supplemental rent on leased aircraft (pledged as collateral)	17	21
Deposits held by aircraft lessors	17	17
Other	4	6
	38	44

11 Trade and other receivables

	2012 £ million	2011 £ million
Trade receivables	124	84
Less provision for impairment of trade receivables	(4)	(3)
	120	81
Amounts owed by group undertakings	179	29
Other receivables	32	26
Recoverable supplemental rent on leased aircraft (pledged as collateral)	2	9
Prepayments and accrued income	82	44
	415	189

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

Allowance for credit losses

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

	2012 £ million	2011 £ million
At 01 October	3	3
Increase in provision (included in 'Other costs')	1	-
At 30 September	4	3

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

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

	2012 £ million	2011 £ million
Up to three months past due	52	31
Over three months past due	1	10
	53	41

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

12 Cash and money market deposits

	2012 £ million	2011 £ million
Cash and cash equivalents (original maturity less than three months)	589	1,041
Money market deposits (original maturity more than three months)	238	300
Current restricted cash	130	90
Non-current restricted cash	24	29
	981	1,460

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

Restricted cash comprises

	2012 £ million	2011 £ million
Pledged as collateral to third parties		
Payment card acquiring	130	90
Aircraft operating lease deposits	24	29
	154	119

13 Trade and other payables

	2012 £ million	2011 £ million
Trade payables	102	83
Amounts owed to group undertakings	1,709	1,668
Unearned revenue	496	472
Accruals and deferred income	329	270
Other taxes and social security	14	13
Other creditors	65	59
	2,715	2,565

14 Borrowings

At 30 September 2012	Current £ million	Non-current £ million	Total £ million
Bank loans	**53**	**367**	**420**
Finance lease obligations	**4**	**104**	**108**
	57	**471**	**528**

At 30 September 2011	Current £ million	Non-current £ million	Total £ million
Bank loans	58	532	590
Finance lease obligations	4	112	116
	62	644	706

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

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

The maturity profile of borrowings is set out in note 22

15 Non-current deferred income

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

16 Maintenance provisions

	£ million
At 01 October 2011	**153**
Exchange adjustments	**(4)**
Charged to income statement	**44**
Utilised	**(70)**
At 30 September 2012	**123**

Maintenance provisions are analysed as follows

	2012 £ million	2011 £ million
Current	**41**	51
Non-current	**82**	102
	123	153

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

17 Share capital

	Number		Value	
	2012 million	2011 million	**2012 £ million**	2011 £ million
Allotted, called up and fully paid				
At 01 October	**214**	214	**214**	214
At 30 September	**214**	214	**214**	214

18 Share incentive schemes

The Company operates the following share incentive schemes, all of which are settled in the equity of its parent, easyJet plc Further details are given in easyJet plc's published Annual report and accounts for the year ended 30 September 2012, available on www easyjet com

The change in the number of awards outstanding and weighted average exercise prices during the year, and the number exercisable at each year end were as follows

Grant date	1 October 2011 million	Granted million	Forfeited million	Exercised million	Share consolidation million	30 September 2012 million
Discretionary schemes						
19 January 2004	0 3	-	-	(0 1)	-	**0 2**
8 December 2004	2 3	-	-	(1 1)	-	**1 2**
Long term incentive plan						
16 January 2009	1 2	-	(0 1)	(0 8)	-	**0.3**
16 December 2009	0 8	-	-	-	-	**0 8**
5 July 2010	0 5	-	-	-	-	**0.5**
31 March 2011	2 4	-	(0 1)	-	-	**2 3**
4 January 2012	-	2 7	-	-	-	**2 7**
Sharesave						
6 June 2008	1 0	-	(0 1)	(0 9)	-	**-**
5 June 2009	1 1	-	-	(0 9)	-	**0 2**
10 June 2010	0 3	-	-	-	-	**0 3**
1 July 2011	2 3	-	(0 1)	-	-	**2 2**
1 July 2012	-	0 9	-	-	-	**0 9**
Share incentive plan	3 6	1 4	(0 2)	(0 4)	(0 3)	**4 1**
	15 8	5 0	(0 6)	(4 2)	(0 3)	**15 7**

Weighted average exercise prices are as follows

Weighted average exercise prices	1 October 2011 £	Granted £	Forfeited £	Exercised £	30 September 2012 £
Discretionary schemes	2 05	-	-	1 97	**2 10**
Sharesave	2 73	4 18	2 79	2 42	**3 24**

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

Awards exercisable	Price (£) **2012**	Price (£) 2011	Number (million) **2012**	Number (million) 2011
Discretionary schemes	**2 10**	2 05	**1 4**	2 6
Sharesave	**2 43**	2 73	**0.2**	1 0
Share incentive plan	**-**	-	**0 8**	0 7
			2 4	4 3

The weighted average remaining contractual life for each class of share at 30 September 2012 is as follows

	Years
Discretionary schemes	2 1
Long Term incentive plan	8 5
Sharesave	2 9
Share incentive plan	2 0

Discretionary schemes

Awards have a three year vesting period and performance conditions based on growth in earnings per share All options expire ten years after grant

Long term incentive plan

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

Sharesave

Sharesave is open to all employees on the UK payroll Participants may elect to save up to £250 per month under a three year savings contract An option is granted by easyJet plc to buy shares at a discount of 20% from market price at the time of the grant At the end of the savings period, a tax free bonus is applied to the savings and the option becomes exercisable for a period of six months

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

Share incentive plan

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

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

Grant date	Share price £	Exercise price £	Expected volatility %	Option life years	Risk-free interest rate %	Fair value £
Discretionary schemes						
19 January 2004	3 80	3 60	40%	6 5	4 62%	1 90
8 December 2004	1 81	1 84	42%	6 5	4 45%	0 88
Long term incentive plan						
16 January 2009	2 88	-	-	-	-	2 88
16 December 2009 and 5 July 2010	3 49	-	-	-	-	3 49
31 March 2011	3 41	-	-	-	-	3 41
4 January 2012	3 92	-	-	-	-	3 92
Sharesave						
6 June 2008	2 86	2 40	41%	3 5	4 92%	1 16
5 June 2009	3 02	2 43	53%	3 5	2 52%	1 40
10 June 2010	4 36	3 49	53%	3 5	1 20%	1 96
1 July 2011	3 60	2 88	46%	3 5	1 45%	1 37
1 July 2012	5 23	4 18	35%	3 5	0 24%	1 77

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

Exercise price for the discretionary schemes was determined using a five-day weighted average price For the Sharesave scheme, exercise price is set at a 20% discount from share price

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

Levels of early exercises and forfeitures are estimated using historical averages

The weighted average fair value of matching shares granted under the share incentive plan during the year was £4 96 (2011 £3 81)

For grants under the Sharesave scheme after 30 September 2011, the dividend yield assumption is calculated based on the actual yield at the date the options are granted For the options granted on 1 July 2012, the dividend yield assumption was 2%

19 Reconciliation of operating profit to cash generated from operations

	2012 £ million	2011 £ million
Operating profit	226	125
Adjustments for non-cash items		
Depreciation	64	34
Loss on disposal of property, plant and equipment	1	-
Amortisation of intangible assets	8	7
Share-based payments	10	5
Changes in working capital and non-current items of an operating nature		
(Increase) / decrease in trade and other receivables	(228)	32
Increase in trade and other payables	94	201
Increase / (decrease) in provisions	8	(20)
Decrease / (increase) in other non-current assets	6	(8)
(Increase) / decrease in derivative financial instruments	(3)	1
Increase in non-current deferred income	(14)	(14)
	172	363

20 Reconciliation of net cash flow to movement in net funds

	01 October 2011 £ million	Exchange differences £ million	Loan issue costs £ million	Net cash flow £ million	30 September 2012 £ million
Cash and cash equivalents	1,041	(20)	-	(432)	589
Money market deposits	300	(7)	-	(55)	238
	1,341	(27)	-	(487)	827
Bank loans	(590)	16	(3)	157	(420)
Finance lease obligations	(116)	3	-	5	(108)
	(706)	19	(3)	162	(528)
Net funds / (debt) (non-GAAP measure)	635	(8)	(3)	(325)	299

21 Financial instruments

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

	Amortised cost		Held at fair value				
At 30 September 2012	Loans and receivables £ million	Financial liabilities £ million	Cash flow hedge £ million	Held for trading £ million	Other £ million	Carrying value £ million	Fair value £ million
Loan notes	10	-	-	-	-	10	10
Other non-current assets	34	-	-	-	4	38	38
Trade and other receivables	371	-	-	-	44	415	415
Trade and other payables	-	(2,148)	-	-	(567)	(2,715)	(2,715)
Derivative financial instruments	-	-	53	(3)	-	50	50
Restricted cash	154	-	-	-	-	154	154
Money market deposits	238	-	-	-	-	238	238
Cash and cash equivalents	589	-	-	-	-	589	589
Borrowings	-	(528)	-	-	-	(528)	(535)

At 30 September 2011	Amortised cost: Loans and receivables £ million	Amortised cost: Financial liabilities £ million	Held at fair value: Cash flow hedge £ million	Held at fair value: Held for trading £ million	Other £ million	Carrying value £ million	Fair value £ million
Loan notes	11	-	-	-	-	11	11
Other non-current assets	40	-	-	-	4	44	44
Trade and other receivables	157	-	-	-	32	189	189
Trade and other payables	-	(2,020)	-	-	(545)	(2,565)	(2,565)
Derivative financial instruments	-	-	20	1	-	21	21
Restricted cash	119	-	-	-	-	119	119
Money market deposits	300	-	-	-	-	300	300
Cash and cash equivalents	1,041	-	-	-	-	1,041	1,041
Borrowings	-	(706)	-	-	-	(706)	(712)

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

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

Fair value of derivative financial instruments

At 30 September 2012	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
Forward contracts						
Designated as cash flow hedges						
US dollar	3,204	1	4	(11)	(15)	(21)
Euro	653	5	20	-	-	25
Swiss franc	202	1	4	-	-	5
Jet fuel	2	14	45	(6)	(9)	44
Designated as held for trading						
US dollar	266	-	-	(3)	-	(3)
		21	73	(20)	(24)	50

At 30 September 2011	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
Forward contracts						
Designated as cash flow hedges						
US dollar	2,157	18	23	(2)	-	39
Euro	501	3	8	-	-	11
Swiss franc	140	1	1	(3)	(1)	(2)
Jet fuel	2	2	43	(47)	(26)	(28)
Designated as held for trading						
US dollar	266	-	1	-	-	1
		24	76	(52)	(27)	21

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

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

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

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

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

The Company uses forward contracts to hedge US dollar transaction currency risk (comprising fuel, leasing and maintenance payments), jet fuel price risk and euro and Swiss franc revenues Where these hedges are assessed as highly effective, gains and losses are deferred in other comprehensive income and transferred to the income statement when the related cash flow occurs

The cumulative net gains deferred in other comprehensive income and their expected maturities are as follows

At 30 September 2012	**Within 1 year £ million**	**1-2 years £ million**	**Total £ million**
Hedges of transaction currency risk	17	(8)	9
Hedges of jet fuel price risk	39	5	44
	56	(3)	53
Related deferred tax			(11)
Net gains			42

At 30 September 2011	Within 1 year £ million	1-2 years £ million	Total £ million
Hedges of transaction currency risk	25	21	46
Hedges of jet fuel price risk	(4)	(24)	(28)
	21	(3)	18
Related deferred tax			(4)
Net gains			14

	2012 £ million	2011 £ million
Gains on cash flow hedges recycled from other comprehensive income into income statement captions		
Revenue	21	9
Fuel	51	142
Interest payable and other financing charges	1	1
Aircraft lease costs	1	-
	74	152

Derivatives designated as held for trading
The easyJet group has material net monetary liabilities denominated in US dollars at each balance sheet date In accordance with IAS21, monetary assets and liabilities are revalued using exchange rates at the balance sheet date This exposure is managed by the use of forward foreign exchange contracts

The easyJet group manages this exposure is managed by the use of forward foreign exchange contracts entered into by the Company Realised and unrealised gains and losses on these contracts are allocated to companies within the easyJet group in proportion to their shares of the group's exposure

The Company's net US dollar monetary liabilities at each balance sheet date were as follows

	2012 $ million	2011 $ million
Cash and money market deposits	**622**	671
Net amount owed by group undertakings	**1,000**	1,598
Borrowings	**(665)**	(970)
Maintenance provisions	**(174)**	(206)
Other	**9**	43
	792	1,136
Forward US dollar contracts	**266**	(266)
Net US dollar balance sheet exposure	**1,058**	870

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

	2012 £ million	2011 £ million
Unrealised revaluation losses on non-derivative financial instruments	**(22)**	(32)
Unrealised revaluation gains on other monetary assets and liabilities	**4**	2
Realised foreign exchange gains on non-derivative financial instruments	**10**	5
Unrealised (losses) / gains on derivatives	**(10)**	3
Realised losses on derivatives	**(5)**	(43)
Net losses (note 2)	**(23)**	(65)

22 Financial risk and capital management

All financial risk management activities are carried out at Group level according to policies approved by the Group's board of directors and are described in easyJet's published Annual report and accounts for the year ended 30 September 2012 The Company is exposed to the same financial risks as the Group

The maturity profile of the Company's financial liabilities based on undiscounted gross cash flows and contractual maturities is as follows

At 30 September 2012	Within 1 year £ million	1-2 years £ million	2-5 years £ million	Over 5 years £ million
Borrowings	**68**	**70**	**205**	**245**
Trade and other payables	**2,148**	**-**	**-**	**-**
Derivative contracts - receipts	**(3,311)**	**(1,821)**	**-**	**-**
Derivative contracts - payments	**3,236**	**1,790**	**-**	**-**

At 30 September 2011	Within 1 year £ million	1-2 years £ million	2-5 years £ million	Over 5 years £ million
Borrowings	76	78	247	392
Trade and other payables	2,565	-	-	-
Derivative contracts - receipts	(3,502)	(1,041)	-	-
Derivative contracts - payments	3,465	1,031	-	-

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

Market risk sensitivity analysis

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

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

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

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

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

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

				Currency rates	**Fuel price**	**Interest rates**
At 30 September 2012	**US dollar +10% £ million**	**US dollar -10% £ million**	**Euro +10% £ million**	**Euro -10% £ million**	**10% increase £ million**	**1% increase £ million**
Income statement impact gain / (loss)	**67**	**(54)**	**(1)**	**1**	**-**	**(9)**
Impact on other comprehensive income increase / (decrease)	**164**	**(134)**	**(43)**	**35**	**111**	**-**

				Currency rates	Fuel price	Interest rates
At 30 September 2011	US dollar +10% £ million	US dollar -10% £ million	Euro +10% £ million	Euro -10% £ million	10% increase £ million	1% increase £ million
Income statement impact gain / (loss)	137	(112)	4	(4)	-	(7)
Impact on other comprehensive income increase / (decrease)	109	(88)	(40)	25	84	-

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

23 Leasing commitments

Commitments under operating leases

		Aircraft		Other
	2012 £ million	2011 £ million	**2012 £ million**	2011 £ million
Total commitments under non-cancellable operating leases due				
Not later than one year	**173**	207	**2**	1
Later than one year and not later than five years	**484**	643	**2**	2
Later than five years	**91**	162	**2**	3
	748	1,012	**6**	6

The Company holds 112 aircraft (2011 123 aircraft) under operating leases, including those with other group undertakings, with initial lease terms ranging from seven to ten years It is contractually obliged to carry out maintenance on these aircraft, and the cost of this is provided based on the number of flying hours and cycles operated Further details are given in the critical accounting policies section of note 1

Commitments under finance leases

	2012 £ million	2011 £ million
Minimum lease payments fall due as follows		
Not later than one year	7	7
Later than one year and not later than five years	31	31
Later than five years	93	104
	131	142
Future finance charges	(23)	(25)
	108	117

The Company holds five aircraft (2011 five aircraft) under finance leases with ten year initial terms Further details are given in note 14

24 Contingent liabilities

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

The Company has outstanding letters of credit, guarantees and performance bonds totalling £37 million (2011 £44 million), of which £34 million (2011 £41 million) expires within one year The fair value of these instruments at each year end was negligible

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

25 Related party transactions

Transactions with easyJet group undertakings are carried out on an arm's length basis Outstanding balances are placed on intercompany accounts with no specified credit period, are unsecured, and bear market rates of interest

Significant transactions are as follows

Dry and wet lease costs for leasing aircraft
Dry lease revenue from sub-leasing aircraft
Balance sheet hedges

Total charges for the years ended 30 September 2012 and 2011 accounted through the income statement are as follows

	2012 £ million	2011 £ million
Charges to the Company	244	317
Charges by the Company	45	32

During the current year, seven aircraft were acquired from easyJet Sterling Limited for total consideration of £71 million (comprising net book value) In addition, one aircraft was acquired from easyJet Aircraft Company Limited for a consideration of £11 million (net book value) Both acquisitions have been left outstanding on the intercompany account This is a non-cash transaction which accordingly has been excluded from the statement of cash flows In 2011, 28 aircraft were acquired from easyJet Leasing Limited for a total consideration of £412 million

Amounts included in the income statement for the year ended 30 September 2012 due under the Brand Licence agreement and Comfort Letter with easyGroup IP Licensing Limited, detailed within note 26 to the Group accounts, amounted to £6 5 million (2011 £5 million) Royalty payments within this total were £5 million (2011 £4 million)

At 30 September 2012, £0 2 million (£nil) was included in trade and other payables in relation to the Brand Licence

easyJet plc has given a formal undertaking to the Civil Aviation Authority to guarantee the payment and discharge of all liabilities of the Company The guarantee is required for the Company to maintain its operating licence under Regulation 3 of the Licensing of Air Carriers Regulations 1992 easyJet plc has also issued guarantees in favour of the Company relating to

- processing of credit card transactions
- hedging transactions in derivative financial instruments
- contractual obligations to Airbus SAS in respect of the supply of aircraft
- repayment of borrowings financing the acquisition of aircraft
- payment obligations for the lease of aircraft from lessors outside of the group
- bank letters of credit
- brand licence agreement with easyGroup IP Licensing Ltd (approved by the shareholders of easyJet plc on 10 December 2010)

26 Ultimate controlling company

The Company's parent and ultimate controlling company is easyJet plc, incorporated in England and Wales, registered number 3959649

The only group in which the results of the Company are consolidated is headed by easyJet plc, accounts of which can be obtained from, easyJet plc, Hangar 89, London Luton Airport, Luton, Bedfordshire, LU2 9PF

27 Subsequent events

In December 2012, the Company entered into sale and operating leaseback agreements for eight owned aircraft having a net book value of £168m The transactions had no impact on the Company's shareholders' equity or its net profits

In January 2013, the Company acquired five aircraft from its lessor easyJet Leasing Limited (a fellow group undertaking), at a net book value of £48m The consideration has been settled through the inter-company account

In January 2013, the Company acquired three aircraft from its lessor easyJet Sterling Limited (a fellow group undertaking), at a net book value of £28m The consideration has been settled through the inter-company account