

easyJet Airline Company Limited

Directors' report and accounts

30 September 2011

Registered Number 03034606

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easyJet Airline Company Limited
Directors' Report and Accounts
30 September 2011

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Directors' report

The Directors present their report and the audited accounts for the year ended 30 September 2011

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 2011.

2011 confirmed the underlying strength of the easyJet group's business model and customer proposition. The Group continued to develop Europe's number one air transport network by increasing presence at primary airports and continuing to enhance the route offering, timing and frequency of the schedule.

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

Total group revenue grew by 16.1% to £3,452 million and group reported profit before tax was £248 million compared with £154 million for 2010. As a consequence, group return on capital employed improved by 3.9 percentage points to 12.7%, and group gearing decreased by 4 percentage points to 28%.

The easyJet group has five strategic priorities:

Safe and sustainable

We will never compromise our commitment to safety, which is always the first priority for all our people, and we continually strive to improve our sustainability.

Focus on customer

We are focusing on improving our routes, slots and bases to build on our leading presence across Europe, and we are focused on improving the experience of travelling with us for all our passengers.

Operational excellence

We focus on maintaining a strong operation that delivers for our customers.

Where people make a difference

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

Financial discipline

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

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 2011. 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 2011. easyJet Airline Company Limited is exposed to the same risks and uncertainties.

Results and dividends

The profit after tax for the year was £17 million (2010: loss after tax of £13 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 £1.0 billion as at 30 September 2011. Total debt of £0.7 billion is free from financial covenants, with £62 million due for repayment in the year to 30 September 2012.

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
Dana Dunne (resigned 29 March 2011)
Cath Lynn
Trevor Didcock
Paul Moore
Peter Duffy (appointed 29 March 2011)
Alita Benson (appointed 21 June 2011)

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 2011, the number of creditor days outstanding for the company was 8 days (2010: 7 days)

Political and charitable contributions

The company made no political contributions during either year. Donations to UK charities amounted to £20,000 (2010: £5,000)

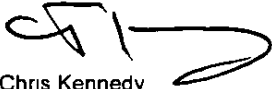
Principal subsidiaries and overseas branches

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).

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be put forward at the next Annual General Meeting

On behalf of the board



Chris Kennedy
Director
17 May 2012

Hangar 89
London Luton Airport
Luton
Bedfordshire
LU2 9PF

Registered Number 3034606

Statement of directors' responsibilities

The Directors are responsible for preparing the directors' report and the accounts in accordance with applicable law and regulations

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

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

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

Each of the Directors confirms that, to the best of their knowledge

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

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

Each of the Directors, whose names are listed on page 2, confirm that, to the best of their knowledge

- the Company accounts, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company, and
- the Directors' report includes a fair review of the development and performance of the business and the position of the Company, together with reference to the principal risks and uncertainties that it faces.

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

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

The Directors' report on pages 1 to 4 was approved by the Board of Directors and authorised for issue on 2 May 2012 and were signed 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 2011 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 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.

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 2011 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
24 May 2012

Income statement

Year ended 30 September	Notes	2011 £ million	Restated 2010 £ million
Passenger revenue		2,733	2,402
Ancillary revenue		719	571
Operating lease revenue		32	24
Total revenue		3,484	2,997
Ground operations		(923)	(805)
Fuel		(917)	(733)
Crew		(360)	(303)
Navigation		(285)	(256)
Maintenance		(171)	(187)
Selling and marketing		(102)	(92)
Aircraft wet leasing		(121)	(106)
Volcanic ash disruption		-	(27)
Royalty	25	(4)	-
Other costs (Restated – see note 2)		(166)	(175)
EBITDAR		435	313
Aircraft dry leasing		(269)	(318)
Depreciation	7	(34)	(11)
Amortisation of intangible assets	6	(7)	(6)
Loss on disposal of assets held for sale		-	(7)
Operating profit / (loss)		125	(29)
Interest receivable and other financing income		10	7
Interest payable and other financing charges (Restated – see note 2)		(34)	(19)
Net exchange (losses) / gains on financing items		(65)	25
Net finance charges	2	(89)	13
Profit / (loss) before tax	3	36	(16)
Tax (charge) / credit	5	(19)	3
Profit / (loss) for the year		17	(13)

There has been a change in the accounting policy in respect of the treatment of exchange gains and losses on financing items, in accordance with IAS8. Please refer to note 2 for further details.

Statement of comprehensive income

Year ended 30 September	Notes	2011 £ million	Restated 2010 £ million
Profit / (loss) for the year		17	(13)
Other comprehensive income			
Cash flow hedges			
Fair value gains in the year		122	90
Gains transferred to income statement		(152)	(9)
Related tax	5	9	(22)
		(21)	59
Currency translation differences		-	-
Total comprehensive income for the year		(4)	46

Statement of financial position

At 30 September

	Notes	2011 £ million	2010 £ million
Non-current assets			
Goodwill	6	367	367
Other intangible assets	6	86	87
Property, plant and equipment	7	1,467	741
Investments in subsidiaries	8	132	132
Derivative financial instruments	21	24	8
Loan notes	9	11	13
Restricted cash	12	29	29
Other non-current assets	10	44	36
		2,160	1,413
Current assets			
Assets held for sale		-	73
Trade and other receivables	11	189	223
Derivative financial instruments	21	76	55
Restricted cash	12	90	23
Money market deposits	12	300	260
Cash and cash equivalents	12	1,041	852
		1,696	1,486
Current liabilities			
Trade and other payables	13	(2,565)	(2,267)
Borrowings	14	(62)	(18)
Derivative financial instruments	21	(52)	(10)
Current tax liabilities		-	(26)
Maintenance provisions	16	(51)	(55)
		(2,730)	(2,376)
Net current liabilities		(1,034)	(890)
Non-current liabilities			
Borrowings	14	(644)	(98)
Derivative financial instruments	21	(27)	(4)
Non-current deferred income	15	(60)	(57)
Maintenance provisions	16	(102)	(111)
Deferred tax liabilities	5	(72)	(33)
		(905)	(303)
Net assets		221	220
Shareholders' equity			
Share capital	17	214	214
Hedging reserve		14	35
Translation reserve		1	1
Retained deficit		(8)	(30)
		221	220

The accounts on pages 6 to 35 were approved by the Board of Directors and authorised for issue on 17 May 2012 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 deficit £ 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

	Share capital £ million	Hedging reserve £ million	Translation reserve £ million	Retained deficit £ million	Total £ million
At 01 October 2009	14	(24)	1	(21)	(30)
Total comprehensive income	-	59	-	(13)	46
Proceeds from shares issued	200	-	-	-	200
Share incentive schemes					
Value of employee services	-	-	-	4	4
At 30 September 2010	214	35	1	(30)	220

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	2011 £ million	Restated 2010 £ million
Cash flows from operating activities			
Cash generated from / (used by) operations	19	363	(73)
Net interest and other financing charges paid		(70)	(4)
Tax received		3	-
Net cash generated from / (used by) operating activities		296	(77)
Cash flows from investing activities			
Purchase of property, plant and equipment		(543)	(228)
Proceeds from sale of assets held for sale		75	(7)
Purchase of other intangible assets		(6)	(11)
Investment in subsidiaries		-	(3)
Redemption of loan notes		3	1
Net cash used by from investing activities		(471)	(248)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		-	200
Proceeds from drawdown of bank loans		172	57
Repayment of bank loans		(38)	(49)
Proceeds from drawdown of finance leases		71	47
Repayment of capital elements of finance leases		(4)	-
Net proceeds from sale and operating leaseback of aircraft		273	109
Net (increase) / decrease in money market deposits		(38)	31
(Increase) / decrease in restricted cash		(67)	16
Net cash generated from financing activities		369	411
Effect of exchange rate changes		(5)	6
Net increase in cash and cash equivalents		189	92
Cash and cash equivalents at beginning of year		852	760
Cash and cash equivalents at end of year	12	1,041	852

There has been a change in the accounting policy in respect of the treatment of exchange gains and losses on financing items, in accordance with IAS8. Please refer to note 19 for further details.

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, 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 £1.0 billion as at 30 September 2011. Total debt of £706 million is free from financial covenants, with £62 million due for repayment in the year to 30 September 2012.

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 not elected 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.

Tax (Note 5)

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

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

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

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

Ancillary revenue primarily arises from the provision of checked baggage and speedy (priority) boarding services, booking, credit card and change fees, and commissions earned from services sold on behalf of partners.

Ancillary revenue is recognised when the service is provided. This is generally when the related flight takes place, but in the following cases revenue is recognised 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
- Commissions earned from travel insurance as easyJet acts solely as appointed representative of the insurance company

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

Operating lease revenue is derived from sub-leasing aircraft on a dry lease basis to other group undertakings. Revenue is recognised on the date that the right to receive consideration occurred.

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.

Prior year adjustment

In previous years, exchange gains and losses on monetary assets and liabilities were reported partly in other costs and partly in net finance charges, in line with the nature of the underlying assets and liabilities.

With effect from this year, all exchange gains and losses are reported in net finance charges. The revised presentation better reflects the risk management approach adopted by the company as the exposures on the underlying assets and liabilities are managed on a net basis across the easyJet group. Comparative figures have been restated accordingly.

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 have been implemented for the year ended 30 September 2011

New and revised standards

IAS 24 Related Party Disclosures

Amendments to standards

IAS 32 Financial Instruments Presentation (Classifications of Rights Issues)

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

IFRS 1 Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters)

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

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

New and revised interpretations

IFRIC 14 Prepayments of Minimum Funding Requirements

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

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 1 October 2011

Effective for the year ending 30 September 2012

Amendments to standards and interpretations

IAS 1 Presentation of Items of Other Comprehensive Income

IAS 12 Deferred Tax (Recovery of Underlying Assets)

IFRS 1 First-time Adoption of IFRS (Hyperinflation and Removal of Fixed Dates for First-time Adopters)

IFRS 7 Financial Instruments Disclosures

Effective for the year ending 30 September 2013

New and revised standards

IAS 27 Separate Financial Statements

IAS 28 Investments in Associates and Joint Ventures

IFRS 9 Financial Instruments

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 and interpretations

IAS 19 Employee Benefits

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Company'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

	2011	Restated 2010
	£ million	£ million
Interest receivable and other financing income		
Interest income from fellow group undertakings	1	-
External interest income	9	7
	10	7
Interest payable and other financing charges		
Interest payable to fellow group undertakings	(27)	(21)
Interest payable on bank loans	(6)	(1)
Interest payable on finance lease obligations	(2)	(1)
Other interest payable	1	4
	(34)	(19)
Net exchange (losses) / gains (note 21)	(65)	25
	(89)	13

Other interest payable includes a credit of £1 million (2010 £6 million) reversing previous interest accruals

In previous years, exchange gains and losses on monetary assets and liabilities were reported partly in other costs and partly in net finance charges, in line with the nature of the underlying assets and liabilities

With effect from this year, all exchange gains and losses are reported in net finance charges. The revised presentation better reflects the risk management approach adopted by the company as the exposures on the underlying assets and liabilities are managed on a net basis across the easyJet group

This has resulted in 'Other costs' being restated by £28 million to £175 million (2010 £147 million), and 'Interest payable and other financing charges' being restated by £3 million to £19 million (2010 £22 million). The net effect of these exchange losses/gains amounts to £25 million, and this has been presented as a separate line under 'finance charges'

3 Profit / (loss) before tax

The following have been included in arriving at profit / (loss) before tax

	2011 £ million	2010 £ million
Depreciation of property, plant and equipment		
Owned assets	31	10
Assets held under finance leases	3	1
Operating lease rentals		
Aircraft - dry leases	263	315
Aircraft - wet leases	121	106
Other assets	3	3

Auditors' remuneration

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

	2011 £ million	2010 £ million
Company audit fee	0.2	0.2
Fees for other services (including audit of other group entities)	0.1	0.2
	0.3	0.4

4 Employees

Average number of persons employed	2011	2010
Flight and ground operations	6,752	6,114
Sales, marketing and administration	342	294
	7,094	6,408

Employee costs	2011 £ million	2010 £ million
Wages and salaries	313	270
Social security costs	47	38
Pension costs	22	19
Share-based payments	6	5
	388	332

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Key management compensation

	2011	2010
	£ million	£ million
Short-term employee benefits	5	5
Payments for loss of office	-	1
Share-based payments	2	1
	7	7

Directors' emoluments

	2011	2010
	£ million	£ million
Remuneration	5	4
Payments for loss of office	-	1
	5	5

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

The highest paid director received remuneration totalling £1.5 million (2010: £2.5 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 / (credit)

	2011	2010
	£ million	£ million
Current tax		
United Kingdom corporation tax	2	-
Prior year adjustments	(30)	(16)
	(28)	(16)
Deferred tax		
Temporary differences relating to property, plant and equipment	49	(1)
Other temporary differences	-	10
Prior year adjustments	4	4
Change in tax rate	(6)	-
	47	13
	19	(3)

Reconciliation of the total tax charge / (credit)

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

	2011	2010
	£ million	£ million
Profit / (loss) on ordinary activities before tax	36	(16)
Tax charge / (credit) at 27% (2010: 28%)	10	(4)
Income not chargeable for tax purposes	(10)	-
Expenses not deductible for tax purposes	-	2
Group relief surrendered for nil consideration	37	13
Share-based payments	1	1
Other permanent differences	13	(3)
Adjustments in respect of prior years - current tax	(30)	(16)
Adjustments in respect of prior years - deferred tax	4	4

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Change in tax rate	(6)	-
	19	(3)

The prior year adjustments in 2011 and 2010 reflect the resolution and reassessment of various tax matters following discussions with the UK and European tax authorities. This has resulted in net credits to 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

	2011 £ million	2010 £ million
Credit / (charge) to other comprehensive income		
Deferred tax credit / (charge) on fair value movements of cash flow hedges	9	(22)
Charge to shareholders' equity		
Current tax credit on share-based payments	-	3
Deferred tax charge on share-based payments	(1)	(3)
	(1)	-

Deferred tax

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

	Accelerated capital allowances £ million	Tax losses £ million	Fair value (gains) / losses £ million	Share-based payments £ million	Total £ 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

	Accelerated capital allowances £ million	Tax losses £ million	Fair value (gains) / losses £ million	Share-based payments £ million	Total £ million
At 01 October 2009	6	(16)	11	(6)	(5)
Charged / (credited) to income statement	(2)	16	-	(1)	13
Charged to other comprehensive income	-	-	22	-	22
Charged to shareholders' equity	-	-	-	3	3
At 30 September 2010	4	-	33	(4)	33

It is estimated that deferred tax liabilities of approximately £5 million (2010 assets of £12 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 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

		Other intangible assets			
	Goodwill	Landing rights	Contractual rights	Computer software	Total
	£ million	£ million	£ million	£ million	£ million
Cost					
At 01 October 2009	367	74	3	17	94
Additions	-	-	1	-	1
Transferred from property, plant and equipment	-	-	-	10	10
At 30 September 2010	367	74	4	27	105
Amortisation					
At 01 October 2009	-	-	2	10	12
Charge for the year	-	-	1	5	6
At 30 September 2010	-	-	3	15	18
Net book value					
At 30 September 2010	367	74	1	12	87
At 01 October 2009	367	74	1	7	82

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.

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Pre-tax cash flow projections have been derived from the strategic plan for the period up to 2015 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)	1,060
<i>Exchange rates</i>	
US dollar	1 60
Euro	1 15
Swiss franc	1 30

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 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

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	Aircraft and spares £ million	Leasehold improvements £ million	Other £ million	Total £ million
Cost				
At 01 October 2009	43	13	30	86
Additions	228	-	10	238
Transfer from other group undertaking	516	-	-	516
Transfer to intangible assets	-	-	(10)	(10)
Disposals	(8)	-	(1)	(9)
At 30 September 2010	779	13	29	821
Depreciation				
At 01 October 2009	16	7	17	40
Charge for the year	7	1	3	11
Transfer from other group undertaking	36	-	-	36
Disposals	(6)	-	(1)	(7)
At 30 September 2010	53	8	19	80
Net book value				
At 30 September 2010	726	5	10	741
At 01 October 2009	27	6	13	46

The net book value of aircraft includes £164 million (2010 £153 million) relating to advance and option payments for future deliveries of aircraft. This amount is not depreciated.

Aircraft with a net book value of £605 million (2010 £57 million) are mortgaged to lenders as loan security.

Aircraft with a net book value of £94 million (2010 £38 million) are held under finance leases.

The Company is contractually committed to the acquisition of 37 (2010 47) Airbus A320 family aircraft, with a total list price of US\$1.9 billion (2010 US\$2.2 billion) before escalations and discounts for delivery in the period to March 2014.

8 Investments in subsidiary undertakings

	2011 £ million	2010 £ million
At 01 October	132	129
Investment in subsidiaries	-	3
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 (Registered number 2294109)	England and Wales	Non-trading	100

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.

	2011 £ million	2010 £ million
At 01 October	13	13
Interest receivable converted to loan notes	1	1
Redemption of loan notes	(3)	(1)
At 30 September	11	13

10 Other non-current assets

	2011 £ million	2010 £ million
Recoverable supplemental rent on leased aircraft (pledged as collateral)	21	31
Deposits held by aircraft lessors	17	1
Other	6	4
	44	36

11 Trade and other receivables

	2011 £ million	2010 £ million
Trade receivables	84	77
Less provision for impairment of trade receivables	(3)	(3)
	81	74
Amounts owed by group undertakings	29	38
Other receivables	26	30
Recoverable supplemental rent on leased aircraft (pledged as collateral)	9	7
Prepayments and accrued income	44	74
	189	223

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

	2011 £ million	2010 £ million
At 01 October	3	3
Increase in provision (included in 'Other costs')	-	1
Amounts written off	-	(1)
At 30 September	3	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.

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

	2011 £ million	2010 £ million
Up to three months past due	31	22
Over three months past due	10	-
	41	22

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

	2011 £ million	2010 £ million
Cash and cash equivalents (original maturity less than three months)	1,041	852
Money market deposits (original maturity more than three months)	300	260
Current restricted cash	90	23
Non-current restricted cash	29	29
	1,460	1,164

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

	2011 £ million	2010 £ million
Customer payments for packaged holidays	-	18
<i>Pledged as collateral to third parties</i>		
Payment card acquiring	90	5
Aircraft operating lease deposits	29	29
	119	52

13 Trade and other payables

	2011 £ million	2010 £ million
Trade payables	83	75
Amounts owed to group undertakings	1,668	1,455
Unearned revenue	472	356
Accruals and deferred income	270	318
Other taxes and social security	13	9
Other creditors	59	54
	2,565	2,267

14 Borrowings

	Current £ million	Non-current £ million	Total £ million
At 30 September 2011			
Bank loans	58	532	590
Finance lease obligations	4	112	116
	62	644	706
At 30 September 2010			
Bank loans	16	52	68
Finance lease obligations	2	46	48
	18	98	116

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 2010	166
Exchange adjustments	1
Charged to income statement	38
Related to aircraft sold and leased back	21
Transfer of aircraft reserves	(14)
Utilised	(59)
At 30 September 2011	153

Maintenance provisions are analysed as follows:

	2011 £ million	2010 £ million
Current	51	55
Non-current	102	111
	153	166

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

17 Share capital

	2011 million	Number 2010 million	2011 £ million	Value 2010 £ million
Allotted, called up and fully paid				
At 01 October	214	14	214	14
Issued in the year	-	200	-	200
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 2011, 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 2010 million	Granted million	Forfeited million	Exercised million	Expired million	30 September 2011 million
Discretionary schemes						
19 January 2004	0.3	-	-	-	-	0.3
8 December 2004	2.6	-	-	(0.3)	-	2.3
1 December 2005	0.4	-	-	(0.4)	-	-
Long term incentive plan						
3 December 2007	0.4	-	(0.4)	-	-	-
29 February 2008	0.2	-	(0.2)	-	-	-
16 January 2009	1.5	-	(0.3)	-	-	1.2
16 December 2009	1.4	-	(0.6)	-	-	0.8
5 July 2010	0.5	-	-	-	-	0.5
31 March 2011	-	2.4	-	-	-	2.4
Sharesave						
8 June 2007	0.3	-	-	-	(0.3)	-
6 June 2008	2.9	-	(0.1)	(1.8)	-	1.0
5 June 2009	1.2	-	(0.1)	-	-	1.1
10 June 2010	0.5	-	(0.2)	-	-	0.3
1 July 2011	-	2.3	-	-	-	2.3
Share incentive plan	2.0	1.7	-	(0.1)	-	3.6
	14.2	6.4	(1.9)	(2.6)	(0.3)	15.8

Weighted average exercise prices are as follows

	1 October 2010	Granted	Forfeited	Exercised	Expired	30 September 2011
Weighted average exercise prices	£	£	£	£	£	£
Discretionary schemes	2.21	-	2.80	2.77	-	2.05
Sharesave	2.66	2.88	2.87	2.40	4.79	2.73

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

Awards exercisable	Price (£)		Number (million)	
	2011	2010	2011	2010
Discretionary schemes	2.05	2.21	2.6	3.3
Sharesave	2.73	4.79	1.0	0.3
Share incentive plan	-	-	0.7	0.7
			4.3	4.3

The weighted average remaining contractual life for each class of share at 30 September 2011 is as follows

	Years
Discretionary schemes	3.1
Long Term incentive plan	8.7
Sharesave	2.6
Share incentive plan	2.2

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
1 December 2005	3.42	3.30	42%	6.5	4.15%	1.42
Long term incentive plan						
3 December 2007	5.63	-	-	-	-	5.63
29 February 2008	4.33	-	-	-	-	4.33
16 January 2009	2.88	-	-	-	-	2.88
16 December 2009 and 5 July 2010	3.49	-	-	-	-	3.49
31 March 2011	3.41	-	-	-	-	3.41
Sharesave						
8 June 2007	5.19	4.79	32%	3.5	5.76%	1.82
6 June 2008	2.86	2.40	41%	3.5	4.92%	1.16
5 June 2009	3.02	2.43	53%	3.5	2.52%	1.40
10 June 2010	4.36	3.49	53%	3.5	1.20%	1.96
1 July 2011	3.60	2.88	46%	3.5	1.45%	1.37

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 £3.81 (2010 £4.15)

19. Reconciliation of operating profit / (loss) to cash generated / (used by) from operations

	2011 £ million	Restated 2010 £ million
Operating profit / (loss)	125	(29)
Adjustments for non-cash items		
Depreciation	34	11
Loss on disposal of assets held for sale	-	7
Amortisation of intangible assets	7	6
Share-based payments	5	4
Changes in working capital and non-current items of an operating nature		
Decrease in trade and other receivables	32	7
Increase / (decrease) in trade and other payables	201	(61)
Decrease in provisions	(20)	(5)
(Increase) / decrease in other non-current assets	(8)	4
Decrease / (increase) in derivative financial instruments	1	(21)
(Decrease) / increase in non-current deferred income	(14)	4
	363	(73)

Due to the change in accounting policies in respect of exchange gains and losses (see note 2), this has resulted in the operating loss being restated by £28.5 million to £29 million (2010 £0.5 million loss). The net effect of this restatement on the adjusted cash used by operations results in a reduction of £4.6 million.

20. Reconciliation of net cash flow to movement in net cash

	01 October 2010 £ million	Exchange differences £ million	Loan issue costs £ million	Net cash flow £ million	30 September 2011 £ million
Cash and cash equivalents	852	(5)	-	194	1,041
Money market deposits	260	2	-	38	300
	1,112	(3)	-	232	1,341
Bank loans	(68)	(18)	5	(509)	(590)
Finance lease obligations	(48)	(1)	-	(67)	(116)
	(116)	(19)	5	(576)	(706)
Net cash (non-GAAP measure)	996	(22)	5	(344)	635

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		Other £ million	Carrying value £ million	Fair value £ million
	Loans and receivables £ million	Financial liabilities £ million	Cash flow hedge £ million	Held for trading £ million			
At 30 September 2011							
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)

	Amortised cost		Held at fair value		Other £ million	Carrying value £ million	Fair value £ million
	Loans and receivables £ million	Financial liabilities £ million	Cash flow hedge £ million	Held for trading £ million			
At 30 September 2010							
Loan notes	13	-	-	-	-	13	13
Other non-current assets	32	-	-	-	4	36	36
Trade and other receivables	162	-	-	-	61	223	223
Trade and other payables	-	(1,838)	-	-	(429)	(2,267)	(2,267)
Derivative financial instruments	-	-	48	1	-	49	49
Restricted cash	52	-	-	-	-	52	52
Money market deposits	260	-	-	-	-	260	260
Cash and cash equivalents	852	-	-	-	-	852	852
Borrowings	-	(116)	-	-	-	(116)	(118)

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

	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
At 30 September 2011						
Forward contracts						
<i>Designated as cash flow hedges</i>						
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)
<i>Designated as held for trading</i>						
US dollar	266	-	1	-	-	1
		24	76	(52)	(27)	21
At 30 September 2010						
Forward contracts						
<i>Designated as cash flow hedges</i>						
US dollar	911	2	14	(4)	(2)	10
Euro	263	2	12	-	-	14
Swiss franc	69	-	-	(1)	-	(1)
Jet fuel	2	4	27	(4)	(2)	25
<i>Designated as held for trading</i>						
US dollar	1,055	-	2	(1)	-	1
		8	55	(10)	(4)	49

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.

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

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

At 30 September 2010	Within 1 year £ million	1-2 years £ million	Total £ million
Hedges of transaction currency risk	20	2	22
Hedges of jet fuel price risk	24	2	26
	44	4	48
Related deferred tax			(13)
Net losses			35

	2011 £ million	2010 £ million
Gains on cash flow hedges recycled from other comprehensive income into income statement captions		
Revenue	9	1
Fuel	142	1
Maintenance	-	1
Interest payable and other financing charges	1	-
Aircraft lease costs	-	5
	152	8

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

	2011 \$ million	2010 \$ million
Cash and money market deposits	671	709
Net amount owed by group undertakings	1,598	985
Borrowings	(970)	(125)
Maintenance provisions	(206)	(303)
Other	43	53
	1,136	1,319
Forward US dollar contracts	(266)	(515)
Net US dollar balance sheet exposure	870	804

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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

	2011 £ million	2010 £ million
Unrealised revaluation (losses) / gains on non-derivative financial instruments	(32)	32
Unrealised revaluation gains on other monetary assets and liabilities	2	-
Realised foreign exchange gains on non-derivative financial instruments	5	2
Unrealised gains / (losses) on derivatives	3	11
Realised losses on derivatives	(43)	(19)
(Charged) / credited to net finance charges	(65)	25

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 2011. 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

	Within 1 year £ million	1-2 years £ million	2-5 years £ million	Over 5 years £ million
At 30 September 2011				
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	-	-

	Within 1 year £ million	1-2 years £ million	2-5 years £ million	Over 5 years £ million
At 30 September 2010				
Borrowings	21	9	29	78
Trade and other payables	2,267	-	-	-
Derivative contracts - receipts	(2,838)	(369)	-	-
Derivative contracts - payments	2,842	391	-	-

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.

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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

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

	US dollar		Euro		Fuel price	Interest rates
	+10%	-10%	+10%	-10%	10% increase	1% increase
	£ million	£ million	£ million	£ million	£ million	£ million
At 30 September 2010						
Income statement impact gain / (loss)	47	(58)	(3)	4	-	(3)
Impact on other comprehensive income increase / (decrease)	43	(52)	(14)	20	47	-

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	
	2011	2010	2011	2010
	£ million	£ million	£ million	£ million
Total commitments under non-cancellable operating leases due				
Not later than one year	207	265	1	2
Later than one year and not later than five years	643	882	2	3
Later than five years	162	425	3	3
	1,012	1,572	6	8

The Company holds 123 aircraft (2010: 147 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.

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Commitments under finance leases

	2011 £ million	2010 £ million
Minimum lease payments fall due as follows		
Not later than one year	7	3
Later than one year and not later than five years	31	12
Later than five years	104	44
	142	59
Future finance charges	(25)	(12)
	117	47

The Company holds five aircraft (2010: two 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 £44 million (2010: £32 million), of which £41 million (2010: £28 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

Charges for the years ended 30 September 2011 and 2010 are as follows:

	2011 £ million	2010 £ million
Charges to the Company	317	311
Charges by the Company	32	46

In addition, during the current year, 28 aircraft were acquired from easyJet Leasing Limited for total consideration of £412 million (2010: 27 aircraft for £480 million), (comprising net book value) which has been left outstanding on the intercompany account. This is a non-cash transaction which accordingly has been excluded from the statement of cash flows.

Payments made under the Brand Licence agreement with easyGroup IP Licensing Limited, detailed within note 26 to the Group accounts, amounted to £5 million (2010: £nil). Royalty payments within this total were £4 million (2010: £nil).

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, Bedfordshire, LU2 9PF