easyJet plc

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Contents

Chairman's statement

One wet and windy November morning, a little over seven years ago, just before the crack of dawn I sat in the jump seat of a wet-leased Boeing 737-200 about to take off from Luton airport bound for Glasgow. I used the public address system to welcome the full load of passengers to the inaugural flight of "my" airline! It was 7am on the 10th of November 1995, and as they say "the rest is history". Today "my baby" is officially becoming an adult.

This is the last set of results that I will announce as the Company's Chairman. And I couldn't have hoped for a better send-off! Profits before exceptional items, provision for the investment in The Airline Group Limited, goodwill amortisation and before tax are up 86 per cent year-on-year to £82 million. Profits before tax are up 78 per cent year-on- year to £72 million and the profit after tax has increased 29 per cent to £49 million. During the year we acquired the most promising of our competitors', Go Fly, creating Europe's largest low cost airline by passengers and the one that measures up with most of the continent's "flag-carriers" (and there are still too many of those left). The fleet comprises 64 aircraft with another 14 brand new Boeings to be delivered by May 2004. Moreover, in what could be the "deal of the century", we are close to ordering 120 Airbus A319 aircraft, with options for a further 120 aircraft. I believe the last remaining competitive advantage of the flag-carriers - buying cheaper aircraft than the up-starts - has just been demolished. In the meantime we have built one of the strongest balance sheets in the industry with cash reserves of £428 million, which equates to almost one year's worth of operating expenses.

Sustainable companies should exist without the constant care and attention of the founders. I must note that in this day and age it is highly unusual to find an outgoing Chairman/Founder of a substantial Company who is able to claim that he has never drawn a salary nor claimed a single penny in expenses. I even pay for my own easyJet flights! I believe in the highest standards of corporate governance and in accordance with those I am delighted to hand over the Chair of the Board to the safe pair of hands of Sir Colin Chandler. Sir Colin with his long city experience and Ray Webster, the Chief Executive, who has been with easyJet almost from the beginning, in effect running the company, make an ideal combination to lead the company forward. Given my 22 per cent shareholding and brand licence agreement between easyGroup and easyJet, easyJet will never be far from my mind. I will have my hands full with other easyGroup activity, but will continue to watch from afar with a close and fond interest. At the same time, I will concentrate on what I think I do best - turning dreams into reality. I intend to work diligently to create more sustainable and valuable companies that use the "easy" brand in order to help make it one of the most famous and valuable in the world for the benefit of all the "easy" companies.

The challenges for the year ahead include the completion of the integration of Go Fly, which is well under way, the decision as to whether to exercise the option to acquire Deutsche BA and the introduction of the Airbus into the fleet. On this last point, I have to say that, given the price difference between Airbus and Boeing, there is enough benefit in the price discount to compensate for any "introduction risk".

We have come an awful long way since the first flight on the 10th of November 1995 and it has been a true pleasure and an honour to work with all of the 3,100 members of the easyJet family. A big thank you to all of you and keep up the good work!

Stelios

Stelios Haji-Ioannou
Chairman
25 November 2002

Chief Executive's review

Overview

easyJet continues to demonstrate that its business model is robust and that there is strong demand for low fare, point-to-point air services between major European airports.

For the year ended 30 September 2002 easyJet plc made a profit before tax of £71.6 million, an increase of 78.3 per cent on last year.

Revenue grew 54.6 per cent, year-on-year, with 36.1 per cent of the increase stemming from organic growth and 18.5 per cent from the acquisition of the airline Go Fly. The number of passengers rose 59.5 per cent year-on-year to 11.4 million, driven by the introduction into service of a net eleven additional aircraft, the addition of the 27 aircraft in the Go Fly fleet for two months of the year and a 1.8 percentage point increase in average load factor to 84.8 per cent.

Over the same period, revenue per available seat kilometre increased by 0.4 per cent. This was partly driven by a 1.6 per cent fall in average sector length.

easyJet's organic growth strategy has remained unchanged, with most of the 40 per cent growth in sectors flown being added to existing routes, as increased frequency. Adding new routes between existing destinations, primarily from London Gatwick, ("joining the dots") accounted for 11 per cent of the increase in sectors and adding routes to new destinations, primarily to Paris, represented 6 per cent of the growth.

Strategy

Our strategy and business model continues to be based on six key strengths that support our competitiveness, scalability and sustainable growth:

- Commitment to safety and customer service;
- Simple fare structure - book early for low prices;
- Low unit costs;
- Strong branding;
- Multi base network – high frequency point-to-point services, mainly between major European airports; and
- Strong corporate culture.

Acquisition of Go Fly

The events of 11 September 2001 created a window of opportunity for easyJet. The airline responded in two ways: by accelerating organic growth and by gaining a step-up in growth by acquisition. Therefore, on 31 July 2002, easyJet completed the acquisition of the low cost airline Go Fly for £374 million to become Europe's largest low cost airline. This was partially funded by a rights issue that raised £277 million (gross). At that time, Go Fly had cash balances of £127 million.

The rationale for combining the two airlines was compelling. As an independent company, Go Fly had a team of high quality people and had established itself as a profitable business. Both airlines have been built on common business models with complementary route networks and these models have encompassed similar values and staff cultures. At 30 September, Go Fly operated a fleet of 27 leased Boeing 737-300s over 36 routes.

The integration of the two businesses is well advanced, with two significant milestones close to completion. The first milestone is the creation of a single "easyJet" brand, with a single computer reservation system and single yield management system. The second milestone is the migration to a single UK Air Operator's Certificate, rather than the two certificates that currently exist (in addition to the Swiss Air Operator's Certificate). In practice, this means that the airline's UK operations will be run as a single unified entity.

Chief Executive's review *(continued)*

Routes

At 30 September, the easyJet network covered 83 routes, 32 cities and 35 airports.

The acquisition of Go Fly added 15 new cities and 36 new routes to the network. The merging of the networks resulted in minimal overlap. Only two routes were common to both airlines (Edinburgh and Glasgow to Belfast) and these were rationalised in August.

During the year, in addition to the acquisition of Go Fly, 12 new routes were added to the easyJet network. In May and June easyJet began four new routes from Paris: Paris Orly to Geneva and Paris Charles de Gaulle to Luton, Liverpool and Nice. easyJet has approximately four aircraft operating a total of sixteen flights a day from Paris. easyJet also expanded rapidly from London Gatwick, introducing eight routes servicing Barcelona, Edinburgh, Zurich, Malaga, Palma de Mallorca, Athens, Madrid and Alicante. easyJet now operates 26 daily services on eleven routes from London Gatwick.

easyJet now serves London at three out of four of its main airports (i.e. Gatwick, Stansted and Luton) and with twelve airports in the UK, easyJet is now able to offer its services to most major population centres. easyJet's footprint in the UK now covers London, southwest England (Bristol), the English Midlands (East Midlands), northwest England (Liverpool), northeast England (Newcastle), Scotland (Aberdeen, Edinburgh, Glasgow and Inverness) and Northern Ireland (Belfast).

In October 2002 three new services were started from East Midlands to Barcelona, Geneva and Venice and one new service from Bristol to Venice. Services from Liverpool to Alicante will start in January 2003 and the continued expansion of Newcastle in April 2003 has been announced.

Boeing fleet

At 30 September 2002 the easyJet fleet comprised 64 Boeing 737 aircraft, an increase of 38 aircraft from the same period last year. Eleven new Boeing 737-700s were delivered during the year and these were financed using operating leases. A further new B737-700 aircraft was brought in to the fleet under operating lease in June, with one B737-300 aircraft being returned to its lessor. In addition, the acquisition of Go Fly added 27 leased Boeing 737-300 aircraft to the fleet.

A further 14 Boeing 737-700s are to be delivered by May 2004. Eight of these aircraft will arrive in financial year 2003.

New Airbus aircraft

In October 2002 (after the end of the 2002 financial year), easyJet selected Airbus as the aircraft manufacturer with whom it would negotiate for supply of its next stream of new aircraft. The proposed order is for 120 A319 aircraft to be delivered over a five year period from the second half of the 2003 calendar year. In addition, easyJet has options with price protection on a further 120 A319 aircraft, valid until 2012, and options to switch to larger sized A320 and A321 aircraft.

The Airbus aircraft deliveries are intended to provide a stream of new aircraft to follow on from when the last Boeing is delivered in May 2004. However, easyJet intends to introduce five Airbus aircraft earlier, around September 2003, to build experience with the aircraft before the main delivery stream begins. These aircraft will be introduced into Switzerland and operated under easyJet's existing Swiss Air Operator's Certificate. This will quarantine the introduction from the core easyJet operation and draw on a self-contained management team in Geneva that is not involved in the Go Fly project.

Contracts are being negotiated and once these are finalised, shareholder approval will be sought.

Chief Executive's review *(continued)*

Option to purchase Deutsche BA

In August 2002, easyJet negotiated an option to purchase the German airline Deutsche BA. This option can be exercised at any time until August 2003. The German market presents significant growth opportunities for easyJet and the option provides easyJet a low risk, low cost way to assess and enter the German market.

Deutsche BA currently operates 16 leased Boeing 737-300 aircraft on seven German domestic routes.

easyJet is currently undertaking two inter-related activities. It is assisting the existing management of Deutsche BA to de-risk the transition of the business to low cost and it is evaluating whether the purchase option should be exercised. Good progress is being made by the project teams.

The Airline Group

As announced at the time of the Interim Result, the Board of easyJet decided to be prudent and to provide for in full its £7.2 million investment in The Airline Group Limited (TAG), a consortium of airlines which owns a minority interest in the company which operates the UK air traffic control system (NATS).

easyJet reiterates its earlier statements: easyJet has no intention to sell its stake in, or to cease its involvement in, TAG. easyJet's future growth is critically dependent on the provision of efficient air traffic control services and consequently, easyJet remains vitally interested in NATS.

Our people

We often talk about easyJet's commercial acumen, speed of response, flexibility, resilience and creativity. These are not impersonal corporate qualities: they are human qualities. Our success stems from the 3,100 people that comprise easyJet.

It is a success that has not been achieved effortlessly. The challenges of operating in the post-11 September 2001 environment, delivering profitable growth in a very competitive world and integrating new structures, practices and approaches in the wake of the merger, have been significant. However, it has been both individuals and teams of individuals who have provided the solutions through showing a willingness to adapt, act and innovate.

Consequently, once again, I say "thank you" to our staff and their families for their efforts over the year and look forward to their ongoing support.

Trading outlook

easyJet faces a number of uncertainties. These include the threat of war in the Middle East, terrorist activity and the consumer environment. Notwithstanding the above uncertainties, market demand continues to be strong, but at lower average fares.

The combining of the Go Fly and easyJet networks has provided easyJet with a much enhanced market presence. The new routes out of Paris and London Gatwick are proving popular and the proposed expansion at Newcastle means that United Kingdom coverage will be very strong.

The addition of the Go Fly network is likely to result in no new cities being added to the network in the near future. Additional capacity is likely to appear as increased frequencies on existing routes and as infilling between existing destinations ("joining the dots").

Although easyJet suffered some bad press during the year when a new rostering system was introduced, punctuality is now fully restored and the rostering regime is stable.

Chief Executive's review *(continued)*

Trading outlook *(continued)*

The integration of Go Fly is proceeding well and in some areas faster than initially planned.

The full year effect of the enlarged fleet and the planned deliveries of aircraft during the 2003 financial year are expected to result in sectors growing by approximately 80 per cent, year-on-year compared to 2002, in which 89,939 sectors were flown.

As a low-cost point-to-point airline that flies frequently between major European airports, easyJet is well positioned for the future. The easyJet business model is robust, resilient and well-placed to prosper.

Ray Webster
Chief Executive
25 November 2002

Operational and financial review

The following tables set forth certain consolidated operating and profit and loss account data. Where statistics are 'average' numbers in the 'acquired in year' column, the average represents the values from the two months of ownership of Go Fly, averaged across the twelve months.

Selected consolidated operating data (unaudited)	Year ended 30 September			
	2002			2001
	Continuing operations	**Acquired in year**	**Total**	
Number of aircraft owned/leased at end of year[1]	**37**	**27**	**64**	26
Average number of aircraft owned/leased during year[2]	**30.7**	**4.5**	**35.2**	21.7
Number of aircraft operated at end of year[3]	**36**	**27**	**63**	25
Average number of aircraft operated during year[4]	**29.8**	**4.4**	**34.2**	21.1
Sectors[5]	**80,503**	**9,436**	**89,939**	57,513
Block hours[6]	**125,154**	**17,194**	**142,348**	92,049
Number of routes operated at end of year	**47**	**36**	**83**	35
Number of airports served at end of year	**20**	**23**[7]	**35**	17
Owned/leased aircraft utilisation (hours per day)[8]	**11.2**	**10.5**	**11.1**	11.6
Operated aircraft utilisation (hours per day)[9]	**11.5**	**10.7**	**11.4**	12.0
Available seat kilometres ("ASK")(millions)[10]	**9,381**	**1,388**	**10,769**	7,003
Passengers[11]	**10,151,549**	**1,198,801**	**11,350,350**	7,115,147
Load factor[12]	**84.6%**	**85.8%**	**84.8%**	83.0%
Revenue passenger kilometres ("RPK")(millions)[13]	**8,000**	**1,218**	**9,218**	5,903
Average internet sales percentage during the year[14]	**91.4%**	**85.1%**	**90.9%**	86.5%
Internet sales percentage during final month of financial year[15]	**92.0%**	**85.8%**	**89.9%**	91.0%
Average sector length (kilometres)	**782**	**993**	**804**	817

Footnotes can be found at the end of this section.

Operational and financial review *(continued)*

Results of operations

(unaudited) Year ended 30 September	**2002** Continuing operations £000	Acquired in year £000	Total £000	%	2001 £000	%	Year on year change %
Revenue[16]	**485,855**	**65,989**	**551,844**	**100.0**	356,859	100.0	54.6
Ground handling charges, including salaries	**(44,143)**	**(4,637)**	**(48,780)**	**8.8**	(33,338)	9.3	46.3
Airport charges	**(66,761)**	**(6,739)**	**(73,500)**	**13.3**	(39,595)	11.1	85.6
Fuel	**(47,719)**	**(7,497)**	**(55,216)**	**10.0**	(47,101)	13.2	17.2
Navigation charges	**(33,386)**	**(4,394)**	**(37,780)**	**6.8**	(22,538)	6.3	67.6
Crew costs, including training	**(53,360)**	**(4,457)**	**(57,817)**	**10.5**	(39,901)	11.2	44.9
Maintenance, including reserves	**(44,881)**	**(7,635)**	**(52,516)**	**9.5**	(28,180)	7.9	86.4
Advertising	**(17,020)**	**(2,352)**	**(19,372)**	**3.5**	(13,308)	3.7	45.6
Merchant fees & incentive pay	**(8,450)**	**(652)**	**(9,102)**	**1.6**	(6,788)	1.9	34.1
Gift of shares	-	-	-	-	(1,796)	0.5	-
Swiss VAT charges	-	-	-	-	(1,981)	0.6	-
Costs of integrating businesses of easyJet and Go Fly	**(6,205)**	**(852)**	**(7,057)**	**1.3**	-	-	-
Other costs[17]	**(51,607)**	**(6,730)**	**(58,337)**	**10.6**	(41,636)	11.7	40.1
EBITDAR[18]	**112,323**	**20,044**	**132,367**	**24.0**	80,697	22.6	64.0
Depreciation	**(18,265)**	**(412)**	**(18,677)**	**3.4**	(18,457)	5.2	1.2
Goodwill amortisation	**(3,091)**	-	**(3,091)**	**0.6**	(168)	0.0	1,739.9
Aircraft dry lease costs	**(34,191)**	**(6,836)**	**(41,027)**	7.4	(23,283)	6.5	76.2
Aircraft long-term wet lease costs	-	-	-		(666)	0.2	-
Total operating profit (EBIT)	**56,776**	**12,796**	**69,572**	**12.6**	38,123	10.7	82.5
Net interest receivable/(payable)			**10,523**	**1.9**	2,010	0.6	423.5
Committed contribution to Deutsche BA			**(1,359)**	**0.3**	-	-	-
Amounts written off investments			**(7,159)**	**1.3**	-	-	-
Income before tax			**71,577**	**13.0**	40,133	11.2	78.3
Tax			**(22,568)**	**4.1**	(2,226)	0.6	913.8
Retained profit for the year			**49,009**	**8.9**	37,907	10.6	29.3
Earnings per share (pence)							
Basic			**14.61**		13.47		8.5
Diluted			**13.89**		12.79		8.6
Basic, before goodwill amortisation			**15.53**		13.53		14.8
Diluted, before goodwill amortisation			**14.78**		12.84		15.1

Footnotes can be found at the end of this section.

Operational and financial review *(continued)*

Selected consolidated pro forma operating and financial data for Go Fly (unaudited)

The following tables set provide certain unaudited pro forma consolidated operating and profit and loss account data for Go Fly for the 12 months ended 30 September 2002.

Selected consolidated operating data	Year ended 30 September 2002
(unaudited)	
Number of aircraft owned/leased at end of year[1]	27
Average number of aircraft owned/leased during year[2]	22.8
Number of aircraft operated at end of year[3]	27
Average number of aircraft operated during year[4]	22.3
Sectors[5]	49,121
Block hours[6]	83,049
Number of routes operated at end of year	36
Number of airports served at end of year	23
Owned/leased aircraft utilisation (hours per day)[8]	10.0
Operated aircraft utilisation (hours per day)[9]	10.2
Available seat kilometres ("ASK")(millions)[10]	6,496
Passengers[11]	5,845,047
Load factor[12]	80.4%
Revenue passenger kilometres ("RPK")(millions)[13]	5,492
Average internet sales percentage during the year[14]	82.5%
Internet sales percentage during final month of financial year[15]	85.8%
Average sector length (kilometres)	893

The breakdown in costs in the following table does not include exceptional items related to the acquisition of Go Fly.

Results of operations	Year ended 30 September 2002	
(unaudited)	£000s	%
Revenue[16]	282,980	100.0
Operating costs		
Ground handling charges, including salaries	(22,977)	8.1
Airport charges	(32,794)	11.6
Fuel	(38,462)	13.6
Navigation charges	(19,957)	7.1
Crew costs, including training	(23,588)	8.3
Maintenance, including reserves	(33,769)	11.9
Advertising	(14,573)	5.1
Merchant fees & incentive pay	(3,781)	1.3
Other costs[17]	(31,552)	11.1
Selected aircraft financing costs		
Aircraft dry lease costs	(38,002)	13.4

Operational and financial review *(continued)*

Financial year 2002 compared with financial year 2001

Revenue

easyJet's revenue increased 54.6 per cent from £356.9 million to £551.8 million, from financial year 2001 to financial year 2002.

Revenue from continuing operations increased by 36.1 per cent to £485.9 million in financial year 2002. This increase reflected a 42.7 per cent growth in passenger volumes, from 7.1 million to 10.2 million passengers, partly offset by a 6.0 per cent decline in average fares. The number of passengers carried reflected an increase in the size of the easyJet fleet in operation from an average of 21.1 aircraft to an average of 29.8 aircraft and an increase in the average load factor achieved from 83.0 per cent to 84.6 per cent.

Revenue from non-ticket sources, within ongoing operations, includes in-flight sales of food and beverages, excess baggage charges, change fees, credit card booking fees and commissions received from products and services sold such as hotel and car hire bookings and travel insurance. In financial year 2002, £23.8 million was earned from non-ticket sources, up 101.1 per cent from the prior year. This increase is higher than the growth in passenger volumes and primarily reflects the full year effect of credit card booking fees, which were introduced in April 2001, the renegotiation of contractual arrangements and the exploration of new revenue earning opportunities.

Revenue arising from Go Fly, from 31 July, the date of acquisition, was £66.0 million, reflecting the 1.2 million passengers flown on the 27 aircraft operated by Go Fly in the two months of August and September.

Ground handling charges, including salaries

easyJet's ground handling charges increased by 46.3 per cent from £33.3 million to £48.8 million, from financial year 2001 to financial year 2002.

Ground handling charges from continuing operations increased by 32.4 per cent to £44.1 million in financial year 2002. The increase in third-party ground handling charges reflects the increase in the number of sectors flown and the higher rates charged at certain primary airports where much of easyJet's organic growth was centred in 2002. Ground handling at Geneva and Luton grew less than the level of passenger increase reflecting the improved efficiency of self-handling at these airports. Ground handling charges in financial year 2001 also included the start-up costs of self-handling at Geneva.

The ground handling charges arising from Go Fly, from 31 July, the date of acquisition, were £4.6 million.

Airport charges

easyJet's external airport charges increased by 85.6 per cent from £39.6 million to £73.5 million from financial year 2001 to financial year 2002.

Airport charges from continuing operations increased by 68.6 per cent to £66.8 million in financial year 2002. This increase was attributable to the increase in the number of sectors flown, increases in charges at certain airports following the events of 11 September 2001 and the full year effect of the increases in charges at London Luton, which were raised in February 2001. The increase also reflects the higher rates charged at certain primary airports where much of easyJet's organic growth was centred in 2002.

Airport charges arising from Go Fly, from 31 July, the date of acquisition, were £6.7 million.

Operational and financial review *(continued)*

Fuel

easyJet's fuel costs increased by 17.2 per cent from £47.1 million to £55.2 million from financial year 2001 to financial year 2002.

Fuel charges from continuing operations increased by 1.3 per cent to £47.7 million in financial year 2002. This increase was considerably lower than the 36.0 per cent increase in number of block hours flown by easyJet. This change is due to approximately 20.5 per cent decline in easyJet's average unit US dollar fuel cost, compared with the previous year, resulting in a benefit to easyJet of approximately £11.9 million. The strengthening of the value of sterling against the US dollar, the currency in which fuel prices are denominated, over the course of financial year 2002 also provided a benefit of approximately £1.1 million. The improved fuel burn of the new Boeing 737-700 aircraft, compared to the older Boeing 737-300 aircraft, assisted the year-on-year change in fuel cost. Fuel charges in financial year 2001 also included the cost of a financial instrument taken out in September 2001 to cap the Group's fuel price over six months.

Fuel charges arising from Go Fly, from 31 July, the date of acquisition, were £7.5 million.

Navigation charges

easyJet's navigation charges increased by 67.6 per cent from £22.5 million to £37.8 million from financial year 2001 to financial year 2002.

Navigation charges from continuing operations increased by 48.1 per cent to £33.4 million in financial year 2002. This increase was principally attributable to the increased number of sectors flown in financial year 2002 as well as an increase in unit charges following the events of 11 September 2001. The increase was partially offset by a 4.3 per cent decrease in the average sector length to 782 kilometres (2001: 817 kilometres).

Navigation charges arising from Go Fly, from 31 July, the date of acquisition, were £4.4 million.

Crew costs, including training

easyJet's crew costs increased by 44.9 per cent from £39.9 million to £57.8 million from financial year 2001 to financial year 2002.

Crew costs from continuing operations increased by 33.7 per cent to £53.4 million in financial year 2002. The increase in crew costs resulted from an increase in headcount during the financial year 2002 to service the additional sectors and aircraft operated by easyJet during the year and the recruitment and training necessary for aircraft not yet delivered.

Crew costs arising from Go Fly, from 31 July, the date of acquisition, were £4.5 million.

Maintenance, including reserves

Maintenance expenses, including reserves, increased by 86.4 per cent from £28.2 million to £52.5 million from financial year 2001 to financial year 2002.

Maintenance costs from continuing operations increased by 59.3 per cent to £44.9 million in financial year 2002. easyJet's maintenance expenses consist primarily of the cost of routine maintenance and spare parts and reserve payments for the estimated future cost of heavy maintenance and engine overhauls on aircraft operated by easyJet pursuant to dry leases. The extent of the required annual maintenance reserve payment is determined by reference to the number of flight hours and cycles permitted between each engine shop visit and heavy maintenance overhaul on aircraft airframes. The increase in maintenance costs was largely due to the addition of a net eleven leased aircraft to the fleet (and the resultant increase in flying) and the fact that during financial year 2002 all new aircraft were financed under operating leases, necessitating the payment or provision of maintenance reserve liabilities.

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

The maintenance costs arising from Go Fly, from 31 July, the date of acquisition, were £7.6 million.

Operational and financial review *(continued)*

Advertising

Advertising costs increased by 45.6 per cent per cent from £13.3 million to £19.4 million from financial year 2001 to financial year 2002.

Advertising costs from continuing operations increased by 27.9 per cent to £17.0 million in financial year 2002. In May 2002, easyJet commenced flying four new routes from Paris, the largest new market launched since easyJet commenced its services in London in 1995. Consequently much of the increased advertising expenditure was focused in this market. Despite this, spend per passenger was approximately ten per cent lower than the previous year which is principally due to market maturation. In addition, the majority of organic growth during the period came from starting new routes linking cities already served by easyJet and increasing frequencies on existing routes. This focus on developing network density resulted in lower advertising than was required to establish new markets.

Advertising costs arising from Go Fly, from 31 July, the date of acquisition, were £2.4 million.

Merchant fees and incentive pay

Merchant fees and incentive pay increased by 34.1 per cent from £6.8 million to £9.1 million from financial year 2001 to financial year 2002.

Merchant fees and incentive pay from continuing operations increased by 24.5 per cent to £8.5 million in financial year 2002. Merchant fees and incentive pay includes the costs of processing fees paid to credit card companies on all of easyJet's credit and debit card sales and the per-seat sold/transferred commission paid as incentive pay to easyJet's telesales staff. In financial year 2002, approximately 82 per cent of bookings were made using credit cards compared with 87 per cent in financial year 2001. This reduction, due to the introduction in April 2001 of a customer credit card fee, reduced the rate of growth of credit card processing fees to below that of the increase in passenger numbers during financial year 2002. Incentive pay paid to telesales personnel remained flat year-on-year due to the rise in initial sales made over the internet, from 86.5 per cent of initial seats sold during financial year 2001 to 91.4 per cent of initial seats sold during financial year 2002.

Merchant fees and incentive pay arising from Go Fly, from 31 July, the date of acquisition, was £0.7 million.

Gift of shares

£1.8 million was charged in 2001, principally in respect of granting a one-off gift of shares to certain employees of the group, which crystallised upon the company obtaining a listing on the London Stock Exchange during 2001. The charge to the profit and loss account during the year was based upon the estimated fair value of the shares of the company at the date it granted the shares to the employees.

Swiss VAT charges

£2.0 million was charged in 2001, in respect of a court decision against easyJet Switzerland. The Swiss Federal Tax Administration ("SFTA") brought a claim against easyJet Switzerland, relating to VAT on tour operators for services provided. Following successive proceedings and appeals, in 1998 the Federal Recourse Committee for VAT matters, a specialised court dealing with tax matters, ruled in favour of easyJet Switzerland, stating that its charter operations were not subject to VAT. In 1999, the SFTA appealed against this decision to the Swiss Federal Court (the highest court in Switzerland) and gained a decision in its favour during the 2001 financial year. The total amount claimed by the SFTA is approximately £9.4 million plus interest estimated at approximately £1.0 million. The group believes that the majority of this has now been be re-claimed from its customers. Taking into account amounts that the group believes it will collect from these customers, this has resulted in a net profit and loss account charge of approximately £1.0 million, plus interest of approximately £1.0 million.

Operational and financial review *(continued)*

Cost of integrating businesses of easyJet and Go Fly

Costs of integrating the businesses of Go Fly and easyJet were £7.1 million in financial year 2002. Included within these costs are £5.1 million as an accrual for the costs of the Management Combination Incentive Plan (the "Combination Plan"). The Plan is designed to reward key participants in the process of combining the businesses of easyJet and Go Fly with free shares if performance milestones are met within certain periods. Good progress has been made towards the three performance milestones of single brand, single AOC and combination completion. Other costs have been incurred in respect of systems, property and consultancy costs.

Other costs

Other costs increased by 40.1 per cent from £41.6 million to £58.3 million from financial year 2001 to financial year 2002.

Other costs from continuing operations increased by 23.9 per cent to £51.6 million in financial year 2002. This cost category includes the salary costs of all easyJet's personnel other than flight crew, cabin crew and ground handling personnel, and therefore includes the salary costs attributable to easyJet's administrative, management, engineering, operational and network management functions. Salaries in this category increased, reflecting the rise in personnel numbers throughout easyJet necessary to manage and maintain easyJet's business as the scope of its operations grew during financial year 2002 and in preparation for the further increase in the scale of easyJet's operations.

Other items in this cost category include administrative and operational costs (not included elsewhere), the costs associated with short-term aircraft wet leases, compensation paid to passengers, certain other items, such as currency exchange gains and losses and the profit or loss on the disposal of fixed assets. Many of these costs also increased as the scope of operations grew.

The significant increase compared to financial year 2001 was mainly as a result of higher insurance costs, which rose dramatically after the events of 11 September 2001. Aircraft insurance costs rose from £1.9 million in financial year 2001 to £14.5 million in financial year 2002. These costs were offset slightly by lower disruption costs principally due to the milder weather experienced in the first half of the financial year, compared to the previous year.

Other costs arising from Go Fly, from 31 July, the date of acquisition, were £6.7 million.

Depreciation

Depreciation charges increased by 1.2 per cent from £18.5 million to £18.7 million from financial year 2001 to financial year 2002.

easyJet's depreciation charge from continuing operations fell by 1.0 per cent to £18.3 million in financial year 2002. The depreciation charge reflects depreciation on owned aircraft and capitalised aircraft maintenance charges, and also includes depreciation on computer systems and other assets. easyJet has owned ten B737-300 aircraft over the period and the slight decrease in depreciation primarily reflects the improvement in the value of sterling against the US dollar, the currency in which the majority of easyJet's assets are denominated and the fact that all aircraft introduced to the fleet during the period were financed under operating lease, with none of the owned aircraft being disposed.

The depreciation charges arising from Go Fly, from 31 July, the date of acquisition, were £0.4 million. Go Fly did not own any of its 27 aircraft over the period.

Goodwill amortisation

Goodwill amortisation charges increased from £0.2 million to £3.1 million from financial year 2001 to financial year 2002. This increase reflects the amortisation of goodwill that arose on the acquisition of Go Fly, provisionally set at £349.8 million, and this is being amortised to the consolidated profit and loss account over its estimated useful economic life of 20 years. In financial year 2002, this charge was £2.9 million. The balance of goodwill amortisation of £0.2 million arose from the acquisition of easyJet Switzerland SA and is amortised to the consolidated profit and loss account over its estimated useful economic life of 20 years.

Operational and financial review *(continued)*

Aircraft dry lease costs

easyJet's aircraft dry lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to dry operating leases. Aircraft dry lease costs increased by 76.2 per cent from £23.3 million to £41.0 million from financial year 2001 to financial year 2002.

easyJet's dry leasing costs from continuing operations increased by 46.8 per cent per cent to £34.2 million in financial year 2002. This increase was principally due to all aircraft introduced to the fleet during the period being under operating lease. During the period twelve new Boeing 737-700 aircraft were added to the fleet, with one Boeing 737-300 aircraft being returned to its lessor. Over the period, easyJet has benefited from the strengthening of the value of sterling against the US dollar, the currency in which lease costs are denominated, over the course of financial year 2002 and a very favourable leasing market. As a consequence, easyJet has seen its average leasing cost per aircraft fall by around 20 per cent, year-on-year.

Aircraft dry lease costs arising from Go Fly, from 31 July, the date of acquisition, were £6.8 million. All 27 of Go Fly's aircraft are under operating lease.

Aircraft long-term wet lease costs

easyJet's aircraft wet lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to "ACMI" leases (that is, leases of an aircraft plus crew, maintenance and insurance) of a duration of more than one month. The £0.7 million charge in financial year 2001 relates to the costs incurred leasing one aircraft for one month under a five month wet lease for the summer 2000 season. This aircraft was returned to the lessor as planned at the end of October 2000.

Net interest

Net interest reflects interest paid or payable by easyJet net of interest received or receivable by easyJet. easyJet's net interest receivable increased from £2.0 million in financial year 2001 to £10.5 million in financial year 2002. easyJet's interest paid or payable primarily relates to financing costs associated with loans used to finance the acquisition of certain aircraft. easyJet's interest paid or payable declined from £8.2 million in financial year 2001 to £5.2 million in financial year 2002. This decline reflects the effects of lower interest rates, the improvement in the value of sterling against the US dollar, the currency in which the majority of easyJet's debt is denominated, the financing of all aircraft delivered in 2002 through operating leases and the decline in interest bearing debt due to loan repayments. Interest received or receivable increased from £10.2 million in financial year 2001 to £15.8 million in financial year 2002, reflecting increased cash balances held by easyJet during the year, in particular due to the strong cash generation of the business, the financing of all aircraft deliveries during the year by sale-and-leaseback, and the proceeds from the placing and open offer in November 2001 and the Rights Issue in July 2002.

Committed contribution to result of Deutsche BA

In August 2002, easyJet and British Airways entered into an Option agreement under which the group was granted an option to acquire 100 per cent of the share capital of British Airways' wholly owned subsidiary Deutsche BA Holding GmbH ("Deutsche BA"). The group is able to exercise the option at any time until April 2003 (extendable by the group until August 2003). The group has agreed to second personnel equivalent to three full time managers to Deutsche BA for no charge as consultants. The group has also committed to pay British Airways €0.6 million (£0.4 million) per month from the signing of the option agreement to the date of the option being exercised or expired. These costs are also included in this cost category. In financial year 2002, Deutsche BA related costs were £1.4 million.

Operational and financial review *(continued)*

Amounts written off investments

easyJet is one of seven shareholders in The Airline Group Limited, a consortium of airlines which owns a minority interest in the company that operates the UK air traffic control system (NATS). During the year, the impact of the events of 11 September 2001 contributed to a substantial reduction in NATS revenue. As a result there is now a long period before which the Group expects to realise a return. Accordingly, the Board has decided to be prudent and to provide for the investment in full.

Taxation

In financial year 2002, easyJet incurred a tax charge of £22.6 million, an effective tax rate of 31.5 per cent. The effective tax rate is higher than the UK standard rate of tax due to purchased goodwill not being tax deductible, and an increase in deferred tax due to the adoption of the FRS 19 accounting standard. During the year, the share price has reduced and as a result there has been a partial claw back of tax allowances granted in previous years in respect of the gain on share options. These increases were offset by brought forward losses available in the UK, and an exemption from cantonal and communal tax charges for easyJet Switzerland.

Retained profit for the year

For the reasons described above, easyJet's retained profit after interest and taxes increased by 29.3 per cent from £37.9 million in financial year 2001 to £49.0 million in financial year 2002.

Earnings per share

The basic earnings per share increased by 8.5 per cent from 13.47 pence in the financial year 2001 to 14.61 pence in the financial year 2002, (2001 restated to reflect the bonus element implicit within the rights issue of shares during 2002).

The basic earnings per share, before goodwill amortisation, increased by 14.8 per cent from 13.53 pence in the financial year 2001 to 15.53 pence in the financial year 2002, (2001 restated to reflect the bonus element implicit within the rights issue of shares during 2002).

Footnotes

(1) Represents the number of aircraft owned (including those held on lease arrangements of more than one month's duration) at the end of the relevant financial year.

(2) Represents the average number of aircraft owned (including those held on lease arrangements of more than one month's duration) during the relevant financial year.

(3) Represents the number of owned/leased aircraft in service at the end of the relevant financial year. Owned/leased aircraft in service exclude those in maintenance and those, which have been delivered but have not yet entered service.

(4) Represents the average number of owned/leased aircraft in service during the relevant financial year. Owned/leased aircraft in service exclude those in maintenance and those, which have been delivered but have not yet entered service.

(5) Represents the number of one-way revenue flights.

(6) Represents the number of hours that aircraft are in actual service, measured from the time that each aircraft leaves the terminal at the departure airport to the time that such aircraft arrives at the terminal at the arrival airport.

(7) Represents the number of airports served by Go Fly at the year end. Of the 23 airports served by Go Fly, 8 were airports common to both networks.

(8) Represents the average number of block hours per day per aircraft owned/leased during the relevant financial year.

(9) Represents the average number of block hours per day per aircraft operated during the relevant financial year.

(10) Represents the sum by route of seats available for passengers multiplied by the number of kilometres those seats were flown.

(11) Represents the number of earned seats flown by easyJet. Earned seats include seats that are flown whether or not the passenger turns up (except for those passengers which have purchased flexible fare seats), because easyJet is generally a no-refund airline and once a flight has departed a no-show customer is generally not entitled to change flights or seek a refund. Earned seats also include seats provided for promotional purposes and to easyJet staff for business travel. For those passengers, which have purchased flexible fare seats, the seat is only recognised on the earlier of the date the passenger flies and the date on which the flexible fare expires.

(12) Represents the number of passengers as a proportion of the number of seats available for passengers. No weighting of the load factor is carried out to recognise the effect of varying flight (or "stage") lengths.

(13) Represents the sum by route of passengers multiplied by the number of kilometres those passengers were flown.

(14) Represents the number of seats initially sold over the internet divided by the total number of seats initially sold, during the relevant financial year. Sales that are originally made via the internet, but are later amended by phone, are included.

(15) Represents the number of seats initially sold over the internet divided by the total number of seats initially sold, during the final month of the relevant financial year. Sales that are originally made via the internet, but are later amended by phone, are included.

(16) When easyJet makes refunds to customers, it records refunds made in the pre-flight period as reductions in revenue and any refunds made post-flight as marketing expenses, included in "Other costs", above.

(17) Includes principally administrative and operational costs not included elsewhere, the costs associated with short-term aircraft wet leases, insurance and any post-flight refunds, together with certain other items, such as currency exchange gains and losses and profit or loss on the disposal of fixed assets.

(18) EBITDAR is defined by the company as earnings before interest, taxes, depreciation, amortisation and lease payments (excluding the maintenance reserve component of operating lease payments). Maintenance reserve costs are charged to the cost heading, "Maintenance".

Report of the Remuneration Committee

The board has delegated to the Remuneration Committee responsibility to:

- make recommendations to the board in respect of the remuneration policy for executive directors and the group's other senior management;
- approve any new service agreement entered into between the group and any executive director; and
- make recommendations to the board on the implementation and overview of the bonus and share option programme.

The group's policy for senior executive remuneration is to reward its executives competitively having regard to the comparative market place in order to ensure that they are properly motivated to perform in the best interests of the company and its shareholders.

The remuneration of the company's non-executive directors is determined by the board as a whole with non-executive directors exempting themselves from voting as appropriate.

The remuneration for executive directors comprises a combination of basic salary, annual bonus, pension contributions and participation in share option and gift schemes. Basic salary is set relative to market rates based on the respective director's experience and complexity of his/her duties. The group pays into defined contribution pension schemes for executive directors at 7.0 per cent of their base salaries. Full details of the executive directors' remuneration are set out in note 4 to the financial statements.

The group also provides for the directors to participate in share option and gift schemes, the key details of which are provided in note 17 to the financial statements. Although options have been granted in one block to directors of the company, their vesting, except those granted to Amir Eilon, is phased. All options granted since December 2000 have been subject to performance criteria.

During the year, the group acquired the business of Go Fly. In recognition that retaining key management will be important during the integration of the two businesses and to reward a fast and effective integration, a combination plan has been offered to the directors and 38 of the senior employees. The combination plan involves the award of ordinary shares in three equal tranches, where each tranche is equal to one times base salary, with each tranche being triggered by the achievement of three key milestones: a single brand, a single AOC licence and complete integration.

Corporate governance

Principles Statement

In June 1998 the London Stock Exchange adopted guidelines for Corporate Governance in the form of the Combined Code, which consolidated all prior guidance on such matters. A summary of how the provisions of that code have been applied together with a compliance statement is provided below.

Board of Directors

As at 30 September 2002, the Board comprised eight Non-Executive directors, including the Chairman, and two Executive directors, as set out on page 25 of this report.

The roles of Chairman (Stelios Haji-Ioannou), Deputy Chairman (Sir Colin Chandler) and Chief Executive (Ray Webster) are separated and clearly defined. Tony Illsley is the Senior Non-Executive director. The company regards Sir Colin Chandler, Colin Day, Tony Illsley, John Quelch and Diederik Karsten as independent Non-Executive directors.

The Board meets regularly, with nine meetings being held during the year ended 30 September 2002. All members of the Board are supplied in advance with appropriate information covering matters, which are to be considered.

All directors have access to the Company Secretary.

Directors may be appointed by the company by ordinary resolution or by the Board. A director appointed by the Board holds office only until the next Annual General Meeting ('AGM'). At each AGM one-third of the directors will retire by rotation and be eligible for re-election. The directors to retire will be those who wish to retire and those who have been longest in office since their last appointment or reappointment.

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

The Chairman, Stelios Haji-Ioannou, will step down as Chairman and as a director of easyJet plc on 26 November 2002. Sir Colin Chandler will assume the chairmanship.

Remuneration Committee

The Remuneration Committee comprises three Non-Executive directors, of whom two are independent. The Remuneration Committee is chaired by Tony Illsley. Its other members are Colin Day and Nick Hartley. This Committee, which meets at least twice per year, has responsibility for making recommendations to the Board on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the executive directors.

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

Corporate governance *(continued)*

Audit Committee

The Audit Committee comprises three Non-Executive directors, of whom all are independent. The Audit Committee members are Colin Day (chairman), Tony Illsley and Diederik Karsten. This committee meets at least twice per year and has responsibility for, amongst other things, planning and reviewing easyJet's annual and other reports and accounts and the involvement of the group's auditor in that process, focussing particularly on compliance with legal requirements and accounting standards. Additionally, the Audit Committee is responsible for compliance with the requirements of the London Stock Exchange and the UK Listing Authority and seeking to ensure that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving the annual and other accounts remains with the Board.

Nominations committee

As at 30 September, the Nominations Committee members are Stelios Haji-Ioannou (chairman), Sir Colin Chandler (deputy chairman) plus any two of Nick Hartley, Colin Day and Tony Illsley. This committee is responsible for nominating candidates to fill Board positions and for making recommendations on Board composition and balance.

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

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

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

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

Statement of compliance

The company complied with the Combined Code Provisions during the year, with the exception of the following:

(a) The Remuneration Committee has not comprised at least three independent non-executive directors, because the board has satisfied itself that the directors who are members of this Committee are those who are best able to contribute to its objectives; and

(b) Prior to Admission to the Official List of the UK Listing Authority, the group granted share options without performance criteria attached to them. The majority of these options remain outstanding. Options granted since December 2000 have had performance conditions attached. The group does not intend to grant further share options to employees without attaching performance conditions to their exercise.

Corporate governance *(continued)*

Internal control

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

Guidance for directors, 'Internal Control: Guidance for Directors on the Combined Code' was published in September 1999, in the form of the Turnbull Guidance. The company complied with the guidance throughout the year ended 30 September 2002. A formal on-going process has been established to identify, evaluate and manage significant risks faced by the company and this process has been in place for the year under review and up to the date of approval of the Annual Report and Accounts and this has been regularly reviewed by the Board during the period.

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

- On going assurance and risk management is provided through the various monitoring reviews and reporting mechanisms embedded into the business operations. Key monitoring reviews include those conducted continuously by the Quality Group, in weekly meetings, including Commercial Operations, Marketing and Finance, and in monthly Executive Committee Meetings, where individual department and overall business performance is reviewed. Control weaknesses or failings are considered by the Board if they arise;

- The Board considers the significant risks at each of its formal meetings;

- Management consider significant business risks in formal monthly meetings;

- Risk reviews form an integral part of specific projects, such as the acquisition of Go Fly and Deutsche BA and aircraft fleet purchases;

- An annual risk and control identification process, together with control effectiveness testing, is conducted. The key risks to significant business objectives are identified and the key controls to manage these risks to the desired level are identified. The controls, which mitigate or minimise the high level risks, are tested to ensure that they are in operation. The results of this testing are reported to the Board who consider whether these high level risks are effectively controlled;

Corporate governance *(continued)*

Internal control *(continued)*

- Action plans are set to address any control weaknesses or gaps in controls identified; and
- A database of all risks has been created forming a key risk register for the company.

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

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

Internal audit

The company does not have an internal audit function. This is presently considered appropriate given the size of the company and the close involvement of executive directors and senior management on a day to day operational basis. The Board has considered the need for such a function and will continue to review the need for one from time to time.

Going concern

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

Social, environmental and ethical report

Safety

Health and safety is of paramount importance to easyJet.

Safety forms a central pillar of the easyJet culture. For example, safety is the first agenda item at Board and Executive Committee meetings.

The airline has a comprehensive system of processes to proactively monitor and manage safety and risk issues. These processes are continually monitored, evaluated and revised to respond to changing circumstances.

easyJet undertakes to provide and maintain a safe and healthy working environment as required by law. The easyJet Operations Manuals contain detailed health and safety information with which employees must comply.

The Chief Executive has ultimate responsibility for the implementation, achievement and monitoring of safety policy and is responsible for ensuring the promotion of safety awareness throughout easyJet; the auditing of accidents; the devising of fire protection and other safety measures; and the publishing of safety rules and regulations pertinent to the work duties of employees.

easyJet believes that effective safety performance will only be achieved by the participation of all levels of people within easyJet. Everyone has a duty to ensure that duties are discharged in accordance with our procedures and rules which are devised specifically to ensure the health, safety and welfare at work of all employees, our customers and the public.

Environment

The nature of the easyJet business model reduces the impact of the airline's activities on the environment.

easyJet's stated aim is to operate a fleet of young aircraft. These have lower noise emissions and use less fuel than earlier models. easyJet is implementing a fleet replacement plan that will result in a fleet entirely composed of Boeing 737 New Generation and Airbus A320 family aircraft, which will have all been purchased from new by easyJet.

Compared to most full-fare airlines, easyJet has high passenger load factors. This, coupled with a young modern fleet, means that noise emissions and fuel burn per passenger is significantly better than many airlines. Also, easyJet actively manages and investigates incidences of fuel spillages related to our flights.

easyJet aids the reduction of demand for private car transport to and from the main airports from which it operates. easyJet provides support for the regular bus link between London Luton Airport and Luton Airport Parkway railway station, and has commercial arrangements with the Stansted and Gatwick express rail services. easyJet offers its customers incentives (in the form of cost subsidies) to use public transport to travel to both Luton and Stansted.

Waste production is reduced through the design of our business model. Unlike most of our full-service competitors, we do not have printed tickets, and we do not offer free newspapers or meals on board. easyJet believes that this results in lower usage of packaging and paper and therefore less waste.

We operate an almost paperless administration office, with almost all filing, copying and faxing based upon the use of electronic images. Although some waste paper is produced, procedures are in place for collecting it for recycling.

Social

easyJet seeks to provide a unique and rewarding work environment for employees. The organisation has relatively flat management structure and it does not have the trappings of hierarchy that many businesses have. For example, the main administration office does not have individual offices or secretaries.

Most of easyJet's corporate information is shared across the general population of staff. Individual employees are able to search and retrieve information electronically.

There is a dedicated director responsible for people development and cultural issues, in addition to a human resources director. This ensures that people issues are given a high profile and are considered at the highest levels within the airline.

Social, environmental and ethical report *(continued)*

Social *(continued)*

A network of Works Councils exists, which ensures that there is formal representation of views from all areas of the business.

easyJet recognises that it is beneficial for employees to participate in the business alongside investors. Consequently, almost all staff employed before the recent acquisition of the airline Go Fly have received either share options or share gifts.

Most staff have some form of incentive related pay. All administration staff are entitled to a substantial annual bonus, which is partly dependent on company performance.

easyJet is committed to being an equal opportunities employer as we wish to encourage all our employees to make the best use of their skills and experience. Our policy aims to ensure that no job applicant or employee receives less favourable treatment on the basis of their age, colour, creed, disability, full or part time status, gender, marital status, nationality or ethnic origin, race, religion or sexual orientation. easyJet is building a workforce that has a balanced age profile and intends to maintain opportunities for younger and older people alike. easyJet will not tolerate harassment or bullying of any kind.

easyJet provides support to charities in the form of free flights on easyJet flights.

Ethical

easyJet insists that every employee must:

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

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

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

Directors' report

The Directors present the audited consolidated financial statements for easyJet plc for the year ended 30 September 2002.

Principal activity

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

Business review

easyJet plc operates one of Europe's leading low-fare scheduled passenger airline businesses. It provides high frequency services on short-haul and medium-haul point-to-point routes within Europe from its eight bases at Amsterdam , Bristol, East Midlands, Geneva, Liverpool, London Luton, London Stansted, and London Gatwick.

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

During the year ended 30 September 2002, easyJet acquired all the share capital of Newgo1 Limited, which is the ultimate holding company of Go Fly, a low cost airline. Go Fly is a European low cost airline, providing services from London Stansted, Bristol and East Midlands on short-haul and medium-haul routes within Europe. The acquisition was completed on 31 July 2002. The integration of Go Fly and easyJet is now well under way, and is expected to occur over a period of up to 24 months from 31 July 2002, the date of acquisition.

During the year, easyJet also purchased an option from British Airways plc to acquire the entire share capital of Deutsche BA Holding GmbH (Deutsche BA). This option is exercisable at any time up until April 2003 (and extendable by easyJet until August 2003). Deutsche BA operates scheduled air passenger services primarily within Germany. As part of the option agreement, Deutsche BA is to be transformed towards a low-cost airline model. This may be the most attractive option for easyJet to enter the German market. easyJet will not exercise the option unless the Directors believe that easyJet will be able to effect the transformation of Deutsche BA into a low cost airline successfully.

During the year ended 30 September 2002, easyJet flew 11.4 million passengers (including those of Go Fly for the two months ended 30 September 2002). This represented an increase of 59.5 per cent on the previous year. easyJet generated profit before exceptional items, provision for the investment in The Airline Group Limited, goodwill amortisation and tax of £81.8 million on revenue of £552 million.

Profit before tax was £71.6 million, with profit after tax of £49.0 million. The Directors do not recommend the payment of a dividend.

As at 30 September 2002 easyJet operated on 83 routes, serving 32 cities, and had a fleet of 64 Boeing B737 aircraft. easyJet flew 89,939 sectors during the year (including those of Go Fly for the two months ended 30 September 2002), an increase of 56 per cent over the prior year. The average load factor over the financial year was 84.8 per cent, 1.8 percentage points higher than the 2001 financial year. Year-on-year, the average net fare fell 4.4 per cent to £46.28 (2001: £48.42).

easyJet has entered into a purchase agreement with Boeing for 32 new "next generation" 737-700 aircraft. 18 of these have now been delivered with the remainder being due for delivery over the period up until May 2004. In October 2002, easyJet selected Airbus as the aircraft manufacturer with whom it would negotiate for the supply of its next stream of new aircraft (see 'Post balance sheet events' below).

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

Directors' report *(continued)*

Safety and security

easyJet's commitment to safety is the top priority of the company and management. easyJet is committed to safe operations, which is manifested in its safety training procedures, its investment in the latest aircraft equipment and its adoption of a confidential safety issue reporting system. Go Fly, which was acquired during the year also has a high degree of commitment to safety.

Customer service

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

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

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

People and culture

easyJet's employees have defined a statement of the organisation's values – the "orange culture". The Directors believe that the company's stated "orange" values, including being "up for it", "passionate" and "sharp", help to motivate employees to be productive and to implement easyJet's strategies.

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

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

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

easyJet is committed to generating an awareness among its employees of the group's performance, development and progress, and to providing employees with information on matters of concern to them. It achieves this through regular communication meetings, employee newsletters, and management briefings. Also, communication meetings are used as a platform from which employee representatives can be consulted in order that the views of the employees can be taken into consideration in management decisions, which are likely to affect their interests.

Directors' report *(continued)*

Internet sales

easyJet sells the majority of its seats via its own websites. easyJet believes its prominent use of the slogan "the web's favourite airline" and the painting of the website address on each of easyJet's aircraft encourages customers to use this low-cost sales channel.

In the year to 30 September 2002, 90.9 per cent of initial bookings were made via the internet. In September 2002 this figure was 89.9 per cent, which the Directors believe to be one of the highest percentages for an airline, hence the slogan "the web's favourite airline".

Directors and directors' interests

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

Non-executive:
Stelios Haji-Ioannou
Sir Colin Chandler (appointed 17 April 2002)
Amir Eilon
Nick Hartley
Anthony Illsley
Colin Day
Diederik Karsten
John Quelch

Executive
Ray Webster
Chris Walton
Mike Cooper (resigned 17 April 2002)
Vilhelm Hahn-Petersen (resigned 17 April 2002)
Keith McMann (resigned 17 April 2002)

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

	30 September 2002	1 October 2001
Stelios Haji-Ioannou	**85,576,451**	-
Ray Webster	**2,104,975**	-
Vilhelm Hahn-Petersen (resigned 17 April 2002)	**n/a**	15,558
Colin Day	**20,454**	-
Nick Hartley	**101,575**	6,732

At 1 October 2001, the shareholdings of Ray Webster and Stelios Haji-Ioannou, and 38,632 shares held by Nick Hartley were held indirectly through easyJet Holdings Limited, which until February 2002 was the ultimate parent company of easyJet plc. In February 2002, easyJet Holdings Limited was dissolved. Following the dissolution, the interests of Stelios Haji-Ioannou have been held indirectly through easyGroup Limited, and the interests of Ray Webster have been held indirectly through Elura Investments Limited.

Directors' report *(continued)*

In addition, executive directors are deemed to be interested in the shares held by the easyJet UK Employee Share Ownership Trust and the easyJet Overseas Employee Share Ownership Trust (the "Trusts"). At 30 September 2002, ordinary shares held in the Trusts were as follows:

		Ordinary shares
Total held by UK Trust of which:	Allocated	63,607
	Unallocated	87,065
Total held by Overseas Trust of which:	Allocated	102,031
	Unallocated	15,472

Details of share options and share gifts granted to the directors of the company are disclosed in note 17 to the financial statements.

Policy and practice on payment of creditors

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

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

At 30 September 2002, the number of creditor days outstanding for the group was 30 days *(2001: 18 days)*, and the company, nil days *(2001: nil days)*. The creditor days increased compared to 2001, primarily due to the acquisition of Go Fly. The resulting growth in the business, year on year, at the year end was approximately 125 per cent, which drives the amount of the year end trade creditors. However, purchases measured by the overall amount incurred during the year has increased by 50 per cent. This has overtstated the year end creditor days disclosed. The directors consider that the group has not changed the average time taken to pay creditors during the year, and remains committed to prompt payment.

Political and charitable contributions

During the year, the group made charitable contributions totalling £1,633 *(2001: £4,505)*. In addition, the group provides free flights to selected charities. There is minimal incremental cost to the group associated with these gifts.

There were no contributions made for political purposes.

Directors' report *(continued)*

Post balance sheet events

The following events have occurred since 30 September 2002:

- On 26 November 2002, Stelios Haji-Ioannou will step down as Chairman and as a director of easyJet plc. Sir Colin Chandler will assume the chairmanship; and

- In October 2002, easyJet announced that it had selected Airbus as the aircraft manufacturer with whom it would negotiate for the supply of its next stream of aircraft. The proposed order is for 120 A319 aircraft to be delivered over a five year period from approximately September 2003, with options and price protection on a further 120 A319 aircraft until 2012 and with options to switch to larger sized A320 and A321 aircraft. The final agreement will be subject to shareholder approval and a circular will be despatched to shareholders in due course.

Substantial interests

As at 21 November 2002, the company has been notified of the following disclosable interests of 3 per cent or more in its ordinary shares:

	Number of shares	Percentage
easyGroup Limited (holding vehicle for Stelios Haji-Ioannou)	85,576,451	21.85%
Polys Holdings Limited (holding vehicle for Polys Haji-Ioannou)	44,278,566	11.30%
Clelia Holdings Limited (holding vehicle for Clelia Haji-Ioannou)	44,278,566	11.30%
Wellington Management Company LLP	16,318,198	4.17%
Fidelity International Limited / FMR	15,987,612	4.08%
Britannic Asset Management	14,602,752	3.73%

Auditors

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

On behalf of the board

C. J. Walton

C Walton
Director

easyLand
London Luton Airport
Luton
Bedfordshire LU2 9LS

25 November 2002

Directors

Stelios Haji-Ioannou (Non-executive Chairman)

Stelios (35) founded easyJet in 1995. Prior to that, he founded Stelmar Tankers, a shipping company which listed on the New York stock exchange in 2001 and in which he retains a significant shareholding, but no longer sits on the Board. In 1998, he established the easy group of companies, with the objective of exploiting the "easy" brand for ventures other than easyJet. Such ventures launched thus far include easyInternetCafé, a chain of internet cafes, and easyCar, a budget car rental business.

Sir Colin Chandler (Non-executive Deputy Chairman and Chairman designate)

Colin (62) joined easyJet in April 2002 and is also currently Chairman of Vickers Defence Systems, a subsidiary of Rolls-Royce Plc and Deputy Chairman of Smiths Group Plc. He is Pro-Chancellor of Cranfield University. He was formerly Chairman and CEO of Racal Electronics (1999 – 2000); a director of Guardian Royal Exchange (1995 – 1999) and from 1990 – 1999 he was variously Managing Director, Chief Executive and Chairman of Vickers Plc. In his earlier career, he held various posts at British Aerospace Plc and its predecessor companies and undertook a four and a half year secondment to the Ministry of Defence. Colin was knighted in 1988 for his services to export.

Ray Webster (Chief Executive)

Prior to joining easyJet in March 1996, Ray (56) had 27 years of experience in the airline industry at Air New Zealand. In his career with Air New Zealand he held various positions within the engineering business unit, formed their cargo business unit and had responsibility for marketing, sales and operations within the Americas market. His last role at Air New Zealand was as General Manager of Strategic Planning, where he was responsible for the identification, evaluation and implementation of corporate development options, including the concept development, planning and implementation of a start up "value based" (low-cost) airline serving short-haul routes within the Australasian market.

Chris Walton (Finance Director)

Prior to joining easyJet in 1999, Chris (45) had 13 years of experience in the airline industry working in finance and commercial capacities for Qantas Airways, Air New Zealand and Australian Airlines. Chris' experience includes financial planning, shareholder value management, financial reporting and control, monitoring of business area performance, investment and economic analysis. At various times, his roles in these companies have included (inter alia) responsibility for commercial matters, strategic planning and the negotiation of strategic alliances.

Colin Day (Independent Non-executive Director)

Colin (47) joined easyJet in September 2000 and is currently chief financial officer for Reckitt Benckiser Plc, the world's largest household cleaning products company. Before that Colin was group finance director of Aegis Plc, Europe's leading media buying and planning company. Prior to joining Aegis, Colin spent six years in a number of divisional finance director positions with ABB, latterly as group finance director of ABB Instrumentation. Much of his earlier career was spent in various finance positions with De La Rue Group. Colin is also a non-executive director of Bell Group Plc, a security systems company and was previously a non-executive director of Vero Group.

Amir Eilon (Non-executive Director)

Amir (53) spent the major part of his career working for investment banks specialising in particular in global capital markets. Before joining easyJet in March 1999, Amir was at Credit Suisse First Boston private equity group where he had joint responsibility for Western Europe within its international group. Prior to that, Amir was at Barclays de Zoette Wedd for eight years where he was head of global capital markets. Amir is also a non-executive director of easyCar, easyGroup, easyInternetCafé, easyMoney, easyValue, and Tidal Energy.

Nick Hartley (Non-executive Director)

Nick (65) acted as a consultant to Stelios Haji-Ioannou on the business strategy for easyJet prior to its incorporation. Prior to that, he worked as a consultant on business strategy for Stelmar Tankers and subsequently became a director and chairman of that company. Prior to 1992, he worked at BP for 35 years, where his posts included Managing Director of BP Southern Africa and Managing Director of BP Shipping.

Directors *(continued)*

Tony Illsley (Independent Senior Non-executive Director)

Prior to joining easyJet in September 2000, Tony (46) worked at Telewest Communications plc where he was Chief Executive prior to the merger with Flextech plc. Prior to his appointment at Telewest he was Chief Executive of Walkers Snack Foods, the UK division of Frito Lay, PepsiCo's foods subsidiary, having been promoted in 1995 from the position of President of Pepsi-Cola Asia Pacific. Before this, Tony spent four and a half years as Pepsi-Cola's President in Japan. From 1984 to 1988 he held various positions in the group's European soft drinks operations. Before joining PepsiCo, Tony worked for five years at Colgate Palmolive UK, holding various senior marketing roles. Tony is non-executive chairman of Lionhead Studios plc and Leisure Link Holdings Limited, and a non-executive director of Capital Radio plc and Megabeam Networks Limited.

Diederik Karsten (Independent Non-executive Director)

Diederik (45) joined easyJet in May 2001 and, from February 2000 to November 2001, has also been chief executive officer of KPN Mobile N.V. Previously he was Director of the business unit Mobile Telephony and director of The Mobile Net, parts of KPN Telecom. Prior to joining KPN in 1996, Diederik held various management and marketing positions at Pepsi Co, including vice president sales and marketing Snacks Ventures Europe and sales and marketing director Pepsi Cola, Germany. Before that, Diederik held various marketing positions at Procter & Gamble.

John Quelch (Independent Non-executive Director)

John (51) joined easyJet in November 2000, at which time he was Dean of the London Business School and a Professor of London University. Subsequently, he accepted the position of Senior Associate Dean, International Development and Lincoln Filene Professor of Business Administration at Harvard Business School. John serves as a non-executive director of both WPP Group Plc and Blue Circle Industries Limited. He was a founding non-executive director of Reebok International Limited. As an academic, author and consultant, John is very active in business and specialises in, among other topics, international marketing, human resource management and general business management in both emerging and developing countries.

Statement of directors' responsibilities

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

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

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

KPMG Audit Plc

PO Box 695
8 Salisbury Square
London

Independent auditor's report to the members of easyJet plc

We have audited the financial statements on pages 32 to 72.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 30, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

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

We review whether the statement on pages 17 to 20 reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report on whether it does or not. We are not required to consider whether the Board's statements on internal controls cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risks and other control procedures.

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

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 30 September 2002 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

25 November 2002

Consolidated profit and loss account

for the year ended 30 September

	Notes	2002 Continuing operations £000	2002 Acquired in year £000	2002 Total £000	2001 £000
Revenue	*1,2*	**485,855**	**65,989**	**551,844**	356,859
Cost of sales		**(370,220)**	**(42,989)**	**(413,209)**	(265,648)
Gross profit		**115,635**	**23,000**	**138,635**	91,211
Distribution and marketing expenses		**(34,075)**	**(6,559)**	**(40,634)**	(31,692)
Administrative expenses (including exceptional administrative expenses of £nil *(2001: £3,777,000)*)	*3*	**(24,784)**	**(3,645)**	**(28,429)**	(21,396)
Group operating profit					
Operating profit before exceptional administrative expenses		**56,776**	**12,796**	**69,572**	41,900
Exceptional administrative expenses	*3*	**-**	**-**	**-**	(3,777)
Group operating profit		**56,776**	**12,796**	**69,572**	38,123
Loss from interest in associated undertaking:					
- committed contribution to Deutsche BA				**(1,359)**	-
Total operating profit				**68,213**	38,123
Amounts written off investments	*10*			**(7,159)**	-
Interest receivable				**15,751**	10,205
Interest payable	*5*			**(5,228)**	(8,195)
Profit on ordinary activities before taxation	*3*			**71,577**	40,133
Tax on profit on ordinary activities	*6*			**(22,568)**	(2,226)
Retained profit for the financial year				**49,009**	37,907
				Pence	Pence
Earnings per share					
Basic	*7*			**14.61**	13.47
Diluted	*7*			**13.89**	12.79
Basic, before goodwill amortisation	*7*			**15.53**	13.53
Diluted, before goodwill amortisation	*7*			**14.78**	12.84

All activities in 2001 related to continuing operations.

Consolidated balance sheet

as at 30 September

	Notes	2002 £000	2002 £000	2001 £000	2001 £000
Fixed assets					
Intangible assets	*8*		**349,685**		2,995
Tangible assets	*9*		**185,098**		206,433
Investments	*10*		**6,624**		7,159
			541,407		216,587
Current assets					
Debtors	*11*	**96,005**		47,106	
Cash at bank and in hand		**427,894**		244,435	
		523,899		291,541	
Creditors: amounts falling due within one year	*12*	**(260,614)**		(113,428)	
Net current assets			**263,285**		178,113
Total assets less current liabilities			**804,692**		394,700
Creditors: amounts falling due after more than one year	*13*		**(48,600)**		(76,289)
Provisions for liabilities and charges	*14*		**(28,388)**		(1,920)
Net assets			**727,704**		316,491
Capital and reserves					
Called up share capital	*15*		**97,919**		65,108
Share premium account	*16*		**533,263**		196,638
Profit and loss account	*16*		**96,522**		54,745
Shareholders' funds – equity			**727,704**		316,491

These financial statements were approved by the board of directors on 25 November 2002 and were signed on its behalf by:

R Webster

R Webster
Director

C.J. Walton

C Walton
Director

Cash flow information

for the year ended 30 September

Reconciliation of operating profit to net cash flows from operating activities

	Notes	**2002 £000**	2001 £000
Operating profit		**69,572**	38,123
Goodwill amortisation		**3,091**	168
Depreciation of tangible fixed assets		**18,677**	18,457
Loss on sale of assets		**834**	236
Cost of employee share gifts and bonus		**-**	967
Increase in debtors		**(16,615)**	(6,146)
Increase in creditors and provisions		**8,672**	31,571
Cash flow from operating activities		**84,231**	83,376

Consolidated cash flow statement

		2002 £000	*2001* £000
Cash flow from operating activities		**84,231**	83,376
Committed contribution to associate		**(759)**	-
Returns on investments and servicing of finance	*20*	**10,703**	1,737
Taxation		**489**	-
Capital expenditure and financial investment	*20*	**(3,392)**	(29,027)
Acquisitions and disposals	*20*	**(267,233)**	-
Cash inflow before management of liquid resources and financing		**(175,961)**	56,086
Management of liquid resources		**(72,712)**	(15,000)
Financing	*20*	**359,420**	174,261
Increase in cash in the year		**110,747**	215,347

Financing cash flow in 2002 includes £70.1 million (net of issuing costs) for an Open Offer of new shares in October 2001, £23.8 million (net of issuing costs) for the issue of new shares following a Placing in November 2001, and also £271.9 million (net of issuing costs) for the issue of new shares in connection with the purchase of the entire issued share capital of Newgol Limited in July 2002, the holding company of the business of Go Fly. In 2001, financing cash flow included £210.4 million (net of issuing costs) for the issue of new shares following the company obtaining a Listing on the London Stock Exchange. Total cash inflow from the issue of shares during the year, net of issuing costs, was £367.7 million *(2001 - £212.2 million).*

Cash flow information *(continued)*

Reconciliation of net cash flow to movements in net funds

	Notes	**2002 £000**	2001 £000
Increase in cash in the year		**110,747**	215,347
Cash outflow from the decrease in debt	*20*	**8,293**	37,893
Cash outflow for increase in liquid resources		**72,712**	15,000
Change in net funds resulting from cash flows		**191,752**	268,240
Exchange difference on loans		**5,289**	(1,081)
Increase in net funds for the year		**197,041**	267,159
Net funds/(debt) at the start of the year		**161,154**	(106,005)
Net funds at the end of the year		**358,195**	161,154

Net funds at the end of the year comprises:

	2002 £000	2001 £000
Cash at bank and in hand	**427,894**	244,435
Bank loans	**(69,699)**	(83,281)
	358,195	161,154

Consolidated reconciliation of movements in shareholders' funds

for the year ended 30 September

	2002 £000	2001 £000
Retained profit for the year	**49,009**	37,907
Foreign currency translation differences	**(5,509)**	(254)
Shares issued by easyJet plc	**369,436**	215,099
Movement in reserves for employee share scheme	**(1,723)**	(1,978)
Net addition to shareholders' funds	**411,213**	250,774
Opening shareholders' funds	**316,491**	65,717
Closing shareholders' funds	**727,704**	316,491

Consolidated statement of total recognised gains and losses

for the year ended 30 September

	2002 £000	2001 £000
Retained profit for the year	**49,009**	37,907
Foreign currency translation differences	**(5,509)**	(254)
Total recognised gains and losses for the year	**43,500**	37,653

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the consolidated financial statements of easyJet plc and its subsidiaries (the "group") with the exception of the new financial reporting standard FRS 19, Deferred Tax which has been adopted during the year.

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate those of the holding company and its subsidiaries for the years made up to 30 September 2002 and 2001. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

In accordance with Section 230 of the Companies Act 1985, the company is exempt from the requirement to present its own profit and loss account. The company's profit for the financial year was £7.4 million (2001: Loss of £3.1 million).

Goodwill

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

Associates

An associate is an undertaking, not being a subsidiary, in which the group holds a long term interest and over whose commercial and financial policy decisions it actually exercises significant influence. The group's share of the profit less losses from its associate is included in the consolidated profit and loss account on the equity accounting basis. The carrying value of associates in the group's balance sheet is calculated by reference to the group's share of the net assets of such undertakings. Deutsche BA is deemed to be an associate of the group and details are set in out in note 10 below.

Investments

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

Notes *(continued)*

1 Accounting policies *(continued)*

Revenue

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

Commissions from the sale of insurance, accommodation and car hire to passengers are recognised in the profit and loss account in the period during which the commissionable service is provided.

Change fees (paid for alteration of flight details), together with associated costs, are recognised in the profit and loss account on the date that the change is requested.

Credit card fees, together with associated costs are recognised in the profit and loss account on the date that a booking is made.

Tangible fixed assets and depreciation

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

Aircraft - airframe, engines and landing gear	-	7 years
Aircraft - prepaid maintenance	-	3-6 years
Aircraft - spares	-	10 years from date of manufacture
Leasehold improvements	-	5 years
Fixtures, fittings and equipment	-	3 years
Computer hardware and software	-	3 years

The aircraft which the group holds are expected to have an operational life of 20-30 years. However, the group has a policy of using recently manufactured aircraft and, therefore, expects to hold them only for a period of approximately 7 years before selling them.

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

Depreciation is charged at approximately 7.5 per cent per annum, which, over a seven year period, reduces the net book value of an aircraft to its estimated residual value at that time.

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

Pensions

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

Employee share schemes

The cost of performance related awards to employees that take the form of rights to acquire or receive shares is recognised over the period of the employees' related performance. The cost represents the difference between the option exercise price (if any) and the market value of the shares at the date of gift or grant. Where there are no performance criteria, the cost is recognised over the period from gift or grant to when the employee becomes unconditionally entitled to the shares. Where contingently issuable shares are gifted the cost of the share gift is recognised upon the crystallisation of the contingency. These costs are included in administrative expenses.

Deferred tax

The company has adopted FRS 19 "Deferred Tax" during the year. This did not effect the prior year comparatives. Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currencies

The group holds its aircraft through overseas subsidiaries. The functional currency of these subsidiaries is considered to be US dollars because they are funded substantially with US dollar loans and the aircraft are anticipated to be sold for dollars within approximately 7 years of their acquisition. Profits and losses of these and other overseas subsidiaries are translated into pounds sterling at average rates of exchange during the year, with the adjustments to closing rates at the year end being taken to consolidated reserves. The net assets of the overseas subsidiaries, including the advance payments made to secure the delivery of aircraft, are translated at closing rates, with gains and losses on re-translation also being taken to consolidated reserves. Exchange differences on foreign currency borrowings that hedge foreign currency net assets are also taken to reserves.

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

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

Other exchange differences are taken to the consolidated profit and loss account.

Notes *(continued)*

1 **Accounting policies** *(continued)*

Financial instruments

Gains and losses on derivative financial instruments are recognised in the profit and loss account when realised as an offset to the related income or expense, as the group does not enter into any such transactions for speculative purposes.

Leases

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

Aircraft maintenance

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

Cash

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

2 **Segmental information**

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

The geographical analysis of turnover is as follows:

		2002		2001
	Continuing operations £000	**Acquisitions £000**	**Total £000**	£000
Within the United Kingdom	**106,078**	**14,375**	**120,453**	86,545
Between the United Kingdom and the Rest of Europe	**337,263**	**51,614**	**388,877**	244,764
Within the Rest of Europe	**42,514**	**-**	**42,514**	25,550
	485,855	**65,989**	**551,844**	356,859

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

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

Notes *(continued)*

3 Profit on ordinary activities before taxation

	2002			2001
	Continuing operations £000	Acquisitions £000	Total £000	£000
Profit on ordinary activities before taxation is stated after charging/(crediting):				
Amortisation of goodwill	3,091	-	3,091	168
Depreciation of tangible fixed assets	18,265	412	18,677	18,457
Remuneration of the auditor and its associates (including foreign partners):				
Audit	160	30	190	160
Other	405	-	405	714
Remuneration of other parties entitled to act as registered auditor:				
Audit	-	-	-	-
Other	869	-	1,259	189
Operating lease rentals:				
Aircraft	34,191	6,836	41,027	23,949
Other	942	304	1,246	963
Foreign currency translation differences	3,902	930	4,832	(49)
Costs of integrating the businesses of Go Fly and easyJet	6,205	852	7,057	-
Exceptional administrative expenses:				
Gift of shares	-	-	-	1,796
Swiss VAT charges	-	-	-	1,981

Excluded from the profit and loss account for remuneration payable to the auditor is £1.5 million *(2001: £0.3 million)* for non-audit related services: £0.1 million in respect to the Placing of ordinary shares in November 2001, £1.0 million in respect of the acquisition of NewGo1 Limited and the related Rights issue of ordinary shares and £0.4 million in respect of the acquisition of an interest in Deutsche BA. The total payable to the auditor for audit and non-audit services during the year was £2.0 million (2001: £1.1 million, which included £0.3 million in respect of flotation related services).

Auditor's remuneration for audit of the company as a stand-alone entity was £15,000 (2001: £15,000).

Included within administrative expenses are the following items:

- Costs of integrating the businesses of Go Fly and easyJet, totalling £7.1 million. Included within these costs is £5.1 million as an accrual for the cost of the Management Combination Incentive Plan (the "Combination Plan"). The Combination Plan is designed to reward key participants in the process of combining the businesses of easyJet and Go with free shares if performance milestones are met within certain periods. Good progress has been made towards the three performance milestones of single brand, single AOC and combination completion. Other costs have been incurred in respect of systems, property and consultancy.

Included within administrative expenses in 2001 were the following exceptional items:

- £1.8 million, principally in respect of granting a one-off gift of shares to certain employees of the group, which crystallised upon the company obtaining a listing on the London Stock Exchange during 2001. The charge to the profit and loss account during the year was based upon the estimated fair value of the shares of the company at the date it granted the shares to the employees.

Notes *(continued)*

3 Profit on ordinary activities before taxation *(continued)*

- £2.0 million in respect of a court decision against easyJet Switzerland. The Swiss Federal Tax Administration ("SFTA") brought a claim against easyJet Switzerland, relating to VAT on tour operators for services provided. Following successive proceedings and appeals, in 1998 the Federal Recourse Committee for VAT matters, a specialised court dealing with tax matters, ruled in favour of easyJet Switzerland, stating that its charter operations were not subject to VAT. In 1999, the SFTA appealed against this decision to the Swiss Federal Court (the highest court in Switzerland) and gained a decision in its favour during the 2001 financial year. The total amount claimed by the SFTA is approximately £9.4 million plus interest estimated at approximately £1.0 million. The majority of this has now been re-claimed from its customers. Taking into account amounts, which the group believes it will collect from these customers, has resulted in a net profit and loss account charge of approximately £1.0 million, plus interest of approximately £1.0 million.

4 Staff numbers and costs

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

	Number of employees 2002			2001
	Continuing operations Number	**Acquisition Number**	**Total Number**	Number
Operations and administration	**1,668**	**136**	**1,804**	1,362
Sales and marketing	**210**	**31**	**241**	237
	1,878	**167**	**2,045**	1,599

The aggregate payroll costs of these persons were as follows:

	2002			2001
	Continuing operations £000	**Acquisition £000**	**Total £000**	£000
Wages and salaries	**56,559**	**4,267**	**60,826**	45,722
Social security costs	**5,586**	**444**	**6,030**	4,465
Pension costs	**2,428**	**104**	**2,532**	1,761
	64,573	**4,815**	**69,388**	51,948

Staff numbers and costs stated as being related to 'Acquisition' are those of Go Fly, but only in the period from 1 August 2002 (the effective date of acquisition) to 30 September 2002 and therefore shows only one sixth of the actual numbers employed by Go Fly during the period.

Notes *(continued)*

4 Staff numbers and costs *(continued)*

Details of emoluments, paid by group companies to the current directors of easyJet plc are as follows:

	Emoluments excluding pension contributions				**Pension contributions**	
		2002		2001	**2002**	2001
	Salary/fees £000	**Bonus £000**	**Total £000**	Total £000	**£000**	£000
Non-executive:						
Stelios Haji-Ioannou	-	-	-	-	-	-
Sir Colin Chandler (appointed 17 April 2002)	34	-	34	-	-	-
Amir Eilon	30	-	30	28	-	-
Nick Hartley	30	-	30	28	-	-
Anthony Illsley	33	-	33	30	-	-
Colin Day	33	-	33	30	-	-
Diederik Karsten	30	-	30	13	-	-
John Quelch	30	-	30	26	-	-
Executive						
Ray Webster	265	151	416	219	19	15
Chris Walton	144	48	192	148	8	9
Mike Cooper (resigned 17 April 2002)	76	30	106	142	5	9
Vilhelm Hahn-Petersen (resigned 17 April 2002)	84	51	135	149	6	10
Keith McMann (resigned 17 April 2002)	50	7	57	99	4	7
	839	287	1,126	912	42	50

An accrual has been made for directors' bonuses for the 2002 financial year, but no agreement has been reached as to the amounts to be paid to individual directors. The bonuses reflected in the table above represent the amounts paid to the directors during that year for their services during the 2001 financial year.

In addition to their fees for services as non-executive directors included above, Amir Eilon via companies, which he controls, charged the company for other consulting services. These services related to the provision of Amir Eilon as consultant to assist the group in certain merger and acquisition transactions and their financing. These transactions included the purchase of Newgo1 Limited and the Option agreement to acquire Deutsche BA. The consulting agreement expired on 30 June 2002. Amir Eilon received a daily fee of £1,500 for the 72 days work performed, a success fee of £125,000, expenses of £5,504, plus a performance related payment of £17,000. Amounts paid in the year under these arrangements (excluding the expenses set out above) were £250,000 (2001: £nil). Amir Eilon resigned as a member of the Audit Committee prior to starting work on the services set out above. No amounts were paid to Amir Eilon in respect of consulting services during his time as a member of the Audit Committee.

Notes *(continued)*

4 Staff numbers and costs *(continued)*

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

	2002	2001
	£000	£000
Total emoluments:		
Remuneration	**1,126**	912
Pension contributions	**42**	50
	1,168	962
In relation to the highest paid director:		
Remuneration	**416**	219
Pension contributions	**19**	15
	435	234

5 Interest payable

	2002	2001
	£000	£000
On bank loans	**5,228**	8,195

6 Taxation

The taxation charge is made up as follows:

	2002	2001
	£000	£000
Current taxation:		
UK corporation tax	**15,155**	1,936
Overseas taxation	**312**	290
	15,467	2,226
Deferred taxation	**7,101**	-
	22,568	2,226
Effective tax rate	**31.5%**	5.5%

Notes *(continued)*

6 Taxation *(continued)*

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

	2002 £000	2001 £000
Profit on ordinary activities before tax	**71,577**	40,133
Tax charge at 30%	**21,473**	12,040
Expenses not deductible for tax purposes	**2,502**	2,324
Lower tax rates in certain overseas jurisdictions	**(2,137)**	(1,192)
Movement in share option scheme deduction	**2,695**	(9,125)
UK losses incurred in previous years used in period	**(5,647)**	-
Overseas losses incurred in period not used	**73**	4
Overseas losses incurred in previous years used in period	**-**	(1,234)
Purchased goodwill not deductible	**927**	-
Capital allowances in advance of depreciation	**(2,590)**	-
Depreciation in advance of capital allowances	**-**	402
Other fixed asset timing differences	**(1,829)**	(1,050)
Adjustments in respect of previous periods	**-**	57
	15,467	2,226
Deferred tax	**7,101**	-
	22,568	2,226

The following tax losses were estimated to be available to offset against profits in future periods:

	At 30 September 2002 £000	At 30 September 2001 £000
United Kingdom	**-**	3,516
Overseas	**21**	14
	21	3,530

Share options

A deduction is available for the difference between the market value of the shares at the date of exercise of the share option (or the market value at 30 September 2002 if the options remain unexercised) and the option price for UK employees. This deduction has only been available since 22 November 2000, the date that easyJet plc's shares were first admitted to the Official List of the London Stock Exchange.

If the share price increases between 30 September 2002 and the date of exercise of the outstanding options, then a further tax deduction will be recognised in subsequent financial years. However, if the share price falls, as it has during the financial year, then there will be a tax charge. Given the number of options outstanding (see note 17 below), movements in the share price could potentially cause a significant variation in the tax charge and the effective tax rate in future years.

Notes *(continued)*

6 Taxation *(continued)*

For Swiss employees, a similar tax deduction is available, but only when the stock options have been exercised.

As a result of the rights issues of ordinary shares during the year, the number options and their exercise price were realigned to reflect the bonus element of that rights issue. The effect of a one penny movement in the share price is £0.2 million (2001 - £0.2 million).

The closing price at 30 September 2002 was £2.60 (2001: £2.97 (£3.36 before adjustment of bonus element of rights issue)).

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

7 Earnings per share

Basic earnings per share has been calculated by dividing the profit for the period retained for equity shareholders by the weighted average number of shares in issue during the period after adjusting for changes to the capital structure of the group. The number of shares used for 2001 has been increased by 12.9% to allow for the effect of the bonus effect of the rights issue of July 2002.

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

The earnings per share are based on the following:

	Year ended 30 September 2002	Year ended 30 September 2001
Profit for the year retained for equity shareholders (£000's)	**49,009**	37,907
	Number	Number
Weighted average number of ordinary shares in issue during the year used to calculate basic earnings per share (000's)	**335,493**	281,485
Weighted average number of dilutive share options used to calculate dilutive earnings per share (000's)	**17,232**	15,002

Notes *(continued)*

7 Earnings per share *(continued)*

The derivation of profit for the calculation of EPS before goodwill amortisation is as follows:

	Year ended 30 September 2002 £000	Year ended 30 September 2001 £000
Profit for the year retained for equity shareholders	**49,009**	37,907
Add back: goodwill amortisation	**3,091**	168
	52,100	38,075

Goodwill did not affect the tax charge.

8 Intangible fixed assets

	Goodwill £000
Cost	
At 1 October 2001	**3,398**
Additions – purchase of Newgo1 Limited	**349,781**
At 30 September 2002	**353,179**
Amortisation	
At 1 October 2001	**403**
Charge for the year	**3,091**
At 30 September 2002	**3,494**
Net book value	
At 30 September 2002	**349,685**
At 30 September 2001	2,995

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

On 31 July 2002, the group acquired Newgo1 Limited, the ultimate holding company of Go Fly Limited, an operator of low cost airline services between London Stansted, Bristol, East Midlands and Western Europe and the Czech Republic. The total consideration payable, including the costs of acquisition, was £387.1 million, which was satisfied by cash. The cash was partly funded by the issue of 104.4 million ordinary shares of 25 pence at £2.65 each, generating net proceeds of £271.9 million, plus cash of £115.2 million. Acquisition accounting has been used as the basis for consolidating the results of Newgo1 Limited within those of the easyJet group. Goodwill arising from the acquisition has been included as an intangible fixed asset on the group's balance sheet, and will be depreciated over a period of 20 years in accordance with the directors' opinion as to the estimated useful economic life of the goodwill purchased. The investment in Newgo1 Limited has been included in the company's balance sheet at cost, which is not less than its fair value, at the date of acquisition.

Notes *(continued)*

8 Intangible fixed assets *(continued)*

Analysis of the acquisition of Newgo1 Limited:

	Book value £000	Adjustments - revaluation £000	Notes	Fair value to the group £000
Tangible and intangible fixed assets	118,821	(113,241)	(1)	5,580
Debtors	34,456	1,618	(2)	36,074
Cash	126,531	-		126,531
Creditors due within one year	(250,782)	145,499	(3)	(111,629)
		(6,346)	(4)	
Provisions for liabilities and charges	(19,197)	-		(19,197)
Net assets	9,829	27,530		37,359
Goodwill arising on acquisition				349,781
Consideration				387,140

Satisfied by:

	£000
Cash	373,492
Costs associated with the acquisition	13,648
	387,140

Fair value adjustments, which are provisional are as follows:

(1) – write off of previously capitalised goodwill

(2) – recording of Go's fuel hedging instruments at market value

(3) – repayment of payables as part of the acquisition agreement

(4) – recording of Go's dollar hedging instruments at market value

During the period from 1 August 2002 to 30 September 2002, Newgo1 Limited used £24.3 million of the group's net operating cash flows, received £0.6 million in respect of net returns on investments and servicing of finance, paid £nil in respect of taxation and utilised £0.2 million for capital expenditure and financial investment.

Notes *(continued)*

8 Intangible fixed assets *(continued)*

Newgo1 Limited earned a profit after tax of £7.9 million in the six months ended 30 September 2002 (year ended 31 March 2002, loss of £0.1 million), of which a loss of £1.2 million arose in the period from 1 April 2002 to 31 July 2002. The summarised profit and loss account for the period from 1 April 2002 to the effective date of acquisition is as follows:

	£000
Turnover	112,420
Operating profit	4,698
Exceptional items – cost of share options and gifts	(11,910)
Loss before tax	(5,628)
Taxation	4,477
Loss for the four months ended 31 July 2002	(1,151)

There were no recognised gains or losses in the four months ended 31 July 2002 other than the loss of £1.2 million above.

Notes *(continued)*

9 Tangible fixed assets

	Aircraft	Payments on account-aircraft deposits	Leasehold improvements - buildings	Fixtures, fittings and equipment	Total
	£000	*£000*	*£000*	*£000*	*£000*
Cost					
At 1 October 2001	195,472	58,318	1,288	6,734	261,812
Exchange differences	(11,110)	(3,164)	-	-	(14,274)
Additions	27,283	43,101	1,486	3,231	75,101
Acquired on acquisition	3,847	-	77	1,657	5,581
Disposals	(23,947)	(49,132)	(24)	(1,386)	(74,489)
At 30 September 2002	**191,545**	**49,123**	**2,827**	**10,236**	**253,731**
Depreciation					
At 1 October 2001	50,921	-	636	3,822	55,379
Exchange differences	(3,477)	-	-	-	(3,477)
Charge for year	15,912	-	333	2,432	18,677
Disposals	(1,005)	-	(17)	(924)	(1,946)
At 30 September 2002	**62,351**	**-**	**952**	**5,330**	**68,633**
Net book value					
At 30 September 2002	**129,194**	**49,123**	**1,875**	**4,906**	**185,098**
At 30 September 2001	144,551	58,318	652	2,912	206,433

At 30 September 2002, aircraft with a net book value of £79.6 million (2001: £92.0 million) were mortgaged to lenders as security for loans (see notes 13 and 14).

Interest, at the applicable rate of LIBOR + 0.8 per cent and LIBID, ultimately capitalised within aircraft and aircraft deposits was as follows:

	2002	2001
	£000	£000
Amounts capitalised during the year	-	-
Aggregate amounts included within cost of aircraft and aircraft deposits	**586**	702

No interest has been capitalised since the financial year 2000.

Prior to the delivery of aircraft, the interest is deferred in Debtors. Amounts over and above those included *within cost of aircraft and aircraft deposits deferred as at 30 September 2002 are £nil (2001: £0.7 million).*

Notes *(continued)*

10 Investments

	2002 £000	2001 £000
The Airline Group	-	7,159
Deutsche BA	6,624	-
	6,624	7,159

The Airline Group

easyJet Airline Company Limited, a subsidiary of easyJet plc, is one of the seven shareholders in the Airline Group, which is a consortium of airlines set up to bid for the partial ownership of the UK air traffic control system (NATS). Following the success of the bid in March 2001, easyJet invested £7.2 million (including £0.3 million legal and consultancy fees) as its investment to provide the Airline Group with the initial capital base needed for the purchase. The investment included £0.3 million of accrued interest receivable. This investment has been written off during the year ended 30 September 2002 since, following the events of 11 September 2001, which caused a substantial reduction in NATS' revenues, potential returns from NATS' are uncertain. The amount written off includes loan notes of £6.6 million. The accrued interest on the loan notes (including that which has been internally capitalised within the Airline Group) is £0.8 million (2001: £0.3 million). This accrued interest has not been recognised since its recovery is subject to uncertainty.

Deutsche BA

In August 2002, easyJet and British Airways Plc ("British Airways") entered into an agreement under which the group was granted an option to acquire from British Airways its 100 per cent holding in Deutsche BA Holding GmbH ("DBA"). The group will assist in the conversion of DBA to a low cost airline, and under this acquisition agreement easyJet has significant influence over the operations of DBA. Accordingly, DBA is an associated undertaking of the group.

The group contributed €5 million (£3.1 million) to its associate at the time of entering into the agreement to fund capital expenditure. This amount represents the group's current investment in DBA. If the option is exercised, the group will (in addition to the €600,000 monthly sum noted below) pay between €32 million and €39 million (£20.1 million and £24.5 million, respectively) to British Airways. If the option is not exercised by the group, the €5 million will be forfeited.

DBA is currently loss-making and under the terms of the agreement the group is required to pay €600,000 (£0.4 million) to British Airways for each month until the option is exercised or lapses (the option is exercisable up to 30 April 2003, extendable by the group to August 2003). In the absence of any current shareholding in DBA, these payments are considered to be the group's share of the losses of DBA and are charged in the profit and loss account accordingly.

Notes *(continued)*

11 Debtors

	2002 £000	2001 £000
Trade debtors	**43,095**	25,755
Other debtors	**13,728**	7,716
Prepayments and accrued income	**39,182**	13,635
	96,005	47,106

Included in prepayments and accrued income above is £5.2 million (2001 - £ nil) in respect of prepaid aircraft maintenance and deposits which is recoverable in more than one year.

12 *Creditors: amounts falling due within one year*

	2002 £000	2001 £000
Bank loans	**21,099**	6,992
Trade creditors	**26,900**	16,709
Other taxes and social security	**2,748**	1,121
Other creditors	**9,793**	5,349
Corporation tax	**18,053**	2,396
Unearned revenue (including Government taxes)	**94,266**	38,765
Accruals	**87,755**	42,096
	260,614	113,428

The arrangement with a consortium headed by Fortis Bank, one of the group's debt providers, allows the consortium, at its own option, to require the entire loan balance to be repaid on 19 August 2003. Accordingly, the entire amount due to the consortium has been included in current liabilities. The amount of debt due after more than one year as per the payment schedule, which has been reclassified, is £14.3 million.

13 Creditors: amounts falling due after more than one year

	2002 £000	2001 £000
Bank loans:		
Due within one to two years	**3,842**	7,461
Due in two to five years	**13,058**	29,960
Due after five years	**31,700**	38,868
	48,600	76,289

The bank loans financed the acquisition of certain aircraft by the group. The aircraft acquired with the loans are provided as security against the borrowings. The bank loans are subject to certain financial and operating covenants.

Interest and repayment terms for the bank loans are set out in note 21.

Notes *(continued)*

14 Provisions for liabilities and charges

	2002 £000	2001 £000
Maintenance liabilities	25,801	1,920
Deferred taxation	2,587	-
	28,388	1,920

Maintenance liabilities

	2002 £000	2001 £000
At 1 October 2001	1,920	1,854
Arising on acquisition of subsidiary undertaking	19,197	-
Arising during the year	6,320	528
Utilised	(1,647)	(462)
Exchange adjustments	11	-
At 30 September 2002	25,801	1,920

The group incurs liabilities for maintenance costs in respect of its leased aircraft during the course of the lease term. These are as a result of obligations in the lease contract in respect of the return conditions applied by lessors, which require aircraft airframes, engines and auxiliary power units to reach at least a specified condition on their return at the end of the lease. This requires significant spend, often towards the end of the lease period. The group pays maintenance reserves to lessors on a monthly basis in respect of certain leases, based on usage, to provide a security deposit for the lessor should the aircraft be returned without meeting its return conditions. These maintenance reserves are then returned to the group on production of evidence that qualifying maintenance expenditure has been incurred. However, in many instances maintenance reserves payable by the group are insufficient to meet the expected cost of the return conditions imposed. A further amount is provided in respect of the expected average monthly maintenance charge to be incurred over the life of the lease, less the net maintenance reserves paid to the lessor by the group and additional maintenance costs incurred.

Deferred taxation

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

	Provided 2002 £000	Provided 2001 £000	**Not provided 2002 £000**	Not provided 2001 £000
Depreciation in advance of capital allowances	(3,562)	-	-	4,959
Losses available	-	-	-	(1,054)
Other fixed asset timing differences	6,149	-	-	(7,221)
Deferred tax liability/(asset)	2,587	-	-	(3,316)

Notes *(continued)*

14 Provisions for liabilities and charges *(continued)*

Movements in amounts provided are as follows:

	2002 £000	2001 £000
At 1 October 2001	-	-
Depreciation in advance of capital allowances	(3,562)	-
Other fixed asset timing differences	6,149	-
At 30 September 2002	**2,587**	-

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

During the year, easyJet has implemented FRS19, "Deferred Tax". No prior year adjustments were necessary, since the change in accounting policy did not change the amount of deferred tax to be recognised in the financial statements.

15 *Called up share capital*

	2002 £000	2001 £000
Authorised		
At 1 October 2001	**100,000**	100,000
Increase in authorised share capital: 100 million Ordinary shares of 25 pence each	**25,000**	-
At 30 September 2002:		
500 million (2001: 400 million) Ordinary shares of 25 pence each	**125,000**	100,000
Allotted, called up and fully paid		
At 1 October 2001	**65,108**	46,647
Issued during 2001:		
IPO – 72.5 million Ordinary shares of 25 pence each	-	18,113
Share options and Award Schemes – 1.4 million Ordinary shares of 25 pence each	-	348
Issued during 2002:		
Open Offer – 19.5 million Ordinary shares of 25 pence each	**4,883**	-
Placing – 6.5 million Ordinary shares of 25 pence each	**1,625**	-
Rights Issue – 104.4 million Ordinary shares of 25 pence each	**26,107**	-
Share Option Schemes – 0.9 million Ordinary shares of 25 pence each	**196**	-
At 30 September 2002:		
391.7 million (2001: 260.4 million) Ordinary shares of 25 pence each	**97,919**	65,108

Notes *(continued)*

15 Called up share capital *(continued)*

On 2 October 2001, 19.5 million new Ordinary shares were offered by the company to existing qualifying shareholders at an offer price of 375 pence by way of an Open Offer (the "Open Offer"). The purpose of the Open Offer was to provide funding for expansion opportunities in the European short haul airline market, to further strengthen the balance sheet of the group and to help fund in part new aircraft purchases.

On 7 November 2001, 6.5 million new Ordinary shares were placed on a non-pre-emptive basis with certain investors at an offer price of 375 pence. The purpose of the Open Offer was to provide funding for expansion opportunities in the European short haul airline market, to further strengthen the balance sheet of the group and to help fund in part new aircraft purchases.

On 9 July 2002, 104.4 million new Ordinary shares were offered by the company to existing qualifying shareholders at an offer price of 265 pence by way of a Rights Issue (the "Rights Issue"). The purpose of the Rights Issue was to fund the acquisition of Newgo1 Limited, the ultimate holding company of the business of Go Fly, a low cost airline.

Between 1 October 2001 and 30 September 2002, a further 0.9 million new Ordinary shares have been issued pursuant to the terms of the easyJet share option schemes (see note 17 below).

16 Share capital and reserves

	Share capital £000	Share premium £000	Profit and loss account £000	Total £000
At 1 October 2001	65,108	196,638	54,745	316,491
Issue of ordinary share capital:				
Open Offer (see note 15)	4,883	65,254	-	70,137
Placing (see note 15)	1,625	22,132	-	23,757
Rights Issue (see note 15)	26,107	245,814	-	271,921
Share option schemes (see note 15)	196	3,425	-	3,621
Movement in profit and loss account for employee share schemes	-	-	(1,723)	(1,723)
Retained profit for the year	-	-	49,009	49,009
Foreign currency translation differences	-	-	(5,509)	(5,509)
At 30 September 2002	**97,919**	**533,263**	**96,522**	**727,704**

Notes (continued)

17 *Share options and other share awards*

Following the rights issue of Ordinary shares in July 2002 and as allowed under the rules of the share option schemes, the directors concluded that it would be appropriate to adjust the number of share subject to option and exercise price of those share options. The auditors reviewed the basis of the board of directors' computation and concluded that the adjustments were fair and reasonable. The adjustments have also been approved by the Inland Revenue.

The table below presents for the various share option schemes the options outstanding and their exercise price at 1 October 2001, as previously reported, their respective rebased values at that date, together with an analysis of the movements in the number of options during the year.

	Exercise price as previously reported £	Exercise price re based £	At 1 October 2001 – as previously reported Number '000	At 1 October 2001 – restated Number '000	Granted or issued Number '000	Lapsed Number '000	Exercised Number '000	At 30 September 2002 Number '000
(i) Pre-Flotation scheme								
	1.82	1.61	23,509	26,542	-	(270)	(428)	25,844
	2.05	1.81	2,249	2,539	-	(37)	(160)	2,342
	2.28	2.02	999	1,128	-	(18)	-	1,110
	3.10	2.74	268	302	-	-	-	302
Total			27,025	30,511	-	(325)	(588)	29,598
(ii) Non-approved discretionary scheme	4.112	3.65	640	723	-	(61)	-	662
	n/a	4.02	-	-	1,333	(9)	-	1324
Total			640	723	1,333	(70)	-	1,986
(iii) Approved discretionary scheme	n/a	4.0191	-	-	760	(41)	-	719
Total all schemes			27,665	31,234	2,093	(436)	(588)	32,303

(i) the easyJet Key Employee Pre-Flotation Share Option Scheme

Except for the 3,286,305 (rebased: 3,710,238) share options issued to Amir Eilon, a Non-Executive director of the company, which vested wholly upon Admission of the company to the Official List of the UK Listing Authority during 2001, 25 per cent of the share options granted vest or vested at the dates below:

- Date of Admission of the company;
- First anniversary of Admission;
- Second anniversary of Admission; and
- Third anniversary of Admission.

Employees may not dispose of any shares that have resulted from the exercise of options within two years from the date of Admission to the Official List of the UK Listing Authority, except to the extent of settling their liabilities to personal tax, National Insurance contributions and the exercise price per option exercised. Substantially all of the employees accepted employer's Secondary National Insurance contributions due on the exercise of the first tranche of options. It is a condition of those options granted at an exercise price in excess of £1.61 per share that the option holders accept liability for the employer's Secondary National Insurance contributions due on the exercise of the options.

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

Notes *(continued)*

17 Share options and other share awards *(continued)*

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

(ii) the easyJet Non-Approved Discretionary Share Option Scheme:

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

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

(iii) the easyJet Approved Discretionary Share Option Scheme:

This award of options over ordinary shares in easyJet plc was granted in December 2001 to eligible employees of the group on terms that meet Inland Revenue requirements for an Approved share option scheme.

In addition to the share options above, easyJet had also established three further share schemes as follows:

(iv) As at 30 September 2000, 838,607 shares were allocated under a share gift scheme with 478,712 shares vesting on Admission to the Official List of the UK Listing Authority with the remainder vesting on the first anniversary of Admission. At 30 September 2002 nil (2001: 210, 392) shares were outstanding under this scheme.

(v) On 22 November 2000, 471,172 shares were allocated under the Share Bonus Scheme. The employees entitled to these shares at the date of Admission have an obligation to retain these shares for at least two years from that date.

(vi) The Management Combination Incentive Plan. Since July 2002, a total of 3,071,253 shares have been granted under the terms of the plan, which is designed to reward key participants in the process of combining the businesses of easyJet and Go Fly with free shares if the three performance milestones of single brand, single AOC and combination completion have been met within certain agreed timescales.

Alternative accounting treatment

Changes to the accounting for share options are proposed within a recently issued accounting exposure draft, Financial Reporting Exposure Draft 31 Share-based Payments, which include a proposal to expense the fair value of the share options. These proposed accounting requirements are suggested to be effective for all share options issued after October 2002. Had this accounting treatment been mandatory for all the share options issued by the group up until 30 September 2002 the profit and loss account would have been subject to an additional charge of £4.3 million for the year ended 30 September 2002 (2001: £5.4 million).

Notes *(continued)*

17 *Share options and other share awards (continued)*

Options granted to directors

Details of share options and awards under the schemes described in (i), (ii), (iii) and (vi) granted to the directors of the company are as follows:

Director	Grant date	Interest in options over ordinary shares	Exercise price £	Date from which exercisable	Expiry date of grant	Notes
Non-executive						
Stelios Haji-Ioannou	-	-	-	-	-	-
Amir Eilon	26 Feb 2000	3,603,407	1.6112	22 Nov 2002	26 Feb 2010	A
	26 Sep 2000	106,830	1.6112	22 Nov 2002	26 Sep 2010	A
	6 Dec 2001	931	4.0192	6 Dec 2004	6 Dec 2011	C
Nick Hartley	26 Feb 2000	118,924	1.6112	22 Nov 2000	26 Feb 2010	B
	6 Dec 2001	931	4.0192	6 Dec 2004	6 Dec 2011	C
Anthony Illsley	26 Sep 2000	14,667	2.0184	22 Nov 2000	26 Sep 2010	B
	6 Dec 2001	931	4.0192	6 Dec 2004	6 Dec 2011	C
Colin Day	26 Sep 2000	14,667	2.0184	22 Nov 2000	26 Sep 2010	B
	6 Dec 2001	931	4.0192	6 Dec 2004	6 Dec 2011	C
John Quelch	22 Nov 2000	14,667	2.7444	22 Nov 2000	22 Nov 2010	B
	6 Dec 2001	931	4.0192	6 Dec 2004	6 Dec 2011	C
Diederik Karsten	6 Dec 2001	15,599	4.0192	6 Dec 2004	6 Dec 2011	C
Executive						
Ray Webster	26 Feb 2000	4,805,544	1.6112	22 Nov 2000	26 Feb 2010	B
	26 Sep 2000	142,442	1.6112	22 Nov 2000	26 Sep 2010	B
	6 Dec 2001	51,029	4.0192	6 Dec 2004	6 Dec 2011	C
	6 Dec 2001	7,459	4.0192	6 Dec 2004	6 Dec 2011	D
	1 Aug 2002	230,782	nil	1 Aug 2002	1 Aug2004	E
Chris Walton	26 Feb 2000	600,568	1.6112	22 Nov 2000	26 Feb 2010	B
	6 Dec 2001	28,994	4.0192	6 Dec 2004	6 Dec 2011	C
	6 Dec 2001	7,459	4.0192	6 Dec 2004	6 Dec 2011	D
	1 Aug 2002	145,146	nil	1 Aug 2002	1 Aug2004	E
Mike Cooper (resigned 17 April 2002)	26 Feb 2000	600,568	1.6112	22 Nov 2000	26 Feb 2010	B
	6 Dec 2001	28,994	4.0192	6 Dec 2004	6 Dec 2011	C
	6 Dec 2001	7,459	4.0192	6 Dec 2004	6 Dec 2011	D
Vilhelm Hahn-Petersen (resigned 17 April 2002)	26 Feb 2000	1,201,136	1.6112	22 Nov 2000	26 Feb 2010	B
	6 Dec 2001	31,879	4.0192	6 Dec 2004	6 Dec 2011	C
	6 Dec 2001	7,459	4.0192	6 Dec 2004	6 Dec 2011	D
Keith McMann (resigned 17 April 2002)	26 Sep 2000	345,927	1.8148	22 Nov 2000	26 Sep 2010	B
	6 Dec 2001	17,456	4.0192	6 Dec 2004	6 Dec 2011	C
	6 Dec 2001	7,459	4.0192	6 Dec 2004	6 Dec 2011	D

Notes *(continued)*

17 Share options and other share awards *(continued)*

Notes

A Vest in full on Admission to the Official List of the UK Listing Authority but are not exercisable until the second anniversary of Admission.

B 25 per cent of the share options granted vest at the dates below:

- Date of Admission of the company;
- First anniversary of Admission;
- Second anniversary of Admission; and
- Third anniversary of Admission.

C Granted under the easyJet Non-Approved Discretionary Share Option Scheme and subject to meeting certain earnings per share targets

D Granted under the easyJet Approved Discretionary Share Option Scheme and subject to meeting certain earnings per share targets

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

There were no movements during the year in the share options granted to directors of the company except for the share options granted under the scheme described in C, D and E above.

In 2001, Nick Hartley and Vilhelm Hahn-Petersen were allocated 6,452 and 22,581 shares, respectively, under the bonus share scheme in (v) above during the year, and Nick Hartley was gifted 280 shares by easyJet Holdings Limited, the company's, then parent undertaking, as an employee present at the time of the first flight.

The middle market price of the company's ordinary shares at 30 September 2002 was 260p and the range during the year to 30 September 2002 was 244p to 503p, as restated for the bonus effect of the Rights Issue.

The shares granted on 26 February 2000, 26 September 2000, 22 November 2000 and 6 December 2001 have been amended, both in number and exercise price, to reflect the bonus effect of the Rights Issue. The table above reflects the position after the amendments had been made.

Notes *(continued)*

18 *Contingent liabilities*

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

Go Fly Limited, a group company, is currently engaged in a dispute with Go Voyages, a French travel company. Go Voyages has started proceedings in the French civil court in Paris alleging a trade mark infringement by Go Fly Limited in relation to the trade mark "Go Voyages" and unfair competition. Go Voyages is claiming €3 million damages, for which no provision has been made within the financial statements. The group is vigorously defending the claims and does not consider the amount of any likely settlement to be material to the financial statements. If Go Fly Limited were to lose the case, it may have to pay damages and may also be prevented from using its French or European Community trademarks, which may be subject to cancellation.

On 15 May 2002, Navitaire Inc. ("Navitaire"), a former supplier to easyJet Airline Company Limited, a group company, of airline reservation software, issued proceedings against that group company alleging copyright infringement in relation to airline reservations software. easyJet Airline Company is vigorously defending the claims. The directors consider that, in the event of Navitaire being successful in any claim, any award of damages is unlikely to be material to the group.

19 **Commitments**

(a) Lease commitments

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

	Land and buildings	
	2002	2001
	£000	£000
Expiring less than one year	**798**	361
Expiring between two and five years	**466**	271
Expiring after more than five years	**70**	67
	1,334	699

	Aircraft	
	2002	2001
	£000	£000
Expiring less than one year	**1,145**	1,849
Expiring between two and five years	**41,603**	6,481
Expiring after more than five years	**35,519**	16,271
	78,267	24,601

Notes *(continued)*

19 Commitments *(continued)*

(b) Other financial commitments

As a result of a purchase agreement entered into in July 1998 and revised in March 2000, the group is contractually committed to the acquisition of 14 (2001: 25) new Boeing 737-700 type aircraft with a list price of approximately US$0.6 billion (2001: US$1.0 billion), being approximately £370 million (2001: £680 million) (before escalations, discounts and deposit payments already made). In respect of those aircraft, deposit payments amounting to £49.1 million had been made as at 30 September 2002 (2001: £58.3 million), for commitments for the acquisition of Boeing 737-700 aircraft.

At 30 September 2002 the group had placed a series of orders to purchase aircraft spare parts, totalling approximately £nil (2001: £0.7 million).

The group is also contractually committed to the purchase of other assets totalling approximately £0.6 million (2001: £0.8 million).

20 Notes to the cash flow statement

Analysis of amounts summarised in the cash flow statement

	2002 £000	2001 £000
Returns on investment and servicing of finance		
Interest received	**15,747**	9,932
Interest paid on bank and all other loans	**(5,044)**	(8,195)
Net cash inflow from returns on investment and servicing of finance	**10,703**	1,737
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(75,101)**	(54,148)
Sale of tangible fixed assets	**71,709**	32,007
Investment in Airline Group	**-**	(6,886)
Net cash outflow for capital expenditure	**(3,392)**	(29,027)
Acquisitions and disposals		
Purchase of subsidiary undertaking	**(387,140)**	-
Net cash acquired with subsidiary	**126,531**	-
Investment in Deutsche BA	**(6,624)**	-
Net cash outflow for acquisition	**(267,233)**	-
Financing		
Decrease in loans	**(8,293)**	(37,893)
Issue of share capital (net of issue costs of £8.3 million) (2001: £14.2million)	**367,713**	212,154
Net cash inflow from financing	**359,420**	174,261

Notes *(continued)*

21 ***Financial instruments***

The objectives, policies and strategies applied by the group with respect to financial instruments are determined at a group level. The principal financial instruments used by the group to finance its operations are cash and loans. During the current financial period, certain financial instruments have been acquired as a result of the acquisition of Newgo1 Limited. Whilst the financial instruments acquired will run their course, it is not proposed to replace them once they expire.

The significant financial risks faced by the group and the policies that it applies are considered below. These have not materially changed from the previous year. No transactions of a speculative nature are undertaken.

Historically, the group has seldom used derivative financial instruments to hedge its exposure to fuel, foreign currency and interest rate fluctuations, although natural hedges limit the exposures to these risks, as explained below. However, during 2001, the group acquired a derivative to hedge its exposure to fluctuations in the price of fuel. This derivative capped the fuel price to the group at 95 US cents per US gallon for 90 per cent of its estimated requirements over the six months ended 31 March 2002. In the event, the fuel price remained below this level for the entire period and therefore no cash return was received from the financial instrument.

On 1 August 2002 the group acquired Newgo1 Limited which has used financial instruments to hedge its exposure to the price of fuel and also fluctuations in the Euro and US dollar rates of exchange. As at 30 September 2002, there are a number of these arrangements in place. Over time these will mature and the combined group will not make any further use of such financial instruments. The extent of these financial instruments at 30 September 2002 was to hedge 30 per cent of the Go Fly fuel requirement for the year ending 30 September 2003, 48 per cent of the Go Fly US dollar requirements for the year ending 30 September 2003 and 43 per cent of the net Go Fly Euro requirements in the year ending 30 September 2003. All such arrangements are expected to expire by 30 June 2003.

A fair value adjustment was booked for the financial instruments owned by Newgo1 Limited as part of the acquisition accounting at completion.

Notes *(continued)*

21 Financial instruments *(continued)*

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

Foreign currency risk

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

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

Approximately 16 per cent (2001: 40 per cent) of the group's total assets (that is, its owned aircraft and deposits paid towards the future acquisition of aircraft) are denominated in US dollars, with the effect that the group's balance sheet and, in particular, shareholders' funds, can be significantly affected by movements in the rate of pounds sterling against the US dollar. The group mitigates the effect of such movements by borrowing in the same currencies as those US dollar denominated assets. Owned aircraft are anticipated to be sold for US dollars within approximately 7 years of their acquisition. The resulting sale proceeds are expected to be used largely to pay down US dollar loans and as a result these large US dollar inflows are not considered to create a significant currency exposure to the group.

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

	Year end exchange rate (US$: £)
30 September 2002	1.57
30 September 2001	1.47

Notes *(continued)*

21 Financial instruments *(continued)*

5 per cent of the total group costs in the year ended 30 September 2002 were incurred by easyJet Switzerland (2001: 9 per cent), whose functional currency is the Swiss Franc. The costs of that business are translated into pounds sterling at average exchange rates for the purposes of inclusion into the consolidated profit and loss account, and the net assets at the year end exchange rate of the Swiss Franc against pounds sterling. To a large extent, the exposure to the Swiss Franc is mitigated as revenue in that currency is also earned by the group.

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

	US dollars £000	*Other* £000	*Total* £000
Total assets	**31,413**	**22,812**	**54,225**
Total liabilities	**(42,383)**	**(11,948)**	**(54,331)**
Net (liabilities)/assets as at 30 September 2002	**(10,970)**	**10,864**	**(106)**
Total assets	17,778	14,042	31,820
Total liabilities	(4,563)	(3,475)	(8,038)
Net assets as at 30 September 2001	13,215	10,567	23,782

Interest rate risk

The group has a formal policy on exchange rate profile to keep an approximate 50/50 balance between fixed and floating rate leases. However, there is no such formal policy on bank loans, which are now all at floating rates. The group's historical borrowings are analysed below between fixed rate and variable rate loans.

	Total	**Fixed rate borrowings**	**Variable rate borrowings**	**Weighted average interest rate for fixed rate borrowings**	**Average time over which interest rate is fixed**
	£000	£000	£000	%	months
Bank loans (US dollar denominated)	**69,699**	-	**69,699**	-	-
As at 30 September 2002	**69,699**	-	**69,699**	-	-
Bank loans (US dollar denominated)	83,281	59,501	23,780	6.2	3
As at 30 September 2001	83,281	59,501	23,780	6.2	3

Notes *(continued)*

21 Financial instruments *(continued)*

Interest rate *(continued)*

The maturity of the bank loans is set out below:

	2002 £000	2001 £000
Bank loans		
Due within one year	**21,099**	6,992
Due between one and two years	**3,842**	7,461
Due between two and five years	**13,058**	29,960
Due over five years	**31,700**	38,868
	69,699	83,281

The variable rate bank loans bear interest by reference to the applicable reference rate, being LIBOR + 0.8 per cent to LIBOR + 0.9 per cent.

The loans are repayable in quarterly and six monthly instalments.

The majority of the group's financial assets comprise bank balances, which attract interest at the applicable money market deposit rates.

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

	Total	Fixed rate aircraft leases	Variable rate aircraft leases	Weighted average interest rate for fixed rate leases	Average time over which interest rate is fixed
	£000	£000	£000	%	Months
Approximate aircraft operating lease payments due in the financial year ending 30 September 2003 (payable in US dollars)	79,683	63,125	16,558	5. 6	44

Notes *(continued)*

21 Financial instruments *(continued)*

Liquidity risk

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

Credit risk

Potential concentrations comprise principally cash and trade debtors.

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

Funding risk

The most significant investment activity undertaken by the group historically has been the acquisition of aircraft. To a large extent, these have been financed by asset-backed bank loans. The group also sells and leases back the aircraft in certain cases to manage its funding risks.

Fair values of financial assets and liabilities

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

	30 September 2002		30 September 2001	
	Book value £000	**Fair value £000**	Book value £000	Fair value £000
Primary financial instruments held to *finance the group's operations:*				
Fuel hedges	**1,295**	**2,155**	-	-
Currency hedges	**(4,890)**	**(5,146)**		
Bank loans	**(69,699)**	**(69,699)**	(83,281)	(83,281)
Cash	**427,894**	**427,894**	244,435	244,435
	354,600	**355,204**	161,154	161,154

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

The fair value of cash approximates to its book value due to its immediate availability.

Notes *(continued)*

21 Financial instruments *(continued)*

In respect of the US dollar exchange rate, the Go Fly business had $88.7 million of currency hedges, which will expire before 30 June 2003 at rates between $1.4029 and $1.4933. At 30 September 2002, there was a loss on the instrument of £5.2 million, of which £4.9 million had been included in the opening balance sheet of Newgo1 Limited as a fair value adjustment (see note 8 above).

In respect of the Euro exchange rate, the Go Fly business had €9 million of currency hedges, which will expire before 31 March 2003 at rates between €1.6015 and €1.6241. At 30 September 2002, there was a gain on the instrument of £0.1 million.

In respect of fuel , the Go Fly business had hedges for 78,000 tonnes of fuel at prices of between $215 and $270 per tonne. These will expire before 30 June 2003. At 30 September 2002, there was a gain on the instrument of £2.2 million, of which £1.3 million had been included in the opening balance sheet of Newgo1 Limited as a fair value adjustment (see note 8 above).

22 Related party transactions

The group transacts with easyCar Limited (formerly easyRentacar Limited), easyInternetCafé Limited, easyMoney Limited, easyGroup Limited and easyValue Limited, being companies of which Stelios Haji-Ioannou is the majority shareholder. Stelios Haji-Ioannou is also the chairman and a director of easyJet plc and has a substantial shareholding. The transactions principally relate to the charging of advertising costs and web page click-through revenues between the group and these companies. These charges are summarised below for the years ended 30 September 2002 and 2001, together with the balances outstanding at those dates.

	easyValue Limited		easyCar Limited		easyInternetCafé Limited	
	2002	2001	**2002**	2001	**2002**	2001
	£000	£000	**£000**	£000	**£000**	£000
Charges to the group	**-**	-	**21**	266	**-**	156
Charges by the group	**104**	127	**1,054**	951	**-**	145
Year end debtor/(creditor)	**28**	38	**543**	155	**(25)**	(25)

	easyMoney Limited		easyGroup Limited	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Charges to the group	**-**	-	**129**	-
Charges by the group	**38**	-	**-**	-
Year end debtor/(creditor)	**18**	-	**1**	-

The group has transacted with Amir Eilon, a non-executive director, via companies, which he controls. Further details are set out in note 4 above.

The group has also transacted with Campbell Hooper for legal services amounting to less than £5,000. Daniel Eilon, the brother of Amir Eilon, is a partner of Campbell Hooper and provided the legal services to the group.

Notes *(continued)*

23 Ultimate controlling party

Following the Rights Issue in July 2002, there is no ultimate controlling party for the company, since the interests of Stelios Haji-Ioannou (by virtue of the shareholdings of his family trusts) fell below 50%.

24 Post balance sheet events

The following events have occurred since 30 September 2002:

- On 26 November 2002, Stelios Haji-Ioannou is expected to step down as Chairman and as a director of easyJet plc. Sir Colin Chandler will assume the chairmanship.
- In October 2002, easyJet announced that it had selected Airbus as the aircraft manufacturer with whom it would negotiate for the supply of its next stream of aircraft. The proposed order is for 120 A319 aircraft to be delivered over a five year period from approximately September 2003, with options and price protection on a further 120 A319 aircraft until 2012 and with options to switch to larger sized A320 and A321 aircraft. The final agreement will be subject to shareholder approval and a circular will be despatched to shareholders in due course.

Company balance sheet

at 30 September

	Notes	**2002 £000**	2001 £000
Fixed assets			
Investments	*25a*	**679,936**	32,501
Current assets			
Debtors	*25b*	**17,866**	59,906
Cash at bank and in hand		**16,998**	199,890
Creditors: amounts falling due within one year	*25c*	**(76,650)**	(30,945)
Net current (liabilities)/assets		**(41,786)**	228,851
Net assets		**638,150**	261,352
Capital and reserves			
Called up share capital	*15*	**97,918**	65,108
Share premium	*16*	**533,263**	196,638
Profit and loss account		**6,969**	(394)
Shareholders' funds - equity	*25d*	**638,150**	261,352

These financial statements were approved by the board of directors on 25 November 2002 and were signed on its behalf by:

R Webster

C Walton

Notes

25 Company information

(a) Fixed asset investments

	Shares in subsidiary undertakings £000
At 1 October 2001	32,501
Additions	647,435
At 30 September 2002	**679,936**

The principal companies in which the company has interests at 30 September 2002 are noted below. A full list of group companies will be included in the company's next annual return, in compliance with s231 and parts I and II of Schedule 5 of the Companies Act 1985.

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

Notes

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

** Interest in these companies is held by easyJet Airline Company Limited.

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

Notes *(continued)*

25 Company information *(continued)*

(b) Debtors: Amounts due within one year

	2002 £000	2001 £000
Amounts owed by subsidiaries	16,436	56,970
Other debtors	35	742
Prepayments and accrued income	1,395	2,194
	17,866	59,906

(c) Creditors: amounts falling due within one year

	2002 £000	2001 £000
Amounts owed to subsidiaries	70,587	21,570
Corporation tax	2,743	1,936
Other creditors	3,320	7,439
	76,650	30,945

(d) Reconciliation of movement in equity shareholders' funds

	2002 £000	2001 £000
Retained profit/(loss) for the year	7,363	(3,095)
Issue of share capital during the year	369,435	215,099
Net addition to shareholders' funds	376,798	212,004
Opening shareholders' funds	261,352	49,348
Closing shareholders' funds	638,150	261,352

Notes *(continued)*

25 Company information *(continued)*

(e) Guarantee and contingent liabilities

The company has given a formal undertaking to the Civil Aviation Authority ('CAA') to guarantee the payment and discharge of all liabilities of easyJet Airline Company Limited, a subsidiary of the company. The guarantee is required by the CAA for that company to maintain its Operating licence under Regulation 3 of the Licensing of Air Carriers Regulations 1992. A similar formal undertaking has also been given in respect of Go Fly Limited, which also holds an Operating licence granted by the CAA.

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

Selected financial unaudited information in Euros

Basis of preparation

The consolidated financial statements of the group are presented in pounds sterling. The consolidated profit and loss account statement and statement of net assets have been presented below in Euros for convenience only, using the average exchange rate during the year of €1.601: £1 and €1.627: £1 for the years ended 30 September 2002 and 2001, respectively, and at the year end exchange rate of €1.591: £1 and €1.614: £1 at 30 September 2002 and 30 September 2001, respectively, between pounds sterling and the Euro. The presentations below are for illustrative purposes only and should not be construed as representations that the Euro amounts actually represent such pounds sterling amounts or could have been or could be converted into Euro at the rate indicated or at any other rates.

Consolidated profit and loss account in Euros

for the year ended 30 September

	Continuing operations €000	Acquired in year €000	2002 €000	2001 €000
Revenue	777,927	105,658	883,585	580,610
Cost of sales	(592,778)	(68,832)	(661,610)	(432,210)
Gross profit	185,149	36,826	221,975	148,400
Distribution and marketing expenses	(54,559)	(10,502)	(65,061)	(51,563)
Administrative expenses (including exceptional administrative expenses of €nil million (2001: €6.1 million)	(39,683)	(5,836)	(45,519)	(34,811)
Group operating profit				
Operating profit before exceptional administrative expenses	90,907	20,488	111,395	68,171
Exceptional administrative expenses	-	-	-	(6,145)
Group operating profit	90,907	20,488	111,395	62,026
Loss from interest in associated undertakings			(2,176)	-
Total operating profit			109,219	62,026
Amounts written of investments			(11,463)	-
Interest receivable			25,220	16,603
Interest payable			(8,371)	(13,334)
Profit on ordinary activities before taxation			114,605	65,295
Tax on profit on ordinary activities			(36,135)	(3,622)
Retained profit for the financial year			78,470	61,673

Selected unaudited financial information in Euros *(continued)*

Consolidated net assets in Euros

as at 30 September

	2002		2001	
	€000	€000	€000	€000
Fixed assets				
Intangible assets		556,349		4,833
Tangible assets		294,491		333,182
Investments		10,539		11,554
		861,379		349,569
Current assets				
Debtors	152,744		76,029	
Cash at bank and in hand	680,779		394,518	
	833,523		470,547	
Creditors: amounts falling due within one year	(414,637)		(183,072)	
Net current assets		418,886		287,475
Total assets less current liabilities		1,280,265		637,044
Creditors: amounts falling due after more than one year		(77,323)		(123,130)
Provisions for liabilities and charges		(45,165)		(3,098)
Net assets		1,157,777		510,816

Summary of selected financial information for five years

Year ended 30 September

	2002 £000	2001 £000	2000 £000	1999 £000	1998 £000
Revenue	551,844	356,859	263,694	139,789	77,000
Operating profit/(loss) before exceptional costs	69,572	41,900	28,660	8,271	9,133
Profit/(loss) on ordinary activities before taxation	71,577	40,133	22,103	1,260	5,876
Retained profit/(loss) for the financial year	49,009	37,907	22,103	1,260	5,876
Fixed assets	541,407	216,587	205,322	167,560	133,352
Current assets	523,899	291,541	55,047	57,342	22,100
Creditors: amounts falling due within one year	(260,614)	(113,428)	(84,483)	(56,882)	(29,762)
Creditors: amounts falling due after more than one year	(48,600)	(76,289)	(108,315)	(127,069)	(88,497)
Provision for liabilities and charges	(28,388)	(1,920)	(1,854)	(1,463)	-
Net assets	727,704	316,491	65,717	39,488	37,193
Cash flow from operating activities	84,127	83,376	60,569	25,221	23,733
Return on investment and servicing of finance	10,703	1,737	(7,937)	(8,160)	(4,292)
Taxation	593	-	(541)	-	-
Capital expenditure	(3,392)	(29,027)	(36,339)	(38,973)	(64,732)
Acquisitions and disposals	(267,233)	-	-	996	(1,201)
Management of liquid resources and financing	286,708	159,261	(31,509)	37,112	45,141
Increase/(decrease) in cash in the year	110,747	215,347	(15,757)	16,196	(1,351)

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

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