easyJet Airline Company Limited

Annual Report and Accounts

For the year ended 30 September 2018

Registered Number 03034606

easyJet Airline Company Limited

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Review of the business

easyJet Airline Company Limited (the "Company") is incorporated in the United Kingdom and is the principal operating subsidiary of easyJet plc. The Company is an airline transport provider operating principally in Europe. easyJet plc and all of its subsidiaries form the easyJet group (the "Group"), and a full Strategic Report for the year may be found on pages 2 to 58 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2018.

easyJet is a low cost European point-to-point short-haul airline, carrying over 88 million passengers in the 2018 financial year on more than 950 routes across more than 30 countries.

easyJet has built one of Europe's leading short-haul airlines. Our network of primary airports, routes and slots, combined with a clear focus on making travel easy, enjoyable and affordable, enables us to provide a friendly, efficient service with low fares for our customers. This year we have made considerable investments in our business. We have further strengthened our network, including through the acquisition of part of Air Berlin's operations at Berlin Tegel airport, and continued to invest in projects to deliver customer benefits and cost savings and reinforced the statement of financial position. This will enable us to target long-term earnings growth and drive long-term value to our shareholders. Our sustainable business model makes it easy, enjoyable and affordable to travel again and again, and drives growth and returns for our shareholders.

In 2018 easyJet launched a renewed and refreshed strategic framework, which is now called 'Our Plan'. This plan includes 'Our Purpose': Seamlessly connecting Europe with the warmest welcome in the sky.

'Our Promise' to ourselves is that we will be:

- safe and responsible;
- on our customers' side;
- in it together;
- always efficient; and
- forward thinking.

We will focus on 'Our Priorities':

- number one or two in primary airports;
- winning our customers' loyalty;
- value by efficiency;
- the right people; and
- innovating with data.

The Group delivered a strong financial performance this year, with industry-wide disruption being more than offset by record revenues. The Group grew passenger numbers to a record 88.5 million (2017: 80.2 million) and load factor also increased to a record 92.9% (2017: 92.6%). Total Group revenue increased by 16.8% to £5,898 million (2017: £5,047 million), which equated to £61.94 per seat (2017: £58.23), an increase of 6.4%, and headline profit before tax of £578 million increased by £170 million from the year ended 30 September 2017. The headline measure is explained in note 5 to the accounts and pages 132 to 133 of easyJet plc's published Annual Report and Accounts.

The Group's headline cost per seat increased by 4.4% to £55.87 (2017: £53.52), driven by exchange rates, underlying cost inflation and the cost of disruption, which remains a major industry challenge. Headline cost per seat at constant currency increased by 2.7% to £54.97 (2017: £53.52). Headline cost per seat excluding fuel increased by 5.3% to £43.43 (2017: £41.27), and by 4.8% at constant currency. Total cost per seat, including the impact of non-headline items, was £57.26 (2017: £53.78).

The Group increased its net assets to £3,259 million at 30 September 2018 (2017: £2,802 million). The Group holds cash and cash equivalents and money market deposits totalling £1,369 million excluding restricted cash (2017: £1,327 million). The Group has retained a sector-leading credit rating (Standard & Poor's: BBB+ stable; Moody's: Baa1 stable).

The Group's headline ROCE was 14.4% (2017: 11.9%) and the Group's dividend payout ratio remained at 50% of headline profit after tax, delivering a proposed ordinary dividend per share of 58.6 pence (2017: 40.9 pence).

Key performance indicators

The Group uses a range of both financial and non-financial key performance indicators, as described on pages 28 to 29 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2018. The Group is managed as a single entity and accordingly key performance indicators are monitored at Group level, rather than on an individual entity basis.

Principal risks and uncertainties

The Group is affected by a number of principal risks and uncertainties as described on pages 39 to 48 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2018. From the perspective of the Company, the principal risks and uncertainties are integrated with principal risks and uncertainties of the Group and are not managed separately.

Strategic report (continued)

Results and dividends

The Company's profit after tax for the year was £316 million (2017: £242 million) which has been transferred to reserves. Net assets increased from £1,587 million at 30 September 2017 to £2,012 million at 30 September 2018. During the year the Company declared an in-specie dividend of £162 million (2017: £214 million) to its immediate parent company, easyJet plc, settled by the cancellation by the sole member of the Company of part of a debt owed to the Company.

During the year, the Company incurred a number of material non-recurring items or items which are not considered to be reflective of the trading performance of the business. These items include a one-off £65 million charge in relation to a change in approach to technology development for easyJet's commercial IT platform; an £11 million loss on disposal and an £8 million maintenance provision catch up, both one-off charges as a result of the sale and leaseback of ten A319 aircraft in October to November 2017, arising due to the age of the selected aircraft and maintenance provision accounting; a £1 million one-off charge associated with implementing an organisational review; and a £3 million charge in relation to establishing a multi-Air Operator Certificate ("AOC") post-Brexit structure, which includes the set-up of a European AOC, based in Austria, and a new UK AOC.

On behalf of the board

Andrew Findlay
Director
22 January 2019

Hangar 89
London Luton Airport
Luton
Bedfordshire
LU2 9PF

Registered Number 03034606

easyJet Airline Company Limited

Reports of the Directors for the year ended 30 September 2018

Directors' report

The Directors present the Strategic report on pages 3 and 4, the Directors' report on pages 5 to 7, the Statement of Directors' responsibilities on page 8 and the audited accounts for the year ended 30 September 2018. Further details of the Company can be found in note 1 to the financial statements.

Results and dividends

The Company's profit after tax for the year was £316 million (2017: £242 million) which has been transferred to reserves. During the year the Company declared an in-specie dividend of £162 million (2017: £214 million) to its immediate parent company, easyJet plc, settled by the cancellation by the sole member of the Company of part of a debt owed to the Company. No further dividends were proposed or paid during the year.

Future developments

Details of future developments in the business of the Company can be found on page 21 of easyJet plc's published Annual report and accounts for the year ended 30 September 2018, and within the Strategic report on pages 3 and 4.

Directors

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

Margaret Christine Browne OBE

Andrew Findlay

Robert Carey (appointed 3 October 2017)

Johan Lundgren (appointed 1 December 2017)

Carolyn McCall DBE (resigned 30 November 2017)

Jacqueline Simmonds (resigned 31 December 2017)

Peter Duffy (resigned 25 January 2018)

Christopher Brocklesby (resigned 15 June 2018)

Paul Moore (resigned 15 June 2018)

Kyla Mullins (resigned 24 July 2018)

Employees

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

The Company treats applicants with disabilities equally and supports current employees who become disabled. This includes offering flexibility and making reasonable adjustments to the workplace to ensure they can achieve their full potential. However, for easyJet's two largest communities, pilots and cabin crew, there are a range of regulatory requirements on health and physical ability which all applicants and current employees must comply with.

It is understood that good communication within the business is vital, especially one that has such an extensive staff base. The Company ensures that key issues and matters are discussed with employees so that it can react quickly and ensure that everyone remains engaged. The Company works with employee representatives and recognises a number of trade unions.

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

Further details are contained in the published Annual Report and Accounts of easyJet plc for the year ended 30 September 2018.

Political donations and expenditure

The Company works constructively with all levels of government across its network, regardless of political affiliation. easyJet believes in the rights of individuals to engage in the democratic process, however it is the Company's policy not to make political donations.

There were no political donations made or political expenditure incurred during the 2018 financial year (2017: £nil).

Principal subsidiaries and overseas branches

Information in respect of the Company's subsidiaries is given in note 9 to the accounts. The Company also operates a number of branches across Europe in relation to employment matters and one branch performing self-handling.

Directors' indemnities

Details of directors' indemnities can be found on page 107 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2018.

Financial risk management

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

The Company is exposed the same financial risks as the easyJet Group and follows easyJet Group financial risk and capital management objectives and policies, which are disclosed on pages 145 to 147 of note 23 to the easyJet plc Annual Report and Accounts 2018.

Going concern

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

The Company holds cash and cash equivalents and money market deposits totalling £1,369 million as at 30 September 2018 (2017: £1,327 million). Total debt of £98 million (2017: £101 million) is free from financial covenants, with £9 million due for repayment in the year to 30 September 2019.

Net current liabilities at 30 September 2018 were £1,844 million (2017: £1,668 million) but included unearned revenue (payments made by customers for flights scheduled post year end) of £877 million (2017: £727 million).

The business is exposed to fluctuations in fuel prices and US dollar and Euro exchange rates. The Group's policy is to hedge between 65% and 85% of estimated exposures 12 months in advance, and 45% and 65% of estimated exposures from 13 up to 24 months in advance. Specific decisions may require consideration of a longer-term approach. Treasury strategies and actions will be driven by the need to meet treasury, financial and corporate objectives. The Group was compliant with this policy at the date of the 2018 Annual Report and Accounts.

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

Directors' report (continued)

Important events affecting the Company since 30 September 2018

The Company purchased four A319 aircraft across December 2018 and January 2019 from fellow subsidiary, easyJet Leasing Limited, and three from fellow subsidiary easyJet Sterling Limited.

The Company completed a sale and leaseback of 10 A319 aircraft in January 2019, which has generated £120 million in cash.

Statement of disclosure of information to auditors

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

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

Independent Auditors

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

On behalf of the Board

Andrew Findlay
Director
22 January 2019

Hangar 89
London Luton Airport
Luton
Bedfordshire
LU2 9PF

Registered Number 03034606

easyJet Airline Company Limited

Reports of the Directors for the year ended 30 September 2018

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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 also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Andrew Findlay
Director

Independent auditors' report to the members of easyJet Airline Company Limited

Report on the audit of the financial statements

Opinion

In our opinion, easyJet Airline Company Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2018 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the statement of financial position as at 30 September 2018; the income statement, the statement of comprehensive income, the statement of cash flows, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Andrew Kemp

Andrew Kemp (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
St Albans
22 January 2019

easyJet Airline Company Limited

Income statement

For the year ended 30 September 2018

	Note	2018 £ million	2017 £ million
Passenger revenue	1	**4,688**	4,061
Ancillary revenue	1	**1,210**	986
Other revenue		**336**	75
Total revenue	26	**6,234**	5,122
Fuel		**(1,184)**	(1,062)
Airports and ground handling		**(1,649)**	(1,465)
Crew		**(746)**	(650)
Navigation		**(400)**	(381)
Maintenance		**(244)**	(306)
Selling and marketing		**(142)**	(122)
Other costs		**(979)**	(410)
EBITDAR		**890**	726
Aircraft dry leasing		**(268)**	(261)
Depreciation	8	**(167)**	(143)
Amortisation of intangible assets	7	**(15)**	(14)
Operating profit		**440**	308
Interest receivable and other financing income		**15**	32
Interest payable and other financing charges		**(61)**	(33)
Net finance charge	2	**(46)**	(1)
Profit before tax	3	**394**	307
Tax charge	5	**(78)**	(65)
Profit for the year		**316**	242

easyJet Airline Company Limited

Statement of comprehensive income

For the year ended 30 September 2018

	Note	2018 £ million	2017 £ million
Profit for the year		**316**	242
Other comprehensive income/(expense)			
Cash flow hedges			
Fair value gains in the year		**522**	38
Amounts recycled to income statement		**(186)**	91
Gains transferred to property, plant and equipment		**(19)**	(107)
Related tax charge	5	**(60)**	(4)
Total other comprehensive income		**257**	18
Total comprehensive income for the year		**573**	260

For capital expenditure cash flow hedges, the accumulated gains and losses recognised in other comprehensive income will be reclassified to the initial carrying amount of the asset acquired, within property, plant and equipment. All other items in other comprehensive income will be reclassified to the income statement.

Losses/(gains) on cash flow hedges reclassified from other comprehensive income in income statement captions are as follows:

	2018 £ million	2017 £ million
Revenue	**32**	83
Fuel	**(207)**	36
Maintenance	**(2)**	(11)
Aircraft dry leasing	**(3)**	(15)
Other costs	**(6)**	(2)
	(186)	91

easyJet Airline Company Limited

Statement of financial position

As at 30 September 2018

	Note	2018 £ million	2017 £ million
Non-current assets			
Goodwill	7	**367**	367
Other intangible assets	7	**181**	179
Property, plant and equipment	8	**3,807**	3,115
Investments in subsidiaries	9	**1**	1
Derivative financial instruments	21	**175**	94
Restricted cash	12	**11**	7
Other non-current assets	10	**122**	75
		4,664	3,838
Current assets			
Trade and other receivables	11	**404**	271
Derivative financial instruments	21	**220**	131
Money market deposits	12	**348**	617
Current tax assets		**16**	-
Cash and cash equivalents	12	**1,021**	710
		2,009	1,729
Current liabilities			
Trade and other payables	13	**(2,826)**	(2,451)
Unearned revenue		**(877)**	(727)
Borrowings	14	**(9)**	(8)
Derivative financial instruments	21	**(23)**	(82)
Current tax payable		**-**	(25)
Provisions for liabilities and charges	16	**(118)**	(104)
		(3,853)	(3,397)
Net current liabilities		**(1,844)**	(1,668)
Non-current liabilities			
Borrowings	14	**(89)**	(93)
Derivative financial instruments	21	**(7)**	(51)
Derivative financial instruments with group undertakings	21	**(64)**	(54)
Non-current deferred income	15	**(17)**	(25)
Provisions for liabilities and charges	16	**(335)**	(183)
Deferred tax	5	**(296)**	(177)
		(808)	(583)
Net assets		**2,012**	1,587
Shareholders' equity			
Share capital	17	**765**	765
Hedging reserve		**299**	42
Translation reserve		**1**	1
Retained earnings		**947**	779
Total equity		**2,012**	1,587

The accounts on pages 11 to 44 were approved by the Board of Directors and authorised for issue on 22 January 2019 and signed on behalf of the Board.

Andrew Findlay Director

easyJet Airline Company Limited

Statement of changes in equity

For the year ended 30 September 2018

	Share capital £ million	Hedging reserve £ million	Translation reserve £ million	Retained earnings £ million	Total equity £ million
At 1 October 2017	765	42	1	779	1,587
Profit for the year	-	-	-	316	316
Other comprehensive income	-	257	-	-	257
Dividends (note 6)	-	-	-	(162)	(162)
Share incentive schemes					
Value of employee services	-	-	-	14	14
At 30 September 2018	765	299	1	947	2,012

	Share capital £ million	Hedging reserve £ million	Translation reserve £ million	Retained earnings £ million	Total equity £ million
At 1 October 2016	765	24	1	741	1,531
Profit for the year	-	-	-	242	242
Other comprehensive income	-	18	-	-	18
Dividends (note 6)	-	-	-	(214)	(214)
Share incentive schemes					
Value of employee services	-	-	-	10	10
At 30 September 2017	765	42	1	779	1,587

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

easyJet Airline Company Limited

Statement of cash flows

For the year ending 30 September 2018

	Note	2018 £ million	2017 £ million
Cash flows from operating activities			
Cash generated from operations	19	**1,071**	1,089
Interest and other financing charges paid		**(21)**	(9)
Interest and other financing income received		**9**	9
Tax paid		**(73)**	(26)
Net cash generated from operating activities		**986**	1,063
Cash flows from investing activities			
Purchase of property, plant and equipment	8	**(977)**	(644)
Purchase of intangible assets	7	**(81)**	(44)
Net decrease/(increase) in money market deposits	20	**270**	(363)
Net proceeds from sale and operating leaseback of aircraft		**107**	113
Net cash used by investing activities		**(681)**	(938)
Cash flows from financing activities			
Repayment of bank loans		**-**	(125)
Repayment of capital elements of finance leases	20	**(6)**	(7)
Net increase in restricted cash		**(4)**	-
Net cash used by from financing activities		**(10)**	(132)
Effect of exchange rate changes		**16**	4
Net increase/(decrease) in cash and cash equivalents		**311**	(3)
Cash and cash equivalents at beginning of year		**710**	713
Cash and cash equivalents at end of year	12	**1,021**	710

easyJet Airline Company Limited

Notes to the accounts

1 Accounting policies, judgements and estimates

Statement of compliance

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

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

Basis of preparation

The financial statements for the year ended 30 September 2018 are prepared based on the historical cost convention except for certain financial assets and liabilities including derivative financial instruments that are measured at fair value. The accounting policies set out below have been applied consistently to all years presented in these accounts.

easyJet's business activities, together with factors likely to affect its future development and performance, are described on pages 1 and 2 and on pages 2 to 58 of the easyJet plc Annual Report and Accounts for the year ended 30 September 2018. Note 23 to easyJet plc's Annual Report and Accounts sets out the Company's objectives, policies and procedures for managing its capital and gives details of the risks related to financial instruments held by the Company.

The accounts have been prepared on the going concern basis. Details on going concern are provided on page 4. The Company is not required, under S400 of the Companies Act 2006, to prepare consolidated accounts and has not elected to do so.

The use of critical accounting estimates and management judgement is required in applying the accounting policies. Areas involving a higher degree of judgement or complexity, or where assumptions or estimates are significant to the financial statements, are highlighted on pages 21 to 22.

Significant Accounting policies

The significant accounting policies applied are summarised below. They have been applied consistently to both years presented. The explanations of these policies focus on areas where judgement is applied or which are particularly significant in the financial statements.

Foreign currencies

The accounts of the Company are presented in Sterling, rounded to the nearest £million, which is the Company's functional currency. The Company's functional currency has been determined by reference to the primary economic environment in which it operates.

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

Revenue recognition

The income statement has been re-presented in the current year to show passenger revenue and ancillary revenue. In the 2017 financial year, easyJet categorised total revenue earned on the face of the income statement between seat revenue (2017: £4,958 million), non-seat revenue (2017: £89 million) and operating lease revenue (£75 million). From 1 October 2017, total revenue is categorised between passenger revenue, ancillary revenue and operating lease revenue. This change provides greater transparency of the ancillary element of revenue and brings easyJet in line with other airlines.

Passenger revenue arises from the sale of flight seats and administration fees. Passenger revenue is recognised when the service is provided. This is generally when the flight takes place, apart from in the case of administration fees which are contractually non-refundable, so are recognised at the time of booking.

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

Ancillary revenue includes revenue from the provision of checked baggage, allocated seating and change fees, as well as revenue arising from commissions earned from services sold on behalf of partners and inflight sales. Ancillary revenue is recognised when the service is provided, which is generally when the related flight takes place, with the following exceptions:

- change fees as the service provided is that of allowing customers to change bookings; and

1 Accounting policies, judgements and estimates (continued)

- in the case of commission earned from travel insurance, revenue is recognised at the time of booking as easyJet acts solely as appointed representative of the insurance company.

Unearned revenue represents flight seats, including the provision of checked baggage and allocated seating, sold but not yet flown and is held in the statement of financial position until it is realised in the income statement when the service is provided.

Other revenue

Other revenue represents amounts recognised from the leasing of aircraft and the provision of management activities to other easyJet entities. Lease income is recognised on a straight line basis over the lease term.

Other costs

Recharges are made to the Company by fellow group subsidiaries for the provision of seat capacity. These recharges are measured at the fair value of the consideration paid and recognised in accordance with the contractual arrangements in place.

Business combinations

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

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

Goodwill and other intangible assets

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

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

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

	Expected useful life
Computer software	3-7 years

Property, plant and equipment

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

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

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

Residual values, where applicable, are reviewed annually against prevailing market rates at the end of the reporting period for equivalently aged assets and depreciation rates are adjusted accordingly on a prospective basis. The carrying value is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. For aircraft, easyJet is dependent on Airbus as its sole supplier. This gives rise to a valuation risk which crystallises when aircraft exit the fleet, where easyJet is reliant on the future demand for second-hand aircraft.

Property, plant and equipment (cont.)

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

Pre-delivery and option payments made in respect of aircraft are recorded in property, plant and equipment at cost. These amounts are not depreciated. Interest attributed to pre-delivery and option payments made in respect of aircraft and other qualifying assets under construction are capitalised and added to the cost of the asset concerned.

Gains and losses on disposals (other than aircraft sale and leaseback transactions) are determined by comparing the net proceeds with the carrying amount and are recognised in the income statement.

Other non-current assets

Payments for aircraft and engine maintenance, as stipulated in the respective operating lease agreements, have historically been made to some lessors as security for the performance of future heavy maintenance works. The payments are recorded within current and non-current assets (as applicable) as receivables from the lessors until the respective maintenance event occurs and the reimbursement with the lessor is finalised. Any payment that is not expected to be reimbursed by the lessor is recognised immediately within operating expenses in the income statement.

Impairment of non-current assets

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

Leases

The Company enters into sale and leaseback transactions whereby it sells either new or mid-life aircraft to a third party and immediately leases them back. Where sale proceeds received are judged to reflect the aircraft's fair value, any gain or loss arising on disposal is recognised immediately in the income statement. Where sale proceeds received are above the aircraft's fair value, any surplus arising is deferred within non-current liabilities, and amortised in the income statement on a straight-line basis over the expected lease term. Where sale proceeds are below fair value, any profit or loss is recognised immediately except that, if the loss is compensated for by future lease payments at below market price, the shortfall is deferred within non-current assets and amortised in proportion to the lease payments over the period for which the asset is expected to be used.

In some operating sale and leaseback arrangements, receipt of part of the proceeds is deferred until the end of the lease, the amount of which is recorded as deferred consideration within non-current or current assets as appropriate.

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

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

Lessor contribution

Lessor maintenance contribution assets arise when to compensate easyJet for the delivery of a mid-life aircraft, a lessor has agreed to make a contribution to easyJet's maintenance costs to reflect the cycles already flown by the aircraft at the point it is delivered to easyJet. Depending on the contract terms, payment will be made either at the maintenance event date or at the lease return date.

Financial instruments

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

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

1 Accounting policies, judgements and estimates (continued)

Non-derivative financial assets

Non-derivative financial assets are recorded at amortised cost and include trade receivables, cash and money market deposits.

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

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

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

Non-derivative financial liabilities

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

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

Derivative financial instruments and hedging activities

The Company uses foreign currency forward exchange contracts to hedge foreign currency risks on transactions denominated in US dollars, Euros, Swiss francs and South African rand. These transactions primarily affect revenue, fuel and aircraft dry leasing costs, and the carrying value of owned aircraft. The Company also uses cross currency interest rate swaps to hedge currency and interest rate risk on certain borrowings, and jet fuel forward contracts to hedge fuel price risks.

Derivative financial instruments are measured at fair value. Hedge accounting is applied to those derivative financial instruments that are designated as cash flow hedges or fair value hedges.

Derivative financial instruments with parent undertakings are classed as non-current to better reflect their estimated maturity.

Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair values of the hedged assets or liabilities that are attributable to the hedged risk.

Cash flow hedges

Gains and losses arising from changes in the fair value of forward contracts are recognised in other comprehensive income and deferred in the hedging reserve to the extent that the hedges are determined to be effective. All other changes in fair value are recognised immediately in the income statement.

When the hedged forecast transaction relates to an item of property, plant and equipment, the relevant accumulated gains and losses are transferred from the hedging reserve and included in the initial carrying amount of that purchased asset. Otherwise they are recognised in the income statement in the same period in which the hedged transaction affects the income statement.

In the event that a hedged forecast transaction is no longer considered highly probable, any related gains and losses are immediately transferred from the hedging reserve and recognised in the income statement.

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

Financial guarantees

If a claim on a financial guarantee given to a third party becomes probable, the obligation is measured at the best estimate of that outflow.

1 Accounting policies, judgements and estimates (continued)

Tax

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the periods in which recovery of assets and settlement of liabilities are expected to take place, based on tax rates or laws enacted or substantively enacted at the date of the statement of financial position.

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

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

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

Aircraft maintenance provisions

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

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

Where an aircraft is sold and leased back, other than when first delivered to the Company, a maintenance catch up liability resulting from past flying activity arises at the point the lease agreement is signed and a corresponding maintenance catch up charge is recognised immediately in the income statement.

A number of leases also require the Company to pay recoverable supplemental rent to the lessor. The purpose of these payments is to provide the lessor with collateral should an aircraft be returned in a condition that does not meet the requirements of the lease. This recoverable supplemental rent is included in trade and other receivables within current assets and other non-current assets, as applicable, and is refunded when qualifying heavy maintenance is performed, or is offset against the costs incurred at the end of the lease.

Provisions for customer claims

Provisions are recognised when a present legal or constructive obligation arises as a result of a past event, it is probable that the Company will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Amounts provided for represent the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account all related risks and uncertainties.

Provision is made for passenger compensation claims when the Company has an obligation to recompense customers under Flight Compensation Regulation 261/2004. Provisions are measured based on known eligible events, passengers impacted and historical claim rates.

1 Accounting policies, judgements and estimates (continued)

Employee benefits

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

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

Share capital and dividend distribution

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.
Dividend distributions to the Company's shareholders are recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

Share-based payments

easyJet plc has a number of equity-settled share incentive schemes, that are available to the employees of the Company. The fair value of share options granted under the Save As You Earn scheme is measured at the date of grant using the Binomial Lattice option pricing model. The fair value of grants under the Long Term Incentive Plan is measured at the date of grant using the Black-Scholes model for awards based on ROCE performance targets, and the Stochastic model (also known as the Monte Carlo model) for awards based on TSR performance targets. The fair value of all other awards is the share price at the date of grant.

The fair value of the estimated number of options and awards that are expected to vest is expensed to the income statement on a straight-line basis over the period that employees' services are rendered, with a corresponding increase in shareholders' equity. Where non-market performance criteria (such as ROCE) attached to the share options and awards are not met, any cumulative expense previously recognised is reversed. For awards with market-related performance criteria (such as TSR), an expense is recognised irrespective of whether the market condition is satisfied.

The social security obligations payable in connection with grant of the share options are an integral part of the grant itself and the charge is treated as a cash-settled transaction, with movements in the accrual being recognised directly in the income statement.

Segmental disclosures

The Company has one operating segment, being its route network, based on management information provided to the Airline Management Board, which is the Company's chief operating decision maker. Resource allocation decisions are made for the benefit of the route network as a whole, rather than for individual routes within the network. Performance of the network is assessed based on the consolidated profit or loss before tax for the year.

Revenue is allocated to geographic segments on the following bases:

- revenue earned from passengers is allocated according to the location of the first departure airport on each booking;
- commission revenue earned from partners is allocated according to the domicile of each partner; and
- operating lease revenue is allocated according to the geographical location of the Airline Operator Certificate (AOC).

Critical accounting judgements and estimates

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

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised and presented in the financial statements.

easyJet Airline Company Limited

Notes to the accounts

1 Accounting policies, judgements and estimates (continued)

Classification of operating and financing leases (Notes 8 and 23)

Management exercises judgement in determining the classification of leases as either finance or operating leases in nature at inception of the lease. Management considers the likelihood of exercising break clauses or extension options in determining the lease term. Where the lease term constitutes substantially all of the economic life of the asset, or where the present value of minimum lease payments amount to substantially all of the fair value of the aircraft, the lease is classified as a finance lease. All other leases are classified as operating leases.

The following three critical accounting estimates involve a higher degree of judgement or complexity, or are areas where assumptions are significant to the financial statements. The accounting estimates concerned are not major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next year.

Aircraft maintenance provisions – £392 million (Note 16)

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

A charge is made in the income statement, based on hours or cycles flown, to provide for the cost of these obligations. The most critical estimates required are considered to be the utilisation of the aircraft, the expected costs of the heavy maintenance checks at the time which they are expected to occur, the condition of the aircraft, the lifespan of life-limited parts and the rate used to discount the provision.

The bases of all estimates are reviewed annually, and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or changes in the cost of heavy maintenance services. No reasonable combination of changes to these estimates would result in a material movement to the carrying value of the provision.

Provisions for customer claims – £61 million (Note 16)

easyJet incurs liabilities for amounts payable to customers who make claims in respect of flight delays, refunds of air passenger duty or similar charges and welfare costs. Estimates include passenger claim rates, the value of claims made and the period of time over which claims will be made. The bases of all estimates are reviewed at least annually and also when information becomes available that is capable of causing a material change to the estimate. No reasonable combination of changes to these estimates would result in a material movement to the carrying value of the provision.

Goodwill and landing rights – £496 million (Note 7)

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

The value in use of the cash-generating unit is determined by discounting future cash flows to their present value. When applying this method, easyJet relies on a number of key estimates including its ability to meet its strategic plans, future fuel prices and exchange rates, long-term economic growth rates for the principal countries in which it operates, and its pre-tax weighted average cost of capital. Both fuel price and exchange rates are volatile in nature, and the assumptions used are sensitive to significant changes in these rates.

1 Accounting policies, judgements and estimates (continued)

New and revised standards and interpretations not applied

There were no new standards or interpretations/amendments to standards applied during the year ended 30 September 2018 which impacted the financial statements.

The following new or revised standards and interpretations issued by the International Accounting Standards Board (IASB) have not been applied in preparing these accounts as their effective dates fall in periods beginning on or after 1 October 2018 (and in some cases have not been endorsed by the EU).

IFRS 15 'Revenue from Contracts with Customers' – effective for the year ending 30 September 2019

easyJet will adopt IFRS 15 on 1 October 2018 applying the cumulative catch-up transition method. Under the cumulative catch up method the comparative information will not be restated, but the retrospective cumulative impact of IFRS 15 will be recognised within the opening balance of retained earnings as at 1 October 2018.

The standard provides a single model for measuring and recognising revenue arising from contracts with customers. It supersedes all existing revenue requirements in IFRS. Under IFRS 15, revenue is recognised when customers obtain control of goods or services and so are able to direct the use, and obtain the benefits, of those goods or services.

easyJet has reviewed all revenue streams as part of its IFRS 15 impact assessment and has identified two principal areas which will be impacted on adoption of IFRS 15:

- Revenue recognition from certain revenue streams, principally administration and change fees, will be recognised on the date of flight rather than the date of booking. This change is expected to result in a higher proportion of annual revenues being recognised in the second half of the financial year. The anticipated full year impact of this change is expected to be immaterial.
- Some of the compensation payments made to customers (in respect of flight delays), previously recorded wholly within expenses, will be offset against revenues recognised, with the excess compensation continuing to be recorded within expenses. This presentational change will have no impact on the overall profit for the year.

The cumulative impact of these changes as at 1 October 2018 will result in a one-off increase to unearned revenues being recognised (in respect of bookings made in the year ended 30 September 2018, for flights in the following financial year). Under current accounting standards, these revenues are recognised in the Income Statement in the year ended 30 September 2018 (on a booked basis); on adoption of IFRS 15 these fees will be deferred in the statement of financial position, with a charge recognised in retained earnings, until the date of the flight at which point the revenues will be recognised again. The expected impact as at 1 October 2018 is a charge to retained earnings of approximately £70 million, with a corresponding increase in unearned revenue of approximately £85 million and an increase in current tax asset of approximately £15 million.

IFRS 9 'Financial Instruments' – effective for the year ending 30 September 2019

easyJet will adopt IFRS 9 on 1 October 2018 applying the standard prospectively with no retrospective adjustments required.

The standard removes the multiple classification and measurement models for financial assets required by IAS 39 and instead introduces a model that has three classification categories: amortised cost; fair value through the Income Statement and fair value through Other Comprehensive Income. Classification of a debt asset instrument is driven by its cash flow characteristics and the business model in which the asset is held. Accounting for financial liabilities and for derecognising financial instruments under IFRS 9 is materially consistent with that required by IAS 39.

IFRS 9 adds new requirements to address the impairment of financial assets and hedge accounting though this is expected to have an immaterial impact. Existing hedging activities will not materially change on adoption of the standard.

easyJet anticipates some changes to the Classification and measurement of its financial instruments, though it is expected that this will not materially impact the financial statements due to the stable nature of these investments. Similarly, easyJet does not expect any material impact from the changes to hedge accounting or impairment due to the high credit quality of counterparties easyJet faces.

IFRS 16 'Leases' – effective for the year ending 30 September 2020

easyJet will early adopt IFRS 16 on 1 October 2018, bringing the timing of adoption in line with that of IFRS 9 and IFRS 15.

easyJet will apply the cumulative catch-up ("modified") transition method. Under the cumulative catch-up method the comparative information will not be restated, but the retrospective cumulative impact of IFRS 16 will be recognised within the opening balance of retained earnings as at 1 October 2018.

easyJet has elected to use the following practical expedients proposed by the standard:

- On initial application, the application of a single discount rate to a portfolio of leases with reasonably similar characteristics.

- On initial application, the use of hindsight when determining the lease term if the contract contains options to extend or terminate the lease.
- On initial application, the exclusion of initial direct costs from the measurement of the right of use asset.
- Lease payments for contracts with a duration of 12 months or less and contracts for which the underlying asset is of a low value will continue to be expensed to the income statement on a straight-line basis over the lease term.

The standard provides a single lessee accounting model, specifying how leases are recognised, measured, presented and disclosed. The main expected impacts of adopting IFRS 16 have been disclosed below.

Capitalisation of lease contracts

Under IFRS 16, easyJet will capitalise the right of use of all aircraft and properties currently held under operating leases. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain of exercising extension options contractually foreseen. easyJet will recognise a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. Operating lease expenses will be replaced by a depreciation expense on right-of-use assets recognised and an interest expense as the interest rate implicit in easyJet's lease liabilities unwinds. When the interest rate implicit in the lease cannot be readily determined the easyJet's incremental borrowing rate will be used as an alternative.

Accounting for the maintenance of leased aircraft

easyJet has contractual obligations to maintain aircraft currently held under operating leases. Currently, provisions are created over the term of the lease based on the estimated future costs of major airframe checks, engine shop visits and end of lease liabilities. These costs are discounted to present value with the corresponding Income Statement charge recognised within maintenance costs. The unwinding of the discount is recognised within interest costs.

Under IFRS 16, contractual maintenance obligations which are not dependent on the use of the aircraft will be recognised in full on commencement of the lease. They will be capitalised to the right-of-use asset at the inception of the lease and depreciated over the lease term.

Contractual maintenance obligations which are dependent on the use of the aircraft will continue to be provided for over the term of the lease based on the estimate future costs, discounted to present value. However they will be capitalised to the right-of-use asset rather than recognised within maintenance costs in the income statement. This asset will be depreciated immediately as the obligation has arisen as a result of flying hours already undertaken.

Where an aircraft is sold and leased back, other than when first delivered to easyJet, a maintenance catch-up liability resulting from past flying activity arises at the point the lease agreement is signed and a corresponding maintenance provision catch-up is currently recognised immediately in the income statement. Under IFRS 16 this maintenance provision catch-up will be capitalised to the right-of-use asset at the inception of the lease and depreciated over the lease term.

These changes will result in a decrease in maintenance costs and an increase in depreciation expense.

On adoption of IFRS 16 on 1 October 2018, the Company anticipates recognising approximately £860 million of lease liabilities, approximately £700 million of Right of Use Assets, an increase in maintenance provisions of approximately £20 million, a £19 million derecognition of the net surplus on historical sale and leaseback transactions capitalised on the balance sheet, and a corresponding decrease in equity of approximately £155 million. These figures do not include the tax impact which is under finalisation. Annual operating lease expenses and maintenance charges, which would have been recognised under existing accounting standards, will be replaced by anticipated similar levels of depreciation and interest expense such that no material impact on profit before tax is expected in the year of transition.

The impact in the year of transition is based on expected right of use asset usage, expected lease contractual terms and assumes a USD/GBP foreign exchange rate of 1.35/1 throughout year.

IFRS 16 'Leases' – effective for the year ending 30 September 2020

Retained earnings are expected to decrease slightly on adoption of IFRS 16, reflecting the difference in carrying value between Right of Use assets and Lease Liabilities initially recognised.

Key assumptions used to calculate the impacts outlined above:

- easyJet anticipates the continuation of its aircraft sale and leaseback programme prior to the date of transition;
- a USD/GBP foreign exchange rate of 1.27/1 at the date of initial application and throughout year of initial application; and
- based on current aircraft financing incremental borrowing rate estimates, calculations at the date of initial application use a discount rate of 2 per cent.

Effective for the year ending 30 September 2019

IFRS 2 'Share-based Payment' – Amendments relating to classification and measurement

Effective for the year ending 30 September 2019 (not yet EU endorsed)

IFRIC 22 'Foreign Currency Transactions and Advance Consideration' – Clarifying the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency

IAS 28 'Investments in Associates and Joint Ventures' – Amendments regarding measuring investments in associates or joint ventures at fair value through profit and loss (FVTPL)

2 Net finance charge

	2018 £ million	2017 £ million
Interest receivable and other financing income		
External interest income	(12)	(6)
Dividend income	(3)	(2)
Net exchange gains on monetary assets and liabilities	-	(24)
	(15)	(32)
Interest payable and other financing charges		
Interest payable to fellow group undertakings	32	20
Interest payable on bank loans	1	1
Interest payable on finance lease obligations	4	5
Other interest payable	9	7
Net exchange losses on monetary assets and liabilities	15	-
	61	33
Net finance charge	46	1

Of the £32 million of interest payable to fellow group undertakings above, £29 million (2017: £20 million) is owed to the parent entity.

3 Profit before tax

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

	2018 £ million	2017 £ million
Depreciation of property, plant and equipment		
Owned assets	163	139
Assets held under finance leases	4	4
Loss on disposal of intangibles	4	4
Commercial IT platform charge	65	-
Loss on sale and leaseback	11	8
Operating lease rentals		
Aircraft - dry leases	268	261
Other assets	7	6

Wet leased aircraft rentals of £56 million (2017: £14 million) are recognised within other costs. Wet leases are fundamentally different to regular, long-term operating and finance lease commitments as they are short-term in nature (with terms of less than one year) and they relate to the provision of aircraft, crew, maintenance and insurance ('ACMI').

During the year, easyJet made the decision to change its approach to technology development for its commercial IT platform, through better utilisation and development of existing systems on a modular basis, rather than working towards a full replacement of its core commercial platform. As a result of this change in approach, a one-off charge of £60 million (2017: £nil) was required to write down IT assets under development, previously held in computer software, which will no longer be utilised by the business. The total charge includes £5 million in relation to associated commitments.

Auditors' remuneration

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

	2018 £ million	2017 £ million
Company audit fee	0.3	0.3
Fees for audit of the Company's associates	0.1	0.1
	0.4	0.4

In addition the Company incurred assurance-related non-audit service fees of £45,500 from its auditors (2017: £32,000).

easyJet Airline Company Limited

Notes to the accounts

4 Employees

Average monthly number of persons employed	2018 Number	2017 Number
Flight and ground operations	**11,440**	10,061
Sales, marketing and administration	**699**	712
	12,139	10,773

Employee costs	2018 £ million	2017 £ million
Wages and salaries	**604**	509
Social security costs	**83**	70
Other pension costs	**66**	53
Share-based payments	**17**	12
	770	644

Key management compensation	2018 £ million	2017 £ million
Short-term employee benefits	**8**	6
Share-based payments	**2**	-
Termination payments	**2**	1
	12	7

Share-based payment charges arising during the year in respect of grants to key management personnel are offset by credits recognised on certain forfeitures arising from bad leavers and from downward revisions to some Long Term Incentive Plan (LTIP) forecast vesting percentages.

Directors' emoluments	2018 £ million	2017 £ million
Remuneration	**6**	6
	6	6

The members of the Airline Management Board (easyJet's executive management team) are key management as they have collective authority and responsibility for planning, directing and controlling the business. One member of the Airline Management Board is employed by easyJet Switzerland so is excluded from the table above. All of the Directors are members of the Airline Management Board.

As at 30 September 2018 the Company had four Directors (2017: nine).

Two (2017: two) Directors receive a taxable payment in lieu of employer pension contributions. All other Directors accrue retirement benefits under the easyJet Group defined contribution pension scheme.

Four (2017: three) Directors exercised shares in the parent company during the year and ten (2017: nine) Directors received shares relating to the long term service plans.

The highest paid Director received remuneration totalling £1.5 million (2017: £1.0 million). The highest paid Director exercised 6,882 shares in the parent company during the year (2017: 28,947 shares) and received shares relating to long term service plans.

easyJet Airline Company Limited

Notes to the accounts

5 Tax charge

Tax on profit:

	2018 £ million	2017 £ million
Current tax		
United Kingdom corporation tax	**34**	53
Adjustments in respect of prior years	**(15)**	-
	19	53
Deferred tax		
Temporary differences relating to property, plant and equipment	**47**	10
Other temporary differences	**(2)**	-
Adjustments in respect of prior years	**19**	3
Difference in applicable rates for current and deferred tax	**(5)**	(1)
	59	12
Total tax charge	**78**	65

Reconciliation of the total tax charge

The tax for the year is higher (2017: higher) than the standard rate of corporation tax in the UK as set out below:

	2018 £ million	2017 £ million
Profit before tax	**394**	307
Tax charge at 19.0% (2017: 19.5%)	**74**	60
Income not chargeable for tax purposes	**(1)**	-
Expenses not deductible for tax purposes	**1**	3
Share-based payments	**5**	1
Adjustments in respect of prior years - current tax	**(15)**	-
Adjustments in respect of prior years - deferred tax	**19**	2
Change in tax rate	**(5)**	(1)
Total tax charge	**78**	65

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

	2018 £ million	2017 £ million
Charge to other comprehensive income		
Deferred tax on change in fair value of cash flow hedges	**(60)**	(4)

5 Tax charge (continued)

Deferred tax

The net deferred tax liability in the statement of financial position is as follows:

	Accelerated capital allowances £ million	Fair value gains £ million	Share-based payments £ million	Total £ million
At 1 October 2017	160	24	(7)	177
Charged / (credited) to income statement	60	-	(1)	59
Charged to other comprehensive income	-	60	-	60
At 30 September 2018	**220**	**84**	**(8)**	**296**

	Accelerated capital allowances £ million	Fair value gains £ million	Share-based payments £ million	Total £ million
At 1 October 2016	148	20	(7)	161
Charged to income statement	12	-	-	12
Charged to other comprehensive income	-	4	-	4
At 30 September 2017	160	24	(7)	177

It is estimated that deferred tax liabilities of approximately £1 million (2017: deferred tax liabilities of £15 million) will reverse during the next financial year.

Deferred tax assets and liabilities have been offset where they relate to taxes levied by the same taxation authority. As a result the net UK deferred tax liability is £296 million (2017: £177 million). The net overseas deferred tax asset is £nil (2017: £nil).

6 Dividends

During the year the Company declared in-specie dividends totalling £162 million (2017: £214 million), equivalent to 21.2 pence per share (2017: 28.0 pence per share), settled by the cancellation by the sole member of the Company of part of a debt owed to the Company. Dividend distributions are recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

easyJet Airline Company Limited

Notes to the accounts

7 Goodwill and other intangible assets

		Other intangible assets		
	Goodwill	Landing rights	Computer software	Total
	£ million	£ million	£ million	£ million
Cost				
At 1 October 2017	**367**	**94**	**115**	**209**
Additions	-	**35**	**46**	**81**
Disposals	-	-	**(75)**	**(75)**
At 30 September 2018	**367**	**129**	**86**	**215**
Accumulated amortisation				
At 1 October 2017	-	-	**30**	**30**
Charge for the year	-	-	**15**	**15**
Disposals	-	-	**(11)**	**(11)**
At 30 September 2018	-	-	**34**	**34**
Net book value				
At 30 September 2018	**367**	**129**	**52**	**181**
At 1 October 2017	367	94	85	179

		Other intangible assets		
	Goodwill	Landing rights	Computer software	Total
	£ million	£ million	£ million	£ million
Cost				
At 1 October 2016	367	94	75	169
Additions	-	-	44	44
Disposals	-	-	(4)	(4)
At 30 September 2017	367	94	115	209
Accumulated amortisation				
At 1 October 2016	-	-	17	17
Charge for the year	-	-	14	14
Disposals	-	-	(1)	(1)
At 30 September 2017	-	-	30	30
Net book value				
At 30 September 2017	367	94	85	179
At 1 October 2016	367	94	58	152

Included in computer software disposals of £75 million is a £60 million non-headline write-down of IT assets under development which will no longer be utilised by the business.

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

Pre-tax cash flow projections have been derived from the forecast cash flows presented to the Board for the period up to 2023, using the following key assumptions:

Pre-tax discount rate (derived from weighted average cost of capital)	9.4%
Fuel price (US dollars per metric tonne)	725
Exchange rates:	
US dollar	1.35
Euro	1.13
Swiss franc	1.35

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

Cash flow projections beyond the forecast period have been extrapolated using growth rate scenarios ranging from zero up to an estimated average of long-term economic growth rates for the principal countries in which the Company operates. No impairment resulted from any of these scenarios. The impairment model is sensitive to a sustained significant adverse movement in foreign currency exchange rates.

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

easyJet Airline Company Limited

Notes to the accounts

8 Property, plant and equipment

	Aircraft and spares £ million	Other £ million	Total £ million
Cost			
At 1 October 2017	**3,673**	**60**	**3,733**
Additions	**965**	**12**	**977**
Aircraft sold and leased back	**(137)**	**-**	**(137)**
Disposals	**(7)**	**(5)**	**(12)**
At 30 September 2018	**4,494**	**67**	**4,561**
Accumulated depreciation			
At 1 October 2017	**600**	**18**	**618**
Charge for the year	**162**	**5**	**167**
Aircraft sold and leased back	**(19)**	**-**	**(19)**
Disposals	**(7)**	**(5)**	**(12)**
At 30 September 2018	**736**	**18**	**754**
Net book value			
At 30 September 2018	**3,758**	**49**	**3,807**
At 1 October 2017	3,073	42	3,115

	Aircraft and spares £ million	Other £ million	Total £ million
Cost			
At 1 October 2016	3,234	63	3,297
Additions	639	5	644
Aircraft sold and leased back	(184)	-	(184)
Transfer to maintenance provisions	(6)	-	(6)
Disposals	(10)	(8)	(18)
At 30 September 2017	3,673	60	3,733
Accumulated depreciation			
At 1 October 2016	535	18	553
Charge for the year	138	5	143
Aircraft sold and leased back	(61)	-	(61)
Disposals	(12)	(5)	(17)
At 30 September 2017	600	18	618
Net book value			
At 30 September 2017	3,073	42	3,115
At 1 October 2016	2,699	45	2,744

8 Property, plant and equipment (continued)

The net book value of aircraft includes £283 million (2017: £300 million) relating to advance and option payments for future deliveries of aircraft. This amount is not depreciated.

The Company holds five (2017: five) aircraft under finance leases, with a net book value of £73 million (2017: £77 million).

The Company is contractually committed to the acquisition of 115 (2017: 143) Airbus A320 family aircraft, with a total list price of US$13.2 billion (2017: US$14.0 billion) before escalations and discounts for delivery in financial years 2019 (29 aircraft), in 2020 (23 aircraft), in 2021 (35 aircraft) and in 2022 (28 aircraft).

The 'Other' category mainly comprises leasehold improvements, computer hardware, and fixtures, fittings and equipment.

9 Investments in subsidiaries

	2018 £ million	2017 £ million
At 1 October and at 30 September	**1**	1

A list of the Company's subsidiaries is detailed below, including addresses in the footnotes.

	Country of incorporation	**Principal activity**	**Percentage of ordinary shares held**
Dawn Licensing Holdings Limited[1]	Malta	Holding company	100
Dawn Licensing Limited[1]	Malta	Graphic design	100

[1] Sterling Buildings, The Penthouse, Enrico Mizzi Street, Ta' Xbiex, XBX 1453, Malta

10 Other non-current assets

	2018 £ million	2017 £ million
Lessor maintenance contributions	**88**	-
Deferred consideration and deposits held by aircraft lessors	**25**	66
Recoverable supplemental rent (pledged as collateral)	**7**	6
Other	**2**	3
	122	75

Lessor maintenance contribution assets arise when to compensate easyJet for the delivery of a mid-life aircraft, a lessor has agreed to make a contribution to easyJet's maintenance costs to reflect the cycles already flown by the aircraft at the point it is delivered to easyJet. Depending on the contract terms, payment will be made either at the maintenance event date or at the lease return date.

11 Trade and other receivables

	2018 £ million	2017 £ million
Trade receivables	**112**	95
Less: provision for impairment	**(1)**	(4)
	111	91
Prepayments and accrued income	**216**	116
Leased aircraft - shortfall on sale and leaseback	**-**	5
Recoverable supplemental rent (pledged as collateral)	**24**	28
Other receivables	**53**	31
	404	271

Trade and other receivables of £14m (2017: £19m) are up to three months past due but not impaired.

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

12 Cash and money market deposits

	2018 £ million	2017 £ million
Cash and cash equivalents (original maturity less than three months)	**1,021**	710
Money market deposits (original maturity more than three months)	**348**	617
Non-current restricted cash	**11**	7
	1,380	1,334

Interest rates on money market deposits and restricted cash are re-priced within 365 days based on prevailing market rates of interest. Carrying value is not significantly different from fair value.

Restricted cash comprises:

	2018 £ million	2017 £ million
Pledged as collateral to third parties:		
Aircraft operating lease deposits	**7**	7
Amounts held in escrow for legal cases	**4**	-
	11	7

13 Trade and other payables

	2018 £ million	2017 £ million
Trade payables	**314**	196
Amounts owed to group undertakings	**1,824**	1,750
Accruals	**574**	405
Leased aircraft - surplus on sale and leaseback	**7**	9
Taxes and social security	**22**	19
Other payables	**85**	72
	2,826	2,451

14 Borrowings

At 30 September 2018	**Current £ million**	**Non-current £ million**	**Total £ million**
Finance lease obligations	**9**	**89**	**98**
	9	**89**	**98**

At 30 September 2017	Current £ million	Non-current £ million	Total £ million
Finance lease obligations	8	93	101
	8	93	101

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

The maturity profile of borrowings is set out in note 22.

On 10 February 2015 the Company signed a $500 million revolving credit facility with a minimum five-year term. As at 23 January 2018 no amounts had been drawn down under this facility. The facility is due to mature in February 2022.

15 Non-current deferred income

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

16 Provisions for liabilities and charges

	Maintenance provisions	Provisions for customer claims	Total
	£ million	£ million	£ million
At 1 October 2017	249	38	287
Exchange adjustments	10	-	10
Charged to income statement	70	179	249
Related to aircraft sold and leased back	8	-	8
Related to mid-life lease acquisitions	85	-	85
Transfer from fellow group undertakings	35	-	35
Utilised	(65)	(156)	(221)
At 30 September 2018	**392**	**61**	**453**

Provisions for customer claims comprise amounts payable to customers who make claims in respect of flight delays and cancellations, and refunds of air passenger duty or similar charges.

Provisions are analysed as follows:

	2018	2017
	£ million	£ million
Current	**118**	104
Non-current	**335**	183
	453	287

Maintenance provisions are expected to be utilised within ten years. Provisions for customer claims are expected to be utilised within one year.

17 Share capital

	Number		Nominal value	
	2018 million	2017 million	**2018 £ million**	2017 £ million
Allotted, called up and fully paid - Ordinary shares of £1 each				
At 1 October 2016 and 1 October 2017	**765**	765	**765**	765
At 30 September 2017 and 30 September 2018	**765**	765	**765**	765

18 Share incentive schemes

The Company operates the following share incentive schemes, all of which are settled in the equity of its parent, easyJet plc. Further details are given in easyJet plc's published Annual Report and Accounts for the year ended 30 September 2018.

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

Grant date	1 October 2017 million	Granted million	Forfeited million	Exercised million	**30 September 2018 million**
Long Term Incentive Plan					
17 December 2013	0.1	-	-	-	**0.1**
19 December 2014	0.5	-	(0.4)	-	**0.1**
18 December 2015	0.5	-	(0.2)	-	**0.3**
19 December 2016	0.8	-	(0.2)	-	**0.6**
19 December 2017	-	0.9	(0.1)	-	**0.8**
Restricted Share Plan					
19 December 2016	0.1	-	-	-	**0.1**
Save As You Earn scheme					
1 July 2014	0.3	-	(0.1)	(0.2)	**-**
1 July 2015	0.4	-	-	(0.2)	**0.2**
1 July 2016	0.6	-	-	-	**0.6**
1 July 2017	2.2	-	(0.1)	-	**2.1**
1 July 2018	-	0.8	-	-	**0.8**
Share Incentive Plan	3.5	1.1	(0.2)	(0.7)	**3.7**
	9.0	2.8	(1.3)	(1.1)	**9.4**

Weighted average exercise prices are as follows:

	1 October 2017 £	Granted £	Forfeited £	Exercised £	**30 September 2018 £**
Save As You Earn scheme	10.80	13.94	11.50	13.27	**11.17**

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

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

	Price (£) **2018**	Price (£) 2017	Number (million) **2018**	Number (million) 2017
Long Term Incentive Plan	**-**	-	**0.2**	0.1
Restricted Share Plan	**-**	-	**-**	-
Save As You Earn scheme	**13.23**	13.30	**0.2**	0.3
			0.4	0.4

The weighted average remaining contractual life for each class of share at 30 September 2018 is as follows:

	Years
Long Term Incentive Plan	8.2
Restricted Share Plan	8.2
Save As you Earn scheme	2.3

Long Term Incentive Plan

The plan is open, by invitation, to Executive Directors and senior management, and provides for annual awards of Performance Shares worth up to 250% of salary each year. The vesting of these shares is dependent on return on capital employed (ROCE), earnings per share (EPS) and total shareholder return (TSR) targets compared to FTSE-ranked companies at the start of the performance period. All awards have a three year vesting period. 2018 awards are assessed on performance conditions measured over the three financial years ended 30 September 2020.

18 Share incentive schemes (continued)

Restricted Share Plan

Granted in December 2016, the plan is open by invitation, to certain senior managers. The vesting of these shares is dependent on remaining in employment for a period of two years.

Save As You Earn scheme

The scheme is open to all employees on the UK payroll. Participants may elect to save up to £500 per month under a three year savings contract. An option is granted by the Company to buy shares at a discount of 20% from market price at the time of the grant. At the end of the savings period, the option becomes exercisable for a period of six months. Employees who are not paid through the UK payroll may participate in the scheme under similar terms and conditions, albeit without the same tax benefits.

Share Incentive Plans

The plan is open to all employees on the UK payroll. Participants may invest up to £1,800 of their pre-tax salary each year to purchase partnership shares in easyJet. For each partnership share acquired, easyJet purchases a matching share up to a maximum value of £1,500 per annum. Employees must remain with easyJet for three years from the date of purchase of each partnership share in order to qualify for the matching share, and for five years for the shares to be transferred to them tax free. The employee is entitled to dividends on shares purchased, and to vote at shareholder meetings.

Subject to Company performance, easyJet also issues free shares to UK employees under an approved share incentive plan of up to £3,000 per annum in value. There is a similar unapproved free shares scheme for international employees.

The fair value of grants under the Save As You Earn scheme are calculated by applying the Binomial Lattice option pricing model. The fair value of grants under the TSR based Long Term Incentive Plan is estimated under the Stochastic model (also known as the Monte Carlo model). The fair value of grants under all other schemes is the share price on the date of grant. The following assumptions are used:

Grant date	Share price £	Exercise price £	Expected volatility %	Option life years	Risk-free interest rate %	Fair value £
Long term incentive plan						
18 December 2012 - ROCE	7.37	-	-	-	-	6.92
18 December 2012 - TSR	7.37	-	33%	3.0	0.44%	5.16
17 December 2013 - ROCE	14.99	-	-	-	-	14.99
17 December 2013 - TSR	14.99	-	31%	3.0	0.76%	9.83
19 December 2014 - ROCE	16.52	-	-	-	-	16.52
19 December 2014 - TSR	16.52	-	29%	3.0	0.78%	11.65
18 December 2015 - ROCE	17.13	-	-	-	-	17.13
18 December 2015 - TSR	17.13	-	29%	3.0	0.81%	9.69
19 December 2016 - ROCE	10.43	-	-	-	-	10.43
19 December 2016 - TSR	10.43	-	35%	3.0	1.40%	5.21
19 December 2017 - ROCE	13.77	-	-	-	-	13.77
19 December 2017 - EPS	13.77	-	-	-	-	13.77
19 December 2017 - TSR	13.77	-	34%	3.0	1.15%	6.89
Restricted Share Plan						
19 December 2016	10.43	-	-	-	-	10.43
Save As You Earn scheme						
1 July 2014	16.62	13.30	33%	3.5	1.64%	5.03
1 July 2015	16.54	13.23	31%	3.5	0.95%	4.42
1 July 2016	14.98	11.98	35%	3.5	0.20%	4.28
1 July 2017	12.11	9.69	31%	3.5	0.42%	2.84
1 July 2018	17.43	13.94	30%	3.5	0.88%	4.41

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

Exercise price for the Save As You Earn scheme is set at a 20% discount from the share price at grant date.

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

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

The weighted average fair value of matching shares granted under the Share Incentive Plan during the year was £15.44 (2017: £11.23).

For grants under the Save As You Earn scheme, the dividend yield assumption is calculated based on the actual yield at the date of grant. For the options granted in 2018, the dividend yield assumption was 3.2% (2017: 4.2%; 2016: 3.5%; 2015: 2.75%; 2014: 2%).

19 Reconciliation of operating profit to cash generated from operations

	2018 £ million	2017 £ million
Operating profit	**440**	308
Adjustments for non-cash items:		
Depreciation	**167**	143
Loss on disposal of intangibles	**4**	4
Commercial IT platform charge	**60**	-
Loss on sale and leaseback	**11**	8
Amortisation of intangible assets	**15**	14
Share-based payments	**14**	10
Changes in working capital and other items of an operating nature:		
Increase in trade and other receivables	**(127)**	(58)
Increase in trade and other payables	**187**	409
Increase in unearned revenue	**150**	159
Increase in provisions	**151**	45
(Increase) / decrease in other non-current assets	**(47)**	37
Increase/(decrease) in derivative financial instruments	**54**	21
Decrease in non-current deferred income	**(8)**	(11)
Cash generated from operations	**1,071**	1,089

20 Reconciliation of net cash flow to movement in net cash

	1 October 2017 £ million	Exchange differences £ million	Net cash flow £ million	**30 September 2018 £ million**
Cash and cash equivalents	710	16	295	**1,021**
Money market deposits	617	1	(270)	**348**
	1,327	17	25	**1,369**
Finance lease obligations	(101)	(3)	6	**(98)**
	(101)	(3)	6	**(98)**
Net cash	1,226	14	31	**1,271**

21 Financial instruments

Carrying value and fair value of financial assets and liabilities

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

	Amortised cost		Held at fair value				
30 September 2018	**Loans and receivables £ million**	**Financial liabilities £ million**	**Fair value hedges £ million**	**Cash flow hedges(1 & 2) £ million**	**Other £ million**	**Carrying value £ million**	**Fair value £ million**
Other non-current assets	120	-	-	-	2	122	122
Trade and other receivables (3)	241	-	-	-	163	404	404
Trade and other payables (3)	-	(2,702)	-	-	(124)	(2,826)	(2,826)
Derivative financial instruments (4)	-	-	-	301	64	365	365
Derivative financial instruments with parent undertaking (4)	-	-	-	-	(64)	(64)	(64)
Restricted cash	11	-	-	-	-	11	11
Money market deposits	348	-	-	-	-	348	348
Cash and cash equivalents	1,021	-	-	-	-	1,021	1,021
Finance lease obligations	-	(98)	-	-	-	(98)	(100)

	Amortised cost		Held at fair value				
30 September 2017	Loans and receivables £ million	Financial liabilities £ million	Fair value hedges £ million	Cash flow hedges £ million	Other £ million	Carrying value £ million	Fair value £ million
Other non-current assets (3)	73	-	-	-	2	75	75
Trade and other receivables (3)	205	-	-	-	66	271	271
Trade and other payables (3)	-	(2,344)	-	-	(107)	(2,451)	(2,451)
Derivative financial instruments (4)	-	-	-	38	54	92	92
Derivative financial instruments with parent undertaking (4)	-	-	-	-	(54)	(54)	(54)
Restricted cash	7	-	-	-	-	7	7
Money market deposits	617	-	-	-	-	617	617
Cash and cash equivalents	710	-	-	-	-	710	710
Finance lease obligations	-	(101)	-	-	-	(101)	(105)

(1) On 21 and 22 September 2017 foreign exchange forward contracts were de-designated from a cash flow hedge relationships when the fair value of these trades was a liability of £4.6 million. This amount was held in other comprehensive income to be recycled to the income statement once the hedged item impacts the profit and loss. Foreign exchange forward contracts designated at fair value through profit or loss offsetting these derivatives were entered into at the point of de-designation and as such derivatives held at fair value through profit and loss on the statement of financial position at 30 September 2017 was a total net liability of £4.6 million. As at 30 September 2018 the fair value of these trades remaining totalled a net liability of £0.4m on the statement of financial position.

(2) Included within derivative amounts classified as being held in a cash flow hedge are foreign exchange forward contracts never designated in a hedge relationship and measured at Fair Value through Profit and loss. As at 30 September 2018 these amounts totalled a net liability value of £1.0 million on the statement of financial position.

(3) Trade and other payables and receivables disclosed in the 'other' column are items that do not meet the definition of a financial instrument. They are disclosed to facilitate reconciliation of the carrying values of financial instruments to line items presented in the statement of financial position.

(4) Derivative financial instruments disclosed in the 'other' column do not have hedge relationships in place.

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21 Financial instruments (continued)

Fair value of derivative financial instruments

For the financial instruments for which fair value is disclosed in the tables above, the fair value is classified as level 2 of the IFRS 13 'Fair Value Measurement' fair value hierarchy. Level 2 is defined as being the fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) which are determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is classified as level 2.

Fair value calculation methodology

The fair values of derivatives and financial instruments have been determined by reference to observable market prices where the instruments are traded, where available. Where market prices are not available, the fair value has been estimated by discounting expected future cash flows at prevailing interest rates and by applying year end exchange rates.

30 September 2018	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
Designated as cash flow hedges						
US dollar	2,627	26	23	(11)	(1)	37
Euro	2,020	1	8	(11)	(2)	(4)
Swiss franc	429	-	5	(1)	(4)	-
South African rand	237	2	1	-	-	3
Jet fuel	3	82	183	-	-	265
Designated as fair value through profit and loss						
Cross currency interest rate swaps	1,648	64	-	-	(64)	-
		175	220	(23)	(71)	301

30 September 2017	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
Designated as cash flow hedges						
US dollar	2,537	-	50	(25)	(29)	(4)
Euro	2,185	1	22	(49)	(5)	(31)
Swiss franc	389	5	3	(6)	-	2
South African rand	335	3	1	-	-	4
Jet fuel	3	16	55	(2)	(2)	67
Designated as fair value through profit and loss						
Cross currency interest rate swaps	1,648	69	-	-	(69)	-
		94	131	(82)	(105)	38

For foreign currency forward exchange contracts and exchange swap contracts, quantity represents the nominal value of currency contracts held, disclosed in the contract currency. The cross currency interest rate swap contracts are represented at the gross sterling notional. For jet fuel forward contracts, quantity represents contracted metric tonnes.

The majority of hedged foreign exchange and jet fuel transactions are expected to occur on various dates within the next 24 months. The foreign exchange and jet fuel contracts are designated as cash flow hedges and the accumulated gains or losses deferred in the hedging reserve will be recognised in the income statement in the periods that the hedged transaction affects the income statement. Where the gain or loss is included in the initial amount recognised for the purchase of an aircraft recognition in the income statement will be over a period of up to 23 years in the form of depreciation of the purchased asset.

The Company maintains cross-currency interest rate swap contracts on fixed rate debt issuance as part of its approach to currency and interest rate risk management. The cross-currency interest rate swap contracts have offsetting notional and fair value amounts meaning the net impact at a company level is nil.

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Notes to the accounts

21 Financial instruments (continued)

Fair value of derivative financial instruments
The following derivative financial instruments are subject to offsetting, enforceable master netting arrangements:

30 September 2018 Derivative financial instruments	Gross amount £ million	Amount not set off £ million	Net amount £ million
Assets	394	(30)	364
Liabilities	(94)	30	(64)
	300	-	300

30 September 2017 Derivative financial instruments	Gross amount £ million	Amount not set off £ million	Net amount £ million
Assets	225	(102)	123
Liabilities	(187)	102	(85)
	38	-	38

All financial assets and liabilities are presented gross on the face of the statement of financial position as the conditions for netting specified in IAS 32 'Financial Instruments: Presentation' are not met.

22 Financial risk and capital management

All financial risk management activities are carried out at Group level according to policies approved by the Board of Directors of easyJet plc and are described on pages 145 to 147 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2018. The Company is exposed to the same financial risks as the Group.

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

At 30 September 2018	Within 1 year £ million	1-2 years £ million	2-5 years £ million
Borrowings	13	20	74
Trade and other payables	2,702	-	-
Derivative contracts - receipts	(3,184)	(1,282)	(68)
Derivative contracts - payments	3,161	1,228	65

At 30 September 2017	Within 1 year £ million	1-2 years £ million	2-5 years £ million
Borrowings	12	12	89
Trade and other payables	2,344	-	-
Derivative contracts - receipts	(2,969)	(1,096)	(66)
Derivative contracts - payments	2,973	1,105	62

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

Market risk sensitivity analysis

Financial assets and liabilities affected by market risk include borrowings, deposits, trade and other receivables, trade and other payables and derivative financial instruments. The following analysis illustrates the sensitivity of changes in relevant foreign exchange rates, interest rates and fuel prices. It should be noted that the analysis reflects the impact on profit or loss after tax for the year and other comprehensive income on financial instruments in a cash flow hedge relationship held at the reporting date. The sensitivities are calculated based on all other variables remaining constant. The analysis is considered representative of easyJet's exposure over the next 12-month period.

The sensitivity analysis is based on easyJet's financial assets and liabilities and financial instruments held as at 30 September 2018.

The currency exchange rate analysis assumes a +/-10% change in both US dollar and Euro exchange rates.

The interest rate analysis assumes a 1% increase in interest rates over the next 12 months.

The fuel price analysis assumes a 10% increase in fuel price over the next 12 months.

22 Financial risk and capital management (continued)

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

	Currency rates					
At 30 September 2018	**US dollar +10%(1) £ million**	**US dollar -10%(2) £ million**	**Euro +10%(1) £ million**	**Euro -10%(2) £ million**	**Interest 1% increase £ million**	**Fuel price 10% £ million**
Income statement impact: gain / (loss)	**32**	**(26)**	**10**	**(8)**	**8**	**-**
Impact on other comprehensive income: increase / (decrease)	**191**	**(156)**	**20**	**(16)**	**-**	**134**

	Currency rates					
At 30 September 2017	US dollar +10%(1) £ million	US dollar -10%(2) £ million	Euro +10%(1) £ million	Euro -10%(2) £ million	Interest rates 1% increase £ million	Fuel price 10% increase £ million
Income statement impact: gain / (loss)	7	(6)	(24)	20	7	-
Impact on other comprehensive income: increase / (decrease)	132	(108)	40	(32)	-	98

(1) GBP weakened

(2) GBP strengthened

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

23 Leasing commitments

Commitments under operating leases

	Aircraft		Other	
	2018 £ million	2017 £ million	**2018 £ million**	2017 £ million
Total commitments under non-cancellable operating leases due:				
Not later than one year	**228**	173	**3**	3
Later than one year and not later than five years	**584**	491	**6**	8
Later than five years	**126**	93	**1**	2
	938	757	**10**	13

The Company holds 118 aircraft (2017: 102 aircraft) under operating leases, including those with other group undertakings, with initial lease terms ranging from five to sixteen years (2017: five to ten years). It is contractually obliged to carry out maintenance on these aircraft, and the cost of this is provided based on the number of flying hours and cycles operated. Further details are given in the critical accounting policies section of note 1.

Commitments under finance leases

	2018 £ million	2017 £ million
Present value of minimum lease payments fall due as follows:		
Not later than one year	**13**	12
Later than one year and not later than five years	**94**	100
	107	112
Future finance charges	**(9)**	(11)
	98	101

The Company holds five aircraft (2017: five aircraft) under finance leases with 10-year initial terms. Further details are given in note 14.

24 Guarantees and contingent liabilities

The Company has given a formal undertaking with Hotelopia Holidays S.L.U, the Civil Aviation Authority (CAA) and the Trustees of the Air Travel Trust that it will guarantee easyJet bookings made on its behalf by Hotelopia. In the event the CAA publishes a notice of failure in respect of Hotelopia, the Group will honour all easyJet related bookings or enter into alternative arrangements for the bookings to be fulfilled or compensated.

The Company has guaranteed the contractual obligations of easyJet plc in respect of a £250 million revolving credit facility (RCF). The RCF was agreed on 1 August 2018 and is due to mature in July 2020.

The Company is involved in a number of disputes and litigation which arose in the normal course of business. The likely outcome of these disputes and litigation cannot be predicted, and in complex cases reliable estimates of any potential obligation may not be possible.

Having reviewed the information currently available, the Board considers that the ultimate resolution of these claims, disputes and litigation is unlikely to have a material effect on the Company's results, cash flows or financial position.

As at 30 September 2018 the Company had no agreements with third parties for which fees were contingent upon the completion of acquisition activities (2017: £4 million).

At 30 September 2018 the Company had outstanding letters of credit, guarantees and performance bonds totalling £33 million (2017: £44 million), of which £12 million (2017: £21 million) expires within one year. The fair value of these instruments at each year end was negligible.

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

easyJet plc has also issued guarantees in favour of the Company relating to:

- processing of credit card transactions;
- hedging transactions in derivative financial instruments;
- contractual obligations to Airbus SAS in respect of the supply of aircraft;
- repayment of borrowings financing the acquisition of aircraft;
- payment obligations for the lease of aircraft from lessors outside of the Group;
- bank letters of credit;
- $500m revolving credit facility; and
- brand licence agreement with easyGroup Limited (approved by the shareholders of easyJet plc on 10 December 2010).

easyJet Airline Company Limited

Notes to the accounts

25 Related party transactions

Transactions with easyJet Group undertakings are carried out on an arm's length basis. Outstanding balances are placed on intercompany accounts (note 13) with no specified credit period, are unsecured, and bear market rates of interest.

Significant transactions are as follows:

- dry lease and other operating costs for leasing certain aircraft;
- charges associated with the provision of seat capacity from group operating entities;
- dry lease revenue from sub-leasing aircraft; and
- statement of financial position hedges.

Charges for the years ended 30 September 2018 and 2017 are as follows:

	2018 £ million	2017 £ million
Parent		
Amounts owed to easyJet plc	**(1,615)**	(1,571)
External dividend paid on behalf of easyJet plc	**162**	214
Bond proceeds received from easyJet plc	**-**	(451)
Fellow Group subsidiaries		
Sales to fellow Group subsidiaries	**(336)**	(75)
Purchases from fellow Group subsidiaries	**567**	286
Amounts owed to fellow Group subsidiaries	**(209)**	(179)
Sale and leaseback proceeds paid to fellow Group subsidiaries	**83**	86
In-specie dividend received from fellow Group subsidiaries payable to the parent entity	**(15)**	(12)
Aircraft mortgages paid on behalf of fellow Group subsidiaries	**-**	120
Others		
During the year the Company received dividends from its investment in the Airline Group	**(3)**	(2)

Included within Sales to Group subsidiaries are £272 million (2017: £75 million) in relation to the leasing of aircraft, and £57 million (2017: £nil) in relation to the provision of management services.

Included within Purchases to Group subsidiaries are £61 million (2017: £81 million) in relation to the leasing of aircraft, and £506 million (2017: £205 million) from the purchase of seat capacity under intra-group commercial capacity supply agreements.

Commitments under operating leases

The company has the following commitments under operating leases to fellow group subsidiaries:

	Aircraft	
	2018 £ million	2017 £ million
Total commitments under non-cancellable operating leases due:		
Not later than one year	**63**	76
Later than one year and not later than five years	**235**	296
Later than five years	**50**	92
	348	464

During the current year, there were no amounts relating to aircraft life-limited parts transferred at net book value to easyJet Switzerland SA (2017: £nil).

Amounts included in the income statement for the year ended 2018 due under the Brand Licence and other agreements with easyGroup Limited and others, detailed within note 27 to the Group accounts, amounted to £16 million (2017: £14 million). Royalty payments within this total were £13 million (2017: £13 million).

At 30 September 2018 £1 million (2017: £1 million) was included in trade and other payables in relation to the Brand Licence and other agreements.

26 Geographical revenue

	2018 £ million	2017 £ million
United Kingdom	**2,577**	2,257
Southern Europe	**1,837**	1,568
Northern Europe	**1,731**	1,223
Other	**89**	74
	6,234	5,122

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

27 Subsequent events

The Company purchased four A319 aircraft across December 2018 and January 2019 from fellow subsidiary, easyJet Leasing Limited, and three from fellow subsidiary easyJet Sterling Limited.

The Company completed a sale and leaseback of 10 A319 aircraft in January 2019, which has generated £120 million in cash.

28 Ultimate controlling company

The Company's immediate parent and ultimate controlling company is easyJet plc, incorporated in England and Wales, registered number 03959649.

The only group in which the results of the Company are consolidated is headed by easyJet plc, the Annual report and accounts of which can be obtained from easyJet plc, Hangar 89, London Luton Airport, Luton, Bedfordshire, LU2 9PF and at www.corporate.easyjet.com.