

The Directors of easyJet plc, whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

A copy of this document, which comprises listing particulars relating to easyJet plc in accordance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

Application has been made to the UK Listing Authority for the whole of the share capital of easyJet plc represented by Ordinary Shares, issued and to be issued, to be admitted to the Official List. Application has also been made to the London Stock Exchange for the whole of the share capital of easyJet plc to be admitted to trading on the main market of the London Stock Exchange. It is expected that admission to the Official List will become effective and that unconditional dealings in the Ordinary Shares will commence on 22 November 2000. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be at the sole risk of the parties concerned. No application is currently intended to be made for the Ordinary Shares to be admitted to listing or dealt with on any other exchange.

Credit Suisse First Boston and UBS Warburg are acting for easyJet plc and no other person in connection with the Global Offering and will not be responsible to any person (whether or not a recipient of this document) other than easyJet plc for providing the protections afforded to customers of Credit Suisse First Boston and UBS Warburg respectively or for providing advice in relation to the Global Offering. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities. For a discussion of certain risks and other factors that should be considered in connection with an investment in the New Ordinary Shares, see "Risk Factors" in Part V of this document on pages 60 to 74.

FINANCIAL SERVICES AUTHORITY UK LISTING AUTHORITY	
Document Approved	
Date:	15/11/00
Signed: 1	<i>Simon Law</i>
2	<i>Sue</i>

easyJet plc

(Incorporated and registered in England and Wales under the Companies Act 1985 with registered no. 3353043)

Global Offering of 63,000,000 New Ordinary Shares of 25p each at a price
of 310 pence per share payable in full on acceptance

Joint Bookrunners

Credit Suisse First Boston

UBS Warburg

Co-lead Managers

Merrill Lynch International

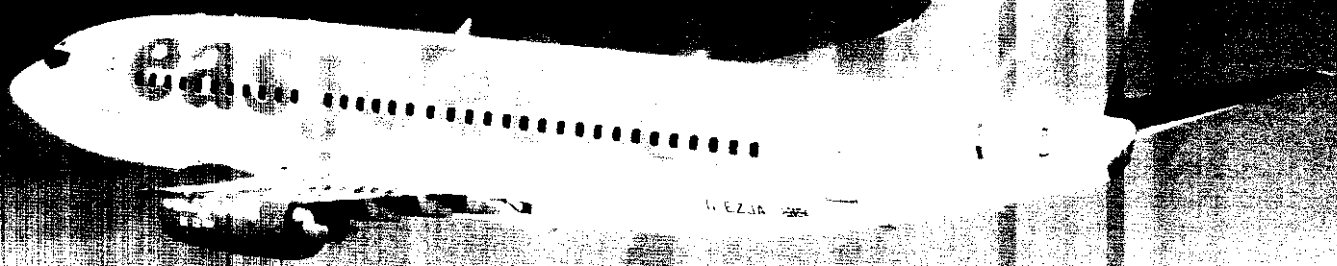
Schroder Salomon Smith Barney

Share capital immediately following the Global Offering

(assuming no exercise of the Over-allotment Option)

Authorised		Ordinary Shares of 25p each	Issued and fully paid	
Amount	Number		Amount	Number
£100,000,000	400,000,000		£62,634,201	250,536,804

The New Ordinary Shares now being placed will, on Admission, rank *pari passu* in all respects with all other Ordinary Shares of the Company, and will rank in full for all dividends and other distributions thereafter declared, made or paid in respect of Ordinary Shares. In connection with the Global Offering, the Company has granted to Credit Suisse First Boston and UBS Warburg an option, exercisable for 30 days after Admission, to acquire up to an aggregate of 9,450,000 New Ordinary Shares at the Global Offering Price to cover over-allotments, if any, made in connection with the Global Offering and to cover short positions resulting from stabilisation transactions.



Boeing 'Next Generation' 737-700

Global Offering November 2000

Joint bookrunners Credit Suisse First Boston and UBS Warburg
Co-lead managers Merrill Lynch International and Schroder Salomon Smith Barney





1 (from left to right) Chris Watson, Finance Director; Stelios Haji-Ioannou, Chairman; Ray Webster, Chief Executive 2 The first easyJet Boeing 'Next Generation' 737-700 (received by easyJet 13 October 2000) 3 Tail fin of Boeing 'Next Generation' 737-700 4 Members of cabin crew 5 Members of cabin crew and flight deck 6 A selection of the easyJet management team 7 Boeing 'Next Generation' 737-700 at Luton Airport 8 Employees from the LWT 'Airline' series

c.f. Walton
C. WALTON

c.f. Walton

R. WEBSTER (ATTORNEY) The Directors of easyJet plc, whose names appear on page 5 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

c.f. Walton

S. HAJI-IOANNOU (ATTORNEY) A copy of this document, which comprises listing particulars relating to easyJet plc in accordance with the listing rules made under section 142 of the Financial Services Act 1986, has been delivered to the Registrar of Companies in England and Wales for registration in accordance with section 149 of that Act.

c.f. Walton

V. HAHN-PETERSEN (ATTORNEY) Application has been made to the UK Listing Authority for the whole of the share capital of easyJet plc represented by Ordinary Shares, issued and to be issued, to be admitted to the Official List. Application has also been made to the London Stock Exchange for the whole of the share capital of easyJet plc to be admitted to trading on the main market of the London Stock Exchange. It is expected that admission to the Official List will become effective and that unconditional dealings in the Ordinary Shares will commence on 22 November 2000. All dealings in Ordinary Shares prior to the commencement of unconditional dealings will be at the sole risk of the parties concerned. No application is currently intended to be made for the Ordinary Shares to be admitted to listing or dealt with on any other exchange.

c.f. Walton

M. COOPER (ATTORNEY) Credit Suisse First Boston and UBS Warburg are acting for easyJet plc and no other person in connection with the Global Offering and will not be responsible to any person (whether or not a recipient of this document) other than easyJet plc for providing the protections afforded to customers of Credit Suisse First Boston and UBS Warburg respectively or for providing advice in relation to the Global Offering. If you are in any doubt about the contents of this document, you should consult a person authorised under the Financial Services Act 1986 who specialises in advising on the acquisition of shares and other securities. For a discussion of certain risks and other factors that should be considered in connection with an investment in the New Ordinary Shares, see "Risk Factors" in Part V of this document on pages 60 to 74.

c.f. Walton

K. MCMANN (ATTORNEY)

c.f. Walton

C. DAY (ATTORNEY)

easyJet plc

c.f. Walton

A. EILON (ATTORNEY) (Incorporated and registered in England and Wales under the Companies Act 1985 with registered no. 3959649)

c.f. Walton

N. HARTLEY (ATTORNEY) Global Offering of 63,000,000 New Ordinary Shares of 25p each at a price

c.f. Walton

of 310 pence per share payable in full on acceptance

N. HARTLEY (ATTORNEY)

Joint Bookrunners

c.f. Walton

A. ILLSLEY (ATTORNEY) Credit Suisse First Boston

UBS Warburg

Co-lead Managers

c.f. Walton

J. QUELCH (ATTORNEY) Merrill Lynch International

Schroder Salomon Smith Barney

Share capital immediately following the Global Offering

(assuming no exercise of the Over-allotment Option)

Authorised		Ordinary Shares of 25p each	Issued and fully paid	
Amount	Number		Amount	Number
£100,000,000	400,000,000		£62,634,201	250,536,804

The New Ordinary Shares now being placed will, on Admission, rank *pari passu* in all respects with all other Ordinary Shares of the Company, and will rank in full for all dividends and other distributions thereafter declared, made or paid in respect of Ordinary Shares. In connection with the Global Offering, the Company has granted to Credit Suisse First Boston and UBS Warburg an option, exercisable for 30 days after Admission, to acquire up to an aggregate of 9,450,000 New Ordinary Shares at the Global Offering Price to cover over-allotments, if any, made in connection with the Global Offering and to cover short positions resulting from stabilisation transactions.

No action has been taken or will be taken in any jurisdiction by the Company, Credit Suisse First Boston or UBS Warburg which would permit an offer or sale of Ordinary Shares in any jurisdiction where action for that purpose is required, other than in the UK, nor has any such action been taken with respect to the possession or distribution of this document other than in the UK.

Persons outside the UK into whose possession this document comes are required by easyJet plc, Credit Suisse First Boston and UBS Warburg to inform themselves about and to observe any restriction as to the offer or sale of New Ordinary Shares and the distribution of this document. In particular, the New Ordinary Shares have not been and will not be registered under the US Securities Act of 1933, as amended ("the US Securities Act"), or with any securities regulatory authority of any state or other political subdivision of the US and, accordingly, may not, directly or indirectly, be placed or sold within the US or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in conformance with any applicable laws of any state or other political subdivision of the US. The Underwriters may arrange for the New Ordinary Shares to be placed and sold within the US only to qualified institutional buyers ("QIBs") as defined in Rule 144A under the US Securities Act in reliance on exemptions from the registration requirements of the US Securities Act. The New Ordinary Shares are being placed and sold outside the US in accordance with Regulation S under the US Securities Act. Prospective purchasers of New Ordinary Shares in the US are hereby notified that the seller of the New Ordinary Shares may be relying on the exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A. New Ordinary Shares are not transferable except in accordance with restrictions described in Part II of this document, and each purchaser of New Ordinary Shares will be deemed to have made certain representations and agreements as described therein. In addition, the relevant clearances have not been, and will not be, obtained from the securities commission of any province or territory of Canada and no prospectus in relation to the New Ordinary Shares has been, or will be, lodged with, or registered by, the Australian Securities and Investments Commission, nor has this document been prepared to comply with the laws of Japan or the Republic of Ireland. Accordingly, subject to certain exceptions, the New Ordinary Shares may not be, directly or indirectly, placed or sold within Canada, Australia, Japan or the Republic of Ireland. This document does not constitute an offer of, or the solicitation of an offer to subscribe or buy, any of the New Ordinary Shares offered hereby to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation in such jurisdiction.

In purchasing New Ordinary Shares pursuant to the Global Offering, a purchaser will be deemed to confirm that he is not relying on any information or representation in relation to or affecting the Group or the Global Offering other than information and representations contained in this document, and accordingly agrees that no person responsible for this document, or any part thereof, shall have any liability for any information or representation not in this document.

No person is authorised in connection with any offer made hereby to give any information or to make any representation other than as contained in this document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company or any other member of the Group, Credit Suisse First Boston or UBS Warburg.

The contents of this document are not to be construed as legal, business or tax advice. Each prospective purchaser should consult, his, her or its own solicitor, independent adviser or tax adviser for legal, financial or tax advice.

The New Ordinary Shares placed hereby have not been recommended by any US Federal or state securities commission or any non-US securities commission or any regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offence.

In connection with the Global Offering, one of Credit Suisse First Boston and UBS Warburg, on behalf of the Underwriters, may over-allot or effect transactions which stabilise or maintain the market price of the New Ordinary Shares at levels above those which might prevail in the open market. Such transactions may be effected on the London Stock Exchange, in the over-the-counter market or otherwise. Such stabilising, if commenced, may be discontinued at any time.

NOTICE TO NEW HAMPSHIRE RESIDENTS

Neither the fact that a registration statement or an application for a licence has been filed under Chapter 421-B of the New Hampshire Revised Statutes with the State of New Hampshire nor the fact that a security is effectively registered or a person is licensed in the state of New Hampshire constitutes a finding by the Secretary of State of New Hampshire that any document filed under RSA 421-B is true, complete and not misleading. Neither any such fact nor the fact that an exemption is available for a security or a transaction means that the Secretary of State of New Hampshire has passed in any way upon the merits of, qualifications of, or recommended or given approval to, any person, security or transaction. It is unlawful to make or cause to be made to any prospective purchaser, customer or client any representation inconsistent with the provisions of this paragraph.

AVAILABLE INFORMATION

For so long as any of the New Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act, easyJet plc will, during any period in which it is not subject to Section 13 or 15(d) under the US Securities Exchange Act of 1934, as amended (the "US Exchange Act"), nor exempt from reporting under the US Exchange Act pursuant to Rule 12g3-2(b) thereunder, make available to any holder or beneficial owner of an Ordinary Share, or to any prospective purchaser of an Ordinary Share designated by such holder or beneficial owner, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the US Securities Act.

ENFORCEABILITY OF CIVIL LIABILITIES

easyJet plc is a public limited company organised under the laws of England and Wales. The majority of the Directors and the executive officers of easyJet plc and its subsidiaries are non-residents of the US and the majority of the assets of easyJet plc and such persons are located outside the US. As a result, it may not be possible for investors to effect service of process within the US upon easyJet plc, the Directors or the executive officers or to enforce against any of them judgments of US courts predicated upon the civil liability provisions of the US federal securities laws. There is also doubt as to the enforceability in England and Wales, in original actions or in actions for the enforcement of judgments of US courts, of the civil liability provisions of the US federal securities laws.

FORWARD-LOOKING STATEMENTS

This document includes "forward-looking statements" as described in US Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to the Group's future prospects, development and business strategies. These forward-looking statements are identified by their use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" or the negative of those or other variations, or comparable expressions, including references to assumptions. These statements are contained in sections entitled "Business of easyJet", "Financial information, current trading and prospects", "Risk factors" and other sections of this document. The forward-looking statements in this document are based on current expectations and are subject to risks and uncertainties that could cause actual results and outcomes to differ materially from those expressed or implied by those statements. The risks and uncertainties include but are not limited to the Group's ability to develop and maintain economically attractive services, attract and retain customers, attract and retain adequately skilled employees, effectively manage rapid growth and evolve its business to gain advantages in a competitive environment, as well as other risks, including those described in "Risk factors". If one or more of these risks or uncertainties materialises, or if underlying assumptions prove incorrect, then the Group's actual results, financial condition, prospects, development and business strategies may vary materially from those expected, estimated or projected. Given these uncertainties, potential investors should not rely on forward-looking statements. easyJet plc undertakes no obligation to update forward-looking statements or risk factors other than as required by applicable law or regulations (including the Listing Rules of the UK Listing Authority), whether as a result of new information, future events or otherwise.

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Directors, secretary, registered office and advisers

BOARD OF DIRECTORS

Stelios Haji-Ioannou, Chairman
Raymond Douglas Webster, Chief Executive
Christopher John Walton, Finance Director
Vilhelm Eigil Hahn-Petersen, Operations Director
Michael David Cooper, Commercial Director
Keith Smith McMann, Airports Director
Colin Richard Day, Non-executive Director
Amir Eilon, Non-executive Director
Nicholas Hartley, Non-executive Director
Anthony Kim Illsley, Non-executive Director
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all of easyLand, London Luton Airport, Luton, Bedfordshire LU2 9LS

COMPANY SECRETARY

Deborah Anne Woodward ACIS

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¹ *Schroder is a trademark of Schroders Holdings plc and is used under licence by Salomon Brothers International Limited.*

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Global Offering statistics

Global Offering Price	310p
Number of New Ordinary Shares being placed ⁽¹⁾	63,000,000
Percentage of the enlarged issued Ordinary Share capital being placed ⁽¹⁾	25.1 per cent
Number of New Ordinary Shares subject to the Over-allotment Option ⁽²⁾	9,450,000
Number of Ordinary Shares in issue following the Global Offering ^{(1), (3)}	250,536,804
Market capitalisation of easyJet plc ^{(1), (3)}	£776.7 million
Proceeds of the Global Offering receivable by easyJet plc ⁽¹⁾	£183 million

Expected timetable⁽⁴⁾

Announcement of the Global Offering Price and allocation	15 November 2000
Listing Particulars containing the Global Offering Price published	15 November 2000
Conditional dealings in Ordinary Shares commence ⁽⁵⁾	8.00 am on 15 November 2000
Admission and unconditional dealings in Ordinary Shares commence on the London Stock Exchange and New Ordinary Shares sold in the Global Offering are credited to CREST accounts	8.00 am on 22 November 2000
Despatch of definitive share certificates (where applicable)	22 November 2000

(1) Assumes the Over-allotment Option is not exercised.

(2) This figure is 15 per cent of the number of New Ordinary Shares in the Global Offering. The Over-allotment Option will be satisfied by the issue by the Company of New Ordinary Shares.

(3) This figure includes the maximum number of Ordinary Shares to which employees could be entitled under the Share Bonus Scheme and the Share Gift. Throughout this document, references to the issued share capital of the Company immediately following the Global Offering and to percentage shareholdings immediately following the Global Offering assume that such maximum number of Ordinary Shares have been issued.

(4) Each of the times and dates in this timetable is subject to change.

(5) It should be noted that if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of those concerned.

Key information

The following information is derived from the full text of this document. Prospective investors should read the whole of this document and not rely exclusively on the summary information provided below.

BUSINESS

easyJet plc operates one of Europe's leading low-fare scheduled passenger airline businesses. Through its operating companies, easyJet Airline Company Limited and easyJet Switzerland S.A., easyJet provides high frequency services on short-haul and medium-haul point-to-point routes within Europe from its three airport bases at London Luton, Liverpool and Geneva. easyJet offers a simple, "no frills" service aimed generally at both the leisure and business travel markets at fares which are on average significantly below those offered by traditional full-service, or "multi-product", airlines.

easyJet has experienced substantial year-on-year growth since its first flight in November 1995. After its first twelve months, easyJet had sold approximately 485,000 seats and had established a network of six routes using four Boeing 737 aircraft. During the year ended 30 September 2000, easyJet flew 5.6 million passengers generating profits before tax of £22.1 million. As at 30 September 2000, easyJet operated on 28 routes with a core fleet of 18 modern Boeing 737 aircraft plus one aircraft operating under a wet lease. easyJet seeks to continue to grow its business whilst maintaining profitability by combining value-for-money fares with sustainable lower operating costs.

easyJet is considered by the Directors to be a "high utilisation, no frills, low-cost" operator. easyJet operates a young fleet with an average aircraft age of just under five years at 30 September 2000, and flies from its bases mostly to the primary airports at its destinations. Unit costs are minimised through high aircraft utilisation, simplified business processes and the extensive use of information technology. Travel agents' commissions are eliminated by easyJet selling all seats directly to the public over the internet (in the month of September 2000 approximately 78 per cent of easyJet's initial seat sales were made via the internet) or through easyJet's own call centre or airport sales desks.

easyJet has entered into a purchase agreement with Boeing for 32 new "next generation" 737-700 aircraft, the first of which was delivered on 13 October 2000 and the remainder of which are due to be delivered over the period up to May 2004. Taking account of the aircraft which are expected to be retired during this period, the Directors expect that the size of easyJet's fleet will have increased to 44 aircraft with an average age of under three years by May 2004. This equates to an average annual increase of approximately 25 per cent in available seats during the delivery period.

easyJet's growth has been fuelled by the acceptance of low-fare scheduled airline services in Europe over the last five years. The expansion of the European low-fare sector has been faster than the overall growth in the European passenger market, stimulated in part by easyJet's own product offerings and marketing efforts. easyJet believes that the growth in Europe's low-fare sector reflects both previously untapped demand and a shift in market share from the established national flag carriers and charter airlines. The Directors anticipate that growth in the low-fare sector will continue for the foreseeable future.

STRATEGY

easyJet's strategy and business model are based on six key strengths that the Company believes support competitiveness, scalability and sustainable growth:

- ▶ *Simple fare structure* – easyJet only offers a single fare at any one time for a specific flight. easyJet's pricing strategy is to offer value-for-money fares, although not necessarily the lowest fares for any given route. This fare generally increases in line with demand towards the date of the flight.
- ▶ *Low unit costs* – easyJet keeps unit costs low by maintaining high aircraft utilisation, eliminating all sales intermediaries between the customer and easyJet (other than at some airport sales desks), focusing on internet sales, eliminating unnecessary service frills, operating a fleet of similar aircraft and establishing long-term agreements with many key suppliers.
- ▶ *Strong branding* – easyJet has established a strong brand in its key European markets, being the UK, the Netherlands and Switzerland.

Key information

- ▶ *Commitment to customer service* – safety is easyJet's first priority. easyJet also aims to provide a service consistent with its image: professional, friendly and informal.
- ▶ *Multi-base network* – easyJet's network strategy is to provide dense point-to-point services on routes within Europe. The Company believes that this strategy provides significant benefits, including reduced dependence on a single "hub" and the creation of local competitive advantages as a result of the size of easyJet at its bases and the frequency of its flights.
- ▶ *Strong corporate culture* – easyJet has a strong and coherent corporate culture, internally known as the "orange culture", which the Company believes helps substantially to motivate employees to implement easyJet's strategies.

CURRENT TRADING AND PROSPECTS

Since 30 September 2000, sales have been lower than in previous weeks because of the seasonal nature of easyJet's business in line with the Directors' expectations (see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Seasonality" in Part III of this document). However, load factors and yields for this period are both higher than those experienced during the same period last year. The Directors view the future prospects of easyJet with confidence and believe that the Group is well placed to continue to develop its business in line with its strategy (see "Business of easyJet – Strategy").

THE GLOBAL OFFERING

Under the Global Offering, the New Ordinary Shares will be offered and issued to institutional investors in the UK and elsewhere.

The Global Offering will comprise an issue of 63,000,000 New Ordinary Shares by the Company. All New Ordinary Shares being offered will be issued and offered at the Global Offering Price, which has been determined by the Joint Bookrunners following consultation with the Company.

In connection with the Global Offering, the Company will grant to the Joint Bookrunners an Over-allotment Option under which the Company will issue to the Joint Bookrunners up to 9,450,000 New Ordinary Shares, being up to 15 per cent of the number of New Ordinary Shares comprised in the Global Offering, at the Global Offering Price, for the purposes of, amongst other things, meeting over-allotments in connection with the Global Offering and to cover short positions resulting from stabilisation transactions.

Admission is expected to take place and unconditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange at 8.00 am on 22 November 2000. This time and date may be changed.

easyJet Holdings Limited, a company controlled by Stelios Haji-Ioannou, will own approximately 75 per cent of the Company after Admission, assuming no exercise of the Over-allotment Option. Stelios Haji-Ioannou and the other Directors have, subject to certain exceptions, agreed not to sell their Ordinary Shares and shares in easyJet Holdings Limited for a period of 12 months from Admission (or, if later, the publication of the accounts of the Company for the year ended 30 September 2001). In addition, the shareholders in easyJet Holdings Limited have, subject to certain exceptions, given similar undertakings in respect of their shares in easyJet Holdings Limited.

Up to 949,884 New Ordinary Shares will be issued to employees on Admission under the Share Bonus Scheme and the Share Gift. In addition, employees, former employees and Directors shall have options over 28,481,073 Ordinary Shares of which options over 9,584,997 Ordinary Shares will vest on Admission. The holders of these options and Ordinary Shares have agreed not to sell any of these shares (other than to meet tax and NIC liabilities and to satisfy the exercise price) for a period of two years from Admission. The Company intends to appoint a further independent non-executive Director. If it appoints such a director prior to Admission, he will be given the same number of options as each of the existing independent non-executive Directors, namely options over 12,992 shares.

In addition, easyJet Holdings Limited will give up to 10,000 Ordinary Shares on Admission to employees who were employed at the time of the first flight and to certain key suppliers.

Key information

REASONS FOR THE GLOBAL OFFERING AND USE OF PROCEEDS

The Company is undertaking the Global Offering in order to help fund its planned new aircraft purchases and to reward and incentivise employees with shares and share options in a public company. Assuming no exercise of the Over-allotment Option, the Global Offering will raise approximately £183 million, net of underwriting fees and expenses, for the Company. Approximately £163 million of these net proceeds will be used to finance in part the purchase of the new aircraft described in “Business of easyJet – Fleet” and the remaining net proceeds will be used for working capital.

RISK FACTORS

An investment in the Company’s shares is subject to a number of risks. Prior to investing in the New Ordinary Shares, prospective investors should consider, together with the other information contained in this document, the risks described in Part V of this document.

Part I – Business of easyJet

INTRODUCTION

easyJet plc operates one of Europe's leading low-fare scheduled passenger airline businesses ("easyJet" or the "airline"). Through its operating companies, easyJet Airline Company Limited ("easyJet UK") and easyJet Switzerland S.A. ("easyJet Switzerland"), easyJet provides high frequency services on short-haul and medium-haul point-to-point routes within Europe from its three airport bases at London Luton, Liverpool and Geneva. easyJet offers a simple, "no frills" service aimed generally at both the leisure and business travel markets at fares which are on average significantly below those offered by traditional full-service, or "multi-product" airlines.

easyJet has experienced substantial year-on-year growth since its first flight in November 1995. After its first twelve months, easyJet had sold approximately 485,000 seats and had established a network of six routes using four Boeing 737 aircraft. During the year ended 30 September 2000, easyJet flew 5.6 million passengers generating profits before tax of £22.1 million. As at 30 September 2000, easyJet operated on 28 routes with a core fleet of 18 modern Boeing 737 aircraft plus one aircraft operating under a wet lease. easyJet seeks to continue to grow its business whilst maintaining profitability by combining value-for-money fares with sustainable lower operating costs.

easyJet is considered by the Directors to be a "high utilisation, no frills, low-cost" operator. easyJet operates a young fleet with an average aircraft age of just under five years at 30 September 2000, and flies from its bases mostly to the primary airports at its destinations. Unit costs are minimised through high aircraft utilisation, simplified business processes and the extensive use of information technology. Travel agents' commissions are eliminated by easyJet selling all seats directly to the public over the internet (in the month of September 2000 approximately 78 per cent of easyJet's initial seat sales were being made via the internet) or through easyJet's own call centre or airport sales desks.

easyJet has entered into a purchase agreement with Boeing for 32 new "next generation" 737-700 aircraft, the first of which was delivered on 13 October 2000 and the remainder of which are due to be delivered over the period up to May 2004. Taking account of the aircraft which are expected to be retired during this period, the Directors expect that the size of easyJet's fleet will have increased to 44 aircraft, with an average age of under three years, by May 2004. This equates to an annual average increase of approximately 25 per cent in available seats during the delivery period.

easyJet's growth has been fuelled by the acceptance of low-fare scheduled airline services in Europe over the last five years. The expansion of the European low-fare sector has been faster than the overall growth in the European passenger market, stimulated in part by easyJet's own product offerings and marketing efforts. easyJet believes that the growth in Europe's low-fare sector reflects both previously untapped demand and a shift in market share from the established national flag carriers and charter airlines. The Directors anticipate that growth in the low-fare sector will continue for the foreseeable future.

HISTORY

easyJet UK was incorporated in March 1995 to offer the European market a low-fare, no frills, point-to-point scheduled air passenger service. This business model was similar to the successful US carrier, Southwest Airlines.

London Luton Airport was selected as easyJet's first base because of its proximity to the London catchment area and its substantial available capacity. easyJet's first flights, from London Luton to Glasgow and Edinburgh, commenced in November 1995. easyJet's first international route, between London Luton and Amsterdam, was inaugurated in April 1996. As at 30 September 2000, the number of destinations served from London Luton had increased by four domestic routes and eight international routes, to a total of 15.

In 1997, easyJet started flights from Liverpool to serve the sizeable northwest England and north Wales catchment area, commencing services to Nice and Amsterdam in October of that year. As at 30 September 2000 the number of destinations served from Liverpool had increased by two domestic routes and five international routes, to a total of nine.

In September 1997, easyJet placed the airline's first order for new aircraft, 12 new Boeing 737-300s. easyJet took delivery of these aircraft between August 1998 and November 1999.

In March 1998, easyJet Holdings Limited, at that time the corporate parent of easyJet UK, acquired a 40 per cent interest in a Swiss charter carrier, TEA Basel AG (“TEA”) for a consideration of three million Swiss francs. During the course of 1998, TEA commenced scheduled services from Zurich and Geneva to London Luton under the “easyJet” brand. In April 1999, TEA changed its name to easyJet Switzerland S.A. and moved its headquarters from Basel to Geneva. In June 1999, easyJet Holdings Limited increased its shareholding in easyJet Switzerland to 49 per cent and secured an option to acquire the remaining 51 per cent, for an aggregate consideration of 2.4 million Swiss francs. Scheduled services from Geneva to Amsterdam and Nice commenced in July 1999. These were the first daily services entirely outside the UK on which easyJet had implemented its business model. As at 30 September 2000, the number of destinations served from Geneva had increased by four routes, including a daily flight from Geneva to Barcelona which is operated as a charter service to satisfy Swiss regulatory requirements.

In April 2000, easyJet completed a corporate reorganisation that resulted in easyJet plc becoming the owner of the companies through which the easyJet business is conducted, including the 49 per cent interest in, and option over, the remainder of the shares of, easyJet Switzerland. Prior to the Global Offering, easyJet plc and easyJet UK also entered into an agreement with easyGroup IP Licensing under which certain intellectual property rights owned by easyJet UK were assigned to easyGroup IP Licensing and then licensed back in perpetuity for a royalty of £1 per annum, subject to certain conditions (see “Business of easyJet – Intellectual property”). easyJet UK and easyGroup IP Licensing are both currently controlled by Stelios Haji-Ioannou.

THE MARKET

The liberalisation of the air transport market within Europe in the 1990’s created the opportunity for the emergence of the European low-fare passenger airline sector. In 1992, EU member states adopted a final package of liberalisation measures that, from 1 January 1993, permitted greater access to intra-EU international routes. In 1995, the European Economic Area Agreement extended these measures to Norway, Iceland and Liechtenstein. In April 1997, liberalisation was further extended to the domestic routes of EEA member states, so that any EEA carrier can now provide passenger services on any route within the EEA without restriction on price or capacity (see “Air transport regulation” in Part IV of this document).

Airlines operating in the European passenger market fall into the following broad categories:

- ▶ National flag carriers, which generally offer multi-product scheduled services on both intra-European and intercontinental routes. In the past the majority of these carriers were state-owned and many benefited from state aid. Many of these carriers have been either essentially fully privatised (e.g. British Airways and Lufthansa), partly privatised (e.g. Air France and SAS) or are being prepared for privatisation (e.g. Iberia and Aer Lingus).
- ▶ Regional carriers, which provide multi-product scheduled services on largely intra-European routes using small jet or turboprop aircraft. Many of these airlines have entered into strategic alliances with national flag carriers (e.g. Braathens is a member of the KLM/Northwest alliance) or become franchisees of national flag carriers (e.g. British Regional is a British Airways franchisee and Proteus is an Air France franchisee).
- ▶ Low-fare scheduled carriers such as easyJet, Ryanair, Go and Buzz, which usually offer lower fares and operate point-to-point services. Some of these carriers are independently owned (e.g. easyJet and Ryanair) whilst others have been formed and are owned by national flag carriers (e.g. Go is owned by British Airways and Buzz is owned by KLM).
- ▶ Charter airlines such as JMC, Monarch and Britannia, which operate primarily on leisure dominated routes between northern and southern Europe (as well as from Europe to long-haul destinations such as Florida). The majority of these airlines are owned by major tour operators. Seat sales are primarily offered as part of a package holiday offered by tour operators rather than on a seat-only basis.

The overall air transport market in Europe is expected to grow substantially in the future. IATA estimates that the number of international scheduled passengers travelling between countries in Europe will grow from 176 million in 1999 to 215 million in 2003, reflecting an average annual growth rate of 5.1 per cent.

The low-fare segment of the market is expected to grow faster than the overall air transport market. A January 2000 report by Cranfield University in England estimated that low cost airlines carry approximately four per cent of all the international and domestic passengers within Europe, and projects that this market share is likely to grow to between 12 per cent and 15 per cent “over the next decade”.

easyJet believes that this predicted growth in the low-fare segment of the market is attributable to the ability of low-fare airlines to attract customers who would otherwise have flown on national flag carriers or regional full-service carriers, or used other modes of transport, or not travelled at all.

STRATEGY

easyJet's mission is "to provide our customers with safe, good value, point-to-point air services. To offer a consistent and reliable product at fares appealing to leisure and business markets on a range of European routes. To achieve this we will develop our people and establish lasting relationships with our suppliers".

The Directors believe that easyJet is well positioned for success in a market that shows an increasing acceptance of low-fare airline travel. easyJet has adopted a business model which it believes is scalable and capable of supporting the Company's planned capacity growth. This growth, which will occur as easyJet takes delivery of the 32 new 737-700 aircraft it has on order with Boeing, equates to an average annual increase of approximately 25 per cent in available seats in the period from October 2000 to the last scheduled aircraft delivery in May 2004.

On 6 November 2000 British Airways announced its intention to sell Go, its low cost airline subsidiary. easyJet intends to take care before deciding whether to investigate the acquisition of Go and any other corporate acquisition presented to it and will only undertake any such acquisition if the Directors believe that such acquisition is in the best interests of easyJet.

easyJet's strategy and business model are based on six key strengths that the Directors believe support competitiveness, scalability and sustainable growth.

Simple fare structure

easyJet's pricing strategy is to offer value-for-money fares, although not necessarily the lowest fares for any given route. Unlike traditional and some low-fare airlines, easyJet offers customers a simple fare structure, with only a single fare available for sale at any one time for a specific flight. The following features further enhance simplicity and transparency, for the customer and for easyJet:

- ▶ all prices are based on one-way fares;
- ▶ only one class of seat is offered;
- ▶ the basic terms and conditions are the same for all fares, with no complex restrictions such as minimum-length stays;
- ▶ all bookings can be transferred, subject to availability, from flight to flight for £10 plus any difference in the fare;
- ▶ fares are quickly accessible over easyJet's website or by phoning the easyJet call centre; and
- ▶ fares generally increase in line with demand as the day of departure approaches, so that the earlier the sale, the cheaper the fare is likely to be.

In addition, easyJet's general policy is not to offer refunds, so that "no-shows" generate revenue.

While easyJet's fares on average are substantially lower than the full fares of traditional full-service carriers, easyJet's in-house revenue management system is designed to generate high load factors at profitable average yields (see "Business of easyJet – Pricing and revenue management").

Low unit costs

easyJet is able to provide value-for-money fares on a profitable basis by keeping unit costs low. This strategy does not necessarily mean taking the lowest-cost supply alternative. Rather, easyJet seeks sustainable efficiency improvements and unit cost savings, principally by:

- ▶ maintaining high aircraft utilisation, accomplished mainly by operating a young and reliable fleet, shortening aircraft turnaround times, extending the flying day, and investing in dedicated line maintenance and self-handling at London Luton;

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- ▶ eliminating all sales intermediaries between the customer and easyJet, other than airport sales desks, (whether travel agents or other airlines), which means that easyJet does not have to pay commissions or CRS fees. This also simplifies back-office accounting and reduces staff costs;
- ▶ focusing on sales via the internet, which means that sales growth can be more easily accommodated without incurring significant additional costs;
- ▶ adopting a single class, high density aircraft cabin layout offering 149 seats, the maximum permitted for the Boeing 737-300 and 737-700;
- ▶ eliminating unnecessary service frills that, in easyJet's view, are not highly valued by the customer, such as complimentary in-flight catering, tickets and dedicated airport lounges;
- ▶ using a simple business model, so that easyJet does not, for example, offer passenger connections, interlining, or freight services;
- ▶ operating two similar variants of the Boeing 737 aircraft, thereby reducing training overheads and increasing operational flexibility; and
- ▶ establishing long-term agreements with many key suppliers.

Strong branding

easyJet has established a strong brand in its key European markets (the UK, the Netherlands and Switzerland) through a high-profile marketing strategy incorporating easily recognisable orange brand images and distinctive and intrusive advertising and public relations. easyJet invests significantly in print, radio and outdoor advertising, approximately five per cent of sales in the year ended 30 September 2000, and seeks to associate its brand with low-fares, young aircraft, informal service, the internet and the championing of consumer interests.

easyJet focuses its advertising on the major catchment areas which it serves, in order to ensure that exposure is both intensive and effective. High-visibility use of the slogan "the web's favourite airline" and the displaying of the easyJet internet address on the exterior of the aircraft are designed to encourage customers to use this low-cost sales distribution channel. The Company's Chairman, Stelios Haji-Ioannou, is often featured in promotions on a first-name-only basis, to convey a friendly and no-nonsense approach.

The Directors believe that brand awareness has been significantly enhanced by the success of the television programme "Airline", an observational documentary about airlines, the last three series of which were on easyJet and were shown on the UK's ITV television channel. Airline has also been shown in Amsterdam and in other countries (see "Business of easyJet – Marketing"). Some programmes may show easyJet in an unflattering light, but the Directors believe that the increased brand awareness and the reinforcement of the openness of the Company arising from the series outweigh this negative aspect of the programmes.

The Company believes that its marketing, advertising and public relations activities have been very successful in establishing strong brand awareness. In two of easyJet's key markets, the UK and French-speaking Switzerland, studies commissioned by easyJet measured total awareness of the easyJet brand at 80 per cent and 93 per cent in February and October 2000 respectively (see "Business of easyJet – Marketing").

Commitment to customer service

easyJet's first and most important service priority is the safety of its customers. This is reflected by the airline's internal focus on safety management (see "Business of easyJet – Safety and security"). easyJet has one of the youngest fleets of any comparable European short- to medium-haul airline, with an average aircraft age of just under five years as at 30 September 2000.

easyJet has recognised the importance of customer service by seeking to control key activities that involve dealing directly with customers. Examples include sales and customer service activities in the call centre, website design and passenger handling at London Luton. easyJet's airport staff, cabin crews and flight crews are selected, trained and encouraged to provide a service consistent with easyJet's image – professional, friendly and informal.

easyJet's commitment to customer service has been recognised by easyJet winning Business Traveller magazine's "Best No Frills Airline" award in 1999 and "Best Low Cost Airline" award in 2000 and the "Best low-cost airline" award in the Telegraph Travel Awards 2000 (see "Business of easyJet – Service").

Multi-base network

easyJet has and is continuing to build a multi-base network that is different from typical "hub and spoke" operations. "Hubs" are generally designed to generate and capture traffic to and from multiple points through a central connection point. In contrast, easyJet does not configure routes, set prices or schedule flights in order to capture or promote connecting traffic. Rather, easyJet's three existing bases are centres of operations close to the airline's major target customer catchment areas, with each base serving many of the same destinations. The route network, although radiating out from the three bases, is in fact made up of point-to-point services.

easyJet's network strategy is to build network density, principally by increasing frequency and adding routes within the existing network. As the volume of services to existing destinations grows, new bases will be created on a selective basis. An example is Amsterdam, which is currently served from London Luton, Liverpool and Geneva. The Company intends to increase the number of destinations served from Amsterdam in early 2001.

easyJet's network model is to provide dense point-to-point services within Europe. The Company believes that this model provides significant benefits, including reduced dependence on a single "hub" and the creation of local competitive advantages as a result of the size of easyJet at its bases and the frequency of its flights.

Strong corporate culture

easyJet has a strong and coherent corporate culture which it has associated with its corporate colour, orange, and which includes an emphasis on the value of all employees. To that end, the employees themselves have defined a statement of the organisation's values – the "orange culture". This statement, encapsulated in the phrase "everybody makes a difference, orange is the difference", has been adopted by the Board and reinforced through an "orange" induction programme given to all new recruits, on-going management development training and regular staff social events. The Board believes that the Company's stated "orange" values, including being "up for it", "passionate" and "sharp", help to motivate employees to be productive and to implement easyJet's strategies.

The management of the Company is entrusted to a Chief Executive and an executive team with extensive commercial, operational and financial experience (see "Business of easyJet – Directors, senior management and employees"). In keeping with the "orange culture", the Directors encourage employees to contribute to the management of the business and allow employees to have access to a significant amount of information which is stored on the Company's electronic document system.

NETWORK

At 30 September 2000, easyJet operated on 28 routes serving 18 airports, including scheduled services from its three main bases at London Luton, Liverpool and Geneva to airports in the United Kingdom and continental Europe. London Luton is the Company's largest base. It serves 15 destinations and is located approximately 32 miles north of central London. Frequent rail services arrive and depart from a nearby dedicated rail station (approximately 35-50 minutes from central London by train). Free shuttle buses connect the railway station to the airport. In addition, there are regular coach and bus services connecting the airport to a wide range of towns and cities. London Luton serves a catchment area of 13.2 million people within 50 miles of the airport.

easyJet's base in Liverpool serves nine destinations. The airport serves a catchment area covering much of north-west England and north Wales, a region with a population of 7.5 million within 50 miles of the airport.

easyJet Switzerland operates from a base in Geneva and serves seven destinations, including four airports in the UK. Geneva Airport serves a catchment area of an estimated 1.5 million people within a one hour drive of the airport.

In 2001, easyJet intends to develop Amsterdam as a new base, by increasing the number of destinations served, adding to the three existing routes other destinations in the easyJet network including Belfast and Nice with one daily round trip and Edinburgh with a twice daily service.

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The table below sets out easyJet’s route system for summer 2000 and the winter of 2000/1:

Route	Date service commenced/expected to commence	Scheduled number of weekly one-way trip flights (peak summer 2000)	Scheduled number of weekly one-way trip flights (peak winter 2000/1)
Between London Luton and:			
Aberdeen	January 1996	24	26
Amsterdam	April 1996	66	76
Athens	July 1998	28	28
Barcelona	June 1996	58	44
Belfast	September 1998	50	62
Edinburgh	November 1995	62	76
Glasgow	November 1995	72	88
Inverness	November 1996	18	14
Madrid	September 1998	28	24
Malaga	October 1999	32	28
Nice	June 1996	84	56
Palma	December 1997	32	14
Zurich	November 1998	40	42
Between Liverpool and:			
Amsterdam	October 1997	38	56
Barcelona	January 1999	28	14
Belfast	July 1999	38	76
London Luton	October 1999	38	42
Madrid	September 1999	14	14
Malaga	July 1999	28	28
Nice	October 1997	18	14
Palma	March 2000	18	14
Between Geneva and:			
Amsterdam	July 1999	28	28
Barcelona	July 1999	28	14
Liverpool	January 1999	14	32
London Gatwick	December 1999	14	14
London Luton	December 1997	56	66
London Stansted	December 1999	14	14
Nice	July 1999	42	28
Between Amsterdam and:			
Belfast	January 2001 (expected)	—	14
Edinburgh	January 2001 (expected)	—	28
Nice	January 2001 (expected)	—	14
Total:.....		1,010	1,088 (including 56 in January 2001)

easyJet has, and is continuing to build, a multi-base network that is different from typical hub and spoke operations. The network, although radiating out from its bases, is in fact made up of point-to-point services. This routing model differs from that followed by most European airlines. In particular, as shown by the following table, Ryanair and Go have, according to publicly available schedule and fleet data as of 29 October 2000, more dependence on their main hubs with lower average frequencies of flights on each route.

Airline	No. of aircraft	No. of cities	Average no. of daily departures	Average no. of aircraft/city	Average no. of daily departures/city
easyJet	19	16	145	1.2	9.1
Ryanair*	31	39	215	0.8	5.5
Go	13	21	70	0.6	3.3
Southwest	334	49	2,547	6.8	52.0

Source: ATI OAG Market Analysis as at 29 October 2000

Note:

These figures may change on a seasonal basis. For example, Go travels to additional cities but only at certain times of year.

*The figures for Ryanair are heavily influenced by the frequency on its Stansted/Dublin route which makes an average of between 12 and 13 weekday departures in the summer and an average of between 10 and 11 weekday departures in the winter.

easyJet intends to grow its network in four ways:

- ▶ it intends to increase the frequency of flights on many existing routes. The aim is to consolidate and confirm easyJet's position in each of its current markets, and to maximise the effectiveness of its marketing spend. The Company believes there is room in the current schedule for higher flight frequencies. The Company also believes that higher flight frequencies will attract more business travellers, who tend to book late and therefore pay more;
- ▶ it intends to create new links between points already served in the network;
- ▶ it will continue to add new destinations from existing bases. This growth is, however, expected to be limited in the short term to an average of one new destination per year. In order to select new destinations, multiple evaluation criteria are used, including market characteristics, fit with the existing network, competition, slot availability and airport costs; and
- ▶ it expects in due course to grow selected destinations into new bases, as it intends to do in 2001 with Amsterdam.

From time to time easyJet may reduce frequencies or withdraw from routes. For example, it may withdraw from the London Luton to Liverpool route if it becomes commercially unviable because of an increase in landing fees at Luton.

PRICING AND REVENUE MANAGEMENT

easyJet's pricing strategy is to offer value-for-money fares, although not necessarily the lowest fares for any given route or market. easyJet regularly checks its fares against competitors' to ensure its fares are on average significantly below those offered by traditional full-service airlines.

easyJet has a simple pricing structure, offering a single fare at any given time for all available seats on a given flight. Round trip fares are simply the sum of two one-way fares, which may be different if demand on each leg of the journey is different. All fares have the same basic terms and conditions, including:

- ▶ all purchases must be made by debit or credit card (although cash or cheque may be used if the customer is purchasing at the airport);
- ▶ no cancellations and no refunds (other than cancellations made within 24 hours of a booking or unless easyJet, in its discretion, decides to pay a refund for inconvenience caused);
- ▶ seat purchases can be changed (e.g. the person travelling, the date, the origin or the destination), but only for a charge of £10 plus any increase in seat fare since the original booking date;
- ▶ unpaid reservations are not accepted and therefore each booking is a sale; and
- ▶ fares available via the internet are £2.50 less (per one-way fare) than those available over the telephone.

To increase simplicity and to reduce costs, for the customer and for the airline, easyJet does not:

- ▶ pay commissions for bookings by travel agents or other airlines;
- ▶ offer special discount categories such as frequent flyer or corporate schemes (except for the discount for booking via the internet); or
- ▶ impose fare restrictions such as those typically offered by traditional full-service carriers, including having fares available only for round trip flights, or only for journeys involving a Saturday night stay or a minimum length of stay.

Generally, fares are increased according to actual and forecast demand as the departure date for the flight approaches. The earlier the booking, the cheaper the fare is likely to be. Fares for a route are increased up to a fixed maximum which is considerably higher than the fare first offered. Average fares are intended to be substantially lower than full-fare tickets offered by traditional full-service airlines on the same or similar routes. easyJet assures passengers that it will not subsequently sell cheaper fares (other than special promotions) on the same flight by offering to refund the difference in fares if this occurs.

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easyJet uses promotions on an ad-hoc basis, but generally well in advance of departure, to increase sales on flights where it is evident that substantial numbers of seats may remain unsold at departure. This is most likely to occur on flights during periods of low demand such as the winter months. The promotions may be run with a media partner such as a newspaper or through traditional paid advertising.

The table below shows a sample of the range of fares available on easyJet routes during summer 2000. The lowest fares, sold well in advance of the departure date, are intended to stimulate demand and the highest are those available very close to the day of departure. As shown, the range of possible fares can be very broad.

Between London Luton and:	easyJet summer fare range (per one-way fare exclusive of tax) (£)
Amsterdam	20 – 140
Liverpool	7.50 – 120
Nice.....	30 – 210
Palma	30 – 210

Table ignores one-off promotional fares and excludes the £2.50 discount for booking via the internet.

Revenue management is the tool by which airlines control how many seats are sold at what fare. Generally, revenue management systems aim to maximise revenue by attempting to fill each available seat at as high a fare as possible. This is done by avoiding selling all seats at the lowest fares, by increasing fares in response to demand and by minimising the number of unsold seats. easyJet has its own revenue management system, customised for its own purposes such that:

- ▶ each leg of a journey is managed and priced separately according to the specific demand on that leg as a result of easyJet not offering round-trip or itinerary fares; and
- ▶ the fare structure is simple; easyJet has minimal fare restrictions; it permits customers to change seat purchases for a £10 fee plus the difference in fare; and it avoids overuse of promotions.

SALES AND DISTRIBUTION

easyJet sells seats via its own website (www.easyJet.com) and through its call centre at London Luton. To a much lesser extent, it also sells seats via airport sales desks. easyJet believes its prominent use of the slogan “the web’s favourite airline” and the painting of the website address on each of easyJet’s aircraft encourages customers to use this low-cost sales channel. In September 2000, the UK Advertising Standards Authority rejected a complaint by Go that easyJet’s use of the phrase “the web’s favourite airline” was misleading.

Distribution is substantially simplified for easyJet because passengers are not issued tickets. Instead, each customer receives a confirmation number, either by return e-mail, if the purchase is over the website, by post, if the purchase is made over the phone or in person, if purchasing at the airport. The passenger simply gives their name and, if necessary, the confirmation number at check-in. easyJet does not use travel agents or other airlines to sell its seats. This avoids the need to pay travel agency commissions and CRS fees, which can be a significant part of an airline’s cost structure.

easyJet made its first internet seat sale in April 1998, and has successfully built up the proportion of its sales via the internet since then. In the year to 30 September 2000, over 65 per cent of initial sales were made via the internet. In the month of September 2000, this figure reached 78 per cent which the Directors believe to be one of the highest percentages for an airline. Changes to these initial sales currently have to be made via the telephone so that the percentage of seats that are ultimately sold via the internet is lower, for example 71 per cent in September 2000. The Company intends to develop its website so that changes to initial sales will be able to be made over the internet during 2001. The Directors believe these levels of ticket sales via the internet make easyJet one of the UK’s biggest online traders in terms of sales.

easyJet actively promotes the use of the internet by offering a discount of £2.50 on each one-way fare on flights booked via the internet excluding promotional fares. Furthermore, seat purchases made more than two months in advance of a flight are only possible via the internet and currently at airport sales desks. Internet penetration and acceptance of e-commerce does, however, vary from country to country served by easyJet.

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The table below shows the growth in easyJet's internet initial sales since the commencement of internet sales in April 1998 by showing internet sales percentages in selected months.

Month	Percentage of initial sales made via the internet*
March 1998	0%
June 1998	4%
September 1998	13%
December 1998	9%
March 1999	27%
June 1999	32%
September 1999	39%
December 1999	47%
March 2000	60%
June 2000	73%
September 2000	78%

*Includes sales originally made via the internet, but later amended by phone.

During 2001, the Company aims to increase significantly the annual proportion of initial sales made via the internet from the average of 65 per cent achieved in the last financial year. The rationale for this is fourfold:

- ▶ the internet is easyJet's lowest cost sales channel;
- ▶ the internet offers a very scalable route to market;
- ▶ a very high internet sales ratio will mean that no significant increase in multi-lingual telephone sales agents and related call centre costs will be required to accommodate easyJet's planned growth; and
- ▶ the goal reinforces easyJet's branding and positioning as an e-commerce focused airline.

easyJet's website is designed in-house and is intended to be consistent with the easyJet philosophy: no frills and easy to use, with an emphasis on speed and efficiency. The website is currently available in English and French. Availability in other languages and an increase in general functionality to allow, for example, customers to make changes to previously made seat purchases, is planned for 2001.

easyJet's call centre is its original sales channel. Based in London Luton, it is staffed seven days a week, 24 hours per day. The centre employs multi-lingual staff to handle calls appropriately. The call centre not only serves as a sales channel, but also currently handles changes that passengers may wish to make to their seat purchases, whether the original purchase was made over the phone or via the website. As the proportion of internet sales increases, and functionality on the website evolves, the role of the call centre will increasingly be focused on customer service.

MARKETING

easyJet has established a strong brand in its key European markets of the UK, the Netherlands and Switzerland by significant investment (approximately five per cent of sales in the year ended 30 September 2000) in advertising and by high-profile public relations campaigns. Advertising spend is concentrated on the catchment areas which easyJet serves in order to ensure that exposure is both intensive and effective. This approach is closely aligned with the network strategy of developing multiple bases and building frequency in selected markets.

easyJet's brand consists principally of its name, generally reproduced in a specific distinctive typeface in white on an orange background, and its associated website address. Orange is used extensively in advertising, on aircraft and otherwise as easyJet's distinctive colour. The Company seeks to associate the brand with the following values: offering low-fares; operating a young aircraft fleet; offering a professional and informal service; being closely associated with e-commerce and the internet; and being a consumer champion. Promotion of the easyJet brand is enhanced by easyJet's in-house publicity material production capability. The objective of the Company is that its publicity be "distinctive and intrusive".

The Company's Chairman, Stelios Haji-Ioannou, is often featured in easyJet's advertising and in its public relations events, going by his first name only, in order to emphasise the informal, no-nonsense image easyJet

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wishes to project. easyJet promotes itself as a consumer champion by publicising its disputes with other companies that it believes hinder or prevent low-fare airline competition. Targets to date have included Swissair (for allegedly blocking easyJet's application for a licence to fly scheduled services from Geneva to Barcelona), British Airways (alleging that it subsidises Go in an anti-competitive manner) and Barclays Bank which through investment funds is the principal shareholder of London Luton Airport (for seeking to raise easyJet's airport charges at London Luton). The Company believes that the campaigns reinforce easyJet's image as a consumer champion and raise public support for the airline.

easyJet advertises principally through media channels such as print, radio and billboards. easyJet does not generally use television advertising because television audiences are much larger geographically than easyJet's catchment areas, but it does use television as a public relations channel. In particular, easyJet has achieved significant unsponsored exposure from extensive UK television coverage in the "Airline" documentary programme, which during its most recent series on the UK's ITV network achieved average audience figures of 7.5 million, equivalent to 37 per cent of the total UK viewing audience for those programme times. Filming of a further series started recently.

easyJet conducts regular brand awareness studies using the external research agencies NOP Research Group (in the UK), MSO Medialab (in Switzerland), Media Planning (in Spain), Research International (in Greece), NIPO (in the Netherlands) and All Conseils (in France). These studies are conducted in each of the countries to which easyJet flies. The table below shows total awareness of the easyJet brand.

	Month (1999)	Total brand awareness (% of total population)	Month (2000)	Total brand awareness (% of total population)
UK.....	Feb	71	Feb	80
France (Alpes-Maritime).....	July	15	Mar	27
Spain	July	11	Apr	9
Greece	Sept	33	Apr	38
The Netherlands.....	Jul	33	Mar	54
Switzerland (French speaking population)	Jun	41	Oct	93
Switzerland (German speaking population).....	Jun	19	Oct	45

Source: NOP Research Group (in the UK), MSO Medialab (in Switzerland), Media Planning (in Spain), Research International (in Greece), NIPO (in the Netherlands) and All Conseils (in France).

The Company believes that these recognition statistics reflect the success of easyJet's advertising and public relations strategies.

The success of easyJet's branding effort was recognised in November 1999, when the UK Business Superbrands Council selected easyJet as a "Superbrand". A Superbrand is formally defined as a brand "that has established the finest reputation in its field and offers customers significant advantages over its competitors". Other Superbrands include names such as Coke, Heinz, Manchester United and Virgin. Also, in October 2000, the magazine Marketing Week awarded easyJet "leisure brand of the year".

SERVICE

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

easyJet operates an entirely ticketless sales and check-in service. easyJet believes this service is less burdensome for customers. In addition, the service reduces the costs associated with ticket processing, including personnel costs, and simplifies administration and control. In addition, there is no seat assignment policy. Instead, passengers are "rewarded" for checking in early because boarding is generally sequenced according to check-in order. Thus, "early-check-in" customers generally get a better chance of their choice of seat. Seats are not offered on a standby basis, as easyJet believes standby arrangements unacceptably complicate aircraft boarding and turnaround.

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

easyJet seeks to look after its customers attentively and in the event of delays respond to their needs quickly. This includes offering refunds in certain circumstances, vouchers for food and frequent information as to flight status. For example, if a delay of greater than four hours occurs, for which easyJet is responsible, easyJet will

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endeavour to take the passenger to his destination as soon as practicable and the passenger's fare on that leg of the journey is fully refunded, less the APD.

easyJet has received a number of awards for service. For example:

- ▶ it was voted "Best No Frills Airline" and "Best Low Cost Airline" in 1999 and 2000 respectively in the Business Traveller magazine awards;
- ▶ in July 2000 it was voted the fifth best business airline in the world and seventh best leisure airline in the world in the Guardian/Observer travel survey based on the views of 17,000 respondents; and
- ▶ in October 2000 it was voted "Best low-cost airline" in the Telegraph Travel Awards.

SCHEDULING AND SLOT MANAGEMENT

The Company's objective is to schedule a sufficient number of flights per day on most routes to be attractive to both leisure and business travellers. On busy routes such as London Luton - Amsterdam, London Luton - Glasgow and London Luton - Edinburgh, easyJet offers between five and seven daily flights from Monday to Friday. Management regularly reviews the need for adjustments in the number and timing of flights on all its routes. Management expects to increase flight frequencies generally as part of its overall growth plans (see "Business of easyJet - Network").

easyJet operates from some congested airports, such as Madrid and Gatwick. At these airports, takeoffs and landings are regulated through the allocation of slots. Slots are allocated in accordance with EC Slot Regulation and otherwise according to IATA procedures by an airport co-ordinator for no consideration. Although the EC Slot Regulation provides that 50 per cent of slots becoming available must be reserved for new entrant carriers, the number of slots becoming available (particularly at peak times) at congested airports may be negligible. There are, however, mechanisms by which airlines can exchange slots and easyJet participates in these mechanisms.

FLEET

As at the date of this document, easyJet's fleet consisted of 18 Boeing 737-300 aircraft and one Boeing 737-700 aircraft, all of which easyJet either owns or leases. Generally, 10 of the aircraft in the fleet are based at London Luton, four at Liverpool and four at Geneva with an additional aircraft in rotation in maintenance to the end of the year.

The Boeing 737 was originally selected by easyJet because it was the aircraft which best matched easyJet's requirements in terms of network performance, economics and availability. Boeing claims it has sold more 737s than any other aircraft type, since its introduction in 1967. As at 31 December 1999, approximately 27 per cent of the world's operating commercial jet aircraft fleet were 737s. The 737-300 model has a proven track record of reliability in high frequency, short-haul operations like those of easyJet. The 737-300s used by easyJet meet the latest Chapter 3 noise requirements (see "Environmental regulation" in Part IV of this document). In addition, the Company believes that there are further benefits to be gained from the popularity of the 737 type, such as the availability of spare parts and the availability of type-rated flight crew members.

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The following table sets out details of the easyJet fleet as at the date of this document (all aircraft are 737-300s except for G-EZJA which is a 737-700).

Aircraft	Date of manufacture	Owned or leased
UK Registered		
G-EZYB.....	August 1988	Owned
G-EZYC.....	February 1989	Owned
G-EZYD.....	December 1988	Owned
G-EZYF.....	May 1987	Owned
G-EZYG.....	August 1998	Owned
G-EZYH.....	September 1998	Owned
G-EZYI.....	November 1998	Owned
G-EZYJ.....	December 1998	Owned
G-EZYK.....	January 1999	Owned
G-EZYL.....	March 1999	Owned
G-EZYO.....	August 1999	Operating lease
G-EZYP.....	September 1999	Operating lease
G-EZYR.....	October 1999	Operating lease
G-EZYT.....	November 1994	Operating lease
G-EZJA.....	October 2000	Operating lease
Swiss Registered		
HB-IIB.....	December 1988	Operating lease
HB-III.....	July 1999	Operating lease
HB-IIJ.....	November 1999	Operating lease
HB-IIK.....	June 1999	Operating lease

The wet lease of the aircraft operated at 30 September 2000 has since expired.

Initially, easyJet owned all its aircraft, however the Directors are currently seeking to ensure that easyJet has between 40 and 60 per cent of the fleet under operating lease, for the following reasons:

- ▶ having the flexibility to lease aircraft allows easyJet to take advantage of 100 per cent asset financing; and
- ▶ leasing aircraft reduces easyJet's residual value exposure on the disposal of aircraft (although it eliminates any residual value benefit on disposal when the market for second-hand aircraft is buoyant).

Up to March 1999, easyJet financed the majority of its aircraft acquisitions with secured loans. Subsequent deliveries have been financed through sale and operating leaseback transactions with General Electric Capital Aviation Services Limited ("GECAS").

easyJet has entered into an agreement with Boeing to purchase 32 new "next generation" 737-700 aircraft. The standard list price for each of these aircraft is set out in "Boeing contract" in Part VII of this document. These prices are subject to substantial confidential price and payment terms concessions granted to the Company by Boeing. The first of these aircraft was delivered on 13 October 2000 and the rest are due to be delivered in the period up to May 2004 at an average rate of approximately eight aircraft every 12 months.

Year of delivery	Number of planned 737-700 deliveries
Oct-Dec 2000.....	3
2001.....	6
2002.....	9
2003.....	8
Jan-May 2004.....	6

The Company is still considering its options for financing most of the 32 aircraft on order, although it has committed to finance the three deliveries in October, November and December 2000 through operating leases with GECAS (see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Capital expenditure" in Part III of this document).

easyJet also holds non-tradeable rights to purchase another 30 Boeing 737-700 aircraft at a list price of US\$41.4 million each subject to an agreed discount. Such prices are subject to certain adjustments for,

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amongst other things, inflation (see “Boeing contract” in Part VII of this document). These purchase rights lapse in 2007.

The Company currently anticipates that the six oldest aircraft in the fleet will be retired from the fleet in 2002 when they will be sold in the second-hand market or returned to lessors. It is expected that the easyJet fleet will total 44 aircraft by May 2004. Delivery of the 32 new aircraft ordered from Boeing and the planned retirements will result in an increase in easyJet’s capacity (as measured in seats) of approximately 25 per cent per annum over the delivery period of October 2000 to May 2004. easyJet expects the average age of its fleet to decrease from under five years as at 30 September 2000 to two years in 2002, and then to increase to under three years in 2004.

The following table shows the historical and expected development of the fleet from 30 September 1997 to 30 September 2004.

Date	Fleet size 737-300s	Fleet size 737-700s	Total fleet Size	Average aircraft Age (years)
30 September 1997	5	—	5	9.4
30 September 1998	10	—	10	7.7
30 September 1999	16	—	16	4.1
30 September 2000	18	—	18	4.6
30 September 2001 (expected)	18	7	25	4.2
30 September 2002 (expected)	12	17	29	2.0
30 September 2003 (expected)	12	26	38	2.4
30 September 2004 (expected)	12	32	44	3.0

This table assumes that the six oldest 737-300s are retired between 30 September 2001 and 30 September 2002. The figure at 30 September 1998 includes two aircraft of easyJet Switzerland’s. One of these aircraft flew some sectors for easyJet UK during the summer of financial year 1998.

easyJet’s fleet plan has two primary aims:

- ▶ to maintain a young fleet in order to support high reliability and high aircraft utilisation. As at 30 September 2000, easyJet had one of the youngest fleets of any comparable European short- to medium-haul airline; and
- ▶ to achieve maximum commonality within the fleet in order to simplify operations and increase scheduling flexibility.

The easyJet fleet is configured with a single class seat layout which offers 149 seats, the maximum allowed for the Boeing 737-300 and 737-700.

Boeing ceased to manufacture the 737-300 at the end of 1999. As a result, easyJet has decided that for its new fleet expansion it will purchase new Boeing 737-700s, the successor to the 737-300.

The 737-700 aircraft will offer important commonality with the 737-300:

- ▶ Boeing has designed the aircraft to fulfil a similar short-haul use;
- ▶ pilots will be common-rated on both aircraft – that is, subject to a limited “differences” course, they will be able to fly both aircraft, thereby keeping crew scheduling simple and flexible; and
- ▶ all aircraft in the fleet will have 149 seats and very similar cabin layouts.

Additionally, the 737-700s are expected to be more fuel-efficient on longer sectors and incur lower maintenance costs than the 737-300 model because they are heavier, the 737-700s will incur higher air navigation and landing charges. Approximately 23 per cent of parts (by value) will be common between the two types of aircraft.

There are certain constraints on the interchangeability of the current aircraft in the fleet. First, whilst the majority of the fleet’s engines have been configured to operate at lower than standard thrust in order to extend engine life, two of the aircraft in the current fleet, G-EZYB and G-EZYC, have standard rated engines. Only these aircraft are capable of operating directly from London Luton to Athens with a full payload, although the remainder could be uprated. The introduction of the 700 series will provide more flexibility on this route.

Secondly, Swiss aircraft registration conditions require that the four Swiss registered aircraft must be crewed with pilots holding Swiss licences or pilots with licences validated by the FOCA (the Swiss Federal Office of Civil Aviation).

easyJet has two spare engines for the 737-300s, one owned and one leased. It intends to acquire additional spare engines to support the future fleet.

A key aspect of easyJet's strategy is to reduce unit costs by maintaining high aircraft utilisation rates. According to CAA statistics, the average daily utilisation achieved by the easyJet Boeing 737-300 fleet in the 12 months to December 1999 was 10.2 block hours. This contrasts with the remainder of the UK fleet of 737-300s, which, according to the CAA, managed an average daily utilisation of 7.9 block hours during the 12 months to December 1999. During the summer season, 1 April to 30 September 2000, easyJet was able to increase its utilisation further to an average of, by its own estimates, 12.3 block hours a day.

MAINTENANCE

Under the requirements of their AOCs, easyJet UK and easyJet Switzerland have maintenance and quality assurance managers that are responsible for ensuring that easyJet and its contracted maintenance suppliers satisfy technical regulatory requirements.

easyJet does not carry out any maintenance itself but instead has contracted with suppliers with the requisite JAR 145 approvals, which are the European airline industry standard certifications for aircraft maintenance. It is a deliberate strategy of easyJet's to outsource maintenance to organisations with established track records and expertise in 737 maintenance.

easyJet's primary airframe maintenance contractor for both the UK and Switzerland is FLS Aerospace (UK) Limited ("FLSA"), based at London Stansted airport. As at 30 June 2000, the FLSA group supported 23 Boeing 737 operators who collectively flew about 250 Boeing 737 aircraft. These included companies such as Aer Lingus, KLM and Deutsche BA.

FLSA provides easyJet with the following services: all airframe heavy maintenance ("C checks"), component overhaul, repair and management, technical services (e.g., technical record upkeep, reliability analysis and maintenance planning) and various other maintenance support services. Most of these activities are conducted at FLSA's London Stansted base.

easyJet's line maintenance is also conducted through arrangements with FLSA. At London Luton Airport, where most aircraft are based, line maintenance is provided by easyTech (Registered office: Long Border Road, Stansted Airport, Stansted, Essex CM24 1RE), a joint venture between FLSA (holding 75 per cent) and easyJet (holding 25 per cent). easyJet together with FLSA formed easyTech in February 1999 to ensure that line maintenance personnel working on easyJet's fleet at London Luton focused exclusively on easyJet's fleet rather than on multiple customers, as is typical in the provision of third-party line maintenance. easyJet believes that easyTech's exclusivity provides benefits in terms of departure reliability and delay recovery. The JAR recommend that some aircraft line maintenance be carried out in a hangar. easyJet UK currently leases a hangar at London Luton Airport, from the airport, for the use of easyTech.

easyTech also provides easyJet's line maintenance at Liverpool Airport, where easyJet UK has a hangar under lease. At airports where easyJet aircraft pass through or stay overnight and FLSA does not have its own qualified maintenance staff, FLSA organises maintenance sub-contractors with the necessary JAR 145 approvals.

The maintenance contract with FLSA is a seven-year contract due to expire in November 2005. The agreement also includes incentives and penalties to encourage improved service levels. easyJet believes that the length of the contract is a reflection of its commitment to long-term relationships with major suppliers. Most of the FLSA services are priced on a fixed charge basis per flying hour or per aircraft. Prices are subject to escalation clauses with maximum amounts and certain exclusions.

easyJet's engine overhaul services are provided by Snecma, based in France, a 50 per cent partner in CFM International, the manufacturer of the engines used on easyJet's 737s. Management of the engines during overhaul is provided by Total Engine Support Limited, based in Cardiff. Honeywell provides maintenance on certain specific aircraft components, including the auxiliary power units, wheels, brakes and tyres.

SAFETY AND SECURITY

easyJet's commitment to safety is the top priority of the Company and its management. It is the first agenda item at Board, executive committee and operations meetings. During its operating history, easyJet has not had a single incident resulting in serious injury to passengers or crew. At the end of October 2000, one of easyJet's aircraft suffered a tail scrape incident which resulted in the aircraft requiring repairs. The estimated cost of the incident is expected to be approximately £300,000 some of which may be recoverable under the Company's insurance policies.

easyJet is committed to safe operations, which is manifested in its training procedures, its investment in the latest aircraft equipment and its adoption of a confidential safety issue reporting system. easyJet has active flight safety and standards teams which review both internal and external reports and promote a 'No Blame' safety culture.

Flight training emphasises accident prevention and covers all aspects of flight operations. The Company conducts its own flight training in conjunction with CTC Aviation Services Limited, with the approval of the CAA which regularly audits operations and flight training standards. easyJet purchases time on the Flight Safety Boeing Training International ("FSBTI") 737-300 simulator at East Midlands Airport for flight training purposes. By the middle of 2001, FSBTI plans to have completed a new four-bay flight simulator facility at London Luton. This will contain both a 737-300 simulator and a 737-700 simulator to which easyJet will have privileged access.

Aviation security standards are set in the UK by the Department for the Environment, Transport and the Regions, the CAA and ICAO. Responsibility for meeting these standards falls on both airlines and airports.

easyJet has a comprehensive quality department which performs audits of flight operations, maintenance, ground handling and customer services.

The CAA has regularly audited easyJet in accordance with JAR, with no major non-conformities reported.

FUEL

easyJet has fuel supply contracts at its bases and other locations. These contracts are generally for two-year terms. Prices under the contracts generally vary per month, and include a fuel cost component which is based on average industry rates for jet fuel and a service charge component.

Between mid 1998 and mid 2000 the price of jet fuel on the international spot market almost doubled and during the financial year 2000 easyJet's average unit fuel cost in US dollars increased by 69 per cent.

The future availability and cost of jet fuel cannot be predicted with any degree of certainty. Although the United Kingdom is an oil-producing nation, it is a net importer of jet fuel.

International prices for jet fuel are denominated in US dollars. Therefore, easyJet's fuel costs are subject not only to price fluctuations but also to exchange rate risks. easyJet has not entered into any fuel price or currency hedging agreements. It is the Company's current policy not to hedge for fuel or currency risks. The Company expects to review this policy periodically or if circumstances change significantly (see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Fuel price exposure" and "– Currency exposure" in Part III of this document).

INFORMATION TECHNOLOGY

easyJet makes extensive use of information technology ("IT") for its operations. Generally easyJet does not develop IT systems in-house, but instead relies on software produced by third parties. easyJet seeks to use high-quality, off-the-shelf IT products and packaged solutions developed by recognised suppliers.

easyJet's core operating system is its reservations system, which is licensed from Hewlett Packard, called OpenRes. It is used by other low-fare airlines such as Ryanair and Buzz. OpenRes enables easyJet to obtain on-line, real time information on billings, sales, seat purchases and load factors on all of its routes. The system has supported the sale of seats via the internet since April 1998. easyJet is seeking improvements in the functionality of its reservation system including through ongoing negotiations with Hewlett Packard. Hewlett Packard has only been prepared to make available any such improvements at significant extra cost and easyJet is considering alternatives.

easyJet has developed its own revenue management system in-house, customising functionality to meet easyJet's specific needs (see "Business of easyJet – Pricing and revenue management"). easyJet maintains in-house capability for the system's ongoing maintenance and development.

Flight operations at easyJet are managed internally by the airline's network management centre ("NMC"). Since departure reliability and aircraft utilisation are key to the success of easyJet's business model, the IT system used by NMC, the Airline Information Management System, is vital. This system provides on-line aircraft and crew scheduling support, crew control and operations control. The system is used by a number of carriers including Aer Lingus, JMC, Lauda Air, Go and Olympic Airways.

easyJet has adopted a paperless office philosophy. To support this philosophy, it uses an electronic document system called "Keyfile". Incoming hard copies of documents are scanned into, and distributed to addressees by, the system. Faxes are sent or received completely electronically within the system. Backup arrangements include duplicate data tapes and the retention of selected legal documents at one of easyJet's outside law firms. The system creates a "virtual library" to which employees can have ready access to information. The Directors believe that the system provides significant benefits for management and administration through information sharing and accessibility, an important part of the orange culture. The system does, however, give rise to a number of risks (see "easyJet's open access policy may give rise to regulatory or legal actions" in Part V of this document).

easyJet is in the process of developing a business continuity plan which will enable critical business functions to continue in the event of disasters or power failures. Currently, easyJet performs nightly backups on all of its significant information systems and these backups are stored off-site. Backups are tested regularly for accuracy. In the event of a failure of its reservation system easyJet can establish a backup reservation system within 24 hours. All key information systems are protected by uninterrupted power supply units which provide backup power until easyJet's backup generator comes on-line.

easyJet's website is maintained by an off-site internet service provider. Website security is at a level which easyJet believes is acceptable by e-commerce industry standards. Credit card data is not stored on the website server, but is held at easyJet's offices at London Luton.

AIRPORT OPERATIONS

easyJet depends on local airport authorities and, generally, third-party ground handling suppliers to support operations at its airports. Arrangements with airports are typically on the standard terms for the airport, including prices. At three airports (including London Luton), easyJet has negotiated agreements with prices specific to easyJet.

After a dispute on the subject, easyJet UK and London Luton Airport Operations Limited have agreed that the expiry date of easyJet's agreement with the airport relating to the provision of airport services at London Luton will be in February 2001 (see "easyJet's relationships with London Luton Airport and Liverpool Airport" in Part V of this document and "Litigation" in Part VII of this document). easyJet has been seeking to negotiate a new agreement relating to the provision of airport services at London Luton for three years and continues to do so. Prior to the end of October 2000, the Company received an offer from London Luton Airport at a price per departing passenger which represented a discount to the tariff of £7.89 proposed by the airport, but nevertheless a significant increase over the current price. The Company rejected this offer and proposed an alternative framework for negotiation. This, together with the compromise as to the date of termination of the current agreement, gave the Company grounds for expecting to be able to reach a mutually acceptable arrangement with the airport. Recent press statements attributed to London Luton Airport Operations Limited and a letter received from it in November 2000 suggest that London Luton Airport Operations Limited considers that the parties are still a long way apart in their negotiations.

easyJet's current agreement with Liverpool airport contains a provision permitting either party to terminate on three months' notice. easyJet has argued that this provision is inconsistent with easyJet's and Liverpool's intention to commit to a long-term relationship as evidenced elsewhere in the agreement and has accordingly invited Liverpool to agree to a variation striking out this provision. Liverpool has to date declined to agree to such a variation. Nevertheless, easyJet would seek to resist Liverpool relying on this provision and has been advised by leading counsel that there are good grounds for so doing. easyJet and Liverpool Airport have been discussing a new long-term agreement to replace the existing arrangement for a number of months and have signed heads of terms, which are subject to contract, under which easyJet has agreed to an increase in its departure rates per passenger in exchange for a longer term extending to 20 years (see "easyJet's relationships with London Luton Airport and Liverpool Airport" in Part V of this document).

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Ground handling at airports is generally outsourced to local suppliers and is provided according to a standard IATA handling contract modified to reflect easyJet's requirements.

Both passenger and aircraft handling at London Luton are carried out by two wholly-owned subsidiaries of easyJet UK, easyJet Services Limited and easyJet Ramp Limited, respectively. These two companies began handling easyJet flights in March and May 2000, respectively, when they took on the easyJet operations of the previous supplier, Reed Aviation.

At easyJet's base in Liverpool, ground handling is sub-contracted to Reed Aviation. At easyJet's base in Geneva ground handling is sub-contracted to Jet Aviation however, easyJet Switzerland intends to establish shortly its own ground handling operation at Geneva.

FACILITIES

The Company's headquarters are at London Luton and are located in office facilities comprising approximately 19,500 square feet (with adjoining portacabins of 2,185 square feet), which easyJet UK occupies under the terms of a lease expiring on 31 December 2008. These facilities contain the Company's various executive, finance and operations departments, including the call centre, and are referred to as "easyLand".

The Company has also entered into leases this year in respect of office space, sales desk and crew rooms in the terminal building at London Luton Airport, which will expire in December 2002 and April 2003, respectively.

At Liverpool Airport, easyJet UK occupies a crew room/office on a short-term tenancy agreement which is terminable on one month's notice.

Various sales, check-in, baggage and office services are provided under handling agreements with third parties or directly by the airports at the following locations: Aberdeen, Amsterdam, Athens, Barcelona, Belfast, Edinburgh, Geneva, Glasgow, Inverness, Madrid, Malaga, Nice, Palma, Stansted, Zurich and Liverpool. easyJet Switzerland occupies office space in Geneva under a lease expiring in December 2004.

easyJet UK also occupies hangars at Liverpool and London Luton. The Liverpool hangar is held on a 10 year lease expiring in December 2009. At London Luton, easyJet UK occupies a hangar by virtue of an implied tenancy at will essentially on the same terms of a lease which expired in June 2000. easyJet UK is near to concluding a new lease of the hangar for a term expiring on 31 March 2001, although there is no statutory right to renew this lease. The early expiry date is linked to easyJet's negotiations with London Luton Airport for a new airport access agreement.

AIR TRAFFIC CONTROL

On 3 November 2000 the UK Department of the Environment, Transport and the Regions shortlisted three consortia for the public-private partnership intended to take a stake in the company which runs the UK's en route air traffic control services (National Air Traffic Services ("NATS")). easyJet, together with other UK carriers Airtours, Britannia, British Airways, British Midland, JMC, Monarch and Virgin Atlantic, is a member of one of these consortia, called The Airline Group Limited. This consortium seeks to run NATS on a "not for commercial return" basis focusing on investment and will aim to provide NATS with the commercial and project management skills required in order to satisfy a higher operating capacity more quickly and with lower risk than is currently planned by NATS. The UK Government has announced its desire to appoint the winning consortium in the spring of 2001. easyJet's commitment to the consortium is equal to the other members' commitments. easyJet's commitment, if the bid fails, will be limited to its share of the consortium's bidding costs and, if the bid proves to be successful, will involve an equity commitment the exact amount of which is currently the subject of commercial negotiation.

INTELLECTUAL PROPERTY

easyJet places great importance in its trade marks and branding. The word "easyJet" is a registered trade mark in most of the major countries in Europe and in the USA. There are also trademarks and registrations in various countries for "easyJet the web's favourite airline", "easyJet Services" and "easyJet Ramp". In addition, easyJet, together with Stelios Haji-Ioannidis, trade under the "easy" name, has built up a reputation and goodwill in its use of the "easy" typeset.

easyJet has also built up a large portfolio of domain names around the world. easyJet has prevented other parties from profiting by registering domain names that are confusingly similar to easyJet's domain names.

There are numerous actions under way against parties infringing easyJet's trademarks, including many against cybersquatters.

On 5 November 2000 easyJet UK assigned its intellectual property rights in the easyJet brand and rights in certain other "easy" intellectual property (which represents substantially all of easyJet's brand-related intellectual property) to easyGroup IP Licensing, which like easyJet is currently controlled by Stelios Haji-Ioannou, and received a licence back to use the easyJet name (including domain names) and related get up (see "Brand" in Part VII of this document). The assignment and licence were part of an easy group-wide brand consolidation exercise whereby the intellectual property of easyJet and the easy group of companies will be assigned to easyGroup IP Licensing and licensed back to the appropriate operating companies. The easyJet licence is for a royalty of £1 per annum and is in perpetuity subject to termination rights including for unremedied breach of the licence, misuse of branding and insolvency. Under the licence, easyJet is permitted to use the easyJet brand in connection with its business as an airline with a core activity of passenger transport in fixed wing aircraft and is also permitted to carry out ancillary and conducive additional activities to the extent they account for not more than 25 per cent of easyJet's aggregate revenues. It is restricted in expanding outside these services, but, in return, easyGroup IP Licensing agrees not to license any other person to use the "easy" brand in the airline business with a core activity of passenger transport in fixed wing aircraft.

Under the licence, easyGroup IP Licensing takes primary responsibility for applying for trade mark registration and for enforcing the intellectual property rights of easyJet against third parties. easyJet has certain rights to pursue third parties or take steps to register trade marks relevant to its business, if easyGroup IP Licensing does not do so within specified periods.

Stelios Haji-Ioannou has agreed not to be involved in another airline business with a core activity of passenger transport in fixed wing aircraft from the date of the licence until the expiry of the period ending three years after the later of: (a) his ceasing to hold at least five per cent of the share capital of the Company; and (b) his ceasing to have control of easyGroup IP Licensing or, if earlier, the termination of the brand licence. If the brand licence terminates for insolvency the three year period shall not apply. This covenant will not prevent Stelios Haji-Ioannou from being involved in private jet charter or the holding of five per cent in a publicly quoted airline company provided he has no management role. For this purpose the chartering of private jets means the chartering of entire jets to an individual or company but not selling seats directly or indirectly to members of the public and not operating regular scheduled services. The Directors believe this does not compete with easyJet's core business.

Similar licensing arrangements are planned for both existing and future businesses in the "easy" group of companies controlled by Stelios Haji-Ioannou including easyEverything Limited, easyRentacar Limited, easyValue Limited, easyMoney Limited and easy.com Limited.

INSURANCE

easyJet carries passenger liability insurance. It insures its aircraft for loss and damage on a broad basis, including as a result of war and otherwise. easyJet also carries employer liability insurance, insurance for pilots' loss of licence and insurance for certain business interruptions resulting from disruptions to the airline's fixed-asset operations. Whilst easyJet does not carry comprehensive business interruption insurance, it believes that its overall insurance coverage is consistent with industry practice.

COMPETITION

The level of competition amongst airlines is high. Airlines compete primarily on routes, fare levels, frequency, reliability of service, brand recognition, passenger amenities and the availability and convenience of other passenger services. easyJet's low-fare business model means that easyJet is strong in many of these areas, but has chosen not to compete based on passenger services and amenities.

easyJet competes with a number of airlines that currently serve its routes or similar routes. easyJet's main competitors are national flag and regional carriers including British Airways, British Midland, Swissair, KLM, Iberia and Olympic Airways. British Airways (and its franchisees) competes on 22 of the 28 routes that easyJet serves, however most of its competing flights are operated from London Heathrow, London Gatwick and Manchester airports.

In the low-fare sector, easyJet competes against Ryanair, Go and, to a lesser extent at present, Buzz and Virgin Express. In October 2000, Go operated 21 routes from London Stansted, five of which were to easyJet destinations. As at the start of October 2000 Ryanair operated 44 European routes from Dublin, London Stansted and Glasgow-Prestwick, competing with easyJet only on the London-Glasgow route where it flies

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from different airports at both ends of the route. Buzz and Virgin Express operate 14 and 17 European routes, respectively, none of which compete directly with easyJet routes. Ryanair has announced that it will increase its fleet size from 31 in October 2000, to 44 aircraft in 2002.

Ryanair recently publicly expressed an interest in establishing a base at London Luton. This would create significant additional competition for easyJet, which is currently the largest airline operating out of London Luton.

On 6 November 2000 British Airways announced its intention to sell Go, its low cost airline subsidiary. easyJet intends to take care before deciding whether to investigate the acquisition of Go and will only undertake any such acquisition if the Directors believe that such acquisition is in the best interests of easyJet. There can be no assurance that any new, third party owner of Go will not be able to increase financial support for Go and/or change its strategy to compete more aggressively with easyJet on the same or similar routes.

easyJet also competes with certain charter carriers out of London Luton and Liverpool to leisure destinations.

Regulatory barriers to market entry have become lower (see “Business of easyJet – The market”) and others may seek to enter easyJet’s markets.

In addition to traditional competition among airline companies, the industry faces competition from ground and sea transport alternatives through, for example, improvements in high speed rail travel within Europe. easyJet may also be subject to new forms of competition in the future, such as video teleconferencing and other methods of electronic communication that may add a new dimension of competition.

PUBLICITY CAMPAIGNS

easyJet often undertakes publicity campaigns, run through the media or via easyJet’s own website, to seek to influence public opinion and to help easyJet to:

- ▶ protect itself from what it considers to be anti-competitive or monopolistic behaviour (for example, easyJet’s campaign in Switzerland against the Swissair monopoly on the Geneva-Barcelona route);
- ▶ advocate change to legislation (for example, easyJet’s campaign to reduce APD charges); and
- ▶ protect the consumer from increases in air fares (for example, easyJet’s campaign against Barclays Bank, which through investment funds is the principal shareholder in London Luton Airport, to keep charges at London Luton from rising).

The Company believes that such campaigns play an important role in challenging traditional industry practices, guarding against higher costs and protecting the consumer and the long-term development of the low-cost airline sector. In addition, they are instrumental in establishing the brand values associated with easyJet and creating a public awareness of easyJet that cannot be achieved with product-related advertising alone.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Trademark licensing agreement

On 5 November 2000 easyJet UK assigned its intellectual property rights in the easyJet brand and certain other “easy” intellectual property to easyGroup IP Licensing and received a perpetual licence back for a royalty of £1 per annum to use the easyJet rights assigned including the easyJet name (including domain names) and related get up. (See “Business of easyJet – Intellectual property” and “Brand” in Part VII of this document).

The Group has entered into commercial agreements with easyRentacar, easyEverything and easyValue to advertise one another’s products and services and to have “hot links” between one another’s websites. These agreements are on arm’s length terms.

Relationship agreement

Following the Global Offering, Stelios Haji-Ioannou, easyJet’s chairman, will continue to exercise majority control over easyJet Holdings Limited, the entity that, following the Global Offering, will hold approximately 75 per cent of the Ordinary Shares assuming no exercise of the Over-allotment Option (see “Business of easyJet – Principal shareholders”). In compliance with the Company’s Articles of Association Stelios Haji-Ioannou will not be able to participate in any decision of the Board relating to transactions or relationships

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between him or his associates and the Company (see “Memorandum and Articles of Association – Restrictions on Directors voting” in Part VII of this document). Furthermore, on 14 November 2000, Stelios Haji-Ioannou, easyJet Holdings Limited and the Company entered into a relationship agreement which is conditional, and will come into effect, upon Admission (the “Relationship Agreement”). Under this Relationship Agreement, Stelios Haji-Ioannou and easyJet Holdings Limited agree that at all times there will be a majority of independent directors on the Board and also on any committee of the Board to which significant powers are delegated. Furthermore, under the Relationship Agreement Stelios Haji-Ioannou, easyJet Holdings Limited and the Company agree that all transactions between them or between any of their respective associates will be on an arm’s length and normal commercial basis (see “Material Contracts” in Part VII of this document). The foregoing controls seek to permit the Company to carry on its business independently of Stelios Haji-Ioannou.

Stelios Haji-Ioannou has agreed not to draw any salary or receive any bonus or options or be reimbursed any expenses for his services to the Company.

PRINCIPAL SHAREHOLDERS

Until the time immediately prior to the Global Offering, the Company will be a wholly owned subsidiary of easyJet Holdings Limited. Following the Global Offering, easyJet Holdings Limited will remain the Company’s controlling shareholder, holding approximately 75 per cent of the Ordinary Shares (assuming no exercise of the Over-allotment Option).

easyJet Holdings Limited has an authorised and issued share capital of US\$62,396,612 divided into 61,746,612 ordinary shares of US\$1 each and 650,000 ordinary “A” shares of US\$1 each. The shares in easyJet Holdings Limited are held by various companies each incorporated in Jersey. The following table sets out the names of the registered shareholders of easyJet Holdings Limited, the names of the persons on whose behalf such companies hold the shares on trust (the “Beneficiaries”) and the resulting beneficial interests of the Beneficiaries, both in terms of number of shares in, and percentage of the total issued share capital of, easyJet Holdings Limited.

Registered holders of easyJet Holdings Limited shares	Beneficiaries	Number of ordinary shares or ordinary “A” shares of easyJet Holdings Limited in which interested	Percentage of total issued share capital of easyJet Holdings Limited in which interested
First Island Nominees Limited	Stelios Haji-Ioannou	32,084,000	51.42%
	George Karageorgiou	8,250	0.02%
First Island Services Limited	Polys Haji-Ioannou	14,808,000	23.73%
	N Hartley Consultancy Limited	38,362	0.06%
Pennine Trustees Limited.....	Clelia Haji-Ioannou	14,808,000	23.73%
First Island Management Limited.....	Ray Webster	650,000*	1.04%

*represents ordinary “A” shares

Nick Hartley is interested in N Hartley Consultancy Limited.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Board

The Board currently comprises five executive directors and six non-executive directors (including the non-executive chairman). The Company intends to appoint an additional independent Non-Executive Director in the near future.

Stelios Haji-Ioannou (Chairman), aged 33

Stelios founded easyJet in 1995. Prior to that, he founded and ran Stelmar Tankers, a shipping company which he controls but whose management he has delegated to Stelmar executives. In 1998, he established the easy group of companies, with the objective of exploiting the “easy” brand for ventures other than easyJet. Such ventures launched thus far include easyEverything, a chain of internet cafes, and easyRentacar, a budget car rental business. Stelios is a national of the UK and Cyprus.

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Raymond Douglas Webster (Chief Executive), aged 54

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

Christopher John Walton (Finance Director), aged 43

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

Vilhelm Eigil Hahn-Petersen (Operations Director), aged 40

Prior to joining easyJet in September 1999, Vilhelm was employed by FLS Industries for 11 years. For nine of those years, he was employed by FLS Aerospace Limited, a UK subsidiary of FLS Industries, involved in the maintenance, repair and overhaul of commercial jets and their accessories, serving the European airline market. Vilhelm held a number of business development and operational management positions leading to his appointment in 1996 as Chief Executive of FLS Aerospace Limited. Vilhelm is a Danish national.

Michael David Cooper (Commercial Director), aged 37

Prior to joining easyJet in May 2000, Mike was employed by ICI and Thomson Travel Group. Mike spent nine years with ICI Paints in a number of roles, including marketing manager (Dulux) and other positions in marketing, sales and strategic planning. Mike joined Thomson Travel in 1996 where he was Head of Strategic Planning, before being promoted in 1997 to Managing Director of Portland Direct, the direct selling business within the Thomson Travel Group. In 1999, he became Director of Digital Travel Group and was heavily involved in Thomson Travel's e-commerce strategy and online content. Mike is a UK national.

Keith Smith McMann (Airports Director), aged 42

Prior to joining easyJet in May 2000, Keith was employed by BAA plc for four years where he was Head of Operations at World Duty Free and most recently Retail Director at Scottish Airports which included involvement in airport design and development. Previously Keith managed airport activities for Alders International and spent seven years with Thorn EMI's retail division in a variety of planning and operations roles. Earlier career roles include positions at British Airways and public-sector management consultancy. Keith is a UK national.

Colin Richard Day (Non-executive Director), aged 45

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

Amir Eilon (Non-executive Director), aged 52

Amir spent the major part of his career working for investment banks specialising in particular in capital markets. Before joining easyJet in March 1999, Amir was with the Credit Suisse First Boston Equity Group where he had joint responsibility for Western Europe within its international group. Prior to that, Amir was at Barclays de Zoete Wedd for eight years where he was head of global capital markets. Amir is also a non-executive director of easy Group (UK) Limited, easyRentacar Limited and easyE. Amir is a UK national.

Nicholas Hartley (Non-executive Director), aged 63

Nick acted as a consultant to Stelios Haji-Ioannou on the business strategy for easyJet prior to its incorporation. Prior to that, he worked as a consultant on business strategy for Stelmar Tankers and subsequently became a director of that company. Prior to 1992, he worked at BP for 35 years, where his posts included Managing Director of BP Southern Africa and Managing Director of BP Shipping. He is also a non-executive director of easy Group (UK) Limited, easyEverything Limited and easyRentacar Limited. Nick is a UK national.

Anthony Kim Illsley (Non-executive Director), aged 44

Prior to joining easyJet in September this year, Tony worked at Telewest Communications plc where he was Chief Executive prior to the merger with Flextech plc. Prior to his appointment at Telewest he was president of Walkers Snack Foods, the UK division of Frito Lay, PepsiCo's foods subsidiary, having been promoted in 1995 from the position of president of Pepsi-Cola Asia Pacific. Before this, Tony spent four and a half years as Pepsi-Cola's President in Japan. From 1984 to 1988 he held various positions in the group's European soft drinks operations culminating in responsibility for the then 7-UP European Division. Before joining PepsiCo, Tony worked for five years at Colgate Palmolive in the United Kingdom, holding various senior marketing roles. Tony is a UK national.

John Quelch (Non-executive Director), aged 49

John Quelch joined easyJet in November this year. He is Dean of the London Business School and a Professor at London University. He was previously the Sebastian S. Kresge Professor of Marketing and Co-Chair of the Marketing Area at Harvard Business School. John serves as a non-executive director of both WPP Group plc, a large UK marketing services company, and Blue Circle Industries Limited. He is also a non-executive director of the Graduate Management Admission Council and was a founding non-executive of Reebok International Limited. As an academic, author and consultant, John is very active in business and specialises in, amongst other topics, international marketing, human resource management and general business management in both emerging and developing markets. John is a UK national.

Senior management

In addition to the Directors, the Company has an experienced and well qualified senior management including:

Mike Keane (Chief Pilot), aged 58

Prior to joining easyJet in 1996, Mike served 20 years with the Royal Air Force and Royal New Zealand Air Force and then spent 15 years in civil aviation with Orion and Britannia airlines. Starting his RAF career as a fighter pilot, he progressed to the posts of Deputy Chief Instructor and Squadron Commander at the Advanced Flying Training School. Mike left the RAF in 1981 to join Orion and later Britannia and has held the post of Fleet Manager at both airlines. Mike has continued to be involved in flight training and has been a CAA examiner for the last 15 years.

Allen Marking (Chief Engineer), aged 55

Prior to joining easyJet in October 1996, Allen was employed by World Airlines. He joined World Airlines as Chief Engineer and was appointed Chief Operating Officer within four months. He has thirty years experience in the maintenance and engineering departments of a number of airlines, including British Midland, Gulf Air, TWA and Air Jamaica. His responsibilities and experience to date include maintenance management, technical services management, engineering development, and quality assurance and has been the architect of change in a number of areas.

Clive Just (Head of Information Technology), aged 48

Prior to joining easyJet in October 1995, Clive had 20 years of experience in the computer industry, mostly working for the UK subsidiaries of leading technology computer manufacturers. He held senior technical support roles for Prime Computer Inc. and Telxon Inc. Clive then joined Apollo Computer Inc. with positions in support management, including setting up their Customer Development Centre. It was during this time that Apollo was acquired by Hewlett Packard. More recently Clive worked for a small systems consultancy where he provided consultancy services to easyJet before joining them.

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Employees

As at 30 September 2000, easyJet had 1,386 employees excluding Directors. The number of employees excluding Directors in each of the last three years by category is as follows:

Category of employees*	30 September 1998	30 September 1999	30 September 2000
Call Centre	174	245	240
Pilots and Cabin Crew.....	390	493	631
Management and Administration.....	148	200	245
Airport Operations.....	—	—	270
Total.....	712	938	1,386

* This includes easyJet Switzerland employees for all three years.

When easyJet established its own ground-handling arrangements at London Luton, the Company understands a union recognition agreement existed for some staff who transferred to the Group under the Transfer of Undertakings (Protection of Employment) Regulations 1981 and under applicable law, easyJet may have to enter into a union recognition agreement. easyJet has internal works councils that it believes serve many of the functions and purposes that employees might seek to have served through unionisation. easyJet believes its relations with its employees are generally good.

Employment terms and conditions

Employees are primarily based in England and Switzerland. Not all employees are subject to written terms and conditions, but where they are, the terms and conditions are subject to local law and vary for each category of employee. For example, cabin crew and flight crew in both countries are entitled to loyalty rewards of between five per cent and 15 per cent of base salary as well as sector pay, in recognition of the number of flights on which they work. Staff in the call centre are paid on a commission basis. Some other employees are eligible to receive a bonus which is based on personal and company performance. Bonuses are based on 25 per cent of salary for those earning more than £30,000 and 20 per cent for those earning less than £30,000. Last year employees received from 24 per cent to 190 per cent of their bonuses. Apart from bonuses, however, the only other benefits granted to employees are in respect of pension contributions, and illness and accident insurance when travelling abroad. Pilots are also entitled to loss of licence insurance and death in service insurance.

Current and proposed share option schemes

The Directors believe that easyJet has benefited significantly from its ability to recruit and retain high calibre employees, and that easyJet enjoys a relatively low management staff turnover rate. In order to motivate and incentivise employees and to reward the commitment of certain employees to the Company's business prior to Admission, the Company in conjunction with the Trustee has operated the easyJet Key Employee Pre-Flotation Share Option Scheme, the easyJet Switzerland Key Employee Pre-Flotation Share Option Scheme, the easyJet Share Bonus Scheme and the easyJet Share Gift. With the possible exception of the Share Gift, no further options over or awards of Ordinary Shares will be granted under these schemes following Admission.

There are currently 28,481,073 shares subject to options under the Pre-Flotation Share Option Schemes, up to 838,607 shares subject to awards under the Share Gift and shares with a value at the Global Offering Price of up to £1,460,625 subject to awards under the Share Bonus Scheme. All awards under the Share Bonus Scheme and up to 478,712 shares under the Share Gift vest on Admission as do options in respect of 9,584,997 shares. It is also intended that if the Company appoints a further non executive director prior to Admission, he or she shall be offered 12,992 options each. Save for any shares to be acquired by non-executive directors, all shares to be acquired by employees on Admission will be issued by the Company to the Trustee which will then transfer the shares to the relevant participants. Shares acquired on Admission under the Share Gift (totalling up to 478,712) and Share Bonus Scheme may not be disposed of for a period of 24 months except that sales are permitted to cover any tax and NIC liabilities arising on acquisition. The remaining shares under the Share Gift (totalling up to 359,895) vest on the first anniversary of Admission provided the employee is still employed by the Group and may not be disposed of for a period of 12 months following vesting. Shares acquired under the Pre-Flotation Share Option Schemes may not be disposed of prior to the second

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anniversary of Admission, except that sales are permitted to cover any tax liabilities or (where relevant) national insurance liabilities arising on the acquisition or the relevant exercise price.

The Company has established three new schemes to grant options over and make awards of Ordinary Shares following Admission: a discretionary share option scheme which is intended to be Inland Revenue approved, a non-approved discretionary share option scheme and an all-employee share ownership plan which is intended to be Inland Revenue approved.

Details of all the schemes identified above are set out in “Share option schemes” in Part VII of this document.

Pensions

easyJet does not operate an occupational pension scheme for the benefit of its employees. Employees of the Group are able to participate in a group personal pension plan (“GPP”) arranged with Scottish Equitable plc. The GPP is a collection of individual personal pension contracts entered into by individual employees with Scottish Equitable plc under an umbrella arrangement with easyJet.

Currently, contributions are payable to the GPP by easyJet at the rate of five per cent of base salary in respect of employees earning less than £30,000 per annum and at the rate of seven per cent of base salary in respect of those employees earning in excess of £30,000 per annum. Pilot members receive contributions at the rate of seven per cent of base salary. There are currently approximately 730 members of the GPP. Membership of the GPP is not open to call centre staff.

In addition, death in service benefits are provided to cabin crew and pilots at the rate of two times and four times basic salary, respectively, under a separate life assurance scheme.

MANAGEMENT AND FINANCIAL CONTROLS

The Directors consider that the Group’s management and financial controls enable the timely and effective monitoring and control of the Group’s current operations. The executive Directors are closely involved in the day-to-day control of the business. The Company believes that the level of formalisation of controls is consistent with a group the size of easyJet and that these controls are sufficient to manage the demands of easyJet’s growing business.

Board meetings are normally held monthly and cover the following management reports:

- ▶ safety and security;
- ▶ business (operational and commercial performance);
- ▶ financial performance; and
- ▶ special items.

The Group’s accounting policies are considered by the Directors to be prudent, in accordance with applicable accounting standards and appropriate to easyJet’s business.

CORPORATE GOVERNANCE

The Board has established an Audit Committee, a Remuneration Committee and a Nominations Committee.

The Audit Committee members are Colin Day (chairman), Tony Illsley and Amir Eilon. This committee will meet at least twice a year and has responsibility for, amongst other things, planning and reviewing easyJet’s annual and other reports and accounts and the involvement of the Group’s auditors in that process, focusing particularly on compliance with legal requirements and accounting standards. Additionally they are responsible for compliance with the requirements of the London Stock Exchange and the UK Listing Authority and seeking to ensure that an effective system of internal financial controls is maintained. The ultimate responsibility for reviewing and approving the annual and other accounts remains with the Board.

The Directors do not consider that it is currently practical, given the size of the Group, for there to be an internal audit function. The Audit Committee will periodically review the need for additional procedures, including internal financial audit, with regard to the scale and geographical spread of the Group as it expands.

The Remuneration Committee members are Tony Illsley (chairman), Colin Day and Nick Hartley. This committee, which meets at least twice per year, has responsibility for making recommendations to the Board

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on the compensation of senior executives and determining, within agreed terms of reference, the specific remuneration packages for each of the executive Directors.

The Nominations Committee members are Stelios Haji-loannou plus any two of Amir Eilon, Nick Hartley, Colin Day and Tony Illsley. This committee is responsible for nominating candidates to fill Board positions and for making recommendations on Board composition and balance.

The Combined Code, which includes the Principles of Good Governance and Code of Best Practice published by the Committee on Corporate Governance chaired by Sir Ronald Hampel (the “Combined Code”), recommends that the board of directors of a UK public company should include a balance of executive and non-executive directors, with non-executive directors comprising at least one third of the board. The Combined Code further recommends that a majority of non-executive directors should be independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement, and that one non-executive director should be nominated as the senior non-executive director.

The Company currently has 11 directors, six of whom are non-executive directors (including the chairman Stelios Haji-loannou). Of these six non-executive directors only three, Colin Day, Tony Illsley and John Quelch, are regarded by the Company as being independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement. Each has options over 12,992 Ordinary Shares, however, the Company considers this will not materially interfere with the exercise of their independent judgement. The Company is in the process of looking for one additional independent Non-Executive Director. In compliance with the Company’s Articles of Association, Directors will not be able to participate in any decision of the Board in which they are interested (see “Memorandum and Articles of Association – Restrictions on Directors voting” in Part VII of this document). Once the Company has appointed this additional Non-Executive Director it will also nominate one of the independent Non-Executive Directors to act as the senior Non-Executive Director. Subject to these matters, the Directors have adopted the principles of the Combined Code.

Part II – The Global Offering and related matters

THE GLOBAL OFFERING

The Global Offering, which has been fully underwritten by the Underwriters in accordance with the terms of the Sponsors' and Underwriting Agreement, further details of which are set out in "Global Offering arrangements" in Part VII of this document, comprises 63 million New Ordinary Shares to be issued by the Company in connection with the Global Offering, representing approximately 25 per cent of the enlarged issued share capital of the Company following the Global Offering (assuming no exercise of the Over-allotment Option).

Under the Global Offering, the New Ordinary Shares will be offered and issued to institutional investors in the UK and elsewhere. Certain restrictions that apply to the distribution of this document and any New Ordinary Shares in jurisdictions outside the UK are described in "Selling restrictions" in Part VII of this document except for US selling restrictions which are set forth in this Part II, below.

ALLOCATION AND PRICING

Shares allocated under the Global Offering will be underwritten by the Underwriters as described in "Underwriting Arrangements" below. Allocations will be determined at the discretion of the Joint Bookrunners and the Company after indications of interest from prospective investors have been received. All New Ordinary Shares issued pursuant to the Global Offering will be issued at the Global Offering Price.

LIMITATIONS ON OWNERSHIP

The UK/Swiss ASA requires that in order to be designated to operate services between the UK and Switzerland, a UK carrier must be majority owned and effectively controlled by UK nationals. The UK/Swiss ASA does not specify what level of share ownership will confer effective control on a holder or holders of shares. The Directors are given certain powers under the Company's Articles of Association to take action to ensure that the amount of shares held in the Company by non-UK nationals does not reach a level which could jeopardise easyJet UK's entitlement to continue to hold or enjoy the benefit of any authority, permission, licence or privilege which the Group holds or enjoys and which enables an air service to be operated (each an "Operating Right"). The Directors will, from time to time, set a "Permitted Maximum" on the number of shares of the Company which may be owned by non-UK nationals at such level as they believe will comply with the UK/Swiss ASA and any other ASAs pursuant to which the Group has Operating Rights. This level will initially be set at 40 per cent (see "Memorandum and Articles of Association" in Part VII of this document).

The Operating Rights under which easyJet UK operates the vast majority of its routes (all of those between member states of the EEA) are granted pursuant to the EC Licensing Regulation, the EC Market Access Regulation and EEA Agreement (see "Air transport regulation" in Part IV of this document). The EC Licensing Regulation and EEA Agreement require that in order to obtain and retain an operating licence, an EU air carrier must be majority owned and effectively controlled by EEA nationals ("Qualifying Nationals"). The limitations on non-UK ownership of the Company's shares described in the preceding paragraph are more stringent than those required by the EC Licensing Regulation and EEA Agreement and therefore whilst the Company complies with such limitations easyJet UK will satisfy the requirement that it is majority owned and controlled by Qualifying Nationals.

The Company's Articles of Association allow the Directors to relax the ownership limitations such that, rather than restrict ownership by non-UK nationals, the limitations will only apply to non-Qualifying Nationals at such level as the Directors believe will comply with the EC Licensing Regulation and the EEA Agreement.

OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offering, one of the Joint Bookrunners may over-allot New Ordinary Shares. One of the Joint Bookrunners, as stabilising manager, may also effect other transactions which stabilise, maintain or otherwise affect the market price of the Ordinary Shares or any options, warrants or rights with respect to, or interests in, Ordinary Shares or other securities of the Company, in each case at levels which might not otherwise prevail in the open market, stock exchange or otherwise. Such transactions, if commenced, may be discontinued at any time.

In connection with the Global Offering, the Company will grant the Joint Bookrunners (on behalf of the Underwriters) an Over-allotment Option, pursuant to which the Joint Bookrunners may require the Company

Part II - The Global Offering and related matters

to issue up to 9,450,000 additional New Ordinary Shares, being up to 15 per cent of the number of New Ordinary Shares, at the Global Offering Price, for the purposes of meeting over-allotments in connection with the Global Offering and to cover short positions resulting from stabilisation transactions.

Save as required by law, the Joint Bookrunners do not intend to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offering.

UNDERWRITING ARRANGEMENTS

As at the date of this document, the Company, the Directors, easyJet Holdings Limited, the Joint Sponsors and the Underwriters entered into the Sponsors' and Underwriting Agreement. Pursuant to the Sponsors' and Underwriting Agreement, the Underwriters agree, subject to certain conditions, to procure subscribers (or failing which to subscribe) for the New Ordinary Shares.

The Sponsors' and Underwriting Agreement contains a provision entitling the Joint Sponsors or the Joint Bookrunners (on behalf of the Underwriters) to terminate the Global Offering at any time prior to Admission in certain circumstances, including if there is any material breach of warranty under the Sponsors' and Underwriting Agreement. If this right is exercised, the Global Offering and these arrangements will lapse.

Further details of the terms of the Sponsors' and Underwriting Agreement are set out in paragraph 9 of Part VII of this document.

DEALING ARRANGEMENTS

Admission is expected to take place and dealings in the Ordinary Shares are expected to commence on the London Stock Exchange at 8.00 am on 22 November 2000. It is intended that, where applicable, definitive share certificates in respect of New Ordinary Shares will be posted by first class post on 22 November 2000 or as soon thereafter as is practicable.

ORDERLY MARKET ARRANGEMENTS

The Company undertakes to the Joint Bookrunners in the Sponsors' and Underwriting Agreement that, save with the prior written consent of the Joint Bookrunners, it will not prior to the date falling 12 months after Admission, enter into any agreement or arrangement nor do nor permit to be done any act or thing which may involve any increase in, or obligation (whether contingent or otherwise) to issue, allot or grant options over any Ordinary Shares or any other securities in the capital of the Company which would require the Company to issue listing particulars under the Listing Rules, save in respect of (i) a grant of options under the Company's Share Option Schemes, in accordance with normal practice; (ii) the exercise of options under the Company's Share Option Schemes; (iii) the grant, issue and allotment of shares under the Over-allotment Option granted to the Joint Bookrunners; or (iv) the issue or allotment of Ordinary Shares or securities convertible into Ordinary Shares otherwise than for cash in connection with a merger or acquisition provided that in connection with such transaction the allottees of such shares or securities enter into an agreement agreeing at least not to sell their shares in the Company before the expiry of the 12 month period after Admission.

easyJet Holdings Limited undertakes to each of the Underwriters and the Company in the Sponsors' and Underwriting Agreement that it shall not, save with the prior written consent of the Joint Bookrunners (on behalf of the Underwriters), prior to the later of (a) the date falling 12 months after Admission and (b) the date of announcement of the Company's results for the year ending 30 September 2001, offer, lend, sell or contract to sell, mortgage, charge, assign, issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or sale of, any of the Ordinary Shares owned by it (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing, save in respect of (i) the transfer of shares in connection with the disaggregation of all or any shareholdings in easyJet Holdings Limited provided that the transferees agree to the restriction in this paragraph and the Joint Bookrunners receive advance notification of the transfer; (ii) the transfer of any Ordinary Shares to First Island Management Limited upon an event of default by Ray Webster in respect of his loan from UBS to refinance his acquisition of shares in easyJet Holdings Limited; (iii) the transfer of the 10,000 Ordinary Shares to be given to initial employees and key suppliers; and (iv) any stock lending entered into by easyJet Holdings Limited with the Joint Bookrunners.

Each of the Directors will severally undertake to each of the Underwriters and the Company in the Sponsors' and Underwriting Agreement that he shall not, save with the prior written consent of the Joint Bookrunners (on behalf of the Underwriters), for a period commencing on the date of the Sponsors' and Underwriting

Part II – The Global Offering and related matters

agreement and ending on the later of (a) the date falling 12 months after Admission and (b) the date of announcement of the Company's results for the year ending 30 September 2001, dispose of or agree to dispose of or charge any Ordinary Shares or share options held by them as at the date of Admission or Ordinary Shares arising on exercise thereof or any interest in any such Ordinary Shares or share options, or any rights arising from or attached to any such Ordinary Shares or share options, or enter into any transaction of the nature described in Section 323 of the Act, or enter into any contract for differences, swap, evidence of indebtedness or other derivatives transaction that changes in value or determines value by reference to Ordinary Shares.

First Island Nominees Limited, First Island Services Limited, Pennine Trustees Limited and First Island Management Limited, the shareholders in easyJet Holdings Limited, and Clelia Haji-Ioannou, Polys Haji-Ioannou, George Karageorgiou and Nick Hartley Consultancy Limited, each holding interests in such shareholders, will enter into separate lock-up agreements under which each such person will undertake to the Joint Bookrunners and the Company that, conditional upon Admission, it shall not, save with the prior written consent of the Joint Bookrunners (on behalf of the Underwriters), for a period commencing on the date of the relevant lock-up agreement and ending on the later of (a) the date falling 12 months after Admission and (b) the date of announcement of the Company's results for the year ending 30 September 2001, dispose of or agree to dispose of or charge any shares in easyJet Holdings Limited held by it or registered in its name as at the date of Admission or any rights arising from or attached to any such shares, or enter into any contract for differences, swap, evidence of indebtedness or other derivatives transaction that changes in value by reference to such shares, save in respect of: (i) the transfer of shares to a company controlled by the relevant beneficiary provided that the transferee company agrees to the restriction in this paragraph and the Joint Bookrunners receive advance notification of the transfer; (ii) where the relevant company acquires Ordinary Shares in the Company and agrees that all such Ordinary Shares are subject to the lock-in for the remainder of the lock-in period; or (iii) in respect of a charge over such shares by First Island Management Limited or Ray Webster and any enforcement of such charge.

CREST

CREST is a paperless settlement procedure enabling shares to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The articles of association of the Company will permit the holding of its shares under the CREST system. The Company has applied for its shares to be admitted to CREST with effect from Admission. Settlement of transactions in shares following Admission may take place within the CREST system if any shareholder so wishes. CREST is a voluntary system and holders of shares who wish to receive and retain share certificates will be able to do so.

US SECURITIES LAWS

The New Ordinary Shares have not been and will not be registered under the US Securities Act or with any securities regulatory authority of any state or other political subdivision of the US and, accordingly, may not, directly or indirectly, be placed or sold within the US or to, or for the account or benefit of, US persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in conformance with any applicable laws of any state or other political subdivision of the US. Each of the Underwriters has represented and agreed that it has not offered or sold, and will not offer or sell, any New Ordinary Shares except in accordance with Rule 903 of Regulation S under the US Securities Act or to QIBs in reliance on exemptions from the registration requirements of the US Securities Act. In addition, until 40 days after the commencement of the Global Offering, an offer or sale of New Ordinary Shares within the US by a dealer, whether or not participating in the Global Offering, may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from registration under the US Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S or Rule 144A.

US TRANSFER RESTRICTIONS

Each prospective purchaser of New Ordinary Shares will be deemed to have represented, agreed and acknowledged as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S under the US Securities Act are used herein as defined therein):

- (1) either (a) the purchaser (i) is a QIB (as defined in Rule 144A) and (ii) is aware that the sale to it is being made in reliance on exemptions from the registration requirements of the US Securities Act and (iii) is acquiring such New Ordinary Shares for its own account or for the account of a QIB or (b) the purchaser (and the person, if any, for whose account it is acquiring such New Ordinary Shares) is outside the United

Part II - The Global Offering and related matters

States and is acquiring such New Ordinary Shares in an offshore transaction complying with the provisions of Regulation S;

- (2) the purchaser understands that the New Ordinary Shares are being placed in a transaction not involving any public offering in the US and that the New Ordinary Shares have not been and will not be registered under the US Securities Act;
- (3) if in the future the purchaser decides to offer, resell, pledge or otherwise transfer any New Ordinary Shares, such New Ordinary Shares may be offered, resold, pledged or otherwise transferred only (i) to a person who the seller and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with the provisions of Regulation S, (iii) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 thereunder (if available), (iv) pursuant to another exemption from, or in a transaction not subject to, registration under the US Securities Act or (v) pursuant to an effective registration statement under the US Securities Act, and in each of cases (i) through (v) in accordance with any applicable securities laws of any state of the United States and any other jurisdiction and no representation has been made to the purchaser as to the availability of any exemption from registration under the US Securities Act provided by Rule 144 thereunder;
- (4) the New Ordinary Shares (to the extent that they are in certificated form) will, unless otherwise determined by the Company in accordance with applicable law, bear a legend substantially to the following effect:

"This share (or its predecessor) was originally issued in a transaction exempt from registration under the US Securities Act of 1933, as amended (the "US Securities Act"), and this share may not be offered, resold, pledged or otherwise transferred in the absence of such registration or an applicable exemption therefrom. The holder of this share agrees for the benefit of, inter alia, the issuer that this share may be offered, resold, pledged or otherwise transferred only (i) to a person who the seller and any person acting on its behalf reasonably believes is a qualified institutional buyer (as defined in Rule 144A under the US Securities Act) purchasing for its own account or for the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A, (ii) in an offshore transaction complying with the provisions of Regulation S under the US Securities Act, (iii) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 thereunder (if available), (iv) pursuant to another exemption from, or in a transaction not subject to, registration under the US Securities Act or (v) pursuant to an effective registration statement under the US Securities Act, and in each of cases (i) through (v) in accordance with any applicable securities laws of any state of the United States and any other jurisdiction. No representation can be made as to the availability of any exemption from registration under the US Securities Act provided by Rule 144 thereunder."
- (5) the purchaser will not deposit or permit another to deposit New Ordinary Shares into any unrestricted American Depository Receipt facility established or maintained by a depository bank, unless and until such time as such New Ordinary Shares are no longer "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act;
- (6) the purchaser will give each person to whom it transfers New Ordinary Shares notice of these restrictions on transfer of such New Ordinary Shares; and
- (7) the Company and the Underwriters will rely upon the truth and accuracy of the foregoing representations, agreements and acknowledgements in making any transfer of New Ordinary Shares to the purchaser.

Part III – Financial information, current trading and prospects

SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

The selected consolidated profit and loss account data for the years ended 30 September 1998, 1999 and 2000, and the balance sheet data as at those dates set out in the tables below have been extracted without material adjustment from the Accountants' report on historical financial information set out in Part VI of this document. The consolidated profit and loss account data and balance sheet data set out in the tables below were prepared in conformity with UK GAAP using merger accounting to reflect the reorganisation described in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Reorganisation" contained in this Part III, and, as such, reflect results of operations, assets and liabilities of the companies in the Group as if easyJet plc had always been the parent company of the Group. The selected consolidated financial data should be read in conjunction with the whole of this document including "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Part III and the consolidated financial statements and notes thereto set out in Part VI of this document and investors should not rely on key or summarised information alone. For a discussion of certain significant differences between UK GAAP as applied within the Group and US GAAP, see "Principal Differences Between UK and US GAAP" contained in this Part III. The selected consolidated operating data set forth in the table below for the years ended 30 September 1998, 1999 and 2000 are derived from the unaudited management records of the companies comprising the Group following the reorganisation and should be read in conjunction with the whole of this document including "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this Part III and investors should not rely on key or summarised information alone.

Consolidated Profit and Loss Account Data	Year ended 30 September		
	1998 £000	1999 £000	2000 £000
Amounts in conformity with UK GAAP			
Revenue ⁽¹⁾	77,000	139,789	263,694
Cost of sales.....	(51,832)	(103,848)	(191,291)
Gross profit.....	25,168	35,941	72,403
Distribution and marketing expenses.....	(8,277)	(16,165)	(25,868)
Administrative expenses.....	(6,330)	(10,726)	(17,875)
Operating profit.....	10,561	9,050	28,660
Share of operating loss of associated undertaking ⁽²⁾	(1,428)	(779)	—
Total operating profit ("EBIT").....	9,133	8,271	28,660
Interest receivable.....	1,062	664	1,687
Interest payable.....	(4,319)	(7,675)	(8,244)
Profit on ordinary activities before taxation ("PBT").....	5,876	1,260	22,103
Tax on profit on ordinary activities.....	—	—	—
Retained profit for the year.....	5,876	1,260	22,103
Earnings per Ordinary Share (in pence):	Pence	Pence	Pence
Basic and diluted ⁽³⁾	3.2	0.7	11.9

(1) When easyJet makes refunds to customers, it records refunds made in the pre-flight period as reductions in revenue and any refunds made post-flight as marketing expenses.

(2) easyJet Switzerland. Prior to 24 June 1999, easyJet Switzerland was owned 40 per cent by easyJet Holdings Limited, easyJet UK's then-parent undertaking. On 24 June 1999, easyJet Holdings Limited increased its ownership share in easyJet Switzerland to 49 per cent and acquired an option over the remaining 51 per cent. See "Business of easyJet – History". easyJet has accounted for easyJet Switzerland as an associated undertaking under equity accounting principles for the financial year ended 30 September 1998 and up to 24 June 1999 and has accounted for it as a 100 per cent consolidated subsidiary from 24 June 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – easyJet Switzerland".

(3) For an explanation of how these amounts have been calculated see note 7 to the consolidated financial information of the Company set out in Part VI of this document.

Part III – Financial information, current trading and prospects

Consolidated Balance Sheet Data	As at 30 September		
	1998 £000	1999 £000	2000 £000
Amounts in conformity with UK GAAP			
Fixed assets:			
Intangible assets ⁽¹⁾	398	3,327	3,163
Tangible assets	133,590	164,233	202,159
Investments ⁽²⁾	(636)	—	—
Total fixed assets	133,352	167,560	205,322
Current assets:			
Debtors	8,451	27,497	40,959
Cash at bank and in hand	13,649	29,845	14,088
Total current assets	22,100	57,342	55,047
Total assets	155,452	224,902	260,369
Creditors: amounts falling due within one year	(29,762)	(56,882)	(84,483)
Creditors: amounts falling due after more than one year	(88,497)	(127,069)	(108,315)
Provisions for liabilities and charges ⁽³⁾	—	(1,463)	(1,854)
Net assets	37,193	39,488	65,717
Shareholders' funds – equity	37,193	39,488	65,717

(1) Represents goodwill on the acquisition of easyJet Switzerland.

(2) easyJet Switzerland. See note (2) to the consolidated profit and loss account data table above.

(3) Provisions for rectification costs in respect of leased aircraft, incurred in order to return leased aircraft at the end of their respective lease terms to the condition stipulated in their respective leases.

Part III – Financial information, current trading and prospects

Selected Consolidated Operating Data (unaudited)	Year ended 30 September		
	1998	1999	2000
Number of aircraft owned/leased at end of year ⁽¹⁾	10	16	19
Average number of aircraft owned/leased during year ⁽²⁾	6.3	12.5	18.2
Number of aircraft operated at end of year ⁽³⁾	8	15	18
Average number of aircraft operated during year ⁽⁴⁾	6.1	11.5	17.3
Sectors ⁽⁵⁾	16,256	27,195	46,748
Block hours ⁽⁶⁾	24,350	44,150	74,631
Number of routes operated at end of year	15	23	28
Number of airports served at end of year	14	16	18
Owned/leased aircraft utilisation (hours per day) ⁽⁷⁾	10.7	9.7	11.2
Operated aircraft utilisation (hours per day) ⁽⁸⁾	11.0	10.5	11.8
Available seat kilometres ("ASK")(millions) ⁽⁹⁾	1,853	3,459	5,801
Passengers ⁽¹⁰⁾	1,714,761	3,064,835	5,628,215
Load factor ⁽¹¹⁾	70.8%	75.6%	80.8%
Revenue passenger kilometres ("RPK")(millions) ⁽¹²⁾	1,333	2,636	4,730
Revenue per available seat kilometre (in pence) ⁽¹³⁾	4.16	4.04	4.55
Cost per available seat kilometre (in pence) ⁽¹⁴⁾	3.84	4.00	4.16
Fuel cost per available seat kilometre (in pence) ⁽¹⁵⁾	0.34	0.34	0.58
Average internet sales percentage during the year ⁽¹⁶⁾	5.5%	26.8%	65.1%
Internet sales percentage during final month of financial year ⁽¹⁷⁾	13.2%	38.7%	77.8%

- (1) Represents the number of aircraft owned (including those held on lease arrangements of more than one month's duration) at the end of the relevant financial year. The figure at 30 September 1998 includes two aircraft of easyJet Switzerland's. One of these aircraft flew some sectors for easyJet UK during the summer of financial year 1998. The figure disclosed at 30 September 2000 includes one aircraft leased under a five month wet lease for the summer 2000 season.
- (2) Represents the average number of aircraft owned (including those held on lease arrangements of more than one month's duration) during the relevant financial year. The figure disclosed for the year ended 30 September 2000 includes one aircraft leased under a five month wet lease for the summer 2000 season.
- (3) Represents the number of owned/leased aircraft in service at the end of the relevant financial year. Owned/leased aircraft in service exclude those in maintenance and those which have been delivered but have not yet entered service.
- (4) Represents the average number of owned/leased aircraft in service during the relevant financial year. Owned/leased aircraft in service exclude those in maintenance and those which have been delivered but have not yet entered service.
- (5) Represents the number of one-way revenue flights.
- (6) Represents the number of hours that aircraft are in actual service, measured from the time that each aircraft leaves the terminal at the departure airport to the time that such aircraft arrives at the terminal at the arrival airport.
- (7) Represents the average number of block hours per day per aircraft owned/leased during the relevant financial year.
- (8) Represents the average number of block hours per day per aircraft operated during the relevant financial year.
- (9) Represents the sum by route of seats available for passengers multiplied by the number of kilometres those seats were flown.
- (10) Represents the number of earned seats flown by easyJet. Earned seats include seats that are flown whether or not the passenger turns up, because easyJet is generally a no-refund airline and once a flight has departed a no-show customer is generally not entitled to change flights or seek a refund. Earned seats also include seats provided for promotional purposes and to easyJet staff for business travel.
- (11) Represents the number of passengers as a proportion of the number of seats available for passengers. No weighting of the load factor is carried out to recognise the effect of varying flight (or "stage") lengths.
- (12) Represents the sum by route of passengers multiplied by the number of kilometres those passengers were flown.
- (13) Represents total revenue earned (including ancillary and concessionaire revenue), net of taxes and discounts, divided by the number of available seat kilometres.
- (14) Represents the total costs of easyJet (measured as the difference between revenue and profit before tax) divided by the number of available seat kilometres.
- (15) Represents total fuel costs (including fuelling charges) divided by the number of available seat kilometres.
- (16) Represents the number of seats initially sold over the internet divided by the total number of seats initially sold, during the relevant financial year. Sales that are originally made via the internet, but are later amended by phone, are included.
- (17) Represents the number of seats initially sold over the internet divided by the total number of seats initially sold, during the final month of the relevant financial year. Sales that are originally made via the internet, but are later amended by phone, are included.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion addresses the financial condition and results of operations of the Group as at and for the years ended 30 September 1998, 1999 and 2000. The financial information set forth in the Results of operations table below has been extracted without material adjustment from the Accountants' report on historical financial information set out in Part VI of this document. This discussion is based on the information presented in the table, along with other unaudited financial and operating data. The discussion should be read in conjunction with the whole of this document including "Selected Consolidated Financial and Operating Data" in this Part III and the Company's consolidated financial information and notes thereto set forth in Part VI of this document and investors should not rely on key or summarised information alone.

Reorganisation

easyJet plc was incorporated on 24 March 2000 as easyJet Limited. Following a group reorganisation effected on 30 April 2000, easyJet Limited acquired from easyJet Holdings Limited, the parent undertaking, that parent's interests in the companies comprising the easyJet airline business and substantially all the assets and liabilities of those entities, in consideration for the issue of shares in easyJet limited. easyJet limited was re-registered as easyJet plc, a public limited company, on 16 October 2000, in preparation for the Global Offering. The Group reorganisation qualifies for merger accounting under UK GAAP. The Group's consolidated financial statements set forth in this document have been prepared as if easyJet plc had always been the parent company of the Group, using merger accounting in conformity with UK GAAP.

Overview

easyJet seeks to maximise its revenue by keeping load factors at high levels and yields (the average fare net of air passenger duties and internet booking discounts) as high as possible. easyJet's revenue is almost entirely derived from the sale of seats to passengers, with less than one per cent being contributed by ancillary and concessionaire revenue, such as fees earned on concessionaires' sales of snacks and drinks to passengers. Revenue figures are expressed net of passenger taxes, including air passenger duties payable to governmental authorities, and discounts, including internet booking discounts. Revenue figures include "no-show" revenue, reflecting the "fly or forfeit" policy operated by easyJet whereby passengers are generally not entitled to a refund or a credit if they do not fly on the flight for which they have paid. Revenue from a seat sale is recognised at the time the relevant flight departs, as once the flight has departed the customer is generally not entitled to any refund.

easyJet seeks to manage its costs by keeping utilisation rates at high levels. Since the airline industry's most significant cost drivers, such as crew, maintenance and aircraft financing costs, are largely fixed, higher utilisation rates result in lower unit costs and higher returns per passenger. easyJet also seeks to achieve absolute cost reductions, compared to full service carriers through, for example, (i) its direct sales policy which eliminates travel agent commissions and simplifies back office accounting, (ii) not providing complimentary in-flight catering and (iii) not providing a customer loyalty programme.

easyJet's business model has delivered significant year on year growth since easyJet began operations. From financial year 1998 to financial year 2000 easyJet's revenue has more than tripled from £77 million to £263.7 million. The Company's fleet has grown from an original two aircraft in November 1995, operating from a single base, to a core fleet of 18 aircraft as at 30 September 2000, operating from three bases with one further aircraft operated under a wet lease. The number of routes operated by easyJet has increased from six in financial year 1996 to 28 in financial year 2000 and the Company plans to offer services on three additional new routes during the winter season 2000/2001.

easyJet currently plans to open an additional European base in Amsterdam in 2001 and to take delivery of 32 newly manufactured Boeing 737-700 aircraft prior to the end of May 2004, with seven of these aircraft due to be delivered during financial year 2001. easyJet expects the delivery of these aircraft to increase its seat capacity at an average rate of approximately 25 per cent per year through May 2004. easyJet has also secured non-tradeable purchase rights providing substantial price protection on the purchase of a further 30 Boeing 737-700 aircraft. These purchase rights lapse in 2007. This planned growth will lead to increases in costs generally, including leasing, crew, maintenance, depreciation and interest costs, as well as, the Company anticipates, increased revenue.

Seasonality

easyJet's results of operations have varied significantly from interim period to interim period and management expects these variations to continue. The principal factor causing these variations is the seasonal nature of air travel in Europe. Passenger demand is substantially higher during the summer months, when many Europeans take their annual holidays. During the first half of easyJet's financial year, corresponding to the October to March winter season, yields and utilisation are comparatively low because of a lower level of customer demand and the fact that throughout the winter season one or more of the Company's fleet of aircraft is effectively undergoing maintenance at any one time. By contrast, during the second half of the Company's financial year, corresponding to the summer season from April to September, easyJet has generated significantly higher revenue levels as yields and utilisation increase. Typically, easyJet generates most or all of its profit during the second half of the financial year. As a result, any disruption to business during this part of the financial year, especially any that lead to lower utilisation, lower yields or reduced load factors, would have a disproportional impact on easyJet's results of operations. See "Risk Factors – Risks Related to the Company – easyJet's business is subject to strong seasonal variations" in Part V of this document.

Fuel price exposure

Fuel costs represent a substantial portion of easyJet's operating expenses, amounting to approximately 8.3 per cent, 8.3 per cent and 12.8 per cent of revenues in financial years 1998, 1999 and 2000 respectively. Jet fuel costs have historically been subject to wide fluctuations as a result of sudden disruptions in supply, such as the effect of the invasion of Kuwait by Iraq in August 1990 and more recently the general shortage on the world markets. Between mid 1998 and mid 2000, for example, the price of jet fuel on the international spot market almost doubled, and during financial year 2000 easyJet's average unit fuel cost in US dollars increased by 69 per cent (Jet fuel is typically sold at US dollar denominated prices). easyJet does not hedge against these fluctuations or lock in prices by making forward purchases, on the basis that over the medium to long term such hedging activities cannot insulate the Company from the effect of jet fuel price increases. However, easyJet's yield management system can partially insulate the Company from fuel price increases by enabling easyJet to raise fares to some extent in line with any change in the market price of fuel should it so choose. Based upon easyJet's fuel consumption for the year ended 30 September 2000, a change of one US cent in the average annual price per gallon of jet fuel would have caused a change of approximately £370,000 in annual fuel costs. easyJet continues to monitor the efficacy of its current fuel hedging strategy against potential alternatives. See "Risk Factors – Risks Related to the Company – easyJet is exposed to fuel price fluctuations, and increases in fuel costs or fuel shortages could materially affect operations" in Part V of this document.

Currency exposure

easyJet operates primarily out of the United Kingdom and accordingly the majority of the Group's revenues are denominated in sterling. The Group derives the remainder of its revenues in various other European currencies including Swiss francs and euros which largely match costs incurred in these currencies and hence provide a natural hedge. However, most of easyJet's currency risk is associated with the US dollar, as many substantial airline industry costs are denominated in US dollars. The Company's significant US dollar denominated costs relate to debt financing on aircraft owned by easyJet, lease financing on aircraft leased by easyJet pursuant to long-term operating leases, maintenance reserves, engine maintenance and aircraft fuel purchases. In respect of the Company's US dollar exposure relating to its aircraft debt financing costs, easyJet's strategy contemplates the sale of each aircraft after approximately seven years of operation and the use of the US dollar sale proceeds to pay down the remaining US dollar debt on the aircraft sold. Management's view is that used aircraft will continue to be traded in US dollars and that as a result borrowings in US dollars to acquire aircraft are hedged to the extent of the US dollar resale value of the aircraft. Other than the protection provided by these arrangements, easyJet's current policy is not to hedge any of its US dollar commitments. easyJet continues to monitor the efficacy of its currency hedging strategy against alternatives. See "Risk Factors – Risks Related to the Company – easyJet is exposed to currency fluctuations" and "– easyJet is exposed to the second-hand aircraft market" in Part V of this document.

Interest rate exposure

easyJet's interest rate exposure arises primarily from that portion of the Company's aircraft debt financing which accrues interest at floating interest rates. easyJet's payments under its aircraft lease financing arrangements are at both fixed and floating rates. The Company's policy is not to hedge against its interest rate exposure. See "Risk Factors – Risk Related to the Company – easyJet is exposed to interest rate fluctuations" in Part V of this document

Taxation

Until April 2000 the entities comprising easyJet were mostly organised either through offshore entities in the Channel Islands and Cayman Islands where no taxes were levied, or in those jurisdictions where taxable profits were not earned. Since May 2000, following the reorganisation of the Group, easyJet plc has been subject to tax in the UK. easyJet plc's effective tax rate in the next few years is expected to climb from the current "zero" rate to a level below the full UK corporate rate. A less-than-full effective rate is expected because easyJet will derive significant capital allowances from planned aircraft purchases and is enjoying an eight year tax holiday from cantonal and communal taxes in Switzerland.

easyJet Switzerland

In March 1998, easyJet's then-parent undertaking acquired a 40 per cent interest in the predecessor to easyJet Switzerland. From that date until 24 June 1999, the results of easyJet Switzerland have been included in the consolidated financial statements of the Group as an associated undertaking under equity accounting principles. One of the results of this accounting treatment is that easyJet has included its share of easyJet Switzerland's revenues and costs during this period on a net basis in easyJet's consolidated profit and loss accounts in the line item "Share of operating loss of associated undertaking".

On 24 June 1999, the easyJet parent undertaking increased its interest in easyJet Switzerland to 49 per cent and acquired an option over the remaining 51 per cent. As of 24 June 1999, easyJet has accounted for easyJet Switzerland on a 100 per cent consolidated basis and its revenues, costs, assets and liabilities have been reflected across all the applicable line items in the Group's consolidated financial statements.

As a result of this change in accounting treatment, the Group's consolidated results of operation are, in respect of certain line items in the consolidated profit and loss accounts, not fully comparable between financial year 1999, when easyJet Switzerland was 100 per cent consolidated for a little over only one quarter since 24 June 1999, and financial year 2000, when easyJet Switzerland was 100 per cent consolidated for the full year. This is particularly true of the line items reflecting aircraft dry-lease and wet-lease costs as well as maintenance and crew costs. Since the last quarter of financial year 1998, easyJet UK has been wet-leasing easyJet Switzerland's aircraft from easyJet Switzerland (which in turn had dry-leased these aircraft from others) under a block hour payment arrangement. Accounting for this arrangement results in the lease costs relating to the aircraft to be recorded more as wet-lease costs during periods when easyJet Switzerland is not 100 per cent consolidated and more as dry-lease costs when it is 100 per cent consolidated.

Gift of shares and share schemes

Under the Share Bonus Scheme, more particularly described in "Share Options" in Part VII of this document, awards of Ordinary Shares will be made to participants worth up to £1,460,625 in aggregate. These costs have been provided for already over the financial years 1999 and 2000.

Under the Share Gift, more particularly described in "Share Options" in Part VII of this document, awards of up to 838,607 Ordinary Shares for no consideration have been made to participants, vesting on Admission (as to up to 478,712 Ordinary Shares) and on the first anniversary of Admission (up to 359,895 Ordinary Shares) provided that the relevant employees are still employed by easyJet at that date.

Although the Pre-Flotation Option Schemes, more particularly described in "Share Options" in Part VII of this document, are not approved by the Board of Inland Revenue, no material out-of-pocket costs to easyJet are expected as a result of their operation. Holders of the substantial majority of Ordinary Shares under options granted under the UK Pre-Flotation Option Scheme have elected with the Inland Revenue to accept the liability for UK Employer's national insurance contributions (up to a limit of 11.9 per cent in respect of the first grant of options).

Results of operations

The following table sets forth certain consolidated profit and loss account data extracted without material adjustment from the Accountant's report on historical financial information set out in Part VI of this document together with such data expressed as a percentage of easyJet's revenue, for each of the periods indicated:

	1998		Year ended 30 September 1999		2000	
	£000s	%	£000s	%	£000s	%
Revenue ⁽¹⁾	77,000	100.0	139,789	100.0	263,694	100.0
Ground handling charges, including salaries.....	(7,246)	9.4	(13,945)	10.0	(27,081)	10.3
Airport charges.....	(7,761)	10.1	(13,735)	9.8	(23,687)	9.0
Fuel.....	(6,362)	8.3	(11,594)	8.3	(33,715)	12.8
Navigation charges.....	(6,993)	9.1	(11,733)	8.4	(18,051)	6.8
Crew costs, including training.....	(7,855)	10.2	(16,585)	11.9	(27,377)	10.4
Maintenance, including reserves.....	(4,381)	5.7	(10,136)	7.3	(20,589)	7.8
Advertising.....	(3,825)	5.0	(10,249)	7.3	(14,003)	5.3
Merchant fees and incentive pay.....	(2,887)	3.7	(4,404)	3.2	(6,918)	2.6
Share of operating loss of associated undertaking ⁽²⁾	(1,428)	1.9	(779)	0.6	—	—
Other costs ⁽³⁾	(9,028)	11.7	(14,653)	10.5	(31,064)	11.8
EBITDAR⁽⁴⁾.....	19,234	25.0	31,976	22.9	61,209	23.2
Depreciation.....	(8,193)	10.6	(12,686)	9.1	(15,937)	6.0
Aircraft dry lease costs.....	—	—	(2,070)	1.5	(14,121)	5.4
Aircraft long-term wet lease costs.....	(1,908)	2.5	(8,949)	6.4	(2,491)	0.9
Total operating profit (EBIT).....	9,133	11.9	8,271	5.9	28,660	10.9
Net interest.....	(3,257)	4.2	(7,011)	5.0	(6,557)	2.5
Tax.....	—	—	—	—	—	—
Retained profit for the year.....	5,876	7.6	1,260	0.9	22,103	8.4

- (1) When easyJet makes refunds to customers, it records refunds made in the pre-flight period as reductions in revenue and any refunds made post-flight as marketing expenses. Included in "Other costs", above.
- (2) easyJet Switzerland. Prior to 24 June 1999, easyJet Switzerland was owned 40 per cent by easyJet Holdings Limited and easyJet UK's then-parent undertaking. On 24 June 1999, easyJet Holdings Limited increased its ownership share in easyJet Switzerland to 49 per cent and acquired an option over the remaining 51 per cent. See "Business of easyJet – History". easyJet has accounted for easyJet Switzerland as an associated undertaking under equity accounting principles for the financial year ended 30 September 1998 and up to 24 June 1999 and has accounted for it as a 100 per cent consolidated subsidiary from 24 June 1999. See "Management's Discussion and Analysis of Financial Condition and Results of Operations – easyJet Switzerland".
- (3) Includes principally administrative and operational costs not included elsewhere, the costs associated with short-term aircraft wet leases, insurance and any post-flight refunds, together with certain other items, such as costs relating to the establishment of share schemes, currency exchange gains and losses and profit or loss on the disposal of fixed assets.
- (4) EBITDAR is defined by the Company as earnings before interest, taxes, depreciation, amortisation and lease payments (excluding the maintenance reserve component of operating lease payments). EBITDAR as defined by the Company may differ from EBITDAR or similar measures as defined by other airline companies. EBITDAR should not necessarily be construed as an indicator of the Company's consolidated net income, a measure of profitability of operations or an alternative to cash flows from operations as a measure of liquidity.

Year ended 30 September 2000, compared to year ended 30 September 1999

Revenue

easyJet's revenue increased 88.6 per cent, from £139.8 million to £263.7 million, from financial year 1999 to financial year 2000. This increase reflected an 83.6 per cent growth in passenger volumes, from 3.1 million to 5.6 million passengers. These increases were the result of:

- ▶ an increase in the size of easyJet's fleet in operation from an average of 11.5 aircraft to an average of 17.3 aircraft;

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- ▶ an increase in the load factor achieved by easyJet from 75.6 per cent to 80.8 per cent;
- ▶ an increase of 15 per cent in utilisation of owned/leased aircraft during the summer season in financial year 2000, as a result of improved aircraft turnaround times, particularly at London Luton, and longer flying days; and
- ▶ a roughly three per cent increase in average fares.

This increase in revenue was partly offset by the cost of wet leasing one aircraft during the Summer season 2000 and by compensation paid to passengers, pursuant to easyJet's customer service promise, who experienced delays of more than four hours caused principally by fog and air traffic control problems on easyJet's routes during financial year 2000.

Ground handling charges, including salaries

During financial year 2000, third-party ground handling charges increased as the aggregate numbers of sectors flown in the period increased and as flights to Spain and Switzerland, where ground handling charges are highest, increased as a proportion of sectors flown. The unit prices charged by the third-party ground handling service providers at London Luton increased by approximately 34 per cent in July 1999 following the announcement of easyJet's intention to self-handle at London Luton from March 2000. Ground handling charges in financial year 2000 also include the start-up costs of self-handling at London Luton.

Airport charges

easyJet's external airport charges increased 72.5 per cent, from £13.7 million to £23.7 million, from financial year 1999 to financial year 2000. This increase was attributable to the increase in the size of easyJet's fleet and the improvement in utilisation discussed above under "Revenue". The amount of the increase was partly mitigated during financial year 2000 by a reduction in airport charges per passenger at London Luton and the increase in the proportion of easyJet services operating from Liverpool where the per passenger airport charges are lower than at the other airports served by easyJet. easyJet is currently engaged in negotiations with London Luton Airport over the amount of London Luton per passenger airport charges that will apply once easyJet's current agreement with London Luton over charges terminates in February 2001. easyJet has signed heads of terms, which are subject to contract, with Liverpool Airport concerning airport charges over the next 20 years. See "Business of easyJet – Airport operations".

Fuel

easyJet's fuel costs increased by 190.8 per cent, from £11.6 million to £33.7 million, from financial year 1999 to financial year 2000. This significant increase was caused by the increased number of routes and sectors flown by easyJet and by a 69 per cent increase in easyJet's average unit US dollar fuel cost that resulted in an additional cost to easyJet of approximately £13.5 million. The deterioration of the value of sterling against the US dollar, the currency in which fuel prices are denominated, over the course of financial year 2000 also imposed additional costs of approximately £1.6 million on easyJet.

Navigation charges

easyJet's navigation charges, increased 53.8 per cent, from £11.7 million in financial year 1999 to £18.1 million in financial year 2000. This increase was principally attributable to the increased number of sectors flown in financial year 2000.

Crew costs, including training

Crew costs increased by 65.1 per cent from £16.6 million to £27.4 million. Of this increase, £4.1 million is explained by incorporating the full year effect of a 100 per cent consolidation of easyJet Switzerland's costs. Almost all of the balance of the increase in crew costs results from an increase in headcount during financial year 2000 to service the additional sectors and aircraft operated by easyJet during the year. The increased crew costs experienced in financial year 2000 were also contributed to by average salaries which increased by 3.5 per cent per head and the cost of bonuses paid to crew during financial year 2000. Crew training costs were less during financial year 2000 as the lower level of recruitment during financial year 2000 meant easyJet did not incur the level of initial training costs incurred during financial year 1999.

Maintenance, including reserves

easyJet's maintenance expenses consist primarily of the cost of routine maintenance and spare parts and reserve payments for the estimated future cost of heavy maintenance and engine overhauls on aircraft operated by easyJet pursuant to dry leases. The extent of the required annual maintenance reserve payments is determined by reference to the number of flight hours and cycles permitted between each engine shop visit and D check maintenance overhaul on aircraft airframes. Maintenance expenses, including reserves, increased 103.1 per cent, from £10.1 million in financial year 1999 to £20.6 million in financial year 2000 (or by 63.5 per cent from £12.6 million to £20.6 million if easyJet Switzerland had been a 100 per cent consolidated subsidiary of the Group for the whole of financial year 1999). The increase was largely due to the increase in sectors flown, the addition of two aircraft to the fleet and the fact that during financial year 2000 maintenance reserve payments were required for the full year in relation to the six aircraft operated by easyJet pursuant to long-term dry leases during financial year 1999.

Advertising

Advertising costs increased 36.6 per cent, from £10.2 million in financial year 1999 to £14.0 million in financial year 2000. This increase, lower than the rate of revenue growth, was principally because of market maturation and because easyJet added only five new routes during financial year 2000, which necessitated less advertising than was required to establish the nine new routes which began operation during financial year 1999.

Merchant fees and incentive pay

Merchant fees and incentive pay includes the costs of processing fees paid to credit card companies on all of easyJet's credit and debit card sales and the per-seat-sold/transferred commission paid as incentive pay to easyJet's telesales staff. Merchant fees and incentive pay increased 57.1 per cent, from £4.4 million in financial year 1999 to £6.9 million in financial year 2000. This increase was contributed to by the increase in the number of seats sold during financial year 2000, 91 per cent of which continue to be purchased using credit cards, and an increase in the level of credit card processing fees. The per-seat incentive pay received by telesales personnel increased during financial year 2000 but actually fell as a percentage of revenue due to the strong rise in initial sales made over the internet, from 26.8 per cent of seats sold during financial year 1999 to 65.1 per cent of seats sold during financial year 2000. Management anticipates that the proportion of seats sold over the internet will continue to rise in the near future.

Other costs

Other costs increased by 112.0 per cent, from £14.7 million to £31.1 million. This cost category includes the salary costs of all easyJet's personnel other than flight crew, cabin crew and London Luton ground-handling personnel, and therefore includes the salary costs attributable to easyJet's administrative, management, engineering, operational and network management functions. Such salaries increased, reflecting the rise in personnel numbers throughout easyJet necessary to manage and maintain easyJet's business as the scope of its operations grew during financial year 2000 and in preparation for the further increase in the scale of easyJet's operations that will be facilitated by the delivery of 32 new aircraft prior to the end of May 2004.

Other items in this cost category include administrative and operational costs (not included elsewhere), insurance, the costs associated with short-term aircraft wet leases, compensation paid to passengers, certain other items, such as costs relating to the establishment of share schemes, currency exchange gains and losses and the profit or loss on the disposal of fixed assets. These costs also increased as the scope of operations grew. Furthermore, the significant increase compared to financial year 1999 was mainly as a result of higher customer compensation costs (totalling in financial year 2000 approximately £4.3 million) and additional short-term wet lease costs (totalling in financial year 2000 approximately £1.5 million) which were incurred as a result of delays experienced during the year caused by factors such as bad weather and air traffic control disruptions. There was also a £1.1 million charge for impairment in asset values on certain older aircraft.

Depreciation

easyJet's depreciation charge, which reflects depreciation on owned aircraft and capitalised aircraft maintenance charges, and also includes depreciation on computer systems and other assets, increased by 25.6 per cent, from £12.7 million in financial year 1999 to £15.9 million in financial year 2000. This increase reflected the change in depreciation charge associated with the full-year effect of the acquisition of four aircraft and the disposal of two aircraft during financial year 1999 and the deterioration in the US dollar/pound sterling exchange rate. The increase was also due to a higher charge for amortisation of capitalised

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maintenance, partly as a result of the greater utilisation of the fleet during summer 2000. The percentage increase in depreciation was much less than the percentage increase in revenue over the same period, due to the fact that easyJet owned a lower proportion of its fleet in financial year 2000 than in financial year 1999. easyJet depreciates each of its owned aircraft on a straight line basis in accordance with UK GAAP to a residual value which reflects the estimated realisable value of the aircraft at the end of its useful life to the Company. The period over which easyJet depreciates its aircraft is seven years, which reflects easyJet's policy of seeking to maintain a young fleet by aiming to replace its aircraft when they are seven years old. This policy results in the Company incurring a higher annual depreciation rate than other airlines as it reflects the higher use of the aircraft due to the short-haul nature of easyJet's routes and its higher utilisation rates.

Aircraft dry lease costs

easyJet's aircraft dry lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to long-term dry operating leases. easyJet's dry leasing costs increased by 582.2 per cent, from £2.1 million in financial year 1999 to £14.1 million in financial year 2000 (or by 123.8 per cent, from £6.3 million to £14.1 million, if easyJet Switzerland had been a 100 per cent consolidated subsidiary for the whole of financial year 1999). This increase was principally due to the addition of two new aircraft added to the fleet under long-term dry operating leases in financial year 2000 and the inclusion in financial year 2000 of a full year's lease costs in relation to four new aircraft added to the fleet under dry leases during financial year 1999 and the effect of the full consolidation of easyJet Switzerland. See "— easyJet Switzerland", above.

Aircraft long-term wet lease costs

easyJet's aircraft wet lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to "ACMI" leases (that is, leases of an aircraft plus crew, maintenance and insurance) of a duration of more than one month. easyJet's wet leasing costs decreased by 72.2 per cent, from £8.9 million in financial year 1999 to £2.5 million in financial year 2000. This decrease is principally the result of the change in accounting treatment made to reflect the 100 per cent consolidation of easyJet Switzerland as of 24 June 1999 onwards, whereby the lease costs of two aircraft were accounted for in financial year 1999 as wet lease costs and in financial year 2000 as dry lease costs. The only wet lease costs incurred in financial year 1999 were those paid to easyJet Switzerland. See "— easyJet Switzerland". Therefore, if easyJet Switzerland had been treated as a 100 per cent consolidated subsidiary for all of financial year 1999, there would have been no wet lease costs during financial year 1999. The £2.5 million charge in financial year 2000 relates to the costs incurred renting an additional aircraft from an external third party pursuant to a wet lease for four months during the summer season in financial year 2000.

Net interest

Net interest reflects interest paid or payable by easyJet net of interest received or receivable by easyJet. easyJet's net interest costs decreased by 6.5 per cent from £7.0 million in financial year 1999 to £6.6 million in financial year 2000. easyJet's interest paid or payable primarily relates to financing costs associated with the aircraft easyJet owns. easyJet's interest paid or payable increased 7.4 per cent from £7.7 million in financial year 1999 to £8.2 million in financial year 2000. This increase was principally due to the additional interest paid or payable associated with the full-year effect of the aircraft added to easyJet's fleet during financial year 1999 and the deterioration of the value of sterling against the US dollar. Since certain of easyJet's aircraft financing debt carries interest at a floating rate, the increase in US dollar denominated interest rates during the period also contributed to the increase in interest paid or payable during financial year 2000. During financial year 2000 interest received or receivable increased 154.1 per cent from £0.66 million in financial year 1999 to £1.68 million in financial year 2000, reflecting the increased cash balances held by easyJet during financial year 2000 and higher interest rates during that period.

Retained profit for the year

For the reasons described above, easyJet's retained profit after interest and taxes increased from £1.3 million in financial year 1999 to £22.1 million in financial year 2000.

Year ended 30 September 1999, compared to year ended 30 September 1998

Revenue

easyJet's revenue increased 81.5 per cent from £77.0 million in financial year 1998 to £139.8 million in financial year 1999. This increase reflected a 79 per cent growth in passenger volumes, from 1.7 million to 3.1 million passengers. These increases were principally the result of:

- ▶ the approximate doubling in size of easyJet's fleet in operation from an average of 6.1 aircraft to an average of 11.5 aircraft; and
- ▶ an increase in the load factor achieved by easyJet from 70.8 per cent to 75.6 per cent.

These increases were partially offset by a decline of 9.3 per cent in owned/leased aircraft utilisation. Utilisation declined because easyJet chose to lessen its utilisation targets in financial year 1999 after having set high targets and achieved high utilisation in financial year 1998. Targets in 1999 were lessened to allow easyJet to focus on other operational goals, including changing the airline's principal maintenance supplier, bringing network management in-house and co-ordinating operations with the new associated undertaking, easyJet Switzerland. Utilisation also declined as a result of easyJet having to build buffers into its flight schedule between the delivery of new aircraft and their deployment.

Ground handling charges, including salaries

easyJet's ground handling costs increased by 92.5 per cent, from £7.2 million for the year ended 30 September 1998 to £13.9 million for the year ended 30 September 1999. This increase was due to the increase in sectors and passengers flown, and also the increased proportion of easyJet flights operated in financial year 1999 from Spain and Switzerland, where ground handling charges are generally higher than at other airports in easyJet's network.

Airport charges

easyJet's airport charges increased by 77 per cent, from £7.8 million in financial year 1998 to £13.7 million in financial year 1999. This increase was the result of an increase in the number of sectors flown and passengers carried following the addition of seven new aircraft to easyJet's fleet and the start of operations on nine new routes.

Fuel

easyJet's fuel costs increased by 82.2 per cent, from £6.4 million in financial year 1998 to £11.6 million in financial year 1999. The increased fuel spending was principally caused by the 67.3 per cent rise in the number of sectors flown during the year.

Navigation charges

easyJet's navigation charges increased 67.8 per cent, from £7.0 million in financial year 1998 to £11.7 million in financial year 1999. This increase was principally attributable to the increased number of sectors flown in financial year 1999.

Crew costs, including training

Crew costs increased by 111.1 per cent from £7.9 million to £16.6 million (and in effect was £4.1 million higher because of the full year effect of a 100 per cent consolidation of easyJet Switzerland's costs). Salary costs almost tripled for the following reasons (i) to service the additional aircraft delivered and sectors flown during financial year 1999, (ii) additional personnel who were recruited during financial year 1999 to make up for staffing shortages experienced in financial year 1998, (iii) in anticipation of the Group's further growth during financial year 2000, and (iv) the salary increases and bonuses paid to attract and retain flight crew in a tight market.

Crew training costs almost doubled during financial year 1999 because of the recruitment of additional flight and cabin crew during that financial year.

Maintenance, including reserves

Maintenance expenses, including reserves made for future heavy maintenance costs, increased 131.4 per cent, from £4.4 million in financial year 1998 to £10.1 million in financial year 1999 (or by 186.4 per cent from £4.4 million to £12.6 million if easyJet Switzerland had been a 100 per cent consolidated subsidiary of the Group for the whole of financial year 1999). The increase was principally caused by the approximate doubling in size of easyJet's fleet, the provision of maintenance reserves on six new aircraft added to easyJet's fleet pursuant to long-term dry leases, including two from easyJet Switzerland, the deterioration in the value of sterling against the US dollar, in which engine maintenance costs are denominated. There was also a change of easyJet's maintenance service provider at the end of financial year 1998 from Monarch Aircraft Engineering to FLSA, which provides an improved level of service. easyJet also incurred one-off additional maintenance costs

to provide for the cost of meeting the return conditions applicable to one of easyJet Switzerland's dry leased aircraft under the terms of its lease where the majority of future spend will relate to usage pre-1999.

Advertising

Advertising costs increased 167.9 per cent, from £3.8 million in financial year 1998 to £10.2 million in financial year 1999. This significant increase reflected the increased advertising costs associated with establishing easyJet's presence on nine new routes during financial year 1999. These costs were particularly high in relation to advertising undertaken in the Geneva market to promote easyJet's newly established services between Geneva and the cities of Liverpool, Nice, Amsterdam, Barcelona, and also capacity increases in the London market.

Merchant fees and incentive pay

Merchant fees and incentive pay increased 52.5 per cent, from £2.9 million in financial year 1998 to £4.4 million in financial year 1999. This rise was attributable to increased costs of incentive pay and the approximate 41 per cent increase in credit card processing fees experienced during financial year 1999, reflecting the increase in the number of seats sold during the year and the fact that approximately 91 per cent of seats by value were purchased by credit card.

Other costs

Other costs increased by 62.3 per cent from £9.0 million to £14.7 million, which was broadly in line with the growth of business. As was the case between financial years 2000 and 1999, this increase reflected the significant increase in personnel retained to manage and maintain easyJet's business as the scope of its operations grew during financial year 1999. During financial year 1999, easyJet increased the number of its administrative staff and strengthened its finance and marketing teams. Additional costs were also incurred by easyJet during financial year 1999 as easyJet brought its network management operations in-house and incorporated easyJet Switzerland into the Group.

Depreciation

easyJet's depreciation charge increased by 54.8 per cent, from £8.2 million in financial year 1998 to £12.7 million in financial year 1999. This increase principally reflected the additional depreciation charge associated with the acquisition of four additional aircraft during financial year 1999 and the full-year effect of the three aircraft acquired in financial year 1998.

Aircraft dry lease costs

easyJet first incurred dry lease costs during financial year 1999 when it added six aircraft to its fleet which were the first of easyJet's aircraft to be operated under long-term operating leases. In financial year 1999 easyJet incurred aircraft dry lease costs of £2.1 million (or £6.3 million if easyJet Switzerland had been a 100 per cent consolidated subsidiary of the Group for the whole of financial year 1999). The amount includes the accounting for the last three months of financial year 1999 of the lease costs of two easyJet Switzerland aircraft as dry lease costs, when those costs had previously been accounted for as wet lease costs. See "— easyJet Switzerland", above.

Aircraft long-term wet lease costs

This cost represents the leasing of aircraft by easyJet UK from easyJet Switzerland under a block-hour arrangement, and the accounting for those lease costs, from the summer of financial year 1998 until 24 June 1999. See "— easyJet Switzerland", above. easyJet's long-term wet lease costs increased by 369.0 per cent, from £1.9 million in financial year 1998 to £8.9 million in financial year 1999, representing the difference between one aircraft wet-leased for a short time in financial year 1998 and two aircraft wet-leased for a longer time in financial year 1999.

Net interest

easyJet's net interest costs increased by 115.3 per cent from £3.3 million in financial year 1998 to £7.0 million in financial year 1999. easyJet's interest payable increased by 79 per cent from £4.3 million in financial year 1998 to £7.7 million in financial year 1999. This increase was primarily due to the addition of four new owned aircraft to easyJet's fleet during financial year 1999 and the full-year effect for the two aircraft acquired during financial year 1998. Interest receivable decreased by 38 per cent from £1.1 million in financial year 1998 to

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£0.66 million in financial year 1999, reflecting the lower cash balances held by easyJet on average during financial year 1999, and lower interest rates.

Retained profit for the year

For the reasons described above, easyJet's retained profit after interest and taxes decreased by 78.6 per cent, from £5.9 million in financial year 1998 to £1.3 million in financial year 1999.

Liquidity and capital resources

Liquidity

The Group has historically financed its capital requirements through a combination of cash generated from operations, shareholder loans, debt financing for aircraft that the Group owns and lease financing arranged through sale and leaseback arrangements for aircraft that the Group operates under long-term leases.

The Group had cash at 30 September, 1998, 1999 and 2000 of £13.6 million, £29.8 million and £14.1 million, respectively.

The Group's net cash inflows from operating activities in the years ended 30 September 1998, 1999 and 2000 totalled £23.7 million, £25.2 million and £60.6 million, respectively. During these periods, the Group's operating cash inflows have principally been derived from the carriage of passengers. Included in net cash inflows from operating activities are movements in debtors and creditors. In general, the Group's creditor days outstanding are greater than its debtor days outstanding. The Directors believe there is little credit risk associated with debtors as these are primarily composed of credit card receivables.

The Group's net cash outflows from returns on investments and servicing of finance in the years ended 30 September 1998, 1999 and 2000 totalled £4.3 million, £8.2 million and £7.9 million, respectively. These figures include interest payments made on debt financing in respect of aircraft owned by the Group, in the amounts of £4.3 million in financial year 1998, £7.7 million in financial year 1999 and £8.2 million in financial year 2000, and additional interest payments made in respect of loans taken out to finance deposits on new aircraft, offset in part by interest received on cash balances during the respective periods.

The Group received net cash inflows from financing in the years ended 30 September 1998 and 1999 of £35.4 million and £37.1 million, respectively and experienced a net cash outflow from financing of £31.5 million in the year ended 30 September 2000. These figures reflect the increasing level of long-term aircraft-related debt taken on by the Group, offset in part by repayments thereon during the financial years 1998, 1999 and 2000.

As a result principally of the foregoing cash movements and the net cash outflows for the capital expenditure described below under "Capital expenditure," the Group experienced a £1.4 million decrease, a £16.2 million increase and a £15.8 million decrease in cash for the years ended 30 September 1998, 1999 and 2000, respectively.

As at 30 September 1998 and 1999, \$29.2 million was outstanding under two shareholder loans made to the Group in September 1997. These shareholder loans were repaid by the Group in full in September 2000. The Group does not, therefore, currently have any outstanding long-term debt other than bank loan commitments relating to aircraft that it owns. Loans outstanding, including shareholder loans, totalled £97.2 million at 30 September 1998, £137.1 million at 30 September 1999 and £120.1 million at 30 September 2000. See "Capital expenditure" below.

The Directors are of the opinion that, after taking into account the Group's existing cash, current aircraft debt and lease financing arrangements and the net proceeds of the Global Offering receivable by the Company (assuming no exercise of the Over-allotment Option), the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of publication of this document.

Capital expenditure

easyJet's net cash outflows for capital expenditure in financial years 1998, 1999 and 2000 were £64.7 million, £39.0 million, and £36.3 million, respectively. Capital expenditure outflows have been primarily related to aircraft, and take the form of deposits for future aircraft deliveries, payments on delivery for new aircraft in respect of which easyJet will retain ownership, other aircraft-related expenditure (for example for spare engines and aircraft modifications) and heavy maintenance costs that are capitalised. Net capital expenditure

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related to aircraft for the financial year ended 30 September 2000 was £34.0 million, predominantly deposit payments in respect of 737-700s on order with Boeing. easyJet has historically funded its capital expenditure principally through a combination of cash generated from operations, shareholder loans, debt financing from banks for aircraft that easyJet owns, and proceeds derived from the sale of aircraft. Some of easyJet's aircraft purchases have been subject to sale and leaseback arrangements, which means that the Company does not incur capital expenditure to fund their purchases but instead makes periodic lease payments which are accounted for as operating expenses. There is, however, an initial cash outflow in the two years prior to delivery for deposits which are subsequently refunded to easyJet concurrently with the sale of the aircraft to the leasing company. The outflows for deposits and their refunds are accounted for as movements in capital expenditure.

Currently easyJet has one aircraft debt financing facility arranged with the Mees Pierson Group NV (now Fortis Bank) and several aircraft debt financing facilities arranged with Hamburgische Landesbank Girozentrale (see "Material contracts" in Part VII of this document). These facilities bear interest at a mixture of floating and fixed rates. The floating rates range from LIBOR plus 0.9 per cent to LIBOR plus 1.0 per cent. The fixed rates range from 6.08% to 6.61%. Each of these debt financing facilities is denominated in US dollars. The aggregate balance outstanding under these facilities at 30 September 2000 was £120.1 million, expressed in sterling. Each of these facilities has been secured against one or more specific aircraft in easyJet's fleet and will remain outstanding after the completion of the Global Offering. easyJet expects that the amounts it will be required to repay in respect of the debt financing facilities described above will be approximately \$17.4 million in financial year 2001, approximately \$52.7 million in financial year 2002 (of which \$36.9 million will be paid to settle the outstanding debt due on four aircraft that easyJet expects to dispose of during financial year 2002) and approximately \$14.2 million in financial year 2003.

In financial year 1999, easyJet realised £21.7 million in relation to the sale of two Boeing 737-300s from its fleet, £16.0 million of which was applied in that financial year to the repayment of aircraft-related long-term loans.

easyJet has historically operated a number of the aircraft in its fleet pursuant to long-term operating leases. Payments related to aircraft under such leases principally include deposits refunded to easyJet concurrently with the sale of the aircraft to the leasing company, and annual lease payments which amounted in the aggregate to £2.1 million and £14.1 million in financial years 1999 and 2000, respectively. easyJet did not operate any aircraft pursuant to long term operating leases during financial year 1998. These aircraft leases are of varying duration, but predominantly are for original terms of approximately seven to ten years. The Company has eight Boeing 737-300 aircraft and since 13 October 2000, one Boeing 737-700 aircraft, on long-term operating leases.

Spending on spare engines and parts is not a material element of capital expenditure at present, but the Directors expect such spending to increase in size in future years.

New aircraft

At 30 September 2000 easyJet had 32 Boeing 737-700 aircraft on order from Boeing at firm delivery dates and prices. Seven of these new aircraft are scheduled for delivery in financial year 2001 (the first of which was delivered on 13 October 2000), ten are deliverable in 2002, during which year four of easyJet's older fleet aircraft are expected to be sold and two are expected to be returned to lessors, nine are deliverable in 2003 and six are scheduled for delivery in 2004. In addition to substantial deposit payments already made by easyJet on the 32 aircraft on order from Boeing, easyJet is scheduled to make additional deposit and purchase price payments on these aircraft.

The total list purchase price of the 32 aircraft is approximately US\$1.284 billion, although Boeing has granted easyJet substantial confidential price and payment terms concessions from the list purchase price. (See "Boeing contract" in Part VII of this document for a schedule of payments due from easyJet to Boeing based on the total list purchase price of the 32 aircraft). easyJet intends to finance the acquisition of these 32 Boeing 737-700 aircraft using a portion of the net proceeds received by the Company from the Global Offering, sale and leaseback transactions in respect of a number of these aircraft, long-term bank loans secured against aircraft in respect of aircraft to be owned by easyJet, cash generated by operations and proceeds from the disposal of aircraft. The precise amount of capital expenditure and lease payments to be made in respect of the 32 aircraft over the coming years will depend to a substantial extent on the number of aircraft as to which easyJet retains ownership and the number of aircraft sold and leased back.

PRINCIPAL DIFFERENCES BETWEEN UK AND US GAAP

The consolidated financial statements contained in Part VI of this document have been prepared in accordance with UK GAAP. Certain significant differences between UK GAAP as applied within the Group and US GAAP which could affect the Group's retained profit for the year or shareholders' equity are set out below.

Foreign currency translation

Under UK GAAP, aircraft which are financed in US dollars, either by loans, finance lease obligations or hire purchase arrangements, and which are intended to be sold after a relatively small proportion of their economic useful lives, are regarded, together with the related liabilities, as a separate group of assets and liabilities and accounted for as US dollar branches. The amounts in US dollars are translated into sterling at rates ruling at the balance sheet date and the net differences arising from the translation of aircraft costs and related foreign currency obligations are taken to reserves. Under US GAAP, the aircraft costs would be fixed in sterling at the rate of exchange at the date of acquisition, lease or hire purchase and the exchange gain or loss on the related US dollar obligations would be dealt with through the profit and loss account.

Associated undertakings

Under UK GAAP, undertakings in which the Group holds a long-term interest and over which it actually exercises significant influence are accounted for as associated undertakings using equity accounting. Under UK GAAP this may result in the recognition of a net liability for the losses of the associated undertaking.

Under US GAAP, associated undertakings accounted for using equity accounting are defined as entities over which the Group has the ability to exercise significant influence. Under US GAAP there is no requirement to reduce the recorded amount of the investment and other advances below zero through the recognition of losses if the group has not committed to fund the net liabilities of the associated undertaking.

Purchase accounting adjustments

Under UK GAAP, goodwill arising on acquisitions is capitalised and amortised over its estimated useful life, which is generally presumed not to exceed 20 years. Under US GAAP, fair values are ascribed to net assets acquired in a purchase business combination, including identifiable intangibles, with the balance of the purchase price being allocated to goodwill. Goodwill and intangibles are amortised over their respectful useful lives (not to exceed 40 years).

Deferred tax

Under UK GAAP, provision is made for deferred taxation only if there is reasonable evidence that such deferred taxation will crystallise in the foreseeable future. Deferred taxation is provided on a full asset and liability basis under US GAAP, which permits deferred tax assets to be recognised if their realisation is considered to be "more likely than not".

Share option compensation expense

Under both UK GAAP and US GAAP (assuming the Group were to apply Accounting Principles Board Opinion No. 25 for US GAAP purposes), any excess of the fair market value over the exercise price under a share option plan which exists at the date of grant of the share option is recognised as compensation expense in the profit and loss account over the period the services are provided.

In addition, under US GAAP the share compensation expense is re-measured each period until the options vest for those option plans which are classified as variable plans. Also, under the US GAAP "cheap stock" accounting rules the market price of the shares on flotation can be used as a surrogate for the fair value of the shares during the year prior to the public offering in order to determine the amount of compensation expense to recognise under US GAAP.

Alternatively, under US GAAP the Group could adopt Financial Accounting Standards Board Statement No 123 ("FASB 123") Accounting for Stock-Based Compensation for US GAAP purposes. FASB 123 requires the compensation expense for share options to be measured as the fair value of the option on the date of grant (using an option valuation model such as Black-Scholes). This expense is amortised to the profit and loss account over the vesting period of the option.

The compensation expense relating to options issued to non-employees is also, in all circumstances, required to be measured and accounted for under the requirements of FASB 123.

National Insurance Contributions (“NIC”) payable on exercise of share options

Under UK GAAP, any NIC payable by the Group on the exercise of share options by employees is accrued over the period to the exercise date of the share options. Under US GAAP such NIC is expensed at the date of exercise by the option holder. In circumstances where the option holder has entered into an Election with the Inland Revenue to pay the NIC, no accrual or expense is required to be recognised under either UK or US GAAP.

Tax benefits of share option deductions

The relevant employing companies within the Group may become entitled to a corporate tax deduction in respect of amounts equivalent to the difference between the option exercise price and the fair market value of the shares at the dates of exercise by their employees of options under the Group’s share option schemes. The tax benefit of this deduction would be taken into account as part of the tax charge in the profit and loss account for UK GAAP purposes and recorded as an increase in shareholders’ funds for US GAAP purposes if no stock compensation charge has been recognised for US GAAP purposes.

Capitalisation of interest on borrowings

In compliance with UK GAAP, interest on borrowings which specifically fund aircraft pre-delivery payments has been capitalised as part of the cost of acquiring aircraft. UK GAAP also allows interest incurred on borrowings for general purposes to be capitalised where progress payments exceed the amount of specific borrowings. Interest on borrowings which specifically fund other assets may not be capitalised. Under US GAAP the interest on specific borrowings which fund pre-delivery payments is required to be capitalised as well as the interest, at an appropriate weighted-average rate, on all other borrowings of the enterprise where pre-delivery payments exceed specific borrowings.

Sale and leaseback transactions

Under UK GAAP, any gains or losses arising on the sale of an asset which is subsequently leased back in the form of an operating lease should be recognised in the profit and loss account, provided that the leaseback transaction was undertaken at fair value. Where the transaction is not at fair value the gain or loss arising should be deferred and amortised to the profit and loss account over the term of the operating lease on a straight line basis. Under US GAAP any gains or losses arising on sale and leaseback transactions (under operating leases) are deferred and amortised through the profit and loss account unless the leaseback is for less than substantially all of the asset, in which case a portion of the gain or loss may be required to be recognised in the profit and loss account immediately.

Statement of cash flows

The Group’s consolidated cash flow statements are prepared in accordance with UK Financial Reporting Standard 1 (“FRS 1”) (Revised 1996), whose objective and principles are similar to those set out in US Statement of Financial Accounting Standards No. 95 (“SFAS No. 95”), “Statement of Cash Flows”. The principal differences between the standards relate to classification. Under FRS 1 (Revised 1996), the Group presents its cash flows for (a) operating activities, (b) returns on investments and servicing of finance, (c) tax paid, (d) capital expenditure and financial investment, (e) acquisitions and disposals and (g) financing. SFAS No. 95 requires only three categories of cash flow activity being (a) operating, (b) investing and (c) financing.

Cash flows from taxation, returns on investments and servicing of finance and dividends received from joint ventures and associates under FRS 1 (Revised 1996) would be included as operating activities under SFAS No. 95, capital expenditure and financial investment and acquisitions and disposals would be included as investing activities under SFAS No 95, and distributions would be included as a financing activity under SFAS No. 95. Under FRS 1 (Revised 1996), cash comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand; and liquid resources comprise current asset investments held as readily disposable stores of value. Under SFAS No. 95 cash equivalents, comprising short-term highly liquid investments, generally with original maturities of three months or less, are grouped together with cash, short-term borrowings repayable on demand would not be included within cash and cash equivalents and movements in those borrowings would be included in financing activities.

Impairment of fixed assets

Under UK GAAP impairment charges on fixed assets are capable of being reversed if the recoverable amount of a tangible fixed asset or investment increases because of a change in economic conditions or in the expected use of the asset. The resulting reversal of the impairment loss should be recognised in the current period to the

extent that it increases the carrying amount of the fixed asset up to the amount that it would have been had the original impairment not occurred. The reversal of the impairment loss should be recognised in the profit and loss account unless it arises on a previously revalued fixed asset.

Under US GAAP impairment charges result in a new basis for the asset and are not reversed if the recoverable amount of the fixed asset increases in subsequent periods.

Capitalisation of internal software development costs and website design costs

The Company's accounting policy which is in line with UK GAAP requires all internal costs for the development of software or websites to be expensed as incurred. Under US GAAP certain internal costs relating to software development for own use are required to be capitalised and amortised through the profit and loss account over their estimated useful lives.

Accounting for refunds to customers

The Company's accounting policy is to record refunds made to customers in the pre-flight period as reductions in gross revenue and any refunds made post flight are recorded as marketing expenses in the profit and loss account. Under US GAAP all these refunds would be recorded as a reduction in gross revenues.

DIVIDEND POLICY

The Company has never declared or paid any cash dividends on the Ordinary Shares and does not anticipate paying cash dividends in the foreseeable future. The Directors intend to retain earnings for use in the Group's business for the foreseeable future.

CURRENT TRADING AND PROSPECTS

Since 30 September 2000 sales have been lower than in previous weeks because of the seasonal nature of easyJet's business in line with Directors expectations (see "Management's Discussion and Analysis of Financial Condition and Results of Operations – Seasonality" in this Part III). However, load factors and yields for this period are both higher than those experienced during the same period last year. The Directors view the future prospects of easyJet with confidence and believe that the Group is well placed to continue to develop its business in line with its strategy (see "Business of easyJet – Strategy").

REASONS FOR THE GLOBAL OFFERING AND USE OF PROCEEDS

The Company is undertaking the Global Offering in order to help fund its planned new aircraft purchases and to reward and incentivise employees with shares and share options in a public company. Assuming no exercise of the Over-allotment Option, the Global Offering will raise approximately £183 million, net of underwriting discount and expenses, for the Company. Approximately £163 million of these net proceeds will be used to finance in part the purchase of the new aircraft described in "Business of easyJet – Fleet" and the remaining net proceeds will be used for working capital purposes.

Part IV – Regulation

AIR TRANSPORT REGULATION

Operating rights

The air transport industry has historically been highly regulated both internationally and domestically. Internationally, the industry is regulated as to technical and safety matters by a detailed régime established under the auspices of ICAO, an international body established by the 1944 Chicago Convention and based in Montreal. ICAO created a framework of international technical standards which have been the subject of detailed and continuing development over the years. The Chicago Convention also confirmed the principle that each state has sovereignty over the airspace above it, resulting in entry into that airspace by airlines of other states being a matter for bilateral negotiation and agreement between the states concerned (such agreements being known as bilateral air service agreements or “ASAs”). ASAs cover such matters as the routes which airlines are permitted to serve, the number of airlines which each state is permitted to designate to exercise the rights awarded to each state (“traffic rights”), the capacity and frequency offered, the fares and tariffs applicable to the carriage of passengers and cargo and the nationality of ownership and control of airlines. ASAs vary in their terms from being highly restrictive to being relatively liberal. ASAs are filed with ICAO.

Until 1 January 1993, air services in Europe were regulated in accordance with the terms of ASAs entered into on this bilateral basis by pairs of states. By agreement between the member states of the EU, this bilateral regime was progressively liberalised through a series of three “packages” of measures, the last of which (known as the “third package”) completed the creation of the “single aviation market” in the EU. The principal effect of the third package, which took effect on 1 January 1993, was to dismantle the bilateral regime by establishing common rules for the licensing of air carriers in the EU and by permitting EU licensed air carriers (“Community air carriers”) to operate services freely between points in the EU and to set fares and tariffs in accordance with their own commercial judgement. Community air carriers are no longer required to be owned and controlled by nationals of the state by which they are licensed but may be owned and controlled by any EEA nationals (see below). In parallel with the establishment of the single aviation market, measures applying EU competition law to air transport were introduced so that air transport became subject, in particular, to Articles 81 (prohibition of anti-competitive agreements) and 82 (prohibition of abuse of a dominant position) of the EC Treaty and to EU merger regulation. In 1995, by virtue of the European Economic Area Agreement, Norway, Iceland and Liechtenstein, although not members of the EU, became subject to the single aviation market regime, thus extending the single aviation market to this European Economic Area (“EEA”). However, air services to, from and within other non-EEA European states, as well as states outside Europe, remain subject to the bilateral regime.

This process of liberalisation and the establishment of the single aviation market afforded the opportunity for easyJet’s low-fare model to be applied to European short and medium haul scheduled services.

easyJet UK holds an operating licence granted pursuant to the EC Licensing Regulation. The continued validity of easyJet UK’s operating licence depends, inter alia, on easyJet UK’s ability to demonstrate that it is majority owned and effectively controlled at all times by EEA nationals and that it is “financially fit” by the standards required by the EC Licensing Regulation. Any company which participates in a controlling interest in a Community air carrier must also satisfy the requirements as to nationality of ownership and control. These nationality requirements therefore apply, and will continue to apply, to easyJet plc and to easyJet Holdings Limited whilst its interest in easyJet plc remains a majority interest. If these nationality requirements are not maintained, the CAA has a statutory duty to refer the matter to the Secretary of State who might direct the CAA to suspend or revoke easyJet’s operating licence. Furthermore, the CAA could suspend or revoke easyJet’s operating licence on grounds of financial fitness or any other requirements of the EC Licensing Regulation.

The EC Market Access Regulation provides that Community air carriers may operate between any airports in the EU and (by virtue of the EEA Agreement) Norway, Iceland and Liechtenstein. No specific route licence is required and the states concerned are required to grant access. By virtue of its operating licence, easyJet UK therefore has authority to serve any route between any two airports in the EEA at the capacity, frequency and fare levels it determines are commercially appropriate. The regulation of air fares within the EEA is liberalised in accordance with the EC Fares Regulation.

Part IV – Regulation

In order to serve airports outside the EEA, including Switzerland, the holder of a UK operating licence requires a specific "route licence" granted by the CAA pursuant to the UK Civil Aviation Act 1982. easyJet UK holds route licences to serve the London Luton – Geneva, London Luton – Zurich, London Stansted – Geneva, London Gatwick – Geneva and Liverpool – Geneva routes. It holds the necessary operating permits issued by the Swiss Federal Office of Civil Aviation ("FOCA") which also has the power to disapprove the fares easyJet UK files with it. easyJet's current UK/Switzerland fares are approved by FOCA. It is also currently a requirement of the UK/Switzerland ASA that easyJet UK, as a UK designated carrier, is owned and controlled by UK nationals, a requirement which easyJet UK is at present able to satisfy, and following this offering expects to be able to continue to satisfy based on the provisions contained in its Articles of Association which place limitations on the ownership of the Company's shares by non UK nationals (see "Additional Information – Memorandum and Articles of Association" in Part VII of this document).

At present it is a requirement of Swiss law that Swiss air carriers be majority owned and controlled by Swiss nationals. It is a requirement of the relevant ASAs that carriers designated for service by Switzerland under those ASAs be substantially owned and controlled by Switzerland or nationals of Switzerland.

easyJet Switzerland is majority owned (51 per cent) by Swiss nationals and the majority of its board are Swiss resident nationals. On 30 April 2000 easyJet Holding Limited's interests in easyJet Switzerland were transferred to the Company as part of the pre-flotation restructuring. These interests included an option to acquire the remaining 51 per cent of easyJet Switzerland. On 21 May 2000, a referendum was held in Switzerland which resulted in a substantial majority voting in favour of a proposed aviation agreement between the EU and Switzerland, as part of a package of agreements which included agreement upon the free movement of persons between the EU and Switzerland. This package awaits final ratification by the European Parliament and EU member states, which is expected in 2001 or 2002. Although not quite as liberal as the measures establishing the EU single aviation market, and taking effect in stages, from when it first takes effect the agreement will remove the requirement for easyJet Switzerland to be majority owned and controlled by Swiss nationals, then permitting the Company to exercise its option to acquire the remaining 51 per cent of easyJet Switzerland. In addition, the requirement for easyJet to hold specific route licences to operate from any point in the EU to any point in Switzerland will no longer apply and the requirement under the UK/Swiss ASA for easyJet UK and easyJet to be owned and controlled by UK nationals will be replaced by the requirement that they be majority owned and effectively controlled by EU nationals (Norway, Iceland and Liechtenstein are not parties to this agreement). In general, EU carriers will be permitted to operate routes from any point in the EU to any point in Switzerland and Swiss carriers will be permitted to operate routes between any point in Switzerland and any point in the EU.

easyJet Switzerland's authority to operate international services depends upon the terms of the various ASAs between Switzerland and other states. easyJet Switzerland is currently authorised pursuant to the UK/Switzerland ASA to operate from Geneva to London Stansted, London Luton, London Gatwick and Liverpool and from Zurich to London Stansted, London Luton and Liverpool. It is also authorised pursuant to Switzerland's ASAs with France and the Netherlands to operate from Geneva to Nice and from Geneva to Amsterdam. On this basis it also currently operates charter flights on behalf of easyJet Tours SARL between Geneva and Barcelona, as further described below.

In 1999 easyJet Switzerland's application to the Swiss authorities to operate scheduled services between Geneva and Barcelona was refused following, the Directors understand, objection by Swissair which under Swiss law held a monopoly on this route. However, in July 1999 easyJet Switzerland commenced a charter service on the route which was permitted because the service included a minimal element of accommodation in Spain. This was provided through a package which could be purchased from easyJet Tours SARL, a Swiss tour operator formed especially as a subsidiary of easyJet Switzerland to enable this.

Upon the EU/Switzerland air transport agreement taking effect, Swiss carriers, including easyJet Switzerland, will be permitted to operate between any point in Switzerland and any point in the EU without restrictions on capacity or frequency and without the necessity for governmental approval of fares. easyJet Switzerland will be permitted to operate scheduled services between Geneva and Barcelona (i.e. without the intervention of easyJet Tours SARL as charterer). For the purposes of operations between Switzerland and points outside the EU, however, the terms and conditions of the ASAs between Switzerland and the relevant non-EU states will continue to apply. It is likely that such ASAs will continue to require Swiss designated carriers to be owned and controlled by Swiss nationals. Therefore, if easyJet Switzerland does not satisfy the nationality of ownership and control requirements of Switzerland's ASAs with non-EU states it may not be possible for Switzerland to designate easyJet Switzerland for service to non-EU states under the ASAs concerned.

Part IV – Regulation

For certain risks that may attach to easyJet Switzerland's maintenance of its operating licence (see "Maintenance of easyJet UK's and easyJet Switzerland's operating licences" in Part V of this document).

Airport regulation

At certain of the airports from which easyJet operates, takeoffs and landings are regulated through the allocation of slots. Slots are allocated by an airport co-ordinator who operates in accordance with the EC Slot Regulation and otherwise according to IATA procedures (see "Business of easyJet – Scheduling and slot management").

As well as being subject to EC and national corporation law generally, some of the airports easyJet serves, including London Luton, are specifically regulated. This means that all users of the airports are required to be treated in a non-discriminatory manner and therefore the ability of easyJet or any other operator to negotiate preferential terms does not exist or is substantially restricted. Some of the UK airports easyJet serves, other than London Luton, are designated by the UK Secretary of State under the Airports Act 1986. This means that the charges levied by these airports are regulated under a review mechanism involving the CAA and the Competition Commission. All the UK airports from which easyJet operates are in any event regulated under the Airports Act 1986 principally to ensure that they do not discriminate unfairly between, or abuse their bargaining powers with respect to, airport users.

ENVIRONMENTAL REGULATION

easyJet believes that it complies in all material respects with all local and other standards for emissions into the atmosphere and that it meets applicable standards relating to all other discharges into the environment. easyJet is currently seeking to implement a Government-backed environmental management system, Project Acorn.

Under EU directives governing aircraft noise emissions, all aircraft operated by EU carriers are required to comply with Chapter 3 noise requirements established by the ICAO. All easyJet's aircraft are Chapter 3 noise compliant and its new 737-700s will be, also.

Environmental controls in the UK are generally imposed through a combination of environmental and property planning legislation which implement EU laws where applicable. At London Luton, easyJet operates on land controlled by London Luton Airport. Planning approval for the easyLand head office is currently in line with planning policy requirements for London Luton Airport. From time to time noxious or potentially hazardous substances are held on a temporary basis within the hangar at London Luton which is owned by the airport but used by easyTech.

Part V – Risk factors

In addition to the other information presented in this document, prospective investors should carefully consider the following risk factors.

RISKS RELATED TO EASYJET'S BUSINESS

easyJet is dependent on the UK and continental European travel markets

Many of easyJet's passengers travel on holiday or for other, non-business related reasons. Because a substantial portion of such airline travel is discretionary, the airline industry tends to experience adverse financial results during economic downturns. It is possible that easyJet will be adversely affected by any economic downturn, although easyJet would expect to gain at such times a portion of new business from existing full service airlines as passengers trade down for a better priced deal. easyJet's business would also be adversely affected by any other circumstance causing a reduction in demand for air transportation services in or from the UK or continental Europe in general, and low fare services in particular, including adverse changes in local economic conditions, political disruptions or violence (including terrorism), fare increases linked to increased costs including increases in airport access costs or taxes imposed on air passengers and fuel costs, changes in leisure travel or spending patterns or other circumstances.

easyJet's high aircraft utilisation rate makes it especially vulnerable to delays

easyJet has, and aims to maintain, a high aircraft utilisation rate. High utilisation is achieved in part by reducing turnaround times at airports, flying for more hours in an average day and reducing the amount of time during which spare aircraft are available for backup. Because of easyJet's high utilisation rate compared to its competitors, easyJet is, more than any of its competitors, exposed to, and adversely affected by, delays resulting from factors such as air traffic control, ground handling, air traffic or airport congestion, weather, acts of third parties upon which easyJet relies, maintenance and technical issues and other factors. In particular a significant number of delays have occurred this year as a result of outages in the UK air traffic control system, industrial action by the French air traffic controllers, unexpected adverse weather including snow and fog, runway closures, airport incidents and crew shortages. Significant delays in easyJet's provision of services, especially if repeated on multiple occasions, could damage its reputation and materially and adversely affect its business, financial condition and results of operations. Adverse effects may be further exacerbated to the extent easyJet regularly makes refunds and provides assistance to passengers if flight delays extend beyond four hours. In addition, easyJet's expansion of its network to include new bases, new destinations and more frequent flights on current routes could be disruptive to easyJet's overall schedule, to the extent such expansion increases easyJet's exposure to congested airports or air traffic. For example, easyJet's intention to operate a new base in Amsterdam in 2001 will increase its exposure to Amsterdam's Schiphol airport, which is a busy airport. Such disruption could adversely affect easyJet's results from existing operations, hamper its expansion efforts or both.

easyJet's business is subject to strong seasonal variations

easyJet's results of operations have varied significantly from interim period to interim period and management expects these variations to continue in the future. There are a number of factors that cause these variations, but the principal factor is that business in easyJet's portion of the airline industry tends to be seasonal in nature. Demand in Europe is substantially higher during the summer months, when many Europeans take holidays, than during the winter. easyJet experiences its lowest yields between November and February (excluding the Christmas and New Year period), and also relatively lower utilisation due to a higher level of pre-planned aircraft maintenance in the winter. As a result, easyJet's operating revenues are generally much lower in the first half of easyJet's financial year (October to March) than in the second half (April to September). Most or all of easyJet's profit before tax is generated in the second part of the year. Given easyJet's planned high utilisation rates, disruptions that affect utilisation, yields and load factors have a disproportionate effect on results if they happen in the second half of easyJet's financial year. Such disruptions could have a material adverse effect on easyJet's financial performance.

easyJet may face difficulties protecting its name and branding

A feature of easyJet's success is its trade name and branding. Both the words "easy" and "jet" have descriptive connotations and the scope of protection afforded by a mark of this nature is less extensive than would be the case with a wholly distinctive mark. In addition, easyJet's use of orange and white livery is difficult to protect

Part V – Risk factors

as many companies use orange print on a white background (or white print on an orange background) and courts and trade marks registries throughout the world are reluctant to grant any one trader a monopoly in the use of a particular colour or combination of common colours. easyJet does and is likely to continue to spend time and money assisting easyGroup IP Licensing in enforcing the easyJet trade marks, domain names and similar rights against potential third party infringers, but there can be no assurance that it will be able to do so with sufficient success to avoid the confusion that can result if other unrelated companies use similar brandings. In addition, because easyJet does not own its name and branding, but licences them from easyGroup IP Licensing under a licence that assigns many brand protection activities to easyGroup IP Licensing in the first instance, easyJet relies heavily on easyGroup IP Licensing to apply for further trade marks, maintain trade mark registrations and take action against third party infringers. There can be no assurance that easyGroup IP Licensing will take adequate steps to enforce the easyJet brand and marks or that it will be able to prevent use of the brand by third parties.

easyJet uses the internet extensively to make sales. Third parties can and have registered confusingly similar website domain names and may offer similar services, seeking to confuse members of the public with similar branding, or try to sell the domain names to easyJet at inflated prices. easyJet does and will have to continue to spend time and money to cooperate with easyGroup IP Licensing in taking steps to protect its business from competitors seeking to divert business by the use of confusingly similar domain names and “cybersquatters” seeking to obtain payments for the sale of domain names that they have registered, but there can be no assurance that they will be sufficiently successful in these undertakings to avoid adverse effects on its business.

easyJet does not own its name and branding

easyJet does not own its trade marks, domain names or any rights in its orange and white livery, but instead licenses them from easyGroup IP Licensing, which is controlled by Stelios Haji-Ioannou. The licence imposes duties on easyJet to maintain high standards in its use of the brand. In addition, easyJet is restricted to carrying on business as an airline with a core activity of passenger transport in fixed wing aircraft and can only provide services ancillary and conducive to that business if a number of its peer group (EU flag carriers and EU and North American low cost airlines) does so first and the aggregate revenue from such ancillary and conducive activities does not exceed 25 per cent of easyJet’s aggregate annual revenue. If easyJet expands outside this business it will lose the rights it has to use the easyJet trade marks, branding and domain names. The terms of the licence from easyGroup IP Licensing may therefore in the future restrict its ability to develop its business as it wishes. It is, however, the Board’s strategy to focus easyJet on its core activity and currently almost all its revenue is generated from its core activity. In return, easyGroup IP Licensing has agreed not to licence any other person to use the “easy” brand in the airline business with a core activity of passenger transport in fixed wing aircraft while the licence continues and for 3 years thereafter. easyGroup IP Licensing maintains control over what further “easy” ventures are introduced using the “easy” name and branding but undertakes to enter into a brand licence with every user of the easy brand which is no less onerous than the licence that has been agreed with easyJet. easyJet must rely heavily on easyGroup IP Licensing to apply for further trade marks, maintain trade mark registrations and take action against third party infringers although easyJet does have certain limited rights to take steps itself. The aggregate liability of easyGroup IP Licensing under the brand licence throughout its term is limited to £10 million. easyJet must, at its own cost, assist other members of the “easy” group of companies to enforce their rights against third party infringers. easyGroup IP Licensing may terminate the brand licence in the event that easyJet UK suffers an insolvency event. If easyJet breaches the terms of the licence and fails to remedy such breach within 90 days, except in the case of the 25 per cent test mentioned above where the time limit is 180 days, or is insolvent for more than one year, its right to use the trade marks and branding could be terminated and it could be required to give up its URL, which is the main method of selling its tickets. However, the Directors believe the cure period to be adequate to remedy most likely breaches. A loss of the licence by easyJet could substantially and adversely affect easyJet’s results, financial condition and business.

Under the terms of the licence easyJet cannot change the easy “get up” without the consent of all the other licencees. This may restrict easyJet’s ability to change the brand if it so wishes.

Stelios Haji-Ioannou has agreed not to be involved in another airline business with a core activity of passenger transport in fixed wing aircraft from the date of the licence until the expiry of the period ending three years after the later of: (a) his ceasing to hold at least five per cent of the share capital of the Company; and (b) his ceasing to have control of easyGroup IP Licensing, or, if earlier, the termination of the brand licence. If the brand licence terminates for insolvency the three year period shall not apply. This covenant will not prevent Stelios Haji-Ioannou from being involved in private jet charter or the holding of five per cent in a publicly

Part V – Risk factors

quoted airline company provided he has no management role. For this purpose the chartering of private jets means the chartering of entire jets to an individual or company but not selling seats directly or indirectly to members of the public and not operating regular scheduled services. The Directors believe this does not compete with easyJet's core business. However, under the terms of the brand licence it is open to other "easy" companies in their ancillary or conducive activities to compete with easyJet in its core area of activity using the "easy" brand. They can only do this if such activity is ancillary and conducive to their own core activity (for instance a tour operator) and to the extent that their revenue from such activity does not constitute more than 25 per cent of their aggregate revenue. In addition, in certain circumstances it is possible for easyJet to sue other easy companies directly and for them to sue it under the terms of the licence. Each of easyGroup IP Licensing and easyJet UK have agreed to indemnify the other against any capital gains tax liability the other may suffer arising out of the assignment and brand licence. The Directors have been advised that it is unlikely easyGroup IP Licensing will suffer any capital gains tax liability.

Any failure by easyGroup IP Licensing to police properly the use of the "easy" brand by its licensees or to enforce trade mark or domain name or related rights in the brand against infringers or otherwise to comply with its obligations under the brand licence, may have a significant adverse effect on easyJet.

Whilst Stelios Haji-Ioannou presently controls easyJet and easyGroup IP Licensing, there can be no certainty that he will continue to do so. Were he to sell his interest in either, easyGroup IP Licensing's relationship with easyJet could deteriorate. While the Directors believe that the licence offers them sufficient protection, there can be no assurance that a change of the ownership of easyGroup IP Licensing would not have a materially adverse effect on the Group's use of its brand.

easyJet could suffer from the extension of the "easy" brand

The brand extension scheme being implemented through additional licensing by easyGroup IP Licensing holds risks for easyJet. Although the terms on which easyGroup IP Licensing may extend the right to use the "easy" brand and livery outside the fixed wing passenger airline industry must be no less onerous than the terms of easyJet's licence, easyGroup IP Licensing has freedom to determine the extent to which it enforces those licences. Currently, it is expected that easyGroup IP Licensing will licence easyEverything (internet cafes), easyRentacar (car rental), easyValue (online product comparisons), easyMoney (retail banking) and easy.com (an internet portal and e-mail service) to market their various businesses under the "easy" brand and livery, and that more "easy" group businesses may arise in the future. easyGroup IP Licensing or the additional licensees may, through their actions or inaction or through failure or problems in their businesses, damage the "easy" brand for easyJet by associating it with events, ideas or brand values at odds with easyJet's image and strategy or by adversely affecting the goodwill in the brand generally. Accidents connected with or failures by other "easy" ventures, particularly if they relate to safety issues, may materially and adversely affect the reputation of easyJet.

In addition, the extension of the "easy" brand is likely to increase the profile of the brand and increase the attention by "pirates" or infringers, and accordingly, is likely to increase the cost of protecting the brand. As the profile of each licensee increases, the effect of failures or accidents to other licensees of the brand are likely to be more damaging to easyJet's brand. In November 2000, a person or persons that purport to trade under names with the prefix easy established a website to seek to co-ordinate defences against infringement actions launched by easyGroup IP Licensing and the "easy" group businesses. There can be no assurance that infringement actions brought by easyGroup IP Licensing or the "easy" group businesses will be successful or that such actions will not undermine the reputation of the easy brand as a consumer-friendly brand. In general, there can be no assurance that the extension of the "easy" brand will not adversely affect the reputation and image of the easyJet name and branding or be damaging to easyJet's business.

Chairman's reputation

easyJet's public image is very closely associated with its chairman and founder, Stelios Haji-Ioannou. He regularly appears as its spokesman in marketing and public relations events and is a key part of easyJet's public image. Were his personal or business reputation to be damaged as a result of anything done or omitted in connection with easyJet, any other "easy" company, his other business interests or his personal life, this could have a material adverse effect on the reputation and image of easyJet, and accordingly its financial performance and the market price of its shares.

Part V – Risk factors

easyJet's openness with the media risks adverse exposure

easyJet intentionally seeks a close and open relationship with the media to increase its public profile and to reinforce its brand positioning of transparency and informality. This openness means that, just as in the "Airline" TV series, the public and the media may become aware of both negative and positive aspects of easyJet. Negative exposure of easyJet in the media over which the airline has no control may have an adverse impact on easyJet's brand, public support, customer bookings, financial performance and share price.

easyJet may not meet its growth targets

Based on its current aircraft purchase programme, easyJet's overall capacity (measured in available seats) is expected to grow at an annual average rate of 25 per cent per annum over the next four years. For a variety of reasons, easyJet may not be able to grow its business at a rate necessary to make sufficient use of this new capacity and avoid the adverse financial effects of having acquired too much capacity. Growth could be hampered by an economic downturn, problems specific to the air passenger industry or the low-fare portion of the industry, competitor action, air traffic or airport congestion, shortages of key or specialised personnel, factors adversely affecting utilisation, yields or load factors, changes in consumer preferences or other risks described in this Part V. In addition, if easyJet were perceived to be growing but not at a pace sufficiently in line with its plans or abilities, then the market price of its shares would be adversely affected.

Rapid growth may be difficult to manage

Although management believes in the scalability of easyJet's business, expansion will place strains on easyJet's resources, including management, specialist personnel, information technology, internal controls and other resources. easyJet believes these resources are adequate at present. However, there are reasons why they may not be able to support the increase in the scale of operations that easyJet expects. These could include the fact that easyJet's management structure is deliberately lean, that the Company may face shortages in pilots and other specialist staff, that its financial, control and planning systems will have to grow in complexity, both to allow the Company to manage its growth and to permit it to fulfil the accountability and disclosure obligations of a public company, and that it has a relatively brief operating history. Any shortfall in resources might require easyJet to make significant additional expenditures, including on systems, facilities and personnel. An inability to hire the required personnel, or delays in designing and implementing effective new systems or the inability to acquire the necessary facilities or other assets might adversely affect easyJet's ability to grow in a cost effective manner. In addition, easyJet believes that it has succeeded in establishing a highly cost-conscious and dynamic corporate culture. These cultural values may be difficult to preserve as easyJet grows.

Another challenge that easyJet faces is the cost-effective management of new aircraft deliveries and deployments. The precise timing of aircraft deliveries can be affected by many factors over which easyJet has no control such as parts supply difficulties to the Boeing production line or Boeing labour unrest. If a delivery is only slightly early or late easyJet could suffer adverse economic consequences. In addition, moving quickly from aircraft delivery to revenue-generating deployment requires the co-ordination of a number of processes, such as pilot hiring and training and schedule expansion, and is a process susceptible to delays due to many factors. If easyJet is unable to put new aircraft into service in a quick and co-ordinated manner, it may incur costs and lose anticipated revenues.

easyJet will incur significant costs acquiring additional aircraft

easyJet's strategy for continued growth is dependent on its ability to acquire additional aircraft and to replace older aircraft in line with its intention to always have a young fleet. To this end, easyJet has signed a purchase agreement with Boeing for the provision of 32 next generation 737-700 aircraft and has acquired purchase rights for 30 more such aircraft. The purchase agreement to acquire the 32 aircraft requires substantial payments by easyJet over the next four years (see "Boeing Contract" in Part VII of this document). Cash deposits must be paid during the period two years before delivery of each aircraft. There can be no assurance that easyJet will have sufficient cash reserves to fund these cash commitments, although the funds raised by the flotation will be used in part for this.

In addition, in order to finance the purchase of these aircraft easyJet intends to enter into various arrangements, including arrangements whereby easyJet retains ownership of the aircraft and pays for it with the proceeds from loans secured against the aircraft, and arrangements whereby the aircraft will be sold to a financial institution and then leased back to easyJet. Such arrangements will mean a significant increase in the total amount of aircraft payment obligations to which easyJet will be subject. In the case of debt or lease finance, there can be no assurance that lenders or counter-parties will be available to easyJet at the times

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needed and with financing packages at affordable costs. In the case of aircraft held under lease, such leases cannot generally be terminated by easyJet without substantial financial penalty. If growth in passenger numbers and revenues do not keep up with the planned expansion of easyJet's fleet, easyJet could face difficulties meeting its aircraft payment obligations and could suffer substantial adverse effects to its financial condition.

easyJet's relationships with London Luton Airport and Liverpool Airport

London Luton Airport has been a key element in easyJet's success. Approximately 60 per cent of easyJet's passengers travel through London Luton Airport. Ten of easyJet's fleet are based at London Luton. easyJet is also a key customer for London Luton Airport and easyJet believes that it represents approximately 65 per cent of London Luton Airport's total annual passengers. At present, easyJet pays London Luton Airport an average passenger charge of £2.22 for each departing passenger. London Luton Airport believes that it could be entitled, in the absence of a commercial agreement to the contrary, to charge the full tariff or "rack rate". This figure could be in the region of £7.89 for each departing passenger. Should London Luton Airport attempt to impose this charge, easyJet will seek legal redress, although there can be no assurance that easyJet would be successful with any such proceedings. Should charges at London Luton Airport be increased there could be, depending on the size of the increase, a deterioration in the operating and financial strength of easyJet's business. For the year ended 30 September 2000, approximately 1,922,000 easyJet passengers departed from London Luton Airport.

London Luton Airport Operations Limited and easyJet have recently settled a dispute regarding the purported termination of easyJet's agreement relating to the provision of airport services at London Luton Airport, and have agreed that this agreement will come to an end in February 2001. If no new agreement were entered into thereafter and the charges imposed on easyJet by the airport for such services were to increase to the rack rate, costs for the financial year ending 30 September 2001 would increase by approximately £8.2 million. easyJet has been seeking to negotiate a new agreement for three years and continues to do so. Prior to the end of October 2000, the Company had received an offer from London Luton Airport at a price per departing passenger which represented a discount to the tariff of £7.89 proposed by the airport, but nevertheless a significant increase over the current price. The Company rejected this offer and proposed an alternative framework for negotiation. This, together with the compromise as to the date of termination of the current agreement, gave the Company grounds for expecting to be able to reach a mutually acceptable arrangement with the airport. Recent press statements attributed to London Luton Airport Operations Limited and a letter received from it in November 2000 suggest that London Luton Airport Operations Limited considers that the parties are still a long way apart in the negotiations. Depending on the actual level of charges levied at London Luton Airport, easyJet may locate some or all of its planned additional capacity at its bases in Liverpool and Geneva. easyJet is also intending to create an additional base in Amsterdam during 2001. However, routes out of London Luton Airport are generally more profitable than those operated out of easyJet's bases in Liverpool and Geneva. This is partly because these latter routes have been established for a shorter period of time, but it is also due to other factors, such as market conditions, sector length and airport cost characteristics. To the extent easyJet's aircraft are not operated out of London Luton Airport, there is likely to be a shortfall between the actual operating and financial strength of easyJet's business and that which could have been achieved with a more intensive use of London Luton.

easyJet's current agreement with Liverpool airport contains a provision permitting either party to terminate on three months' notice. easyJet has argued that this provision is inconsistent with easyJet's and Liverpool's intention to commit to a long-term relationship as evidenced elsewhere in the agreement and has accordingly invited Liverpool to agree to a variation striking out this provision. Liverpool has to date declined to agree to such a variation. Nevertheless, easyJet would seek to resist Liverpool relying on this provision and has been advised by leading counsel that there are good grounds for so doing. easyJet and Liverpool airport have been discussing a new long-term agreement to replace the existing arrangement and have signed a heads of terms which is subject to contract under which easyJet has agreed to an increase in its departure rates per passenger in exchange for a longer term extending the term of the agreement, subject to certain conditions, to 20 years. Nevertheless, if negotiations are not successfully concluded and Liverpool seeks to rely on the clause terminating the agreement, there can be no assurance that Liverpool will not be successful or that any new agreement with Liverpool airport would not provide for a significant increase in charges.

Landing charges and potential problems with airport access

Airport charges represent a significant operating cost to easyJet. Any substantial increase in such charges could have a material adverse impact on results of operations. In addition to London Luton and Liverpool, easyJet's

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third base is Geneva. There can be no assurance that Geneva and other airports will not impose higher airport charges on easyJet in the future.

In addition to the application of competition law at EU and national levels, the airports easyJet serves in the UK, including London Luton, are specifically regulated. This means that all users of the airports are required by law to be treated in a non-discriminatory manner and therefore the ability of easyJet or any other operator to negotiate preferential terms does not exist or is substantially restricted. At the airports where it has been permitted and has proved possible, easyJet has sought to negotiate the best arrangements it can make without regard to the arrangements made by other users of those airports. There can be no assurance that when these arrangements are due for renewal, regulatory intervention or other factors at these airports would not cause easyJet's airport charges there to rise substantially.

In the UK, Heathrow, Gatwick, Stansted and Manchester Airports, but not London Luton or Liverpool, are "designated" by particularly detailed regulation (see "Air Transport Regulation – Airport Regulation" in Part IV of this document).

Access to some congested European airports is regulated by a system of historical precedence in relation to slot allocation. Each slot represents an authorisation to take off or land at the particular airport at a specific time on a particular day. Airports subject to slot allocation are known as "fully co-ordinated airports." Although easyJet's bases at London Luton Airport and Liverpool are not yet fully co-ordinated, they and a number of the other airports easyJet serves are capacity constrained to some degree. At fully co-ordinated airports an airline must use its slots on a regularly timely basis or risk having those slots re-allocated to others. Where slots are not available, or their availability is restricted, or easyJet cannot use them on a regularly timely basis, easyJet may have to amend its schedules or reduce aircraft utilisation. Either alternative could have an adverse financial impact on easyJet. In addition, there is no assurance that easyJet will be able to obtain a sufficient number of slots at airports to expand its services as it is proposing to do. It is possible that airports not currently fully co-ordinated may become fully co-ordinated in the future.

At some of the airports to which easyJet flies various operating restrictions apply, including curfews, limits on aircraft noise levels, limits on the number of average daily departures and runway restrictions. These restrictions may limit easyJet's ability to continue to provide or to increase services at such airports. In addition, there is no assurance that airports at which there are no such restrictions may not implement some or all of these restrictions in the future or that where such restrictions exist they will not become more onerous.

Potential shortages of specialised personnel

Pilots are generally in short supply in the European airline industry and easyJet must expend significant time and effort to recruit and retain them. Because pilots have an industry-customary three month notice period and new pilots take on average six months to recruit and train, there is a time gap that can be difficult to manage in replacing pilots. Pilot shortages and the difficulties of managing new pilot staffing will be exacerbated for easyJet during easyJet's fleet expansion. Similar recruitment issues exist for licensed engineers which are employed by easyTech and FLSA. Any significant or continuing shortage of highly trained or specialised employees could have an adverse effect on easyJet's business and on its growth plans.

easyJet is relatively small in size

Compared to other airlines, including some of its competitors, easyJet has substantially fewer aircraft. If aircraft were unavailable for service due to the need for repairs or for other reasons (other than routine maintenance), any resulting interruption in service could materially and adversely affect easyJet's business, financial condition and operation. The limited number of aircraft and routes operated by easyJet means that easyJet is less able than larger carriers to spread its operating costs over equipment and routes. easyJet's ability to compete effectively with larger carriers may be adversely affected by its relatively small size.

easyJet is dependent on key personnel

easyJet's success depends upon the efforts and abilities of its management team, including Raymond Webster, the Chief Executive, Stelios Haji-Ioannou, the Chairman, and other key financial, commercial and operating personnel. Competition for highly qualified personnel is intense and the loss of any of the senior management of easyJet could lead to an adverse effect on its business, operating results and financial condition, especially if an adequate replacement cannot be found within a suitable time period. Furthermore, easyJet does not have any key man insurance.

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easyJet's contracts with certain key personnel are not as restrictive as would usually be the case

Whilst the Directors have entered into employment contracts with easyJet UK containing six month restrictive covenants and notice periods (see "Directors' Remuneration and Terms and Conditions" in Part VII of this document) the terms and conditions of employment of other key personnel have no or limited restrictive covenants or confidentiality obligations. The lack of these terms and conditions means that the Company is less well protected than other companies from the risk of key employees leaving, failing to keep the Company's proprietary information confidential, and joining competitors. This may have an adverse effect on easyJet's business.

easyJet is exposed to fuel price fluctuations, and increases in fuel costs or fuel shortages could materially affect operations

Fuel costs constitute a substantial proportion of easyJet's total operating expenses and significant increases in fuel costs could materially affect easyJet's operating costs. Aircraft fuel costs have shown substantial volatility over the last few years. During the financial year 2000 easyJet's average unit fuel costs in US dollars increased by 69 per cent. Both the cost and availability of jet fuel are subject to economic and political factors and events occurring throughout the world that easyJet can neither control nor accurately predict. Substantial price increases, such as those experienced in the last 12 months, or the unavailability of adequate supplies, could have a material adverse effect on easyJet's results of operations or financial condition, and could even lead, in extreme cases, to a curtailment of easyJet's scheduled services.

easyJet has not entered into any hedging or other arrangements to provide against fluctuations in fuel prices and therefore easyJet is, unlike many airlines and many of easyJet's competitors, immediately and fully exposed to movements in fuel prices. The Company expects to review this policy periodically or if circumstances change significantly.

Potential disruptions to business systems

easyJet's ability to receive and process seat purchases, manage reservations and its network, and engage in other critical business tasks depends on the efficient and uninterrupted operation of its computer and communications systems. easyJet's web server is kept at a secure off-site location. easyJet's other servers are all in one location at easyLand, and they and the systems are vulnerable to damage, power loss, computer viruses, third-party disruptions, fire and similar events. The systems are backed up every night and the backup tapes are stored off-site. Contingency plans exist to ensure that the reservations system could be brought back on-line within 24 hours in the event of major damage such as fire at easyLand. However, any significant disruption to easyJet's systems would damage the airline's ability to efficiently carry on its business. While easyJet is in the process of further developing business continuity plans to cover all its major systems and disruption risks, a comprehensive plan is not yet in place.

Intellectual property rights relating to easyJet's yield management system

easyJet has recently received a claim that its yield management system infringes a patent granted in 1993. Whilst easyJet will resist this claim, there can be no assurance that it will be successful, or that if it fails it will be able to agree an acceptable licence fee. This may have an adverse effect on the profitability of the Group.

Potential adverse impacts from new routes

As easyJet acquires additional seat capacity, it intends to increase flight frequency on its existing routes, start new routes and ultimately establish new bases in its route network. Since 1 October 1999, easyJet has commenced service on five new routes and the winter schedule for 2000/1 envisages a further three new routes. easyJet continues to review options for opening additional routes. It is possible that easyJet may face greater competition on some of these new routes than it currently faces on its existing routes. In addition, easyJet may find that its low-fare service does not gain market acceptance on its new routes. Also, when easyJet commences a new route, although the load factor tends to be fairly similar to that of existing routes, the average fare easyJet can command is much lower, particularly in the first months of operation, and advertising and promotion costs are usually higher, particularly if the destination is one not previously served by easyJet. To the extent easyJet is unable to expand its route network successfully, its future revenue and earnings growth may be limited and its financial strength may be reduced.

Potential problems with the Boeing 737

During the operational life of the world's 737 fleet there have been a number of reports of, and two crashes in the early 1990s possibly caused by, rudder malfunction. As a result of extensive analysis and research by

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regulators and the manufacturer, Boeing, a number of modifications were recommended. All easyJet's 737-300 aircraft incorporate these modifications. Despite these modifications, there can be no assurance that a material rudder malfunction or related problem will not occur on one of easyJet's 737-300s or 700s. easyJet's fleet, including its Boeing 737-700s, will require further modifications which are yet to be specified, and these may come at a material expense to easyJet. Although easyJet's commonality of aircraft provides easyJet with what it believes are many advantages, this commonality does increase easyJet's exposure to risks flowing from design or systemic manufacturing defects of the Boeing 737 series.

easyJet's engine modification programme may reduce aircraft availability

The 737-300 uses the CFM56-3 engine, some of which have over the last 12 months been subject to a mechanical problem with a particular component, the "number 3 bearing". As a result, the manufacturer CFM International S.A. ("CFMI") has issued a service bulletin SB72-923 to reduce the associated inspection interval, with which easyJet has complied in full. easyJet has also planned a "number 3 bearing" replacement programme that will be completed for all the relevant CFM56-3 engines by the end of 2000. Although CFMI is providing replacement engines whilst easyJet's engines are undergoing modifications and is paying for all the labour and material costs of this programme, easyJet's aircraft might be unavailable for flying if the engine changes occur outside regular planned maintenance periods. This might disrupt operational performance. Although easyJet and CFMI believe that the programme will remove the problem, this cannot be guaranteed and further modifications may be required.

easyJet is dependent on third party service providers

easyJet has entered into agreements with contractors for most of its aircraft maintenance needs, for the provision of simulator time for training pilots and at certain airports for passenger and aircraft handling services, where it considers that such services can be more efficiently provided by third parties. easyJet attempts to obtain competitive rates for all such services by negotiating multi-year contracts at prices that are either fixed or subject to inflation-linked increases only. In addition, easyJet seeks to have unit rates reduced if levels of business increase markedly during the life of the contract. These contracts are between one and ten years in length and some can be terminated at earlier dates by either party subject to suitable prior notice.

The loss of the Company's third party service contracts, any inability to renew them or any inability to negotiate suitable replacement contracts could result in an adverse effect on the Company. easyJet will need to enter into similar agreements in any new markets that it enters and there can be no assurance that easyJet will be able to obtain the necessary services at favourable rates. Although easyJet seeks to monitor the performance of third parties that provide it with maintenance and passenger and aircraft handling services, the efficiency, timeliness and quality of contract performance by third party providers are often beyond easyJet's control. easyJet expects to be dependent on third party arrangements for such services for the foreseeable future.

easyJet is seeking improvements in the functionality of its reservation system, including through ongoing negotiations with Hewlett Packard in relation to Open Res. Hewlett Packard has only been prepared to make available any such improvements at significant extra cost and easyJet is considering alternatives. easyJet has, in the past, had disputes with Hewlett Packard and a number of disputes are ongoing. There is no guarantee that there will not be further disputes with Hewlett Packard in the future or that the existing disputes will be settled acceptably. No assurance can be made that any settlement of these disputes or any increased functionality will not give rise to additional costs to easyJet.

Government taxes may increase

Airport taxes are levied as a fixed tax on the sale of airline seats in many of the countries in which easyJet operates. The United Kingdom currently levies one of the highest taxes in Europe, APD, at £10 per sector outbound from within the UK, with the proviso that if the journey involves a domestic return trip, the return leg is exempt from APD. This tax was recently held to be contrary to EU law. As a result, in his annual budget speech delivered in March 2000, the UK Chancellor of the Exchequer announced the reduction of APD to £5 per sector within the EU, and £20 per sector to points outside the EU, outbound, but removed the exemption for a domestic return flight. These changes are to come into effect in April 2001.

If there is an increase in APD which cannot be passed on to passengers this could adversely affect easyJet's operations. In addition, other countries have threatened either to levy airport taxes or to increase them. An example of this is Switzerland, where a departure tax out of Zürich has been suggested for environmental reasons.

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If there is an increase in the future by any government on taxes on seat sales this may have an effect on easyJet's results of operations as would any application of taxes on jet aviation fuel which is currently zero rated.

An increase in taxes may affect easyJet in one of two ways. First, increase in tax may lead to easyJet losing customers who are highly sensitive to increases in ticket price. Secondly, since easyJet's fares are often lower than those of other airlines, increases in taxes which are not proportionate to ticket price would have a larger proportionate effect on easyJet's fares than on those of its competitors. This could adversely affect easyJet's business.

easyJet is exposed to currency fluctuations

The Company's significant US dollar denominated costs relate to debt financing on aircraft owned by easyJet, lease financing on aircraft leased by easyJet pursuant to long-term operating leases, maintenance reserves, engine maintenance and aircraft fuel purchases. In respect of the Company's US dollar exposure relating to its aircraft debt financing costs, easyJet's strategy contemplates the sale of each owned aircraft after approximately seven years of operations and the use of the US dollar sale proceeds to pay down the remaining US dollar debt on the aircraft sold. The Directors' view is that used aircraft will continue to trade in US dollars and that as a result borrowings in US dollars to acquire aircraft are hedged to the extent of the US dollar resale value of the aircraft. Other than the protection provided by these arrangements, easyJet's current policy is not to hedge any of its US dollar commitments.

Although easyJet operates primarily out of the United Kingdom, a significant portion of the Company's business is conducted in currencies other than the pound. As a result of the various locations to and from which easyJet flies, easyJet has a proportion of revenues and costs denominated in Swiss Francs and Euro-linked currencies. easyJet's results of operations and financial condition can be significantly affected by fluctuations in the respective values of the above-mentioned currencies, most importantly the value of the US dollar against the pound and other European currencies. Other than as described above, easyJet does not engage in any foreign currency hedging although it continues to monitor the efficacy of its currency hedging strategy.

easyJet is exposed to the second-hand aircraft market

easyJet has and intends to maintain a young fleet of aircraft. As a result, it expects to replace its aircraft after relatively short service periods, currently expected to be about seven years per aircraft. Aircraft which are owned will be sold in the second-hand aircraft market. easyJet will therefore be exposed to fluctuations in this market so long as it maintains an aggressive aircraft replacement strategy. This exposure may lead to adverse effects on easyJet's results of operations or financial condition, including if second-hand prices drop or if easyJet faces delays in making sales, and especially to the extent that easyJet wishes or needs to rely on the proceeds of sale of replaced aircraft to discharge debts relating to the financing of such aircraft. This risk is mitigated by financing the acquisition of aircraft in US dollars, in which aircraft transactions are made. But to the extent that the proceeds on sale do not match the outstanding debt, the Company will still be exposed to currency movements (see "easyJet is exposed to currency fluctuations" in this Part V).

easyJet is exposed to interest rate fluctuations

Some of the payments under leases under which easyJet operates some of its aircraft are calculated by reference to a floating interest rate. As a result, easyJet's operational results and financial condition can be affected by fluctuations in the level of interest rates. At present, easyJet does not engage in any interest rate hedging in relation to floating rate lease or debt payments, however it does lock in rates for short periods.

easyJet's internet sales are dependent on the continued acceptance of e-commerce

easyJet's ability to sell seats over the internet depends on the continued widespread acceptance and use of the internet as a medium for commerce. If acceptance and growth of online commerce does not continue, or the development of e-commerce in some of easyJet's markets is limited, easyJet will not be able to develop and maintain the cost-effective sales and distribution operation that it seeks.

Rapid growth in the use of the internet and online services is a recent phenomenon. This growth may not continue, due to privacy concerns or for other reasons. There are few proven products or services in the internet market. Convincing consumers to purchase travel services online may be particularly difficult because expenditures on leisure often form a significant proportion of an individual's disposable income. In addition, consumers have often relied on travel agents for advice and recommendations as to destinations and

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scheduling, as well as for bookings, and are often accustomed to a high degree of human interaction in purchasing travel services. easyJet's growth is partially dependent on customers who have historically used traditional means of commerce electing to purchase online.

The need to transmit confidential information securely over the internet has been a significant barrier to e-commerce and communications over the internet. Any compromise of security could deter people from using the internet or from using it to conduct transactions that involve transmitting confidential information. easyJet may incur significant costs to protect against the threat of security breaches or to alleviate problems caused by those breaches. In addition, alleviating these problems may cause interruptions, delays or cessations in service to easyJet's customers, which could cause them to stop using easyJet's service or to assert claims against easyJet.

easyJet retains personal information received from customers. Personal information held offline and online is highly sensitive and, if such information were made available to third parties without the customer's prior consent or if a third party were to misappropriate that information, customers could possibly bring legal claims against the Company. No assurances can be given that breaches of confidentiality or privacy will not occur, resulting in possible claims against easyJet or adverse effects on its business.

easyJet's open access policy may give rise to regulatory or legal actions

easyJet operates an open access policy in regard to information. The Board believes that this policy is an important part of the orange culture and demonstrates the Company's policy of valuing its employees. However, in line with good business practice, the Company intends to restrict access to personnel information and share price sensitive material such as merger and acquisition activity, consolidated financial information and Board minutes. Apart from this data, virtually all easyJet information can be accessed in the Keyfile system by many full time employees (see "Business of easyJet – Information Technology"). It is possible that, by permitting such access, the Company, its employees or the Directors are exposed to an increased risk of breaking UK legislation on "insider dealing". To mitigate this risk, the Company proposes to issue guidelines to warn employees of the dangers associated with misuse of share-price sensitive information. Any adverse publicity arising from breaches of the applicable regulations and any consequent criticism by the UK authorities may have a materially adverse effect on the Company's reputation and its share price.

easyJet may suffer from industrial action

easyJet uses some suppliers which are unionised and as such the airline may be negatively affected by industrial action outside its control. For example, some airport staff such as emergency fire service providers are union members. Should the relevant unions elect to take industrial action, for whatever reason, the reliability of easyJet's operations could be compromised for extended periods of time. This would have an adverse impact on customer loyalty and operational and financial performance.

Furthermore, easyJet could also suffer from employee action from within easyJet. Although the Directors believe employee relations are generally good, there is no guarantee that this will continue. An example where change may raise issues in the eyes of employees is in the call centre. As the use of internet as a sales channel increases, the call centre function will increasingly become one of customer service, which will require different skills.

Establishing self-handling at Geneva may impact performance

easyJet intends to start self-handling of its operations at Geneva in November 2000. Although detailed studies have been carried out and plans put in place, easyJet cannot guarantee that the transition will occur without some increases in costs or disruptions to service.

Disruption to surface access to easyJet's base airports

The effectiveness of all airports depends partly on maintaining the surface access links that permit passengers to reach the airport. Serious disruption to the business of easyJet could therefore be caused by a continued disruption to the surface links to one of easyJet's base airports, particularly London Luton or Liverpool. For example, at London Luton, which accounts for about 60 per cent of easyJet's total passenger traffic, serious disruption would occur from any continued problems with either the rail link (primarily north bound from central London) or with the M1 Motorway which is the main road artery serving the airport. Since easyJet is the main user of both these airports any such disruption might not affect other airlines to the same extent.

easyJet's loan from the Fortis Bank syndicate may be repayable early

The loan advanced to easyJet Aircraft Company Limited by the Fortis Bank syndicate (see "Material contracts" in Part VII of this document) may (in addition to if it is accelerated due to an event of default) become repayable in full prior to the scheduled final repayment date if there is a change of control of the Company at any time or, if the lenders give not less than six months' written notice expiring on 19 August 2003, on the expiry of that notice. The principal that is currently outstanding under the loan is \$63,877,587. A change of control will occur if a person or group of persons acting in concert (other than Stelios Haji-Ioannou or any of his brothers or sisters or any connected person of any of them as such term is defined in Section 346 of the Companies Act 1985) acquires more than 50 per cent of the shares of the Company. If the lenders are not satisfied with the identity of the new owner(s) following a change of control, having consulted with the Company, they may give notice to the Company requiring it to repay the loan in full within 180 days of the date of such notice. There can be no assurance that the Company will have the necessary funds if early repayment of the loan is required under any of these terms.

RISKS RELATED TO EASYJET'S INDUSTRY

easyJet operates in a competitive environment/BA's sale of Go

The level of competition amongst airlines is high. Airlines compete primarily on fare levels, frequency, reliability of service, brand recognition, passenger amenities and the availability and convenience of other passenger services. easyJet's low cost model means that easyJet is strong in many of these areas, but chooses not to compete in the area of passenger amenities and services. Some of the airlines with which easyJet competes are larger and have greater name recognition and resources than easyJet. Some of these airlines are state-owned, state-controlled or state-protected national flag carriers that have received and may receive in the future significant amount of subsidies and state assistance from their respective governments. Some airlines are indeed so large, powerful or well-positioned that they can engage in anti-competitive activities in certain markets, with or without legal sanction. In particular, in 2001, easyJet intends to establish a base at Schiphol Airport in Amsterdam where it will be competing with KLM (see "Business of easyJet – Network"). As a result competition from KLM or Buzz may increase. There can be no assurance that easyJet will be able to compete effectively against these airlines, any other industry members, or any new entrants to the industry.

The airline industry has been historically susceptible to fare discounting. This is partly due to the typical airline cost structure, where there are very low marginal costs in respect of passengers occupying otherwise vacant seats. There can be no assurance that easyJet's competitors will not engage in price cutting activity or other changes in services in an attempt to shift market share away from easyJet. Such competitive activity could have a significant effect on easyJet's financial results.

easyJet and a number of its competitors in the low-fare market, such as Go and Buzz, are relatively new airlines. Head-to-head competition between easyJet and other low-fare airlines on the same city pair routes has been limited. Ryanair recently publicly expressed an interest in establishing a hub at London Luton because, it has stated, its current base at Stansted is becoming increasingly congested. This would create significant additional competition for easyJet, which is currently the largest scheduled airline operating out of London Luton. It is difficult to predict whether current or future head-to-head competition between easyJet and other low-fare airlines would be sustainable, when and where it may occur, or whether it would adversely affect easyJet.

On 6 November 2000 British Airways announced its intention to sell Go, its low cost airline subsidiary. easyJet intends to take care before deciding whether to investigate the acquisition of Go. If it does not acquire Go, there can be no assurance that any other acquirer of Go, including a management team, will not increase financial support for Go and/or change its strategy to compete more aggressively with easyJet on the same or similar routes. If easyJet were to acquire Go, the acquisition might be difficult to carry out without adversely affecting easyJet's existing business and may have an adverse effect on easyJet's financial condition, results of operations and share price.

easyJet operates primarily short-haul services. As such, easyJet is more exposed to competition from other modes of transport, such as rail and road, than an airline operating primarily long-haul, intercontinental services. Most of Europe's rail companies are owned by the state and are heavily subsidised. Significant improvements have been made in Europe's high-speed rail network in recent years and this has resulted in significant losses of airline market share on certain routes.

Airlines are exposed to the risk of catastrophic loss

easyJet, like all airlines, is exposed to the potential catastrophic losses that may be incurred in the event of an aircraft loss, accident or terrorist incident. Although easyJet currently considers its insurance cover to be appropriate, there can be no assurance that the amount of such coverage available in the event of losses from catastrophic events will not need to be increased, that insurance premiums will not increase significantly or that easyJet will not be forced to bear substantial losses from such events regardless of its insurance cover. Such losses could have a severely material adverse effect on easyJet.

Any loss or accident relating to an easyJet aircraft, even if fully insured, could result in a loss in public confidence in easyJet as an airline and this could have a material adverse effect on easyJet's business. In addition, it may be that an aircraft accident relating to any other low-fare airline, especially a European low-fare airline, could result in a loss of public confidence in easyJet, to the extent that easyJet is perceived, rightly or wrongly, as conducting a similar business operation. Such an accident could have a material adverse effect on easyJet.

The airline industry is characterised by low profit margins and high fixed costs

The airline industry is characterised by low profit margins and high fixed costs. The expenses of an aircraft flight do not vary significantly with the number of passengers carried and, therefore, a relatively small change in the number of passengers in relevant markets or in pricing, load factors or traffic mix could have a disproportionate effect on operating results. In addition, any other minor shortfall in expected revenue levels could have a material adverse effect on easyJet's financial performance.

Airline share ownership is restricted by national ownership requirements

It is a requirement of EU law that an EU member state may only permit an air carrier to operate airline services if the majority of its share capital is owned and the carrier is effectively controlled by member states of the EEA or their nationals. The carrier must be able to demonstrate this at any time. Failure to do so may result in revocation of the carrier's operating licence. Furthermore, the ASA under which easyJet UK currently operates its Geneva and Zurich routes requires easyJet to be owned and substantially controlled by UK nationals. Accordingly, the Company's Articles of Association give the Directors powers to limit the ownership of the Company's shares by non-UK nationals and a number of powers to enforce this limitation (see "Further Information – Memorandum and articles of association").

RISKS RELATED TO GOVERNMENT REGULATION

Maintenance of easyJet UK's and easyJet Switzerland's operating licences

easyJet UK is authorised to operate by virtue of an operating licence issued by the CAA. The continuation of such authority is subject to on-going compliance with applicable statutes, rules and regulations pertaining to the airline industry, including any new rules and regulations that may be adopted in the future. In addition, easyJet UK is subject to other UK and EU laws and regulations relating to protection of the environment, radio communications, employment and other matters.

easyJet Switzerland is authorised to operate by virtue of an operating licence issued by Swiss aviation authorities, and is designated by Switzerland in accordance with the various ASAs between Switzerland and other states, including the UK, to exercise the traffic rights accorded to Switzerland thereunder (see "Business of easyJet – Air Transport Regulation"). At present it is a requirement of Swiss law that Swiss air carriers be majority owned and controlled by Swiss nationals. It is a requirement of the relevant ASAs that carriers designated for service by Switzerland under those ASAs be substantially owned and effectively controlled by Switzerland or nationals of Switzerland. Following the referendum in Switzerland held in May 2000 it is expected that the EU/Swiss air transport agreement will take effect from a date in 2001 or 2002 (see "Business of easyJet – Air Transport Regulation"). From that date the terms of that agreement will supersede the terms of the ASAs between Switzerland and EU states (save in so far as any of those ASAs may by their terms be more liberal than the EU/Swiss air transport agreement), and in particular Swiss carriers will be permitted to be majority owned and effectively controlled by either Swiss nationals or EU nationals.

easyJet Switzerland is majority owned (51 per cent) by Swiss nationals and the majority of its board members are Swiss resident nationals. Whilst the Directors believe that easyJet Switzerland complies with the requirements of Swiss law and the relevant ASAs, the terms of the commercial agreement between easyJet UK and easyJet Switzerland might be argued as affording easyJet UK a substantial degree of influence upon the management of easyJet Switzerland by virtue of the management services easyJet UK provides and easyJet

Part V – Risk factors

Switzerland's operational obligations to easyJet UK. It might also be argued that the terms of the shareholders' agreement between the Company and the Swiss shareholders of easyJet Switzerland are such that they afford easyJet UK a degree of influence beyond that which would normally be held by a 49 per cent minority shareholder (see "Material contracts and arrangements" in Part VII of this document.) Whilst to date there has been no objection raised by the Swiss government to the ownership and control of easyJet Switzerland, and easyJet Switzerland's designation by Switzerland under the relevant ASAs has been accepted by the other states concerned, there can be no assurance that the Swiss government and those other states may not raise such objections in the future. The Directors believe that the risk of any such objection being raised is small, particularly in view of the expected taking of effect of the EU/Swiss air transport agreement following which easyJet Switzerland's current ownership and control structure will unquestionably satisfy the nationality requirements of that agreement. (See "Air Transport Regulation – Operating rights" in Part IV of this document.) Nevertheless, were such an objection to be made it could result in a suspension or revocation of easyJet Switzerland's operating licence. Because only some, but not all, of easyJet Switzerland's routes could be operated by easyJet UK under its own operating licence and route licences, such a loss of licence for easyJet Switzerland could have a material adverse effect on easyJet's business, financial condition and results of operations.

Airlines are reliant on the provision of air traffic control services

Air traffic in Europe has become increasingly congested in recent years, particularly in the south east of the United Kingdom, over which a significant portion of easyJet's flights fly. In the last 12 months there have been a number of incidents where breakdowns in the system have caused severe disruption to easyJet's and other airlines' schedules. The proposed growth of European air traffic is likely to increase the pressure on the system. Plans to introduce a new system have been considerably delayed and further disruptions are likely to occur which, given easyJet's aim to achieve high levels of utilisation are likely to affect easyJet more than other airlines and may materially and adversely affect its operational and financial performance.

In addition plans exist for the privatisation of air traffic control in the UK and easyJet, as part of a consortium with other airlines, has bid to become the operator of the air traffic control systems. There can be no assurance that a privatised air traffic control system will be any more effective, reliable or able to support expected demand. The poor performance of the air traffic control system is likely to increase disruptions, increase passenger delays and have a significant adverse effect on easyJet's financial performance.

Possible EU actions on airport charges

Agreements between airport operators and airlines are subject to scrutiny from national and EU regulatory bodies charged with enforcing competition law. For example, in 1995 the European Commission has held that, in the circumstances involved, dissimilar airport charge arrangements amounted to an abuse by the Brussels airport authority of a dominant position in violation of Article 82 of the EC Treaty and were therefore unlawful and unenforceable. Whilst easyJet's management does not intend to enter knowingly into airport agreements which are unlawful, there can be no assurance that any agreement that easyJet has entered into or may enter into in the future with an airport operator or authority, in relation to the airports it serves, will not be subject to similar scrutiny or that easyJet's costs would not be adversely affected as a consequence. The European Commission has (as have some national authorities) strong powers of enforcement and the ability to impose very substantial penal sanctions for infringements of competition law.

In 1990, the European Commission submitted a proposed regulation requiring charges for aeronautical services and facilities, including charges imposed by airports, to be reasonably related to cost and to be assessed on a non-discriminatory basis. Although the proposal was officially withdrawn from the legislative process in January 1997, a successor proposal with substantially the same content was introduced by the European Commission in late April 1997. If such a proposal were adopted, there can be no assurance that as a consequence easyJet's costs or existing contractual relations with airports would not be adversely affected.

Changes in airline regulation could increase airline costs

The airline industry is heavily regulated and changes to regulations occur frequently. New regulations could have a negative impact on easyJet's costs and business model. For example, more onerous safety and/or security requirements could impact the airline's ability to manage quick turnarounds and therefore may compromise aircraft utilisation or may impose additional capital or revenue costs. It may not be possible to pass such costs on to the customer and therefore easyJet's financial performance could be adversely affected.

Limitations on pilot and cabin crew working hours

Under the UK CAA flight time limitations regulations easyJet's UK pilots are limited to 100 flight hours per 28 day period and 900 flight hours per year. Similar CAA regulations apply to cabin crew although they are less restrictive and allow potentially greater utilisation of cabin crew compared to pilots. However, a recent European Parliament and Council draft proposal seeks to reduce the cabin crew flight time limitations to bring them in line with the pilots' limitations, and to reduce the number of maximum daily duty hours for both pilots and cabin crew. If this proposal were adopted, or indeed more stringent regulations were to be introduced, easyJet could be required to hire additional flight personnel. For the year ending 30 September 2000, the average flight hours per line available pilot pro rated for part-time pilots for easyJet's UK pilots was approximately 65 block hours per 28 day period and 792 block hours per year. Over the same period the average UK cabin crew hours were 63 and 768 respectively.

RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior market for the Ordinary Shares and an active trading market for them may not develop and continue

Prior to this Global Offering, there has been no public market for the Ordinary Shares. easyJet's shares are expected to be listed on the Official List and to trade on the London Stock Exchange. Unconditional trading is expected to begin on 22 November 2000. However, easyJet can give no assurance that an active trading market for the Ordinary Shares will develop or, if it develops, will continue. The Global Offering Price may not be indicative of the market price for the Ordinary Shares at any time following Admission. If an active trading market does not develop or continue, the liquidity and trading price of the shares could be adversely affected.

The Ordinary Share market price may be volatile

The trading price of the Ordinary Shares may be subject to wide fluctuations, including in response to seasonal or other interim variations in its operating results and those of other airlines. In addition, the global stock markets from time to time experience extreme price and volume fluctuations that affect the market prices of many airline company stocks. These market fluctuations may adversely affect the market price of the Ordinary Shares regardless of the Company's actual performance.

Sales of a substantial number of the Ordinary Shares into the public market after the Global Offering could adversely affect the price of the shares

Sales of a substantial number of the Ordinary Shares into the public market after the Global Offering or following the termination of the lock-up restrictions in the Sponsors' and Underwriting Agreement, or the perception that such sales could occur, could materially adversely affect the price of the shares and impair the ability of easyJet to obtain capital through future placings of equity securities. These sales could be made either by existing shareholders or by a capital increase undertaken by easyJet to raise additional capital, subject to the terms of the lock-up agreements, which restrict sales of shares held by the Directors and the existing shareholders.

easyJet does not currently plan to pay cash dividends on the Ordinary Shares

easyJet has never declared or paid any cash dividends on the Ordinary Shares and does not anticipate paying cash dividends in the foreseeable future.

Controlling principal shareholders

Immediately following Admission, easyJet Holdings Limited, which is controlled by Stelios Haji-Ioannou and his family, will hold approximately 75 per cent of the issued share capital of the Company (assuming no exercise of the Over-allotment Option). Subject to the Relationship Agreement (see "Material contracts and arrangements" in Part VII of this document), easyJet Holdings Limited, Stelios Haji-Ioannou and his family will thus be in a position to exercise material or decisive influence over the Company's operations, business strategy and all corporate activities which require shareholders' approval, including the election and removal of directors and significant corporate transactions, which could *inter alia* impact another party seeking to acquire or merge with the Company. In addition, Stelios Haji-Ioannou also controls easyGroup IP Licensing, from which easyJet licences its name and branding, as well as easyEverything, easyRentacar, easyMoney, easyValue and easy.com, through which Stelios Haji-Ioannou plans to extend the "easy" brand to other businesses. Should conflicts of interests arise between easyJet and any of these other companies their resolution may depend on the operation of the Relationship Agreement entered into between Stelios Haji-Ioannou,

Part V – Risk factors

easyJet Holdings Limited and the Company which is described in paragraph 12.1.10 of Part VII of this document under which they give certain undertakings in relation to the independence of the Company.

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15 November 2000

Dear Sirs

We report on the financial information set out on pages 76 to 100 below. This financial information has been prepared for inclusion in the listing particulars dated 15 November 2000 of easyJet plc.

BASIS OF PREPARATION

The financial information set out on pages 76 to 100 is based on the audited consolidated financial statements of the Company and of its subsidiary undertakings (collectively referred to as 'the Group') for the three years ended 30 September 2000 prepared on the basis described in note 1.

RESPONSIBILITY

Such financial statements are the responsibility of the directors of the Group who approved their issue.

The Directors of the Group are responsible for the contents of the listing particulars dated 15 November 2000 in which this report is included.

It is our responsibility to extract the financial information set out in our report from the financial statements, to form an opinion on the financial information and to report our opinion to you.

BASIS OF OPINION

We conducted our work in accordance with the Statements of Investment Circular Reporting Standards issued by the Auditing Practices Board. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. The evidence included that previously obtained by us relating to the audit of the financial statements underlying the financial information. It also included an assessment of significant estimates and judgements made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Part VI – Accountants' report on historical financial information

OPINION

In our opinion the financial information gives, for the purposes of the listing particulars, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits, cash flows and recognised gains and losses for the years then ended.

The above opinion is provided solely on the basis of and in accordance with standards and practice established in the United Kingdom. In the United States, reporting standards and practice are different and the role of the reporting accountant does not provide for the expression of an opinion in the manner referred to above. Accordingly, this opinion should not be relied upon as if it had been provided in accordance with United States standards.

Consolidated profit and loss accounts	Notes	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Revenue	2	77,000	139,789	263,694
Cost of sales.....		(51,832)	(103,848)	(191,291)
Gross profit		25,168	35,941	72,403
Distribution and marketing expenses.....		(8,277)	(16,165)	(25,868)
Administrative expenses.....		(6,330)	(10,726)	(17,875)
Operating profit	2,3	10,561	9,050	28,660
Share of operating loss of associated undertaking		(1,428)	(779)	—
Total operating profit		9,133	8,271	28,660
Interest receivable.....		1,062	664	1,687
Interest payable.....	5	(4,319)	(7,675)	(8,244)
Profit on ordinary activities before taxation		5,876	1,260	22,103
Tax on profit on ordinary activities.....	6	—	—	—
Retained profit for the year		5,876	1,260	22,103
		Pence	Pence	Pence
Earnings per share:				
Basic and diluted.....	7	3.2	0.7	11.9

All activities relate to continuing operations. A statement of movements in reserves is given in note 16.

Part VI – Accountants’ report on historical financial information

Consolidated balance sheets	Notes	30 September	30 September	30 September
		1998 £000	1999 £000	2000 £000
Fixed assets				
Intangible assets	8	398	3,327	3,163
Tangible assets	9	133,590	164,233	202,159
Investments	10	(636)	—	—
		<u>133,352</u>	<u>167,560</u>	<u>205,322</u>
Current assets				
Debtors	11	8,451	27,497	40,959
Cash at bank and in hand		13,649	29,845	14,088
		<u>22,100</u>	<u>57,342</u>	<u>55,047</u>
Creditors: amounts falling due within one year	12	(29,762)	(56,882)	(84,483)
Net current (liabilities)/assets		<u>(7,662)</u>	<u>460</u>	<u>(29,436)</u>
Total assets less current liabilities		<u>125,690</u>	<u>168,020</u>	<u>175,886</u>
Creditors: amounts falling due after more than one year....	13	(88,497)	(127,069)	(108,315)
Provisions for liabilities and charges	14	—	(1,463)	(1,854)
Net assets		<u>37,193</u>	<u>39,488</u>	<u>65,717</u>
Shareholders’ funds – equity		<u>37,193</u>	<u>39,488</u>	<u>65,717</u>

Cash flow information

Reconciliation of operating profit to net cash flow from operating activities

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Operating profit	10,561	9,050	28,660
Amortisation	11	60	164
Depreciation	8,193	12,686	15,937
Provision for impairment of fixed assets	—	—	1,134
Loss/(profit) on sale of assets	—	91	(65)
(Increase)/decrease in debtors	(3,205)	(18,225)	(11,541)
Increase/(decrease) in creditors	8,173	21,559	26,280
Net cash inflow from operating activities	<u>23,733</u>	<u>25,221</u>	<u>60,569</u>

Consolidated cash flow statements	Notes	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Cash flow from operating activities		23,733	25,221	60,569
Returns on investments and servicing of finance	20(a)	(4,292)	(8,160)	(7,937)
Taxation		—	—	(541)
Capital expenditure	20(a)	(64,732)	(38,973)	(36,339)
Acquisitions and disposals	20(a)	(1,201)	996	—
Cash (outflow)/inflow before management of liquid resources and financing		<u>(46,492)</u>	<u>(20,916)</u>	<u>15,752</u>
Management of liquid resources		9,714	—	—
Financing	20(a)	35,427	37,112	(31,509)
(Decrease)/increase in cash in the year		<u>(1,351)</u>	<u>16,196</u>	<u>(15,757)</u>

The tax paid in the year ended 30 September 2000 of £541,000 represents a prepayment of tax, which is recoverable and is included within Other debtors.

Part VI – Accountants’ report on historical financial information

Reconciliation of net cash flow to movements in net debt	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
(Decrease)/increase in cash in the year.....	(1,351)	16,196	(15,757)
Cash flow from (increase)/decrease in debt (note 20a).....	(35,427)	(37,112)	31,537
Cash inflow from decrease in liquid resources	(9,714)	—	—
Change in net debt resulting from cash flows	(46,492)	(20,916)	15,870
Exchange difference on loans.....	1,568	(2,845)	(14,495)
(Increase)/decrease in net debt for the year	(44,924)	(23,761)	1,285
Net debt at the start of the year.....	(38,605)	(83,529)	(107,290)
Net debt at the end of the year	(83,529)	(107,290)	(106,005)

Net debt at the end of the year comprises:

	At 30 September 1998 £000	At 30 September 1999 £000	At 30 September 2000 £000
Cash at bank and in hand	13,649	29,845	14,088
Bank and shareholder loans.....	(97,178)	(137,135)	(120,093)
	(83,529)	(107,290)	(106,005)

Consolidated reconciliations of movements in shareholders’ funds	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Retained profit for the year.....	5,876	1,260	22,103
Foreign currency translation differences	(1,046)	1,035	4,098
Shares issued by previous parent undertaking.....	—	—	28
Net addition to shareholders’ funds	4,830	2,295	26,229
Opening shareholders’ funds.....	32,363	37,193	39,488
Closing shareholders’ funds	37,193	39,488	65,717

Consolidated statements of total recognised gains and losses	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Retained profit for the year.....	5,876	1,260	22,103
Foreign currency translation differences	(1,046)	1,035	4,098
Total recognised gains and losses for the year	4,830	2,295	26,201

There are no recognised gains and losses attributable to the Group’s share of associated undertakings other than those included in the consolidated profit and loss accounts.

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the consolidated financial statements of easyJet plc and its subsidiaries (the “Group”).

Part VI – Accountants' report on historical financial information

Basis of preparation

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

easyJet plc was incorporated on 24 March 2000 and, following a group reorganisation effected on 30 April 2000, it acquired from the former parent undertaking, easyJet Holdings Limited, its interests in the group subsidiaries and substantially all the assets and liabilities in consideration for the issue of shares. The group reorganisation qualifies for merger accounting and accordingly the Group's financial statements have been prepared as if easyJet plc had always been the parent company of the Group. The profit and loss accounts and cash flow statements reflect the Group's activities for each of the three years ended 30 September 2000 and the consolidated balance sheets present the Group's state of affairs at the end of each of those periods.

Basis of consolidation

The consolidated financial statements incorporate those of the holding company and its subsidiaries for the years made up to 30 September 2000, 1999 and 1998. The results of subsidiaries purchased by the Group during the year are consolidated from the date of acquisition.

Goodwill

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

Associates

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

Investments

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

Revenue

Revenues comprise the invoiced value of airline services, net of passenger taxes. Revenue from the sale of flight seats is recognised in the period in which the service is provided. Unearned revenue represents flight seats sold but not yet flown and is included in Creditors, within Accruals and deferred income.

Tangible fixed assets and depreciation

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

Aircraft – airframe, engines and landing gear	— 7 years
Aircraft – prepaid maintenance	— 3-6 years
Aircraft – spares	— 10 years from date of manufacture
Leasehold improvements	— 5-8 years
Fixtures, fittings and equipment	— 3-7 years
Computer hardware and software	— 3 years

The aircraft which the Group holds are expected to have an operational life of 20-30 years. However, the Group has a policy of using recently manufactured aircraft and, therefore, expects to hold them only for a period of approximately seven years before selling them on to other airlines. Depreciation is charged at approximately 7.5 per cent per annum which, over a seven year period, reduces the net book value of an aircraft to its estimated resale value at that time.

Part VI – Accountants' report on historical financial information

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

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

Interest incurred on borrowings that fund progress payments on assets under construction is capitalised.

Pensions

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

Employee share schemes

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

Deferred taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Foreign currencies

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

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

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

Leases

All of the Group's lease contracts are of an operating lease nature and are accounted for as operating leases, where the rental charges are charged to the consolidated profit and loss account as incurred.

Cash

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

Part VI – Accountants' report on historical financial information

2. Segmental information

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

The Geographical analysis of turnover is as follows:

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Within the United Kingdom.....	28,768	42,780	73,008
Between the United Kingdom and the Rest of Europe.....	47,704	95,412	177,141
Within the Rest of Europe.....	528	1,597	13,545
	<u>77,000</u>	<u>139,789</u>	<u>263,694</u>

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

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

3. Profit on ordinary activities before taxation

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Profit on ordinary activities before taxation is stated after charging/ (crediting):			
Amortisation of goodwill.....	11	60	164
Depreciation of tangible fixed assets.....	8,193	12,686	15,937
Impairment of fixed assets.....	—	—	1,134
Remuneration of the auditor and its associates:			
Audit.....	59	110	150
Other.....	9	279	212
Operating lease rentals:			
Aircraft.....	1,908	11,019	16,612
Other.....	9	42	50
Foreign currency translation differences	95	634	(138)
	<u>95</u>	<u>634</u>	<u>(138)</u>

Excluded from the other remuneration payable to the auditor above is £1.5 million in respect of flotation related services which has been capitalised within the balance sheet.

Part VI – Accountants’ report on historical financial information

Analysis of the key costs included within Cost of sales, Distribution and marketing expenses and Administrative expenses in the consolidated profit and loss account is as follows:

	1998 £000	1999 £000	2000 £000
Ground handling costs.....	7,246	13,945	27,081
Airport costs	7,761	13,735	23,687
Fuel costs.....	6,362	11,594	33,715
Navigation costs.....	6,993	11,733	18,051
Merchant fees and incentive pay	2,887	4,404	6,918
Crew costs, including training.....	7,855	16,585	27,377
Maintenance costs.....	4,381	10,136	20,589
Advertising costs	3,825	10,249	14,003
Other costs	9,028	14,653	31,064
Depreciation	8,193	12,686	15,937
Aircraft operating lease charges – dry lease (lease of aircraft).....	—	2,070	14,121
Aircraft operating lease charges – wet lease (lease of aircraft, including maintenance, crew and insurance cover).....	1,908	8,949	2,491
	<u>66,439</u>	<u>130,739</u>	<u>235,034</u>
Included within the consolidated profit and loss account as:			
Cost of sales.....	51,832	103,848	191,291
Distribution and marketing expenses.....	8,277	16,165	25,868
Administrative expenses.....	6,330	10,726	17,875
	<u>66,439</u>	<u>130,739</u>	<u>235,034</u>

4. Staff numbers and costs

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

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Operations and administration.....	239	441	855
Sales and Marketing.....	155	233	285
	<u>394</u>	<u>674</u>	<u>1,140</u>

The aggregate payroll costs of these persons were as follows:

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Wages and salaries	9,913	18,045	32,129
Social security costs.....	791	1,518	3,303
Pension costs.....	58	430	1,046
	<u>10,762</u>	<u>19,993</u>	<u>36,478</u>

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Details of emoluments, excluding pension contributions, paid by Group companies to the current directors of easyJet plc are as follows:

	Salary/fees £000	Bonus £000	1998 Total £000	Salary/fees £000	Bonus £000	1999 Total £000
Non-executive:						
S Haji-Ioannou.....	—	—	—	—	—	—
A Eilon	—	—	—	5	—	5
N Hartley	—	—	—	7	—	7
A Illsley	—	—	—	—	—	—
C Day.....	—	—	—	—	—	—
J Quelch	—	—	—	—	—	—
Executive						
R Webster	120	30	150	195	80	275
C Walton	—	—	—	—	—	—
M Cooper	—	—	—	—	—	—
V Hahn-Petersen	—	—	—	—	—	—
K McMann	—	—	—	—	—	—
	<u>120</u>	<u>30</u>	<u>150</u>	<u>207</u>	<u>80</u>	<u>287</u>
				Salary/fees £000	Bonus £000	2000 Total £000
Non-executive:						
S Haji-Ioannou.....	—	—	—	—	—	—
A Eilon	—	—	—	9	—	9
N Hartley	—	—	—	9	—	9
A Illsley	—	—	—	1	—	1
C Day.....	—	—	—	1	—	1
J Quelch	—	—	—	—	—	—
Executive						
R Webster	—	—	—	197	76 ⁽¹⁾	273
C Walton	—	—	—	108	12	120
M Cooper	—	—	—	52	42	94
V Hahn-Petersen	—	—	—	140	23	163
K McMann	—	—	—	35	—	35
				<u>552</u>	<u>153</u>	<u>705</u>

⁽¹⁾ This amount includes £52,000 in respect of previous years. An accrual has been made for directors' bonuses for the period 1 April 2000 to 30 September 2000 but, with the exception of R Webster, no agreement has been reached as to the amounts to be paid to individual directors. As a result no amounts have been included in the above emoluments relating to specific directors (with the exception of R Webster).

Pensions contributions paid by the Group on behalf of the directors were as follows:

	1998 £000	1999 £000	2000 £000
Non-executive:			
S Haji-Ioannou.....	—	—	—
A Eilon	—	—	—
N Hartley	—	—	—
A Illsley	—	—	—
C Day.....	—	—	—
J Quelch	—	—	—
Executive			
R Webster	—	—	—
C Walton.....	—	4	12
M Cooper	—	—	5
V Hahn-Petersen	—	—	1
K McMann	—	—	10
			<u>1</u>
		<u>4</u>	<u>29</u>

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In addition to their fees for services as non-executive directors included above, N Hartley and A Eilon, via companies which they control, charge easyGroup (UK) Limited for other consulting services, a proportion of which costs are recharged by easyGroup (UK) Limited to the Group. The total amount recharged by easyGroup (UK) Limited to the Group for consulting services provided by the companies controlled by N Hartley and A Eilon was £23,633 (1999: £9,679; 1998: £42,582) and £31,917 (1999: £16,048; 1998: £nil), respectively. The arrangement for these non-executive directors providing consulting services ceased subsequent to 30 September 2000. easyGroup (UK) Limited is a related party as explained in note 22.

5. Interest payable

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
On bank loans	4,319	7,675	8,244
On all other loans	1,035	1,149	1,380
Amounts capitalised	(1,035)	(1,149)	(1,380)
	<u>4,319</u>	<u>7,675</u>	<u>8,244</u>

6. Taxation

The Group has not recorded a tax charge during the three years ended 30 September 2000 largely as a result of the availability of tax losses. The following tax losses were estimated to be available to offset against profits in future periods.

	At 30 September 1998 £000	At 30 September 1999 £000	At 30 September 2000 £000
United Kingdom.....	6,268	12,271	10,392
Overseas	—	16,830	8,117
	<u>6,268</u>	<u>29,101</u>	<u>18,509</u>

7. Earnings per share

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

The share options were not dilutive during the year ended 30 September 2000 and the share gifts and the share bonus schemes are contingent upon events which had not materialised at 30 September 2000. Therefore, the share option and the other share schemes have been excluded from the diluted earnings per share calculation.

The earnings per share are based on the following:

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Profit for the year retained for equity shareholders	5,876	1,260	22,103
	<u>Number</u> 000	<u>Number</u> 000	<u>Number</u> 000
Weighted average number of ordinary shares in issue during the year used to calculate basic and diluted earnings per share.....	186,443	186,443	186,515

For the share option and other share schemes in place at 30 September 2000, the earnings per share may be diluted in future years as a result of the following:

- ▶ the average fair value of the shares in subsequent periods being higher than their exercise price; and
- ▶ for the share gift and share bonus schemes, a public offering of the Company's shares will trigger the issue of those shares.

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8. Intangible fixed assets

	Goodwill £000
Costs	
At 1 October 1998	409
Additions	2,989
At 30 September 1999 and 2000	<u>3,398</u>
Amortisation	
At 1 October 1998	11
Charge for the year	60
At 30 September 1999	71
Charge for the year	164
At 30 September 2000	<u>235</u>
Net book value	
30 September 1998	<u>398</u>
30 September 1999	<u>3,327</u>
30 September 2000	<u>3,163</u>

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9. Tangible fixed assets

	Aircraft £000	Payments on account – aircraft deposits £000	Leasehold improvements – buildings £000	Fixtures, fittings and equipment £000	Total £000
Costs					
At 1 October 1998.....	110,023	31,708	324	1,801	143,856
Exchange difference.....	2,957	1,202	—	—	4,159
Arising on acquisition of subsidiary	600	—	—	—	600
Additions	59,283	14,484	371	978	75,116
Transfers.....	14,238	(14,238)	—	—	—
Disposals	(26,584)	(14,397)	—	—	(40,981)
At 30 September 1999.....	160,517	18,759	695	2,779	182,750
Exchange difference.....	17,683	3,144	—	—	20,827
Additions	9,800	32,218	152	2,229	44,399
Disposals	(1,073)	(7,245)	—	—	(8,318)
At 30 September 2000.....	186,927	46,876	847	5,008	239,658
Depreciation					
At 1 October 1998.....	9,558	—	59	649	10,266
Exchange difference.....	312	—	—	—	312
Charge for period.....	11,830	—	117	739	12,686
Disposals	(4,747)	—	—	—	(4,747)
At 30 September 1999.....	16,953	—	176	1,388	18,517
Exchange difference.....	2,234	—	—	—	2,234
Charge for the year	14,607	—	193	1,137	15,937
Provision for impairment.....	1,134	—	—	—	1,134
Disposals	(323)	—	—	—	(323)
At 30 September 2000.....	34,605	—	369	2,525	37,499
Net book value					
30 September 1998	100,465	31,708	265	1,152	133,590
30 September 1999	143,564	18,759	519	1,391	164,233
At 30 September 2000.....	152,322	46,876	478	2,483	202,159

At 30 September 2000, aircraft with a net book value of £150.7 million (1999: £141.5 million; 1998: £99.3 million) were mortgaged to lenders as security for loans.

As part of the directors' process of assessing the recoverable amount of the Group's aircraft, they commissioned an independent valuation of the Group's fleet at 30 September 2000. The independent valuation report indicated a softening of the secondary value of the Group's older Boeing 737-300 aircraft, which the directors consider has resulted from the release of the new series Boeing 737-700 aircraft. After considering their in-use value, and in view of the anticipated sale of those aircraft during the year ending 30 September 2002, the directors determined that the carrying value of those aircraft was no longer recoverable over their remaining useful life to the Group and accordingly a provision for impairment was recognised in the consolidated profit and loss account amounting to £1,134,000 for the year ended 30 September 2000 (1999: £nil; 1998: £nil).

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

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Amounts capitalised during the year	1,035	1,149	1,380
Aggregate amounts included within cost of aircraft and aircraft deposits...	165	702	702

Prior to the delivery of the aircraft the interest capitalised is deferred in Debtors. Amounts deferred as at 30 September 2000 are £1,380,000 (1999: £492,000; 1998: £938,000).

10. Fixed asset investments

(a) Investment in associated undertakings

	Share of net assets £000
At 1 October 1998	(636)
Share of losses for the period	(779)
At 24 June 1999	(1,415)
Transferred to investment in subsidiary at acquisition	1,415
At 30 September 1999 and 2000	—

On 20 March 1998, the Group acquired a 40 per cent equity interest in easyJet Switzerland SA (then called TEA Basel AG) for a consideration of £1,201,000. The Group's share of easyJet Switzerland's net assets was £792,000, giving rise to goodwill of £409,000. On 24 June 1999, the Group increased its interest in easyJet Switzerland as a result of which the status of that company changed from an associate to a subsidiary (see note 10c).

The following information has been included to reflect the Group's interest in easyJet Switzerland SA as an associated undertaking for the six months period ended 30 September 1998:

	Group's share £000
Revenue	6,624
Loss before and after tax	(1,428)
Fixed assets	150
Current assets	4,788
Liabilities due within one year	(3,539)
Liabilities due after one year	(2,035)
Net liabilities	(636)

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(b) Acquisition of easyJet Switzerland

	£000	Fair value £000
Fixed assets		
Tangible fixed assets.....		600
Current assets		
Debtors.....		6,635
Cash at bank and in hand		1,981
Creditors: due within one year		(11,304)
Provisions for liabilities and charges		(1,368)
Net liabilities at acquisition (on 24 June 1999).....		(3,456)
Consideration for acquisition of 40 per cent in the year ended 30 September 1998.....		1,201
Equity accounted losses:		
For the year ended 30 September 1998.....	(1,428)	
For the period up to the date of becoming subsidiary (24 June 1999)	(779)	(2,207)
		(1,006)
Exchange differences		(37)
Consideration paid for acquisition of a controlling interest (on 24 June 1999)		985
		(58)
Net liabilities at acquisition		3,456
Goodwill.....		3,398
Goodwill comprises:		
Previously recognised.....		409
Arising on acquisition (on 24 June 1999)		2,989
		3,398

The previously recognised goodwill of £409,000 for easyJet Switzerland arose as a result of the Group's investment in that company on 20 March 1998, where net assets of approximately £792,000 were acquired with consideration of £1,201,000.

No material fair value adjustments were made on acquisition. Goodwill arising on the acquisition of easyJet Switzerland is being amortised to the profit and loss account over its estimated life of 20 years.

The following information is relevant to an understanding of the Group's acquisition of easyJet Switzerland SA during the year ended 30 September 1999. The information represents certain financial information for easyJet Switzerland SA prepared using the company's previous accounting policies for the period 1 October 1998 to 24 June 1999 and its previous financial period, 11 months ended 30 September 1998.

	11 months ended 30 September 1998 £000	1 October 1998 to 24 June 1999 £000
Revenue.....	30,583	14,433
Operating loss.....	(14,808)	(1,936)
Loss before and after tax.....	(14,522)	(1,951)

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Since its acquisition by easyJet plc on 24 June 1999, easyJet Switzerland has only traded with other members of the Group. Its incorporation into the Group has therefore had no impact on the consolidated turnover. It contributed an operating loss and net cash outflow of approximately £184,000 during the period 25 June 1999 to 30 September 1999.

(c) Details of subsidiaries undertakings

The principal companies in which the Group has interests at 30 September 2000 are as follows:

Subsidiary undertakings	Country of incorporation	Principal activity	Class and percentage of shares held
easyJet Airline Company Limited	United Kingdom	Airline operator	100% of ordinary shares
easyJet Ramp Limited.....	United Kingdom	Airline-related services	100% ordinary shares
easyJet Services Limited	United Kingdom	Airline-related services	100% ordinary shares
easyJet Switzerland SA	Switzerland	Airline operator	49% of ordinary shares*
easyJet Aircraft Company Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares
easyJet Hamburg Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares
Yankee Bravo Aviation Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares
Yankee Charlie Aviation Limited	Cayman Islands	Aircraft trading and leasing	100% of ordinary shares

* The Group has a 49 per cent interest in easyJet Switzerland SA with an option to acquire up to 100 per cent. easyJet Switzerland SA has been consolidated as a subsidiary from 24 June 1999 on the basis that the Group has actually exercised a dominant influence over the undertaking since that date. A minority interest has not been reflected in the financial statements on the basis that holders of the remaining 51 per cent of the shares in easyJet Switzerland SA have no entitlement to any dividends from that holding and easyJet plc has an option to acquire those shares for a predetermined consideration.

11. Debtors

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Trade debtors.....	3,944	15,008	21,976
Other debtors.....	3,327	10,097	9,804
Prepayments and accrued income.....	1,180	2,392	9,179
	<u>8,451</u>	<u>27,497</u>	<u>40,959</u>

12. Creditors: amounts falling due within one year

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Bank loans	8,681	10,066	11,778
Trade creditors.....	6,769	6,807	11,860
Other taxes and social security	—	574	843
Other creditors.....	1,084	2,369	2,884
Accruals and deferred income	13,228	37,066	57,118
	<u>29,762</u>	<u>56,882</u>	<u>84,483</u>

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13. Creditors: amounts falling due after more than one year

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Bank loans			
Due within one to two years	9,022	10,577	12,353
Due in two to five years	42,720	56,028	52,636
Due after five years	19,559	42,735	43,326
	<u>71,301</u>	<u>109,340</u>	<u>108,315</u>
Shareholders loans	17,196	17,729	—
	<u>88,497</u>	<u>127,069</u>	<u>108,315</u>

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

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

14. Provisions for liabilities and charges

	Deferred taxation £000	Maintenance provision £000	Total £000
At 1 October 1998	—	—	—
Arising on acquisition of subsidiary	—	1,368	1,368
Provided during the year	—	95	95
	<u>—</u>	<u>1,463</u>	<u>1,463</u>
At 30 September 1999	—	1,463	1,463
Provided during the year	—	391	391
	<u>—</u>	<u>1,854</u>	<u>1,854</u>
At 30 September 2000	<u>—</u>	<u>1,854</u>	<u>1,854</u>

Maintenance provision

The maintenance provision represents the accrued costs of rectifying aircraft prior to their return to the lessors, in cases where the maintenance reserve payments to the lessors are insufficient to meet the estimated costs of rectification. The aircraft rectification obligations are imposed on the Group in the lease agreements.

Deferred taxation

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Amounts unprovided:			
Depreciation in advance of capital allowances	103	423	328
Losses available	1,755	5,235	3,807
	<u>1,858</u>	<u>5,658</u>	<u>4,135</u>
Total unprovided deferred tax asset	<u>1,858</u>	<u>5,658</u>	<u>4,135</u>

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15. Called up share capital

	Year to 30 September 1998	Year to 30 September 1999	Year to 30 September 2000
Authorised			
Number of ordinary shares of 25 pence each ('000).....	—	—	400,000
Ordinary shares of 25 pence each (£000)	—	—	100,000
	Year to 30 September 1998	Year to 30 September 1999	Year to 30 September 2000
Allotted, called up and fully paid			
Number of ordinary shares of 25 pence each ('000).....	—	—	186,588
Ordinary shares of 25 pence each (£000)	—	—	46,647

16. Share capital and reserves

	Total shareholders' funds £000
At 1 October 1997.....	32,363
Group profit for the year	5,876
Foreign currency translation differences	(1,046)
At 30 September 1998.....	37,193
Group profit for the year	1,260
Foreign currency translation differences	1,035
At 30 September 1999.....	39,488
Group profit for the year	22,103
Shares issued by previous parent undertaking.....	28
Foreign currency translation differences	4,098
At 30 September 2000.....	65,717

17. Share options and other share awards

As part of the Group reorganisation, explained in note 1, the Company agreed to establish various share and share option schemes of which beneficiaries of equivalent schemes, previously established by easyJet Holdings Limited, would become beneficiaries. The structure of all these schemes requires the relevant employing Group company to contribute sufficient funds to an employee share options trust to enable it to subscribe for the shares from the Company at their market value on the date of the subscription.

- (a) The Company issued 28,481,073 share options to employees of the Group in September 2000. These share options were committed to be issued by the Company at various dates during the year ended 30 September 2000 with varying exercise prices dependant upon the dates of employment of the relevant employees, as follows:

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Date easyJet plc became committed to issue share options	Exercise price £	Number of options
May 2000	1.82	25,518,487
June 2000	2.05	2,049,986
September 2000	2.28	912,600
		<u>28,481,073</u>

The options committed to be issued in May 2000 replaced equivalent share options previously issued by easyJet Holdings Limited in February 2000.

Except for the 3,286,305 share options issued to A Eilon, a non-executive director of the Company, which vest on Admission and are exercisable on the second anniversary of Admission of the Company, 25 per cent of the share options vest at each of the dates below:

- ▶ date of Admission of the Company;
- ▶ first anniversary of Admission;
- ▶ second anniversary of Admission; and
- ▶ third anniversary of Admission.

Employees may not dispose of any shares that have resulted from the exercise of options within two years of the date of Admission, except to the extent of settling their liabilities to personal tax, National Insurance contributions and the exercise price per option exercised. Substantially all the employees have accepted liability for the employer’s Secondary National Insurance contributions due on the exercise of the first tranche of the options. It is a condition of grant of the second and third tranches of options that the optionholder accepts liability for the employer’s Secondary National Insurance contributions due on the exercise of the options.

Once vested, the options remain in place should the employee leave the Group and may be exercised within a period ending ten years from the date of grant.

In the absence of an Admission, the share options shall vest after a period of seven years from the date of grant.

An analysis of the movements in the number of share options outstanding is as follows:

	Number
Number of share options granted during the period.....	28,481,073
Exercised during the period	—
Cancelled during the period	—
As at 30 September 2000.....	<u>28,481,073</u>

- (b) In May 2000 the Company also undertook to grant to employees for no consideration 478,712 shares on a public offering of the Company’s equity to replace an equivalent scheme previously established by easyJet Holdings Limited in February 2000. A further 325,912 and 33,983 shares were allocated under this share gift scheme in June and August 2000, respectively. As at 30 September 2000, the number of share grants which remained allocated under this share gift scheme were 838,607. No shares are issuable under this particular scheme if a public offering does not proceed. The shares allocated under this scheme in May 2000 vest upon Admission and those allocated in June and August 2000 vest upon the first anniversary of the Admission. Upon issue of the shares under this scheme, there would be a charge to the profit and loss account equivalent to the fair value of the shares.
- (c) In May 2000, the Company also allocated a value of bonus shares to certain employees to replace an equivalent scheme previously established by easyJet Holdings Limited in April 1999. The award is to occur at the date of a public offering or private placement of more than 15 per cent of the Company’s equity, should this occur by 1 March 2002. If the public offering or private placement of more than 15 per cent of the Company’s equity has not occurred by 1 March 2002, then those employees will retain 50 per cent of the allocated bonus shares’ value and be entitled to that cash on 1 April 2002. Once, and if, awarded, the employees have an obligation to retain the bonus shares for at least 2 years after the date of

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award. Awards under this share bonus scheme are conditional upon the participant being in employment with the Group at the date of a public offering or placement of more than 15 per cent of the Company's equity, or 1 April 2002, as the case may be. As at 30 September 2000 shares to the value of £1,460,625 (1999: £1,683,000; 1998: £690,000) were allocated to employees.

Details of share options under the scheme described in (a) granted to the directors of the Company during the year ended 30 September 2000 are as follows (1999: nil; 1998: nil):

	Date of grant	Exercise price £	Granted during the period and outstanding at 30 September 2000 Number
Non-executive			
S Haji-Ioannou.....	—	—	—
A Eilon.....	26 September 2000	1.82	3,286,305
N Hartley.....	26 September 2000	1.82	105,336
A Illsley.....	26 September 2000	2.28	12,992
C Day.....	26 September 2000	2.28	12,992
Executive			
R Webster.....	26 September 2000	1.82	4,381,742
C Walton.....	26 September 2000	1.82	531,947
M Cooper.....	26 September 2000	1.82	531,947
V Hahn-Petersen.....	26 September 2000	1.82	1,063,894
K McMann.....	26 September 2000	2.05	306,402

In addition, N Hartley and V Hahn-Petersen were allocated shares to the value of £20,000 and £70,000, respectively, under the bonus share scheme (c) above and these were outstanding as at 30 September 2000.

In November 2000 J Quelch was appointed as a non-executive director of the Company. Upon Admission, J Quelch will be granted 12,992 share options at an exercise price of £3.10 per share under the share option scheme described in (a) above.

18. Contingent liabilities

- (a) On 26 February 1998, the Group commenced proceedings in the High Court against British Airways Plc ("BA") for abuse by BA of its dominant position through the alleged unlawful cross-subsidisation by BA of its wholly owned subsidiary Go Fly Limited ("Go"). Whilst the Group is confident that it is proper to have brought these proceedings and to continue to pursue them, there can be no assurance that the outcome will be favourable to it and, in consequence, there can be no assurance the Group will recover the cost of the proceedings or avoid liability for BA's legal costs, estimated at up to £0.5 million, assuming neither party appeals against the decision.
- (b) The Swiss Federal Tax Administration ("SFTA") has brought two claims against easyJet Switzerland, both relating to VAT. The first relates to VAT which the SFTA claims should have been charged by easyJet Switzerland to tour operators for charter services provided, and the second relates to VAT on the importation of aircraft. Following successive proceedings and appeals, in 1998 the Federal Recourse Committee for VAT matters, a specialised court dealing with VAT matters, ruled in favour of easyJet Switzerland, stating that its charter operations were not subject to VAT. In 1999, the SFTA appealed against this decision to the Swiss Federal Court (the highest court in Switzerland). A decision is expected before the end of calendar year 2000. easyJet Switzerland has also opposed a VAT charge on the importation of aircraft into Switzerland. This case has been stayed pending the decision of the Swiss Federal Court in the proceedings relating to charter operations. The total amount claimed by the SFTA is approximately £9.4 million plus interest estimated at approximately £1.0 million however, the Group believes that the majority of this can be re-claimed from its customers in the event the court decides in favour of the SFTA. To date approximately £3.0 million has been collected from these customers leaving a maximum potential exposure of approximately £6.4 million plus future legal expenses, estimated at approximately £0.2 million, plus interest estimated at approximately £1.0 million. Taking into account further amounts which the Group believes it will collect from these customers and input VAT owed results in a net estimated potential profit and loss account charge of approximately £1.0 million plus interest estimated at approximately £1.0 million should the courts decide in favour of the SFTA. However, management believes that it will be successful in defending the SFTA's claim.

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19. Commitments

(a) Lease commitments

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

	Land and buildings		
	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Expiring in years two to five.....	60	60	67
	<u>60</u>	<u>60</u>	<u>67</u>
	Aircraft		
	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Expiring in years two to five.....	—	3,312	4,105
Expiring after five years.....	—	6,334	11,078
	<u>—</u>	<u>9,646</u>	<u>15,183</u>

(b) Other financial commitments

As a result of a purchase agreement entered into in July 1998 and revised in March 2000, the Group is contractually committed to the acquisition of 32 new Boeing 737-700 type aircraft with a list price of US \$1.3 billion, being approximately £880 million (before escalations, discounts and deposit payments already made). In respect of those aircraft, deposit payments amounting to £46,876,000 had been made as at 30 September 2000, (1999: £18,759,000; 1998: £31,708,000, for commitments for the acquisition of Boeing 737-700 and other aircraft).

In September 2000 the Group placed a series of orders to purchase aircraft spare parts, totalling approximately £3.8 million.

The Group is also contractually committed to the purchase of other assets totalling approximately £1.1 million.

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20. Notes to cash flow statements

(a) Analysis of amounts summarised in the cash flow statements

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Returns on investment and servicing of finance			
Interest received	1,062	664	1,687
Interest paid on bank and all other loans	(5,354)	(8,824)	(9,624)
Net cash outflow from returns on investment and servicing of finance.....	(4,292)	(8,160)	(7,937)
Capital expenditure			
Purchase of tangible fixed assets.....	(65,586)	(75,116)	(44,399)
Sale of tangible fixed assets.....	854	36,143	8,060
Net cash outflow for capital expenditure.....	(64,732)	(38,973)	(36,339)
Acquisitions and disposals			
Investment in associate undertaking	(1,201)	—	—
Purchase of subsidiary undertakings.....	—	(985)	—
Net cash at bank and in hand acquired with subsidiary	—	1,981	—
Net cash flow outflow from acquisitions	(1,201)	996	—
Financing			
New loans received	41,270	61,297	—
Loan repayments.....	(5,843)	(24,185)	(31,537)
Net cash flow from increase/(decrease) in debt	35,427	37,112	(31,537)
Issue of share capital by previous parent undertaking	—	—	28
Net cash inflow/(outflow) from financing	35,427	37,112	(31,509)

(b) Purchase of easyJet Switzerland SA on 24 June 1999

	Cash paid £000	Equity accounted losses £000	Net consideration up to date of becoming subsidiary £000
£000			
Net liabilities acquired:			
Tangible fixed assets.....			600
Debtors.....			6,635
Cash at bank and in hand			1,981
Creditors.....			(11,304)
Provisions for liabilities			(1,368)
Net liabilities			(3,456)
Goodwill.....			3,398
Net consideration up to date of becoming subsidiary.....			(58)
Satisfied by:			
During the year ended 30 September 1998.....	1,201	(1,428)	(227)
During the year ended 30 September 1999.....	985	(779)	206
Exchange difference on date of becoming subsidiary.....			(37)
			(58)

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21. Financial instruments

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

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

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

Foreign currency risk

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

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

Approximately 70 per cent of the Group's assets (that is, its owned aircraft and deposits paid towards the future acquisition of aircraft) are denominated in US dollars, with the effect that the Group's balance sheet and, in particular, shareholders' funds, can be significantly affected by movements in the rate of pounds sterling against the US dollar. The Group mitigates the effect of such movements by borrowing in the same currencies as those US dollar denominated assets. Owned aircraft are anticipated to be sold for US dollars within approximately seven years of their acquisition. The resulting sale proceeds are expected to be used largely to pay down US dollar loans and as a result these large US dollar inflows are not considered to create a significant currency exposure to the Group.

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

	Year end exchange rate (US\$: £)
30 September 1998	1.699
30 September 1999	1.647
30 September 2000	1.476

12 per cent of the total Group costs in the year ended 30 September 2000 were incurred by easyJet Switzerland, whose functional currency is the Swiss Franc. The costs of that business are translated into pounds sterling at average exchange rates for the purposes of inclusion into the consolidated profit and loss account, and the net assets at the year end exchange rate of the Swiss Franc against pounds sterling. To a large extent, the exposure to the Swiss Franc is mitigated as revenue in that currency is also earned by the Group.

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

	US dollars £000	Other £000	Total £000
Total assets	4,136	3,296	7,431
Total liabilities	(2,821)	(90)	(2,911)
Net assets as at 30 September 1998	1,315	3,206	4,520
Total assets	4,880	7,338	12,218
Total liabilities	(1,247)	(52)	(1,299)
Net assets as at 30 September 1999	3,633	7,286	10,919
Total assets	6,691	3,115	9,806
Total liabilities	(726)	(1,259)	(1,985)
Net assets as at 30 September 2000	5,965	1,856	7,821

Interest rate risk

The Group does not have a formal policy on the interest profile to be maintained for borrowings. The Group's historical borrowings are analysed below between fixed rate and variable rate loans.

	Total £000	Fixed rate borrowings £000	Variable rate borrowings £000	Weighted average interest rate for fixed rate borrowings %	Average time over which interest rate is fixed months
Bank loans (US dollar denominated)	79,982	—	79,982	—	—
Shareholder loans (US dollar denominated) .	17,196	—	17,196	—	—
As at 30 September 1998.....	97,178	—	97,178	—	—
Bank loans (US dollar denominated)	119,406	59,013	60,393	6.2	25
Shareholder loans (US dollar denominated) .	17,729	—	17,729	—	—
As at 30 September 1999.....	137,135	59,013	78,122	6.2	25
Bank loans (US dollar denominated)	120,093	62,639	57,454	6.2	13
Shareholder loans (US dollar denominated) .	—	—	—	—	—
As at 30 September 2000.....	120,093	62,639	57,454	6.2	13

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The maturity of the bank and shareholder loans is set out below.

	30 September 1998 £000	30 September 1999 £000	30 September 2000 £000
Bank loans			
Due within one year	8,681	10,066	11,778
Due between one and two years	9,022	10,577	12,353
Due between two and five years.....	42,720	56,028	52,636
Due over five years.....	19,559	42,735	43,326
	<u>79,982</u>	<u>119,406</u>	<u>120,093</u>
Shareholder loans			
Due between one and two years	17,196	17,729	—
Total loans.....	<u>97,178</u>	<u>137,135</u>	<u>120,093</u>

The variable rate bank loans bear interest by reference to the applicable reference rate, being LIBOR + 0.9 per cent to LIBOR + 1 per cent. The variable rate shareholder loans bore interest at LIBOR +0.8 per cent and LIBID.

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

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

	Total £000	Fixed rate aircraft leases £000	Variable rate aircraft leases £000	Weighted average interest rate for fixed rate leases %	Average time over which interest rate is fixed months
Approximate aircraft operating lease payments due in the financial year ending 30 September 2001 (payable in US dollars)	<u>15,183</u>	<u>7,430</u>	<u>7,753</u>	<u>6.8</u>	<u>86</u>

Liquidity risk

The Group prepares periodic working capital forecasts for the foreseeable future, allowing an assessment of the cash requirements of the Group.

Credit risk

Potential concentrations comprise principally cash and trade debtors.

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

Funding risk

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

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Fair values of financial assets and liabilities

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

	30 September 1998		30 September 1999		30 September 2000	
	Book value £000	Fair value £000	Book value £000	Fair value £000	Book value £000	Fair value £000
Primary financial instruments held to finance the Group's operations:						
Banks loans.....	(79,982)	(79,982)	(119,406)	(119,406)	(120,093)	(120,093)
Shareholder loans.....	(17,196)	(17,196)	(17,729)	(17,729)	—	—
Cash.....	13,649	13,649	29,845	29,845	14,088	14,088
	<u>(83,529)</u>	<u>(83,529)</u>	<u>(107,290)</u>	<u>(107,290)</u>	<u>(106,005)</u>	<u>(106,005)</u>

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

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

22. Related party transactions

The Chairman of the Company, S Haji-Ioannou, together with certain of his family members, who are together indirectly the majority shareholders of easyJet Holdings Limited, the parent undertaking of the Company, advanced loans via easyJet Holdings Limited to the Group to enable it to place aircraft deposits for the purchase of aircraft from Boeing ('Shareholder loans'). The Shareholder loans were on an arms length basis and bore interest at rates of LIBOR + 0.8 per cent and LIBID and were repaid by the Group during the period ended 30 September 2000. The following information is relevant in relation to the loans:

	Year to 30 September 1998 £000	Year to 30 September 1999 £000	Year to 30 September 2000 £000
Balance outstanding at year end.....	17,196	17,729	—
Interest payable for the year on the loans.....	1,035	1,149	1,380

In August 1999, the Group advanced a £25,000 loan to N Manoudakis bearing interest at LIBOR + 2 per cent. During the year ended 30 September 2000, the loan, together with accrued interest of £1,888, was repaid. N Manoudakis served as a director of the Company from 24 March 2000 to 10 August 2000. N Manoudakis also served as a director of easyJet Airline Company Limited, a subsidiary undertaking of the Company, from 1995 to August 2000.

easyJet Holdings Limited, the parent undertaking of the Company, of which S Haji-Ioannou is the ultimate controlling party as set out in note 23 below, has undertaken to support the Company financially, subject to its interest in the Company not falling below 100%.

Subsequent to the year end, S Haji-Ioannou has agreed to provide financial support of up to £20 million to easyJet Holdings Limited, subject to easyJet Holdings Limited's interest in the share capital of easyJet plc not falling below 100 per cent.

R Webster, an executive director of the Company, has an interest in easyJet Holdings Limited, the Company's ultimate parent undertaking, amounting to approximately 1 per cent of that undertaking's share capital. The purchase of that share capital during the year ended 30 September 1998 by R Webster was financed by a loan from easyJet Holdings Limited, amounting to approximately US\$650,000, which remained outstanding in that undertaking as at 30 September 2000. The pound sterling equivalent of US\$650,000 as at 30 September

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1998, 1999 and 2000 was £382,353, £393,939 and £440,320 respectively. easyJet Holdings Limited and R Webster are taking steps to transfer this indebtedness to a commercial bank on arm's length terms.

The Group also transacts with easyRentacar Limited and easyEverything Limited, being companies of which S Haji-Ioannou is the majority shareholder. The transactions principally relate to the charging of advertising costs and web page click-through revenues between the Group and these companies. These charges are summarised below for the year ended 30 September 2000 (1999: £nil; 1998: £nil), together with the balances outstanding at that date (1999: £nil; 1998: £nil).

	easyRentacar Limited Year to 30 September 2000 £000	easyEverything Limited Year to 30 September 2000 £000
Charges to the Group	34	29
Charges by the Group	192	13
Year end debtor/(creditor)	24	(9)

The Group sub-leased aircraft from easyJet Switzerland SA in the period that easyJet Switzerland SA was an associated undertaking of the Group. The total amount paid by the Group to that undertaking for those services in the year ended 30 September 1999 before it became a subsidiary amounted to £8.9 million (1998: £1.9 million; 2000: £nil).

23. Ultimate controlling party

The ultimate parent company of the Group is easyJet Holdings Limited, incorporated in Jersey.

By virtue of the shareholding of his family trusts, S Haji-Ioannou is the ultimate controlling party of the Group.

24. Companies Act 1985

The consolidated financial statements do not constitute "statutory accounts" within the meaning of the Companies Act 1985 of Great Britain for any of the periods presented. Statutory accounts for the year ended 30 September 2000 have been filed with the United Kingdom's Registrar of Companies. Non-statutory accounts for the two years ended 30 September 1999 have also been prepared. The auditor has reported on these accounts. The reports were unqualified and did not contain statements under section 237 (2) or (3) of the Companies Act 1985.

These consolidated financial statements exclude certain parent company statements and other information required by the Companies Act 1985, however they include all material disclosures required by generally accepted accounting principles in the United Kingdom including those Companies Act disclosures relating to the profit and loss account and balance sheet items.

25. Post balance sheet events

On 5 November the Group assigned any ownership of intellectual property in the trade marks and branding to easyGroup IP Licensing Limited, in exchange for a perpetual licence to use such intellectual property for a nominal rent. easyGroup IP Licensing Limited is a company of which S Haji-Ioannou is the majority shareholder.

In October 2000, the Group entered into an agreement for the sale and subsequent leaseback of three of the new Boeing 737-700 type aircraft ordered in the agreement dated March 2000. One of those aircraft was delivered in October 2000 and the other two are due to be delivered during the course of the remainder of the current year.

Yours faithfully

KPMG Audit Plc

Part VII – Additional information

1. INCORPORATION

The Company was incorporated and registered in England and Wales on 24 March 2000 under the Companies Act 1985 (the "Act") as a private company limited by shares with the name easyJet Limited and registered number 3959649.

By resolution dated 12 October 2000, the Company resolved to re-register as a public limited company. The re-registration became effective on 16 October 2000. The head office and registered office of easyJet plc is easyLand, London Luton Airport, Luton, Bedfordshire LU2 9LS.

The principal legislation under which easyJet plc operates is the Act and the regulations made thereunder.

2. SHARE CAPITAL

2.1 The authorised and issued fully paid share capital of the Company at the date hereof is set out below:

	Authorised	Issued and fully paid or credited as fully paid
Ordinary shares of 25 pence	400,000,000	186,586,920

2.2 On incorporation, the authorised share capital of the Company was £100,000,000 divided into 100,000,000 ordinary shares of £1 each, one of which was issued fully paid or credited as fully paid. On incorporation there was one subscriber, Luciene James Limited, 83 Leonard Street, London EC2A 4QS, holding one share. On 24 March 2000, that share was transferred to easyJet Holdings Limited.

2.3 On 30 April 2000 the Company entered into two share purchase agreements and a share exchange agreement pursuant to which the Company acquired easyJet Holdings Limited's entire interest in shares of its subsidiary companies and easyJet Switzerland. In consideration of such acquisitions, the Company issued 46,646,729 of its ordinary shares to easyJet Holdings Limited.

2.4 By an ordinary resolution of the Company passed on 14 September 2000:

2.4.1 the authorised and issued ordinary shares of £1 each were each sub-divided into four ordinary shares of 25 pence each, being 186,586,920 ordinary shares of 25 pence each; and

2.4.2 the authorised and unissued ordinary shares of £1 each were each sub-divided into four ordinary shares of 25 pence each, being 213,413,080 ordinary shares of 25 pence each.

2.5 On 12 October 2000, immediately prior to the re-registration of the Company as a public limited company, one share of the Company was transferred from easyJet Holdings Limited to easyJet Nominees Limited (a wholly owned subsidiary of easyJet Holdings Limited) holding such share as nominee for easyJet Holdings Limited. The purpose of this transfer was to comply with the requirement for public companies to have at least two shareholders.

2.6 By ordinary and special resolutions passed on 14 November 2000:

2.6.1 pursuant to Section 80 of the Act and in substitution for all existing authorities, the Directors were generally and unconditionally authorised to allot relevant securities (within the meaning of Section 80 of the Act) up to an aggregate nominal amount of £46,223,002 such authority to expire (unless previously renewed, varied or revoked by the Company in general meeting) at the conclusion of the next annual general meeting of the Company following the passing of the resolution or, if earlier, at midnight on 31 December 2001 provided that the Company may before such expiry, or the expiry of any renewal of the authority, make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors of the Company may allot relevant securities in pursuance of such an offer or agreement as if the authority had not expired;

2.6.2 in substitution for all existing authorities, the Directors were empowered pursuant to and in accordance with Section 95 of the Act to allot or make offers or agreements to allot equity

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securities (within the meaning of Section 94 of the Act) wholly for cash as if Section 89(1) of the Act did not apply to any such allotment, provided that such power was limited to:

- (a) the allotment of 63,000,000 Ordinary Shares in connection with the Global Offering;
- (b) the allotment of up to 949,884 Ordinary Shares in connection with the Share Gift and the Share Bonus Scheme;
- (c) the allotment of securities to satisfy the Company's obligations in respect of the Over-allotment Option pursuant to the Sponsors' and Underwriting Agreement;
- (d) the allotment of Ordinary Shares in respect of options issued pursuant to the New Share Option Schemes;
- (e) the allotment after Admission of equity securities in connection with a rights issue in favour of the holders of Ordinary Shares, or in connection with any other form of issue of such securities in which holders are given the right to participate, in proportion (as nearly as maybe) to the respective number of Ordinary Shares held by them, but subject to such exclusions or other arrangements as the Directors consider necessary or expedient in relation to fractional entitlements or legal or practical problems arising in connection with the laws of, or of the requirements of any generally recognised regulatory body or stock exchange in, any territory or by nature of shares being represented by depositary receipts or otherwise howsoever; and
- (f) the allotment after Admission (otherwise than pursuant to sub-paragraphs 2.6.2(a), 2.6.2(b), 2.6.2(c), 2.6.2(d) and 2.6.2(e) above) of equity securities up to an aggregate nominal amount of £3,131,710 or, if less, the amount equal to five per cent of the issued share capital of the Company immediately following Admission, provided that such power shall expire on the date the Section 80 authority referred to above expires provided that the Company may before such expiry, or the expiry of any renewal of the power, make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors of the Company may allot equity shares in pursuance of such offer or agreement as if the power had not expired.

2.7 Options over a total of 28,481,073 Ordinary Shares have been granted for no consideration under or on the terms of the Pre-Flotation Share Option Schemes as follows:

Number of Ordinary Shares	Date of original grant	Exercise Price	When exercisable
25,518,487	29.02.00	£1.82	*
2,049,986	26.09.00	£2.05	*
912,600	26.09.00	£2.28	*
12,992	22.11.00	£3.10	*

* Under the rules of the easyJet Key Employee Pre-Flotation Share Option Scheme and the easyJet Switzerland Key Employee Pre-Flotation Share Option Scheme, pursuant to which these options were granted, options vest and can be exercised as to 25 per cent of the option shares on Admission, with a further 25 per cent of the option shares vesting on the anniversary of Admission for each of the following three years. Ordinary Shares received on exercise may not be disposed of earlier than the second anniversary of Admission although shares can be sold to meet the exercise price and any tax and national insurance liabilities arising on exercise. Amir Eilon's options over 3,286,305 Ordinary Shares vest in full on Admission but are not exercisable until the second anniversary of Admission.

2.8 On Admission, Ordinary Shares with an aggregate value of up to £1,460,625 will be allotted to individuals under the Share Bonus Scheme and up to 478,712 Ordinary Shares will be allotted to certain employees of the Group under the Share Gift. Up to a further 359,895 Ordinary Shares will be allotted under the Share Gift on the first anniversary of Admission provided the relevant employees are still employed with easyJet at such date. In addition if a further new Non-Executive Director is appointed prior to Admission he will be granted options over 12,992 Ordinary Shares at the Global Offering Price.

2.9 Following the Global Offering, the authorised share capital of easyJet plc will be £100,000,000 divided into 400,000,000 Ordinary Shares of which 250,536,804 such Ordinary Shares will be issued fully paid

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and 149,463,196 such Ordinary Shares will be unissued. A total of 29,332,672 Ordinary Shares will be reserved for issue under the terms of the Pre-Flotation Share Option Schemes and the Share Gift described under paragraph 7 below together with Ordinary Shares with an aggregate value of up to £1,460,625 (equivalent to 471,172 Ordinary Shares at the Global Offering Price) under the Share Bonus Scheme also described under paragraph 7 below.

- 2.10 The provisions of Section 89(1) of the Act (to the extent not disapplied as referred to in paragraph 2.6.2 above) confer on shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in Section 94 of the Act) which are, or are to be, paid up in cash. Statutory rights of pre-emption have been disapplied in order (i) to permit the Directors to allot the New Ordinary Shares for which subscribers are being procured by the Underwriters pursuant to the Global Offering and also to allottees under the Share Bonus Scheme and the Share Gift; (ii) to permit the Directors to allot the New Ordinary Shares the subject of the Over-allotment Option; (iii) to give the Directors flexibility in relation to rights or other pre-emptive issues; (iv) to permit the Directors to allot Ordinary Shares in connection with the New Share Option Schemes and (v) to permit the Directors to allot Ordinary Shares for cash having a nominal value of up to 5 per cent of the issued ordinary share capital of the Company following the Global Offering.
- 2.11 Save as disclosed in this paragraph 2 and paragraphs 5, 7, 9 and 12 of this Part VII:
- 2.11.1 no share or loan capital of the Company or any subsidiary of the Company is under option or agreed conditionally or unconditionally to be put under option; and
- 2.11.2 since incorporation:
- (a) there has been no alteration in the share or loan capital of easyJet plc and no material alteration in the share capital of any subsidiary of the Company;
 - (b) no share or loan capital of easyJet plc or any subsidiary of the Company has been issued or agreed to be issued; and
 - (c) no commissions, discounts, brokerage or other special terms have been granted by the Company or any subsidiary of easyJet plc in connection with the issue of any share or loan capital.
- 2.12 easyJet UK's former Vice President of Sales and Marketing, Anthony Anderson, claims that he is entitled to a quantity of shares in easyJet UK. Mr Anderson claims that under his contract made in June 1995, he was required to purchase £5,000 worth of shares in easyJet UK and that that company agreed to grant him a loan to purchase those shares. In a later memorandum it was stated that he had purchased those shares, a loan had been made and that the advances of the loan were to be deducted from Mr Anderson's payroll. None of these actions ever occurred and there is no record of any of these transactions having occurred in easyJet UK's books. In 1995 these shares would have represented less than 0.1 per cent of easyJet UK. The Company has investigated these claims and believes that the agreement to issue the shares was subsequently varied so as to release Mr Anderson from his obligation to purchase the shares. In 1997 all share entitlements and options in easyJet UK of all staff (including Mr Anderson) were transferred to easyJet Holdings Limited. In October 1998 Mr Anderson ceased employment with easyJet UK and commenced employment with easyEverything Limited on 1 December 1998. On this transfer he agreed to transfer all his interest in easyJet to easyEverything Limited, in which he was granted 74,700 shares of £1 each (0.7 per cent) without any cash payment on his part in place of his interest in easyJet UK. No reference was made to the claimed shares in easyJet UK at that time and the Company considers that prior to or in any event at that date he had lost any rights to acquire shares in easyJet. Mr Anderson resigned from the easy Group in 2000 without mentioning his entitlement to shares in easyJet UK to join the Egg group of companies. So far as the Company is aware, Mr Anderson did not make any claim in respect of any such shares until the period immediately prior to this flotation. The Company has rejected his claim. The Company believes that three or more individuals who have left the employ of easyJet may make similar claims to be entitled to shares. The Company believes that all such persons have been appropriately compensated in respect of their involvement with easyJet and would reject any such claims.

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3. SUBSIDIARY UNDERTAKINGS

3.1 The business of easyJet plc and its principal activity is to act as the holding company of easyJet Aircraft Company Limited, easyJet UK, easyJet Hamburg Limited, easyJet Switzerland S.A., Yankee Bravo Aviation Limited and Yankee Charlie Aviation Limited.

3.2 easyJet plc is the holding company of the Group. The subsidiary undertakings of easyJet plc are listed below:

Name and registered office	Principal activity	Issued and fully paid share capital	Proportion of capital held
easyJet Airline Company Limited, easyLand, London Luton Airport, Luton, Bedfordshire LU2 9LS	Airline operating	14,000,000 ordinary shares of £1 each	100%
easyJet Airports Limited, easyLand, London Luton Airport, Luton, Bedfordshire LU2 9LS	Not trading	1 ordinary shares of £1	100%
easyJet Ramp Limited, easyLand, London Luton Airport, Luton, Bedfordshire LU2 9LS	Aircraft handling services	1,000 ordinary shares of £1 each	100%
easyJet Services Limited, easyLand, London Luton Airport, Luton, Bedfordshire LU2 9LS	Passenger handling and flight despatch services	1,000 ordinary shares of £1 each	100%
easyJet Aircraft Company Limited, "Cayside", Shedden Road, P.O. Box 1782, George Town, Grand Cayman, Cayman Islands	Aircraft holding	101 ordinary shares of US\$1 each	100%
easyJet Hamburg Limited, "Cayside", Shedden Road, P.O. Box 1782, George Town, Grand Cayman, Cayman Islands, BW1	Aircraft holding	100 ordinary shares of US\$1 each	100%
*easyJet Switzerland S.A., 5 Route de l'Aeroport, 1215 Geneva 15, Switzerland	Airline operating	29,200 registered class A shares of a par value of CHF1,000 each and 19,460 registered class B Preference Shares of a par value of CHF100 each	49%
easyJet Tours SARL, 88 avenue Louis-Casai, 1216 Cointrin, Switzerland	Sales	one share of par value CHF 19,000 and one share of par value CHF 1,000	49% held indirectly
Yankee Bravo Aviation Limited, "Cayside", Shedden Road, P.O. Box 1782, George Town, Grand Cayman, Cayman Islands, BWI	Aircraft holding	2 ordinary shares of US\$100 each	100%
Yankee Charlie Aviation Limited "Cayside", Shedden Road, P.O. Box 1782, George Town, Grand Cayman, Cayman Islands	Aircraft holding	2 ordinary shares of US\$100 each	100%
easyJet Spain S.L., Calle Balmes 195, 503a, Barcelona, Spain	Website address holding and staff employing	1,000 shares of €3.006 each	100%
easyJet B.V., Locatellikade 1, 1076 AZ, Amsterdam, The Netherlands	Website address holding and staff employing	40 shares of NLG 1,000 each	100%
easyJet Cyprus Limited Berengaria Building, 25 Spyrou Araouzou Street, 3036 Limassol, Cyprus	Website address holding	1,000 shares of Cyprus £1 each	100%

* easyJet plc has an option over the remaining 51 per cent of easyJet Switzerland.

4. MEMORANDUM AND ARTICLES OF ASSOCIATION

- 4.1 The Memorandum of Association of the Company provides that the Company's principal objects are to carry on business as an airline and air transport undertaking and to act as a holding company. The objects of the Company are set out in full in clause 4 of the Company's Memorandum of Association.
- 4.2 The Articles of Association of the Company (the "Articles") were adopted pursuant to a special resolution of the Company passed on 14 November 2000 and contain provisions, *inter alia*, to the following effect:

4.2.1 Limitations on share ownership

The Directors are given the powers described below under the Articles to take action to ensure that the amount of shares held in the Company by non-UK nationals does not reach a level which could jeopardise easyJet's entitlement to continue to hold or enjoy the benefit of any authority, permission, licence or privilege which it or any of its subsidiaries holds or enjoys and which enables an air service to be operated (each an "Operating Right"). In particular, the UK/Swiss ASA requires that in order to obtain and retain an operating licence, a UK designated air carrier must be majority owned and effectively controlled by UK nationals. The UK/Swiss ASA does not specify what level of share ownership will confer effective control on a holder or holders of shares. The Directors may, from time to time set a "Permitted Maximum" on the number of shares of easyJet plc which may be owned by non-UK nationals at such level as they believe will comply with the UK/Swiss ASA and any other ASAs pursuant to which the Group has Operating Rights. This level will initially be set at 40 per cent.

The Articles allow the Directors to relax the ownership limitations such that rather than restrict ownership by non-UK nationals, the limitations will only apply to non-Qualifying European Nationals at such level as they believe will comply with the EC Licensing Regulation and EEA Agreement.

The Operating Rights under which easyJet UK operates the vast majority of its routes (all of those between member states of the EEA) are granted pursuant to the EC Licensing Regulation and EEA Agreement (see "Air Transport Regulation" in Part IV of this document). The EC Licensing Regulation and EEA Agreement require that in order to obtain and retain an operating licence, an EU air carrier must be majority owned and effectively controlled by EEA nationals ("Qualifying Nationals"). The limitations under the UK/Swiss ASA described above are more stringent than those required by the EC Licensing Regulation and EEA Agreement and therefore whilst such limitations apply, easyJet UK will also be compliant with the ownership requirements of the EC Licensing Regulation and EEA Agreement.

The Company will maintain a separate register (the "Separate Register") of shares in which non-UK nationals, whether individuals, bodies corporate or other entities, have an interest (such shares are referred to as "Relevant Shares" in the Articles). An interest in this context is widely defined. The Directors can require relevant members or other persons to provide them with information to enable a determination to be made by them as to whether shares are, or are to be treated as, Relevant Shares. If such information is not available or forthcoming or is unsatisfactory then the Directors can, at their discretion, determine that shares are to be treated as Relevant Shares. Registered holders of shares are also obliged to notify the Company if they are aware that any share which they hold ought to be treated as a Relevant Share for this purpose.

The Directors may determine that it is necessary to take steps to protect any Operating Right or the status of the Company or any subsidiary as an EU or UK airline or air carrier by reason of the fact that, broadly, an Operating Right has been or is threatened to be refused, withheld, suspended or revoked or the aggregate number of Relevant Shares is such that an Operating Right may be refused, withheld suspended or revoked or the ownership of the Company is otherwise such that an Operating Right may be refused, withheld, suspended or revoked. In such circumstances the Directors can *inter alia*:

- (a) remove any Director;
- (b) identify those shares which give rise to the need to take action and treat such shares as Affected Shares (see below); or

- (c) set a Permitted Maximum on the number of Relevant Shares which may subsist at any time (which may not, save in the circumstances referred to below, be lower than 25 per cent of the total number of issued shares) and treat any Relevant Shares in excess of this Permitted Maximum as Affected Shares (see below). The Directors may serve a notice ("an Affected Share Notice") in respect of any Affected Share. An Affected Share Notice can if it so specifies have the effect of depriving the registered holder of the rights to attend, vote and speak at general meetings which he would otherwise have had as a consequence of holding such shares. Such an Affected Share Notice can if it so specifies also require the recipients to dispose of the shares (so that the relevant shares will then cease to be Affected Shares) within 21 days or such longer period as the Directors may determine. The Directors are also given the power to transfer such shares themselves where there is non-compliance with the Affected Share Notice.

The rights of the Directors referred to above shall apply until such time as the Directors resolve that grounds for the making of a determination have ceased to exist and they shall thereupon withdraw such determination.

The Directors have resolved to set the Permitted Maximum at 40 per cent initially. This Permitted Maximum may be varied by the Directors. At any time when the Directors have resolved to specify a Permitted Maximum (other than on the first occasion after the adoption of the Articles when this is set) or deal with shares as Affected Shares, or relax the ownership limitations, they shall publish in at least one national newspaper in the United Kingdom (and in any country in which the Ordinary Shares are listed) notice of the determination and of any Permitted Maximum. The Directors shall publish, from time to time, information as to the number of shares, particulars of which have been entered on the Separate Register.

The Directors may not register any person as a holder of shares unless such person has furnished to the Directors a declaration, together with such evidence as the Directors may require, stating (a) the name and nationality of any person who has an interest in any such share and, if the Directors require, the nature and extent of such interest; or (b) such other information as the Directors may from time to time determine. The Directors may decline to register any person as a shareholder if satisfactory evidence or information is not forthcoming.

4.2.2 Voting rights

Subject to any special terms as to voting on which any shares may have been issued or may from time to time be held, at a general meeting of the Company every member who is present in person (including any corporation present by its duly authorised representative) shall on a show of hands have one vote and every member present in person or by proxy shall on a poll have one vote for each share of which he is a holder. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

Unless the Board otherwise determines, no member is entitled to vote at a general meeting or at a separate meeting of the holders of any class of shares, either in person or by proxy, or to exercise any other right or privilege as a member in respect of any share held by him unless all calls presently payable by him in respect of that share, whether alone or jointly with any other person, together with interest and expenses (if any) have been paid to the Company or if he, or any other person appearing to be interested in such shares, has been issued with a notice pursuant to Article 81 (requiring disclosure of interests in shares) and has failed in relation to any such shares to give the Company the information required by such notice within 14 days.

4.2.3 Dividends

Subject to the provisions of the Act and of the Articles, the Company may by ordinary resolution declare dividends to be paid to members according to their respective rights and interests in the profits of the Company. However, no dividend shall exceed the amount recommended by the Board.

Subject to the provisions of the Act, the Board may declare and pay such interim dividends (including any dividend payable at a fixed rate) as appears to the Board to be justified by the profits of the Company available for distribution.

Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up (otherwise than in advance of calls) on the shares on which the dividend is paid. All dividends unclaimed for a period of 12 years after having been declared or become due for payment shall (if the Board so resolves) be forfeited and shall cease to remain owing by the Company.

The Board may, with the authority of an ordinary resolution of the Company, direct that payment of any dividend declared may be satisfied wholly or partly by the distribution of assets, and in particular of paid up shares or debentures of any other company, or in any one or more of such ways.

The Board may also, with the prior authority of an ordinary resolution of the Company and subject to such conditions as the Board may determine, offer to holders of Ordinary Shares the right to select to receive Ordinary Shares, credited as fully paid, instead of the whole (or some part, to be determined by the Board) of any dividend specified by the ordinary resolution.

Unless the Board otherwise determines, the payment of any dividend or other money that would otherwise be payable in respect of Ordinary Shares will be withheld if such shares represent at least 0.25 per cent of their class and the holder, or any other person appearing to be interested in those shares, has been duly served with a notice under Article 81 (requiring disclosure of interests in shares) and has failed to supply the information required by such notice within 14 days. Furthermore such a holder shall not be entitled to elect to receive Ordinary Shares instead of a dividend.

4.2.4 Division of assets on a winding-up

If the Company is wound up, the liquidator may, with the sanction of a special resolution of the Company and any other sanction required by law, divide among the members *in specie* the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members, or vest the whole or any part of the assets in trustees on such trusts for the benefit of the members as he with the like sanction shall determine, but no member shall be compelled to accept any assets on which there is a liability.

4.2.5 Transfer of shares

Subject to the restrictions on transfer summarised in this paragraph 4, every member may transfer all or any of his shares by instrument of transfer in writing in any usual form or in any form approved by the Board. Such instrument must be executed by or on behalf of the transferor and (in the case of a transfer of a share which is not fully paid up) by or on behalf of the transferee. The transferor is deemed to remain the holder until the transferee's name is entered in the register of members.

The Board may, in its absolute discretion and without giving any reason, refuse to register any transfer of a share or renunciation of a renounceable letter of allotment unless all of the following conditions are satisfied:

- (a) it is in respect of a share which is fully paid up;
- (b) it is in respect of only one class of shares;
- (c) it is in favour of a single transferee or renounee or not more than four joint transferees or renounees;
- (d) it is duly stamped (if so required); and
- (e) it is delivered for registration to the registered office for the time being of the Company or such other place as the Board may from time to time determine, accompanied (except in the case of a transfer by a recognised person (as defined in the Articles) where a certificate has not been issued or in the case of a renunciation) by the certificate for the shares to which it relates and such other evidence as the Board may reasonably require to prove the title of the transferor or person renouncing and the due execution of the transfer or renunciation by him

or, if the transfer or renunciation is executed by some other person on his behalf, the authority of that person to do so,

provided that the Board shall not refuse to register any transfer or renunciation of partly paid shares which are listed on the grounds they are partly paid shares in circumstances where such refusal would prevent dealings in such shares from taking place on an open and proper basis.

The Board may also refuse to register any transfer of a share if, in the opinion of the Directors, such share would, upon transfer, become, or would be capable of being treated as, an Affected Share, provided that in the case of a share held in uncertificated form the Directors may only exercise their discretion not to register a transfer if permitted to do so by regulation 23 of the Regulations.

Unless the Board otherwise determines, a transfer of shares will not be registered if the transferor or any other person appearing to be interested in the transferor's shares has been duly served with a notice under Article 81 (requiring disclosure of interests in shares), has failed to supply the information required by such notice within 14 days and the shares in respect of which such notice has been served represent at least 0.25 per cent of their class, unless the member is not himself in default as regards supplying the information required and proves to the satisfaction of the Board that no person in default as regards supplying such information is interested in any of the shares the subject of the transfer, or unless such transfer is by way of acceptance of a take-over offer, in consequence of a sale on a recognised stock exchange or a sale to an unconnected party.

4.2.6 Lien and forfeiture

The Company shall have a first and paramount lien on each of its shares which is not fully paid, for all amounts payable to the Company (whether presently or not) in respect of that share and to the extent and in the circumstances permitted by the Act.

If any member fails to pay the whole of any call or any instalment of any call on or before the day appointed for payment, the Board may at any time serve a notice in writing on such member requiring payment (on a date not less than 14 clear days from the date of the notice), of the amount unpaid and any interest which may have accrued thereon and any costs, charges and expenses incurred by the Company by reason of such non-payment. If the notice is not complied with, any share in respect of which it was given may, at any time before the payment required by the notice has been made, be forfeited by a resolution of the Board. Such forfeiture shall include all dividends declared or other moneys payable in respect of the forfeited shares and not paid before the forfeiture.

4.2.7 Variation of rights

If at any time the share capital of the Company is divided into shares of different classes, any of the rights for the time being attached to any share or class of shares in the Company may be varied or abrogated in such manner (if any) as may be provided by such rights or, in the absence of any such provision, either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of the class or with the sanction of any extraordinary resolution passed at a separate general meeting of the holders of shares of the class. The quorum at any such meeting shall be not less than two persons holding or representing by proxy at least one-third of the nominal amount paid up on the issued shares of the class in question and at an adjourned meeting not less than one person holding shares of the class in question or his proxy.

Subject to the terms of issue or rights attached to any shares, the rights or privileges attached to any class of shares shall be deemed not to be varied or abrogated by the creation or issue of any new shares ranking *pari passu* in all respects (save as to the date from which such new shares shall rank for dividend) with or subsequent to those already issued or by the reduction of the capital paid up on such shares or by the purchase or redemption by the Company of its own shares in accordance with the provisions of the Act and the Articles.

4.2.8 Borrowing powers

The Board may exercise all the powers of the Company to borrow money and to mortgage or charge all or any part of its undertaking, property and assets (present and future) and uncalled

capital and, subject to the provisions of the Act, to create and issue debenture and other loan stock and debentures and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Articles do not contain any limit on the amount of Group borrowings.

4.2.9 Changes in capital

Subject to the provisions of the Act, the Company in general meeting may from time to time by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of larger amount than its existing shares, cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the shares so cancelled and sub-divide all or any of its shares into shares of smaller amount. The Company may also, subject to the provisions of the Act and to any rights for the time being attached to any shares, purchase its own shares and, by special resolution, reduce its share capital or any capital redemption reserve or any share premium account in any way.

4.2.10 Issue of shares

Subject to the provisions of the Act and to any special rights for the time being attached to any shares, any shares may be allotted or issued with or have attached to them such preferred, deferred or other special rights or restrictions, whether in regard to dividend, voting, transfer, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Board may determine, and any share may be issued which is, or is liable to be, redeemed at the option of the Company or the holder in accordance with the Articles. Subject to the Act and to any relevant authority of the Company in general meeting required by the provisions of the Act, the unissued shares at the date of adoption of the Articles and any shares created thereafter shall be at the disposal of the Board.

4.2.11 Remuneration of Directors

The Directors (other than alternate Directors) shall be entitled to receive by way of fees for their services as Directors such sum as the Board may from time to time determine (not exceeding in aggregate £300,000 per annum or such other sum as the Company in general meeting shall from time to time determine). Such sum (unless otherwise directed by the resolution of the Company by which it is voted) shall be divided among the Directors in such proportions and in such manner as the Board may determine or, in default of such determination, equally.

The Directors are entitled to be repaid all reasonable travelling, hotel and other expenses, including the obtaining of independent profession advice, properly incurred by them in or about the performances of their duties as Directors.

The salary or remuneration of any Director appointed to hold any employment or executive office may be either a fixed sum of money, or may altogether or in part be governed by business done or profits made or otherwise determined by the Board, and may be in addition to or in lieu of any fee payable to him for his services as Director.

4.2.12 Pensions and gratuities for Directors

The Board may exercise all the powers of the Company to provide and maintain pensions, other retirement or superannuation benefits, death or disability benefits or other allowances or gratuities for persons who are or were directors of any company in the Group and their relatives or dependants.

4.2.13 Directors' interests in contracts

Subject to the provisions of the Act and provided that his interest is disclosed at a meeting of the Board in accordance with the Articles, a Director, notwithstanding his office, may enter into or otherwise be interested in any contract, arrangement, transaction or proposal with the Company or in which the Company is otherwise interested, may hold any other office or place of profit under the Company (except that of auditor of the Company or of a subsidiary of the Company) in conjunction with the office of Director and may act by himself or through his firm in a

professional capacity for the Company, and in any such case on such terms as to remuneration and otherwise as the Board may arrange, and may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any company promoted by the Company or in which the Company is otherwise interested and shall not be liable to account to the Company for any profit, remuneration or other benefit realised by any such office, employment, contract, arrangement, transaction or proposal. No such contract, arrangement, transaction or proposal shall be avoided on the grounds of any such interest or benefit.

4.2.14 Restrictions on Directors voting

Save as provided in the Articles, a Director shall not vote on, or be counted in the quorum in relation to, any resolution of the Board or of a committee of the Board concerning any contract, arrangement, transaction or any other proposal whatsoever to which the Company is or is to be a party and in which he has an interest which (together with any interest of any person connected with him within the meaning of section 346 of the Act) is to his knowledge a material interest otherwise than by virtue of his interests in shares or debentures or other securities or otherwise in or through the Company, unless the resolution concerns any of the following matters:

- (a) the giving of any guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings;
- (b) the giving of any guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security;
- (c) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- (d) any proposal concerning any other body corporate in which he (together with persons connected with him within the meaning described above) does not to his knowledge have an interest (as the term is used in Part VII of the Act) in one per cent or more of the issued equity share capital of any class of such body corporate or of the voting rights available to members of such body corporate;
- (e) any proposal relating to an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (f) any proposal concerning insurance which the Company proposes to maintain or purchase for the benefit of Directors or for the benefit of persons who include Directors.

A Director shall not vote or be counted in the quorum on any resolution of the Board or committee of the Board concerning its own appointment (including fixing or varying the terms of his appointment or its termination) as the holder of any office or place of profit with the Company or any company in which the Company is interested.

4.2.15 Age of Directors

The Articles state that section 293 of the Act applies to the Company and accordingly special notice will be required of any resolution appointing or approving the appointment of a Director who has attained the age of 70.

4.2.16 Number and nationality of Directors

Unless and until otherwise determined by an ordinary resolution of the Company, the number of Directors shall be not less than three nor more than 15. At any time a majority of the Directors must be Qualifying Nationals.

4.2.17 Powers of the Directors and quorum at Board Meetings

Subject to the provisions of the Act, the Memorandum of Association of the Company and the Articles and to any directions given by special resolution of the Company, the business of the Company shall be managed by the Board, which may exercise all the powers of the Company, whether relating to the management of the business or not. No alteration of the Memorandum of Association or of the Articles and no such direction given by the Company shall invalidate any prior act of the Board which would have been valid if such alteration had not been made or such direction had not been given.

The quorum necessary for the transaction of business may be determined by the Board and until otherwise determined shall be three persons, each being a Director or an alternate Director. The Articles provide that no Board meeting will be quorate unless a majority of the Directors present at the relevant Board meeting are UK Nationals.

4.2.18 Directors' indemnification

Subject to the provisions of the Act, every Director, alternate Director, Secretary or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all costs, charges, losses, damages and liabilities incurred by him in the actual or purported execution or discharge of his duties or exercise of his powers or otherwise in relation thereto, including (without prejudice to the generality of the foregoing) any liability incurred in defending any proceedings (whether civil or criminal) which relate to anything done or omitted or alleged to have been done or omitted by him as an officer or employee of the Company, and in which judgment is given in his favour or in which he is acquitted or in connection with any application under the Act in which relief is granted to him by any court of competent jurisdiction.

4.2.19 Directors' appointment and retirement by rotation

Directors may be appointed by the Company by ordinary resolution or by the Board. If appointed by the Board, a Director holds office only until the next annual general meeting and shall not be taken into account in determining the number of Directors who are to retire by rotation. Unless otherwise determined by the Company by ordinary resolution, the number of Directors (other than alternate Directors) shall not be less than three nor more than fifteen. A Director shall not be required to hold any shares in the Company.

For so long as easyJet Holdings Limited and/or Stelios Haji-Ioannou (the "Controlling Shareholders") directly or indirectly hold in aggregate at least 25 per cent of the issued ordinary share capital of the Company and the Company is entitled to continue to use the easyJet brand under the terms of the brand licence (details of which are set out in paragraph 14 of this Part VII), the Controlling Shareholders (or either of them) shall be entitled to appoint any two persons to be non-executive Directors of the Company and in addition Stelios Haji-Ioannou shall be entitled to be the Chairman of the Board and of the Company. For so long as the Controlling Shareholders directly or indirectly hold in aggregate at least ten per cent of the issued ordinary share capital of the Company and the Company is entitled to continue to use the easyJet brand under the terms of the brand licence (as referred to above), Stelios Haji-Ioannou shall be entitled to be the Chairman of the Board and of the Company.

At each annual general meeting of the Company one third of the Directors who are subject to retirement by rotation will retire by rotation and be eligible for re-election. Subject to the Act and to the Articles, the Directors to retire will, first, be any Director who wishes to retire and not offer himself for re-election and secondly, will be those who have been longest in office since their last appointment or re-appointment, but as between those who have been in office an equal length of time, or those to retire shall (unless they otherwise agree) be determined by lot.

4.2.20 Untraced shareholders

Subject to the Articles, the Company may sell any shares in the Company registered in the name of a member remaining untraced for 12 years who fails to communicate with the Company following advertisement of an intention to make such a disposal given in accordance with the Articles. Until the untraced member claims such net proceeds of sale they will be available for use in the business of the Company or for investment, in either case at the discretion of the Board and will not carry interest.

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4.2.21 Non-UK shareholders

Non-UK shareholders are not entitled to receive notices of general meetings unless they have given an address in the UK to which such notices may be sent.

4.2.22 CREST

CREST is a paperless settlement system enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by a written instrument. The Articles are consistent with CREST membership and, amongst other things, allow for the holding and transfer of shares in uncertificated form. The Company currently anticipates entering the CREST system on Admission.

5. DIRECTORS' AND OTHER INTERESTS

- 5.1 As at the date of this document and immediately after Admission but excluding the share options referred to in paragraphs 5.2 and 5.3 below the interests of the Directors and their immediate families all of which, unless otherwise stated, are beneficial, in the issued ordinary share capital of easyJet plc, which have been notified by each Director to easyJet plc pursuant to Sections 324 or 328 of the Act, or are required to be entered in the register of directors' interests maintained pursuant to section 325 of the Act, or are interests of a person connected with a Director which would, if the connected person were a Director, be required to be disclosed under this paragraph and the existence of which is known to or could with reasonable diligence be ascertained by that Director will be as follows:

Director	Number of Ordinary Shares before Admission and completion of the Global Offering	% of issued ordinary share capital before Admission and completion of the Global Offering	Number of Ordinary Shares following Admission and completion of the Global Offering	% of issued ordinary share capital following Admission and completion of the Global Offering
Stelios Haji-Ioannou.....	186,586,920	100	186,576,920	74.5

This assumes that the full 10,000 Ordinary Shares are given to employees who were present at the time of the first flight and key suppliers and that the Over-allotment Option is not exercised.

Ray Webster and Nick Hartley are interested in 650,000 and 38,362 shares respectively of easyJet Holdings Limited, the parent company of easyJet plc (see "Business of easyJet – Principal shareholders").

The Ordinary Shares held by the Directors immediately following Admission and completion of the Global Offering will be subject to the lock-up arrangements detailed in Part II of this document.

- 5.2 In addition, options have been granted to Directors pursuant to the Pre-Flotation Share Option Schemes as follows:

Directors	No. of Ordinary Shares under Option	Exercise Price per Ordinary Share
Ray Webster	4,381,742	£1.82
Amir Eilon	3,286,305	£1.82
Vilhelm Hahn-Petersen	1,063,894	£1.82
Chris Walton	531,947	£1.82
Mike Cooper.....	531,947	£1.82
Keith McMann.....	306,402	£2.05
Nick Hartley	105,336	£1.82
Colin Day	12,992	£2.28
Tony Illsley	12,992	£2.28

These options are exercisable as to 25 per cent on Admission, 25 per cent one year after Admission, 25 per cent two years after Admission and 25 per cent three years after Admission, except in the case of Amir Eilon whose options vest in full on Admission but are not exercisable until two years after Admission.

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- 5.3 In addition, John Quelch will be granted options over 12,992 Ordinary Shares under the Pre-Flotation Share Option Schemes on Admission at an exercise price equal to the Global Offering Price and Nick Hartley and Vilhelm Hahn-Petersen will be allotted Ordinary Shares to the value of £20,000 and £70,000 respectively, under the Share Bonus Scheme.
- 5.4 Save as disclosed above, none of the Directors, nor persons connected with the Directors within the meaning of section 346 of the Act, will at Admission have any interest whether beneficial or non-beneficial in any of the share capital of easyJet plc or any of its subsidiaries.
- 5.5 In addition to the interests of the Directors disclosed in paragraph 5.1 above, the Directors are aware of the following existing shareholder who, directly or indirectly, will be interested in 3 per cent or more of the issued share capital of easyJet plc immediately following Admission:

Name	Number of Ordinary Shares	Percentage of enlarged issued ordinary share capital (assuming no exercise of the Over-allotment Option)
easyJet Holdings Limited	186,576,920	74.5

This assumes that the full 10,000 Ordinary Shares are given to initial employees who were present at the time of the first flight and key suppliers and no exercise of the Over-allotment Option.

- 5.6 Save for the assignment of intellectual property rights to easyGroup IP Licensing and the licence back which is described in more detail in section 14 of this Part VII, no director of easyJet plc, or any of its subsidiaries has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of easyJet plc or any of its subsidiaries and which was effected by easyJet plc or any of its subsidiaries during the current or immediately preceding financial year or which was effected before then and remains in any respect outstanding or unperformed.

6. DIRECTORS' REMUNERATION AND TERMS AND CONDITIONS

- 6.1 The Executive Directors have been issued with contracts of employment by easyJet UK, which set out their basic terms and conditions of employment (the "Terms and Conditions") with easyJet UK and which govern their appointments with easyJet plc.
- 6.2 Details of Executive Directors who have entered into the Terms and Conditions are set out below together with details of their remuneration:

Director	Date of contracts of employment	Remuneration per annum
Ray Webster	14 November 2000	£210,000
Chris Walton	14 November 2000	£130,000
Mike Cooper.....	14 November 2000	£130,000
Vilhelm Hahn-Petersen	14 November 2000	£140,000
Keith McMann.....	14 November 2000	£90,000

- 6.3 All Executive Directors are entitled to participate in the pension scheme of easyJet plc. easyJet plc will contribute 7 per cent of the Directors' annual salary to the pension scheme. All of the Executive Directors are entitled to be paid an annual bonus dependent upon assessment of a combination of personal goals and Company performance in the previous year of 25 per cent of their annual salary and in the case of Ray Webster up to 50 per cent of his annual salary. Employment of the Executive Directors is terminable by either party on six months' notice. All of the Executive Directors are subject to restrictive covenants and confidentiality undertakings which are applicable upon termination of their employment.
- 6.4 Ray Webster has an agreement with Air New Zealand that he will perform 2 weeks consultancy services each year in return for employer and employee contributions to a pension and free flights to New Zealand for him and his family. Ray Webster has an interest free loan of US\$650,000 from easyJet Holdings Limited which had been made available to him to purchase his shares in easyJet Holdings Limited. He also had a consultancy agreement with easyJet Holdings Limited. On 14 November 2000 Ray Webster and easyJet Holdings Limited agreed with effect from Admission to terminate the consultancy

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arrangement in respect of which easyJet Holdings Limited will pay Ray Webster US\$125,000 and Ray Webster agreed to repay the loan using funds lent by UBS AG (acting through its Private Banking operation) on an arm's length basis under a loan facility dated 14 November 2000 for the sterling equivalent of US\$650,000. First Island Management Limited is guaranteeing Ray Webster's liabilities under the new loan facility referred to above, and has executed a charge over his shares in favour of UBS AG in support of that guarantee. It is anticipated that legal and/or beneficial interest in his shares subject to the charge may be transferred to another company owned or controlled, directly or indirectly, by Ray Webster or subject to his instruction.

- 6.5 Stelios Haji-Ioannou, Amir Eilon, Nick Hartley, Tony Illsley, Colin Day and John Quelch are Non-Executive Directors. Tony Illsley, Colin Day, Amir Eilon, Nick Hartley and John Quelch have all been appointed Non-Executive Directors for a period of three years and are entitled to £30,000 per annum plus expenses. All the Non-Executive Directors are also subject to restrictive covenants (Stelios Haji-Ioannou's being contained in the Relationship Agreement and Brand Licence). Stelios Haji-Ioannou has agreed to be the Chairman of the Company under the terms of the Relationship Agreement and will not draw any director's fees or receive any reimbursement of expenses for his services.
- 6.6 Save as mentioned above, there are no service agreements between any Director and any member of the Group other than agreements expiring or determinable by the employing company without payment of compensation (other than statutory compensation and damages in respect of unexpired notice) within one year and no such contracts are proposed.
- 6.7 The total aggregate of the remuneration paid, and benefits in kind, granted to the Directors of the Company by any member of the Group during the last completed financial year was £734,000. This figure represents the Directors' salaries, bonuses and pension contributions made on their behalf by the Company.
- 6.8 It is estimated that the aggregate amounts payable to the Directors under the arrangements in force at the date of this document from any member of the Group in respect of the year ended 30 September 2001 will be £1,070,000. This figure is calculated assuming that there will be no increase in salaries. A review of salaries is due in December 2000 for all Directors other than Ray Webster, whose salary will be reviewed in April 2001.

7. SHARE OPTION SCHEMES

Company Share Option Schemes, Share Bonus Scheme and Share Gift

7.1 easyJet Key Employee Pre-Flotation Share Option Scheme (the "UK Pre-Flotation Scheme")

The UK Pre-Flotation Scheme was adopted on 29 February 2000 by easyJet Holdings Limited and is not approved by the Inland Revenue. No further options will be granted under this scheme. Options were granted by easyJet Trustees Limited on 29 February 2000 and 26 September 2000 to employees of the Group including the Directors, management, administrative staff and pilots. The price payable for each Ordinary Share on the exercise of an option will be £1.82 in respect of 22,984,983 shares, £2.05 in respect of 2,024,330 shares, £2.28 in respect of 912,600 shares and £3.10 in respect of 12,992 shares. If the new Non-Executive Director is appointed prior to Admission he will be granted options at an exercise price equal to the Global Offering Price in respect of 12,992 shares.

The principal terms of the UK Pre-Flotation Share Option Scheme are as follows:

7.1.1 *When options may be exercised*

Options are normally only exercisable to the extent that they have vested. With the exception of Amir Eilon's options, which vest in full on Admission but which only become exercisable on the second anniversary of Admission, options vest as follows:

Date	Percentage of option shares vesting
Admission	25%
1st anniversary of Admission	25%
2nd anniversary of Admission	25%
3rd anniversary of Admission	25%

In the event that Admission has not occurred before the seventh anniversary of the deemed date of grant in respect of the grants noted above, all options will vest in full (in February 2007, September 2007 and September 2007).

Ordinary Shares acquired when options are exercised within two years of Admission may not generally be sold until the second anniversary of Admission (except that enough Ordinary Shares may be sold to satisfy the exercise price, any tax or employee's national insurance liability and any employers' NICs, if any, which the employers have agreed to bear which arise on exercise.)

Where options are exercised after the second anniversary of Admission, all Ordinary Shares received may be sold immediately, subject to the provisions of the Company's code on security transactions.

In normal circumstances, an option is only exercisable whilst the optionholder is still a director or employee of the Group. Where the optionholder ceases to be a director or employee of the Group (and this is due to reasons other than death, disability or redundancy), the option becomes exercisable over all Ordinary Shares under option which have vested at the date of termination of employment and over further Ordinary Shares only at the Board's discretion for a period specified by the Board. The Board has exercised its discretion to allow four option holders who are no longer employees of the Group, namely Nick Manoudakis, James Rothnie, George Karageorgiou and George Charalambous, to retain their options for such period as would have applied had they continued to be employed by the group. All these individuals were actively involved in easyJet during its formative period. Nick Manoudakis and James Rothnie now work for easy Group (UK) Limited and George Karageorgiou and George Charalambous work for easyJet Holdings Limited as well as Stelinvest Inc. They hold respectively options over 106, 106 Ordinary Shares, 57,738 Ordinary Shares, 83,632 Ordinary Shares and 11,711 Ordinary Shares and will be allotted Ordinary Shares under the Share Bonus Scheme worth £106,500, £32,500, £125,000 and £18,500 respectively.

If an optionholder ceases to be employed by the Group by reason of death, disability or redundancy, his/her option may be exercised in full by the optionholder (or his/her personal representatives) within a period specified by the Board.

Special provisions also allow for early exercise in the event of a take-over, reconstruction or winding up of the Company. Alternatively options may, by agreement with the acquiring company, be rolled over into equivalent options over shares in the acquiring company.

No option may be exercised more than 10 years after its date of grant.

7.1.2 Transfer and other rights

Options granted under the UK Pre-Flotation Scheme are personal to the optionholder and may not be transferred, assigned or charged.

Options under the UK Pre-Flotation Scheme shall not be pensionable.

7.1.3 Amendment

The Board (with the approval of the Trustee) may amend the UK Pre-Flotation Scheme at any time. However, no amendment may be made which would materially adversely affect any of the subsisting rights of optionholders, unless optionholders holding options over three quarters of the total number of Ordinary Shares under option consent in writing to the amendment.

7.2 easyJet Switzerland Key Employee Pre-Flotation Share Option Scheme (the "Swiss Pre-Flotation Scheme")

The terms of the Swiss Pre-Flotation Scheme are largely identical to those of the UK Pre-Flotation Scheme. Options over 2,533,504 shares were granted under the Swiss Pre-Flotation Scheme to employees of easyJet Switzerland and its subsidiaries on 29 February 2000 at an exercise price of £1.82 per Ordinary Share, options over a further 25,656 shares were granted on 26 September 2000 at an exercise price of £2.05 per Ordinary Share.

7.3 easyJet Share Bonus Scheme (the “Share Bonus Scheme”)

The Share Bonus Scheme was originally implemented in November 1997 by easyJet Holdings Limited and replaced in April 1999. In May 2000 the Company undertook to take over the obligations of easyJet Holdings Limited. Under the Share Bonus Scheme awards of Ordinary Shares with an aggregate value of up to £1,460,625 have been made to 119 individuals.

The Trustee has agreed to satisfy these awards. On vesting the Trustee will transfer, for no consideration, to each participant Ordinary Shares to the value of his award, each Ordinary Share being valued at the price at which an Ordinary Share is sold under the Global Offering.

7.3.1 Conditions for vesting

Vesting of an award is conditional upon:

- (a) the public offering or private placement of 15 per cent or more of the equity of the Company; and
- (b) the participant continuing to be a director or employee of the Group at the date of Admission.

In the event of vesting not having occurred by 1 March 2002, an award of cash equal to half of the value of the original share bonus award will vest on 1 April 2002 for participants in the employment of the Group on 1 April 2002.

7.3.2 Restrictions on sale after vesting has become unconditional

The participant must retain the Ordinary Shares for 24 months following Admission (although a proportion of the Ordinary Shares may be sold to cover the cost of any tax liability and any employees NIC's arising on vesting).

7.4 easyJet Share Gift

Certain employees of the Group have been granted, for no consideration, awards of a total of up to 838,607 Ordinary Shares of which up to 478,712 Ordinary Shares vest on Admission and up to 359,895 Ordinary Shares vest on the first anniversary of Admission for a participant who is in the employment of the Group on the first anniversary of Admission. The Trustee has agreed to satisfy these awards. On vesting the Trustee will transfer, for no consideration, the number of Ordinary Shares gifted to each employee at the price at which an Ordinary Share is sold under the Global Offering.

7.4.1 Vesting of the award is conditional upon:

- (a) the public offering or private placement of 15 per cent or more of the equity of the Company; and
- (b) the employee continuing to be an employee of the Group at the date of Admission.

7.4.2 Restrictions on sale after vesting has become unconditional

Employees whose share gift vests on Admission must retain the Ordinary Shares for 24 months following Admission although a proportion of the Ordinary Shares may be sold to cover any tax liability and any employees' NIC's arising on vesting. Employees whose share gift vests on the first anniversary of Admission must retain the Ordinary Shares for 12 months following vesting although a proportion of the Ordinary Shares may be sold to cover any tax liability and any employees' NIC's arising on vesting.

New Share Schemes

7.5 easyJet Approved Discretionary Share Option Scheme 2000 (the “Approved Scheme”)

On 28 October 2000 the Company adopted the Approved Scheme, which has been submitted for approval by the Inland Revenue under Schedule 9 to the Income and Corporation Taxes Act 1988.

The principal terms of the Approved Scheme are as follows:

7.5.1 Eligibility

The Directors (or a trustee of any trust which holds Ordinary Shares) may select any full-time director (full-time is if he/she is obliged to devote not less than 25 hours a week to the performance of his/her duties) or any employee of any member of the Group to participate in the Approved Scheme.

7.5.2 Scheme Limit

In any 10 year period not more than 10 per cent of the issued ordinary share capital of the Company may be made subject to options under the Approved Scheme or any other share option scheme or share incentive scheme operated by the Company. Any options over Ordinary Shares which are already issued or options which lapse are disregarded for the purpose of this limit.

7.5.3 Individual Limit

The aggregate market value (as at the date of grant) of Ordinary Shares which may be acquired in pursuance of subsisting options granted to any participant under the Approved Scheme (and any other approved executive share option scheme of the Company or an associated company) may not exceed £30,000.

7.5.4 Grant of options

Options to acquire Ordinary Shares may generally only be granted in the period of 42 days commencing on the day following the occurrence of any of the following events:

- (a) the approval of the Approved Scheme or any amendment by the Inland Revenue; or
- (b) an announcement by the Company of its results for any year, half year or other period, or the issue by the Company of a prospectus, listing particulars or similar document; or
- (c) a day on which an announcement is made of an amendment or amendments to be made to the relevant tax legislation or a day on which any such amendments come into force,

or in relation to the grant of an option to an individual, a period of 42 days commencing on the day on which that individual became an eligible employee.

Options may also be granted outside those periods in exceptional circumstances if the Directors so decide.

7.5.5 Exercise price

The price payable for each Ordinary Share on the exercise of an option is to be determined on the date on which the option is granted. This price shall be:

- (a) the average middle market quotation of an Ordinary Share for the five dealing days immediately preceding the date of grant as derived from the Daily Official List of the London Stock Exchange; or
- (b) if greater, and Ordinary Shares are to be subscribed, the nominal value of an Ordinary Share.

7.5.6 When options may be exercised

In normal circumstances, an option is only exercisable whilst the optionholder is still a director or employee of any member of the Group participating in the Approved Scheme. On granting an option, the Directors (or trustee where relevant) have absolute discretion to determine any date(s) between the first and tenth anniversaries of the date of grant when the option shall first become exercisable in whole or in part. Early exercise is allowed by personal representatives within a one year period of an optionholder's death. If an optionholder ceases to be employed within the Group by reason of injury, ill-health, disability, redundancy or retirement, the transfer of the undertaking in which the optionholder is employed to a person outside the Group or the company by which the optionholder is employed ceasing to be under the control of the Company, then early exercise is permitted within a six month period after such cessation. If an optionholder ceases

employment for any other reason his option will lapse unless the Directors (or trustee where relevant) in their absolute discretion decide otherwise.

A performance condition or conditions may be set at the date when the option is granted. Any performance condition(s) must be such that significant and substantial improvement in the underlying financial performance of the Group is required. The performance condition(s) may, in specified circumstances, be amended or waived.

Special provisions also allow early exercise in the event of a take-over, reconstruction or winding-up of the Company. Alternatively, options may, by agreement with the acquiring company, be rolled over into equivalent options over shares in the acquiring company.

No option may be exercised more than 10 years after its date of grant.

7.5.7 Amendment

The Directors may amend the Approved Scheme at any time. However, following Admission, the prior approval of the Company in general meeting must be obtained in the case of amendments which are to the advantage of optionholders or eligible employees except that any amendment or addition to the Approved Scheme which the Directors consider necessary or desirable to benefit the administration of the Approved Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for optionholders, the Company or any other member of the Group, may be made by resolution of the Directors without the need for prior approval of the Company in general meeting.

No amendment may be made which would adversely affect any of the subsisting rights of optionholders unless the Directors have invited such optionholders to indicate whether they approve such amendment and such amendment is approved by a three quarters majority of those optionholders who have given such indication.

Any amendment to the Approved Scheme requires Inland Revenue approval if the Directors wish the Approved Scheme to retain its approved status.

7.5.8 Termination

Unless previously terminated by a resolution of the Directors or a resolution of the Company in general meeting, the Approved Scheme shall terminate 10 years from the date of its approval by the Inland Revenue and no option may be granted thereafter.

7.6 The easyJet Non-Approved Discretionary Share Option Scheme 2000 (the “Non-Approved Scheme”)

The Non-Approved Scheme was adopted by the Company on 28 October 2000. The Non-Approved Scheme will not be approved by the Inland Revenue. The rules of the Approved Scheme, other than those specifically relating to Inland Revenue approval, also generally apply to the Non-Approved Scheme.

The principal differences are as follows:

7.6.1 Eligibility

Any Director or employee of any member of the Group or of easyJet Switzerland, easyJet Tours SARL and easyTech may be selected to participate in the Non-Approved Scheme.

7.6.2 Individual Limit

In any year no individual may be granted an option or options which would, if exercised in full, require him/her to pay an aggregate amount in excess of 200 per cent of his/her total remuneration (including bonuses) or 400 per cent in an employee’s first year of employment.

7.6.3 National Insurance Contributions

An optionholder must unconditionally and irrevocably agree to indemnify the Company and each participating company against any employers’ National Insurance contributions which may arise as a consequence of or in connection with the exercise of his/her option.

7.7 easyJet All-Employee Share Ownership Plan (the “AESOP”)

This plan was adopted on 28 October 2000 and has been submitted for approval by the Inland Revenue under Schedule 8 to the Finance Act 2000. The principal features of the AESOP are set out below.

7.7.1 Operation

The AESOP will provide employees with the opportunity to receive Ordinary Shares in one or more of three ways:

- ▶ each time an invitation is made, participants may choose to allocate from their salary up to £125 a month to buy Ordinary Shares (“Partnership Shares”);
- ▶ the Company may match Partnership Shares acquired with free shares (“Matching Shares”). Whether the Company will match Partnership Shares and the matching ratio (which may not exceed two Matching Shares for each Partnership Share) will be announced when an invitation to acquire Partnership Shares is made; and
- ▶ as a separate opportunity from Partnership and Matching Shares, the Company may award up to £3,000 of free shares (“Free Shares”) to each eligible employee in any tax year. The award of Free Shares can be dependent on individual, business unit or corporate performance.

7.7.2 Participation

All UK resident employees and full time directors of the Group who have completed a specified period of continuous service are eligible to participate in the AESOP. The Directors have the discretion to allow non-UK employees also to participate.

7.7.3 Partnership Shares

When offering Partnership Shares, the Company may determine a savings period which may not exceed 12 months. This period is known as the “accumulation period”, in which employees may choose to allocate a specified amount (not exceeding £125 per month or 10 per cent of taxable salary (if less)) of their pre-tax salary for the purchase of Ordinary Shares. Payment will be made by way of monthly payroll deductions to the trustees of the easyJet All-Employee Share Ownership Plan Trust (the “Trust”).

Within 30 days of the end of each accumulation period, the trustees of the Trust will purchase Partnership Shares on behalf of the participants. The number of Partnership Shares received by a participant is determined by reference to the accumulated savings divided by the lower of the market value of Ordinary Shares at the beginning and end of the accumulation period.

Alternatively, there may be no accumulation period and deductions from salary will then be applied by the trustee in acquiring Ordinary Shares within 30 days of each deduction.

After Partnership Shares have been acquired on behalf of a participant, they may be withdrawn from the AESOP at any time.

7.7.4 Matching Shares

The Company may decide at its discretion to offer Matching Shares to participants who purchase Partnership Shares, the ratio not to exceed two Matching Shares for each Partnership Share. The Matching Share ratio will be notified to employees before they enter into a Partnership Share Agreement.

Matching Shares must be subject to a holding period of anything between three and five years.

7.7.5 Free Shares

Each year at the discretion of the Company an award of Free Shares may be offered to all eligible employees. No employee may receive an award of more than £3,000 in any tax year. The Company will determine in respect of each award whether that award is to be dependent on the achievement of performance targets before Free Shares can be received.

An award will be subject to a holding period during which the Free Shares must be held in the AESOP. The holding period must be between three years and five years.

Shares must be offered on similar terms that will vary only in accordance with remuneration length of service and performance. For any award of Free Shares which depends on the achievement of performance targets, the Company will notify participants of the target or targets, and Free Shares will only be awarded to the extent those targets are met.

7.7.6 *Reinvestment of dividends*

The AESOP provides that, at the direction of the Company, all dividends in respect of a participant's Ordinary Shares held in the AESOP may be applied in acquiring further Ordinary Shares on his behalf ("Dividend Shares") provided that the amount so applied may not exceed £1,500 per year. The holding period during which Dividend Shares must generally remain in the AESOP is three years.

7.7.7 *Share acquisitions*

The Trustees may either subscribe for or purchase Ordinary Shares for the purpose of the AESOP. In any 10 year period not more than 10 per cent of the Company's issued ordinary share capital may be issued or become issuable pursuant to the AESOP and any other employee share scheme.

Whilst a participant's Ordinary Shares remain held by the Trustees, he or she will be the beneficial owner and will be entitled to receive dividends, and through the Trustees, to vote, to participate in rights and capitalisation issues and to elect to receive scrip dividends in substantially the same way as other shareholders.

Adjustments may be made to rights in such a manner as the Company's auditors confirm to be fair and reasonable to reflect, inter alia, capitalisation or rights issues.

7.7.8 *Other*

Basic salary before Partnership Share savings deductions will be pensionable. Any benefits under the AESOP will not be taken into account for the pension entitlements of any participant.

Participants who cease employment are not entitled to compensation for any loss which may arise as a result of ceasing to participate or to be able to participate in the AESOP.

7.7.9 *Admission to listing and terms of issue*

Application will be made to the London Stock Exchange at the appropriate time for admission to the Official List of any new Ordinary Shares issued under the AESOP. Any Ordinary Shares allotted will rank equally with all other issued Ordinary Shares of the Company save that if the Ordinary Shares are allotted after the record date for a dividend, rights issue or other distribution, the Ordinary Shares will not be entitled to participate in the relevant dividend, right issue or other distribution.

7.7.10 *Amendments*

With the prior approval of the Inland Revenue, the Board of Directors may at any time alter or add to the key features of the rules of the AESOP or the terms of any award made under it. The Board may amend the non-key features of the AESOP without Inland Revenue approval. However, any provisions relating to:

- the persons to whom Ordinary Shares are provided under the AESOP;
- the limitations on the number of Ordinary Shares subject to the AESOP; and
- the maximum entitlement of any one participant under the AESOP (other than to take account of increases in limits imposed by relevant tax legislation),

cannot be altered to the advantage of participants without the prior consent of the shareholders of the Company in general meeting (except for minor amendments to benefit the administration of the AESOP and any amendments to take account of a change of legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants, the Company, any subsidiary or the trustees of the Trust).

8. TAXATION

8.1 UK taxation

The following is only a general guide, based on current legislation and practice, to the UK tax position of UK residents holding their shares (otherwise than under a PEP or ISA) as investments and not as trading stock. Any person who is in any doubt as to his tax position should consult an appropriate professional adviser.

8.1.1 *Dividends*

No tax is withheld from dividends paid by easyJet plc.

Individuals resident in the UK for taxation purposes are generally liable to income tax on the aggregate amount of a dividend and a tax credit equal to one-ninth of the dividend. For example, on a dividend of £90, the tax credit would be £10, and an individual would be liable to income tax on £100. No further income tax is payable in respect of the dividend by UK resident individuals who are not liable to income tax at the higher rate. UK resident individuals who are subject to tax at the higher rate (currently, 40 per cent) have to pay additional tax on a dividend to the extent that tax at the rate applicable to dividends for such shareholders (currently, 32.5 per cent) on the aggregate of the dividend and tax credit exceeds the tax credit. For example, on a dividend of £90, such a taxpayer would have to pay additional tax of £22.50. For this purpose, dividends are treated as the top slice of an individual's income.

No repayment of the tax credit in respect of dividends can be claimed by a UK resident shareholder, except where the shares are held in a Personal Equity Plan or an Individual Savings Account. In such a case, a claim can be made for repayment in respect of dividends paid before 6 April 2004. Special rules apply to dividends received by charities before 6 April 2004.

UK resident discretionary trusts liable to income tax at a rate of 34 per cent on trust income have to pay additional tax on a dividend to the extent that tax at the rate applicable to dividends for such trusts (currently, 25 per cent) on the aggregate of the dividend and tax credit exceeds the tax credit. Other UK resident trusts have no further tax liability on dividends.

UK resident corporate shareholders (other than dealers and certain insurance companies) are not liable to corporation tax or income tax in respect of dividends.

Shareholders not resident in the UK are normally neither subject to any further UK tax liability nor entitled to the benefit of a tax credit in respect of any dividend received. A UK tax liability will apply where, exceptionally, a non-resident individual's investment in the Company is managed by a UK investment manager acting on non-arm's length terms. Special rules apply to non-UK resident discretionary trusts in receipt of UK dividends.

Non-UK resident shareholders may also be subject to tax on dividend income under any law to which they are subject outside the UK. Such a shareholder should consult his own tax adviser on the incidence of taxation in the country in which he is resident, whether he is entitled to the benefit of any tax credit and the procedure for claiming payment.

8.1.2 *Capital Gains Tax*

A disposal of Ordinary Shares by a shareholder resident or ordinarily resident for tax purposes in the UK or a shareholder who carries on a trade, profession or vocation in the UK through a branch or agency and has used, held or acquired the Ordinary Shares for the purposes of such trade, profession or vocation or such branch or agency may, depending on the shareholder's circumstances, and subject to any available exemptions, allowances or reliefs, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains. Special rules apply to disposals by individuals at a time when they are temporarily not resident or ordinarily resident in the UK.

8.1.3 *Stamp Duty and Stamp Duty Reserve Tax*

The following arrangements have been made for the discharge of stamp duty and stamp duty reserve tax. Any stamp duty or stamp duty reserve tax (at the rate of 0.5 per cent of the amount or value of the consideration) payable by placees in respect of the purchase or subscription by them

of Ordinary Shares in the Global Offering will be paid by Credit Suisse First Boston and UBS Warburg on behalf of easyJet plc. Offerees therefore need take no action with regard to such stamp duty or stamp duty Reserve Tax. These arrangements do not apply to any charge to stamp duty or stamp duty reserve tax under section 67, 70, 93 or 96 of the Finance Act 1986, which broadly apply where an offeree is a provider of clearance services or an issuer of depository receipts or a nominee for such a person. Such offerees will be responsible for discharging the whole of their liability to stamp duty or stamp duty reserve tax.

The foregoing summary of the tax position is not exhaustive and takes no account of the position of shareholders not resident in the UK. The decision to purchase Ordinary Shares pursuant to the Global Offering, and the tax and other effects of doing so, are the sole responsibility of the shareholder concerned. Any shareholder who is in doubt about his position should consult his professional adviser.

8.2 United States federal income taxation

The following discussion is a summary of the material US federal income tax consequences of the purchase, ownership and disposition of Ordinary Shares by a US Holder (as defined below). The discussion is based on the Internal Revenue Code of 1986, as amended (the “Code”), US Treasury Regulations promulgated thereunder and judicial and administrative interpretations thereof, all as in effect on the date hereof and all of which are subject to change, possibly retroactively. The discussion is not a full discussion of all tax considerations that may be relevant to a US Holder’s decision to purchase Ordinary Shares. The discussion addresses only US Holders that will hold Ordinary Shares as capital assets and that use the US dollar as their functional currency. The discussion does not address the tax treatment of investors subject to special rules such as banks, broker-dealers, insurance companies, regulated investment companies, tax-exempt entities, dual-resident taxpayers, non-US persons, investors that own directly, indirectly or by attribution 10 per cent or more of easyJet plc’s voting shares and investors holding Ordinary Shares as part of a hedging, straddle, conversion, constructive sale or similar transaction.

Prospective investors are urged to consult their tax advisers regarding the US federal, state, local and foreign tax consequences to them of an investment in Ordinary Shares.

As used in this discussion, the term “US Holder” means a beneficial owner of Ordinary Shares that does not maintain a “permanent establishment” or “fixed base” in the UK, as such terms are defined in the UK-US income tax treaty (the “UK-US Treaty”), and that is either (i) an individual citizen or resident of the United States, (ii) a corporation organised in or under the laws of the United States or a political subdivision thereof, (iii) a trust subject to the control of a US person and the primary supervision of a US court, (iv) an estate the income of which is subject to US federal income taxation regardless of its source or (v) a partnership, to the extent the interests therein are beneficially owned by any of the persons described in clauses (i), (ii), (iii) or (iv) above.

8.2.1 *Dividends*

(a) General

As discussed under the heading “Dividend policy” in Part III of this document, easyJet plc does not anticipate paying any dividends in the foreseeable future. However, if easyJet plc were to pay dividends then, subject to the passive foreign investment company rules discussed below, the amount of any dividends paid out of current and/or accumulated earnings and profits, as determined under US tax principles, will be included in the gross income of a US Holder on the day such dividends are actually or constructively received and will be characterised as ordinary income for US federal income tax purposes. To the extent that a dividend distribution exceeds easyJet plc’s current and accumulated earnings and profits, it will be treated as a non-taxable return of capital to the extent of a US Holder’s adjusted basis in the Ordinary Shares, and thereafter as capital gain. easyJet plc does not currently maintain calculations of its earnings and profits under US tax principles. Dividends paid by easyJet plc to corporate US Holders will not be eligible for the dividends-received deduction that might otherwise be available if such dividends were paid by a US corporation.

(b) Foreign Currency Considerations

Dividends paid by easyJet plc in pounds sterling will be included in a US Holder's income when the distribution is actually or constructively received by the US Holder. The amount of the dividend distribution includible in the income of a US Holder will be the US dollar value of the pounds sterling, determined by the spot rate of exchange on the date of the distribution, regardless of whether the pounds sterling are actually converted into US dollars at such time. If the pounds sterling received as a dividend are not converted into US dollars on the date of receipt, then a US Holder may realise exchange gain or loss on a subsequent conversion of such pounds sterling into US dollars. The amount of any gain or loss realised in connection with a subsequent conversion will be treated as ordinary income or loss and generally will be treated as US-source income or loss for foreign tax credit purposes.

(c) UK Withholding Tax/Foreign Tax Credits

A US Holder that is eligible to receive benefits under the UK-US Treaty is generally entitled to claim a refund from the UK Inland Revenue for the amount of the tax credit that a UK resident individual would be entitled to receive with respect to a dividend payment (the "Tax Credit Amount"), reduced by the amount of UK withholding tax ("UK Notional Withholding Tax") imposed (currently 15 per cent) on the sum of the actual dividend payment and the Tax Credit Amount. Under present law, the Tax Credit Amount will equal that amount of UK Notional Withholding Tax imposed on dividends paid by easyJet plc and, therefore, no such refund is available. However, a US Holder may claim a foreign tax credit for the amount of UK Notional Withholding Tax associated with a dividend paid by easyJet plc by filing a Form 8833 in accordance with administrative guidance recently issued by the US Internal Revenue Service (the "IRS") in Revenue Procedure 2000-13 (effective as of 7 February 2000). US Holders that file Form 8833 will be treated as receiving an additional dividend from easyJet plc equal to the Tax Credit Amount (unreduced by the UK Notional Withholding Tax), which additional dividend must be included in the US Holder's gross income, and will be treated as having paid the applicable UK Notional Withholding Tax due under the UK-US Treaty. For purposes of calculating the foreign tax credit, dividends paid on the Ordinary Shares will be treated as non-US source income and generally will constitute "passive income" or, in the case of certain US Holders, "financial services income". In lieu of claiming a foreign tax credit, a US Holder may be eligible to claim a deduction for foreign taxes paid in a taxable year. However, a deduction generally does not reduce a US Holder's US federal income tax liability on a dollar-for-dollar basis like a tax credit.

The rules relating to foreign tax credits are complex and US Holders are urged to consult their tax advisers to determine whether and to what extent a foreign tax credit might be available in connection with dividends paid on the Ordinary Shares.

8.2.2 *Capital gains*

(a) General

Subject to the passive foreign investment company rules described below, a US Holder generally will recognise capital gain or loss on the sale or other disposition of the Ordinary Shares in an amount equal to the difference between the amount realised in such sale or disposition and the US Holder's adjusted tax basis in the Ordinary Shares. Such capital gain or loss will be long-term capital gain or loss if a US Holder has held the Ordinary Shares for more than one year and generally will be US-source income for foreign tax credit purposes. Long-term capital gains realised by an individual US Holder on a sale or other disposition of Ordinary Shares are generally subject to reduced rates of taxation. The deductibility of capital losses is subject to limitations. A US Holder that receives foreign currency upon the sale or other disposition of the Ordinary Shares generally will realise an amount equal to the US dollar value of the foreign currency on the date of sale (or, if the shares are traded on an established securities market, in the case of cash basis taxpayers and electing accrual basis taxpayers, the settlement date). A US Holder will have a tax basis in the foreign currency received equal to the US dollar amount realised. Any gain or loss realised by a US Holder on a subsequent conversion or other disposition of foreign currency will be ordinary income or loss and will generally be US-source income for foreign tax credit purposes.

8.2.3 *Passive Foreign Investment Company Rules*

Special US tax rules apply to US shareholders in companies that are considered passive foreign investment companies, which are referred to herein as PFIC's. easyJet plc will be classified as a PFIC in a particular taxable year if either:

- ▶ 75 per cent or more of its gross income is passive income; or
- ▶ the average percentage of the value of its assets that produce or are held for the production of passive income is at least 50 per cent. Cash balances, even if held as working capital, are considered to be passive.

easyJet plc expects to derive sufficient operating revenues and to hold sufficient operating assets, so that it will not be classified as a PFIC. However, classification as a PFIC will depend on factors that are not entirely within its control and, therefore, easyJet plc can give no assurance that it will not be classified as a PFIC. In the event that easyJet plc is classified as a PFIC in any year, a US Holder can elect to mark its Ordinary Shares to market. If a US Holder makes a mark-to-market election, it will be required in any year in which easyJet plc is a PFIC to include as ordinary income the excess of the fair market value of its Ordinary Shares at year-end over its basis in those Ordinary Shares. In addition, any gain it recognises upon the sale of its Ordinary Shares will be taxed as ordinary income in the year of sale.

If easyJet plc is determined to be a PFIC and a US Holder does not make a mark-to-market election, it will be subject to a special tax at ordinary income tax rates on "excess distributions", including certain distributions by easyJet plc and gain on the sale of its Ordinary Shares. The amount of income tax on excess distributions will be increased by an interest charge to compensate for tax deferral, calculated as if excess distributions were earned ratably over the period it holds its Ordinary Shares. Classification as a PFIC may also have other adverse tax consequences, including in the case of individuals, the denial of a step-up in the basis of such individual's Ordinary Shares at death.

US Holders should consult their tax advisers regarding the US federal income tax considerations discussed above and the desirability of making a mark-to market election.

8.2.4 *Backup withholding and information reporting*

Dividend payments made with respect to Ordinary Shares and proceeds received in connection with the sale or other disposition of Ordinary Shares may be subject to information reporting to the IRS and backup withholding at a 31 per cent rate. Backup withholding will not apply, however, if a US Holder (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates such fact or (ii) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding and otherwise complies with applicable backup withholding rules. Persons required to establish their exempt status generally must provide such certification on IRS Form W-9 or Form W-8BEN (as applicable). US Treasury Regulations applicable to dividend payments made or sales proceeds received after 31 December 2000 generally expand the circumstances under which information reporting and backup withholding may potentially apply. Amounts held as backup withholding may be credited against a holder's US federal income tax liability, and a holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS and furnishing any required information.

9. GLOBAL OFFERING ARRANGEMENTS

On 15 November 2000, the Company, the Directors, easyJet Holdings Limited, the Joint Sponsors and the Underwriters entered into the Sponsors' and Underwriting Agreement. Pursuant to the Sponsors' and Underwriting Agreement *inter alia*:

- 9.1 the Company agreed, subject to certain conditions, to issue and allot, at the Global Offering Price, the New Ordinary Shares to be issued in connection with the Global Offering;
- 9.2 the Underwriters agreed, subject to certain conditions, to procure subscribers (or subscribe themselves) for New Ordinary Shares;

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- 9.3 the Underwriters will be paid on Admission a commission of three per cent of the product of the Global Offering Price and the number of New Ordinary Shares allotted pursuant to the Global Offering (including any shares allotted in respect of the Over-allotment Option referred to in 9.5 below). An additional commission of up to one per cent will be payable at the discretion of the Company;
- 9.4 the obligations of the Underwriters to procure subscribers for or, failing which, themselves to subscribe for, New Ordinary Shares are subject to certain conditions. These conditions include, amongst others, the absence of any breach of warranty under the Sponsors' and Underwriting Agreement and Admission occurring on or before 9.00 am on 29 November 2000. In addition, the Underwriters have the right to terminate the Sponsors' and Underwriting Agreement in certain circumstances prior to Admission;
- 9.5 the Company has granted the Joint Bookrunners an Over-allotment Option under which it will issue at the direction of the Joint Bookrunners such number of New Ordinary Shares as in aggregate comprises up to 9,450,000 New Ordinary Shares being 15 per cent of the number of New Ordinary Shares comprised in the Global Offering at the Global Offering Price for the purposes of meeting over-allotments in connection with the Global Offering and to cover short positions resulting from stabilisation transactions. This option will be exercisable by the Joint Bookrunners by 5 p.m. on the thirtieth day following Admission. Save as required by law, the Joint Bookrunners do not intend to disclose the extent of any over-allotments made and/or any stabilisation transactions;
- 9.6 the Company agreed to pay certain costs, charges, fees and expenses of the Global Offering (together with any related value added tax);
- 9.7 each of the Company and the Directors gave certain representations, warranties and other undertakings, subject to certain limits, to the Underwriters; and
- 9.8 each of the Company and the Directors gave certain indemnities, subject to certain limits, to the Underwriters.

10. LOCK-UP ARRANGEMENTS

- 10.1 The Company undertakes to the Joint Bookrunners in the Sponsors' and Underwriting Agreement that, save with the prior written consent of the Joint Bookrunners, it will not prior to the date falling 12 months after Admission, enter into any agreement or arrangement nor do nor permit to be done any act or thing which may involve any increase in, or obligation (whether contingent or otherwise) to issue, allot or grant options over any Ordinary Shares or any other securities in the capital of the Company which would require the Company to issue listing particulars under the Listing Rules, save in respect of (i) a grant of options under the Share Option Schemes in accordance with normal practice, (ii) the exercise of options under the Share Option Schemes, (iii) the grant, issue and allotment of shares under the Over-allotment Option offered to the Joint Bookrunners or (iv) the issue or allotment of Ordinary Shares or securities convertible into Ordinary Shares otherwise than for cash in connection with a merger or acquisition provided that in connection with such transaction the allottees of such shares or securities enter into an agreement agreeing not to sell their shares in the Company at least until the expiry of the 12 month period after Admission.
- 10.2 easyJet Holdings Limited undertakes to each of the Underwriters and the Company in the Sponsors' and Underwriting Agreement that it shall not, save with the prior written consent of the Joint Bookrunners (on behalf of the Underwriters), for a period commencing on the date of the Sponsors' and Underwriting Agreement and ending on the later of (a) the date falling 12 months after Admission and (b) the date of announcement of the Company's results for the year ending 30 September 2001, offer, lend, sell or contract to sell, mortgage, charge, assign or issue options in respect of, or otherwise dispose of, directly or indirectly, or announce an offering or sale of, any of the Ordinary Shares owned by it (or any interest therein or in respect thereof) or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing, save in respect of (i) the transfer of shares in connection with the disaggregation of all or any of the shareholdings in easyJet Holdings Limited provided that the transferees agree to the restriction in this paragraph and the Joint Bookrunners receive advance notification of the transfer; (ii) the transferring of any Ordinary Shares to First Island Management Limited upon an event of default by Ray Webster of his loan from UBS to finance the re-financing of his acquisition of shares in easyJet Holdings Limited; (iii) the transfer of the 10,000 Ordinary Shares to be given to initial employees and key suppliers, or (iv) any stock lending entered into by it with the Joint Bookrunners.

- 10.3 Each of the Directors have severally undertaken to each of the Underwriters and the Company in the Sponsors' and Underwriting Agreement that he shall not, save with the prior written consent of the Joint Bookrunners (on behalf of the Underwriters), for a period commencing on the date of the Sponsors' and Underwriting agreement and ending on the later of (a) the date falling 12 months after Admission and (b) the date of announcement of the Company's results for the year ending 30 September 2001, dispose of or agree to dispose of or charge any Ordinary Shares or share options held by them as at the date of Admission or Ordinary Shares arising on exercise thereof or any interest in any such Ordinary Shares or share options, or any rights arising from or attached to any such Ordinary Shares or share options, or enter into any transaction of the nature described in Section 323 of the Act, or enter into any contract for differences, swap, evidence of indebtedness or other derivatives transaction that changes in value or determines value by reference to Ordinary Shares.
- 10.4 First Island Nominees Limited, First Island Services Limited, Pennine Trustees Limited and First Island Management Limited, the shareholders in easyJet Holdings Limited, and Clelia Haji-Ioannou, Polys Haji-Ioannou, George Karageorgiou and Nick Hartley Consultancy Limited, each holding interests in such shareholders, have entered into separate lock-up agreements under which each such person has undertaken to the Joint Bookrunners and the Company that, conditional upon Admission, it shall not, save with the prior written consent of the Joint Bookrunners (on behalf of the Underwriters), for a period commencing on the date of the relevant lock-up agreement and ending on the later of (a) the date falling 12 months after Admission and (b) the date of announcement of the Company's results for the year ending 30 September 2001, dispose of or agree to dispose of or charge any shares in easyJet Holdings Limited held by it or registered in its name as at the date of Admission or any rights arising from or attached to any such shares, or enter into any contract for differences, swap, evidence of indebtedness or other derivatives transaction that changes in value by reference to such shares, save in respect of: (i) the transfer of shares to a company controlled by the relevant beneficiary provided that the transferee company agrees to the restriction in this paragraph and the Joint Bookrunners receive advance notification of the transfer; (ii) where the relevant company acquires Ordinary Shares in the Company and agrees that such Ordinary Shares are subject to the lock-up for the remainder of the lock-up period; (iii) the transfer of legal and/or beneficial ownership of 650,000 US\$1 'A' ordinary shares in easyJet Holdings Limited to any company directly or indirectly controlled by Ray Webster or subject to his instruction or the granting of any security interest by First Island Management Limited or Ray Webster (or by any such company) over the legal and/or beneficial title to or interest in 650,000 US\$1 'A' ordinary shares in easyJet Holdings Limited as security for a loan facility dated 14 November 2000 and granted to Ray Webster by UBS AG (acting through its Private Banking operation), further details of which are set out in section 6.4 of this Part VII; or (iv) the declaration and payment by easyJet Holdings Limited at the direction of its shareholders of a dividend in specie in respect of 650,000 US\$1 'A' ordinary shares in easyJet Holdings Limited (such dividend comprising Ordinary Shares) upon an event of default under the loan facility described above; or (v) UBS AG (acting through its Private Banking operation) from selling, contracting to sell, disposing of or otherwise realising such Ordinary Shares.

11. SELLING RESTRICTIONS

- 11.1 No action has been taken by easyJet plc, the Joint Bookrunners or the Underwriters that would permit, otherwise than under the Global Offering, an offer of New Ordinary Shares or possession or distribution of this document or any other Global Offering material relating to New Ordinary Shares in any jurisdiction where action for that purpose is required.

11.2 US

US selling restrictions are set out in Part II of this document.

11.3 Australia

None of the New Ordinary Shares may be placed for subscription or purchase or be sold directly or indirectly, in Australia or to any person who is known to be a resident of Australia (including corporations and other entities organised under the laws of Australia but not including a permanent establishment of any such corporation or entity located outside Australia) otherwise than pursuant to an appropriate exemption.

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11.4 Canada

None of the New Ordinary Shares have been or will be qualified for sale in Canada pursuant to a prospectus and may not be placed or sold, directly or indirectly, in any province or territory of Canada except pursuant to an exemption from the applicable prospectus filing requirements, and in compliance with the applicable securities rules of such province or territory.

11.5 Japan

None of the New Ordinary Shares have been or will be registered under the Securities and Exchange Law of Japan (the “SEL”) and may not be offered or sold, directly or indirectly in Japan or to or for the benefit of any resident of Japan, or to others for re-offering or resale directly or indirectly in Japan or to or for the benefit of any resident of Japan, except in compliance with the SEL and other relevant laws, regulations and ministerial guidelines of Japan.

11.6 Republic of Ireland

Insofar as the Republic of Ireland is concerned, this document and the information contained herein is confidential and has been prepared and is intended for use on a confidential basis solely by those persons in the Republic of Ireland to whom it is sent. It may not be reproduced, redistributed or passed on to any other person in the Republic of Ireland or published in whole or in part for any purpose. The New Ordinary Shares will be offered only to persons in the context of their trades, professions or occupations (within the meaning of Article 2 of Directive 89/298/EEC) and whose ordinary business it is to buy or sell shares or debentures whether as principal or agent (“Professional Investors”) and, in particular, there will not be any offer or invitation to the public or any section of the public to sell or any solicitation of any offer from the public or any section of the public to purchase or subscribe for New Ordinary Shares nor will any form of application for New Ordinary Shares be distributed in Ireland other than to Professional Investors. Accordingly, this document and the information contained herein does not constitute an invitation to the public in the Republic of Ireland or any section thereof to subscribe for or purchase any shares or other securities in any company and accordingly is not a prospectus within the meaning of the Irish Companies Act 1963 (as amended) or the Irish European Communities (Transferable Securities and Stock Exchange) Regulations 1992.

11.7 General

None of the New Ordinary Shares may be placed for sale or purchase to be sold or delivered, and this document and any other Global Offering material in relation to the New Ordinary Shares may not be circulated in any jurisdiction where to do so would breach any securities laws or regulations of any such jurisdiction or give rise to an obligations to obtain any consent, approval or permission, or to make any application, filing or registration other than in the UK.

12. MATERIAL CONTRACTS AND ARRANGEMENTS

12.1 Other than the following contracts, there are no contracts (not being contracts entered into in the ordinary course of business) which are, or may be, material and which have been entered into by the Group during the two years immediately preceding the date of this document or which contain any provision under which any member of the Group has any obligation or entitlement which is material to the Group as at the date hereof.

12.1.1 The Sponsors’ and Underwriting Agreement referred to in paragraph 9 above.

12.1.2 A Loan Agreement dated 17 August 1998 between Fortis Bank N.V. (previously MeesPierson N.V.) as lender and facility agent, Bankgesellschaft Berlin AG (previously Berliner Bank AG, “Bankgesellschaft”) as lender and security agent, The Bank of Nova Scotia as lender and paying agent and easyJet Aircraft Company Limited (“EACL”) as borrower, as amended by an amendment letter dated 4 November 1998 and an amendment agreement dated 30 April 2000 and an amendment Agreement No. 2 dated 30 October 2000 and as acceded to by Capital Bank plc as a further lender, under which a loan with a principal amount of US\$95,730,600 was made to EACL to assist it with the acquisition of five Boeing 737-300 aircraft, namely G-EZYD, G-EZYE, G-EZYP, G-EZYG and G-EZYH. In relation to this loan agreement there is:- (i) a guarantee from the Company in favour of Bankgesellschaft in respect of the obligations of EACL under the loan agreement; (ii) a charge over the shares of EACL granted by the Company to Bankgesellschaft and a related custodian agreement between Mees Pierson (Cayman) Limited,

EACL, the Company and Bankgesellschaft; (iii) in respect of each of the said aircraft (other than G-EZYE which has since been sold), a mortgage granted by EACL in favour of Bankgesellschaft, a lease of the aircraft from EACL as lessor to easyJet UK as lessee, and an assignment of the benefit of such lease granted by EACL in favour of Bankgesellschaft; and (iv) a deed of charge and assignment executed by EACL in favour of Bankgesellschaft over the accounts into which payments under the said leases are to be made.

The loan advanced under the said loan agreement is repayable by 16 six-monthly instalments falling due on the 19 February and 19 August of each year with the first having been paid on 19 February 1999 and the last to be paid on 19 August 2006. The interest rate payable on the loan is dollar LIBOR plus a margin of 0.90 per cent.

- 12.1.3 A facility agreement dated 23 November 1998 as amended by an amendment agreement dated 8 March 1999 and as novated, amended and restated by a novation, amendment and restatement agreement dated 30 April 2000, the facility agreement now being between Hamburgische Landesbank Girozentrale (“Hamburgische”) as lender, easyJet Hamburg Limited (“easyJet Hamburg”) as borrower, and the Company and easyJet UK as guarantors. Under the facility agreement a loan in a principal amount of US\$100,000,000 was advanced to easyJet Hamburg to assist it with the acquisition of four new Boeing 737-300 aircraft, namely G-EZYI, G-EZYJ, G-EZYK and G-EZYL. In relation to the facility agreement there is: (i) an equitable mortgage over the shares of easyJet Hamburg granted by the Company in favour of Hamburgische; (ii) a lease of each of the said aircraft from easyJet Hamburg as lessor to easyJet UK as lessee; (iii) an assignment of insurances in respect of each of the said aircraft granted by easyJet UK in favour of easyJet Hamburg; (iv) a mortgage of each of the said aircraft granted by easyJet Hamburg in favour of Hamburgische; (v) an assignment of the benefit of each of the said leases and assignments of insurances granted by easyJet Hamburg in favour of Hamburgische; and (v) a pledge over the bank account into which all rentals under the leases are paid granted by easyJet Hamburg in favour of Hamburgische.

The loan under the said facility agreement was made as four advances, the A advance, the B advance, the C advance and the D advance. Each advance is repayable by 48 quarterly instalments over a term of 12 years with the repayment dates for each advance falling at three monthly intervals after the following dates: 23 November 1998 for the A advance, 20 December 1998 for the B advance, 21 January 1999 for the C advance and 10 March 1999 for the D advance. For the first three years, the interest rate payable for each advance is a fixed rate of 6.08 per cent for the A advance, 6.1 per cent for the B advance, 6.11 per cent for the C advance and 6.61 per cent for the D advance obtained by Hamburgische pursuant to an interest rate exchange agreement (a “Swap”) entered into by Hamburgische with a counter-party in respect of such advance prior to its drawdown. Following the expiry of such three year period the interest rate in respect of the relevant advance will be either (A) three month dollar LIBOR plus a margin of 0.8 per cent per annum or (B) a fixed rate obtained pursuant to a further Swap. easyJet Hamburg is entitled to switch between paying a fixed rate under a Swap and paying a floating rate subject to the following limitations:- (A) the term of any Swap must be at least three years and an integral multiple of one year; and (B) easyJet Hamburg may not opt for a Swap in respect of an advance to commence within the last three years before the final repayment date for that advance.

- 12.1.4 A facility agreement dated 4 February 1997 as novated, amended and restated by a novation, amendment and restatement agreement dated 30 April 2000, the facility agreement now being between Hamburgische as Lender, Yankee Bravo Aviation Limited (“Bravo”) as borrower, and the Company and easyJet UK as guarantors. Under the facility agreement a loan in a principal amount of US\$13,182,00 was advanced to Bravo to assist it with the acquisition of a second-hand Boeing 737-300 aircraft, namely G-EZYB. In relation to the facility agreement there is: (i) an equitable mortgage over the shares of Bravo granted by the Company in favour of Hamburgische; (ii) a lease of the aircraft from Bravo as lessor to easyJet UK as lessee; (iii) an assignment of insurances in respect of the aircraft granted by easyJet UK in favour of Bravo; (iv) a mortgage of the aircraft granted by Bravo in favour of Hamburgische; (v) an assignment of the benefit of the said lease and assignment of insurances granted by Bravo in favour of Hamburgische; and (v) a pledge over the bank account into which all rentals under the lease are paid granted by Bravo in favour of Hamburgische.

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The loan is repayable by 12 six-monthly instalments over a term of six years on 5 February and 5 August of each year with the first instalment having been paid on 5 August 1997 and the final instalment being payable on 5 February 2003. The rate of interest payable on the outstanding loan is dollar LIBOR plus the margin of one per cent.

- 12.1.5 A facility agreement dated 5 September 1997 as novated, amended and restated by a novation, amendment and restatement agreement dated 30 April 2000, the facility agreement now being between Hamburgische as lender, Yankee Charlie Aviation Limited ("Charlie") as borrower, and the Company and easyJet UK as guarantors. Under the facility agreement a loan in a principal amount of US\$26,236,500 was advanced to Charlie to assist it with the acquisition of a second-hand Boeing 737-300 aircraft, namely G-EZYC, and to enable it to advance a loan to easyJet Holdings Limited to assist it with the acquisition of one new spare CFM engine msn 858641. The spare engine was sold by easyJet Holdings Limited to easyJet UK pursuant to an engine sale and purchase agreement dated 30 April 2000 and security documents relating to the spare engine were discharged. In relation to the facility agreement there is: (i) an equitable mortgage over the shares of Charlie granted by the Company in favour of Hamburgische; (ii) a lease of the aircraft from Charlie as lessor to easyJet UK as lessee; (iii) an assignment of insurances in respect of the aircraft granted by easyJet UK in favour of Charlie; (iv) a mortgage of the aircraft granted by Charlie in favour of Hamburgische; (v) an assignment of the benefit of the said lease and assignment of insurances granted by Charlie in favour of Hamburgische; and (v) a pledge over the bank account into which all rentals under the lease are paid granted by Charlie in favour of Hamburgische.

The loan is repayable by 14 six-monthly instalments over a term of seven years on 5 March and 5 September of each year with the first instalment having been paid on 5 March 1998 and the final instalment being payable on 5 September 2004. The rate of interest payable on the outstanding loan is dollar LIBOR plus the margin of 0.95 per cent.

- 12.1.6 An aircraft lease common terms agreement (the "CTA") dated 22 June 1999 made between General Electric Capital Corporation ("GECC") and easyJet UK, as amended by a letter agreement dated 30 April 2000 and an amendment agreement dated 13 October 2000, which is incorporated into each of the following aircraft specific lease agreements: a lease dated 22 June 1999 between Alnitak FSC One Corporation as lessor and easyJet UK as lessee in respect of the Boeing 737-300 aircraft with registration mark HB-IIK; a lease dated 7 July 1999 from Alnitak FSC Two Corporation as lessor to easyJet UK as lessee in respect of the Boeing 737-300 aircraft with registration mark HB-III; a lease dated 23 August 1999 from Alnitak FSC Three Corporation as lessor to easyJet UK as lessee in respect of the Boeing 737-300 aircraft with registration mark G-EZYO; a lease dated 13 September 1999 from Arcturus FSC Corporation as lessor to easyJet UK as lessee in respect of the Boeing 737-300 aircraft with registration mark G-EZYP; a lease dated 13 September 1999 from Alnitak FSC One Corporation as lessor to easyJet UK in respect of the Boeing 737-300 aircraft with registration mark G-EZYR; and a lease dated 13 September 1999 from Alnitak FSC One Corporation as lessor to easyJet UK as lessee in respect of the Boeing 737-300 aircraft with registration mark HB-IIJ; and a lease dated 13 October 2000 from Alcyone FSC Corporation as lessor to easyJet UK as lessee in respect of the Boeing 737-700 aircraft with registration mark G-EZJA. The Company has granted a guarantee in favour of the relevant lessor of easyJet UK's obligations to the lessor under each of the said leases. HB-III, HB-IIJ and HB-IIK are each sub-leased by easyJet UK to easyJet Switzerland under sub-lease agreements.
- 12.1.7 An aircraft lease agreement dated 6 September 1994 between International Lease Finance Corporation ("ILFC") as lessor and easyJet Switzerland (under its previous name TEA) as lessee, as amended by amendment agreement no.1 dated 1 November 1994 between the same parties and by an early return, termination and settlement agreement dated 19 June 1998 between the same parties, and as assigned by easyJet Switzerland to easyJet UK by an assignment and assumption agreement, in respect of the Boeing 737-300 aircraft with registration mark G-EZYT (previously registered in Switzerland as HB-IIE prior to the said assignment and assumption agreement).
- 12.1.8 An aircraft lease agreement dated 25 March 1997 between GECC as lessor and easyJet Switzerland (under its previous name TEA) as lessee, as amended and supplemented by a

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restructuring agreement between the same parties dated 29 May 1998, in respect of the Boeing 737-300 aircraft with registration mark HB-IIB. The Company has granted a guarantee dated 30 April 2000 in favour of GECC of the obligations of easyJet Switzerland under this lease.

12.1.9 The Boeing Contract summarised in Section 13 of this Part VII.

12.1.10 The Relationship Agreement dated 14 November 2000, entered into between Stelios Haji-Ioannou, easyJet Holdings Limited (together the “Controlling Shareholders”) and the Company which is conditional on Admission, under which the Controlling Shareholders and the Company have agreed that the following general principles shall apply to govern the relationship between the Controlling Shareholders and the Company and any of their respective associates:

- (a) the Company shall have its own dedicated management and the Company shall operate and make decisions for the benefit of shareholders as a whole and independently of the Controlling Shareholders at all times;
- (b) the business and affairs of the Company shall be managed by the Board in accordance with the Memorandum and Articles of the Company and all applicable law and for the benefit of the shareholders as a whole;
- (c) there shall at all times be a majority of Independent Directors (being a Director who is not and has not been a director, officer or employee of, or a person having a relationship, association or interest which is material to him with or in the Controlling Shareholders or any associate of the Controlling Shareholders, or with or in any person having a relationship which is material to it or him with the Controlling Shareholders or any associate of the Controlling Shareholders) on the Board and on all committees of the Board to which significant powers, authorities or discretions are delegated; for this purpose at the date of the agreement all the directors except for Stelios Haji-Ioannou, Nick Hartley, Amir Eilon and Ray Webster (by virtue of his holding of shares in easyJet Holdings Limited) are treated as independent;
- (d) the Company shall comply with principles of best practice adopted by UK listed companies in relation to matters of corporate governance other than, prior to the appointment of a fourth independent Non-Executive Director, in relation to the number of independent non-executive directors and the nomination of a senior Non-Executive Director;
- (e) for so long as either of the Controlling Shareholders directly or indirectly hold at least 25 per cent of the share capital of the Company and the Company is entitled to continue to use the easyJet brand under the terms of the easyJet brand licence, easyJet Holdings Limited (or Stelios Haji-Ioannou) shall be entitled to appoint two non-executive Directors to the Company and Stelios Haji-Ioannou shall be entitled to be the Chairman of the Company;
- (f) for so long as either of the Controlling Shareholders directly or indirectly hold at least 10 per cent of the share capital of the Company and the Company is entitled to continue to use the easyJet brand under the terms of the easyJet brand licence, easyJet Holdings Limited (or Stelios Haji-Ioannou) shall be entitled to be the Chairman of the Company;
- (g) no material amendments to any agreements between any Group company and any associates of the Controlling Shareholders shall be made unless approved by a resolution of the Board at which an Independent Non-Executive Director is in the majority;
- (h) easyJet shall enforce the terms of all agreements with any associates of the Controlling Shareholders unless approved by a resolution of the Board at which an Independent Non-Executive Director is in the majority;
- (i) all transactions and relationships between the Controlling Shareholders (or any of their associates) and the Group shall be on terms which are arm’s length and on a normal commercial basis;
- (j) the Controlling Shareholders and the Company shall comply with all the regulatory requirements of the Listing Rules of the UK Listing Authority in connection with easyJet,

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including, without limitation, the provisions relating to transactions with related parties; and

- (k) Stelios Haji-Ioannou shall not receive any director's fees or any reimbursement of expenses in respect of his services for the Company.

Stelios Haji-Ioannou has agreed not to be involved in another airline business with a core activity of passenger transport in fixed wing aircraft from the date of the Agreement until the expiry of the period ending three years after the later of: (a) his ceasing to hold at least five per cent of the share capital of the Company; and (b) his ceasing to have control of easyGroup IP Licensing or, if earlier, the termination of the brand licence. If the brand licence terminates for insolvency the three year period shall not apply. This covenant will not prevent Stelios Haji-Ioannou from being involved in private jet charter or the holding of five per cent in a publicly quoted airline company provided he has no management role. For this purpose the chartering of private jets means the chartering of entire jets to an individual or company but not selling seats directly or indirectly to members of the public and not operating regular scheduled services. The Directors believe this does not compete with easyJet's core business. There is a similar non-compete provision given by easyJet Holding Limited.

Other than the restrictive covenant referred to above, the Relationship Agreement terminates upon both the Controlling Shareholders ceasing to hold Shares of at least five per cent of the Company.

- 12.1.11 An agreement dated 23 July 1999 between easyJet Tours SÀRL ("easyJet Tours") and easyJet UK regarding the distribution of package tours prepared by easyJet Tours by means of the easyJet reservation system. Under the agreement, the package tours are to be sold by easyJet Tours exclusively through easyJet UK's reservation system. easyJet UK does not hold itself out as easyJet Tours' agent for the sale of the package tours. easyJet UK warrants (and has indemnified easyJet Tours against any shortfall) that sufficient package tours will be sold through the reservation service to enable easyJet UK to pay, from the monies received from easyJet Tours customers, ten Swiss francs to easyJet Tours per package tour sold each month, and to easyJet Switzerland the monthly charter payment under the Charter Agreement summarised in paragraph 12.1.12 below. The balance of the monies received, if any, are to be retained by easyJet UK in consideration of the reservation service.
- 12.1.12 A charter agreement dated 6 October 2000 between easyJet Switzerland and easyJet Tours for the charter of one Boeing 737-300 aircraft (easyJet Switzerland may decide which aircraft to use for each flight) and crew employed by easyJet Switzerland on once daily return flights between Geneva and Barcelona airports between 29 October 2000 to 24 March 2001. The price is US\$3,200 per completed hour, pro rated for portions thereof. easyJet Switzerland is responsible for obtaining the necessary slots, as well as ensuring the provision of necessary ground facilities for passengers and luggage. Either party may terminate the agreement if the other party becomes insolvent or is unable to perform its obligations under the charter.
- 12.1.13 A commercial agreement dated 24 June 1999 between easyJet UK and easyJet Switzerland setting out the terms upon which easyJet Switzerland is licensed to use the easyJet marks, livery and colour scheme, including the terms upon which it is to operate specified flights from designated airports as part of the easyJet business. Unless requested by easyJet UK, easyJet Switzerland may not operate any other flights. easyJet Switzerland requires easyJet UK's consent to assign or otherwise transfer any part of its operation in relation to the licensed flights. easyJet UK must arrange and pay for the direct operating costs of the licensed flights covering all aspects of the operation of the aircraft and to provide certain management services (for which easyJet Switzerland pays a management charge). easyJet UK also pays a "Block Hour Charge" to easyJet Switzerland based on the hours operated in-flight and whilst taxiing on the ground. The Block Hour Charges and management charges are subject to annual review to take effect in writing. The agreement may be terminated by either party on six months' written notice. easyJet UK may terminate the agreement if easyJet Switzerland undergoes a change of control without easyJet UK's specific written consent or challenges the validity of easyJet UK's intellectual property rights. Both parties have the right to terminate in the event of the other party's insolvency or

default. On expiry or termination of the agreement, easyJet Switzerland will cease to use easyJet UK's intellectual property.

12.1.14 A shareholders' agreement (the "Swiss Shareholders Agreement") in relation to easyJet Switzerland, dated 24 June 1999 entered into between Markus Seiler, Ernst Staehelin, Jean-Marc Thévenaz (together the "Individual Shareholders") and easyJet Holdings Limited (as amended by the addenda referred to below). The agreement provides:

- (a) Each Individual Shareholder is a director only for so long as he owns shares in easyJet Switzerland. easyJet Holdings Limited is entitled to appoint only two directors (the "easyJet Directors") and to remove and replace such directors. If easyJet Holdings Limited acquires all the class A shares of one of the Individual Shareholders, easyJet Holdings Limited will be entitled to appoint one director in respect of those shares.
- (b) The Individual Shareholders may not transfer their shares (that is, dispose of any shares or encumber the share options (see below) without the prior consent of easyJet Holdings Limited).
- (c) The Individual Shareholders are required to procure that easyJet Switzerland does not increase its share capital, grant any third party any right to shares or issue any shares without the prior consent of easyJet Holdings Limited.
- (d) The parties agree to grant the following share options:
 - (i) The call option: the Individual Shareholders each grant easyJet Holdings Limited an option to purchase up to 8,273 class A shares of easyJet Switzerland, that is up to a total of 24,819 class A shares of easyJet Switzerland (the "Option Shares"). This call option may be exercised in whole or in part. If it is exercised in part only, the balance of the option will continue to be exercisable.
 - (ii) The put option: easyJet Holdings Limited grants to each Individual Shareholder the option to sell to it the 8,273 class A shares of easyJet Switzerland that each of them holds. This option may only be exercised for all the Individual Shareholder's shares.

The call and put options may be exercised at any time by either party sending written notice to the other parties. The purchase price for all 24,819 Option Shares will be 2,040,000 Swiss francs. In the case of a partial exercise of the Call Option, the Option Price will be calculated pro rata. In consideration of the grant of the Call Option, easyJet Holdings Limited will pay each of the Individual Shareholders 13,732.50 Swiss francs on 30 September each year.

- (e) If an Individual Shareholder wishes to transfer his shares to a third party, easyJet Holdings Limited shall have a right of first refusal.
- (f) The agreement will terminate in the event of:
 - (i) a written agreement between the parties; or
 - (ii) easyJet Holdings Limited being the only remaining shareholder of easyJet Switzerland or no longer being a shareholder of easyJet Switzerland; or
 - (iii) final liquidation of easyJet Switzerland; or
 - (iv) the commencement of proceedings in bankruptcy or receivership of easyJet Switzerland; or
 - (v) the lapse of fifteen years from the date of the Agreement.

12.1.15 The Swiss Shareholders' Agreement has been varied by three addenda dated 17 November 1999, 29 February 2000 and 30 April 2000 the most important effect of which is that Philippe Vignon has assumed the rights and obligations of Markus Seiler and easyJet plc has assumed the rights and obligations of easyJet Holdings Limited (including under the call option and put option).

12.1.16 A shareholders' agreement dated 23 February 1999 between FLSA, easyJet UK and easyTech relating to easyTech, a joint venture company set up to provide exclusive line maintenance and maintenance control services for easyJet UK's aircraft fleet at London Luton Airport and throughout the network, under subcontract from FLSA. FLSA subscribed for 73 ordinary shares

of £1 each (taking FLSA's total holding following completion to 75 ordinary shares of £1 each), and easyJet UK subscribed for 25 ordinary shares of £1 each (together the "Shareholders"). The easyTech board comprises a maximum of 4 directors. FLSA may appoint up to three directors. easyJet UK may appoint one director. Board meetings have a quorum of two, which must always include the easyJet UK-appointed director or his/her alternate. The chairman will always be an FLSA director, who has a second or casting vote. Voting at board level is by majority or by written resolution signed by all the directors, save that certain matters are reserved as requiring unanimous board approval. The shareholders are prohibited from disposing of any share while the maintenance agreement between FLSA and easyJet UK remains in force, except with the written consent of all other shareholders, to a member of its corporate group, or in accordance with the option provisions. Any new shareholder must agree by deed to be bound by the shareholders' agreement as a condition precedent to any transfer of shares.

easyJet UK and FLSA are respectively granted a call option (option to purchase all of the other party's shares in easyTech at the option price) and a put option (option to sell all of its shares in easyTech to the other party at the option price), which are both exercisable in the event of termination of the line maintenance and maintenance control services. easyJet UK has the right to exercise its options first. The option price is the price per share that shall equal one hundredth of the value of the net tangible assets of easyTech. FLSA also grants easyTech a non-exclusive trademark licence to use the FLS trade mark, name and logo for the purpose of carrying on easyTech's business. The licence will terminate on termination of the shareholders' agreement or if easyJet UK acquires all of the shares in easyTech. The parties are subject to various restrictions, including confidentiality of business information and the terms of the shareholders' agreement, a prohibition on the use of names or marks similar to FLS or easyTech following termination and the non-solicitation of employees whilst either FLSA or easyJet UK remains a shareholder and for 18 months thereafter. The agreement ceases to bind any shareholder which ceases to own any easyTech shares, and will terminate on the winding up of easyTech. Any purported assignment of the benefit of the agreement shall be void.

12.1.17 Intellectual property licence dated 23 February 1999 between easyJet UK, easyTech and FLSA for the use in easyTech's business, of the "easyTech" trademark, all associated logos and designs and any copyright or other related rights therein, together with the easyJet UK orange colour and font when used in conjunction with the trademark. The licence is exclusive to the extent that easyTech is able and willing to carry out the business in the countries of Europe and the USA. The licence will terminate on the earlier of termination of the shareholders' agreement or easyJet UK ceasing to hold any easyTech shares. easyJet UK may also terminate the agreement if easyTech ceases to carry on the business, becomes insolvent, fails to remedy a default or challenges the validity of the licence. The consequences of termination include, on easyJet UK's request, an assignment by easyTech to easyJet UK of any and all accrued goodwill in the intellectual property, easyTech's co-operation in cancelling any formal registration of the licence and the removal of the trade mark from any materials used in connection with the business. easyTech may neither assign nor grant any sub-licences of its rights under the licence. easyTech is also subject to various obligations to maintain the integrity of the licensed intellectual property. FLSA guarantees easyTech's obligations under the intellectual property licence and trade mark licence summarised in paragraph 12.1.18 below, and shall indemnify easyJet UK against 75 per cent of all liabilities which easyJet UK may incur in the event of default.

12.1.18 A trade mark licence between easyJet UK and easyTech for use of the "easyTech" trade mark in relation to easyTech's business. This licence is provided for, and included as a schedule to the intellectual property licence summarised in paragraph 12.1.17 above. This royalty-free licence is to last so long as easyTech remains bound by the intellectual property licence, and may be terminated by easyJet UK forthwith for easyTech's failure to remedy a default. The licence will also terminate automatically in the event of easyTech's insolvency or the termination of the intellectual property licence. easyTech may not assign the licence.

12.1.19 The assignment, brand consolidation agreement and brand licence summarised in Section 14 of this Part VII.

13. BOEING CONTRACT

13.1 On 23 July 1998, easyJet Holdings Limited entered into a contract with Boeing (subsequently amended by a Supplemental Agreement between easyJet Holdings Limited and Boeing dated 29 March 2000 and

assigned from easyJet Holdings Limited to the Company under an assignment and assumption agreement dated 30 April 2000 between easyJet Holdings Limited and the Company, such assignment being consented to by Boeing) (the “Boeing Contract”) pursuant to which the Company will purchase 32 new Boeing 737-700 aircraft, and has rights to purchase an additional 30 such aircraft. The principal features of the Boeing Contract are as follows:

13.1.1 Delivery Schedule

The Company took delivery of the first 737-700 aircraft on 13 October 2000, with additional deliveries currently scheduled as follows: two aircraft in 2000, six aircraft in 2001, nine aircraft in 2002, eight aircraft in 2003 and the final six aircraft in January 2004. The first 15 aircraft to be delivered are referred to as the “Block A” aircraft and the remaining 17 are referred to as the “Block B” aircraft.

13.1.2 Price

The “Basic Price” (equivalent to a standard list price for an aircraft of this type) for each of the 737-700 aircraft (defined as a per aircraft airframe price, including engines, plus the per aircraft price for certain optional features agreed between the parties) is US\$37,168,500 (£25,902,700) for the Block A aircraft and US\$39,781,000 (£27,723,100) for the Block B aircraft (in respect of aircraft to be delivered after 31 December 2003 this price is an estimate only). The “Basic Price” will be increased by (a) an estimated US\$1.55 million (approximately £1.1 million) per Block A aircraft and US\$1.6 million (approximately £1.1 million) per Block B aircraft for certain “seller-purchased” equipment the Company has asked Boeing to purchase and install on each of the aircraft, and (b) an “Escalation Factor” designed to increase the Basic Price of any individual aircraft by applying a formula reflecting increases in the published U.S. Employment Cost and Producer Price Indexes between the time the Basic Price was set and the period six months prior to the delivery of such aircraft. The Company is also responsible for the payment of any taxes on the aircraft other than certain U.S. federal income taxes and Washington State taxes imposed upon Boeing.

Boeing has granted the Company substantial confidential price and payment terms concessions with regards to the 737-700 aircraft. These include: (a) credit memoranda to the Company for the amount of such concessions, which the Company may apply toward the purchase of goods and services from Boeing or toward certain payments, other than advance payments, in respect of the purchase of the aircraft; and (b) Escalation Factor sharing arrangements. Boeing and CFM International S.A. (the manufacturer of the CFM56-7B24 engines to be fitted on the purchased aircraft) have also agreed to give the Company certain allowances for promotional and other activities, as well as providing other goods and services to the Company on concessionary terms.

13.1.3 Payment Terms

Subject to the concessions granted, the Company was required to pay Boeing one per cent of the Basic Price of each of the 32 Boeing 737-700 aircraft at the time of signing the Boeing Contract and will be required to make periodic advance payments of the purchase price for each aircraft it has agreed to purchase during the course of the two-year period preceding the delivery of each aircraft. As a result of these required advance payments, and subject to the concessions granted, the Company would be required to pay up to 30 per cent of the total cost of each aircraft plus the “Escalation Factor” prior to its delivery (before the deduction of credit memoranda and other concessions due), with the balance of the net price being due at the time of delivery.

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The following table sets out the delivery dates for the aircraft, together with the schedule of payments excluding the “Escalation Factor” and the substantial confidential price and payment terms concessions granted to the Company by Boeing:

Aircraft Payment Schedule
Advance Payment per Aircraft
(Amounts Due/Months, prior to Delivery)

Delivery date per aircraft	Basic price US\$	Seller purchased equipment US\$	Total cost US\$	At signing 1% US\$	24 months 4% US\$	21/18/12/9/6 mts 5% US\$	Total advance payment	Balance payment due at delivery
							30% US\$	70% US\$
Oct 2000.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Nov 2000.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Dec 2000.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
July 2001.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Aug 2001.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Aug 2001.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Sept 2001.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Oct 2001.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Dec 2001.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Jan 2002.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Feb 2002.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Feb 2002.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Mar 2002.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
Apr 2002.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
May 2002.....	37,168,500	1,550,000	38,718,500	387,185	1,548,740	1,935,925	11,615,550	27,102,950
May 2002.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Sept 2002.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Oct 2002.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Jan 2003.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Feb 2003.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Mar 2003.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Apr 2003.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
May 2003.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
June 2003.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Aug 2003.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Sept 2003.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Jan 2004.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Feb 2004.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Feb 2004.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Mar 2004.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
April 2004.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
May 2004.....	39,781,000	1,600,000	41,381,000	413,810	1,655,240	2,069,050	12,414,300	28,966,700
Total.....	<u>1,233,804,500</u>	<u>50,450,000</u>	<u>1,284,254,500</u>	<u>12,842,545</u>	<u>51,370,180</u>	<u>64,212,725</u>	<u>385,276,350</u>	<u>898,978,150</u>

Note:

This payment schedule does not take account of the Escalation Factor, which increases the “Basic Price” of each aircraft to reflect increases in the published U.S. Employment Cost and Producer Price Indexes, or the deduction of credit memoranda or other concessions due.

13.1.4 Boeing Support

In addition to manufacturing and delivering the aircraft, the Boeing Contract requires Boeing to provide various ancillary goods and services to the Company both prior to delivery of the aircraft and throughout the period when they are operated by the Company. These ancillary goods and services include operations and field service engineering, technical support and training, spare parts support, training of the Company’s flight crews in the operation of the aircraft and a complete set of technical manuals, software and other materials (including subsequent revisions) with respect to each aircraft.

Under the Boeing Contract, Boeing has also provided the Company with a 48-month warranty on the 737-700 aircraft (including warranties against defects in design, materials or workmanship and a warranty that the aircraft comply with agreed specifications). It has also agreed to indemnify the Company against any intellectual property infringement claims that may be brought in respect of the aircraft. Boeing also indemnifies the Company against any claims in connection with any demonstration or test flights of the aircraft prior to transfer of title to the aircraft to the Company. The Company has provided Boeing with indemnities with respect to equipment furnished by the Company for installation in the aircraft (if any).

13.1.5 Termination and Assignment

The Company and Boeing's respective obligations to buy or sell any individual aircraft may be terminated by either party in the event of a bankruptcy or similar event affecting the other party or if any scheduled delivery of an aircraft is delayed for more than 12 months because of an "excusable delay" (which includes, acts of god, war, government acts, fires, floods, earthquake, strikes and other causes beyond Boeing's control and not caused by its fault or negligence). The Boeing Contract also generally provides that the rights and obligations of the parties may not (subject to certain stated exceptions) be assigned or transferred to non-affiliated third parties without the consent of the non-transferring party.

13.1.6 Certain Terms of the Options

The Boeing Contract grants the Company options to acquire up to 15 additional Boeing 737-700 aircraft (the "Purchase Rights Aircraft"), together with rolling options to acquire 15 further aircraft (see below). The Company is required to exercise its option with respect to any Purchase Rights Aircraft no later than 18 months prior to the requested delivery date of the relevant Purchase Rights Aircraft. There are currently no scheduled delivery dates for the Purchase Rights Aircraft. The determination of the final purchase price for each of the Purchase Rights Aircraft (including the escalation mechanism and pricing and other concessions) is substantially similar to that for the 32 737-700s that the Company has agreed to purchase.

Each time the Company exercises one of the options, Boeing will offer to sell an additional aircraft (a "Rolling Purchase Rights Aircraft") to the Company on a one-for-one basis, giving a total of up to 15 Rolling Purchase Rights Aircraft. Each Rolling Purchase Rights Aircraft will be sold by Boeing at a price calculated in a similar way to the price for the Purchase Rights Aircraft.

14. BRAND

On 5 November 2000 easyJet UK entered into a number of agreements relating to the "easy" brand intellectual property rights.

14.1 Brand Consolidation Agreement

This is an agreement between easyGroup IP Licensing and all the companies in the "easy" group having rights in or using the intellectual property rights supporting the "easy" brand, which contains the agreement amongst them to consolidate ownership of the easy intellectual property rights in easyGroup IP Licensing and for it to licence those rights back. The principal terms of this agreement are as follows:

- 14.1.1 easyJet UK (and other relevant easy brand companies) declares that it holds certain trade marks and domain names which do not relate to its business as nominee for other companies in the easy group;
- 14.1.2 easyJet UK (and all of the other companies in the easy group having rights and/or using the easy brand) declares that it holds certain rights used in common (such as name "easy" and the orange and white get up) for itself and as nominee for all other easy brand companies; and
- 14.1.3 easyGroup IP Licensing confirms its agreement to grant licences and subject to that grant easyJet UK (and the other easy brand companies) agrees to assign its intellectual property rights relating to the "easy brand" to easyGroup IP Licensing.

14.2 Assignment

Pursuant to the Brand Consolidation Agreement, easyJet UK assigned all its interests in the easyJet and other "easy" intellectual property, brands and URLs to easyGroup IP Licensing subject to the prior agreement of easyGroup IP Licensing to grant easyJet UK a perpetual licence for a royalty of £1 per annum to use the easyJet brand and certain other "easy" intellectual property rights on the terms of the easyJet brand licence referred to in 14.3 below. easyGroup IP Licensing agreed to indemnify easyJet against any capital gains tax liability it may suffer arising out of the assignment of the intellectual property rights.

14.3 Brand Licence

The principal terms of the brand licence are as follows:

- 14.3.1 easyJet UK is granted a right to use the easyJet name exclusively and the other easy branding such as orange livery non-exclusively for the licensed activities (the “Licensed Activities”). The Licensed Activities are the core activity of passenger transport in fixed wing aircraft and ancillary and conducive activities provided, in the case of ancillary and conducive activities that a number of easyJet’s peer group (being European flag carriers and European and American low-cost airlines) are undertaking that activity and the aggregate of the ancillary and conducive activities does not exceed 25 per cent of the easyJet’s consolidated revenues in a 12 month period.
- 14.3.2 easyJet UK must devote its efforts exclusively to the Licensed Activities and must use its best endeavours to exploit its rights in connection with those activities.
- 14.3.3 Whilst easyGroup IP Licensing undertakes not to license or permit any person to carry on a core activity which competes with easyJet’s core activity for the term of the licence and for three years thereafter, other licensees of the easy brand may have activities which are ancillary or conducive to their own core activity which compete with easyJet’s core activities; similarly easyJet’s ancillary and conducive activities may compete with other licensee’s core activities.
- 14.3.4 easyJet UK agrees to maintain high standards of quality and presentation with regard to the brand, to use the easy “get up” strictly, not to use its rights in a manner which would allow the brand to: lose distinctiveness; become liable to mislead the public; or become generic and not to use the rights in a way which would be detrimental to the goodwill and reputation of easyGroup IP Licensing. easyJet also agrees to comply with all relevant laws and regulations and to obtain all necessary consents and licences to carry on its business and not to infringe the intellectual property rights of any third party.
- 14.3.5 easyGroup IP Licensing has primary responsibility for maintaining and extending trade mark registrations. easyJet UK does, however, have limited rights to register and maintain registrations itself. Where easyJet UK does so, it must assign any trade mark it obtains to easyGroup IP Licensing.
- 14.3.6 easyGroup IP Licensing is responsible for taking proceedings against any third party infringers and has complete discretion as to whether to settle or dispute claims and as to the method of conducting the litigation. If it does not bring a claim requested by easyJet UK within specified time periods, easyJet UK can bring proceedings itself, but cannot force easyGroup IP Licensing itself to bring proceedings against alleged infringers. easyGroup IP Licensing, at its option, may join easyJet in any action brought by easyGroup IP Licensing against alleged infringers.

easyJet UK must provide all assistance which easyGroup IP Licensing requires in bringing any action against a third party infringer. This includes allowing the proceedings to be brought in the name of easyJet UK. easyJet UK bears all its own costs in so doing and is responsible for all costs incurred in claims or defences relating to the easyJet brand. easyJet’s obligation to meet costs is capped at £100,000 per claim and £1 million per year, subject to annual indexation. Thereafter its consent must be obtained which is not to be unreasonably withheld.
- 14.3.7 easyGroup IP Licensing retains sole discretion in bringing actions against other easy licensees for breach of their licence except that easyJet UK can bring an action against a fellow licensee if easyGroup IP Licensing does not act within one year of easyJet UK making a complaint or after six months where the fellow licensee’s breach results from activity outside its own licensed activities or in excess of the specified turnover tests and causes or is likely to cause loss or damage in relation to easyJet’s core activity.
- 14.3.8 Each of easyJet UK has agreed to indemnify easyGroup IP Licensing against any capital gains tax liability it may suffer arising out of the assignment of and licence of the intellectual property rights.
- 14.3.9 easyGroup IP Licensing’s maximum liability is limited to £10 million over the term of the licence. The Company guarantees easyJet UK’s obligations and easyGroup (UK) Limited guarantees easyGroup IP Licensing’s obligations plus its indemnity as to tax in the assignment.
- 14.3.10 Stelios Haji-Ioannou has agreed not to be involved in another airline business with a core activity of passenger transport in fixed wing aircraft from the date of the licence until the expiry

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of the period ending three years after the later of: (a) his ceasing to hold at least five per cent of the share capital of the Company; and (b) his ceasing to have control of easyGroup IP Licensing or, if earlier, the termination of the brand licence. If the brand licence terminates for insolvency the three year period shall not apply. This covenant will not prevent Stelios Haji-Ioannou from being involved in private jet charter or the holding of five per cent in a publicly quoted airline company provided he has no management role. For this purpose the chartering of private jets means the chartering of entire jets to an individual or company but not selling seats directly or indirectly to members of the public and not operating regular scheduled services. The Directors believe this does not compete with easyJet’s core business.

- 14.3.11 easyGroup IP Licensing can terminate the brand licence if easyJet UK commits a material breach of any term of the licence which is not remedied within 90 days (except in the case of material breach arising out of ancilliary and conducive activities exceeding 25 per cent of consolidated revenues where easyJet UK must within six months demonstrate compliance with this provision over the last three months). Certain specified breaches automatically constitute a material breach (such as a failure to strictly comply with the easy “get up”). easyGroup IP Licensing may terminate if an insolvency event occurs in relation to easyJet UK and remains unremedied for one year.
- 14.3.12 easyJet UK may at any time terminate the licence.
- 14.3.13 If the licence is terminated, easyJet UK must cease all use of the easy name and branding within 90 days and must deliver up all branded materials. easyGroup IP Licensing will, however, be required not to use easyJet UK’s URL and maintain a hotlink to an address of easyJet UK’s choice for a further nine months after termination to enable easyJet UK to transfer its business to a new URL address.

15. GENERAL

15.1 Premises

15.1.1 The following table gives details of the principal establishments presently used by easyJet:

Premises	Tenure and date term expires	Current use	Current rental	Approximate area in sq. feet
easyLand London Luton.....	Leasehold expires 31.12.08	Telesales and Offices	(24.3.00 - 31.12.00) £43,678*	19,500 (with adjoining portacabins of 2,185)
Geodesic Hangar London Luton ..	Leasehold (not yet completed - will expire 31.03.01 currently occupying on the basis of implied tenancy at will)	Airport Handling Services	£165,000 pa	16,372

* This price reflects easyJet’s initial investment in the buildings.

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15.1.2 In addition to the principal establishments referred to in paragraph 15.1.1 the Company occupies properties under various leases/tenancy/licence agreements:

- ▶ offices, stores, restrooms, London Luton (expiring 31/12/02);
- ▶ Hangar 1 Liverpool Airport (expiring 21/09/09);
- ▶ Crew Room 3, 4 & 5 London Luton (not yet completed – will expire 30/04/03);
- ▶ Offices, Ground and First Floors, Modular Building, Liverpool Airport (terminable on one month's notice); (NB: easyJet moved to this accommodation on 2/10/00. A new agreement is being negotiated);
- ▶ Airline Ticketing Desk, New Terminal Building, London Luton Airport – expiring 31/03/03);
- ▶ Offices – Geneva Airport (expiring 31/12/04); and
- ▶ Office – Schiphol Airport, Amsterdam (not yet completed).

15.1.3 Various ticket, sales, check-in, baggage and office desk services are provided under handling agreements or direct with airports at the following locations: Aberdeen, Amsterdam, Athens, Barcelona, Belfast, Edinburgh, Geneva, Glasgow, Liverpool, Madrid, Malaga, Nice, Palma, Stansted and Zurich. A further such agreement is being negotiated in respect of services at Gatwick.

15.2 Expenses

The expenses of and incidental to the Global Offering including the London Stock Exchange fee, the UK Listing Authority fee, professional fees and the costs of printing and distribution are estimated to amount to £12.3 million (inclusive of VAT and assuming no exercise of the Over-allotment Option) all of which is payable by easyJet plc. This figure also includes the total remuneration of the Joint Bookrunners and the Underwriters including underwriting commission expected to be approximately £7.8 million (assuming no exercise of the Over-allotment Option).

15.3 Significant changes

There has been no significant change in the financial or trading position of the Group since 30 September 2000, the date to which the financial information in Part VI of this document was made up.

15.4 Litigation

15.4.1 On 26 February 1998, easyJet UK commenced proceedings in the High Court against British Airways plc (“BA”) alleging abuse by BA of its dominant position contrary to Article 82 of the EC Treaty. The alleged abuse was the unlawful cross-subsidisation by BA of its wholly owned subsidiary Go Fly Limited (“Go”). Go had been recently formed as an airline to serve the low-fare market and was due to commence service in May 1998. BA applied unsuccessfully to the High Court to strike out easyJet UK’s claim and the claim will be listed for trial on a date yet to be fixed but likely to be some time during 2001. At the same hearing easyJet applied unsuccessfully for an interim injunction. In each case the unsuccessful party was ordered to pay the costs of the other. easyJet UK’s claim is for an order that BA desist from cross-subsidising Go. In essence, easyJet has alleged that cross-subsidisation by BA is affording Go an artificially low cost base, thus distorting competition in the market for low-fare scheduled air services. Whilst easyJet is confident that it is proper to have brought these proceedings and to continue to pursue them, there can be no assurance that the outcome will be favourable to easyJet and, in consequence, there can be no assurance that BA will be prevented from cross-subsidising or otherwise supporting Go or that easyJet will recover the cost of the proceedings or avoid further liability for BA’s legal costs as well as its own. easyJet’s own costs to date in relation to this action are approximately £260,000. Whilst easyJet has no information on BA’s costs it is likely that they are of a similar order.

15.4.2 The Swiss Federal Tax Administration (“SFTA”) has brought two claims against easyJet Switzerland, both relating to VAT. The first relates to VAT which the SFTA claims should have been charged by easyJet Switzerland to tour operators for charter services provided and the

second relates to VAT on the importation of aircraft. On 1 January 1995, the Swiss government introduced a new VAT regime. easyJet Switzerland (under its former name TEA Basel AG) filed its VAT returns on the basis that the charter operations of easyJet Switzerland were not subject to Swiss VAT. The SFTA assessed easyJet Switzerland's returns on the basis that Swiss airline charter operations were subject to Swiss VAT. Following successive proceedings and appeals, in 1998 the Federal Recourse Committee for VAT matters, a specialised court dealing with tax matters, ruled in favour of easyJet Switzerland, stating that its charter operations were not subject to VAT. In 1999, the SFTA appealed against this decision to the Swiss Federal Court (the highest court in Switzerland). easyJet Switzerland presented such documentation to the Swiss Federal Court on 14 July 2000. Either an oral hearing and/or a decision is expected before the end of 2000. easyJet Switzerland has also opposed a VAT charge on the importation of aircraft into Switzerland. This case has been stayed pending the decision of the Swiss Federal Court in the proceedings relating to charter operations. If easyJet Switzerland wins the cases, VAT on past expenditure will be recoverable (approximately 8 million Swiss francs plus interest). If easyJet Switzerland loses the cases but is able to recover VAT from its customers, it would only be liable for interest on the unpaid VAT (approximately £1.5 million). If however VAT cannot be recovered from customers then easyJet Switzerland may be required to pay £9.4 million representing unpaid VAT of £11 million plus interest of £1.5 million, less interest due on tax credits held of £3.1 million. Based on legal advice received, the Directors believe that there is a reasonable expectation of success in this action.

15.4.3 easyJet UK initiated proceedings in the High Court against London Luton Airport Operations Limited seeking a declaration as to the correct date of termination of the agreement relating to the provision of passenger facilities at the terminal at London Luton entered into by easyJet UK and London Luton Airport Operations Limited in 1998 on the same terms as an earlier agreement between easyJet UK and London Luton Airport Limited. The Company and London Luton Airport Operations Limited have settled these proceedings on terms that the agreement will terminate in February 2001. easyJet has acknowledged and accepted that it would not assert the continuing existence after 1 February 2001 of any contract between itself and London Luton Airport Limited.

15.4.4 At the end of October 2000, a Mr Schur issued a claim against easyJet UK, alleging that easyJet's yield management system infringes a patent granted to him in 1993 and seeking injunctive relief and an inquiry as to damages or an account of profits. Until an inquiry or an account of profits, such claims remain unspecified. These proceedings are being brought on his behalf by a firm of solicitors on a conditional fee basis. Mr Schur had earlier raised the issue with easyJet in 1999 but after easyJet had rejected his claim in December 1999 easyJet heard nothing further of the claim and believed the matter was concluded.

easyJet management believes that yield or revenue management software products were on the market for some years before the patent was applied for and hence believe that the patent may be wholly invalid or, if partially invalid, may not have been infringed. easyJet has instructed solicitors to consider the claim. If the patent is valid and the infringement action succeeds, the claimant would be entitled to an injunction to restrain further infringement and compensation for past infringement. He could also require easyJet to pay royalties were it to continue to use the infringing system.

15.4.5 Other than as mentioned above, no member of the Group is or has been involved in any legal or arbitration proceedings which may have, or have had during the twelve months prior to the date hereof, a significant effect on the financial position of the Company or the Group, nor is the Company aware that any such proceedings are pending or threatened.

Part VII – Additional information

15.5 Additional information on the Board and senior management

15.5.1 In addition to their directorships in the Company and subsidiaries of the Company, the Directors hold, or have held, the following directorships and are, or were, partners of the following partnerships, over or within the past five years:

Director's name	Current directorships/ partnerships	Past directorships/partnerships
Stelios Haji-Ioannou.....	easyGroup (UK) Limited easyEverything Limited easyRentacar (UK) Ltd easyMoney Limited easyValue Limited easy.com Limited easyJet Holdings Limited easyGroup Limited easyGroup (IP Licensing) Limited Stelfund Limited Stelinvest Inc Stelmar Shipping Limited Stelsoft Limited Stelios Haji-Ioannou is also the director of a number of offshore single purpose asset holding companies	Troodos Maritime International SA
Raymond Webster.....	The Airline Group Limited easyJet Switzerland SA	None
Christopher Walton.....	easyJet Switzerland SA	None
Michael Cooper	None	Digital Travel Group Limited Portland Direct Limited
Vilhelm Hahn-Petersen	None	FLS Aerospace (UK) Limited FLS Aerospace (IRL) Limited FLS Aerospace (ESP) SA FLS Aerospace (DK) A/S easyTech
Keith McMann.....	None	Scottish Airports Limited Capricorn (UK) Limited
Colin Day	Reckitt Benckiser PLC Bell Group PLC	Aegis Group plc Vero Group PLC
Amir Eilon.....	easyGroup (UK) Limited easyEverything Limited easyRentacar Limited easyMoney Limited easyValue Limited easy.com Limited N. Square Properties Limited Eilon & Associates Limited	Vine Telecom Limited Credit Suisse First Boston Limited Barclays de Zoete Wedd Limited
Nick Hartley.....	Stelmar Shipping Limited easyGroup (UK) Limited easyEverything Limited easyRentacar Limited easyMoney Limited easyValue Limited easy.com Limited N. Hartley Consultancy Limited	Homepages Limited
Tony Illsley	None	Telewest Communications PLC Walkers Snack Foods Limited
John Quelch.....	WPP Group plc Blue Circle Industries plc	Pentland Group plc

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- 15.5.2 Save as disclosed in paragraphs 15.5.3, 15.5.4, 15.5.5 and 15.5.6 of this Part VII, none of the Directors or senior management has:
- (a) any unspent convictions in relation to indictable offences;
 - (b) at any time been adjudged bankrupt or been the subject of any individual voluntary arrangement in the United Kingdom or elsewhere;
 - (c) at any time been a party to a deed of arrangement or any form of voluntary arrangement (as defined in Part VIII of the Insolvency Act 1986);
 - (d) any unsatisfied judgements outstanding against him;
 - (e) been subject to any public criticism by any statutory or regulatory authority or professional body;
 - (f) been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company;
 - (g) been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation or administration or entered into any company voluntary arrangement or any composition or arrangement with its creditors generally or any class of creditors whilst he was a director of that company or within 12 months preceding such events;
 - (h) been a partner in a partnership which has been placed in compulsory liquidation or administration or entered into any partnership voluntary arrangement whilst he was a partner or within 12 months preceding such events; or
 - (i) any asset which has been placed in receivership or been a partner of any partnership whose assets have been placed in receivership whilst he was a partner of such partnership or within 12 months preceding such event.
- 15.5.3 In June 1999 the UK Securities and Futures Authority ("SFA") settled disciplinary proceedings against Amir Eilon and Barclays de Zoete Wedd Securities Limited ("BZWS") brought in relation to a breach of its rules by fining them £10,000 and £100,000 respectively and requiring them to pay its costs. The breach occurred whilst Amir Eilon was working as co-Head of the Equity Capital Markets team at BZWS acting as the senior person on the flotation of a client on the London Stock Exchange when he procured that BZWS sold shares it held in the client company in order to stabilise the market price in the incorrect belief that such action was permitted under the SFA's stabilisation rules. The SFA publicly acknowledged that both Amir Eilon and BZWS cooperated fully with its investigation. The SFA subsequently granted Amir Eilon authorisation under its regulatory framework to start Eilon & Associates as a sole practitioner giving corporate finance advice.
- 15.5.4 In April 1991, the oil tanker MV Haven sank off Genoa, Italy following a series of explosions. The ship was managed by Troodos Maritime International SA ("Troodos"), a shipping company owned by Loucas Haji-Ioannou, the father of Stelios Haji-Ioannou. Certain members of the crew were killed in the incident and certain commercial and environmental damage was caused. The civil actions associated with the incident have been substantially settled. Criminal charges of manslaughter, shipwreck, causing oil pollution, assisting in attempted extortion and attempting to bribe witnesses were brought against Stelios Haji-Ioannou, his father and another director of Troodos in Italy. Stelios Haji-Ioannou, who was 24 at the time, was working for and a director of Troodos when the accident occurred. Each of the defendants including Stelios Haji-Ioannou was acquitted of all charges in the court of first instance which decided that there was either no factual or legal basis to support the charges. After an appeal by the prosecution, the court of appeal unanimously dismissed the appeal and upheld the trial court's acquittal of the defendants. The public prosecutor filed an appeal on 28 October 2000 with the Italian Supreme Court in respect of the charges of manslaughter and shipwreck only. The lawyers representing Stelios Haji-Ioannou have confirmed that any such proceedings would be vigorously defended and are not expected ultimately to result in any sanction affecting him.
- 15.5.5 Stelios Haji-Ioannou may also face a criminal action against him in Greece arising out of an advertisement placed by easyJet in the Athens Sunday press on 11 October and 18 October 1998 (the respective dates of election and run-off election for regional and local administration authorities), inviting all those who would like to "avoid the hassle of the election" to fly to London with easyJet. The Curator of the Association of Tourist and Travel Agents, Christos

Psaltis, filed a report of criminal denunciation, alleging that through this publication, easyJet was offering bribes to voters, in exchange for them neglecting to exercise their electoral rights.

Following the above report, the Public Prosecutor of Athens Court of Misdemeanors initiated a criminal prosecution for the offence of bribery during election, committed through the press. This prosecution was directed against Stelios Haji-Ioannou, as the legal representative of easyJet UK and Chairman of its Board since it could not be directed at easyJet UK. If proved, the offence is punishable with imprisonment for a term of between three months and three years. Under Greek law, such offences, committed through the press, are time barred 18 months after the offence was allegedly committed. This alleged offence is over 2 years old.

Currently the case is with the Public Prosecutor of the Athens Court of Misdemeanors, awaiting her final opinion on whether Stelios Haji-Ioannou is to be committed to trial, acquitted, or whether the criminal prosecution against him should cease on grounds of time bar. This decision remains within the sole discretion of the public prosecutor as to when (or if) she will implement one of the above actions. There is no deadline for this decision. However, Stelios Haji-Ioannou has received legal advice that such a prosecution is likely to be time barred and unlikely to succeed on the merits in any event.

15.5.6 Stelios Haji-Ioannou also has been involved in two cases in Greece involving members of his family.

In the first case, Stelios Haji-Ioannou's former brother-in-law alleged that Stelios Haji-Ioannou, his father, uncle, brother and sister had lied in their affidavits which they had presented to the court in support of an action which was run in parallel to divorce proceedings between the brother-in-law and Stelios Haji-Ioannou's sister claiming back from the brother-in-law US\$50 million they alleged had been invested in ships rather than as he alleged, given to him as a gift. The brother-in-law obtained a judgement against Stelios Haji-Ioannou, his father, uncle, brother and sister, when they did not appear in court to contest the case. On appeal the court overturned the judgment and any further appeal is now time barred.

In the second case, one of Stelios Haji-Ioannou's uncles is claiming that Stelios Haji-Ioannou's father, Loucas Haji-Ioannou, had a silent partnership with him for a number of years and that as a result the uncle is entitled to a share of 28.17 per cent of Loucas Haji-Ioannou's assets and, to the extent the assets now held by Loucas Haji-Ioannou are not sufficient to meet that claim, to recover the shortfall from Stelios Haji-Ioannou and his brother and sister. Stelios Haji-Ioannou and his brother and sister have been advised that the claim as presented is likely to fail and could not in any event give rise to any right attaching to their interests in easyJet Holdings Limited.

15.6 Auditors and accounts

The financial information contained in this document does not amount to statutory accounts within the meaning of Section 240 of the Act. Full audited consolidated accounts for easyJet and its subsidiaries for the years ended 30 September 2000, 1999 and 1998 have been prepared under the historical cost convention and in accordance with currently applicable accounting standards in the United Kingdom. These consolidated accounts have been audited by KPMG Audit Plc, Chartered Accountants.

Full audited consolidated accounts have been delivered to the Registrar of Companies for easyJet plc and its subsidiaries for the year ended 30 September 2000. The audited consolidated accounts for easyJet plc and its subsidiaries for the years ended 30 September 1999 and 1998, prepared using merger accounting principles, constitute non-statutory accounts and accordingly have not been delivered to the Registrar of Companies. Audited accounts for easyJet Airline Company Limited have been prepared for the years ended 30 September 1999 and 1998 and delivered to the Registrar of Companies. The auditors of easyJet Airline Company Limited for the year ended 30 September 1997 were Moore Stephens, Chartered Accountants of 8 Warwick Lane, London EC4 and for the two years ended 30 September 1999 were KPMG. The auditors of easyJet Airline Company Limited made reports under Section 236 of the Act in respect of all periods up to and including 30 September 1999, and such reports were unqualified reports within the meaning of Section 270-275 of the Act. The auditors of easyJet Switzerland made reports in accordance with the applicable Swiss law in respect of all periods up to and including 30 September 1999. The reports for the years ended 30 September 1998 and 1999 were qualified due to (a) the uncertainty of the Swiss VAT issue (see "Litigation" in Part VII of this document) and (b) the fact that as at 30 September 1999 easyJet Switzerland had negative net assets. There is no requirement under Swiss law for easyJet Switzerland's accounts to be delivered to any relevant authorities. The auditors of easyJet Switzerland S.A. are KPMG Fides.

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15.7 Consent

KPMG Audit Plc has given and not withdrawn its written consent to the inclusion of its report in Part VI of this document and to its name and references to its name and such report in the form and context in which it is included and has authorised that Part of this document to which it consents for the purpose of section 152(1)(e) of the Financial Services Act 1986.

15.8 Miscellaneous

15.8.1 The Ordinary Shares are in registered form and will, following Admission, be capable of being held in uncertificated form. Prior to the despatch of share certificates following the Global Offering, transfers will be certified against the register of members. easyJet plc has applied to CREST Co Limited, the operator of CREST, for the Ordinary Shares to be admitted to CREST with effect from Admission. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Articles of Association of easyJet plc, adopted conditionally upon Admission, will permit the holding of Ordinary Shares under CREST. CREST is a voluntary system and holders of Ordinary Shares who wish to retain share certificates will be able to do so.

The Global Offering has been underwritten by Credit Suisse First Boston Equities Limited which is registered in England (No. 2278838) and has its registered office at One Cabot Square, London E14 4QJ, UBS AG, acting through its business group UBS Warburg which is registered in England (No. FC021146, Branch No. BR004507) and has its registered office at 1 Finsbury Avenue, London EC2M 2PP, Merrill Lynch International which is registered in England (No. 2312079) and has its registered office at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9LY and Salomon Brothers International Limited which is registered in England (No.1763297) and has its registered office at Citigroup Centre, 33 Canada Square, Canary Wharf, London E14 5LB. Credit Suisse First Boston Equities Limited, UBS Warburg, Merrill Lynch International and Salomon Brothers International are members of The Securities and Futures Authority Limited.

15.8.2 The Ordinary Shares being placed have a nominal value of 25p and the premium on issue pursuant to the Global Offering will be 285 pence per Ordinary Share, the issue price is to be paid in cash.

15.8.3 It is anticipated that definitive share certificates will be posted by first class mail to shareholders, at their risk, on or before 22 November 2000. No temporary documents of title will be issued.

15.8.4 The Directors are not aware of any arrangement under which future dividends are to be waived or agreed to be waived.

15.8.5 None of the Ordinary Shares have been sold or are available in whole or in part to the public in conjunction with the application for the Ordinary Shares to be admitted to the Official List and to trading on the London Stock Exchange.

16. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the offices of Norton Rose, Kempson House, Camomile Street, London EC3A 7AN during usual business hours on any weekday (Saturdays and public holidays excepted) for a period of 14 days from the date of this document, or for the duration of the Global Offering if longer:

- 16.1 the Memorandum and Articles of Association of easyJet plc referred to in paragraph 4 above;
- 16.2 the material contracts referred to in paragraph 12, 13 and 14 above together with translations into English (where relevant);
- 16.3 the letters of appointment referred to in paragraphs 6.1 and 6.2 above;
- 16.4 the letter of consent referred to in paragraph 15.7 above;
- 16.5 the Accountants' report set out in Part VI of this document;

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16.6 the rules of the Share Option Schemes;

- ▶ the deed of trust constituting the easyJet Employee Share Ownership Trust and the deed of trust constituting the easyJet Overseas Employee Share Ownership Trust;
- ▶ loan facility agreement entered into between the Trustee and the Company;
- ▶ loan facility agreement entered into between the Trustee and easyJet Switzerland;
- ▶ two share subscription agreements entered into between the Trustee and the Company;

16.7 the audited consolidated accounts of the Group for each of the three financial years ended 30 September 1998, 30 September 1999 and 30 September 2000; and

16.8 this document.

Definitions

The following definitions apply throughout this document unless the context requires otherwise:

“Act”	the Companies Act 1985, as amended
“Admission”	admission of the Ordinary Shares, issued and to be issued pursuant to the Global Offering, to the Official List and to trading on the main market of the London Stock Exchange becoming effective in accordance with the Listing Rules and the London Stock Exchange Admission and Disclosure Standards
“Board” or “Directors”	the directors of the Company, as set out on page 5 of this document
“Company”	easyJet plc
“Credit Suisse First Boston”	Credit Suisse First Boston (Europe) Limited or, where appropriate, Credit Suisse First Boston Equities Limited
“CREST”	the computerised settlement system operated by CRESTCo Limited to facilitate the transfer of title to shares in uncertificated form
“easyGroup IP Licensing”	easyGroup IP Licensing Limited
“easyJet”	the easyJet airline business operated by easyJet UK and easyJet Switzerland
“easyJet plc”	the issuer, or its predecessor easyJet Limited when the context so requires
“easyJet Switzerland”	easyJet Switzerland S.A., formerly named TEA Basel AG
“easyJet UK”	easyJet Airline Company Limited
“easyTech”	FLS easyTech Limited
“EC Treaty”	the Treaty of Rome
“EEA”	European Economic Area, comprising the member states of the EU, Norway, Iceland and Liechtenstein
“Executive Committee”	the executive committee of easyJet UK comprising senior managers of the Group’s business
“Executive Director”	an executive director of the Company
“EU”	the European Union
“financial year”	a financial year of the Company ending on 30 September
“FLSA”	FLS Aerospace (UK) Limited
“FSA”	the Financial Services Act 1986
“Global Offering”	the placing by Credit Suisse First Boston and UBS Warburg at the Global Offering Price of the Global Offering Shares as described in this document
“Global Offering Price”	310p per Ordinary Share
“Group”	easyJet plc and its subsidiary undertakings
“Joint Bookrunners”	Credit Suisse First Boston Equities Limited and UBS AG, acting through its business group UBS Warburg
“Joint Sponsors”	Credit Suisse First Boston (Europe) Limited and UBS Warburg Ltd., a subsidiary of UBS AG
“Listing Rules”	the listing rules made under section 142 of the FSA
“London Stock Exchange”	London Stock Exchange plc

Definitions

“New Share Option Schemes”	the easyJet Approved Discretionary Share Option Scheme, the easyJet Non-approved Discretionary Share Option Scheme and the easyJet All-Employee Share Ownership Plan
“New Ordinary Shares”	the new Ordinary Shares proposed to be issued by the Company as part of the Global Offering
“Non-Executive Director”	a non-executive director of the Company
“Official List”	the Official List of the UK Listing Authority
“Ordinary Shares”	ordinary shares of 25p each in the capital of easyJet plc
“Over-allotment Option”	the option granted by the Company to the Underwriters to procure purchasers for or, failing which, to purchase additional Ordinary Shares at the Global Offering Price, to cover over-allotments, if any, made in connection with the Global Offering, as more particularly described in paragraph 9 of Part VII
“Pre-Flotation Share Option Schemes”	the easyJet Key Employee Pre-Flotation Share Option Scheme and the easyJet Switzerland Key Employee Pre-Flotation Share Option Scheme
“Regulations”	The Uncertificated Securities Regulations 1995
“Share Gift”	the award of free Ordinary Shares of fixed value made to selected employees and vesting in part on Admission and the balance on the first anniversary of Admission, more particularly described in “Share options” in Part VII of this document
“Share Bonus Schemes”	the award of free Ordinary Shares made to selected employees and vesting on Admission, more particularly described in “Share options” in Part VII of this document
“Share Option Schemes”	the Pre-Flotation Share Option Schemes and the New Share Option Schemes
“Sponsors’ and Underwriting Agreement”	the conditional agreement dated 15 November 2000 between the Company, the Directors, easyJet Holdings Limited, the Joint Sponsors and the Underwriters, details of which are set out in paragraph 9 of Part VII of this document
“TEA”	TEA Basel AG, subsequently renamed easyJet Switzerland S.A.
“Trustee”	easyJet Trustees Limited (registered in Jersey) which is the trustee of the easyJet Employee Share Ownership Trust and of the easyJet Overseas Employee Share Ownership Trust
“UBS Warburg”	UBS AG, acting through its business group UBS Warburg or, where appropriate, its subsidiary UBS Warburg Ltd.
“UK”	the United Kingdom of Great Britain and Northern Ireland
“UK GAAP”	generally accepted accounting principles in the United Kingdom
“UK Listing Authority”	the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part IV of the FSA
“Underwriters”	UBS AG, acting through its business group UBS Warburg, Credit Suisse First Boston Equities Limited, Merrill Lynch International and Salomon Brothers International Limited
“US”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“US GAAP”	generally accepted accounting principles in the United States
“US Securities Act”	the US Securities Act of 1933 (as amended)

Glossary of technical terms

“AOC”	Air Operator’s Certificate
“APD”	Air Passenger Duty
“ASA”	Air Service Agreement
“ASK”	Available seat kilometres, representing the sum by route of seats available for passengers multiplied by the number of kilometres those seats were flown
“CAA”	the UK Civil Aviation Authority
“CRS fees”	Computer reservation system fees
“dry lease”	aircraft rental agreement between an aircraft owner/lessor and a lessee in which payments generally cover ownership-related costs and maintenance reserves only
“EBITDAR”	earnings before interest, taxes, depreciation, amortisation and lease payments, excluding the maintenance reserve component of operating lease payments (see note (4) to the table included in “Management’s Discussion and Analysis of Results of Operations and Financial Condition – Results of Operations” in Part III of this document)
“EC Fares Regulation”	Council regulation (EEC No 2409/92) of 23 July 1992 on fares and rates for air services
“EC Ground Handling Directive”	Council directive 96/97/EC of 15 October 1996 on access to the ground handling market at Community airports
“EC Licensing Regulation”	Council regulation (EEC No. 2407/92) of 23 July 1992 on licensing of air carriers
“EC Market Access Regulation”	Council regulation (EEC No. 2408/92) of 23 July 1992 on access for community air carriers to intra-Community air routes
“EC Slot Regulation”	Council regulation (EEC No. 95/93) of 18 January 1993 on common rules for the allocation of slots at Community airports
“FOCA”	Swiss Federal Office of Civil Aviation
“FSBTI”	Flight Safety Boeing Training International
“Getup”	(a) white lettering on an orange background (pantone 021C on glossy print materials; on other surfaces the nearest practicable equivalent) and (b) in Cooper Black font (not bold, italics, outline nor underlined) the word “easy” in lower case followed (without space) by another word, only the initial letter of which is capitalised (subject to the restriction that any wording apart from (b) above must not be in Cooper Black font)
“IATA”	International Air Transport Association
“ICAO”	International Civil Aviation Organisation
“initial sales”	the number of seats sold at the time of the initial purchase
“Interlining”	a process by which airlines can offer customers easier connections between flights of different carriers at the same airport
“itinerary fares”	single fares for multiple flights
“JAA”	Joint Aviation Authorities
“JAR”	Joint Airworthiness Requirements
“JAR 145 approval”	Joint Airworthiness Requirements 145, the European airline industry standard certification for aircraft maintenance

“line maintenance”	maintenance conducted pre-flight to ensure an aircraft is fit to fly, including defect rectification, component repair, minor repairs, troubleshooting and scheduled minor aircraft checks/inspections, all of which tasks should not require major disassembly activity
“load factor”	The number of passengers as a proportion of the number of seats available for passengers, no weighting of the load factor is carried out to recognise the effect of varying flight (or “stage”) lengths
“multi-product service”	a service offering differential classes or types of product
“NMC”	easyJet’s network management centre
“RPK”	Revenue passenger kilometres, representing the sum by route of passengers multiplied by the number of kilometres those passengers were flown
“sector”	a single flight from one airport to another
“slot”	designated time for arrival or departure for taking off or landing an aircraft at an airport
“utilisation”	the number of hours an aircraft is operated in a period of time, where hours include flying time and the time spent taxiing on the ground.
“URL”	Uniform Resource Locator
“wet lease”	aircraft rental agreement between an aircraft owner/lessor and lessee in which payments generally cover not only ownership-related costs and maintenance reserves but also operating costs such as crew, maintenance and insurance
“yield”	Average fare net of air passenger duties and internet booking discounts

Form of nationality declaration

The rights of easyJet Airline Company Limited ("easyJet UK"), a wholly owned subsidiary of easyJet plc ("plc"), to operate as an air carrier on routes between the UK and Switzerland could be withdrawn if easyJet UK ceases to be substantially owned and effectively controlled by UK nationals, and its rights to operate as an air carrier on routes within the European Economic Area (the "EEA") could be withdrawn if easyJet UK ceases to be majority owned and effectively controlled by EEA nationals. Accordingly, the Articles of Association of plc contain powers which, inter alia, may be used to limit the number of, or the exercise of voting and other rights attaching to, shares of plc in which non-UK nationals own interests and, if necessary, to require their compulsory disposal, and to restrict the transferability of such shares. The Directors of plc may in the future relax these powers so as to apply to non-EEA nationals rather than non-UK nationals.

A share transfer cannot be registered unless the Declaration set forth below has been completed and furnished to Lloyds TSB Registrars at The Causeway, Worthing, West Sussex BN12 6DA. To complete this Declaration a prospective transferee must:

- (a) tick one of (but not more than one of) box A, box B or box C, as appropriate;
 - (b) sign this Declaration in the space provided; and
 - (c) if the person signing this Declaration is a stockbroker, bank manager, solicitor or other agent for the prospective transferee, complete the "Declaration of Agent" on page 2 hereof.
- A I/We declare that the shares to be registered in my/our name(s) pursuant to the attached transfer are both "UK Affected Shares" and "EEA Affected Shares".
- B I/We hereby declare that the shares to be registered in my/our name(s) pursuant to the attached transfer are "UK Affected Shares" but not "EEA Affected Shares".
- C I/We declare that the shares to be registered in my/our name(s) pursuant to the attached transfer are neither "UK Affected Shares" nor "EEA Affected Shares".

For the purposes of this Declaration:

- (i) a UK Affected Share is a share beneficially owned by a non-UK national or in which a non-UK national has an "interest";
- (ii) a non-UK national means (a) an individual who is not a national of the UK; (b) a body corporate which is not controlled by nationals of the UK; (c) a government or governmental department, agency or body otherwise than of the UK; (d) a municipal, local, statutory or other authority formed or established in any country other than the UK; or (e) any other undertaking or body which is not controlled by nationals of the UK;
- (iii) an EEA Affected Share is a share beneficially owned by a non-EEA national or in which a non-EEA national has an "interest";
- (iv) a non-EEA national means (a) an individual who is not a national of an EEA Member State; (b) a body corporate which is not controlled by nationals of the EEA; (c) a government or governmental department, agency or body of any non-EEA country; (d) a municipal, local, statutory or other authority formed or established in any country other than an EEA country; or (e) any other undertaking or body which is not controlled by nationals of the EEA;
- (v) a beneficial owner is any person or entity that, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise has or shares (a) voting power (including the power to exercise or direct the exercise of any voting rights attaching to the shares) or (b) investment power (including the power to dispose, or to direct the disposition of, such shares); and
- (vi) a person has an interest in shares if (a) a company is interested in them and (i) the company or its directors are accustomed to act in accordance with his instructions or (ii) he is entitled to exercise or control the exercise of one third or more of the voting power at general meetings of the company (and for this purpose he is deemed to be able to exercise any voting power in any other company which such a company can exercise) (b) he has entered into a contract to purchase the shares or is entitled to exercise or control the exercise of any right attaching to the shares (or he has a right or is under an obligation that, if exercised or fulfilled, would so entitle him) (c) he is entitled to call for delivery of the shares or he is

Form of nationality declaration

entitled or obliged to acquire an interest in the shares or (d) a spouse or child under the age of 18 years of such person is interested in the shares.

Date:

**Name of Transferee:*

Surname First Name Middle Name(s)

Address:

No. and Street Town or City Post Code Country

**Signature of Transferee:*

**Note if the transferee is a corporate or similar entity, complete the following:*

Name of Entity:

Name of Authorised Signatory:

Title:

Signature:

This Declaration should normally be made by the person(s) named in the accompanying transfer(s) as the transferee(s). In the case of joint transferees ALL must sign. A corporation should either affix its seal or complete the form under the hand of a duly authorised official or agent who should state his capacity. Shares to be held by a nominee must be considered held by the person for whom the nominee is acting if such person is the beneficial owner of such shares or has an interest in such shares, as described above.

If the completion of this Declaration by the Transferee(s) would lead to undue delay plc will accept a Declaration made by the stockbroker, bank manager, solicitor or by any other person duly authorised by Power of Attorney, in every case acting as the agent of the transferee(s). In such cases, however, the following declaration must also be made:

DECLARATION BY AGENT: I/We, being the person(s) making the Declaration set out above as agent(s) for the person(s) named as transferee(s) in the accompanying form of transfer and whose name(s) is/are set out herein, represent and warrant that person(s) ON WHOSE BEHALF THE Declaration is made is/are known to me/us and that I/we am/are duly authorised to make the said Declaration on behalf of such person(s) and that, having made such inquiries as I/we consider appropriate regarding the statements contained in such Declaration, such statements are correct to the best of my/our knowledge and belief.

Signature(s):

Date: Organisation:

If signed by a stockbroker, bank manager or solicitor, give the name, address and telephone number of the person signing this form:

Full Name(s):

Organisation:

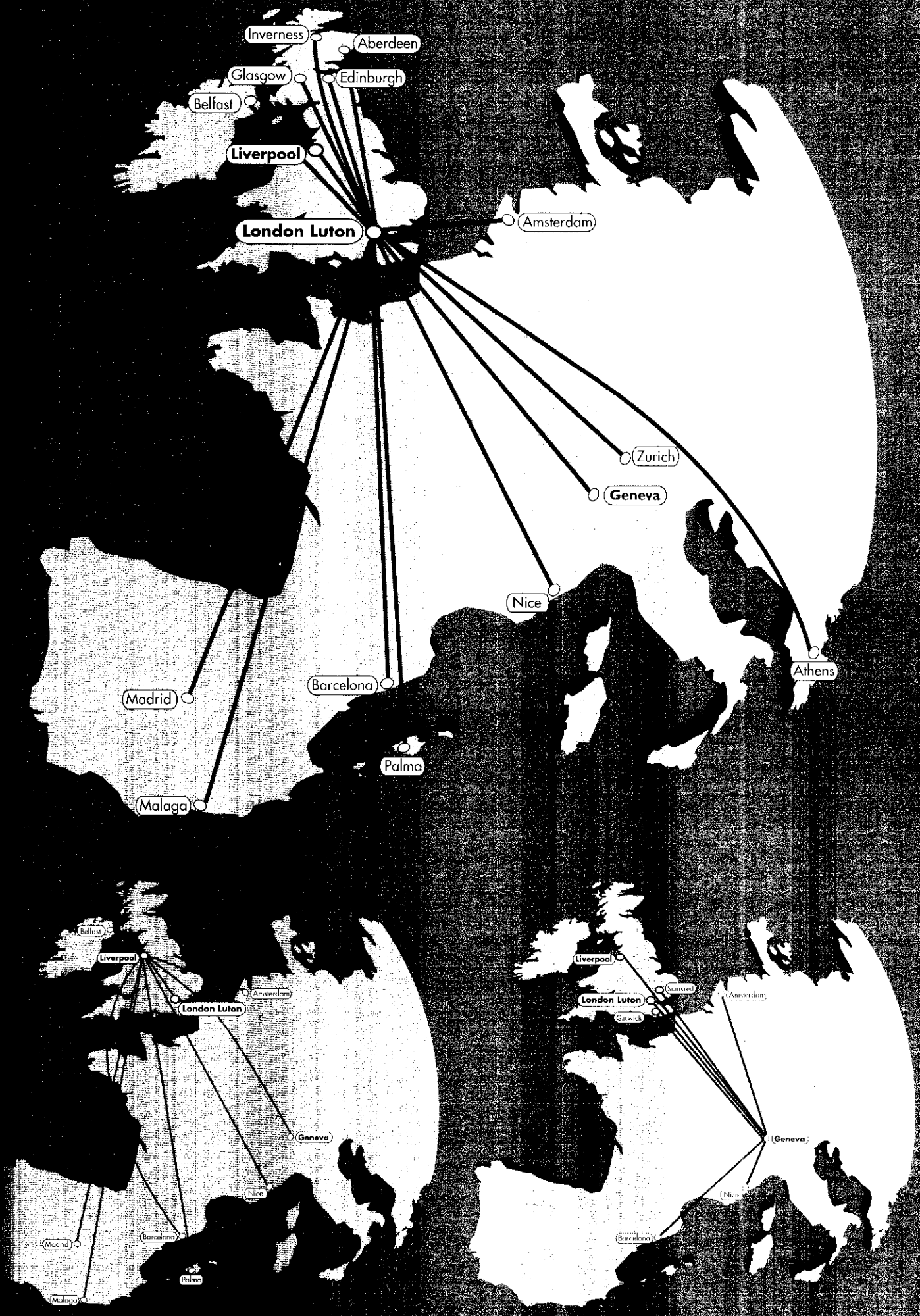
Address:

Organisation:

plc reserves the right to request a signed copy of the Power of Attorney or other documents establishing any agency relationship. The Directors of plc reserve the right to be supplied with such evidence as they may require of the authority of any signatory on behalf of a transferee and to require such evidence or information as to any matters contained in this Declaration or as to any interest whatsoever held by any party in shares within the meaning of Part VI of the Companies Act 1985. The Directors of plc will refuse to register a share transfer if such further evidence is not provided or given. If you are in any doubt as to how to complete this Declaration or as to the definition of Affected Shares, you should consult your lawyer or other professional adviser.

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The registration of a share transfer following the completion of this Declaration and, where relevant, the provision by the transferee of such other evidence or information as the Directors of plc may have required prior to such registration is without prejudice to the ability of the Directors of plc to exercise any or all of the powers exercisable by them pursuant to the Articles of Association of plc. In particular, the Directors have power to apply a broader definition of the term "Affected Share" pursuant to the Articles of Association of plc than is applied for the purposes of this Declaration and may adopt a different form of nationality declaration in substitution for this Declaration from time to time.





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