

Annual Report and Accounts 2015

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easyJet PLC

04 December 2015

easyJet plc ("the Company")

Annual report and accounts 2015

The Company announces that a copy of the Annual report and accounts for the year ended 30 September 2015 has been submitted to the National Storage Mechanism and will shortly be available for inspection at: www.hemscott.com/nsm.do.

This document is also available to view on the Company's website. The direct link to download the 2015 Annual Report and Accounts is <http://2015annualreport.easyjet.com/>.

In compliance with DTR 6.3.5, the following information is extracted from the 2015 Annual report and accounts and should be read together with the Company's Final Results announcement issued on 17 November 2015 which can be found at <http://otp.investis.com/clients/uk/easyjet/rns/regulatory-story.aspx?cid=2&newsid=593844>.

Together these constitute the information required to be communicated to the media in unedited full text through a Regulatory Information Service. This information is not a substitute for reading the full 2015 Annual report and accounts.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The following responsibility statement is extracted from the Statement of Directors' Responsibilities on page 84 of the 2015 Annual report and accounts and is repeated here solely for the purpose of complying with DTR 6.3.5. The statement relates to the full 2015 Annual report and accounts and not the extracted information presented in this announcement or the Final Results announcement:

The Directors are responsible for preparing the annual report, the Directors' remuneration report and the accounts in accordance with applicable law and regulations.

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

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

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the accounts and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group accounts, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of, amongst other things, the financial and corporate governance information provided on the easyJet website (<http://corporate.easyJet.com>). Legislation in the United Kingdom governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and

provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in on pages 48 and 49 confirm that, to the best of their knowledge:

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

In accordance with Section 418 of the Companies Act 2006, each Director in office at the date the Directors' report is approved, confirms that:

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

The annual report on pages 1 to 84 was approved by the Board of Directors and authorised for issue on 16 November 2015 and signed on its behalf by:

Carolyn McCall OBE Chief Executive
Andrew Findlay Chief Financial Officer

PRINCIPAL RISKS AND UNCERTAINTIES

The risks and uncertainties set out below are extracted from the pages 25 to 39 of the 2015 Annual report and accounts and are repeated here solely for the purpose of complying with DTR 6.3.5.

The risks and uncertainties described are considered, at this point in time, to have the great effect on easyJet's strategic objectives. This list is not intended to be exhaustive. Whilst easyJet can monitor risks and prepare for adverse weather scenarios, the ability to affect the core drivers of many risks is not within the Group's control, for example adverse weather, pandemics, acts of terrorism, changes in government regulation and macroeconomic issues.

Link to strategy:

- 1 Build strong number 1 and 2 network positions
- 2 Drive demand, conversion and yields
- 3 Maintain cost advantage
- 4 Disciplined use of capital
- 5 Culture, People & Platform

SAFETY FIRST

Risk description	Mitigation
<p>Major safety incident</p> <p>A major safety incident (such as a hull loss) could adversely affect easyJet's reputation and its operational and financial performance. The impact of such an incident would be heightened if easyJet failed to react promptly and deal with it effectively.</p> <p>Link to strategy: 1 2 3 4 5</p>	<p>easyJet's number one priority is the safety and security of its customers and people.</p> <p>A Safety Committee (a committee of the Board) provides oversight of the management of easyJet's safety processes and systems</p> <p>Turn to pages: 52-53 for further details</p> <p>A Safety Review Board (at Executive Management Team level) is responsible for directing overall safety policy and governance.</p> <p>Safety Action Groups from across the airline are responsible for the identification, evaluation and control of safety-related risks.</p> <p>easyJet operates a Safety Management System using a leading software system (SafetyNet). This is used to:</p> <ul style="list-style-type: none"> collect and analyse safety data (enabling potential areas of risk to be projected); and enable learning from easyJet and industry events/incidents to be captured and embedded into future risk mitigations. <p>A robust incident reporting process and 'Just Culture' are in place.</p> <p>Turn to page: 31 for further details</p> <p>easyJet has an emergency response process and performs regular crisis management exercises.</p> <p>Hull (all risks) and liabilities insurance (including spares) is held.</p> <p>easyJet has an industry-leading fatigue risk management system and is currently implementing the EASA Flight Time Limitations regulations.</p>
<p>Security threat or attack</p> <p>Failure to identify or prevent a major</p>	<p>A Security Decision Making Group, comprising the Chairman, Chief Executive, appropriate members of the Executive Management Team and</p>

security-related threat or attack, or react immediately and effectively, could adversely affect easyJet's reputation and its operational and financial performance.

Link to strategy:

[1](#) [2](#) [3](#) [4](#) [5](#)

other senior management, determines whether easyJet should continue to operate in countries or areas affected by security-related incidents.

The Director of Safety and Security and the Head of Security work with authorities and governments around easyJet's network to assess whether security measures are effective and in compliance with regulatory requirements. A significant amount of work is carried out with the aim of enhancing:

- early identification of developing and emerging security risks;
- the active management of security risks;
- the methods for reducing the impact of any security-related incident; and
- the Group's security culture and awareness.

OPERATIONAL EXCELLENCE

Risk description

Significant network disruption

A number of factors could lead to widespread disruption to easyJet's network, including forces of nature (extreme weather, volcanic ash, etc.), terrorism, epidemics/pandemics or the closure of a key airport.

Significant disruption to the network could significantly adversely affect easyJet's reputation and its operational and financial performance.

Link to strategy:

[1](#) [2](#) [3](#) [4](#)

Mitigation

There are processes in place, and clear roles and responsibilities within teams across the business, to manage significant disruption.

A business disruption team, which includes senior management from relevant business areas, determines and initiates required action.

A business continuity programme is in place.

Board policy is to maintain target liquidity at £4 million per aircraft, which is supported by a \$500 million (five-year) revolving credit facility provided by a group of 12 relationship banks. This allows the Group to better manage the impact of downturns in business or temporary curtailment of activities.

In addition, easyJet holds business disruption insurance.

Critical IT system failure and continuity of services

easyJet is dependent on a number of key IT systems and processes.

A loss of critical systems or access to facilities, including the website, could lead to significant disruption and could have an adverse operational, reputational and financial impact.

Link to strategy:

[2](#) [3](#) [5](#)

Key systems are hosted across two data centres in two distinct locations, with failover arrangements between them, or within third-party provider locations, for which failover arrangements are contractually agreed with them.

IT disaster recovery plans are in place and tested regularly to identify areas for improvement in resilience.

An IT incident management team is in place to respond rapidly to any unforeseen incidents that may arise.

If there is a need to relocate critical staff due to the loss of facilities, alternative sites are available at short notice.

Delivery of projects supporting the business strategy

The business is undertaking a number of key projects and programmes to deliver key elements of the strategy.

If these projects and programmes fail to deliver the business benefits and cost savings planned, easyJet could fall short of its planned financial results.

Link to strategy:

[1](#) [2](#) [3](#) [4](#) [5](#)

A Steering Group, consisting of the Executive Management Team and key senior management, provides challenge to project teams, monitors progress and ensures that decisions are made at the appropriate level.

Key IT projects or programmes have additional oversight through the IT Governance and Oversight Committee (a committee of the Board).

[Turn to page: 59](#) for further details

A portfolio management office is in place to oversee delivery of projects and programmes, and track budgets and realisation of benefits.

A project management framework, which sets out the governance requirements, key processes and controls, is followed by all projects and programmes.

Third-party service providers

easyJet has entered into agreements with third-party service providers for services covering a significant proportion of its operational and cost base.

Failure to adequately manage third party performance could adversely affect easyJet's reputation and its operational and financial performance.

Link to strategy:

[3](#) [5](#)

easyJet has a centralised procurement team which aims to provide the Group with competitive supply options.

Following the supplier selection process the contract is managed according to easyJet's supplier management framework, whose key principles cover defined ownership and accountability, a governance framework and effective communication.

Alternative service providers are identified and assessed within the major markets in which easyJet operates.

Robust transition plans are agreed in the event of switching suppliers to enable an acceptable level of service to be maintained.

Industrial action

easyJet, and the aviation industry in general, has a significant number of employees who are members of trade unions. Industrial action taken by easyJet employees, or by the employees of key third-party service providers, could impact on easyJet's ability to maintain its flight schedules.

This could adversely affect easyJet's reputation and its operational and financial performance.

Link to strategy:

[2](#) [3](#) [5](#)

As easyJet operates across Europe there are 18 unions and nine representative bodies across eight countries of which crew are members. easyJet seeks to maintain positive working relationships with all trade unions and other representative bodies.

Each of the countries in which easyJet operates has localised employment terms and conditions. This mitigates the risk of large-scale internal industrial action occurring at the same time.

Processes are in place to adapt to disruptions as a result of industrial action.

Senior management succession

easyJet's current and future success is reliant on having the right people with the right capabilities in key leadership positions.

easyJet's aim is to develop talent from within. There are several talent development programmes in place for individuals who have been identified for fast-tracking into more senior roles as vacancies arise.

In addition, a management development programme is in place to develop

Failure to develop and grow the capabilities and behaviours required of senior management so that there are clear successors for all key business roles, could adversely affect easyJet's ability to deliver its strategic objectives.

Link to strategy:
5

Single fleet risk

easyJet is dependent on Airbus as its sole supplier for aircraft.

There are significant cost and efficiency advantages of a single fleet, however, there are two main associated risks:

- technical or mechanical issues that could ground the full fleet, or part of the fleet, which could cause negative perception; and
- valuation risks which crystallise when aircraft exit the fleet. The main exposure at this time is with the ageing A319 fleet, where easyJet is reliant on the future demand for second-hand aircraft.

Link to strategy:
3 4

people management and senior leadership capabilities. These programmes operate at various levels within the organisation.

There is an annual succession planning process.

The Board considers that the efficiencies achieved by operating a single fleet type outweigh the risks associated with easyJet's single fleet strategy.

The Airbus A320 family (which includes the A319) is one of the two primary fleets used for short-haul travel. There are approximately 6,000 A320 family aircraft operating with a proven track record for reliability.

easyJet operates a rigorous established aircraft maintenance programme.

To mitigate the potential valuation risks, easyJet regularly reviews the second-hand market and has a number of different options when looking at fleet exit strategies. Leasing facilitates the exit of A319 aircraft from the fleet by transferring residual value risk, and also provides flexibility in managing the fleet size.

STRONG BALANCE SHEET

Risk description

Financial risk

easyJet is exposed to a variety of financial risks which could give rise to adverse pressure on the financial performance of the Company, e.g. costs, revenue.

- Market risks - significant/sudden increases in jet fuel prices, currency fluctuations or interest rates which have not been adequately protected through hedging
- Counterparty risk - non-performance of counterparties used for depositing surplus funds (e.g. money market funds, bank deposits)
- Liquidity risk - misjudgement in the level of liquidity resulting in inability to meet contractual/contingent financial obligations or the inability to fund the business when needed.

Link to strategy:
3 4

Mitigation

The Finance Committee (a committee of the Board) oversees the Group's treasury and funding policies and activities.

Turn to page: 59 for further details

This includes:

- treasury policy setting out Board approved strategies for foreign exchange and fuel hedging, along with liquidity, interest rate management, counterparties and cash deposit limits; and
- reviewing and reporting on compliance with Board treasury policies.

The policy is to hedge within a percentage band for a rolling 24-month period.

Board policy is to maintain target liquidity at £4 million per aircraft, which is supported by a \$500 million (five-year) revolving credit facility provided by a group of 12 relationship banks. This allows the Group to better manage the impact of downturns in business or temporary curtailment of activities.

A strong balance sheet supports the business through fluctuations in economic conditions.

REPUTATIONAL RISKS

Risk description

Major shareholder and brand owner relationship

easyJet has two major shareholders (easyGroup Holdings Limited and Polys Holding Limited) which, as a concert party, control 33.73% of its ordinary shares. Shareholder activism could adversely impact the reputation of easyJet and cause a distraction to management.

easyJet does not own its Company name or branding, which is licensed from easyGroup Ltd. The licence includes certain minimum service levels that easyJet must meet in order to retain the right to use the name and brand. The easyJet brand could also be impacted through the actions of easyGroup or other easyGroup licensees.

Link to strategy:
4

Mitigation

easyJet has an active shareholder engagement programme led by its investor relations team. As part of that programme easyJet engages with easyGroup Holdings Limited on a regular basis alongside its other major shareholders.

In addition to engaging with easyGroup as part of the shareholder engagement programme, the Company has a relationship agreement with easyGroup and Polys Holdings in line with the controlling shareholder regime as set out in the Financial Conduct Authority's Listing Rules.

Turn to page: 83 for further details

Representatives from the Board and senior management take collective responsibility for addressing issues arising from any activist approach adopted by the major shareholder. The objective is to proactively address issues before they arise and anticipate and plan for potential future activism.

The brand licence agreement with easyGroup Ltd provides for the regular meeting of senior representatives from both sides to actively manage brand-related issues as they arise. Such meetings occur on a quarterly basis and have proven effective. easyJet also monitors compliance with brand licence service levels and has a right to take steps to remedy any instance of non-compliance.

Cyber threat and information security

easyJet receives most of its revenue through credit card transactions and operates as an e-commerce business. It faces both external cyber threats and internal risks to its data and systems.

A security breach could negatively impact easyJet's reputation and have an adverse operational and financial impact.

Link to strategy:
2 3 5

An Information Security Steering Group, chaired by the General Counsel, oversees any developments in data threats and controls and determines whether appropriate responses are being taken to them.

There is a dedicated information security team to monitor and manage information security risk. The following controls are in place:

- monitoring of secure systems against unauthorised access;
- reviewing the security of internal systems and easyJet.com through quarterly vulnerability scanning;
- periodic mandatory employee security training to maintain staff awareness;
- considering information security risks within procurement processes and the introduction of new systems and IT services;

- monitoring and control of scanning software for fraudulent customer activity by the revenue protection team; and
- providing robust physical security at head office buildings.

Given the nature of this risk the appropriateness of the controls is under continuous review.

Competition and industry consolidation

easyJet operates in competition with both flag carriers and other low-cost airlines.

easyJet's key competitive advantages include its network, cost base, digital innovation and efficient and robust capital structure. Failure to retain these advantages or react quickly to competitor changes could have an adverse financial impact.

Industry consolidation could also affect the competitive environment in a number of markets. This could cause a loss of market position and erosion of revenue.

Link to strategy:
[1](#) [2](#) [3](#)

easyJet seeks to have a rapid response to any such activity that may impact easyJet's ability to grow the business.

Competitor and consolidation activity is monitored, enabling key routes/positions to be readily defended.

The Network Development Forum, a cross-functional panel of senior executives, approves new bases and the allocation of assets around the network.

Fleet framework arrangements, together with the Group's leasing policy, provide easyJet with significant flexibility in respect of scaling the fleet according to business requirements.

Strong cost control is a key behaviour across the Company, with initiatives to drive cost reduction and improve efficiency in targeted areas.

Legislative and regulatory risks

easyJet is exposed to legislative and regulatory oversight across its network and all countries where it sells its product via a native language website. This will increase as easyJet grows geographically and the number of local language websites increases.

Failure to comply with legislative and regulatory requirements (or interpretations thereof), such as local consumer laws, passenger compensation for certain long flight delays and cancellations, and environmental and airport regulations, in the jurisdictions in which easyJet operates could have an adverse reputational and financial impact.

In the event the UK votes to leave the European Union, the terms of exit could have implications for easyJet to continue to operate the network it does currently.

Link to strategy:
[2](#) [3](#) [4](#) [5](#)

The Regulatory Affairs Group co-ordinates easyJet's role in influencing future and existing policy and regulations which affect the airline industry.

Country oversight Boards are established for easyJet's main markets, raising awareness of potential changes and impacts in the different countries. Industry bodies and legal advisers in-country are also used to understand and develop appropriate responses to new legislation.

easyJet has an in-house legal team to monitor compliance with formal regulatory requirements.

End

4 December 2015

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