easyJet Airline Company Limited
Company Number - 03034606

easyJet Airline Company Limited

Annual Report and Accounts

For the year ended 30 September 2020

Registered Number 03034606

easyJet Airline Company Limited

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easyJet Airline Company Limited

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Review of the business

easyJet Airline Company Limited (the "Company" or "easyJet") is incorporated in the United Kingdom and is the principal airline operating subsidiary of easyJet plc. The Company is an airline transport provider operating principally in Europe, providing airline services to directly to consumers, as well as providing flights which easyJet holidays packages together with accommodation and other services. The full Strategic Report of easyJet plc and all of its subsidiaries (the "Group") may be found on pages 2 to 77 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020.

The Company is a low-cost European point-to-point airline. easyJet uses its cost advantage, operational efficiency and leading positions in primary airports to deliver low fares, seamlessly connecting Europe with the warmest welcome in the sky. easyJet carried over 48 million passengers in the 2020 financial year (2019: over 96 million) on more than 980 routes (2019: over 1,050) across 35 countries (2019: 34).

Our leading position at slot constrained airports with high customer demand allows us to deliver profitable growth and resilient returns over the long term. Our cost efficiency is achieved through long-term strategic partnerships with key airports and ground-handling operators. easyJet has a focus on providing services which our customers value.

During the first half of the year easyJet delivered strong underlying trading, benefitting from our own and market capacity consolidation from October to February, particularly in the UK and Germany, with yield initiatives and network optimisation further capitalising on strong demand for our routes. In spite of the initial impact of COVID-19 through March, first half results showed improved revenue performance with year-on-year revenue (excluding other revenue) per seat increasing 10.2% at constant currency, and load factors 0.2 percentage points higher at 90.3%.

However, the restrictions on travel imposed by governments in response to COVID-19 have had a devastating impact on air travel. Due to European-wide lockdowns we grounded our fleet for all but two weeks of the third quarter, and in the fourth quarter we were operating at less than 40% of our previously planned capacity.

As a result of reduced flying and the significantly softer macro-level demand in the second half of the year, the Company's passenger and ancillary revenue for the full year decreased by 53% to £2,995 million (2019: £6,385 million), and revenue (excluding other revenue) per seat for the year fell 10.6% to £54.35 (2019: £60.81), and by 10.3% at constant currency. Other revenue of £1,073 million (2019: £940 million) comprises internal aircraft lease income and management recharges.

The Company's operating costs for the full year fell by 28% to £4,944 million (2019: 6,910 million), mainly as a result of the reduced flying. During the year, easyJet took decisive action in order to remove cost and non-critical expenditure from the business at every level, which included stopping all non-essential investment, non-critical recruitment, promotion and pay freezes across the network. We also began the implementation of a major restructuring and cost-out programme.

The Company's net cash as at 30 September 2020 was £638 million (30 September 2019: net cash £745 million) and comprised cash and money market deposits of £2,272 million (30 September 2019: £1,554 million), debt of £775 million (30 September 2019: nil) and lease liabilities of £859 million (30 September 2019: £809 million). Debt increased by £775 million (of which £387 million is due within one year) mainly as a result of securing two term loans totalling circa £400 million and fully drawing down on a $500 million Revolving Credit Facility.

During the year the Company incurred a number of items which were material non-recurring items or are items which do not reflect the trading performance of the business. These include a £22 million gain as a result of the sale and leaseback of 33 aircraft in the year (2019: gain of £15 million), a £120 million charge related to restructuring (2019: nil), a £37 million charge related to impairment on leased aircraft (2019: nil), and a net £308 million charge related to hedge discontinuation and fair value adjustments (2019: £1 million gain due to hedge ineffectiveness).

This year has been very significant in the development of easyJet's approach to sustainability. Despite the impact of the pandemic, sustainability remains a fundamental part of our business and of significant importance to our customers. In November 2019 we established our new Sustainability Strategy, focused on driving down our environmental impact. Our strategy has three pillars: tackling our carbon emissions; stimulating carbon innovation; and going beyond carbon. See pages 36 to 53 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020 for further details.

easyJet's low cost model, which serves predominantly short-haul leisure travellers, offering excellent value for money and a customer-centric approach, is ideally positioned to be at the leading edge of European aviation's recovery from COVID-19. This is because, firstly, the recovery from the pandemic will emerge first through pent up demand for leisure travel as customers look to take holidays again and visit friends and families in short-haul markets where there is likely to be greater alignment in government travel restrictions. They will also gravitate towards value and short-haul trips, where the perceived risks of consumers are lower and the financial commitment is lower. Additionally easyJet retains substantial flexibility within its cost base, ensuring our costs are aligned to the level of demand in the market.

Key performance indicators

The Group uses a range of both financial and non-financial key performance indicators, as described on pages 32 to 33 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020. Given the proportion that the Company contributes to the group results, the key performance indicators are monitored at a Group level, rather than on an individual entity basis. The Company's loss for the year was £1,080 million (2019: £265 million profit).

The Group Chief Financial Officer, who is also a Director of the Company, provides regular updates on progress against KPI measures to the Airline Management Board, whose members include the Company's Directors, and the Group Board.

Strategic report continued

Principal risks and uncertainties

The Group is affected by a number of principal risks and uncertainties as described on pages 66 to 77 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020. From the perspective of the Company, the principal risks and uncertainties are integrated with principal risks and uncertainties of the Group and are not managed separately.

Results and dividends

The Company's loss after tax for the year was £1,080 million (2019: £265 million profit) which has been transferred to reserves. Net assets decreased from £1,830 million at 30 September 2019 to £517 million at 30 September 2020. During the year the Company did not pay or declare a dividend (2019: nil).

Section 172 Statement

Under Section 172(1) of the Companies Act 2006 ('Section 172') the Directors must act in a way that they consider, in good faith, would most likely promote the success of the Company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

- The likely consequences of any decision in the long term;
- The interests of the Company's employees;
- The need to foster the Company's business relationships with suppliers, customers and others;
- The impact of the Company's operations on the community and the environment;
- The desirability of the Company maintaining a reputation for high standards of business conduct; and
- The need to act fairly as between members of the Company.

The Directors of the Company, both individually and collectively, consider that they have discharged their duties under Section 172 taking into account the factors listed above in decisions made during the year. Many of the decisions taken by the Directors during the year relate to supporting the strategic initiatives of easyJet plc and its subsidiaries (the "easyJet Group") including the approval of Sale and Leaseback transactions, ATOL arrangements in relation to the easyJet Holidays business, and financing arrangements.

Stakeholder Engagement

Given that the Company is the principal operating subsidiary of easyJet plc and part of the easyJet Group, to ensure an efficient and more effective approach much of the Company's stakeholder engagement takes place at a Group level. A summary is provided below, and further information on who the easyJet Group's key stakeholders are, how we engage with them and related outcomes are set out on pages 12 to 15 of easyJet plc's 2020 Annual Report and Accounts, which is incorporated by reference into this statement.

The Directors continually strive to maintain a high standard of business conduct, culture, values, ethics and reputation, and take their responsibilities seriously to ensure their obligations to stakeholders and shareholders are met. In line with the business model, the Company's primary stakeholders are employees, customers, suppliers and regulators.

Employees

The Company has 12,995 employees. Communication with employees has been of paramount importance during the uncertainty with the COVID-19 pandemic and engagement has taken place with employee representative bodies and unions across the network on the impact of the pandemic on the Group's business.

This has included the launch of an employee consultation process affecting the Company's employees during the year, with the aim of right sizing the business to the current demand environment as a result of the COVID-19 pandemic. The approach, which is set out further on page 13 of the easyJet plc 2020 Annual Report and Accounts, included working closely with the unions and representative bodies to ensure that as many jobs as possible were protected but so that the easyJet Group could emerge a competitive business. By working together and the exploration of alternative working structures, such as part-time and seasonal flying, job losses were minimised in the short term and greater flexibility was provided for pilots and crew in the longer term.

Customers

The easyJet Group wants to win customers' loyalty and therefore it is important to have the right level of engagement with, and an understanding of, its customers. COVID-19 has unfortunately meant that the Group had to take difficult decisions that have heavily impacted our customers, Including cancelling flights, rearranging schedules and grounding the fleet. This led to unprecedented demand for customer service teams to process booking changes and refunds. With many of them being based in countries that were themselves locked down, service levels fell short of what our customers have come to expect from us and customer feedback reflected this. As a result of the feedback received, decisive action was taken, including a short-term investment to expand customer management centres (CMCs) which has led to an improvement in the service levels we can offer. Customer feedback has been positive and overall satisfaction in the CMCs has since increased to the highest level in the last 12 months. For those customers who have flown with us since June, strong operational performance has resulted in the customer satisfaction rating being higher than the prior year.

easyJet Airline Company Limited

Reports of the Directors for the year ended 30 September 2020

Strategic report continued

Suppliers

The Company worked in partnership with many suppliers to reduce costs during the early stages of the pandemic. This included renegotiating with airports and ground handlers, whilst also ensuring that both the supplier and easyJet remain successful, sustainable businesses. We were also able to defer time-dependent maintenance spend due to reduced flying. In some cases this has also meant changing payment terms. Our standard payment terms are payment within 60 days, however longer payment terms were negotiated (up to 120 days) with certain suppliers depending on the commercial situation and on a case by case basis. Payment terms were reduced to 30 days for suppliers with a turnover of less than £1 million to support cash flow for small companies.

Regulators

Governments around the world have been forced to impose travel restrictions in response to the spread of COVID-19. The Directors have engaged with the European governments where we fly to try to make sure restrictions are proportionate and risk-based. They have also worked with regulators such as EASA and ICAO to develop market-leading biosecurity measures and safety arrangements around the restart of flying in June 2020.

Shareholder

The Company's shareholder is easyJet plc and the Company ensures there is ongoing communication and engagement with the plc Board. Two of the Company's directors, Johan Lundgren and Andrew Findlay, are also members of the easyJet plc Board, and the remaining directors attend the easyJet plc Board meetings by invitation.

Corporate Governance Arrangements

In accordance with the provisions of The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles (the 'Principles') for Large Private Companies in relation to the 2020 financial year. The Principles, and an explanation of how each Principle has been addressed by the Company, are set out below.

Purpose and leadership

The Company has a clear purpose as an airline transport provider operating principally in Europe, providing airline services to directly to consumers, as well as providing flights which easyJet holidays packages together with accommodation and other services. The Company understands that the delivery of this purpose can only be achieved through its people. Information regarding our employees is included on pages 2 and 5.

Board composition

The board provides practical leadership to the Company and has an appropriate balance of skills, knowledge and experience to meet the strategic needs and challenges of the organisation and to enable effective decision making. An evaluation of the effectiveness of this board is performed regularly. For further details or our management team, please refer to pages 84 to 86 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020.

Director responsibilities

There is a clear division of responsibility between the Chairman, the Executive Directors and the Non-executive Directors. Clear terms of reference for the memberships and responsibilities for Board members are set out. For further information around our Governance please see pages 78 to 132 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020.

Opportunity and risk

Opportunity to enhance our business offering, in line with our business model, by providing our customers with the service they want and driving long term sustainable growth is at the forefront of the board. Further information about our business model is set out on pages 10 and 11 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020. A formal risk and management framework is set out and is has highlighted principle risks and uncertainties faced by the Company. Further information can be found on pages 40 to 77of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020.

Remuneration

Remuneration is overseen by the remuneration committee which is responsible for agreeing the individual remuneration packages for the Executive Directors, the Chairman of the Board and members of the management team. For further information on the remuneration committee, see pages 108 and 109 within easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020.

Stakeholder Relationships and engagement

The company understands the importance of having effective relationships with its stakeholders and actively engaging with them to understand their views when making decisions. Please refer to page 2 for further details on our Stakeholder engagement.

easyJet Airline Company Limited

Reports of the Directors for the year ended 30 September 2020

Strategic report continued

On behalf of the board

Andrew Findlay
Director

21 December 2020

Hangar 89
London Luton Airport
Luton
Bedfordshire
LU2 9PF

Registered Number 03034606

easyJet Airline Company Limited

Reports of the Directors for the year ended 30 September 2020

Directors' report

The Directors present the Strategic report on pages 1 to 4, the Directors' report on pages 5 to 7, the Statement of Directors' responsibilities on page 8 and the audited accounts for the year ended 30 September 2020 on pages 11 to 50. Further details of the Company can be found in note 1 to the financial statements.

Results and dividends

The Company's loss after tax for the year was £1,080 million (2019: £265 million profit) which has been transferred to reserves. During the year the Company did not pay or propose a dividend (2019: nil).

Future developments

Details of future developments in the business of the Company can be found on pages 20 to 33 of easyJet plc's published Annual report and accounts for the year ended 30 September 2020, and within the Strategic report on pages 1 to 4.

Directors

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

Andrew Findlay

Robert Carey (resigned 9 December 2020)

Johan Lundgren

Peter Bellew (appointed 17 June 2020)

Ann-Sophie Everest (appointed 16 December 2020)

Maaike Helena de Bie: Company Secretary

Employees

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

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

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

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

Further details are contained in the published Annual Report and Accounts of easyJet plc for the year ended 30 September 2020.

Political donations and expenditure

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

There were no political donations made or political expenditure incurred during the 2020 financial year (2019: £nil).

Principal subsidiaries and overseas branches

Information in respect of the Company's subsidiaries is given in note 9 to the accounts. The Company also operates two Spanish branches (one performing self-handling and the other dealing with employment matters) and a Portuguese branch, an Italian branch (both dealing with employment matters), a French branch and a Dutch branch. There are also two permanent establishments, one in Germany and one in Spain.

Directors' indemnities

Details of Directors' indemnities can be found on page 128 of easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020.

Financial risk management

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

The Company is exposed to the same financial risks as the easyJet Group and follows easyJet Group financial risk and capital management objectives and policies, which are disclosed on pages 176 to 182 to the easyJet plc Annual Report and Accounts 2020.

Directors' report continued

Going concern

In adopting the going concern basis for preparing these financial statements, the Company's business activities, together with factors likely to affect its future development and performance, principal risks and uncertainties and the ability of the Company to access funding if required have been considered.

The impact of the global COVID-19 pandemic has created a level of uncertainty in the travel industry which has been significant and far reaching. The Company's response to the pandemic has been quick and decisive in order to reduce cost and maximise cash retention, with liquidity and cost control continuing to be a key focus. The flight programme continues to evolve, factoring in customer demand and travel restriction guidance.

Due to the significant uncertainty created by the global COVID-19 pandemic, there remains a risk that multiple and prolonged waves of the pandemic could affect easyJet markets, leading to travel restrictions being imposed at short notice and reducing customer confidence in travel. Accordingly, the Company has considered the severe but plausible downside potential impact of risk factors on the Company's future performance and liquidity, including combinations of a prolonged recovery period, decrease in forecast yields, increase in forecast costs, planned initiatives not being fully achieved, cash collateralisation of unearned revenue by card acquirers, adverse variations in fuel price, and unfavourable foreign exchange rate movements.

Individually these potential risks are unlikely to require significant additional management actions to support the Company. The combination of some or all of these potential risks, or if the impact of the pandemic is significantly more prolonged or severe than modelled, will result in management action being required to secure ongoing liquidity.

After considering the financial forecasts, stress testing of potential risks and considering the uncertainties in the market, and based on the current funding facilities available, the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the foreseeable future. For these reasons the Directors adopt the going concern basis of accounting in preparing these financial statements.

Although the combination of severe but plausible downside potential risks are not considered likely, in the event that some or all of these occur the Company may need to secure additional funding to ensure the business meets its obligations for the next 12 months, which is not contractually committed at the date of this report.

However, the occurrence of multiple severe downside potential risks including cash collateralisation of unearned revenue by card acquirers and easyJet's ability to obtain additional funding represents a material uncertainty at the date of this report that could cast significant doubt upon the Company's ability to continue as a going concern.

After considering the financial forecasts, stress testing of potential risks and considering the uncertainties in the market, and based on the current funding facilities available, the Directors have a reasonable expectation that the Company has sufficient resources to continue in operational existence for the foreseeable future. For these reasons the Directors adopt the going concern basis of accounting in preparing these financial statements.

Although the combination of severe but plausible downside potential risks are not considered likely, in the event that some or all of these occur the Company may need to secure additional funding, to ensure the business meets its obligations for the next 12 months, which is not contractually committed at the date of this report.

However, the occurrence of multiple severe downside potential risks including cash collateralisation of unearned revenue by card acquirers and the Company's ability to obtain additional funding, including from its Parent, represents a material uncertainty at the date of this report that could cast significant doubt upon the Company's ability to continue as a going concern.

These financial statements do not include the adjustments that would result if the Company were unable to continue as a going concern.

Important events affecting the Company since 30 September 2020

Subsequent to the year end easyJet entered into sale and leaseback of 33 aircraft with six counterparties, which generated total proceeds of $1,045 million (circa £799 million).

Statement of disclosure of information to auditors

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

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

easyJet Airline Company Limited

Reports of the Directors for the year ended 30 September 2020

Directors' report continued

Independent Auditors

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

On behalf of the Board

Andrew Findlay
Director
21 December 2020
Hangar 89
London Luton Airport
Luton
Bedfordshire
LU2 9PF
Registered Number 03034606

easyJet Airline Company Limited

Reports of the Directors for the year ended 30 September 2020

Statement of Directors' responsibilities in respect of the financial statements

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

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

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

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Andrew Findlay
Director
21 December 2020

easyJet Airline Company Limited

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 30 September 2020 and of its loss and cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Statement of financial position as at 30 September 2020; the Income statement, the Statement of comprehensive income, the Statement of cash flows, the Statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the Company financial statements, which is not modified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the Company's ability to continue as a going concern. The Company's forecast and projections assume a continued phased increase in flying which represents a significant reduction to historic revenue levels, along with cost saving measures and reductions in capital expenditure. After making enquiries and considering the uncertainties described on page 6 and in note 1, the directors have a reasonable expectation that the Company has access to adequate resources, including support from its parent if necessary, to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the financial statements. In the event there are further waves of the pandemic, or the implementation or continuation of local lockdown periods, leading to further travel restrictions being imposed in the markets easyJet operates in, or in the event of cash collateralisation by credit card acquirers of the unearned revenue balance, the Company may require further financing, which cannot be adequately funded by its Parent. As described on page 6 and in note 1, the occurrence of such severe but plausible events and the availability of additional financing represents a material uncertainty which may cast significant doubt upon Company's ability to continue as a going concern. The Company financial statements do not include the adjustments that would result if they were was unable to continue as a going concern.

Reporting on other information

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

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

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

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

Strategic Report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' report for the year ended 30 September 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Andrew Kemp

Andrew Kemp (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
21 December 2020

easyJet Airline Company Limited

Income statement

For the year ended 30 September

	Note	2020 £ million	2019 £ million
Passenger revenue		**2,303**	5,009
Ancillary revenue		**692**	1,376
Other revenue		**1,073**	940
Total revenue	25	**4,068**	7,325
Fuel		**(721)**	(1,416)
Airports and ground handling		**(930)**	(1,845)
Crew		**(566)**	(776)
Navigation		**(206)**	(409)
Maintenance		**(129)**	(104)
Selling and marketing		**(93)**	(158)
Other costs		**(1,799)**	(1,730)
Other income		**23**	29
		(353)	916
Aircraft dry leasing		**(1)**	(5)
Impairment		**(37)**	-
Depreciation	8	**(469)**	(481)
Amortisation of intangible assets	7	**(16)**	(15)
Operating (loss)/profit		**(876)**	415
Interest receivable and other financing income		**114**	22
Interest payable and other financing charges		**(500)**	(104)
Net finance charge	2	**(386)**	(82)
(Loss)/profit before tax	3	**(1,262)**	333
Tax credit/(charge)	5	**182**	(68)
(Loss)/profit for the year		**(1,080)**	265

easyJet Airline Company Limited

Statement of comprehensive income

For the year ended 30 September

	Note	**2020 £ million**	2019 £ million
(Loss)/profit for the year		**(1,080)**	265
Other comprehensive income/(expense)			
Items that may be reclassified to the income statement:			
Cash flow hedges			
Fair value loss in the year		**(605)**	(204)
Losses/(gains) transferred to income statement		**19**	(165)
Loss transferred to property, plant and equipment		**-**	16
Hedge discontinuation losses transferred to income statement		**286**	-
Related tax charge	5	**53**	68
Cost of hedging		**(3)**	-
Related tax charge		**1**	-
Items that will not be reclassified to the income statement:			
Fair value loss on equity investment		**(15)**	(6)
Total other comprehensive expense		**(264)**	(291)
Total comprehensive expense for the year		**(1,344)**	(26)

Fair valuation losses in the year primarily due to large decreases in the market price of jet fuel, along with movements in foreign exchange rates used when valuing derivatives held in the hedging reserve.

The accumulated losses in the 2020 financial year transferred to property, plant and equipment are recognised as a basis adjustment directly out of the Hedging reserves in equity and not as a reclassification adjustment.

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

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

	2020 £ million	2019 £ million
Revenue	**(15)**	(10)
Fuel	**43**	(150)
Maintenance	**(6)**	(5)
Other costs	**(3)**	-
	19	(165)

easyJet Airline Company Limited

Statement of financial position

As at 30 September

	Note	2020 £ million	2019* £ million
Non-current assets			
Goodwill	7	**367**	367
Other intangible assets	7	**226**	196
Property, plant and equipment	8	**4,903**	5,009
Investments in subsidiaries	9	**-**	1
Derivative financial instruments	20	**89**	126
Derivatives with Group Undertakings		**-**	7
Equity investment		**33**	48
Restricted cash	12	**4**	4
Other non-current assets	10	**133**	142
		5,755	5,900
Current assets			
Trade and other receivables*	11	**211**	278
Current intangible assets*		**12**	70
Derivative financial instruments	20	**21**	147
Current tax assets		**16**	52
Money market deposits	12	**32**	291
Cash and cash equivalents	12	**2,240**	1,263
		2,532	2,101
Current liabilities			
Trade and other payables	13	**(4,190)**	(3,116)
Unearned revenue		**(615)**	(1,069)
Borrowings	14	**(387)**	-
Lease liabilities		**(257)**	(263)
Derivative financial instruments	20	**(352)**	(138)
Derivative financial instruments with group undertakings	20	**(3)**	-
Provisions for liabilities and charges	15	**(404)**	(192)
		(6,208)	(4,778)
Net current liabilities		**(3,676)**	(2,677)
Non-current liabilities			
Borrowings	14	**(388)**	-
Lease liabilities		**(602)**	(546)
Amounts owed to group undertakings		**(45)**	(47)
Derivative financial instruments	20	**(86)**	(72)
Derivative financial instruments with group undertakings	20	**(85)**	(72)
Non-current deferred income		**(5)**	(5)
Provisions for liabilities and charges	15	**(332)**	(397)
Deferred tax	5	**(19)**	(254)
		(1,562)	(1,393)
Net assets		**517**	1,830
Shareholders' equity			
Share capital	16	**765**	765
Hedging reserve		**(220)**	11
Cost of hedging		**(2)**	-
Translation reserve		**1**	1
(Accumulated losses)/retained earnings		**(27)**	1,053
Total equity		**517**	1,830

*Please refer to note 1 for details of our voluntary change in accounting policy.

The accounts on pages 11 to 50 were approved by the Board of Directors and authorised for issue on 21 December 2020 and signed on behalf of the Board.

Andrew Findlay Director

easyJet Airline Company Limited

Statement of changes in equity

For the year ended 30 September 2020

	Share capital £ million	Hedging reserve £ million	Cost of hedging £ million	Translation reserve £ million	(Accumulated losses)/ Retained earnings £ million	Total £ million
At 1 October 2019	765	11	-	1	1,053	1,830
Loss for the year	-	-	-	-	(1,080)	(1,080)
Other comprehensive expense	-	(247)	(2)	-	(15)	(264)
Total comprehensive expense	-	**(247)**	**(2)**	-	**(1,095)**	**(1,344)**
Transferred to property, plant and equipment	-	16	-	-	-	16
Share incentive schemes						
Value of employee services	-	-	-	-	16	16
Related tax (note 5)	-	-	-	-	(1)	(1)
At 30 September 2020	**765**	**(220)**	**(2)**	**1**	**(27)**	**517**

	Share capital £ million	Hedging reserve £ million	Translation reserve £ million	Retained earnings (restated) £ million	Total equity (restated) £ million
At 1 October 2018	765	296	1	779	1,841
Profit for the year	-	-	-	265	265
Other comprehensive expense	-	(285)	-	(6)	(291)
Total comprehensive (expense)/income	-	(285)	-	259	(26)
Share incentive schemes					
Value of employee services	-	-	-	15	15
At 30 September 2019	765	11	1	1,053	1,830

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments relating to highly probable transactions that are forecast to occur after the year end. Included within the hedging reserve are amounts totalling a £46 million gain related to derivative hedge trades that were mutually early terminated with counterparty banks in the year, as these trades had an effective hedge relationship at the point of termination, the fixed fair value is held in the hedging reserve and recycled to the income statement in line with when the original hedge item also impacts the income statement, see section related to 'Foreign Currency Risk Management on note 21 for further details.

Amounts held in the cost of hedging reserve relates to specific fair value elements of derivatives in a hedge accounting relationship where allowable through specific designation. At 30 September 2020 amounts in the reserve comprised of £3 million loss related to the time value of options.

Details of the restatement made to the opening retained earnings as at 1 October 2018 can be found in the Annual Report and Accounts for the year ended 30 September 2019.

easyJet Airline Company Limited

Statement of cash flows

For the year ending 30 September

	Note	**2020** **£ million**	2019 £ million
Cash flows from operating activities			
Cash (used in)/generated from operations	18	**(613)**	1,175
Interest and other financing charges paid		**(96)**	(35)
Interest and other financing income received		**12**	14
Tax received/(paid)		**15**	(51)
Net cash (used in)/generated from operating activities		**(682)**	1,103
Cash flows from investing activities			
Purchase of property, plant and equipment	8	**(627)**	(887)
Purchase of intangible assets	7	**(36)**	(30)
Net decrease in money market deposits	19	**260**	53
Net proceeds from sale and operating leaseback of aircraft		**702**	121
Net cash generated/(used) by investing activities		**299**	(743)
Cash flows from financing activities			
Net increase in borrowings		**798**	-
Repayment of capital elements of leases	19	**(230)**	(174)
Increase in loan from Parent		**855**	-
Net movement in restricted cash		**-**	7
Net cash generated/(used) by financing activities		**1,423**	(167)
Effect of exchange rate changes		**(63)**	49
Net increase in cash and cash equivalents		**977**	242
Cash and cash equivalents at beginning of year		**1,263**	1,021
Cash and cash equivalents at end of year	12	**2,240**	1,263

easyJet Airline Company Limited

Notes to the accounts

1. Accounting policies, judgements and estimates

Statement of compliance

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

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

Basis of preparation

The accounts are prepared based on the historical cost convention except for certain financial assets and liabilities including derivative financial instruments that are measured at fair value.

easyJet's business activities, together with factors likely to affect its future development and performance, are described on pages 1 and 2 and on pages 2 to 78 of the easyJet plc Annual Report and Accounts for the year ended 30 September 2020. Note 24 to easyJet plc's Annual Report and Accounts sets out the Group's objectives, policies and procedures for managing its capital which are the same as the Company and gives details of the risks related to financial instruments held by the Company.

The accounts have been prepared on the going concern basis. Details on going concern are provided on page 4. The occurrence of multiple downside potential risks, including cash collateralisation of unearned revenue by card acquirers and easyJet's ability to obtain additional funding represents a material uncertainty at 18 December 2020 that could cast significant doubt upon the Company's ability to continue as a going concern. The Company is not required, under S400 of the Companies Act 2006, to prepare consolidated accounts and has not elected to do so.

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

1a. Significant accounting policies

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

Foreign currencies

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

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

Revenue

easyJet categorises total revenue earned on the face of the income statement between passenger and ancillary revenue. Passenger revenue arises from the sale of flight seats and administration fees and is measured as the price paid by the customer. Passenger revenue is recognised when the performance obligation has been completed. This is when the flight takes place. Amounts paid by 'no-show' customers are recognised as passenger revenue when the booked service is provided, as such customers are not generally entitled to change flights or seek refunds once a flight has departed.

Ancillary revenue includes revenue from the provision of checked baggage, allocated seating and change fees, as well as revenue arising from commissions earned from services sold on behalf of partners and inflight sales. It is measured as the price paid by the customer for the service booked. Ancillary revenue is recognised when the performance obligation is complete, which is generally when the related flight takes place, with the following exceptions:

- cancellation fees which are recognised when the cancellation is processed; and
- in the case of commission earned from travel insurance, revenue is recognised at the time of booking as easyJet acts solely as appointed representative of the insurance company.

Flights are paid for at the point of booking. Unearned revenue from flights not yet flown is held in the statement of financial position until it is realised in the income statement when the performance obligation is complete. Vouchers issued by easyJet in lieu of refunds are held on the balance sheet in other payables until they are redeemed against a new booking, at which point they are recognised as unearned revenue.

If easyJet cancels a flight, unless a customer immediately re-books on an alternative flight, at the point of the cancellation the amount paid for the flight is derecognised from unearned revenue and a financial liability is recognised within Trade and other payables to refund the customer.

1a. Significant accounting policies continued

Some of the compensation payments made to customers (in respect of flight delays) are offset against revenues recognised up to the amount of the flight, with the excess compensation being recorded within expenses.

Revenue from easyJet plus cards is recognised evenly over time in line with when the performance obligations are expected to arise. Revenue from easyJet plus cards for the current financial year totalled £22 million (2019: £23 million).

Other revenue represents intercompany lease revenue and management recharges received from other Group companies. Intercompany revenue is recognised when the performance obligation has been completed which is when the leased assets have been provided or the management services have been provided.

Goodwill and other intangible assets

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over easyJet's interest in the net fair value of the identifiable assets acquired and the liabilities assumed. Goodwill is now stated at cost less any accumulated impairment losses. It has an indefinite expected useful life and is tested for impairment at least annually or where there is any indication of impairment.

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

When assessing for impairment or reassessing useful economic lives easyJet considers significant future changes including in relation to market, technological, economic and legal developments. This includes assessing the potential future impacts of climate change where this can be reliably estimated.

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

	Expected useful life
Computer software	3 – 7years

Property, plant and equipment

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

	Expected useful life
Aircraft*	23 years
Aircraft spares	14 years
Aircraft – prepaid maintenance	7-10 years
Leasehold improvements	5-10 years or the length of lease if shorter
Freehold Land	Not depreciated
Fixtures, fittings and equipment	3 years or length of lease of property where equipment is used if shorter
Computer hardware	3-5 years

*Aircraft held as right of use assets are depreciated over the lease term, see leases section. Additional capitalised maintenance associated with leased aircraft is depreciated based on usage over its expected period of utilisation.

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

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

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

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

Freehold land is recorded at cost and not depreciated as it is considered to have an indefinite useful life. It is tested for impairment at least annually or where there is any indication of impairment.

1a. Significant accounting policies continued

Leases

When a contractual arrangement contains a lease easyJet recognises a lease liability and a corresponding right of use asset at the commencement of the lease. These transactions can occur with other companies within the Group as well as with a third party.

At the commencement date the lease liability is measured at the present value of the future lease payments, discounted using the Company's incremental borrowing rate where the interest rate in the lease is not readily determined. Subsequently, the lease liability is adjusted by increasing the carrying amount to reflect interest on the lease liability, reducing the carrying amount to reflect the lease payments made and remeasuring the carrying amount to reflect any reassessment or lease modifications.

The lease term is determined from the commencement date of the lease and covers for the non-cancellable term. If easyJet has an extension option, which it considers it reasonably certain to exercise, then the lease term will be considered to extend beyond that non-cancellable period. If easyJet has a termination option, which it considers it reasonably certain to exercise, then the lease term will be considered to be until the point the termination option will take effect.

At the commencement date the right of use asset is measured at an amount equal to the lease liability plus any lease payments made before the commencement date and any initial direct costs, less any lease incentive payments. An estimate of costs to be incurred in restoring an asset, in accordance with the terms of the lease, is also included in the right of use asset at initial recognition. Subsequently, the right of use asset is measured in accordance with the accounting policy for property, plant and equipment. Adjustment is also made to the right of use to reflect any remeasurement of the corresponding lease liability. The right of use assets are also subject to impairment testing under IAS 36.

Short-term leases and low value leases are not recognised as lease liabilities and right of use assets, but are recognised as an expense straight line over the lease term.

easyJet enters into sale and leaseback transactions whereby it sells either new or mid-life aircraft to a third party and immediately leases them back. Where sale proceeds received are judged to reflect the aircraft's fair value, any gain or loss arising on disposal is recognised in the income statement, to the extent that it relates to the rights that have been transferred. Gains and losses that relate to the rights that have been retained are included in the carrying amount of the right of use asset recognised at commencement of the lease. Where sale proceeds received are not at the aircraft's fair value, any below market terms are recognised as a prepayment of lease payments, and above market terms are recognised as additional financing provided by the lessor.

easyJet has applied the practical expedient under COVID-19 Related Rent Concessions – Amendment to IFRS 16 Leases to account for all rent concessions agreed with lessors as a result of COVID-19. Concessions took the form of delayed payments for leased aircraft. The impact of deferring rental payments on the interest expense in the income statement was not material.

Other non-current assets

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

Impairment of non-current assets

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

During the year, 34 leased aircraft have been permanently stored and will not be used again prior to their return to their lessors. As no further economic benefit will be gained from these aircraft they have been separated from the airline operational cash-generating unit and impaired to nil value.

Financial guarantees

If a claim on a financial guarantee given to a third party becomes probable, the obligation is recognised at fair value. For subsequent measurement, the carrying amount is the higher of initial measurement and best estimate of the expenditure required to settle the obligation at the reporting date.

Tax

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

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

- where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting profit; and

1a. Significant accounting policies continued

- deferred tax arising on investments in subsidiaries is not recognised where easyJet is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

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

Provisions

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

Customer claims

Provisions for customer claims comprise amounts payable to customers who make claims in respect of flight delays and cancellations, and refunds of air passenger duty or similar charges. Provisions are measured based on known eligible events, passengers impacted and historical claim rates.

Maintenance

easyJet incurs liabilities for maintenance costs in respect of third party leased aircraft during the term of the lease. These arise from legal and constructive contractual obligations relating to the condition of the aircraft when it is returned to the lessor. On recognition of a right of use asset under IFRS 16 a provision is made in full for maintenance not dependent on use of the aircraft, plus maintenance relating to previous use, based on hours or cycles flown, to provide for the cost of these obligations. Contractual obligations which are dependent on the ongoing use of the aircraft will be provided over the term of the lease based on the estimated future costs, discounted to present value. This will be capitalised to the right of use asset rather than recognised in maintenance in the income statement. This asset will be depreciated immediately as the obligation has arisen as a result of flying hours already undertaken.

Other

Other provisions include amounts in respect of potential liabilities for employee related matters and restructuring.

Employee benefits

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

The expected cost of compensated annual leave and other employee benefits is recognised at the time that the related employees' services are provided.

Share capital and dividend distribution

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividend distributions to the Company's shareholders are recognised as a liability in the period in which the dividends are approved by the Company's shareholders.

Share-based payments

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

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

The social security obligations payable in connection with grant of the share options are an integral part of the grant itself and the charge is treated as a cash-settled transaction.

1a. Significant accounting policies continued

Aircraft seat capacity

Costs comprise amounts due to fellow Group subsidiaries who operate aircraft under their Air Operator's Certificate in order to supply aircraft seat capacity to easyJet Airline Company Limited. Costs are accrued in the period in which the capacity is supplied, in accordance with the intercompany contractual arrangements in place.

Segmental disclosures

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

Revenue is allocated to geographic segments on the following bases:

- revenue earned from passengers is allocated according to the location of the first departure airport on each booking; and
- commission revenue earned from partners is allocated according to the domicile of each partner.

Financial Instruments

Financial instruments are recognised when easyJet becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions. Financial assets are also derecognised (written-off) when the Company has no reasonable expectation of recovering the financial asset.

With the exception of trade receivables that do not contain a significant financing component, financial instruments are initially measured at fair value plus or minus (in the case of a financial asset or financial liability not at fair value through profit or loss), directly attributable transactions costs. Trade receivables that do not contain a significant financing component are initially measured at the transaction price.

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

The equity investment in The Airline Group Limited is measured at fair value. Movements in fair value are assessed at each reporting period and recorded in other comprehensive income. The fair value is measured using a combination of income and market valuation techniques in line with IFRS 13 requirements. See note 21 for further details.

Non-derivative financial assets

Non-derivative financial assets are classified and measured according to easyJet's business model for managing a specified group of financial assets, and the nature of the contractual cash flows arising from that group of financial assets.

Financial assets measured at amortised cost

Subsequent to initial recognition, this classification of financial asset is measured at amortised cost using the effective interest rate method.

Financial assets are measured at amortised cost when both of the following criteria are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding.

Financial assets measured at amortised cost include refundable lease deposits and other refundable lease contributions, restricted cash, trade and other receivables, money market deposits and cash and cash equivalents (excluding money market funds).

Restricted cash comprises cash deposits which have restrictions governing their use and is classified as a current or non-current asset based on the estimated remaining length of the restriction.

Cash and cash equivalents comprise cash held in bank accounts with no access restrictions and bank term deposits and tri-party repos repayable on demand or maturing within three months of inception.

Money market deposits comprise of term deposits and tri-party repos maturing greater than three months from inception.

Financial assets measured at fair value through other comprehensive income

On initial recognition, equity investments, excluding interests in associates, are irrevocably designated as measured at fair value through other comprehensive income. Subsequently they are measured at fair value with changes recognised in other comprehensive income with no recycling of these gains and losses.

Financial assets measured at fair value through profit or loss

Financial assets are measured at fair value through profit or loss when they do not meet the criteria to be measured at amortised cost or at fair value through other comprehensive income.

Subsequent to initial recognition, this classification of financial asset is measured at fair value through profit or loss.

Financial assets measured at fair value through profit or loss comprise solely of money market funds at 30 September 2020.

1a. Significant accounting policies continued

Impairment of financial assets measured at amortised cost

At each reporting date easyJet recognises a loss allowance for expected credit losses on financial assets measured at amortised cost.

In establishing the appropriate amount of loss allowance to be recognised, easyJet applies either the general approach or the simplified approach, depending on the nature of the underlying group of financial assets.

General approach – impairment assessment

The general approach is applied to the impairment assessment of refundable lease deposits and other refundable lease contributions, restricted cash, money market deposits and cash and cash equivalents.

Under the general approach easyJet recognises a loss allowance for a financial asset at an amount equal to the 12-month expected credit losses, unless the credit risk on the financial asset has increased significantly since initial recognition, in which case a loss allowance is recognised at an amount equal to the lifetime expected credit losses.

Simplified approach – impairment assessment

The simplified approach is applied to the impairment assessment of trade and other receivables.

Under the simplified approach easyJet always recognises a loss allowance for a financial asset at an amount equal to the lifetime expected credit losses.

Non-derivative financial liabilities

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

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

Financial liabilities measured at amortised cost

Subsequent to initial recognition, this classification of financial liability is measured at amortised cost using the effective interest rate method.

Financial liabilities measured at amortised cost include trade and other payables, lease liabilities and borrowings.

Derivative financial instruments and hedging activities

Derivative financial instruments are measured at fair value through profit or loss with the exception of derivative financial instruments that are designated as a hedging instrument in a cash flow for hedge relationship.

easyJet uses foreign currency forward exchange contracts to hedge foreign currency risks on transactions denominated in US dollars, Euros, Swiss francs and South African rand. These transactions primarily affect revenue, fuel, fixed costs, and the carrying value of owned aircraft. easyJet also uses cross-currency interest rate swaps to hedge currency and interest rate risk on certain borrowings, and jet fuel forward swap and option contracts to hedge fuel price risks. Hedge accounting is applied to those derivative financial instruments that are designated as cash flow hedges or fair value hedges.

Fair value hedges

Changes in the fair values of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair values of the hedged assets or liabilities that are attributable to the hedged risk. Any differences between the hedge item and hedge instrument fair valuation is recorded as hedge ineffectiveness as a non-headline item within the income statement.

Fair value changes in the derivative instrument attributable to currency basis are not designated as part of the hedged instrument. Such fair value changes are recognised through other comprehensive income as cost of hedging, and are recycled to profit or loss on a rational basis, according to the nature of the underlying hedged item.

Cash flow hedges

Gains and losses arising from changes in the fair value of foreign exchange forward, jet fuel forward swaps, jet fuel options and cross-currency interest rate swap contracts designated as a cash flow hedge are recognised in other comprehensive income and deferred in the hedging reserve to the extent that the hedges are determined to be effective.

All foreign exchange contracts in a cash flow hedge relationship are designated on a forward basis with the full fair value as the hedge instrument. Jet fuel option contracts in a cash flow hedge relationship are designated using the intrinsic value of the derivative as the hedge instrument only. The time value element of the full fair value for these derivatives is recognised through other comprehensive income as a Cost of Hedging and recycled to profit or loss as the same time as hedge item also impacts profit and loss.

Fair value changes in foreign currency derivative instrument attributable to currency basis are not designated as part of the hedged instrument. Such fair value changes are recognised through other comprehensive income as a Cost of Hedging, and are recycled to profit or loss on a rational basis, according to the nature of the underlying hedged item. All other changes in fair value are recognised immediately in the income statement.

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

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1a. Significant accounting policies continued

are recognised in the income statement in the same period in which the hedged transaction affects the income statement and against the same line item.

In the event that a hedged forecast transaction is no longer expected to occur, any related gains and losses are immediately transferred from the hedging reserve and recognised in the income statement. Derivative instruments that have been derecognised from hedge relationships are classified as Fair Value Through Profit or Loss thereafter with subsequent fair valuation movements impacting profit and loss.

Hedge accounting is discontinued when a hedging instrument is derecognised (e.g. through expiry, disposal or termination of a derivative), or no longer qualifies for hedge accounting. Where the hedged item continues to be expected to occur, the related gains and losses remain deferred in the hedging reserve until the transaction takes place.

Hedge relationship

The Company determines that the criteria for each hedge accounting relationship are met due to:

- All relationships demonstrate a strong economic correlation;
- The effects of credit do not dominate the change in value of the associated hedged risk; and
- All Company hedge relationships have a hedge ratio of one to one, aligning to the Groups risk management strategy.

1b. Changes in significant accounting policies

Accounting policy for Carbon offsetting and Verified Emission Reductions

In November 2019 easyJet announced a voluntary policy to compensate for every tonne of carbon and carbon equivalents (collectively 'carbon') emitted from fuel used for all its flights, by investing in projects which will mean there is one tonne less in the atmosphere – whether by reducing carbon by physically removing it from the air or by avoiding the release of additional carbon.

easyJet purchases Verified Emission Reductions (VERs) arising from Gold Standard or Verified Carbon Standard (VCS) accredited projects to offset the carbon emitted from flights. The cost of purchasing VERs is recognised in the income statement when the flight occurs with a corresponding carbon offsetting liability. This is measured using the purchase price of VERs on a First In First Out basis, then a weighted average of expected future purchases where all purchased VERs have been allocated. VERs are recorded as an asset at historic cost when delivery into the easyJet registry account has taken place. At regular intervals the VERs are retired to settle the obligation, at which point the VER asset and carbon offsetting liability are derecognised.

Voluntary change in accounting policy – presentation of carbon assets

With the introduction of the voluntary carbon offset policy, easyJet has reviewed the most appropriate presentation for assets held to settle this liability, and the presentation of assets purchased and held to settle the requirements under the EU Emissions Trading System (ETS). It has been concluded that due to the nature of these assets, they would be more appropriately presented as current intangible assets in the statement of financial position. The prior year ETS asset balance of £70 million has therefore been reclassified from trade and other receivables to current intangible assets in the comparative statement of financial position as at 30 September 2019 to be consistent with this new presentation.

The cash flows associated with the purchase of carbon credit assets are classified as operating cash flows, as these are cash outflows for an activity which is treated as an operating expense in the consolidated income statement. This has resulted in a similar reclassification of the reconciliation of operating loss to cash generated from operations seen in note 18. The amount moved from changes in trade and other receivables to change in current intangible assets was £86 million.

The underlying accounting treatment remains unchanged for carbon assets. Free allocations received from the government under the EU ETS scheme are recognised at fair value on the date received with a corresponding liability. Purchased carbon credits are recognised at the purchase price and are not subsequently revalued as they are held for own use. Carbon assets are derecognised when they are used to offset the corresponding liability.

The impact on the 1 October 2018 balance sheet is as follows:

	As reported £ million	Adjustment £ million	Restated £ million
Non-current assets	4,664	–	4,664
Trade and other receivables	404	(27)	377
Intangible assets	–	27	27
Current assets	2,009	–	2,009
Current liabilities	(3,853)	–	(3,853)
Non-current liabilities	(832)	–	(832)
Net assets	1,988	–	1,988
Equity	1,988	–	1,988

easyJet Airline Company Limited

1b. Changes in significant accounting policies continued

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received. Loans provided and/or guaranteed by governments that represent market rates of interest are recorded at the amount of the proceeds received and recognised within Borrowings. All existing loans are considered to be at market value. Grants that compensate the Company for expenses incurred are recognised in the income statement in the relevant financial statement line on a systematic basis in the periods in which the expenses are recognised to present the net expense to the Company.

New and revised standards and interpretations

IFRIC 23 has been adopted as at 1 October 2019 with no material impact. There are no standards that are issued but not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

easyJet have applied the practical expedient under COVID-19 Related Rent Concessions – Amendment to IFRS 16 Leases which has been early adopted. See leases accounting policy for further details.

IFRS 9 and IFRS 7 amendments – interest rate benchmark reform

In September 2019 the IASB issued the first accounting amendment to IFRS 9 and IFRS 7 related to the upcoming IBOR reform and to address the impact that the current uncertainty could have when applying specific hedge accounting requirements on applicable hedge relationships. In particular, the amendment provides temporary relief to allow hedge accounting to continue during the transition period before IBOR based hedge items or instruments are amended as a result of the reform being completed.

This amendment is mandatory for accounting periods beginning on or after 1 January 2020. The impacts of IBOR reform on the Company is assessed as being limited, with this amendment not applicable to any hedge relationship as at 30 September 2020.

In August 2020, IASB also issued Phase 2 amendments which are effective from 1 January 2021. The Company is not early adopting these amendments as the current hedge relationship is continuing and no amendments have been made to the hedged item and/or hedging instruments in the 2020 financial year.

No other standards issued but not yet effective have been early adopted, including; Amendments to IAS 1 and IAS 8, Amendments to IFRS 3 and Revised Conceptual Framework for Financial Reporting.

1c. Critical accounting judgements and estimates

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

1c.(i) Critical accounting judgements

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

Vouchers issued

Due to the amount of cancelled flights in the year easyJet offered customers the option to accept vouchers in lieu of cash refunds. The liability for vouchers is classified as other payables until the voucher is redeemed against a future booking when it is reclassified to unearned revenue. The liability has been recorded in full as there is no historic information on which to estimate potential breakage. Applying breakage at 10% would result in a material change.

Sale and leaseback transactions

Judgement is required when determining if sale and leaseback proceeds and lease rentals are at fair value. The sale and leaseback transactions completed in the year have been assessed with reference to external valuations specific to the easyJet fleet and deemed to be at fair value. The accounting treatment would have been different if the transactions had not been at fair value (see leases accounting policy).

1c.(ii) Critical accounting estimates

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

Aircraft maintenance provisions - £597 million (Note 15)

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

The most critical estimates required for the provision are considered to be the utilisation of the aircraft, the expected costs of the heavy maintenance checks at the time which they are expected to occur, the condition of the aircraft, the lifespan of life-limited parts and the rate used to discount the provision.

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1c.(ii) Critical accounting estimates continued

The bases of all estimates are reviewed at least annually, and when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or changes in the cost of heavy maintenance services. Given the much increased uncertainty in forecasting future maintenance requirements, and the associated judgemental nature of the assumptions applied in determining the maintenance provision, management believe that a reasonable combination of changes to these estimates could result in a material movement to the carrying value of the provision. A 5% movement in the estimated cost of final maintenance events would result in a £15 million movement to the provision.

Provisions for customer claims - £ 39 million (Note 15)

easyJet incurs liabilities for amounts payable to customers who make claims in respect of flight delays and cancellations, and refunds of air passenger duty or similar charges. Estimates include passenger claim rates, the value of claims made and the period of time over which claims will be made. The bases of all estimates are reviewed at least annually and also when information becomes available that is capable of causing a material change to the estimate.

The staggered travel restrictions implemented by governments across Europe in response to the COVID-19 pandemic resulted in a large number of easyJet passengers requiring additional support to be repatriated. Assumptions are required to estimate the cost of providing welfare payments for those customers impacted. These include the number of passengers who would have eligible claims as well as the estimated expenses that would be payable under the regulatory framework in place. Reasonable changes to those assumptions could have a significant impact on the valuation of the provision recognised. A 5% movement in the estimated passenger claim rates would result in a £4 million movement to the provision.

Restructuring provision – £98 million (Note 15)

As a result of the COVID-19 pandemic easyJet has implemented a major co-ordinated restructuring programme to reduce the number of bases, and the number of employees. Estimations have been made regarding the outcome of ongoing consultations with staff including pilots and crew. Where specific individuals at risk have not been identified, estimations have been based on information available such as average payroll data, employee age and length of service. The final outcome of these estimates could be different when the consultation process is concluded.

Goodwill and landing rights - £ 535 million (Note 7)

The recoverable amount of goodwill and landing rights has been determined based on value in use calculations for the airline route network cash generating unit. The value in use is determined by discounting future cash flows to their present value. When applying this method, easyJet relies on a number of key estimates including the ability to meet its strategic plans, future fuel prices and exchange rates, long-term economic growth rates for the principal countries in which it operates, and its pre-tax weighted average cost of capital. Strategic plans include estimations of the future impact of climate change on easyJet to the extent these can be forecast. This includes, for example, estimates made for the future cost to easyJet of emitting carbon. The impact of longer term future developments such as electric aircraft development or availability of sustainable aviation fuels have been considered as part of easyJet's strategic planning process to the extent they can be reliably measured. Fuel price and exchange rates continue to be volatile in nature, and the assumptions used are sensitive to significant changes in these rates. In addition, assumptions over the recovery of customer demand levels could have a significant effect on the impairment assessment performed. Due to the uncertainty created by the COVID-19 pandemic, there remains a risk that further waves of the pandemic could affect our markets, leading to further travel restrictions being imposed. These uncertainties could have an effect on future impairment or useful economic life assessments performed.

Derivative financial instruments – (note 20)

easyJet is exposed to financial risks including fluctuations in exchange rates, jet fuel prices and interest rates. Financial risk management aims to limit these market risks with selected derivative hedging instruments being used for this purpose. The Company hold a number derivatives and financial instruments including foreign currency forward exchange contracts, jet fuel forward contracts and cross-currency interest rate swap contracts. easyJet's policy is not to speculatively trade derivatives but to use the instruments to hedge anticipated exposure. Given the inherently complex nature of this area the finance committee (a committee of the Board) oversees the Company's treasury and funding policies and activities.

Hedge discontinuation and ineffectiveness – (note 2)

As a result of the fleet grounding during the year and expected reduced flying programme as at 30 September 2020, the Company's near term exposures for jet fuel and foreign currency were significantly reduced, causing a proportion of derivatives previously hedge accounted for to be discontinued from a hedge relationship. A net charge of £314 million has been recognised in the income statement primarily due to the discontinuation of hedge accounting for impacted derivatives. In assessing whether future exposures are still expected to occur, easyJet made estimates as at 30 September 2020 regarding our jet fuel consumption requirements and expected future foreign currency cash flows. These estimates used assumptions based on the expected recovery of customer demand and subsequent flying schedule as at that date.

Aircraft carrying values – (note 8)

As a result of the reduced customer demand, 34 leased aircraft were permanently stood down from commercial service and will be returned to the lessors at the end of the lease term. The recoverable value of the right-of-use assets related to these aircraft has been assessed as nil and the assets impaired on this basis. No goodwill has been allocated to these impaired aircraft as they are not able to operate independently.

The remaining aircraft asset recoverable amounts have been tested for impairment based on value in use at the airline route network cash generating unit level as described in the goodwill section above. Strategic plans include estimations of the future impact of climate change on easyJet to the extent these can be reliably estimated. The recoverable amounts exceed the carrying values as at 30 September 2020.

1c.(ii) Critical accounting estimates continued

Aircraft are depreciated over their useful economic life to their residual values in line with the property plant and equipment accounting policy. A review has been performed and the existing residual value amounts have been determined to be appropriate.

However, in light of the global pandemic, the longer-term impact on the airline industry is currently uncertain and the market for aircraft transactions has also slowed. Should future demand fall significantly below current expectations there could be a risk that the recoverable amount for some aircraft assets falls below their current carrying value or that residual values are subject to significant deterioration.

Recoverability of deferred tax assets – £270 million (note 5)

The deferred tax asset balances include £270 million in relation to losses carried forward for the Company at the statement of financial position date. The Company has concluded that the deferred tax assets will be recoverable against the unwind of the taxable temporary differences and the future taxable income based on the strategic plans of the Company and taxable temporary differences at the statement of financial position date. The forecast includes the expected impact of future climate change to the extent this can be reliably forecast. The losses can be carried forward indefinitely and have no expiry date. If forecast profits were 7% lower than current forecasts then it is still expected that the deferred tax asset would be recovered within a five year time horizon.

1d. New and revised standards and interpretations not applied

There are no standards that are issued but not yet effective that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Net finance charge

	2020 £ million	2019 £ million
Interest receivable and other financing income		
External interest income	**(7)**	(22)
Hedge discontinuation	**(103)**	-
Net exchange gains on monetary assets and liabilities*	**(4)**	-
	(114)	(22)
Interest payable and other financing charges		
Hedge discontinuation	**411**	-
Interest payable to fellow group undertakings**	**37**	35
Interest payable on bank loans	**8**	2
Interest payable on lease liabilities	**31**	39
Other interest payable***	**13**	10
Net exchange losses on monetary assets and liabilities	**-**	18
	500	104
Net finance charge	**386**	82

*Included within net exchange gains on monetary assets and liabilities is a £13 million loss (2019: £24 million gain) relating to the fair value loss on USD foreign exchange derivatives designated as fair value through profit and loss. There is also a £1 million loss relating to other FX derivatives designated as fair value through profit and loss entered into to offset fair value movements on discontinued hedges.

**Of the £37 million of interest payable to fellow group undertakings above, £34 million (2019: £31 million) is owed to the parent entity.

***Included within Other interest payable is a £5 million loss relating to fair value loss on jet fuel derivatives entered into to offset fair value movements on discontinued hedges.

3 (Loss)/profit before tax

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

	2020 £ million	2019 £ million
Depreciation of property, plant and equipment		
Owned assets	**231**	206
Right of use assets	**238**	275
Loss on disposal of intangibles	**19**	-
Loss/(gain) on disposal of property, plant and equipment	**2**	(3)
Gain on sale and leaseback	**(22)**	(15)
Gain on re-measurement of EU ETS liability	**(33)**	-
Dry leased aircraft and other low value rentals	**6**	10
Wet leased aircraft rentals	**15**	5
Aircraft seat capacity	**1,365**	1,316
Impairment	**37**	-
Restructuring	**120**	-
Hedge discontinuation	**308**	-

Wet leased aircraft rentals of £15 million (2019: £5 million) are recognised within other costs. Wet leases are fundamentally different to regular, long-term operating and finance lease commitments as they are short-term in nature (with terms of less than one year) and they relate to the provision of aircraft, crew, maintenance and insurance ('ACMI').

Due to lower forecasted customer demand, the Company has reassessed the fleet capacity and utilisation requirements leading to 34 leased aircraft being permanently removed from commercial service. These assets will not be utilised again before being returned to the lessor at the end of their existing lease term and therefore will not generate any further economic benefit. As a

3 (Loss)/profit before tax continued

result, an impairment charge of £37 million for these aircraft has been recognised within the income statement, along with an equivalent reduction within Right of Use assets.

Due to the change in demand environment as a result of COVID-19 the business has undertaken a restructuring process. As a result of this, the related costs of £120 million (2019: nil) have been recognised. This charge includes unpaid amounts of £98 million for those consultations which have not been finalised.

Due to the reduced commercial flying as a result of COVID-19, easyJet was in a significantly over-hedged position from both a jet fuel and FX perspective. Primarily as a result of this, a £308 million loss was recognised in the period for fair value adjustments related to discontinuation of hedge accounting.

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

	2020	2019
	£ million	£ million
Company audit fee	**0.4**	0.2
Fees for audit of the Company's associates	**0.4**	0.2
	0.8	0.4

In addition the Company incurred assurance-related non-audit service fees of £26,525 from its auditors (2019: £44,100).

4 Employees

Average monthly number of persons employed	**2020**	2019
	Number	Number
Flight and ground operations	**12,137**	12,864
Sales, marketing and administration	**858**	897
	12,995	13,761

Employee costs	**2020**	2019
	£ million	£ million
Wages and salaries	**604**	652
Social security costs	**71**	90
Other pension costs	**64**	75
Share-based payments	**18**	18
	757	835

Included in employee costs for 2020 are £120 million of restructuring costs.

The amounts received under government 'Furlough' schemes offset the employee costs in the Income statement.

Refer to note 26 for further details

Key management compensation	**2020**	2019
	£ million	£ million
Short-term employee benefits	**4**	5
Share-based payments	**-**	3
	4	8

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

The members of the Airline Management Board (easyJet's executive management team) are key management as they have collective authority and responsibility for planning, directing and controlling the business. One member of the Airline Management Board is employed by easyJet Switzerland, and one is employed by easyJet holidays so are excluded from the table above. All of the Directors are members of the Airline Management Board. From 1 April the easyJet plc board and senior management voluntarily reduced their base salary by 20% for a three-month period.

4 Employees continued

Directors' emoluments	2020 £ million	2019 £ million
Remuneration	**2**	3
	2	3

As at 30 September 2020 the Company had four Directors (2019: three).

Four (2019: two) Directors receive a taxable payment in lieu of employer pension contributions. All other Directors accrue retirement benefits under the easyJet Group defined contribution pension scheme.

No Directors exercised shares in the parent company during the year (2019: nil) and three Directors received shares relating to the long term incentive plans (2019: three).

The highest paid Director received remuneration totalling £755,000 including pension contributions of £43,000. The highest paid Director in the previous year received remuneration totalling £1,160,000 including pension contributions of £31,000. This includes an update to the LTIP value previously disclosed in the total in the prior year signed accounts. The highest paid Director exercised no shares in the parent company during the year (2019: nil) and received shares relating to long term service plans.

5 Tax (credit)/charge

Tax (credit)/charge on (loss)/profit:

	2020 £ million	2019 £ million
Current tax		
United Kingdom corporation tax	**-**	(10)
Adjustments in respect of prior years	**(1)**	-
	(1)	(10)
Deferred tax		
Temporary differences relating to property, plant and equipment	**53**	55
Other temporary differences	**7**	23
Trading loss	**(270)**	-
Adjustments in respect of prior years	**(1)**	-
Remeasurement due to enacted rate cancellation	**30**	-
	(181)	78
Total tax (credit)/charge	**(182)**	68

Reconciliation of the total tax (credit)/charge

The tax for the year is lower (2019: higher) than the standard rate of corporation tax in the UK as set out below:

	2020 £ million	2019 £ million
(Loss)/profit before tax	**(1,262)**	333
Tax (credit)/charge at 19.0% (2019: 19%)	**(240)**	63
Expenses not deductible for tax purposes	**1**	1
Share-based payments	**-**	5
Adjustments in respect of prior years - current tax	**(1)**	-
Movement on uncertain tax provision	**(1)**	-
Change in tax rate from financial year 2020 to 17%	**31**	-
IFRS 16 restricted gain	**13**	-
Early adoption of accounting standards not impacting taxation	**-**	5
Loss relief from Group companies	**15**	-
Difference in applicable rates for current and deferred tax	**-**	(6)
Total tax (credit)/charge	**(182)**	68

The reconciliation includes the impact of the previously enacted UK tax rate reduction being cancelled. Current UK tax recoverable at 30 September 2020 amounted to £10 million (2019: £46 million).

5 Tax (credit)/charge continued

During the year ended 30 September 2020, net cash tax received amounted to £15 million (2019: £51 million net tax paid).

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

	2020	2019
	£ million	£ million
Credit to other comprehensive income		
Deferred tax on change in fair value of cash flow hedges	**53**	68

Deferred tax

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

	Accelerated capital allowances	**Short-term timing differences**	**Fair value gains**	**Share based payments**	**Intercompany pension obligation**	**Trading loss**	**Total**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
As at 1 October 2019	**274**	**(21)**	**16**	**(7)**	**(8)**	**-**	**254**
Charged/(credited) to income statement	**83**	**(1)**	**1**	**5**	**1**	**(270)**	**(181)**
Charged/(credited) to other comprehensive income	**-**	**-**	**(55)**	**1**	**-**	**-**	**(54)**
At 30 September 2020	**357**	**(22)**	**(38)**	**(1)**	**(7)**	**(270)**	**19**

	Accelerated capital allowances	Short-term timing differences	Fair value gains	Share-based payments	Intercompany pension obligation	Total
	£ million	£ million	£ million	£ million	£ million	£ million
At 1 October 2018	220	(43)	84	(8)	(5)	248
Charged/(credited) to income statement	54	22	-	1	(3)	74
Credited to other comprehensive income	-	-	(68)	-	-	(68)
At 30 September 2019	274	(21)	16	(7)	(8)	254

It is estimated that deferred tax assets of approximately £7 million (2019: deferred tax assets of £11 million) will reverse during the next financial year.

It is estimated that deferred tax liabilities of approximately £nil million (2019: deferred tax liabilities of £nil) will reverse during the next financial year.

6 Dividends

During the year the Company did not declare a dividend (2019: nil).

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7 Goodwill and other intangible assets

	Goodwill £ million	Other intangible assets: Landing rights £ million	Other intangible assets: Computer software £ million	Other intangible assets: Total £ million
Cost				
At 1 October 2019	**367**	**132**	**100**	**232**
Additions	**-**	**36**	**-**	**36**
Transfers	**-**	**-**	**29**	**29**
Disposals	**-**	**-**	**(41)**	**(41)**
At 30 September 2020	**367**	**168**	**88**	**256**
Accumulated amortisation				
At 1 October 2019	**-**	**-**	**36**	**36**
Charge for the year	**-**	**-**	**16**	**16**
Disposals	**-**	**-**	**(22)**	**(22)**
At 30 September 2020	**-**	**-**	**30**	**30**
Net book value				
At 30 September 2020	**367**	**168**	**58**	**226**
At 1 October 2019	367	132	64	196

	Goodwill £ million	Other intangible assets: Landing rights £ million	Other intangible assets: Computer software £ million	Other intangible assets: Total £ million
Cost				
At 1 October 2018	367	129	86	215
Additions	-	3	27	30
Disposals	-	-	(13)	(13)
At 30 September 2019	367	132	100	232
Accumulated amortisation				
At 1 October 2018	-	-	34	34
Charge for the year	-	-	15	15
Disposals	-	-	(13)	(13)
At 30 September 2019	-	-	36	36
Net book value				
At 30 September 2019	367	132	64	196
At 1 October 2018	367	129	52	181

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

Pre-tax cash flow projections have been derived from the strategic plan presented to the Board for the period up to 2024, using the following key assumptions:

	2020	2019
Pre-tax discount rate (derived from weighted average cost of capital)	**8.5%**	7.2%
Fuel price (US dollars per metric tonne)	**450**	650
Long-term economic growth rate	**2.0%**	2.0%
Exchange rates:		
US dollar	**1.29**	1.30
Euro	**1.10**	1.13
Swiss franc	**1.19**	1.30

7 Goodwill and other intangible assets continued

The discount rate has been calculated based on the capital asset pricing model using external inputs where relevant and the current debt structure. The change year on year reflects the reduction in share price and change in gearing. Both fuel price and exchange rates are volatile in nature. Exchange rates are based on spot rates as at 30 September 2020 and the fuel assumption used represent management's view of reasonable average rates, using the fuel spot price would significantly increase headroom. The reduction year on year reflects the change in underlying fuel prices. Operating margins are sensitive to significant changes in these rates.

Cash flow projections beyond the forecast period have been extrapolated using an estimated average of long-term economic growth rates for the principal countries in which easyJet operates. The future impact of climate change on the business has been incorporated into strategic plans where this can be reliably estimated. Stress testing has been performed on key inputs to the value in use calculation, including the assumptions listed above and the strategic plan used as the base for the calculation. The impairment model is sensitive to a sustained significant adverse movement in foreign currency exchange rates and forecast operating profits to the extent that no other compensating action is taken.

It has been assumed that any significant future fuel price increase would be recovered through revenue pass through.

8 Property, plant and equipment

	Owned Assets			Right of use assets held under leasing arrangements		
	Aircraft and spares	**Land and buildings**	**Other**	**Aircraft and spares**	**Other**	**Total**
	£ million	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Cost						
At 1 October 2019	**5,182**	**34**	**76**	**1,833**	**34**	**7,159**
Additions	**535**	**-**	**92**	**63**	**3**	**693**
Transfers	**107**	**10**	**(105)**	**(41)**		**(29)**
Aircraft sold and leased back	**(824)**	**-**	**-**	**354**	**-**	**(470)**
Disposals	**(14)**	**-**	**(21)**	**(27)**	**-**	**(62)**
At 30 September 2020	**4,986**	**44**	**42**	**2,182**	**37**	**7,291**
Accumulated depreciation						
At 1 October 2019	**898**	**-**	**18**	**1,218**	**16**	**2,150**
Charge for the year	**225**	**-**	**6**	**232**	**6**	**469**
Transfers	**(15)**	**-**	**-**	**15**	**-**	**-**
Impairment	**-**	**-**	**-**	**37**	**-**	**37**
Aircraft sold and leased back	**(251)**	**-**	**-**	**-**	**-**	**(251)**
Disposals	**(6)**	**-**	**(11)**	**-**	**-**	**(17)**
At 30 September 2020	**851**	**-**	**13**	**1,502**	**22**	**2,388**
Net book value						
At 30 September 2020	**4,135**	**44**	**29**	**680**	**15**	**4,903**
At 1 October 2019	4,284	34	58	615	18	5,009

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8 Property, plant and equipment continued

	Owned Assets			Right of use assets held under leasing arrangements		
	Aircraft and spares £ million	Land and Buildings £ million	Other £ million	Aircraft spares £ million	Other £ million	Total £ million
Cost						
At 1 October 2018	4,391	-	67	1,694	32	6,184
Additions	900	34	15	127	2	1,078
Aircraft sold and leased back	(109)	-	-	40	-	(69)
Disposals	-	-	(6)	(28)	-	(34)
At 30 September 2019	5,182	34	76	1,833	34	7,159
Accumulated depreciation						
At 1 October 2018	706	-	18	947	12	1,683
Charge for the year	201	-	5	271	4	481
Aircraft sold and leased back	(9)	-	-	-	-	(9)
Disposals	-	-	(5)	-	-	(5)
At 30 September 2019	898	-	18	1,218	16	2,150
Net book value						
At 30 September 2019	4,284	34	58	615	18	5,009
At 1 October 2018	3,685	-	49	747	20	4,501

The net book value of aircraft includes £281 million (2019: £286 million) relating to advance and option payments for future deliveries. This amount is not depreciated.

As at 30 September 2020, easyJet was contractually committed to the acquisition of 101 (2019: 110) Airbus 320 family aircraft, with a total estimated list price* of US$12.16 billion (2019: US$ 13.0 billion) before escalations and discounts for delivery in financial years 2021 (zero aircraft), 2022 (13 aircraft), 2023 (29 aircraft) and 2024 (13 aircraft).

The 'Other' categories comprise of leasehold improvements, computer hardware, leasehold property and fixtures, fittings and equipment and work in progress in respect of tangible and intangible projects.

Included in additions in the period is £15 million previously recognised in prepayments, which has been reclassified to property, plant and equipment.

Assets of £1,066 million are pledged as security for the Revolving Credit Facility and term loans listed in note 14.

Due to lower forecasted customer demand, the Company have reassessed the fleet capacity and utilisation requirements leading to 34 leased aircraft being permanently removed from commercial service. These assets will not be utilised again before being returned to the lessor at the end of their existing lease term and therefore will not generate any further economic benefit. As a result, an impairment charge of £37 million for these aircraft has been categorised as non-headline in the income statement, along with an equivalent reduction within Right of Use assets.

* Airbus no longer publishes list prices. The estimated list price is based on the last available list price published in January 2018 and escalated by Airbus' standard escalation from January 2018 to January 2019 of 2.96%.

9 Investments in subsidiaries

	Total £ million
At 1 October 2019	1
Disposals	(1)
At 30 September 2020	-

During the year, easyJet Airline Company Limited dissolved both of its previous subsidiaries. The £1 million disposal of these subsidiaries has been recognised in the income statement.

10 Other non-current assets

	2020 £ million	2019 £ million
Lessor maintenance contributions	**92**	107
Deferred consideration and deposits held by aircraft lessors	**41**	25
Recoverable supplemental rent (pledged as collateral)	**-**	9
Other	**-**	1
	133	142

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

11 Trade and other receivables

	2020 £ million	2019 £ million
Trade receivables	**20**	82
Less: provision for impairment	**(4)**	(1)
	16	81
Amounts due from Group undertakings	**16**	-
Prepayments and accrued income*	**98**	171
Recoverable supplemental rent (pledged as collateral)	**10**	1
Other receivables	**71**	25
	211	278

* Please refer to note 1 for details of our voluntary change in accounting policy.

Within the provision for loss allowance, £4 million (2019: £1 million) has been charged to the income statement within other costs, with £1 million (2019: £1 million) being utilised in the 2020 financial year. Information about the impairment of trade receivables and the Company's exposure to credit risk can be found in note 21. Prepayments include £18 million of intercompany balances.

12 Cash and money market deposits

	2020 £ million	2019 £ million
Cash and cash equivalents (original maturity less than three months)	**2,240**	1,263
Money market deposits (original maturity more than three months)	**32**	291
Non-current restricted cash	**4**	4
	2,276	1,558

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

Restricted cash comprises:	**2020 £ million**	2019 £ million
Pledged as collateral to third parties:		
Amounts held in escrow for legal cases	**4**	4
	4	4

13 Trade and other payables

	2020	2019
	£ million	£ million
Trade payables	**235**	277
Amounts owed to group undertakings	**3,081**	2,136
Accruals	**362**	591
Taxes and social security	**31**	26
Other payables	**481**	86
	4,190	3,116

Upon cancellation of a flight, the unearned revenue balance is transferred into other payables to be classified as a financial liability. Due to the cancellation of flights, £383 million has been transferred into other payables from unearned revenue which is the primary reason for the year on year reduction in unearned revenue balance from £1,069 million to £621 million. Over 80% of the prior year balance has been recognised as revenue in the current financial year as flights have flown.

14 Borrowings

At 30 September 2020	**Current £ million**	**Non-current £ million**	**Total £ million**
Drawn down amounts on Revolving Credit Facility	**(387)**	-	**(387)**
Bank loans	**-**	**(388)**	**(388)**
	(387)	**(388)**	**(775)**

At 30 September 2019	Current £ million	Non-current £ million	Total £ million
Borrowings	-	-	-

Amounts above are shown net of issue costs or discounted amounts which are amortised at the effective interest rate over the life of the debt instruments.

On 10 February 2015 easyJet signed a $500 million revolving credit facility with a minimum five-year term. The facility is due to mature in February 2022. On 9 April 2020 easyJet fully drew down this $500 million Revolving Credit Facility, secured against aircraft assets.

On 16 April 2020 easyJet secured two term loans with separate counterparty banks for £200 million and $245 million respectively. Both loans are secured against aircraft assets and mature in February 2022.

15 Provisions for liabilities and charges

	Maintenanc provisions £ million	Provisions customer claims £ million	Restructuring £ million	Other Provisions £ million	Total £ million
At 1 October 2019	526	50	-	13	589
Exchange adjustments	(20)	1	-	-	(19)
Charged to/(released from) the income statement	90	62	120	(11)	261
Related to aircraft sold and leased back	49	-	-	-	49
Unwinding of discount	10	-	-	-	10
Utilised	(58)	(74)	(22)	-	(154)
At 30 September 2020	**597**	**39**	**98**	**2**	**736**

Provisions for customer claims comprise amounts payable to customers who make claims in respect of flight delays and cancellations, and refunds of air passenger duty or similar charges. Other provisions include amounts in respect of potential liabilities for employee related matters.

Provisions are analysed as follows:

	2020	2019
	£ million	£ million
Current	**404**	192
Non-current	**332**	397
	736	589

15 Provisions for liabilities and charges continued

The split of the current / non-current maintenance provision as at 30 September is based on the current expected maintenance event timings. If actual aircraft usage varies from expectation the timing of the utilisation of the maintenance provision could result in a material change in the classification between current and non-current. Maintenance provisions are expected to be utilised within ten years. Provisions for customer claims, restructuring and other provisions are generally expected to be utilised within one year.

16 Share capital

	Number		Nominal value	
	2020 million	2019 million	**2020 £ million**	2019 £ million
Authorised at 30 September				
Ordinary shares of £1 each	**765**	**765**	**765**	**765**
Allotted, called up and fully paid - Ordinary shares of £1 each				
At 30 September	**765**	765	**765**	765

17 Share incentive schemes

The Company participates in Group share incentive schemes, all of which are settled in the equity of its parent, easyJet plc. Further details are given in easyJet plc's published Annual Report and Accounts for the year ended 30 September 2020.

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

Grant date	1 October 2019 million	Granted million	Forfeited million	Exercised million	**30 September 2020 million**
Long Term Incentive Plan					
17 December 2013	0.1	-	-	-	**0.1**
19 December 2014	0.1	-	-	-	**0.1**
18 December 2015	-	-	-	-	**-**
19 December 2016	0.4	-	(0.1)	(0.2)	**0.1**
19 December 2017	0.6	-	(0.1)	-	**0.5**
19 December 2018	1.3	-	(0.2)	-	**1.1**
19 December 2019	-	0.9	(0.1)	-	**0.8**
Restricted Share Plan					
19 December 2016	0.1	-	-	-	**0.1**
Save As You Earn scheme					
1 July 2015	0.1	-	(0.1)	-	**-**
1 July 2016	0.5	-	(0.2)	(0.2)	**0.1**
1 July 2017	1.4	-	(0.8)	-	**0.6**
1 July 2018	0.3	-	(0.2)	-	**0.1**
1 July 2019	4.2	-	(2.2)	-	**2.0**
1 August 2020	-	5.0	(0.1)	-	**4.9**
Share Incentive Plan	5.0	0.2	(0.2)	(0.3)	**4.8**
	14.1	6.1	(4.3)	(0.7)	**15.3**

easyJet Airline Company Limited

17 Share incentive schemes continued

Weighted average exercise prices are as follows:

	1 October 2019 £	Granted £	Forfeited £	Exercised £	**30 September 2020 £**
Save As You Earn scheme	9.04	6.65	9.02	11.98	**7.42**

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

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

	Price (£)		Number (million)	
	2020	2019	**2020**	2019
Long Term Incentive Plan	-	-	**0.3**	0.2
Restricted Share Plan	-	-	**0.1**	0.1
Save As You Earn scheme	6.65	11.98	**0.8**	0.6
			1.2	0.9

The weighted average remaining contractual life for each class of share at 30 September 2020 is as follows:

	Years
Long Term Incentive Plan	8.0
Restricted Share Plan	6.2
Save As you Earn scheme	2.8

Long Term Incentive Plan

The plan is open, by invitation, to Executive Directors and senior management, and provides for annual awards of Performance Shares worth up to 250% of salary each year. The vesting of these shares is dependent on return on capital employed (ROCE), earnings per share (EPS) and total shareholder return (TSR) targets compared to FTSE-ranked companies at the start of the performance period. All awards have a three year vesting period. 2020 awards are assessed on performance conditions measured over the three financial years ended 30 September 2022.

Restricted Share Plan

This plan is open by invitation to new AMB members. The vesting of these shares is dependent on remaining in employment for varying periods.

Save As You Earn scheme

The scheme is open to all employees on the UK payroll. Participants may elect to save up to £500 per month under a three year savings contract. An option is granted by the Company to buy shares at a discount of 20% from market price at the time of the grant. At the end of the savings period, the option becomes exercisable for a period of six months. Employees who are not paid through the UK payroll may participate in the scheme under similar terms and conditions, albeit without the same tax benefits. The 2020 scheme did not offer the discount of 20% in light of the cash constraints as a result of the COVID-19 pandemic.

Share Incentive Plans

The plan is open to all employees on the UK payroll. Participants may invest up to £1,800 of their pre-tax salary each year to purchase partnership shares in easyJet. For each partnership share acquired, easyJet purchases a matching share up to a maximum value of £1,500 per annum. Employees must remain with easyJet for three years from the date of purchase of each partnership share in order to qualify for the matching share, and for five years for the shares to be transferred to them tax free. The employee is entitled to dividends on shares purchased, and to vote at shareholder meetings. With effect from 1 April 2020, easyJet ceased contributing a matching share to the scheme as a result of the cash constraints on the business.

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

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17 Share incentive schemes continued

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

Grant date	Share price £	Exercise price £	Expected volatility %	Option life years	Risk-free interest rate %	Fair value £
Long term incentive plan						
18 December 2012 - ROCE	7.37	-	-	-	-	6.92
18 December 2012 - TSR	7.37	-	33%	3.0	0.44%	5.16
17 December 2013 - ROCE	14.99	-	-	-	-	14.99
17 December 2013 - TSR	14.99	-	31%	3.0	0.76%	9.83
19 December 2014 - ROCE	16.52	-	-	-	-	16.52
19 December 2014 - TSR	16.52	-	29%	3.0	0.78%	11.65
18 December 2015 - ROCE	17.13	-	-	-	-	17.13
18 December 2015 - TSR	17.13	-	29%	3.0	0.81%	9.69
19 December 2016 - ROCE	10.43	-	-	-	-	10.43
19 December 2016 - TSR	10.43	-	35%	3.0	1.40%	5.21
19 December 2017 - ROCE	13.77	-	-	-	-	13.77
19 December 2017 - EPS	13.77	-	-	-	-	13.77
19 December 2017 - TSR	13.77	-	34%	3.0	1.15%	6.89
19 December 2018 - EPS	10.78	-	-	-	-	10.78
19 December 2018 - TSR	10.78	-	47%	3.0	1.27%	5.39
19 December 2019 - EPS	14.29	-	-	-	-	14.29
19 December 2019 - TSR	14.29	-	53%	3.0	0.80%	7.15
Restricted Share Plan						
19 December 2016	10.43	-	-	-	-	10.43
Save As You Earn scheme						
1 July 2014	16.62	13.30	33%	3.5	1.64%	5.03
1 July 2015	16.54	13.23	31%	3.5	0.95%	4.42
1 July 2016	14.98	11.98	35%	3.5	0.20%	4.28
1 July 2017	12.11	9.69	31%	3.5	0.42%	2.84
1 July 2018	17.43	13.94	30%	3.5	0.88%	4.41
1 July 2019	10.03	8.02	33%	3.5	0.67%	2.70
1 August 2020	6.65	6.65	49%	3.5	-0.07%	1.95

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

Exercise price for the Save As You Earn scheme is set at a 0% (2019: 20%) discount from the share price at grant date.

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

Levels of early exercises and forfeitures are estimated using historical averages unless this is deemed unreasonable, in which case judgement is used.

The weighted average fair value of matching shares granted under the Share Incentive Plan during the year was £12.51 (2019: £10.97).

For grants under the Save As You Earn scheme, the dividend yield assumption is calculated based on the actual yield at the date of grant. For the options granted in 2020, the dividend yield assumption was 2.5% (2019: 4.5%, 2018: 3.2%, 2017: 4.2%; 2016: 3.5%; 2015: 2.75%).

The total share based payment expense recognised for the year was £18 million (2019: £18 million). The share based payment liability as at 30 September 2020 was £42 million (2019: £31 million).

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18 Reconciliation of operating (loss)/profit to cash (used in)/generated from operations

	2020 £ million	2019 £ million
Operating (loss)/profit	**(876)**	415
Adjustments for non-cash items:		
Depreciation	**469**	481
Commercial IT platform credit	**-**	(2)
Gain on sale and leaseback	**(22)**	(15)
Loss on disposal of intangibles, property, plant and equipment	**21**	-
Amortisation of intangible assets	**16**	15
Share-based payments	**16**	15
Impairment	**37**	-
Changes in working capital and other items of an operating nature:		
Decrease in trade and other receivables	**49**	13
Decrease in current intangible assets	**46**	42
Increase in trade and other payables	**143**	153
(Decrease)/increase in unearned revenue	**(454)**	105
Increase/(decrease) in provisions	**147**	(2)
(Decrease)/increase in non-current payables to group undertakings	**(2)**	18
Decrease/(increase) in other non-current assets	**9**	(20)
Decrease in derivative financial instruments	**(212)**	(31)
Decrease in non-current deferred income	**-**	(12)
Cash (used in)/generated from operations	**(613)**	1,175

19 Reconciliation of net cash flow to movement in net cash

	1 October 2019	Exchange differences	Fair Value/ non-cash movement	New raised in the year	Other issue costs	Net Cash flow	**30 September 2020**
	£ million	£ million	£ million	£ million	£million	£ million	**£ million**
Cash and cash equivalents	1,263	(63)	-	-	-	1,040	**2,240**
Money market deposits	291	-	-	-	-	(259)	**32**
	1,554	(63)	-	-	-	781	**2,272**
Bank loans	-	-	-	(389)	1	-	**(388)**
Drawn down amounts on Revolving Credit Facility	-	-	-	(387)	-		**(387)**
Lease liabilities	(809)	40	(320)	-	-	230	**(859)**
	(809)	40	(320)	(776)	1	230	**(1,634)**
Net Cash	745	(22)	(320)	(776)	1	1,010	**638**

easyJet Airline Company Limited

20 Financial instruments

Carrying value and fair value of financial assets

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

	Amortised cost		**Held at fair value**					
30 September 2020	**Financial assets £ million**	**Financial liabilities £ million**	**Fair value hedges £ million**	**Cash flow hedges £ million**	**Other Instrumen £ million**	**Other [1] £ million**	**Carrying value £ million**	**Fair value £ million**
Other non-current assets	**133**	**-**	**-**	**-**	**-**	**-**	**133**	**133**
Trade and other receivables*	**59**	**-**	**-**	**-**	**-**	**152**	**211**	**211**
Trade and other payables	**-**	**(3,784)**	**-**	**-**	**-**	**(406)**	**(4,190)**	**(4,190)**
Derivative financial instruments	**-**	**-**	**-**	**(315)**	**(12)**	**-**	**(327)**	**(327)**
Derivative financial instruments with group undertakings	**-**	**-**	**-**	**-**	**(89)**	**-**	**(89)**	**(89)**
Restricted cash	**4**	**-**	**-**	**-**	**-**	**-**	**4**	**4**
Money market deposits	**32**	**-**	**-**	**-**	**-**	**-**	**32**	**32**
Cash and cash equivalents	**1,423**	**-**	**-**	**-**	**817**	**-**	**2,240**	**2,240**
Borrowings [2]	**-**	**(775)**	**-**	**-**	**-**	**-**	**(775)**	**(775)**
Lease liabilities	**-**	**(859)**	**-**	**-**	**-**	**-**	**(859)**	**(859)**
Equity investments [3]	**-**	**-**	**-**	**-**	**33**	**-**	**33**	**33**

	Amortised cost		Held at fair value					
30 September 2019	Loans and receivable £ million	Financial liabilities £ million	Fair value hedges £ million	Cash flow hedges £ million	Other Instrument £ million	Other £ million	Carrying value £ million	Fair value £ million
Other non-current assets	141	-	-	-	-	1	142	142
Trade and other receivables*	144	-	-	-	-	134	278	278
Trade and other payables	-	(2,987)	-	-	-	(129)	(3,116)	(3,116)
Derivative financial instruments	-	-	-	(23)	21	65	63	63
Derivative financial instruments with group undertakings	-	-	-	-	-	(65)	(65)	(65)
Restricted cash	4	-	-	-	-	-	4	4
Money market deposits	291	-	-	-	-	-	291	291
Cash and cash equivalents	850	-	-	-	413.0	-	1,263	1,263
Lease liabilities	-	(809)	-	-	-	-	(809)	(811)
Equity investments [3]	-	-	-	-	48.0	-	48	48

* Please refer to note 1 for details of our voluntary change in accounting policy.

(1). Amounts disclosed in the 'Other' column are items that do not meet the definition of a financial instrument. They are disclosed to facilitate reconciliation of the carrying values of financial instruments to line items presented in the statement of financial position.

(2). For further information see note 14.

(3). The equity investment of £33 million represents a 13.2% shareholding in a non-listed entity, The Airline Group Limited. Valuation movements are designated as being fair valued through other comprehensive income due to the nature of the investment being held for strategic purposes. A dividend of £2 million (2019: £3 million) was received during the year.

20 Financial instruments continued

Fair value of derivative financial instruments

Fair value calculation methodology

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

Apart from the equity investment, the remaining financial instruments for which fair value is disclosed in the table above, and derivative financial instruments, are classified as level 2. The fair values of derivatives are calculated using observable market forward curves (e.g. forward foreign exchange rates, forward interest rates or forward jet fuel prices) and discounted to present value using risk free rates. The impacts of counterparty credit, cross-currency basis and market volatility is also included where appropriate as part of the fair valuation.

The equity investment is classified as level 3 due to the use of forecast dividends which are discounted to present value. Though there are other level 2 inputs to the valuation, the discounted cash flow is a significant input which is not based on observable market data. The fair value is assessed at each reporting date based on the discounted cash flows and two other valuations calculated using a market approach and level 2 inputs. The fair value of £33 million was determined on this basis by an external valuation firm as at 30 September 2020, representing a reduction of £15 million from the prior year which was recognised in other comprehensive income. If the level 3 forecast cash flows were 10% higher or lower the fair value would not increase / decrease by a significant amount.

The investment was recognised on adoption of IFRS 9 at 1 October 2018 at £54 million based on an external valuation. Using the same methodology management performed the calculation as at 30 September 2020 resulting in a fair value of £33 million (2019: £48 million) a reduction of £15 million which was recognised in other comprehensive income.

The fair value measurement hierarchy levels have been defined as follows;

- Level 1, fair value of financial instruments based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2, fair value of financial instruments in an active market (for example, over the counter derivatives) which are determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity specific estimates.
- Level 3, fair value of financial instruments that are not based on observable market data (i.e. unobservable inputs).

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20 Financial instruments continued

30 September 2020	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
Designated as cash flow hedges						
US dollar	376	1	2	(2)	(2)	(1)
Euro	611	-	3	(6)	(7)	(10)
Swiss franc	188	-	-	(4)	(2)	(6)
South African rand	26	-	-	-	-	-
Jet fuel	2	1	-	(228)	(71)	(298)
Designated as fair value through profit and loss						
US dollar	600	1	1	(8)	(3)	(9)
Cross currency interest rate	2,534	85	-	-	(85)	-
Euro	582	-	13	(6)	-	7
Swiss franc	197	-	-	(4)	-	(4)
Jet fuel	1	-	2	(97)	-	(95)
		89	21	(355)	(171)	(416)

30 September 2019	Quantity million	Non-current assets £ million	Current assets £ million	Current liabilities £ million	Non-current liabilities £ million	Total £ million
Designated as cash flow hedges						
US dollar	2,740	43	108	-	(2)	149
Euro	2,338	4	15	(11)	(3)	5
Swiss franc	492	1	-	(9)	(4)	(12)
South African Rand	134	-	2	-	-	2
Jet fuel	3	-	7	(118)	(55)	(166)
Cross Currency interest rate	888	-	-	-	(7)	(7)
Designated as fair value hedges						
Cross currency interest rate	379	73	-	-	-	73
Designated as fair value through profit or loss						
US dollar	*345*	5	15	-	-	20
		126	147	(138)	(72)	63

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

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

Amounts related to US dollar foreign exchange derivatives held at fair value through profit and loss (e.g. not held in a hedge accounting relationship) form part of the Company's balance sheet retranslation risk management strategy. Fair valuation movements on these derivatives are recognised in the income statement and offset foreign exchange movements on the corresponding notional amount of balance sheet liabilities held in USD. These trades are all expected to occur on various dates within the next 36 months.

Other amounts designated as fair value through profit or loss primarily relate to Euro, Swiss Francs and jet fuel derivatives discontinued from a hedge accounting relationship during the year as a result of the reduction in forecast exposures caused by the impacts associated with COVID-19. Additionally included within these amounts are derivatives transacted in an 'equal and opposite' notional direction to trades discontinued from hedge accounting. This was to economically close out these positions where appropriate and reduce volatility from fair valuation movements in profit and loss going forward. All trades related to EUR, Swiss Francs and Jet designated as fair value through profit or loss are expected to settle on various dates within the next 12 months.

easyJet Airline Company Limited

20 Financial instruments continued

The Company maintains cross-currency interest rate swap contracts on fixed rate debt issuance as part of the approach to currency and interest rate risk management. The cross-currency interest rate swap contracts are designated and qualify as either fair value or cash flow hedges to minimise volatility in the income statement.

Hedging for easyJet Holidays is conducted out of easyJet Airline Company Limited, with back to back trade entered into between both entities that offset the trades entered into with banking counterparties. This means that the fair values of these FX forward contracts are offsetting, and the net impact at a company level is nil

Fair value of derivative financial instruments

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

30 September 2020	**Gross amount £ million**	**Amount not set off £ million**	**Net amount £ million**
Derivative financial instruments			
Assets	**110**	**(71)**	**39**
Liabilities	**(526)**	**71**	**(455)**
	(416)	**-**	**(416)**

30 September 2019	Gross amount £ million	Amount not set off £ million	Net amount £ million
Derivative financial instruments			
Assets	280	(142)	138
Liabilities	(282)	142	(140)
	(2)	-	(2)

All financial assets and liabilities are presented gross on the face of the statement of financial position as the conditions for netting specified in IAS32 'Financial Instruments Presentation' are not met.

21 Financial risk and capital management

The company is exposed to financial risks including fluctuations in exchange rates, jet fuel prices and interest rates. Financial risk management aims to limit these market risks with selected derivative hedging instruments being used for this purpose. easyJet's policy is not to speculatively trade derivatives but use the instruments to hedge anticipated exposure and gain cash flow certainty. Ordinarily, easyJet is not exposed to market risk by using derivatives as any gains and losses arising are offset by the outcome of the underlying exposure being hedged. However, as a result of COVID-19 and the significant reduction in future flying schedule easyJet is in an over-hedged position for jet and foreign exchange derivatives in the short term.

In addition to market risks, easyJet is exposed to credit and liquidity risk.

Financial risk and capital management policies and objectives are set on a group level by the easyJet plc Board. These are implemented by the treasury function on a day to day basis. The policy outlines the approach to risk management and also states the instruments and time periods which the treasury function is authorised to use in managing financial risks. The policy is regularly reviewed to ensure best practice. During the year the policy was updated to reflect the inclusion of jet fuel options as an allowable hedging instrument with the Group's commodity price risk management strategy. Further information on both of these can be found in the relevant sections below.

In March 2020 easyJet's normal rolling foreign exchange and commodity hedging polices were temporarily paused as a result of the significant reduction in forecast exposures caused by COVID-19 in order to mitigate the potential for further over hedging. However, where appropriate the hedging of Jet fuel has continued for periods related to the 2022 financial year onwards. As at 30 September 2020 easyJet had resumed its rolling operating USD foreign exchange hedging programme, although it is anticipated to take several months to build up to standard policy hedge levels. Throughout the period easyJet has continued to hedge a proportion of its future lease liability payments using USD foreign exchange derivatives.

Liquidity risk management

The objective of easyJet's liquidity risk management is to ensure sufficient cash is available to meet future liabilities as they fall due and ensure access to cost effective funding in various markets.

easyJet's policy has consistently been to hold significant cash and liquid funds to mitigate the impact of potential business disruption events. As a consequence of the unprecedented situation caused by COVID-19 easyJet has undertaken swift and decisive action to raise over £2.4 billion in cash since the beginning of the pandemic, from a diversified range of funding sources including debt and equity.

Liquidity raised in the year includes:

• During the course of the year sale and leaseback transactions were conducted on 33 aircraft generating gross proceeds of £723 million (£609 million raised since the start of the pandemic)

• On 8 April 2020 easyJet raised £600 million in unsecured commercial paper through the UK Government's Covid Corporate Financing Facility (CCFF). This was subsequently lent to the Company on the same terms and tenor.

• On 9 April 2020 easyJet fully drew down on its $500 million Revolving Credit Facility, secured against aircraft assets.

21 Financial risk and capital management continued

• On 16 April 2020 easyJet secured two term loans with separate counterparty banks for £200 million and $245 million respectively. Both loans are secured against aircraft assets and mature in February 2022.

• During the year gross proceeds of £419 million was raised through the issuance of equity shares

The Group continues to evaluate raising further liquidity as and when it is deemed appropriate to ensure it maintains adequate levels of cash. easyJet continues to have access to various funding markets and a large fleet of unencumbered aircraft assets as sources of additional liquidity.

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

At 30 September 2020	Within 1 year £ million	1-2 years £ million	2-5 years £ million	Over 5 years £ million
Borrowings	**401**	**394**	-	-
Trade and other payables	**4,190**	-	-	-
Lease Liabilities	**278**	**174**	**332**	**160**
Derivative contracts – receipts	**(1,534)**	**(506)**	**(89)**	-
Derivative contracts – payments	**1,926**	**670**	**93**	-

At 30 September 2019	Within 1 £ million	1-2 years £ million	2-5 years £ million	Over 5 years £ million
Trade and other payables	2,987	-	-	-
Lease liabilities	271	236	273	71
Derivative contracts – receipts	(3,344)	(1,557)	(82)	-
Derivative contracts – payments	3,292	1,523	80	-

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

Credit Risk Management

easyJet is exposed to credit risk arising from cash and money market deposits, derivative financial instruments and trade and other receivables. Credit risk management aims to reduce the risk of default by setting limits on credit exposure to counterparties based on their respective credit ratings. Credit ratings also determine the maximum period of investment when placing funds on deposit. The maximum exposure to credit risk at the reporting date is equal to the carrying value of its financial assets, excluding tri-party repo's, which are securitised by high quality, investment grade financial assets.

Counterparties for cash investments and derivatives contracts are required to have a long term credit rating of A- or better at contract inception with from either Moody's, Standard & Poor's or Fitch (except where there is a specific regulatory, contractual requirement or a bank guarantee from an A- rated entity). Exposures to these counterparties are regularly reviewed and, if the long term credit rating falls below A- management will make a decision on remedial action to be taken.

The credit rating of counterparties that easyJet holds financial assets with are as follows:

At 30 September 2020	A- and above £ million	Below A- £ million	Unrated/Other £ million	Total £ million
Financial Assets				
Trade receivables	-	-	211	211
Other non-current assets	-	-	133	133
Derivative financial instruments	39	-	-	39
Restricted cash	4	-	-	4
Money market deposits	32	-	-	32
Cash and cash equivalents	2,237	3	-	2,240
Total	2,312	3	344	2,659

At 30 September 2019	A- and above £ million	Below A- £ million	Unrated/ Other £ million	Total £ million
Financial Assets				
Trade receivables	-	-	278	278
Other non-current assets	-	-	142	142
Derivative financial instruments	138	-	-	138
Restricted cash	4	-	-	4
Money market deposits	291	-	-	291
Cash and cash equivalents	1,260	3	-	1,263
Total	1,693	3	420	2,116

At the end of each reporting date easyJet recognises a loss allowance for expected credit losses on financial assets measured at amortised cost. In establishing the appropriate amount of loss allowance to be recognised, easyJet applies either the general approach or the simplified approach, depending on the nature of the underlying group of financial assets.

The general approach is applied to the impairment assessment of refundable lease deposits and other refundable lease contributions, restricted cash, money market deposits and cash and cash equivalents (excluding money market funds held at fair value through profit or loss).

Under the general approach easyJet recognises a loss allowance for a financial asset at an amount equal to the 12-month expected credit losses, unless the credit risk on the financial asset has increased significantly since initial recognition, in which case a loss allowance is recognised at an amount equal to the lifetime expected credit losses.

At 30 September 2020 this was considered immaterial. This is due to easyJet's strict policy of investing only with counterparties who hold a high, investment grade credit standing (except in specific circumstances) as detailed in the tables above.

The simplified approach is applied to the impairment assessment of trade and other receivables.

Under the simplified approach easyJet always recognises a loss allowance for a financial asset at an amount equal to the lifetime expected credit losses using the historic loss methodology to calculating an impairment provision.

At 30 September 2020 trade receivables had a total loss allowance of £4 million. The exposure to individual customer's credit risk is reduced as no individual customer accounts for a substantial amount of the total revenue and most payments for flight tickets are collected in advance of the service being provided.

Foreign Currency Management

The majority of easyJet's exposure to currency arises from fluctuations in the US dollar, Euro and Swiss franc exchange rates which can significantly impact easyJet's financial results and cash flows. The aim of the foreign currency risk management is to reduce the impact of these exchange rate fluctuations.

Significant currency exposures in the income statement are managed through the use of currency forward contracts entered into a cash flow hedge relationships, in line with the board approved policy. The policy states that easyJet hedges between 65% – 85% of the next 12 months forecast surplus operating cash flows on a rolling basis, and 45% – 65% of the following 12 months forecast surplus operating cash flows on a rolling basis.

Due to the impact of COVID-19 normal policy levels of foreign exchange hedging were not always reached at year end. Operating foreign exchange hedge activity was temporarily paused in March 2020 due to the uncertainty of future exposures and to mitigate the risk of further over-hedging. Additionally during the year easyJet mutually agreed to terminate amounts of USD and EUR FX forward contracts with counterparties in order to receive cash settlement early on favourable 'in the money' trades. Whilst this temporarily reduced hedge levels on the amount of future USD exposures, easyJet restarted its rolling hedge programme on USD in September and is anticipating being back within stated policy levels within the coming months. Operating foreign exchange hedge activity in other currencies continues to be paused until there is greater certainty on forecast exposure levels when normal policy is expected to resume.

easyJet Airline Company Limited

21 Financial risk and capital management continued

Significant currency exposures relating to the acquisition cost or sale proceeds of aircraft are also managed through the use of FX forward contracts and FX swap contracts where up to 90% of the next 18 months forecast requirement may be hedged.

easyJet has substantial borrowings and other monetary liabilities denominated in US dollars and Euros, which are largely offset by holding US dollar and Euro cash and money market deposits. FX forward contracts are used for the purposes of managing the foreign exchange risk created as a result of the adoption of the IFRS 16. The majority of lease liability amounts on balance sheet are denominated in USD. Lease liability amounts are classified as monetary financial instruments, with retranslation amounts resulting from movements in foreign exchange rates in the period (into the functional currency of GBP) going through the income statement. FX Forward contracts classified as Fair Value through Profit or Loss (e.g. not designated in a hedge relationship) are used as part of the Groups risk management strategy to reduce this foreign exchange risk in the income statement.

Management may take action to hedge other currency exposures as deemed appropriate.

The gross notional of transactions in a hedge relationship that occurred during the financial year to manage the foreign currency risk and the resulting gains and losses were as follows:

	Volume	Gains/(Losses)
USD	642	41
EURO	1319	(4)
CHF	126	(1)
ZAR	4	1

Notional value reflects the GBP contractual leg amount

Due to the impact of COVID-19 and the resultant reduction in anticipated exposures during the financial year an amount of £65 million gain was recognised within Interest Expense and Interest Income related to the discontinuation of hedge accounting for foreign currency hedges. This related to trades that matured or were terminated in the period (£60 million gain) and those maturing in future periods related to hedging exposures in the 2021 financial year no longer expected to occur (£5 million gain)

Capital financing and interest rate risk management

The objective of capital management is to ensure that easyJet is able to continue as a going concern whilst delivering shareholder expectations of a strong capital base as well as returning benefits for other stakeholders. This is carried out on a Group level according to policies approved by the Board of Directors of easyJet plc. This is described in more detail on page 180 of easyJet plc's published Annual Report and Accounts for the year ended September 2020.

The Group maintains cross-currency interest rate swap contracts on fixed rate debt issuance as part of the approach to currency and interest rate management. The cross-currency interest rate swap contracts have offsetting notional and fair value amounts meaning the net impact at a company level is nil. Proceeds from all three bond transactions were loaned to the company from easyJet plc on the same terms and tenors.

easyJet plc established a £3,000 million Euro Commercial Paper programme on 31 March 2020, with any paper issuances under this scheme being guaranteed by easyJet Airline Company Limited. Subsequently on 8 April 2020 easyJet plc issued a £600 million note under the UK government's Covid Commercial Financing Facility Scheme. The issuance was a zero coupon note with a maturity of 5 March 2021 and an effective interest rate of 0.49%. Proceeds from this transaction were subsequently loaned to the company

During the year easyJet plc transacted a share issue via an equity placing and raised £419 million less fees of £10 million. Proceeds from all three bond transactions were loaned to the company from easyJet plc on the same terms and tenors.

Interest rate cash flow risk arises on floating rate borrowings and cash investments.

Interest rate risk management policy aims to provide certainty in a proportion of financing while retaining the opportunity to benefit from interest rate reductions. Borrowings are issued at either fixed or floating interest rates repricing every three to six months. Operating leases are a mix of fixed and floating rates. Of the 124 aircraft operating leases in place at 30 September 2020 (2019: 94), 90% were based on fixed interest rates and 10% were based on floating interest rates (2019: 87% fixed, 13% floating).

Commodity Price Risk Management

The easyJet Group is exposed to commodity risk in the form of jet fuel and Carbon EU Emissions Trading System (EU-ETS) price risk.

The objective of the fuel price risk management policy is to provide protection against sudden and significant increases in jet fuel prices, thus mitigating volatility in both cash and the income statement in the short-term. In order to manage the risk exposure, forward swap and options contracts are used in line with the Board approved policy to hedge between 65% and 85% of estimated exposures up to 12 months in advance, and to hedge between 45% and 65% of estimated exposures from 13 up to 24 months in advance.

Due to the impact of COVID-19 normal policy levels of Jet fuel hedging was not always reached at year end. Due to the uncertainty of future exposures and to mitigate the risk of further over-hedging, post March 2020 jet fuel hedge activity only continued for periods related to the 2022 financial year onwards.

21 Financial risk and capital management continued

Jet fuel derivatives are entered into a cash flow hedge relationship against the future forecasted jet fuel usage. Specific decisions may require consideration of a longer term approach. Treasury strategies and actions will be driven by the need to meet treasury, financial and corporate objectives.

Additionally during the year easyJet mutually agreed to early terminate select amounts of jet fuel swap contracts with counterparties where the 'out of the money' position could be netted against 'in the money' foreign exchange trades terminated at the same time and with the same counterparty.

The volume of effective hedge transactions that occurred during the financial year to manage the jet commodity price risk was 1 million metric tonnes. This resulted in a £77 million loss in the fuel line within the Income Statement. Due to the full grounding of the fleet during the year and the lower capacity expected for several months thereafter a further £373 million loss was recognised in interest expense related to Jet hedges that were discontinued from a hedge accounting relationship. This related to jet fuel trades that matured or were terminated in the period (£276 million loss) and those maturing in future periods related to hedging exposures in the 2021 financial year no longer expected to occur (£97 million loss).

The easyJet Group has a regulatory requirement to surrender EU-ETS carbon credits on an annual basis to the relevant environmental agencies, relative to the amount of carbon emissions in the period. easyJet is required to purchase EU-ETS credits on the open market to fulfil this requirement and is exposed to price movements that can introduce cash flow volatility. To mitigate this exposure, forward contracts are used in line with board approved policy to hedge up to 95% of anticipated exposure up to 24 months out. easyJet is fully hedged for its carbon exposures related to its EU-ETS obligations for calendar year 2020.

These contracts are not classified as a financial instruments as they fall within the own use provision under IFRS 9.

Market risk sensitivity analysis

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

The sensitivity analysis is based on easyJet's financial assets and liabilities and financial instruments held as at 30 September 2020.

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

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

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

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

	Currency rates					
	US dollar +10%(1)	**US dollar -10%(2)**	**Euro +10%(1)**	**Euro -10%(2)**	**Interest rates 1% increase**	**Fuel price 10% increase**
At 30 September 2020	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**	**£ million**
Income statement impact: gain / (loss)	**15**	**(12)**	**4**	**(3)**	**18**	**8**
Impact on other comprehensive income: increase / (decrease)	**(1)**	**1**	**(53)**	**43**	**-**	**46**

	Currency rates					
	US dollar +10%(1)	US dollar -10%(2)	Euro +10%(1)	Euro -10%(2)	Interest rates 1% increase	Fuel price 10% increase
At 30 September 2019	£ million	£ million	£ million	£ million	£ million	£ million
Income statement impact: gain / (loss)	22	(18)	128	(105)	11	-
Impact on other comprehensive income: increase / (decrease)	180	(147)	4	(3)	-	136

(1) GBP weakened

(2) GBP strengthened

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

21 Financial risk and capital management continued

Impact on the financial statements during the period ended 30 September 2020

Details of major hedging arrangements at the reporting date are set out below broken down by the notional maturity of hedge instruments and average rates.

Hedge Instrument (notional in millions)	*Within one year*	*Greater than one year*
Jet Fuel Hedged Notional	1	1
Average Hedge Rate	630	500
USD Foreign Exchange Hedged Notional	167	109
Average Hedge Rate	1.29	1.28
EUR Foreign Exchange Hedged Notional	376	170
Average Hedge Rate	1.11	1.14
CHF Foreign Exchange Hedged Notional	107	46
Average Hedge Rate	1.23	1.22
ZAR Foreign Exchange Hedged Notional	1	-
Average Hedge Rate	29.54	

Hedge Discontinuation and Ineffectiveness

Hedge effectiveness testing on all relationships is performed at each reporting date. Whilst the critical terms matching of the Company's hedge relationships means that any ineffectiveness should be minimal it can be driven by factors such as material changes in credit risk, price fixing basis (in the case of Jet fuel) or changes in the timings of the hedged cash flows.

Due to the full grounding of the fleet in the year and the lower capacity expected for several months thereafter, easyJet became significantly over-hedged from a jet fuel and, to a lesser extent, FX perspective. Where the forecast future exposure is no longer expected to occur, the hedge relationship was discontinued and all gains or losses related to the hedge instrument transferred immediately to the income statement. These amounts totalled £353 million loss and £65 million gain related to Jet fuel and foreign exchange hedges respectively in the year.

Additionally during the year a small amount of Jet fuel hedge contracts were discontinued from a hedge relationship as a result of a difference between the fixing of the underlying fuel price and the derivative. This was caused as a consequence of the full grounding of the fleet in March 2020 and is anticipated to be a one off event. As the hedge exposure was still expected to occur at the point of hedge discontinuation the fair valuation amounts were held in Other Comprehensive Income and recycled to the income statement when the underlying hedge exposure transpired. Subsequent fair valuation movements following the point of discontinuation on these derivatives was recognised in Interest Expense as a non-headline item totalling £20 million loss.

Discontinued hedge amounts in the year was a net £308 million loss recorded between Interest Expense (£411 million) and Interest Income (£103 million).

All hedge relationships where the underlying exposure is still anticipated to occur continue to exhibit a strong economic hedge relationship as the changes in fair value of hypothetical hedged items is materially offset by the changes in the fair value of hedging instruments.

22 Leases

easyJet holds aircraft under leasing arrangements that are recognised as right of use assets and lease liabilities, with remaining lease terms ranging up to eight years. easyJet is contractually obliged to carry out maintenance on these aircraft, and the cost of this is provided based on the number of flying hours and cycles operated. Further details are given in note 1.

Information in respect of right of use assets, including the carrying amount, additions and depreciation, are set out in note 10 to these financial statements. Information in respect of the carrying value and interest arising on lease liabilities is set out in note 21 and note 2 respectively. A maturity analysis of lease liabilities is set out below.

easyJet also enters into short term leases and low value leases which are not recognised as right of use assets and lease liabilities. The expense recognised in the period in relation to these leases is disclosed in note 3.

easyJet Airline Company Limited

22 Leases continued

Amounts recognised in the statement of cash flows	Year ending 30 September 2020	Year ending 30 September 2019
	£ million	£ million
Total payment on lease liabilities	250	195

Lease liabilities	30 September 2020 £ million	30 September 2019 £ million
Maturity analysis - contractual undiscounted cash flows		
Less than one year	278	271
One to five years	506	509
More than five years	160	71
	944	**851**

Lease liabilities included in the Statement of Financial Position	30 September 2020 £ million	30 September 2019 £ million
Current	(257)	(263)
Non-current	(602)	(546)
Total	**(859)**	**(809)**

Amounts recognised in Income Statement	30 September 2020 £ million	30 September 2019 £ million
Interest on lease liabilities	31	39
Expenses relating to short term and low value leases (excluding wet leases)	6	10
Expenses relating to short-term wet leases	17	5
	54	**54**

Intercompany lease liabilities included in the Statement of Financial Position	30 September 2020 £ million	30 September 2019 £ million
Current	(33)	(44)
Non-current	(116)	(187)
Total	**(149)**	**(231)**

Intercompany amounts recognised in Income Statement	30 September 2020 £ million	30 September 2019 £ million
Interest on lease liabilities	7	13

23 Guarantees, contingent liabilities and commitments

The Company has given a formal undertaking to the Civil Aviation Authority to guarantee the payment and discharge of all liabilities of easyJet UK Limited, a subsidiary of the Company. The guarantee is required for that company to maintain its operating licence under Regulation 3 of the Licensing of Air Carriers Regulations 1992.

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

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

At 30 September 2020, the Company had outstanding letters of credit and performance bonds totalling £120 million (2019: £34 million), of which £89 million (2019: £7 million) expires within one year. The fair value of these instruments at each year end was negligible.

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

As part of the commitment to voluntary carbon offsetting, easyJet currently has contractual commitments to purchase Verified Emission Reductions worth £29 million in total over the next three years.

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

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

24 Related party transactions

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

Significant transactions are as follows:

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

Charges for the years ended 30 September 2020 and 2019 are as follows:

	2020 £ million	2019 £ million
Parent		
Amounts owed to easyJet plc	**(2,695)**	(1,841)
Bond proceeds received from easyJet plc	**-**	443
Covid Corporate Financing Facility proceeds received from easyJet plc	**600**	-
Fellow Group subsidiaries		
Amounts recognised in the income statement		
Sales to fellow Group subsidiaries	**(1,073)**	(940)
Purchases from fellow Group subsidiaries	**1,365**	1,316
Amounts recognised in the statement of financial position		
Current liabilities: Amounts owed to fellow Group subsidiaries	**(409)**	(293)
Non-current liabilities: Amounts owed to fellow Group subsidiaries	**(45)**	(47)
Current assets: Amounts owed from fellow Group subsidiaries	**34**	2
Sale and leaseback proceeds paid to fellow Group subsidiaries	**19**	63
In-specie dividend received from fellow Group subsidiaries payable to the parent entity	**-**	(15)

24 Related party transactions

Included within Sales to Group subsidiaries are £725 million (2019: £676 million) in relation to the leasing of aircraft, and £159 million (2019: £151 million) in relation to the provision of management services.

Purchases to Group subsidiaries of £1,369 million (2019: £1,316 million) solely relates to the purchase of seat capacity under intra-group commercial capacity supply agreements.

Others

During the year the Company received dividends from its investment in The Airline Group Limited	**(2)**	(3)

Brand licence: amounts included in the income statement for the year ended 2020 due under the Brand Licence and other agreements with easyGroup Limited and others, detailed within note 28 to the Group accounts, amounted to £9 million (2019: £17 million). Royalty payments within this total were £8 million (2019: £13 million).

At 30 September 2020, £0.1 million (2019: £0.9 million) was included in trade and other payables in relation to the Brand Licence and other agreements.

At 30 September 2020 £8.5 million (2019: nil) is due from related parties in relation to the Annual Royalty and is included within trade and other receivables.

25 Geographical revenue

	2020 £ million	2019 £ million
United Kingdom	**1,692**	2,546
Southern Europe	**1,065**	2,169
Northern Europe	**1,260**	2,498
Other	**51**	112
	4,068	7,325

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

26 Government Grants

During the year to 30 September 2020, easyJet Airline Company Limited utilised of the Coronavirus Job Retention Scheme implemented by the United Kingdom government, where those employees designated as being 'furloughed workers' are eligible to have 80 per cent of their wage costs paid up to a maximum amount of £2,500 per month.

The total amount of such relief received by the Company amounted to £116 million (2019: nil) and is offset within employee costs in the Income statement. There are no unfulfilled conditions or contingencies relating to these schemes.

27. Ultimate controlling company

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

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

28 Subsequent events

Subsequent to the year end easyJet entered into sale and leaseback of 33 aircraft with six counterparties, which generated total proceeds of $1,045 million (circa £799 million).