Diploma in Financial Management

Module A Supplement

The information contained in this supplement should be used to answer Question 1 within Module A.

Only those pages which are required to answer Question 1 have been reproduced in this supplement.

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The Association of Chartered Certified Accountants

easyJet plc

ANNUAL REPORT and ACCOUNTS
2001

Registered number 3959649

Contents

Chairman's Statement

I am pleased to report to shareholders that easyJet plc's first full-year result since the Initial Public Offering has fully met the Board's expectations.

Year-on-year, easyJet's pre-tax profit has grown by 82 per cent to £40.1 million, on revenues of £356.9 million. Pre-tax profit includes exceptional charges of £3.8 million.

The popularity of the easyJet business model has again been confirmed by a 26.4 per cent increase in sold seats, with 7.1 million people choosing to fly easyJet. The easyJet network now consists of 35 routes serving 17 airports in 16 cities.

Above all, I would like to thank our staff and our customers, for their devotion to "the web's favourite airline" and for their help in delivering this great result.

The thoughts of everybody at easyJet are with those affected by the tragic events in the United States on 11 September 2001. I do not believe it is too dramatic to say that it has been the catalyst for change in most parts of the world economy – and the aviation industry more than most.

It is clear that aviation in Europe has changed. The current restructuring and consolidation of the industry will lead to fewer airlines operating on fewer routes and, it is to be hoped, under proper market conditions.

It is absolutely right that this restructuring takes place. It is long overdue and was inevitable even before the events of 11 September 2001. For too long, many of Europe's airlines have considered themselves immune from the realities of their operating environment. State aid, entrenchment at Europe's busiest airports and favourable restrictive bilateral agreements have been used to prevent proper competition from sweeping continental Europe.

Consolidation will be painful, but it is necessary to produce an operating environment more capable of coping with a downturn in demand. 14 national airlines is about eight too many. We applaud the European Commission's refusal to succumb to the siren calls of those airlines and countries seeking to distort the market.

I believe that easyJet is well-placed to take advantage of the changing market conditions and the continued strong sentiment towards low-cost airlines. In time, many other national airlines will follow British Airways' example at Gatwick and begin to retrench from some of Europe's busiest airports giving the opportunity for other airlines, such as easyJet, to compete.

As a result, easyJet believes its business model to be robust and is continuing with its ambitious expansion plan. We are maintaining our existing aircraft delivery schedule of a further 10 B737-700s to arrive in financial year 2002. By May 2004, our fleet will consist of 48 aircraft.

Today's problems represent just another staging post on the long journey to a less protectionist market when point-to-point travel in Europe is dominated by two forms of transport: high-speed rail and low-cost airlines.

That is the future and we intend to play a major part in it. As we enter the new financial year, I am cautiously optimistic and believe that out of every crisis there is opportunity.

Stelios Haji-Ioannou
Chairman
28 October 2001

Chief Executive's Review

Overview

The 2001 financial year has demonstrated that our business model continues to perform well for shareholders, customers and staff. We remain true to the vision at our inception: a low-cost carrier which provides a good value, no-frills service.

For the year ended 30 September 2001 easyJet plc made a profit before tax of £40.1 million, up 82 per cent on last year.

Growth in revenue has continued, increasing 35 per cent year-on-year, to £356.9 million, resulting from growing passenger numbers and higher average fares. The number of passengers rose 26 per cent year–on-year to 7.1 million, driven by the introduction into service of seven additional aircraft and a 2.2 percentage point rise in average load factor to 83 per cent. Over the same period, the average fare increased by 5.8 per cent.

The establishment of Amsterdam as a major focus city, and the introduction of nine new routes linking existing cities, demonstrates our continuing concentration on network density, rather than "flag planting".

Our business model is based on high network density and high frequency, which management believes is attractive for business travellers. As a measure of this density, the airline averaged 11.5 departures per day per city across its network during September 2001; we now fly to 17 airports in 16 cities and operate 35 routes.

We continue our policy of selling seats direct to our customers. In September 2001, 91.0 per cent of initial sales were sold over the internet. Over the financial year, the average was 86.5 per cent.

Strategy

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

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

Our strategy remains unaltered by the attacks in the USA on 11 September 2001 and we believe that the business model remains robust.

Medium-term to long-term environment

The emerging aviation environment within Europe provides us with a number of potential opportunities.

We believe that the revised security regime within Europe will have minimal impact on our high-utilisation model, as the changes primarily affect passenger processing within airport terminals.

There will be additional procedures and costs relating to security and insurance. However, we fly to many major airports and these typically have the resources and equipment to undertake the new security measures. Also, they have a larger number of passengers, across whom the costs can be spread.

I believe that we are in a strong position to capitalise on the downsizing of other carriers' networks. The business model has been built on high frequency between major cities, creating credible alternatives for the business traveller. Also, if the economies slow, I expect that business travellers will seek low-cost alternatives and will migrate from the full-fare carriers.

Chief Executive's Review *(continued)*

New aircraft & routes

During the financial year, we took delivery of the first seven of the Boeing New Generation 737-700s. These were financed using operating leases. At year-end, the total fleet was 26 aircraft.

We plan to take delivery of a further 25 B737-700s by May 2004. Ten of these aircraft will arrive in financial year 2002, although three mature aircraft will be returned to lessors in 2002.

In January 2001, Amsterdam became our fourth major focus city (the others are London Luton, Liverpool and Geneva). New services began linking Amsterdam to Edinburgh, Belfast, Barcelona, Glasgow, London Gatwick and Nice. Also, new services linking Belfast to Edinburgh and Glasgow, and London Gatwick to Nice were begun.

During the year, the Liverpool-Luton service was withdrawn because of the increase in charges at both those airports. Also, as a means of expanding the customer catchment area, the daily Geneva-Stansted service was transferred to Gatwick.

The Airline Group

Our future growth is critically dependent on the provision of efficient air traffic control services. As a consequence, we took the strategic decision to join six other UK airlines in investing in The Airline Group, the private investor in NATS (the UK organisation providing en-route air traffic control). I believe that it is crucial for airlines such as ours to work actively toward an alignment of interests between airlines and the provider of air traffic control.

Our people

One of the secrets of our success is our people and the culture they create. Our 1,600 staff and their combined energy and skills is what makes us different. For us, 'orange' is more than just a colour. It is a way of thinking. Our staff have defined the values of the 'Orangeness' as, amongst other things, being "up for it", "passionate", "sharp", "mad about safety", and "mad about cost". 'Orange' is what makes us different.

Our success in 2001 largely rests upon our people. To everyone, I say thank you.

Trading outlook

The current environment is likely to prompt a range of airport slot and route opportunities. Also, there will be access to cheaper aircraft and a larger pool of pilots. As a low-cost point-to-point airline that flies frequently between major European airports, we are well positioned to take advantage of these factors.

I believe that our business model makes it robust, resilient and well-placed to prosper.

Ray Webster
Chief Executive
28 October 2001

Statement concerning the impact of events in the USA on 11 September 2001

Impact

Immediately following the attacks, we rigorously applied the UK Government-increased security levels to all easyJet flights, both in the UK and elsewhere in Europe. Although not mandatory in countries outside the UK, we implemented a "no comply, no fly" policy where, for example, 100 per cent baggage screening could not be guaranteed. Due to a lack of preparedness at some airports, some flight cancellations occurred in the days directly following the attacks. However, the airline was soon operating its full flying programme.

Although bookings fell immediately after the attacks, they quickly recovered and grew steadily over subsequent days. By the end of the financial year, seat sales had recovered to near normal levels.

The average load factor for September 2001 was 83.2 per cent.

We expect there will be a softness in yield over the early months of the 2002 financial year, however, as with disruptions in earlier times, promotions will be used to stimulate sales. We believe that the traveller in Europe will continue to respond when the right price is offered.

Support from staff and customers

Immediately after the attacks, our staff and many of our sub-contractors' employees worked very long hours under difficult conditions. These efforts, together with the understanding of the travelling public, allowed us to resume normal services with a minimum of delay. I thank all of these people for their dedication and tireless support.

Operational and Financial Review

The following tables set forth certain consolidated operating and profit and loss account data.

Selected Consolidated Operating Data	Year ended 30 September	
(unaudited)	2001	2000
Number of aircraft owned/leased at end of year(1)	26	19
Average number of aircraft owned/leased during year(2)	21.7	18.2
Number of aircraft operated at end of year(3)	25	18
Average number of aircraft operated during year(4)	21.1	17.3
Sectors(5)	57,513	46,748
Block hours(6)	92,049	74,631
Number of routes operated at end of year	35	28
Number of airports served at end of year	17	18
Owned/leased aircraft utilisation (hours per day)(7)	11.6	11.2
Operated aircraft utilisation (hours per day)(8)	12.0	11.8
Available seat kilometres ("ASK")(millions)(9)	7,003	5,801
Passengers(10)	7,115,147	5,628,215
Load factor(11)	83.0%	80.8%
Revenue passenger kilometres ("RPK")(millions)(12)	5,903	4,730
Average internet sales percentage during the year(13)	86.5%	65.1%
Internet sales percentage during final month of financial year(14)	91.0%	77.8%

Footnotes can be found at the end of this section.

Operational and Financial Review *(continued)*

Results of Operations

	Year ended 30 September				
	2001		2000		Year on Year Change
	£000s	%	£000s	%	%
Revenue(15)	356,859	100.0%	263,694	100.0%	35.3%
Ground handling charges, including salaries	(33,338)	9.3%	(27,081)	10.3%	23.1%
Airport charges	(39,595)	11.1%	(23,687)	9.0%	67.2%
Fuel	(47,101)	13.2%	(33,715)	12.8%	39.7%
Navigation charges	(22,538)	6.3%	(18,051)	6.8%	24.9%
Crew costs, including training	(39,901)	11.2%	(27,377)	10.4%	45.7%
Maintenance, including reserves	(28,180)	7.9%	(20,589)	7.8%	36.9%
Advertising	(13,308)	3.7%	(14,003)	5.3%	(5.0%)
Merchant fees & incentive pay	(6,788)	1.9%	(6,918)	2.6%	(1.9%)
Exceptional items	(3,777)	1.1%	-	-	-
Other costs(16)	(41,636)	11.7%	(31,064)	11.8%	34.0%
EBITDAR(17)	80,697	22.6%	61,209	23.2%	31.8%
Depreciation and goodwill amortisation	(18,625)	5.2%	(15,937)	6.0%	16.9%
Aircraft dry lease costs	(23,283)	6.5%	(14,121)	5.4%	64.9%
Aircraft long-term wet lease costs	(666)	0.2%	(2,491)	0.9%	(73.2%)
Total operating profit (EBIT)	38,123	10.7%	28,660	10.9%	33.0%
Net interest receivable/(payable)	2,010	0.6%	(6,557)	2.5%	-
Income/(Loss) before tax	40,133	11.2%	22,103	8.4%	81.6%
Tax	(2,226)	0.6%	-	-	-
Retained profit for the year	37,907	10.6%	22,103	8.4%	71.5%

Footnotes can be found at the end of this section.

Operational and Financial Review *(continued)*

Revenue

easyJet's revenue increased 35.3 per cent, from £263.7 million to £356.9 million, from financial year 2000 to financial year 2001. This increase reflected a 26.4 per cent growth in passenger volumes, from 5.6 million to 7.1 million passengers and a 5.8 per cent increase in average fare. The number of passengers carried reflected:

- an increase in the size of easyJet's fleet in operation from an average of 17.3 aircraft to an average of 21.1 aircraft; and
- an increase in the average load factor achieved by easyJet from 80.8 per cent to 83.0 per cent.

This increase in revenue was partly offset by compensation paid to passengers who, pursuant to easyJet's customer service promise, experienced delays of more than four hours caused principally by weather and the flow-on effects of the New York and Washington terrorist attacks on 11 September. These expenses are not netted from revenue, but are included as costs.

Revenue from non-ticket sources includes change fees, credit card booking fees and commissions from activities such as in-flight sales, hotel and car hire bookings. In financial year 2001 £11.8 million was earned from non-ticket sources, up 114.6 per cent from the prior year.

Ground handling charges, including salaries

easyJet's ground handling charges increased by 23.1 per cent from £27.1 million to £33.3 million, from financial year 2000 to financial year 2001. Third-party ground handling charges increased as the aggregate numbers of sectors flown in the period increased. Ground handling charges in financial year 2000 include the start-up costs of self-handling at London Luton and in financial year 2001 include the start-up costs of self-handling at Geneva.

Airport charges

easyJet's external airport charges increased 67.2 per cent, from £23.7 million to £39.6 million, from financial year 2000 to financial year 2001. This increase was attributable to the increase in the number of sectors flown by easyJet's fleet and the increases in charge rates, particularly at London Luton airport following the increase in charge rates in February 2001.

Fuel

easyJet's fuel costs increased by 39.7 per cent, from £33.7 million to £47.1 million, from financial year 2000 to financial year 2001. This increase was caused by the increased number of hours flown by easyJet and by a 5.9 per cent increase in easyJet's average unit US dollar fuel cost. The price increase resulted in an additional cost to easyJet of approximately £1.6 million. The deterioration of the value of sterling against the US dollar, the currency in which fuel prices are denominated, over the course of financial year 2001 also imposed additional costs of approximately £3.7 million. These factors were slightly offset by an improved fuel burn by the new Boeing 737-700 aircraft, compared to the older Boeing 737-300 aircraft.

In September 2001, easyJet capped its Jet A1 Fuel price at a strike price of approximately 95 US cents per gallon for 90 per cent of its requirements over the first six months of the 2002 financial year. The cost is minimal and is included within fuel costs for financial year 2001.

Navigation charges

easyJet's navigation charges increased 24.9 per cent, from £18.1 million in financial year 2000 to £22.5 million in financial year 2001. This increase was principally attributable to the increased number of sectors flown in financial year 2001.

Operational and Financial Review *(continued)*

Crew costs, including training

Crew costs increased by 45.7 per cent from £27.4 million to £39.9 million form financial year 2000 to financial year 2001. The increase in crew costs resulted in part from an increase in headcount during the financial year 2001 to service the additional sectors and aircraft operated by easyJet during the year and the recruitment and training necessary for aircraft not yet delivered. The increased crew costs experienced in financial year 2001 were also contributed to by an increase in average salaries, which rose by more than the rate of inflation during financial year 2001.

Maintenance, including reserves

Maintenance expenses, including reserves, increased 36.9 per cent, from £20.6 million in financial year 2000 to £28.2 million in financial year 2001. easyJet's maintenance expenses consist primarily of the cost of routine maintenance and spare parts and reserve payments for the estimated future cost of heavy maintenance and engine overhauls on aircraft operated by easyJet pursuant to dry leases. The extent of the required annual maintenance reserve payments is determined by reference to the number of flight hours and cycles permitted between each engine shop visit and heavy maintenance overhaul on aircraft airframes. The increase in maintenance was largely due to the addition of eight leased aircraft, including one on a six-month lease, to the fleet (and the resultant increase in flying), and the fact that during financial year 2001 all new aircraft were financed by dry leases, necessitating the payment of maintenance reserve payments.

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

Advertising

Advertising costs fell 5.0 per cent, from £14.0 million in financial year 2000 to £13.3 million in financial year 2001. This decrease was principally due to further market maturation. In addition, the nine new routes which easyJet added during financial year 2001 linked cities already served by easyJet and therefore needed less advertising than was required to establish new routes to new cities. The Directors also believe that easyJet has benefited from the extension of the "easy" group brand.

Merchant fees and incentive pay

Merchant fees and incentive pay decreased 1.9 per cent, from £6.9 million in financial year 2000 to £6.8 million in financial year 2001. Merchant fees and incentive pay includes the costs of processing fees paid to credit card companies on all of easyJet's credit and debit card sales and the per-seat-sold/transferred commission paid as incentive pay to easyJet's telesales staff. Credit card processing fees increased by 42.9 per cent which reflected the increased number of seats sold during financial year 2001, the vast majority of which continue to be purchased using credit cards, and the full year effect of the increase in credit card processing fees that were raised during the financial year 2000. In financial year 2001, 87 per cent of bookings were made using credit cards compared with 91 per cent in financial year 2000. This reduction, due to the introduction in April 2001 of a customer credit card fee, reduced the rate of growth of merchant fees. The increase in fees paid to merchants was also offset by the 40.0 per cent reduction in the incentive pay paid to telesales personnel due to the strong rise in initial sales made over the internet, from 65.1 per cent of initial seats sold during financial year 2000 to 86.5 per cent of initial seats sold during financial year 2001.

Exceptional items

Exceptional items for financial year 2001 relate to £1.8 million of costs principally for issuing share gifts to employees of easyJet at the time of the listing and the initial public offering. In addition, the company has been involved in court cases in Switzerland in relation to VAT levied on the defunct air charter business of TEA Basel AG during the period 1995-1998. This was prior to easyJet controlling the company. After favourable decisions in lower courts, the final appeal court has ruled against easyJet. easyJet has accrued an expense of £2 million to cover estimated penalty interest and amounts which may now prove irrecoverable from some small customers of TEA Basel AG.

Operational and Financial Review *(continued)*

Other costs

This cost category includes the salary costs of all easyJet's personnel other than flight crew, cabin crew and ground handling personnel, and therefore includes the salary costs attributable to easyJet's administrative, management, engineering, operational and network management functions. Other costs increased by 34.0 per cent, from £31.1 million in financial year 2000 to £41.6 million in financial year 2001. Salaries in this category increased, reflecting the rise in personnel numbers throughout easyJet necessary to manage and maintain easyJet's business as the scope of its operations grew during financial year 2001 and in preparation for the further increase in the scale of easyJet's operations that will be facilitated by delivery of 25 new aircraft prior to the end of May 2004 (the first of which has been delivered on 15 October 2001).

Other items in this cost category include administrative and operational costs (not included elsewhere), insurance, the costs associated with short-term aircraft wet leases, compensation paid to passengers, certain other items, such as currency exchange gains and losses and the profit or loss on the disposal of fixed assets. These costs also increased as the scope of operations grew. Furthermore, the significant increase compared to financial year 2000 was mainly as a result of higher disruption costs, principally due to weather and the effects of the terrorist attacks on 11 September 2001.

Depreciation and goodwill amortisation

easyJet's depreciation charge, which reflects depreciation on owned aircraft and capitalised aircraft maintenance charges, and also includes depreciation on computer systems and other assets and amortisation of goodwill, increased by 16.9 per cent, from £15.9 million in financial year 2000 to £18.6 million in financial year 2001. This increase reflected the change in depreciation charge associated with deterioration in the US dollar/pound sterling exchange rate and a higher charge for depreciation of capitalised maintenance, partly as a result of increased flying and major maintenance becoming due. The percentage increase in depreciation was much less than the percentage increase in revenue over the same period, due to the fact that easyJet owned a lower proportion of its fleet in financial year 2001 than in financial year 2000. easyJet depreciates each of its owned aircraft on a straight-line basis to a residual value which reflects the estimated realisable value of the aircraft at the end of its useful life to the company. The period over which easyJet depreciates its new aircraft is seven years, which reflects easyJet's policy of seeking to maintain a young fleet by aiming to replace its aircraft when they are seven years old. Higher use of aircraft, due to the short-haul nature of easyJet's routes and its higher utilisation rates, results in the company incurring a higher annual depreciation rate than other airlines.

Aircraft dry lease costs

easyJet's aircraft dry lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to long-term dry operating leases. easyJet's dry leasing costs increased by 64.9 per cent per cent, from £14.1 million in financial year 2000 to £23.2 million in financial year 2001. This increase was principally due to the addition of seven new aircraft added to the fleet under long-term dry operating leases in financial year 2001 and one aircraft on a short-term dry operating lease.

Aircraft long-term wet lease costs

easyJet's aircraft wet lease costs comprise the lease payments paid by easyJet in respect of those aircraft in its fleet operated pursuant to "ACMI" leases (that is, leases of an aircraft plus crew, maintenance and insurance) of a duration of more than one month. easyJet's wet lease costs decreased by 73.2 per cent from £2.5 million in financial year 2000 to £0.7 million in financial year 2001. The £0.7 million charge in financial year 2001 relates to the costs incurred leasing one aircraft for one month under a five month wet lease for the summer 2000 season. This aircraft was returned to the lessor as planned at the end of October 2000.

Operational and Financial Review *(continued)*

Net interest

Net interest reflects interest paid or payable by easyJet net of interest received or receivable by easyJet. easyJet's net interest changed from net interest payable of £6.6 million in financial year 2000 to net interest receivable of £2.0 million in financial year 2001. easyJet's interest paid or payable primarily relates to financing costs associated with loans used to finance the acquisition of certain aircraft. easyJet's interest paid or payable remained at £8.2 million in financial year 2001. The effects of lower interest rates was offset by the deterioration in the value of sterling against the US dollar, the currency in which the majority of easyJet's debt is denominated, and the financing of all aircraft delivered in 2001 through operating leases. During financial year 2001, interest received or receivable increased from £1.7 million in financial year 2000 to £10.2 million in financial year 2001, reflecting the increased cash balances held by easyJet during financial year 2001, in particular due to the proceeds of the listing and initial offering to investors.

Taxation

In financial year 2001, easyJet incurred a tax charge of £2.2 million, an effective tax rate of 5.5 per cent. The effective tax rate is lower than the standard rate of tax because of the brought forward losses available in the UK and Switzerland, an exemption from Cantonal and Communal tax charges for easyJet Switzerland and allowances available in respect of share options granted to easyJet employees.

Retained profit for the year

For the reasons described above, easyJet's retained profit after interest and taxes increased by 71.5 per cent from £22.1 million in financial year 2000 to £37.9 million in financial year 2001.

Operational and Financial Review *(continued)*

Footnotes

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

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

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

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

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

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

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

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

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

(10) Represents the number of earned seats flown by easyJet. Earned seats include seats that are flown whether or not the passenger turns up, because easyJet is generally a no-refund airline and once a flight has departed a no-show customer is generally not entitled to change flights or seek a refund. Earned seats also include seats provided for promotional purposes and to easyJet staff for business travel.

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

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

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

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

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

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

(17) EBITDAR is defined by the company as earnings before interest, taxes, depreciation, amortisation and lease payments (excluding the maintenance reserve component of operating lease payments).

Report of the Remuneration Committee

The board has delegated to the Remuneration Committee responsibility to:

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

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

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

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

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