Company registration number 1373432

flybe.

Flybe Group plc

31 March 2012

Building Europe's Leading Regional Aviation Group

Annual Report 2011/12

2012 is a significant year for Flybe. In July, we will celebrate the tenth anniversary since we changed our business model and transformed the airline into Flybe.

A lot has happened in those ten years. Back in 2002, we had 44 routes, 31 aircraft and 2.2 million passengers. Today, we operate 225 routes with 83 aircraft and last year carried 7.6 million passengers. By any measure, that is remarkable progress

2011/12 was yet another challenging year for the aviation industry. Despite a significant reduction in consumer disposable income contributing to a further decline in the UK domestic air travel market and significant cost pressures – the annualised price of oil being the highest ever recorded in history; airport infrastructure costs increasing significantly above RPI and government taxation through APD continuing to increase – I believe these results demonstrate the resilience of Flybe's business model.

We have seen growth in load factors and our focus on revenue generation has helped drive increases in revenue per seat, ticket and ancillary yield We have also maintained our market leading positions, delivered expansion of our business model into Finland through our joint venture with Finnair, achieved a pleasing turn round in the performance of our Aviation Support business and overseen the arrival, during the year, of the first four Embraer E175s.

Our decision to restructure the business in August 2011 into three divisions, Flybe UK, Flybe Europe and Flybe Aviation Support, provided a clear focus and drive for the implementation of the Group's growth strategy. Flybe continues to be the innovative airline it always has been and I remain confident that the Group's long term growth strategy is well on track.

Jim French CBE
Chairman and Chief Executive Officer

Front picture Flybe's first Embraer E175 jet on its delivery flight to the UK

Growing in a tough market

- → Revenue under management growth of 14.0% (2010/11: 4.4%) to £678.8m (2010/11: £595.5m)
- → Group revenue growth (excluding joint venture) up 3.3% (2010/11: 4.4%) to £615.3m (2010/11: £595.5m)
- → Passenger numbers under management up 5.8% to 7.6 million (2010/11: 7.2 million) at a load factor of 61.9% (2010/11: 61.7%)
- → Growing the fleet under management to 83 aircraft with an average age at year end of 4.6 years (2010/11: 69 aircraft with an average age of 4.3 years)

Leading the UK domestic market

- → Leading airline brand in the UK domestic market with 28.0% market share (2010/11: 27.0%)
- → Operating from 14 UK bases and serving 102 airports in total throughout the UK and 17 other European countries*
- → Flybe UK's passenger revenue per seat up 3.7% to £48.71 (2010/11: £46.96)
- → Creation of Manchester regional hub
- → Re-positioning Flybe UK to a more customer focussed and transparent pricing model under the strapline 'Making flying better'

Delivering on Flybe's strategic objectives

- → Commencing our development of Continental European-based operations through our joint venture with Finnair established in August 2011 and recently expanded to comprise 28 aircraft with 20 aircraft on contract flying terms
- → Fleet renewal under way with arrival of first six Embraer E175s, four during the financial year and two subsequently, supported by attractive financing deal from BNDES

	2012 £m	2011 £m
Total revenue under management**	678 8	595 5
Less joint venture revenue	(63 5)	–
Group revenue	615 3	595 5
Underlying (loss)/profit before tax***	(7 1)	22 3
Reported loss before tax	(6 2)	(4 3)

* Includes our franchise partner, Loganair
** Includes our joint venture, Flybe Finland
*** See Finance review on page 18

The Directors present the Annual report and accounts for the year ended 31 March 2012 References to 'Flybe' the 'Group the 'Company' 'we' or 'our' are to Flybe Group plc (registered number 1373432) and its subsidiary companies where appropriate Pages 01 to 58 inclusive of this Annual Report comprise the Directors report that has been drawn up and presented in accordance with English company law and the liabilities of the Directors in connection with that Report shall be subject to the limitations and restriction provided by such law

Overview

Business review

Governance

Financial statements

Building Europe's leading regional aviation group

Implementing our European Leadership Strategy

7.6m

passengers under management during 2011/12 (2010/11: 7.2 million)

8.1m

passengers including contract flying during 2011/12 (2010/11: 7.5 million)

10 years

	2002	2012
Routes	44	225
Aircraft	31	83
Passengers	2 2 million	7 6 million
Employees (2012 group and joint venture)	1,533	3,442
Airports served	23	102
Revenue under management	£219 1m	£678 8m

225

routes operated during 2011/12 (2010/11: 207)

12.2m

seats flown under management during 2011/12 (2010/11: 11.6m)

102

airports served during 2011/12 (2010/11: 73)

Flybe UK

- 14 bases operated in the UK in 2011/12
- 77 airports served during 2011/12 – 38 in the UK and 39 in Europe*
- Countries – 13**
- 41.6% of Flybe passengers travel on business
- 2012 CAA Punctuality Statistics put Flybe ahead of all other major airlines operating in the UK

Flybe Europe

- More flights in the Finnish domestic market than any other airline
- Expansion of route network with new base at Stockholm's Bromma airport and flying into Estonia
- Expansion of contract flying operations in partnership with Finnair announced

Flybe Aviation Support

- Manufacturer-approved service centre for Embraer, Bombardier Q-series, ATR and CRJ
- First full year of operation of the new Training Academy building and second simulator delivered and operational
- Expansion of activity in E-series, CRJ and ATR has seen workload more than double for these aircraft types

* 12 of which are served exclusively by Loganair Flybe s franchise partner
** One of which is served exclusively by Loganair Flybe s franchise partner

Flybe UK
Maintaining UK Regional leadership

"The Manchester hub concept is a fantastic way of making sure our millions of regional passengers have a viable long-haul alternative to Heathrow."

Captain Nick Brown
Guernsey

In challenging economic conditions, Flybe UK has grown its market share, introduced another modern jet product to its fleet and extended the number of partnerships with other airlines.

Fleet renewal, the creation of a regional hub and a significant brand repositioning have all been features of the UK business which, despite the continuing challenges of a contracting domestic market, has continued to innovate In the face of such challenges, a major task was to de-risk the business by ensuring we managed our fleet size to match the needs of the airline and to remove any costs of surplus aircraft by either disposing of aircraft permanently through sales, or to provide short term capacity relief by leasing aircraft and crews to third parties while still achieving the ultimate goal of modernising the fleet

Against a challenging aircraft financing market, in November 2011, Flybe signed committed finance facilities for approximately $500m with BNDES, the Brazilian export development bank, for 20 new Embraer E175 regional jet aircraft that are scheduled for delivery between November 2011 and July 2014 The deal secured financing of the UK airline's planned aircraft deliveries through to July 2014 and, by May 2012, six E175s had joined the fleet – a very clear message that the business remains committed to maintaining one of the youngest fleets in global aviation

Following the sale of seven Q400 aircraft to Rand Merchant Bank during 2011/12, further proof of Flybe's focus on avoiding excess capacity was the announcement in March 2012 of a two-year deal with Brussels Airlines for Flybe to provide a two-aircraft contract flying programme for the airline, which commenced at the beginning of the IATA summer season on 25 March 2012 The aircraft carry the livery of Brussels Airlines but operate under Flybe's Airline Operating Certificate ('AOC'), are crewed by Flybe pilots and cabin crew and maintained by Flybe engineers

Flybe also extended its codeshare agreement with Air France in January 2012 with the addition of new routes from Aberdeen, Bristol and Newcastle to Paris Charles de Gaulle and from Birmingham to Lyon In May 2012, our relationship with the Air France-KLM group strengthened with the introduction of codeshare arrangements to KLM's hub in Amsterdam

28.0%

(2010/11: 27.0%) UK domestic market share (including our franchise partner, Loganair)

March 2012 saw the airline create a regional network hub in the UK with the announcement of its Manchester hub concept By optimising scheduling options through Manchester airport, Flybe passengers instantly benefit from an additional 86 regional point-to-point connections

By working with Manchester Airport to streamline connectivity and reduce minimum connecting times to as little as 35 minutes, Flybe significantly adds to the choice of domestic flights, giving its passengers an affordable choice of multiple day returns throughout the UK In addition, the hub has created a long-haul alternative to Heathrow for the UK's regional communities, allowing them to access the many flight connections to the rest of the world offered from Manchester Airport

Markets
Flybe's market segmentation is markedly different to many other UK airlines in that it is not reliant on one sector for its passenger groups During calendar year 2011, 41 6% of Flybe's passengers were travelling on business, 29 7% of passengers stated they were 'visiting friends or relatives' ('VFR') and 23 7% were flying for a holiday or break Such a portfolio means that Flybe can offer a balanced schedule of business and leisure travel – crucial for many of its airline-dependent markets such as the Isle of Man, Channel Islands and Northern Ireland

73.8% of Flybe UK passengers were carried on domestic routes and 26 2% of Flybe UK passengers were carried on UK-European routes, highlighting Flybe's continued goal to remove overdependence on the UK domestic economy and market

Punctuality
Flybe's position as a market leader is underpinned by a punctuality record that is second to none among major carriers in the UK. Taking those airlines that operated more than 30,000 flights during 2011 from the ten CAA reporting airports, the figures showed that Flybe outperformed all peers for its on-time performance, with an 84 6% on-time ranking for its reported sample of 108,000 flights Across the network, our performance was even better, reaching an 84 9% punctuality level, among the best we have seen in Flybe's ten years of operations

Dick Ray – Channel Islands to the UK

Dick Ray is a theatrical agent based in Jersey who, for some five decades, has been promoting plays, concerts, events and conferences for audiences in the Channel Islands, Isle of Man, Ireland and the UK mainland With performers as varied as Katherine Jenkins, Russell Watson, Alfie Boe, Jools Holland and Status Quo, his Jersey International company is a one-stop shop for clients throughout the British Isles

Not surprisingly, he spends a lot of time away from the office and that means he is a regular Flybe passenger

Dick comments

"A lot of my clients and their representatives are based in London and, flying from the Channel Islands to the capital as often as I do, I need a punctual, convenient and relaxing service When I get to Gatwick, I want to have arrived there in comfort, having travelled in a seat with plenty of legroom, for me that means Flybe's Embraer 195 jet.

"Because of the airline's network from the island, I can get to pretty much anywhere in the UK either directly or through connections at Southampton, Manchester or London Gatwick And what's more, because Flybe has been operating from Jersey and Guernsey for three decades, I can recommend their flights to the internationally renowned artists I work with in the confident knowledge that they will receive the kind of service I would expect myself"

Flybe UK
Making flying better

Following substantial research with existing and potential customers, the UK business announced a significant brand and product repositioning under the strapline 'Making flying better'.

The concept brings together a number of new initiatives introduced in 2012 that positively differentiate the airline from the often negative perceptions of low-cost airlines

The 'Making flying better' philosophy has three key objectives for Flybe in the UK:

→ Increasing our flight frequency and connections to offer greater choice and flexibility

→ Improving the transparency of pricing and booking processes to make it easier for our customers to understand

→ To reduce the hassle of air travel through UK airports

Included among the new product initiatives is an outright commitment that customers will no longer be charged for paying by debit card and that credit card customers will be charged on a per booking basis regardless of the number of passengers in the booking

'Making flying better' gives passengers the option of three new ticket types

→ **Essentials:** Flybe's lowest fare ticket that has no debit card charges, 10kg hand baggage allowance and seat selection at airport check-in

→ **New Economy:** A new ticket which, in addition to the free use of debit cards and 10kg hand baggage allowance, also includes – in one upfront inclusive price – a free standard sized hold bag, free advance seat selection at the time of booking, a changeable ticket plus a free SMS text message detailing the booking information Prices for this ticket start below £50 and have immediately became a popular choice with passengers

→ **Plus:** Flybe's top end product, a ticket that includes all the flexibility and comfort a short-haul business traveller needs, including Executive Lounge access, a 40kg hold bag allowance and complimentary food and drink on board

The airline also launched a new website and new-look advertising campaign, including a series of newspaper and TV commercials, all featuring Flybe's own pilots and cabin crew

www flybe.com

Airport policy
Flybe UK accounts for 86 6% of revenue under management and 7 3 million of the 7.6 million passengers who bought tickets on flights managed by the Group The airline is the largest scheduled airline, measured by air traffic movements, at 12 UK airports including Manchester, Birmingham, Southampton, Belfast City, Cardiff, Exeter and Inverness (CAA statistics)

Flybe is, for the third consecutive year, the largest domestic airline at London Gatwick airport, carrying 1 2 million passengers in 2011/12, providing crucial lifeline services to London for the UK's regions from eight airports This is despite a very substantial increase in our costs at Gatwick through a change in pricing model introduced by the airport's owners and one which is prejudiced against smaller aircraft Flybe has challenged this increase with the CAA, on the basis that this is discriminatory and awaits the outcome of a recent hearing Flybe recognises the need for airports to increase their revenue, but this should be achieved progressively and with due consideration of the impact which any significant change in charging policy might have on the existing competitive processes

We also recognise that the CAA is restricted in its powers since aviation policy does not require the regulators to take into consideration regional connectivity from the UK regions into London airports Flybe believes this is an issue which must be considered with the forthcoming aviation review since it has a significant impact on the economic development of the UK regions

Flybe fully supports the UK government's commitment to geographically rebalance the economy away from the south-east Because Flybe operates from nearly three times more UK airports than any other airline, we believe we have a unique insight into the transport needs of the UK regions The Treasury review of Air Passenger Duty ('APD') was completed in March 2012 and, while Flybe welcomed the government's recognition of the important role played by aviation in supporting regional economies, we continue to believe that it is inherently unfair that UK domestic passengers pay the tax on both legs of their journey, while those flying abroad pay just once Flybe believes that this departure tax 'double dip' must be addressed in order to safeguard UK domestic aviation and UK regional economic competitiveness

Acuity Business Solutions

Acuity Business Solutions is an Exeter-based consultancy with a £1 3m turnover, providing specialist advisory and support services to public sector organisations throughout the UK In addition to Acuity's core south-west team and over 60 consultants located nationwide, it's vital that Managing Director Andrew Brown has access to quick, reliable air services to the UK regions

Andrew says:

"Inter-personal contact is at the heart of what Acuity does and face-to-face time is vital not only for our clients but also for the consulting staff who work with us I travel a lot to the north of England and, being based in Devon, Flybe's schedule from Exeter to Manchester allows me to do a full day's business and get home at a reasonable hour I don't have to suffer the crush and discomfort of a train and, coupled with Flybe's Executive Lounge at Manchester airport, I can make much better use of my time by flying.

"The addition of extra flights during 2012 was a big bonus for business travellers like myself and means I can spend quality time with existing and prospective clients. As Acuity grows, I know I will have to spend more time away from the office but the knowledge that Flybe provides a high-frequency schedule from the south-west, gives me confidence that we can compete for and win contracts right across the UK "

Flybe Europe
European growth

In last year's Annual Report, Flybe restated its commitment to pursue growth by means of '...carefully examining different ways to expand the business into Europe, including new strategic arrangements with legacy carriers to provide economic feeds from the regions into primary hubs by means of codeshares and capacity shares, contract flying or joint ventures'.

We made good progress in all these areas in 2011/12

Flybe is the largest regional airline in Europe and is one of the leading independent regional aviation groups in the industry That independence means that the Group is free to negotiate and enter into partnerships with all the major European airlines, free from ownership or alliance constraints Following on from Flybe UK's significant codeshare arrangement with Air France which commenced in late 2010, the benefits of Flybe's independence were once again shown in July 2011 when the airline announced the acquisition of Finnish Commuter Airlines ('Finncomm') by Flybe Nordic, a 60 0% owned joint venture, with Finnair holding the balancing 40 0% stake

Following months of detailed negotiation and due diligence, the deal was announced simultaneously to the Helsinki and London Stock Exchanges in a joint press conference between Finnair and Flybe in the Finnish capital The financing of the deal saw Flybe pay a total of €21m for its 60 0% stake in the joint venture

Speaking at the time, Mike Rutter, Flybe Europe's Managing Director said· "Flybe's partnership with Finnair will offer the same high standards of service that our UK passengers have come to expect from Flybe – and more Our joint vision is for Flybe to become the leading regional airline for the Nordic and Baltic regions'

For Finnair the benefit was creating a strong, complementary operator in the Nordic market. In addition to point-to-point connections, the new airline forms an effective feeder platform for Finnair's international operations as well as enhancing the customer experience

The partnership with Finnair has grown significantly since the original deal was announced, to the point that, on 22 May 2012, Flybe Finland announced that it had agreed

"Not only do our passengers have good connections to Europe and beyond with Finnair, but they also have access to reasonably-priced, frequent and punctual service between Nordic regions and Helsinki."

Annica Lindblom
Flybe Finland cabin attendant

to operate a further 12 Embraer E190 regional jets on behalf of Finnair under a contract flying arrangement, commencing on 28 October 2012

The completion of this deal will take the number of aircraft flown by Flybe Finland to 28, a near-doubling in size since it commenced operations in August 2011 – a significant achievement by Flybe Europe's management team Commenting on the deal, Finnair CEO Mika Vehviläinen said "Flybe offers us a cost-efficient platform for operating this traffic, and enables us to continue to offer the wide network and frequencies to both our regional customers as well as our customers flying between Europe and Finnair's Asian destinations We look forward to this expansion of our co-operation with Flybe, which has proven its capabilities to run regional traffic efficiently"

The growth of Flybe in the Nordic and Baltic Regions
The Flybe and Finnair joint venture, Flybe Nordic, operates through its 100% subsidiary, Flybe Finland, which started its new network on 30 October 2011 with a range of new routes designed to position the airline for market leadership in the Nordic, Scandinavian and Baltic regions – such as Tallinn, Tartu, Mariehamn and Trondheim Some of Flybe Finland's operated services are entirely sold and marketed by Finnair, providing Finnair with a flexible and cost-efficient way to deliver connecting Asian-bound traffic to its hub in Helsinki. Finnair's partnership provides Flybe Finland with a degree of stability and a strong brand association in its new marketplace, as for example, Flybe Finland passengers can earn Finnair Plus points when they travel anywhere on the Flybe Nordic network

Growth opportunities arose for Flybe Finland when Finnair decided to withdraw services from two important regional destinations in central Finland – Jyvaskyla and Kajaani Flybe viewed this as an opportunity to bring its proven business model to regions of Finland that might have otherwise been left without the speed and convenience of high-frequency, reasonably priced air service to the nation's capital

During the autumn, Flybe Finland took another opportunity to expand in a regional airport, Stockholm Bromma. This airport is only 10km from the centre of the city, and it is prized by travellers, especially those who are commuting or travelling for business, for its compact size and efficient security screening processes In addition to the original Tallinn route announced at start-up, Flybe used new slot availability at Bromma to offer new services to Copenhagen and Oslo, two of the biggest regional routes from Stockholm. Flybe has quickly become a key player at Bromma, with up to 10 daily departures, including the service operated on behalf of Finnair to Helsinki

The partnership with Finnair goes from strength to strength and serves as a model for possible future expansion of Flybe into other parts of Europe

Piritta Kantojärvi, Grape People – School of Facilitation

Grape People is a fast-growing company that specialises in working with global businesses who need independent facilitation because of increased complexity or strong contradictory opinions between group members Nevertheless, the purpose of Grape People is to teach facilitation skills so that managers and developers can facilitate demanding group situations themselves, creating alignment and engagement.

Ms Kantojärvi has a special place in the history of Flybe as the very first passenger to book a flight on its Flybe Finland services in autumn 2012. She regularly commutes from her Helsinki base for her work as a Trainer and Business Facilitator.

Piritta says
"There are hundreds of globally operating large companies in Finland, located in the major cities and Grape People works with many of them, as well as smaller organisations and the public sector Given the challenging geography of our country, flying is the most convenient and time efficient way to reach our customers across Finland and abroad

"I was absolutely thrilled to be the first ever Flybe customer in Finland. Their services have proved well functioning and trustworthy, and I'm especially happy with the suitable new routes and schedule, giving me and my colleagues the opportunity to complete a day's business and be able to get home in the evening. I look forward to flying with them for years to come"

Flybe Aviation Support
Maintenance Repair and Overhaul

£44.3m

Total revenue up 18.1% from £37.5m

"Seeing growth in the number of aircraft maintained in our hangar is great, given how challenging the market continues to be."

Dave Watkins
Engineer, Exeter

Despite continued difficult market conditions in the aviation maintenance sector, Flybe's maintenance repair and overhaul ('MRO') business, Flybe Aviation Support, delivered a strong performance with third party sales up 15.6% on the previous year, accounting for well over half of the revenue generated by this division.

The year also saw the MRO focus on extending its maintenance coverage of the Embraer E-series jets, ATR turboprop and CRJ jet aircraft types, with significant year on year growth being realised in each of these types This underlines the versatility of the commercial arm of this division as well as proving Flybe's MRO can win work in markets in which it previously has had a lower market penetration As an example, the growth in ATR maintenance alone was some 70% year on year

In addition, Flybe Aviation Support continued to widen its core customer base, with new work coming from European operators in Finland, Germany, Spain, Sweden, Italy and Iceland Services were also provided to new customers from Dubai and South Africa as well as deploying engineers on short term contracts in support of Bombardier and Embraer to customers in Belgium, Kazakhstan, the UAE and Mozambique, making Flybe Aviation Services the MRO of choice for many new regional aircraft operators

Overall the MRO has developed a robust business model supported by a streamlined management structure and efficient cost base, enabling it to react positively to an ever changing and diverse market place

Flybe Aviation Support
Training Academy

103
students on the Flybe Diploma in Engineering

The end of the first full operating year of Flybe's new Training Academy has seen several milestones achieved.

The Academy has continued to consolidate its customer base, principally for technical and pilot training, as well as cultivating links with the wider community Trainees from as far afield as India, Oman, Botswana, Russia, South Africa, Poland and Kazakhstan all passed through the Academy during the year More than 1,200 of Flybe's own employees have undergone training at the Academy over the last 12 months, underlining our continuing commitment to staff training and development.

The Flybe Apprentice Programme, a founding element of Flybe's commitment to education and business collaboration, will reach a significant landmark in summer 2012 as the first engineers graduate and obtain employment with the Company The calibre of the training provided in association with Exeter College and the MRO business has been commended across the educational sector and culminated with the receipt of the prestigious Beacon award from John Hayes MP – Minister of State for Further Education, Skills and Lifelong Learning This course, as well as the Aerospace Diploma and the Tourism and Leisure Courses, are all well subscribed and the Academy's reputation is growing

In February 2012, the Academy took delivery of its second full flight simulator The simulator was commissioned in March 2012 and enables the Academy to now offer a full range of pilot training, including recurrent and type training, for both the Bombardier Q400 and the Embraer 170/190 family of aircraft Importantly, it has enabled Flybe to become self-sufficient for all of its pilot training needs in the UK as well as attracting additional interest to the facility from countries as varied as Nigeria, Greece, Estonia and Bulgaria

Overall the Academy has begun to mature into its role as a wide-ranging educational provider of aerospace excellence as well as embed itself within the local community as a best-in-class establishment committed to education and training It provides a diverse but essential portfolio of valuable industry and scholastic needs

The Flybe Training Academy in Exeter

The Academy now has two state of the art simluators in operation

Chairman and Chief Executive Officer's statement

"Flybe is a resilient business of real scale and substance and can look forward to the future with confidence."

Jim French CBE
Chairman and Chief Executive Officer

Key financial headlines

	2012 £m	2011 (restated) £m	Change %
Total revenue under management	678 8	595 5	14 0
Less joint venture revenue	(63 5)	-	
Group revenue	615 3	595 5	3 3
Underlying EBITDAR*	88 8	113 8	(22 0)
EBITDAR*	88 8	95 7	(7 2)
Underlying (loss)/profit before tax	(7 1)	22 3	n/m
Loss before tax	(6 2)	(4 3)	(44 2)
(Loss)/profit after tax	(6.4)	3 8	n/m
Operating cash inflow	3 0	18 1	(83 4)
Net (debt)/cash**	(29.7)	21 9	n/m

* EBITDAR defined as operating profit or loss after adding back unrealised gains and losses on fuel and foreign exchange hedges IPO expenses depreciation amortisation and aircraft rental charges
* Net (debt)/cash includes restricted cash

Overview

A Resilient Performance

The headline result, in line with expectations but disappointing nevertheless, reflects the impact of a challenging operating environment, in particular in the UK, and major investment in our business for future growth

It is a testament to the Group's business model and its resilience that, despite the continued decline in the UK domestic air travel market, which totals some 20% since 2007, combined with significant cost increases – the annualised price of oil being the highest ever recorded in history, airport infrastructure costs increasing significantly above RPI and also government taxation through APD continuing to increase – the Group's overall operating loss for the year was limited to £4 9m

We continued to invest in the Group's future, making significant progress in the implementation of our three-pronged growth strategy positioning the Group to capitalise on UK recovery; expansion into Europe, and undertaking a wholesale fleet substitution programme

£678.8m

Revenue under management up from £595.5m in 2010/11

£3.0m

Operating cash inflow (2010/11: £18.1m)

Results

Flybe delivered a result for the year in line with expectations Revenue under management increased 14.0% to £678 8m (2010/11 £595 5m) Underlying EBITDAR fell 22 0% to £88 8m (2010/11 £113 8m) with an operating loss of £4 9m (2010/11 loss of £0 9m) and a loss before tax of £6 2m (2010/11 loss of £4 3m)

This performance, while disappointing, reflects a resilient business able to weather the combined impact of a 5% underlying decline in its core UK market during the year along with high fuel prices and other inflationary pressures. The results also reflect significant investment in the Group as part of the implementation of a long term growth strategy, specifically representing the first year losses associated with our Flybe Europe division (£3 7m) and our new training academy building in Exeter (£1 2m) Without these investments, the loss before tax would have been £1 3m, or approximately 0 2% of turnover

The Group's balance sheet had total cash, including restricted funds, of £67 6m at 31 March 2012 (2010/11 £105 6m), and net debt of £29 7m (2011 net funds £21 9)

Divisional Review

During the period the business was restructured into three operating divisions Flybe UK, Flybe Europe and Flybe Aviation Support The restructuring provides greater focus and drive for the implementation of the Group's growth strategy

Flybe UK

Flybe UK recorded revenue of £588 1m (2010/11 £571.5m) and a segment loss before tax of £2 2m (2010/11 profit of £5 7m) The Flybe UK results include Group costs of £2 8m (2010/11 £2 5m) Excluding these costs, Flybe UK's profit before tax was £0 6m (2010/11 £8 2m)

In the UK, trading conditions remained tough throughout the year The number of UK domestic air passengers has fallen by circa 20% since 2007 but during that time, Flybe UK has grown its total number of passengers by 2 2% to 7 3 million, and its market share to 28.0%, up from 14 1% in 2007

We have driven the increase in passenger numbers primarily through a relentless focus on providing the high frequency services from convenient regional airports demanded by, and meeting the needs of, our business and leisure customers As well as increasing passenger numbers, we continue to benefit from a high level of repeat travel with around a quarter of our passengers travelling with the airline 10 or more times a year

As part of our commitment to continuously improve our product and overall flying experience, Flybe UK recently unveiled a major brand and product repositioning under the strapline 'Making flying better' The repositioning, based on extensive consumer research, reinforces Flybe's commitment to openness and transparency in pricing and, supported by a television advertising campaign, introduces a range of exciting new product innovations that have been well received by our passengers The repositioning is designed above all to positively differentiate Flybe from some of the negative perceptions of low fare travel

New product initiatives already rolled out include:

→ No charges for customers paying by debit card

→ Credit card customers being charged on a per booking basis regardless of the number of passengers in the booking

→ The creation of three new ticket types
  → Essentials
  → New Economy
  → Plus

Chairman and Chief Executive Officer's statement
Continued

This summer will see a Flybe first with trials of inflight TV programming and entertainment available free of charge for its passengers through onboard wi-fi. Additional product and service enhancements are due to follow throughout the year

We believe that 'Making flying better' is more than a slogan. It is a promise to our passengers that we will make flying better, more straightforward and fair and, as always, with a quality service-led approach

2011/12 also saw a number of operational initiatives to ensure Flybe UK maintained its competitive advantage

In February 2012, Flybe UK saw a significant rise in connecting passenger numbers after it launched its Manchester hub concept By May 2012, the first six Embraer 175 aircraft had been added to Flybe's fleet, all of which are financed from the circa $500m committed loan facility from BNDES, the Brazilian export bank

The UK business continued to focus on ensuring it matches capacity to demand through disposals of surplus aircraft (seven Bombardier Q400 aircraft were sold during the year to Rand Merchant Bank of South Africa) and a contract flying agreement with Brussels Airlines for two Q400s

Separately, the Group has moved quickly to exploit the opportunities arising from the demise of bmi baby, announcing several new routes from Flybe's network into East Midlands Airport

As at 1 June 2012, Flybe UK's forward ticket sales revenue for June to October 2012 was ahead 4 5% year-on-year on broadly flat seat capacity, with the growth being driven by yield improvements We will continue to monitor closely trends and review our flying programme to ensure that capacity remains optimally matched to demand

While conditions in the Group's current core UK domestic market remain demanding, Flybe UK's leadership leaves the business well-placed to benefit as and when the wider economy begins to improve Furthermore, over 25% of passengers are now carried between the UK regions and Europe and we consider that the recent trends in exchange rates may generate an increase in leisure traffic from the UK to Europe

Flybe Europe
A key driver of the Group's growth strategy, Flybe's expansion into Europe, took a major step forward on 1 July 2011 with the announcement of the acquisition, through joint venture with Finnair, of Finncomm

The division commenced trading in August 2011 Revenue for the period was £63 5m with Flybe's share of loss after tax in the joint venture in the year of acquisition of £3 0m

We are pleased with the progress made in less than a year Bases have been opened in Helsinki and Stockholm Bromma. Flybe Finland currently operates 25 routes in six countries

Since the year end, the joint venture signed a Memorandum of Understanding ('MoU') with Finnair for Flybe Finland to fly 12 Embraer E190 regional jets on behalf of Finnair under a contract flying arrangement This arrangement is scheduled to commence on 28 October 2012 for a number of European short haul routes and take advantage of Flybe Finland's competitive cost base With this further agreement the number of aircraft flown by Flybe Finland will reach 28, almost double the number flown when the business commenced operations in August 2011, of which 20 will be flying under contract for Finnair

Once these latest contract flying operations commence, circa 25% of the fleet under Flybe Group's management will be deployed under contract flying arrangements

The Board believes that there will continue to be consolidation in the European regional aviation industry which will present further opportunities for Flybe These will be evaluated on a selective basis with a view to further expanding Flybe's growing presence in Europe

Flybe Aviation Support
This division, which comprises the MRO and Training Academy businesses supporting both Flybe's UK and Europe divisions as well as serving third-party customers, delivered revenue of £47 3m (2010/11 £39.7m) and a loss before tax of £0 3m (2010/11 loss of £1 5m)

The MRO business saw improved activity levels with man-hours worked up from 564,000 in 2010/11 to 647,000 in 2011/12 Of these total man hours, some 62 2% were for third party customers in 2011/12 (2010/11. 63 1%) with the balance being work on behalf of Flybe The MRO business reported a profit before tax of £0 9m (2010/11 loss before tax £1 1m) We continue to see increasing MRO activity and expect a continued improvement in performance from this division in the current year

£88.8m
EBITDAR (2010/11: £95.7m)

£415.3m
Total assets (2010/11: £414.1m)

Our Training Academy's building has 26 classrooms, workshop training facilities, cabin crew emergency training facilities and a flight simulator hall which can accommodate up to four flight simulators, saw the commissioning of a second simulator in March of this year This brought self-sufficiency to the UK operation for training pilots, cabin crew and engineers for the first time The Training Academy has proved to be an attractive facility with external customers being trained from as far away as the UAE. The year saw total training revenue of £3 0m, with most of this activity supporting Flybe's own training programmes, and a loss before tax in its first full year of operation of £1 2m We are confident about the long term prospects for the Training Academy

Fleet
We have started rebalancing the fleet towards a combination of regional jets and turboprop aircraft by introducing the 88-seat Embraer E175 regional jet aircraft into Flybe UK service We expect the increased number of regional jets in our fleet to improve the overall customer product and experience for Flybe's passengers, and indeed are encouraged by the early trends which we are experiencing on UK-European routes where we have replaced the Q400 turboprop with the E175 jets The six arrivals since November 2011 are the first since Flybe announced, in July 2010, the purchase of 35 Embraer E175s (for delivery between 2011 and 2016) together with options and purchase rights over a further 105 E-series regional jets (for delivery up to 2020). As these regional jets are of a modern, fuel-efficient design, the E175 aircraft will have similar economics per flight to the 78-seat Bombardier Q400 turboprops they are replacing and, therefore, lower seat costs By 2015/16 and based on contracted deliveries and expected retirements, I expect over half of Flybe UK's fleet will be E-series regional jets

In early 2011, with no immediate recovery in the UK air travel market in sight, Flybe took the decision to de-risk the business by removing any growth aircraft for the UK business in 2011/12 Given there were committed aircraft deliveries scheduled for the year, in order to retain the net base line number of aircraft, Flybe entered into a programme of aircraft disposals In the year to 31 March 2012, Flybe UK took delivery of four Embraer E175 regional jet aircraft and three Bombardier Q400 turboprops It also sold seven Q400s to Rand Merchant Bank and handed back two Q400s to lessors at the end of lease periods thereby achieving its goal of ensuring no surplus aircraft in Flybe UK's fleet.

The acquisition of Finncomm as part of Flybe's joint venture with Finnair in August 2011 added a further 14 ATR turboprops and two E170s to our fleet.

Since 1 April 2012, Flybe UK has taken delivery of two E175s and handed back one Q400 As at 1 June 2012, our fleet under management now stands at 84 aircraft with an average age of 4 6 years consisting of 48 Q400 and 14 ATR turboprops, and 22 E-series jets

For the remainder of 2012/13, Flybe has scheduled deliveries of a further four 88-seat E175s, (in addition to the two described above), and 12 leased E190s under the new contract flying agreement with Finnair Two Q400 leases expire in the first half of the year (one of which was handed back by 8 June 2012) The Group will continue to act opportunistically to match capacity to demand, particularly in its core UK market, which drives about 87% of revenue under management

Board and People
Following the restructuring of the Group into three operating divisions, the Board agreed a major management re-organisation

→ Flybe UK (comprising the UK domestic and UK-Europe airline business) Andrew Strong, previously the Group's Chief Operating Officer, was appointed Managing Director of this division

→ Flybe Europe (comprising the European airline businesses, including Flybe Finland and any future acquisitions, as well as organic development): Mike Rutter, previously Chief Commercial Officer of Flybe, heads up this division as Managing Director

→ Flybe Aviation Support (comprising the MRO and Training businesses supporting Flybe's airline divisions and serving third party customers) John Palmer, previously Director of Airline Operations, is Managing Director of Flybe Aviation Support

As part of the continuing development of Corporate Governance within the Group, in addition to the Audit, Safety, Remuneration and Nominations Committees, a Mergers and Acquisitions ('M&A') Committee has been established to monitor and review all potential acquisitions, and make appropriate recommendations to the Group Board The M&A Committee is chaired by Alan Smith (Independent Non-Executive Director since 2006)

Mark Chown, previously Deputy Chairman of Flybe and a Trustee of the Walker Trust, one of the Group's major shareholders, has been appointed as Director of Corporate Strategy at Flybe. The Corporate Strategy role will include responsibility for identifying, evaluating and delivering M&A opportunities Mark has worked with Flybe since 1996 and has been closely involved with significant strategic developments at the Group, including the acquisition and integration of BA Connect, Flybe's IPO in December 2010 and leading the acquisition of Finncomm

In light of his new executive role, Mark has been replaced as Deputy Chairman by Charlie Scott, Flybe's Senior Independent Director

Chairman and Chief Executive Officer's statement
Continued

83 aircraft
67 operated by Flybe UK and 16 by Flybe Europe

In April 2012, I was delighted to confirm the appointment of Lord (Digby) Jones of Birmingham as a Non-Executive Director Digby is a former Minister of State for Trade & Investment and Director-General of the Confederation of British Industry, a post he held between January 2000 and June 2006 He understands the UK regions perhaps better than anyone in the public arena and shares Flybe's passionate commitment to training and skills development

Flybe's achievements in the UK and Europe would not have been possible without over 3,400 loyal and motivated employees whose talent, commitment and can-do attitude make Flybe what it is today On behalf of the whole Board, I would like to thank them for their hard work and continuing support

Regional Aviation and the UK Economy
Flybe's regional aviation business model is predicated on meeting the transport requirements of our seven million plus passengers who need to get from A to B for reasons of business, visiting family and friends or leisure but who have limited alternative transport options, either because of a lack of road and rail infrastructure both into and within the UK regions or because their journeys take them across large bodies of water

A combination of practical and political obstacles, compounded by a London-hub driven transport policy, will ensure, for decades to come, no adequate rail infrastructure will be developed in the UK regions For anyone needing to get from, say, Exeter to Glasgow and back in a day the choice is under 2 hours on an aircraft versus 14 hours on a train

Flybe, and other regional airlines, therefore play a critical role in facilitating regional economic and business development Indeed, we are a lifeline to certain regions As we do our utmost to keep costs and ticket prices down in the face of increasing oil prices and other inflationary pressures (for instance, through a multi-billion pound investment in more fuel-efficient aircraft over the last decade), it is extraordinary that our passengers continue to be hit by continuing increases in APD The UK APD domestic 'double dip' needs to be addressed. This is where UK domestic passengers pay APD twice, while those flying abroad pay just once because APD only applies to flights that start from the UK It is inequitable that a return passenger travelling between Glasgow and Belfast City (208 miles) pays double the tax of someone flying between Glasgow and Dalaman in Eastern Turkey (4,086 miles)

Flybe has paid £64 0m and £55 0m respectively to the UK government in respect of APD This equates to about 11% of the revenue we have generated in Flybe UK Furthermore over 40% of the 7 3 million passengers carried have been travelling for business to and from the UK regions and consequently Flybe UK's contribution to the regional economies is even more important

The rise in APD is symptomatic of successive governments failing to lay out an aviation policy which sets out specific goals and objectives to ensure that the UK has a 21st century transport infrastructure

We would hope that the UK government's Aviation Strategy, to be published in the summer, will fully recognise the role that regional aviation plays in the country's international and domestic trade At a time of economic difficulty, a lack of a coherent and comprehensive transport policy, combined with illogical hikes in stealth taxation on an industry critical to the country's economic prosperity, is having a detrimental impact on airlines such as Flybe and ultimately the economic prosperity of the UK's regions

Outlook
Flybe is Europe's largest independent regional airline, flying over 200 routes from more than 100 airports across eighteen countries It has a resilient business model and a clear growth strategy Through a continuing focus on managing costs and capacity we are mitigating the impact of the economic downturn in the UK We are pleased with the progress we have made with Flybe Finland, underpinning our European expansion plans and the replication of our UK operations in terms of scale Meanwhile, our fleet substitution programme, along with a de-risking of the business through a significant increase in contract flying, will have a far reaching beneficial impact on the business and one that will benefit the Group for many years to come

We will continue to invest in the Group's future ensuring that we maintain our market leading position in the UK regions and, at the same time, building a similar position across Europe

We remain in a challenging environment. However, Flybe today is a business of real scale and substance, and one which has again demonstrated its resilience Flybe is well placed to take advantage of any improvement in the UK macro environment and has a strong platform in Europe to leverage, leaving the Group strongly placed for the future

Jim French CBE
Chairman and Chief Executive Officer

Strategy and KPIs

Flybe's strategy is focused on becoming Europe's largest and most profitable regional aviation group.

Description	Key measures
Safety underpins everything we do	Well-developed safety procedures are in place to generate continuous improvement in performance – see page 32 Our aircraft, operational and employee safety records demonstrate the effectiveness of Flybe's approach with a low incidence of issues arising
Build on the Group's track record of passenger revenue growth	Passenger revenue up from £545 7m to £565 6m Passenger revenue per seat has grown to £48 71 from £46 96 in 2011 Customer satisfaction based on punctuality – on-time departures were at 84 9% in 2012 (2011 83.0%) and complaints were 2 0 per thousand passengers (2011 2 9 per thousand passengers)
Capitalise on leading positions in Flybe's core UK domestic and regional UK to European city and leisure markets	No 1 in UK domestic market (28 0% market share, up from 27 0% in 2011)* No 2 in UK regions to European business cities
Drive European expansion	Flybe has strong relationships with other major carriers Finnair is the other joint venture partner in Flybe Nordic The Air France codeshare started operating in October 2010, new routes have been added on KLM codeshares and Flybe also deepened the codeshare relationship with British Airways
Deliver the lowest cost base for the European regional airline sector	Group operating costs at constant currency** per seat (excluding fuel) have increased from £42 83 to £44 04 Group operating costs excluding fuel have increased from £495 4m to £510 8m
Expand Flybe MRO operation, Aviation Services and develop the Flybe Training Academy	Man hours in the MRO operation increased from 564,000 to 647,000 this year Flybe's Training Academy increased its revenue from £2 2m to £3 0m

* Includes passengers travelling with our franchise partner Loganair
**Constant currency is calculated for the 2010/11 year by applying the effective exchange rates that prevailed for reporting the 2011/12 results of $1 58 and €1 16

The purpose of the strategy is to deliver long-term returns to shareholders that are above those of other companies operating in our sector To achieve this, Flybe looks to financial performance indicators as measures of its progress as follows

Description	Key measures
Achieve revenue growth	Total revenue under management up from £595 5m to £678 8m with Group revenue up from £595 5m to £615 3m
Maintain profitability	EBITDAR at £88 8m from £95 7m*** last year and loss before tax up from £4 3m to £6 2m
Maintain appropriate debt profile	Net debt of £29.7m compared with net funds of £21.9m last year

*** Restated to reclassify £5 2m of maintenance depreciation to maintenance costs.

Financial review

> "Flybe's expansion into Europe has been reflected in the strong increase in revenue under management at £678.8m up from £595.5m last year."

Andrew Knuckey
Chief Financial Officer

Summary
Flybe has had a challenging 2011/12 but despite this saw growth in both revenue under management and Group revenue

→ The core Flybe UK business has experienced a difficult economic backdrop and higher fuel costs Despite these challenges, the division recorded a profit before tax* of £0 6m We have maintained our position as the leading carrier of UK domestic passengers with a 28 0% market share and our passenger numbers have increased by 2 2% to 7 3 million

→ The key driver of the overall Group loss arises from the expansion into Europe with Flybe Europe generating a £3 7m loss, being its share of loss from its joint venture operations in Finland together with related management costs This result was broadly in line with expectations The Flybe Finland joint venture is an important foothold for the Group as it looks to export its regional business model into continental Europe Flybe Finland already operates more flights in the Finnish domestic market than any other airline, and Flybe and Finnair have ambitions to further expand the joint venture in the Nordic and Baltic regions

→ Flybe Aviation Support generated a loss for the year of £0 3m, comprising a profit of £0 9m on the maintenance, repair and overhaul ('MRO') business, and a loss of £1 2m in the Training Academy's first full year of trading in its new building

→ Group costs were £2 8m up slightly on last year's £2 5m with an increase in salary costs offset by slightly lower advisor and other fees

* profit before tax is the segment result after adding back Group costs as appropriate

At 31 March 2012, Flybe had net assets of £89 4m, total cash of £67 6m, unrestricted cash of £42 9m and net debt (i e total cash less borrowings) of £29 7m

Key financial headlines

	2012 £m	2011 (restated) £m	Change %
Revenue under management	678 8	595 5	14 0
Group revenue	615 3	595 5	3 3
Underlying EBITDAR*	88 8	113 8	(22.0)
EBITDAR*	88 8	95 7	(7 2)
Underlying (loss)/profit before tax	(7 1)	22 3	n/m
Loss before tax	(6 2)	(4 3)	(44.2)
(Loss)/profit after tax	(6 4)	3 8	n/m

* 2010/11 restated to reclassify £5 2m of maintenance depreciation to maintenance assets

Revenue under management has grown 14 0% to £678 8m from £595 5m largely due to the Group's new joint venture in the Nordic and Baltic region, Flybe Finland Our partnership with Finnair has got off to a good start with our financial expectations largely being met The joint venture has contributed £63 5m of the £83 3m increase in revenue under management seen over the course of the year The relationship was further strengthened with the announcement post year end, on 22 May 2012, of a Memorandum of Understanding with Finnair to fly 12 Embraer E190 regional jets on behalf of Finnair under a contract flying arrangement, commencing in October 2012 for a five year term

Group revenue increased by 3 3% to £615 3m from £595 5m in the previous year, a period that had been affected by disruption caused by the volcanic ash cloud and adverse weather conditions in November and December 2010 This growth in revenue was against a backdrop of a continuing decline in the overall UK domestic market Flybe has shown considerable resilience over this period, growing its UK domestic market share to 28 0% and overall passenger numbers to 7 3 million

Underlying EBITDAR declined to £88 8m, down 22 0% from the previous year's underlying EBITDAR of £113 8m and down 7.2% from the 2010/11 reported EBITDAR of £95 7m The Group's underlying loss before tax was £7.1m (2010/11 underlying profit before tax £22 3m), and the reported loss before tax increased by £1 9m to £6 2m

Set out below is a reconciliation from unadjusted EBITDAR and loss before tax to underlying figures, which adjust the 2012 results for revaluation gains on USD aircraft loans and the 2011 figures for the estimated impact of disruption from volcanic ash and extreme weather, unrealised gains and losses on fuel and foreign exchange hedges and IPO expenses incurred

	2012 £m	2011 (restated) £m	Change %
Operating (loss)/profit before joint venture results, IPO expenses and unrealised gains and losses on fuel and foreign exchange hedges	(1.9)	7 6	
Depreciation and amortisation*	13 1	10 7	
Aircraft rental charges	77 6	77 4	
EBITDAR – unadjusted	88.8	95 7	(7 2)
Estimated impact of disruption from volcanic ash (2011: £11 6m) and weather (2011 £6.5m)	–	18 1	
EBITDAR – underlying*	88 8	113 8	(22 0)

	2012 £m	2011 £m	Change %
Loss before tax – unadjusted	(6 2)	(4 3)	(44 2)
Revaluation gain on USD aircraft loans	(0.9)	–	
Estimated impact of disruption from volcanic ash and weather	–	18 1	
Unrealised gains and losses on fuel and foreign exchange hedges	–	6 8	
IPO expenses	–	1 7	
(Loss)/profit before tax – underlying	(7 1)	22 3	n/m

* Excludes depreciation on maintenance assets set up in accordance with IFRS requirements

Financial review
Continued

Fleet
Our fleet transition to a two-type, modern, fuel-efficient aircraft fleet in Flybe UK was completed in May 2009, comprising Embraer E-series regional jets and Bombardier Q400 turboprops The fleet is being rebalanced towards jets with the introduction of E175s to improve the customer experience while retaining fuel-efficient aircraft at its core

2011/12 has seen considerable activity with the acquisition of operations in Finland though our joint venture with Finnair, and the sale by Flybe UK of seven Q400 turboprop aircraft to Rand Merchant Bank In addition, the UK operations took delivery of its first four E175 regional jets from Embraer (out of its firm order for 35 E175s, for delivery in the period to October 2016), and three Bombardier Q400 turboprops

A total of 16 aircraft were acquired with the Finncomm (now Flybe Finland) business on 18 August 2011 Since that date, Flybe Finland has acquired one ATR 72 turboprop and handed back an ATR 42 It is currently intended that the Flybe Finland fleet will continue to comprise of Embraer E-series regional jets and ATR turboprops in the longer term

The profile of Flybe's fleet under management in the 2011/12 year is summarised below

		Number of aircraft		
	Number of seats	At 31 March 2011	Net movements in period	At 31 March 2012
Flybe UK				
Embraer E195 regional jet	118	14	–	14
Embraer E175 regional jet	88	–	4	4
Bombardier Q400 turboprop	78	55	(6)	49
Flybe Europe				
ATR 42 turboprop	48	–	3	3
ATR 72 turboprop	68-72	–	11	11
Embraer E170 regional jet	76	–	2	2
Total		69	14	83
Held on operating lease		59	15	74
Owned and debt financed		10	(1)	9
Total		69	14	83
Total seats in fleet		5,942		6,882
Average seats per aircraft		86 1		82.9
Average age of fleet (years)		4 3		4 6

Two of the Q400 aircraft are currently being operated on a two-year contract flying agreement with Brussels Airlines that commenced in March 2012.

Divisional results
Flybe's divisional results are summarised below These results are before tax, other than share of joint venture results

	2012 £m	2011 £m
Divisional revenues.		
Flybe UK	588 1	571 5
Flybe Europe	63 5	–
Flybe Aviation Support	47.3	39 7
Inter-segment sales	(20 1)	(15 7)
Revenue under management	678 8	595 5
Less Revenue from Flybe Europe joint venture	(63 5)	–
Group revenue	615 3	595 5
Divisional results·		
Flybe UK (including net finance costs of £1 6m in 2012 and £3 4m in 2011)	0 6	8 2
Flybe Europe (including investment income of £0 3m in 2012)	(3 7)	–
Flybe Aviation Support	(0.3)	(1 5)
Total divisional results	(3 4)	6 7
Other items not allocated		
Group costs	(2 8)	(2 5)
Unrealised losses on fuel and foreign exchange hedges	–	(6 8)
IPO expenses	–	(1 7)
Loss before tax	(6 2)	(4 3)

Included with net finance costs for Flybe UK is the revaluation gain on USD dominated aircraft loans of £0 9m (2010/11 nil)

Flybe UK
Revenue

	2012		2011	
	£m	£ per seat	£m	£ per seat
Ticket revenue	461 3	39.73	446 8	38 45
Ancillary revenue	104 3	8.98	98 9	8 51
Passenger revenue	565 6	48.71	545 7	46 96
Other revenue	22 5		25 8	
Total revenue – Flybe UK	588.1		571 5	

Flybe UK passenger numbers grew slightly to 7 3m from 7 2m Seat capacity was stable at 11 6m and we flew slightly fewer sectors at 137,400 (138,200 in 2010/11) Capacity management has been a key theme for Flybe in recent years as strenuous efforts have been made to manage the adverse effect of the depressed UK economic environment.

£62.97

Ticket yield, up 1.0% from £62.35 in 2010/11

£14.24

Ancillary yield, up 3.2% from £13.80 in 2010/11

The growth in revenue has largely come from passenger numbers which advanced by 2 2%, coupled with improved ticket and ancillary yields Total passenger yield was up 1 4% to £77 21 from £76.15 in 2010/11, comprising a 1 0% increase in ticket yield (from £62 35 to £62 97) and a 3 2% increase in ancillary yield (from £13 80 to £14 24) In addition, load factor improved by 1 4 percentage points (from 61 7% to 63 1%), largely reversing the fall in the previous year

This improvement in yields per passenger and load factor resulted in passenger revenue per seat increasing by 3 7% from £46 96 to £48 71, and total passenger revenues increasing from £545 7m to £565 6m

Other revenue in Flybe UK totalled £22 5m, down from £25 8m in 2011, a year which had benefitted from the revenue generated under our contract flying arrangement with Olympic Air

Operating costs

	2012		2011		
	£m	£ per seat	£m	£ per seat	£ per seat at constant currency and fuel price*
Staff costs	79 3	6 84	74 8	6 44	6 45
Fuel	106.4	9.17	92 5	7 96	9 32
Net airport costs, en route charges and ground operations	204.8	17 66	202 6	17 43	17 52
Aircraft ownership and maintenance costs	147 5	12 72	140 1	12 05	12 21
Marketing and distribution costs	24 8	2 14	23 9	2 06	2 07
Other operating costs	25 9	2 22	28 5	2 45	2 46
Operating costs	588 7	50.75	562.4	48 39	50 03

* Constant currency is calculated for the 2010/11 year by applying the effective exchange rates that prevailed for reporting the 2011/12 results of $1 58 and €1 16 and constant fuel is calculated for the 2010/11 year by applying the effective blended rate paid for jet fuel per tonne in 2011/12

Operating costs increased by 4 7% from £562.4m to £588 7m largely as a result of the increase in the price of jet fuel which went up by £1 21 per seat or half the overall rise of £2 36 per seat On a constant currency and fuel basis, underlying operating costs increased from £580 4m in 2010/11 to £588 7m

Operating costs per seat increased by 4 9% from £48.39 to £50.75 On a constant currency and fuel basis, this unit cost measure increased by 1 4% to £50.75 (2010/11· £50 03)

Fuel

Fuel is a significant variable cost which has a material impact on Flybe UK's results A variety of external factors, such as changes in supply and demand for oil and oil-related products and the increasing role of speculators and funds in the futures markets, have played their part in making aviation fuel prices highly volatile During 2011/12, the price of jet fuel remained significantly higher than in 2010/11, peaking at $1,140 per tonne on 11 April 2011

During the year to 31 March 2012, Flybe UK used some 183,500 tonnes of jet fuel, a reduction on 2010/11 of 0 8% The average market price during the year was $1,036 per tonne (2010/11 $795), with the Group paying a blended rate (net of hedges) of $853 per tonne (2010/11 $735) Including 'into plane' costs, Flybe's fuel costs in 2011/12 of £106 4m (2010/11. £92 5m) represent an all-in cost of $916 per tonne for 2011/12 (2010/11 $810) Using constant currency and fuel prices, our fuel costs per seat improved by 1.6% from £9 32 to £9 17, reflecting a continuing reduction in fuel burn per seat

Flybe UK operates a policy of managing fuel price volatility by entering into derivative contracts representing a portion (between 60% and 90%) of its aviation fuel requirements up to 12 months forward The intention of this programme is to provide a significant element of certainty over its fuel costs for any forthcoming IATA season As at 1 June 2012, 72 4% of the year to 31 March 2013 was hedged at an average price of $1,028 per tonne Further details are given in note 36 to the consolidated financial statements Taking into account our hedged position, each $50 increase/decrease in the price of jet fuel reduces/improves Group profits in 2012/13 by £0 6m

Efficiencies have been derived from our fleet replacement programme, operational improvements and careful management of routes and frequencies The fuel used by the Group was 183,500 tonnes in the year to 31 March 2012 (representing 15 8kg per seat) and 185,000 tonnes in the year to 31 March 2011 (15 9kg per seat) Fuel efficiency in Flybe UK has continued to improve (in 2007/08, our fuel usage was 19 1kg per seat), reflecting our investment in a modern, fuel-efficient two-type aircraft fleet best suited to regional flying

In the course of 2012/13, a fuel and foreign exchange hedging programme will be introduced into Flybe's joint venture in Finland, following the procedures already being used by Flybe UK As at 31 March 2012, no hedging was undertaken there, although the exposure is more limited than that for Flybe UK as its leases are denominated in Euros, its main operating currency, leaving fuel and maintenance costs as its primary exposure

Financial review
Continued

Other operating costs
Staff costs increased by 6 2% of which 3 8% was due to increases in salaries The remainder was as a result of increased social security and pension costs as well as the more frequent use of temporary labour to meet the peaks and troughs of demand There have been a number of Group-wide voluntary staff cost saving initiatives in place relating to pensions, extra holidays, sabbaticals, part-time working and delayed recruitment that have helped manage the overall cost base

Net airport costs, en route charges and ground operations increased by 1 1% largely due to higher charges levied by air traffic control providers partially offset by a small favourable movement in exchange rates On a constant currency per seat basis, net airport costs, en route charges and ground operations increased by 0 8% to £17 66 (2010/11 £17 52)

Aircraft ownership and maintenance costs increased by 5 3% primarily due to movements in exchange rates and maintenance rate increases On a constant currency per seat basis, aircraft ownership and maintenance costs increased by 4 1% to £12 72 (2010/11 £12 21)

Other operating costs (after adjusting for a net gain of £2 5m recognised in 2010/11 on settlement of the Group's claims against the manufacturer of some of the landing gear used on aircraft in the Group's fleet) decreased by £5 1m mainly due to savings in overheads and media spend

Foreign exchange
The Group manages its foreign exchange positions based on its net foreign currency exposure As regards 'net' foreign currency exposure (i e foreign currency expenditure less associated revenue), Flybe UK currently has a relatively small net exposure to the Euro, but has to purchase a significant volume of US dollars to settle expenditure on items such as fuel, maintenance, and aircraft operating leases and loan repayments Flybe generates no significant US dollar revenue and actively manages its US dollar position through a foreign exchange forward purchase programme similar to that outlined for fuel. As at 1 June 2012, 83 5% of our anticipated US dollar requirements for the year to 31 March 2013 were hedged at an average exchange rate of $1 60 All existing derivative financial instruments are forward swap arrangements

The table below sets out for each of the periods under review Flybe UK's US dollar requirements, forward derivative instruments taken out and blended exchange rate achieved

	2012	2011
Foreign currency requirement	$349m	$322m
Proportion hedged at beginning of period	82%	79%
Effective exchange rate	$1 58	$1 62

Taking into account our hedged position, each $0.05 reduction/improvement in the US Dollar exchange rate has the effect of reducing/increasing Flybe UK's profits in 2012/13 by approximately £2 7m

In 2011/12, the income statement benefited by £0 9m from non-cash movements in the value of the Group's debt denominated in US Dollars that is held to purchase Embraer E-series jets The movement in this US Dollar liability cannot be naturally offset against the value of the aircraft as the latter are recorded in UK Sterling in order to comply with the requirements of International Financial Reporting Standards The income statement credit of £0 9m has therefore been adjusted in arriving at underlying profit before tax Flybe UK will continue to be exposed to non-cash revaluation gains/losses on its US Dollar denominated aircraft loans, which will be adjusted in arriving at the Group's underlying results

Flybe Europe

	2012*	
	£m	£m
Flybe Finland joint venture		
Revenue		
Passenger revenue		19 6
Contract flying		41 3
Other revenue		1 8
		62 7
Costs		
Fuel	(12 3)	
Other operating costs	(60 0)	
		(72 3)
Loss before tax		(9 6)
Tax credit		4 3
Loss after tax		(5 3)

	£m
60% share of Flybe Finland joint venture loss**	(3 2)
Other net costs including interest	(0 5)
Segment result – Flybe Europe	(3 7)

* For the period from acquisition on 18 August 2011 to 31 March 2012
** Group share of joint venture loss of £3 0m comprises Flybe Finland £3 2m loss and Finnish Aircraft Maintenance (FAM) £0 2m profit FAM is included within the Flybe Aviation Support division

With revenue of £62 7m and costs of £72 3m (£12 3m of which was fuel), Flybe Finland generated a loss before tax of £9 6m A tax credit of £4 3m relating to deferred tax on the losses generated was also reported, resulting in a loss after tax for Flybe Finland of £5 3m

Flybe Finland passenger numbers for the period from acquisition to 31 March 2012 were 0 3 million with a load factor of 40 4% In addition, contract flying for Finnair accounted for a further 0 5 million passengers

Overall, our 60% share from the Flybe Finland joint venture with Finnair was the largest contributor to the division's overall loss of £3 7m In the period since its acquisition in August 2011, the joint venture has traded broadly in line with our expectations Further details on the joint venture's performance are given in note 16 to the financial statements

Flybe Aviation Support

	2012 £m	2011 £m	Change %
Revenue			
Maintenance, repair and overhaul ('MRO')	44.3	37 5	18 1
Training Academy	3.0	2 2	37 4
	47.3	39 7	19 1
Operating costs	(47 6)	(41 2)	(15 5)
Segment result – Flybe Aviation Support	(0 3)	(1 5)	80 0

MRO revenue grew by 18 1% in 2011/12 to £44 3m (2010/11 £37 5m), of which £26 4m was for third party customers (2010/11 £22.8m) This increase was driven by a 14 8% growth in man hours from 564,000 hours in 2010/11 to 647,000 hours The MRO business recorded a profit before tax of £0 9m (2010/11 loss before tax £1 1m).

In its first full year of operation, the Training Academy successfully grew its revenue to £3 0m from £2 2m However, Flybe has invested significantly to the future success of this business and as expected the Training Academy reported a loss of £1 2m (2010/11 loss of £0 4m)

Group costs

Group costs of £2 8m (2010/11 £2 5m) are included within the Flybe UK segment, and include Group Board salary costs and group related legal and professional fees The movement is largely the result of the increase in directors' remuneration.

Loss before tax

The Group's operating loss was £4 9m (2010/11 loss of £0 9m)

After net finance costs of £2 5m (2010/11 £2 3m) and other gains of £1.2m (2010/11 loss of £1 1m), the loss before tax was £6 2m (2010/11 £4 3m loss)

(Loss)/profit after tax

Loss after tax was £6 4m (2010/11 profit after tax £3 8m) The current year tax charge was £0 2m (2010/11 credit of £8 1m)

EPS and dividends

Basic loss per share for the year was (8 5)p, compared with earnings per share of 6 4p in 2010/11 Adjusted loss per share (see note 13 to the consolidated financial statements) was also (8 5)p, compared with adjusted earnings per share of 16 7p for 2010/11

No dividends were paid or proposed in either the current or prior financial year

Cash flow

	2012 £m	2011 £m	Change £m
Net cash inflow from operating activities	3 0	18 1	(15 1)
Net proceeds from IPO	–	60 3	(60 3)
Net capital expenditure after disposal proceeds	(40 7)	(35 7)	(5 0)
Net proceeds from new loans	13 6	1 2	12 4
Acquisition of joint venture interest	(18 2)	–	(18 2)
Net interest paid	(2 5)	(2 3)	(0 2)
Net (decrease)/increase in cash and cash equivalents	(44 8)	41 6	(86 4)
Cash and cash equivalents at beginning of year	87.7	46 1	41 6
Cash and cash equivalents at end of year	42 9	87 7	(44 8)
Restricted cash	24 7	17.9	6 8
Total cash	67 6	105.6	(38 0)

Despite the losses incurred this year, the Group has remained cash generative from an operating perspective

The IPO in 2010/11 brought in £60 3m of net cash to the Group. As outlined at the time of the IPO, these proceeds are being used to assist in financing the Group's growth plans (via the creation of the joint venture with Finnair and the acquisition of Finncomm) as well as to provide equity deposits on new aircraft

The largest movements in net capital expenditure were in relation to pre-delivery deposits for new aircraft and the acquisition, during the year, of four Embraer E175 regional jets and three Bombardier Q400 turboprop aircraft, financed by loans from BNDES and EDC respectively Seven Q400 aircraft were sold to Rand Merchant Bank, and the associated loans repaid

Financial review
Continued

Balance sheet

	2012 £m	2011 £m	Change £m
Airport landing slots	8 5	8 5	–
Aircraft	136 9	110 9	26 0
Other property, plant and equipment	25 2	25 4	(0 2)
Interest in joint ventures	16 2	–	16 2
Net (debt)/funds	(29 7)	21 9	(51 6)
Derivative financial instruments	3 9	21 2	(17 3)
Other working capital – net	(71.8)	(77 9)	6 1
Deferred taxation	3 1	(1 7)	4 8
Other non-current assets and liabilities	(2 9)	(0 4)	(2 5)
Net assets	89 4	107 9	(18 5)

The value of airport landing slots remained unchanged, with no additions, disposals or impairments

The £136 9m of net book value of aircraft represents owned aircraft, engines and aircraft modifications, with seven aircraft being acquired (three Bombardier Q400s and four Embraer E175s) and seven Q400s sold during the year

On 18 August 2011, Flybe and Finnair entered into a 60 40 joint venture which completed the acquisition of Finnish Commuter Airlines Oy ('FCA') and also involved Flybe acquiring a 46 3% stake in Finnish Aircraft Maintenance Oy (collectively, 'Flybe Nordic') Flybe's share of the total consideration was £18 2m (€21 0m) Due to the nature of the shareholders' agreement, which requires certain key decisions to be agreed jointly between Flybe and Finnair, these acquisitions have been treated as joint ventures After Flybe's share of joint venture losses of £3 0m in 2011/12, the carrying value of the interest in joint ventures at 31 March 2012 stood at £16 2m

Net debt at 31 March 2012 of £29 7m (2011 net funds of £21 9m) reflected the capital outflows referred to in the cash flow section above Borrowings increased by £13 6m to £97 3m as loans associated with the seven Q400 aircraft sales were repaid and new loans were taken out to finance the four new Embraer E175s and three new Bombardier Q400s delivered during the year Net debt at 31 March 2012 includes restricted cash of £24 7m (£17 9m at 31 March 2011) which represents, predominantly, cash held with the Group's bankers to facilitate card acquiring services and guarantee arrangements with suppliers, and cash deposits held in favour of aircraft owners to secure operating lease arrangements

The mark to market asset of derivative financial instruments reduced from £21 2m to £3.9m, largely as a result of the significant 'in the money' position at 31 March 2011 of fuel hedges entered into during 2010/11 Net negative other working capital decreased from £77 9m to £71 8m, largely due to the reductions in short-term maintenance-related provisions, increases in trade and other receivables were largely offset by increases in trade and other payables Long-term maintenance-related items are largely responsible for the movement in other non-current assets and liabilities

Shareholders' equity decreased by £18 5m driven principally by losses generated in the period of £6 4m and the reduction in derivatives fair value (reflected through the hedging reserve) of £12 2m The balance sheet does not include the impact of the defined benefit pension scheme surplus of £0 8m The scheme is closed to future benefit accrual and the surplus has not been recognised as the assets cannot be recovered by the Group

Covenants
The Group has certain financial performance covenants in relation to some of its aircraft financing agreements These specify performance, depending on the contractual terms, against a series of tests, which are, performed either quarterly, half yearly or annually Flybe has met all the terms of these covenants since the inception of the arrangements (see note 25 to the consolidated financial statements)

Country and currency risk
Flybe's UK and European businesses operate in a global market place Most of Flybe's customers are based in Europe, although the MRO business also has customers in Africa and the central Asian republics Most of Flybe UK's revenues are derived from UK-based customers (about 85% of Group revenue) and the joint venture operations largely from those based in Finland and Sweden Aircraft are bought and sold in US dollars as are other key costs such as fuel and aviation insurance Airport and en route charges are payable in a mix of Sterling and Euros and the further development of European operations will mean greater exposure to Euro revenues and costs This is further considered in the Risks and uncertainties section on pages 27 to 31 and note 36 'Financial instruments'.

£(29.7m)

Net debt (2010/11: net funds of £21.9m)

£67.6m

Cash, including restricted funds (2010/11: £105.6m)

Going concern

Flybe's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman and Chief Executive Officer's statement on pages 12 to 16 The financial position of the Group, its cash flows and liquidity position, and events since the balance sheet date are described in the financial performance section of that statement on pages 12 to 15 and in the financial review on pages 18 to 26 In addition, note 36 covers Flybe's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The Directors have considered the sensitivities presented by current economic conditions in the aviation sector in relation to passenger volumes and yields, fuel prices, foreign exchange, route selection and investment in new aircraft and will assess any actions they feel are necessary.

Flybe had free cash balances of £42 9m at 31 March 2012, met all of its operating lease commitments and debt repayment obligations as they have fallen due and passed all its financial covenants during the year

The Directors have prepared a detailed trading budget and cash flow forecast which indicates that Flybe will be able to trade using operating cash flows for at least 12 months from the date of signing these accounts and will be able to meet its operating lease commitments and debt repayments as they become due

The Directors have a reasonable expectation that Flybe has adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

Significant contracts

Shareholders

Flybe's main shareholder with 48 1% of the Company's shares is Rosedale Aviation Holdings Limited ('Rosedale'), the corporate representative of the trustee of the Jack Walker 1987 Settlement which was established by the late Jack Walker who was so influential in Flybe's development Flybe and Rosedale have entered into a Relationship Agreement to regulate aspects of the continuing relationship between the Group and Rosedale The Relationship Agreement seeks to ensure that Flybe is capable at all times of carrying on its business independently of Rosedale and that transactions and relationships in the future between the Company and Rosedale are at arm's length and on a normal commercial basis The Relationship Agreement permits Rosedale to appoint one person to the Board if Rosedale holds in excess of 15% of Flybe's Ordinary Shares, and two people to the Board if it holds in excess of 30% of the Ordinary Shares

Aircraft

Flybe has entered into a series of agreements to purchase aircraft, the most recent of which was the 19 July 2010 contract to purchase 35 Embraer E175 aircraft for delivery between June 2011 and October 2016, four of these aircraft had been delivered by 31 March 2012, with a further two arriving by 8 June 2012 This contract also contains options to purchase a further 65 E-series aircraft (with delivery dates between January 2012 and August 2021) with purchase rights for a further 40 E-series aircraft

After the delivery of three aircraft between April and June 2011, Flybe has no further firm purchase commitments for Bombardier Q400 aircraft.

Aircraft financing arrangements

Flybe has secured committed 85% loan-to-value financing from BNDES in relation to 20 of the 35 E175 aircraft ordered from Embraer In addition, Flybe has used a combination of lease arrangements (with a variety of lessors) and mortgage-secured lending (with a variety of lenders) to finance aircraft and engines All of these agreements contain conditions around maintaining the asset subject to the financing so as to ensure that certain minimum safety, performance and operational standards are met In addition, some of these agreements contain covenants about Flybe's cash balances and net worth All of these covenants have been satisfied since inception of the agreements

Financial review

Continued

Commercial arrangements

A contract flying arrangement with Brussels Airlines commenced on 25 March 2012 and will run for two years, at which point the two Bombardier Q400 aircraft will return to Flybe's scheduled services. The Bombardier Q400 aircraft will serve core routes for the Belgian airline to various European destinations The aircraft will carry the livery of Brussels Airlines but will operate under the Flybe Air Operating Certificate, be crewed by Flybe pilots and cabin crew and maintained by Flybe engineers

In October 2010, Flybe signed and started to operate a codeshare agreement with Air France which allows each airline to sell seats in their own name and apply their own flight designation to services on certain specified routes The agreement applies primarily to flights between various airports in France and certain UK airports serviced by Flybe . The current agreement runs until the end of the IATA summer season 2012, after which it will be renewed for an indefinite period, unless terminated in accordance with the terms of the agreement. Either party may terminate the agreement on six months' notice so long as the effective termination date is on the last day of an IATA season Similar arrangements have been entered into with KLM with effect from May 2012, supplementing the Group's other codeshare relationships with British Airways and Etihad.

Flybe granted Loganair a franchise along with a non-exclusive and non-assignable licence to use certain intellectual property rights of Flybe to enable Loganair to operate scheduled flights under the Flybe brand, with effect from October 2008 and for which Loganair pays a franchise fee During the term of the agreement, Flybe is prohibited from commencing or operating any air services on any route on which Loganair operates under the Flybe brand or licensing any other person to do so Either Flybe or Loganair may terminate the agreement on one year's prior written notice which may be given on or after 26 October 2011.

The Group has a number of arrangements in place that allow it to put in place fuel or foreign exchange derivative financial instruments (primarily hedges or swaps) These are designed to allow Flybe to manage its exposure to fluctuating prices and thereby provide certainty over its costs All of these agreements follow the template established by the International Swaps and Derivatives Association

Termination rights

Consistent with industry practice for contracting with airline suppliers, our main contracts contain clauses that either require written consent from our supplier prior to a change in control of the Group, or provide for contract termination in the event of a reasonable objection to that control

Payment of creditors

The Group's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment Trade creditors of Flybe Group at 31 March 2012 were equivalent to 14 (2011 14) days' purchases, based on the average daily amount invoiced by suppliers during the year As the Company does not trade in its own right, there were no creditor days to report for either year

Andrew Knuckey
Chief Financial Officer

Risks and uncertainties

This section describes the principal risks and uncertainties which may affect Flybe's business, financial results and prospects.

Risk description	Potential impact	Inherent risk trend (Movement against prior year)	Mitigation
Safety and security			
Failure to prevent a safety or security related incident including terrorist threat, or attacks from either internal or external sources or to respond adequately to a safety or security related event	Significant adverse effect on Flybe's reputation, financial results and operational performance	Same	Safe and secure operation is the key priority for all of Flybe's management and staff It operates a strong safety management system (see page 32) Flybe has appropriate systems and procedures in place, including trained staff, to respond effectively to such incidents
External risks			
Macroeconomic environment			
Flybe is exposed to sustained deterioration in general economic conditions Flybe is exposed to a reduction in UK and Finnish domestic air travel	Adverse pressure on revenue and load factors Adverse effect on Flybe's growth prospects, financial condition and the value of its assets, particularly, aircraft	Same	Flybe monitors route performance within its commercial teams and adjusts flying patterns to customer demand Flybe's fleet planning is designed to provide it with the most fuel-efficient aircraft available under a mix of ownership and lease terms Reduced reliance on the UK domestic market through the joint venture with Finnair and increased contract flying activities The management team continues to seek to exploit opportunities to grow its business outside the UK domestic market
Competition			
Flybe operates in a highly competitive transport market.	Adverse effect on market share leading to reduced revenue	Same	Flybe has a strong position in the markets where it operates and extends the reach of its brand through franchising, joint ventures and alliances Processes are in place to monitor and report on route by route performance and competitor activity and to react rapidly where necessary Expansion plans outside existing markets are well advanced

Risks and uncertainties
Continued

Risk description	Potential impact	Inherent risk trend (Movement against prior year)	Mitigation
External risks continued			
Regulation			
Regulatory changes in the airline industry may have an adverse impact on an airline's costs, operational flexibility, marketing strategy, business model and ability to expand Flybe is exposed to various regulators across its network This will increase as Flybe expands its operations in other countries	Adverse impact on reputation, costs and market share coupled with decline in growth opportunities Lack of adequate knowledge or misinterpretation of local regulations may result in fines or enforcement orders	Same	Management engages with governments through direct contact and membership of industry organisations Specific regulatory issues arising from Flybe's market position and its business development are identified and addressed promptly
Duties and Taxes			
Airlines may be adversely affected by increases in Air Passenger Duty in the UK and its equivalent in other countries	Increased costs and reduced demand across the airline industry which may result in reduced profitability for Flybe	Same	Management monitors governments' proposals with regard to changes in planned approach to aviation taxation and engages with governments through direct contact and membership of industry organisations Flybe seeks to pass on additional duties to its passengers through higher yields
Environment			
Airlines may be adversely affected by any future amendment with regard to regulation of emissions trading and other environmental laws and regulations Flybe is exposed to negative environmental perception of the airline industry	Reduced demand for aviation across the industry	Same	Flybe continues to be compliant with the new ETS regime Flybe operates fuel-efficient aircraft for its flying pattern and seeks to develop further fuel efficiencies through changes in its practices

Risk description	Potential impact	Inherent risk trend (Movement against prior year)	Mitigation
Implementing growth strategy			
Flybe may not be successful in implementing its growth strategy Costs will be incurred in developing new routes, and new routes proposed by Flybe may not be profitable	Adverse impact on revenue and costs, resulting in reduced profitability Increased investment not supported by profit generation	Same	The management team successfully integrated BA Connect into its operations after its acquisition in March 2007 The management team is experienced in identifying business opportunities and developing them profitably
Flybe's ongoing joint venture arrangement is not successful	Failure of the Flybe Nordic joint venture may have a material impact on profitability for the Flybe Group	New Joint venture commenced in August 2011	Expertise and strength within the Flybe Board and senior management ensures the working relationship between the parties is strong and driving towards a common goal
Reputation			
Flybe is exposed to an event damaging its fleet reputation, company reputation or brand	Reduced demand, market share and revenue any of which may adversely affect Flybe's financial condition.	Same	Flybe has a strong culture of safety management and a positive business culture supported by a code of ethics and appropriate HR policies Flybe has procedures in place to respond to events with the potential to cause damage to its reputation or brand.
Flybe is exposed to the effects of extraneous events, such as epidemics, natural occurrences or disasters (such as severe weather or ash cloud disruption)	Adversely affect Flybe's reputation, financial results or operational performance	Same	Well developed contingency plans are in place to react to such scenarios and communicate effectively with passengers and other stakeholders
IT Systems and the Internet			
Flybe is heavily dependent on its information technology systems, the ongoing development of those systems, and the internet to operate its business	Loss of systems or connectivity to the internet, as a result of internal or external threat, could lead to disruption and lost revenue with an adverse impact on Flybe's financial condition Breaches in IT security, or fraud, could adversely affect Flybe's brand and reputation, and have an adverse impact on revenue Inability to implement successful development could lead to Flybe's business plans not being fulfilled	Same	A disaster recovery plan is in place and includes moving certain operations to other sites Flybe has robust security procedures in place which are tested and reviewed by independent third parties Flybe uses third parties to supplement its own resources where possible and effective to do so

Risks and uncertainties
Continued

Risk description	Potential impact	Inherent risk trend (Movement against prior year)	Mitigation
IT Systems and the Internet continued			
Flybe operates an e-commerce business and deals with a significant amount of personal and business information	A security breach could lead to material reputational damage	Same	Flybe has robust security procedures in place which are tested and reviewed by independent third parties
People			
Flybe is dependent on good industrial relations, across all its regions, with a workforce that is, in part, unionised	Adversely affect Flybe's reputation, financial results or operational performance	Same	Flybe has well-developed consultation and negotiation processes with its employees and its unions.
Supplier			
Flybe is exposed to the failure or non-performance of commercial counterparties as well as requiring the services of key suppliers such as airports, air traffic control systems, and fuel supply companies	Adversely affect Flybe's reputation, financial results or operational performance A loss or adverse change in the contractual relationship with key suppliers could significantly increase its future operating costs	Increase Due to the general downturn in economic conditions, this risk is considered to have increased	Most suppliers can be replaced by an alternate Contract negotiation teams are highly experienced and knowledgeable of the industry with a strong track record of developing value for Flybe
Financial risks			
Flybe is exposed to risks associated with fluctuations in fuel prices and foreign exchange rates	Adverse movements in these areas can adversely affect both Flybe's profit and financial position	Same	While hedging cannot guarantee against significant long term price changes, a well-established hedging strategy is in place that is designed to provide certainty over a significant proportion of Flybe's cost base in the coming 12 months – see pages 21 and 22
Flybe is exposed to the unavailability of suitable financing	Lack of adequate liquid resources could result in business disruption and adversely affect Flybe's financial results	Same	Flybe's policy seeks to maintain appropriate levels of free cash which will be available to meet costs in the event that our normal activities are temporarily disrupted by, for example, severe weather, volcanic ash, extended industrial dispute or fleet grounding This cash is deposited in order to manage counter-party risk and to develop appropriate returns Flybe has secured committed financing for all scheduled aircraft deliveries up to August 2014.

Risk description	Potential impact	Inherent risk trend (Movement against prior year)	Mitigation
Financial risks continued			
Flybe is reliant on the continuing performance of its financial counter-parties	Flybe invests its surplus funds in money market funds or bank deposits and hedged its fuel, forex and ETS exposures with financial counter-parties There is a risk of material loss in the event of non-performance by a financial counter-party	Same	Flybe's policy is to invest surplus funds and enter into hedging agreements only with financial counter-parties that meet certain credit rating criteria
The residual value of assets could be materially less than budgeted disposal costs.	Material differences between the budgeted residual value of an asset and its actual disposal value could see a moderate impact on the Group's income statement	Same	There are rigorous terms and conditions in place to protect Flybe interests Flybe's aircraft fleet remains predominately financed by operating leases, on which there is no residual value risk for Flybe

Corporate responsibility

Safety

Safety is at the forefront of the way Flybe operates. For the protection of customers, employees, company assets and the future, all are committed to the achievement of safety requirements and continuous improvement of its safety performance. This is central to Flybe's business and key to its success. There is nothing more important than safety.

Flybe, its management and staff are committed to a system for managing safety in order to ensure that it achieves all safety requirements, complies with all applicable legislative requirements and that

- everyone working for Flybe understands their safety responsibilities
- a positive safety culture is encouraged and maintained
- people are properly equipped to carry out their tasks safely (including sub-contractors)
- risks to safety and health are identified and eliminated or minimised as far as reasonably practicable
- safe systems of work are in place
- Flybe promotes safety with other organisations it works with
- plans are in place to mitigate the consequences of accidents and other emergencies
- safety performance is monitored, audited and reviewed

The Flybe Safety and Security Review Committee ('SSRC'), chaired by Peter Smith, one of the independent Non-Executive Directors, meets quarterly and is charged with holding the operational executive management team to account for all safety and compliance matters, reporting directly to the Board Peter has considerable aviation experience

The Flybe Safety Management System ('SMS'), established in 2009, is mature and coordinates all safety activity across the Flybe operation This allows safety data derived from both normal operations and safety events to be used in the review of operational procedures and training Flybe encourages all personnel to report any safety issue, irrespective of the cause, in the knowledge that it operates a no-blame culture, with all incidents investigated objectively and thoroughly

Additional oversight is demonstrated through Flybe's membership of IATA and it has held the International Operational Safety Audit ('IOSA') accreditation since October 2007

Flybe continues to actively participate in industry-wide initiatives to improve safety, having seats on committees and working groups within the CAA, European Aviation Safety Agency, EuroControl, NATS, United Kingdom Aviation Emergency Planning Group ('UKAEPG'), Confidential Human factors Incident Reporting Programme ('CHIRP') and the Royal Aeronautical Society ('RAeS'), maintaining its position and focus at the cutting edge of safety Our Flight Safety Manager is the current Chair of the UK Flight Safety Committee

Health and safety

There is total commitment at Flybe to the health, safety and well-being of its customers and employees The Executive Management continues to demonstrate its commitment to health and safety through proactive initiatives and close liaison with staff and union representatives The number of key managers receiving National Examination Board in Occupational Safety and Health ('NEBOSH') accreditation has increased though Flybe does not content itself merely with compliance

Health and safety is incorporated into its SMS and overseen, ultimately, by the SSRC Policies and procedures are drawn up with the full involvement of unions and Flybe's human resources team to ensure not only compliance but the safest achievable working environment

231 employees

completing Flybe Leader programme

"Our new Training Academy is a fantastic facility and shows that Flybe takes its commitment to staff development and ongoing training seriously."

Sarah Hardeman
Cabin Crew,
Birmingham

Quality
The establishment and maintenance of an effective quality function ensures not only an effective and efficient operation but also a safe one For this reason, the Quality Manager reports directly to the Divisional Managing Directors or Accountable Managers

An established Quality Assurance team oversees all operational activity including the Air Operator's Certificate ('AOC'), Type Rating Training Organisation ('TRTO'), Part M, Part 145 for an aircraft maintenance organisation, Part 147 for an engineering licence type training organisation, Part 21G for a production organisation and Part 21J for a design organisation However, Flybe's commitment to quality activity is not confined to quality assurance Integrated internal monitoring of all activities, processes and procedures ensures both regulatory compliance and the best possible product and service for our customers In this way, all departments take ownership of the effectiveness of the activities they undertake and ensure their output meets both the Company requirements for excellence and improves functional visibility

Flybe also holds an ISO 9001 approvals for its Part 145 Maintenance Organisation

Corporate responsibility

Continued

People

Flybe is only as good as its talented team, which delivers an excellent service to its loyal customers every day.

The Company's goal is to have the right people in the right jobs and for Flybe to be an attractive workplace in which a secure and challenging career can be built on equality of opportunity It is proud to be one of the very few airlines that enables its employees to live where they work – locally, within the regions both in the UK and in the European business

Values

Flybe has almost doubled the size of its workforce since 2007 but has maintained its commitment to certain core principles These are expressed in its People Strategy or 'The Way We Do Business' that includes the following values of

- → Passion (to succeed using two-way communication and an ability to challenge and be challenged)
- → Simplicity (with clarity of objectives and accountability for results)
- → Agility (through innovation and speed of action)
- → Reward (by recognising effort, rewarding results and developing its people to their full potential)

Employees

As at 31 March 2012, Flybe employed 2,953 employees across 14 regional UK bases with another 489 employed by our joint venture in Finland Nearly 15% of our UK employees worked part-time or flexibly to balance their lifestyle needs and now over 55% of its staff have more than five years' service and an average attendance rate of nearly 97% Despite the economic challenges since 2008, Flybe is proud to have retained its core skill base through manageable attrition – resulting in stable employee numbers during that period

Talent development

Flybe's aim is to develop and promote talent internally and the recent completion of Flybe's 5,500m^2 Training Academy building has significantly increased both the Group's capacity to provide training and the quality of such training for its own staff and those of third parties This state-of-the-art facility has 26 classrooms, a simulator hall with capacity for four aircraft simulators, cabin crew simulator hulls for safety and refresher training, and an engineering apprentice workshop Qualifications will include a flight deck Multi-Crew Pilot's Licence (under the first CAA-approved scheme for a UK airline), cabin crew and customer service NVQs and engineering aircraft type approvals Flybe already has over 100 students engaged on of the diploma in engineering, which after four years will provide successful students with a foundation degree level qualification, a BTEC and diploma in engineering and a Part 66 engineering licence Flybe also continues to operate its Mentored Airline Pilot Scheme that part-sponsors pilot training through the provision of an interest-free loan as well as maintaining its relationships with UK and European flying schools for potential pilots

Management development

To engage a dispersed workforce, line management has been empowered to lead To underpin this 68 supervisors and 163 key managers are completing the Flybe Leader initiative in the UK This is a bespoke 12-month modular development programme that can progress to an Institute of Leadership and Management qualification or further to a Foundation Degree in Leadership and Management that 28 managers are completing currently.

Flybe's Operating Board has also introduced an annual performance management system as well as a succession planning process as part of its continuing focus on retaining and developing key talent.

Benefits

Flybe aims to provide pay and benefits (including insured benefits) that, in the round, are affordable, competitive in its marketplace, performance-led and flexible UK employees have been able to participate in the Group's Share Incentive Programme ('SIP') under which all eligible employees were awarded 100 free shares shortly after Flybe's IPO and the Group's approved Save As You Earn Scheme ('SAYE') launched in 2011 Flybe operates a Group Personal Pension Plan (or equivalent in relevant territories) and almost 60% of employees have elected to participate and benefit from employer's contributions to their personal fund Participation in the UK scheme is expected to increase after Flybe's AutoEnrolment and NEST staging date of August 2013 During the year, Flybe extended its UK salary sacrifice schemes to include pensions and buying extra days off work in addition to its existing child-care vouchers and cycle-to-work programmes

Employee communication

In both the UK and in its joint venture, Flybe continues to focus on active two-way communications with its dispersed workforce through line management, regular **Your Flybe** email and intranet updates, as well as through its recognised trade union partners Additionally, in the UK Flybe uses its consultative body known as **Open Channel** **Open Channel** meets quarterly, is chaired by an Executive Director and is attended by up to 25 elected representatives

Equality and diversity

Equality of opportunity and valuing diversity are central to the regional activities of Flybe and it aims to ensure that all employment decisions are based on fairness and merit

3,442

Group and joint venture employees at 31 March 2012

Applications for employment by an individual from any background, including disabled persons, are always fully considered, bearing in mind the aptitudes of the applicant concerned In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees

Charitable and political donations

Flybe is proud to be the only airline partner of Cancer Research UK The importance of supporting such a crucial charity remains undiminished given the stark fact that one in three people in the UK will develop cancer at some time in their lives and more than 250,000 people are diagnosed with cancer every year in the UK – that's the equivalent of nine full Flybe aircraft every day of the year

Flybe has supported the work of Cancer Research UK since October 2008 and has raised nearly half a million pounds to support the charity's work in trying to find a cure for cancer

The response from Flybe staff to the charity continues to be remarkable, with dozens of individual and company-wide fundraising events held throughout the network At the heart of the relationship are the Flybe 'Charity Champions' who coordinate the fundraising efforts in each of Flybe's 14 bases 'The Champs', as they are known, are permitted reasonable time off from their work to ensure that each and every one of Flybe's staff can play a part Their fundraising efforts range from the spectacular – sky dives, marathons and triathlons – through to the everyday such as car washes, cake sales and bingo nights

Each June, 'The Champs' are at the heart of a month-long logistical challenge to carry out an on-board collection on every single one of Flybe's 12,920 flights during that month Once again, the generosity of our passengers exceeded expectations with more than £110,000 donated

Flybe's relationship with Cancer Research UK works to the benefit of both sides and March 2012 saw a major health promotion exercise undertaken at the airline's Exeter HQ Four Cancer Research UK Nurses spent a day with staff administering free Body Mass Index checks and 'smokerlyzer' tests designed to help spot the signs of cancer early and explain how adopting a healthier lifestyle can help reduce the risk of cancer More than 150 staff took part in what was described by the charity as one of its most successful corporate health awareness days ever

Flybe did not make any political donations during 2011/12

Angela Heaney – Cabin Crew member and Manchester Charity Champion

Manchester is one of Flybe's largest bases with more than 300 staff and eight based aircraft, so volunteering to be Base Charity Champion is no small undertaking Fortunately, in Angela Heaney, pictured above with fellow Champion David White, Flybe's team in the north west has the perfect person to engender enthusiasm and action amongst her colleagues

Over the last year, as well as coordinating the June on-board collection in Manchester, Angela has organised raffles, cake-baking competitions, sporting sweepstakes, guess-the-baby contests and managed to persuaded many colleagues to sign-up for sponsored events for a cause that is close to her heart

Angela says

"Cancer is an awful disease and I'm so pleased that Flybe has joined up with a charity as important as Cancer Research UK that works towards finding a cure This year, we had a charity birthday party to celebrate ten years of Cancer Research and the response from staff was phenomenal with dozens baking cakes to sell. When you add that to our other fundraisers like the £500 we raised in our Easter raffle, I'm really proud of the difference we are making at our base

"The response from our passengers when we have our on board collection in June is fantastic and their generosity never ceases to amaze me – even those who are regular flyers are happy to donate more than once On behalf of Flybe and Cancer Research UK, I'd like to thank each and every one of them."

Corporate responsibility
Continued

Environment

Flybe is proud to have one of the youngest fleets in aviation and our commitment to reducing both noise and emissions remains absolute.

Flybe supports the view that human activity, including air travel, is contributing to global climate change Although aviation accounts for just 1 6% of global CO_2 emissions, Flybe is committed to being an industry leader in minimising its environmental impact wherever possible while continuing to provide vital air services to our passengers

In this respect, Flybe's policy is to.

- → Commit to a system for managing its environmental impact in order to comply with all applicable current legislation and, where practical, seek to meet future legislative requirements ahead of relevant deadlines
- → Implement a training programme for staff to enhance environmental awareness, constantly informing and motivating colleagues, to enlist their support in improving Flybe's performance
- → Integrate the Company's environmental objectives into business decisions, where feasible, in a cost-efficient manner
- → Develop appropriate emergency response plans for major incidents in order to minimise their environmental impact
- → Encourage the adoption of similar principles by its suppliers

Waste and energy management has become a key focus area for Flybe Recycling policies are already in place at all major premises and sustainability has become a key focus area for its procurement.

Management of buildings has incorporated, wherever possible, the latest environmentally-friendly techniques

Aircraft impact upon the environment in two key areas locally to airports and over the course of a journey In 2007, Flybe introduced an 'Ecolabel' rating for its aircraft which has been designed to provide customers with a range of information regarding the noise and carbon emissions for each flight The label identifies the noise rating and also the emissions made during the normal take-off and landing cycle of a flight and also the carbon emissions for the total flight based on a range of distances

"Flybe has invested significantly in our fleet which means our passengers get to their destination in comfort, on modern aircraft."

Alex Osman
Cabin Crew,
Southampton

Fuel usage and emissions
Each Bombardier Q400 aircraft produces 30% to 40% less emissions on routes where it has replaced similar capacity, older generation aircraft or 50-seat jets This equates to 6,000-8,000 fewer tonnes of CO_2 in the air every year for each Q400 Over the course of a year, Flybe's move to a fuel-efficient fleet amounts to saving 0 4 million tonnes of CO_2 annually for its turboprop fleet alone. The introduction of E175 jets is proving successful with early indications showing significant improvement on fuel burn to the manufacturer's published data Future developments include aerodynamic packages that are being developed to generate further improvements in fuel consumption, carbon emissions and noise profile

While CO_2 emissions are identified as the primary contributor to global warming, other pollutants are also harmful to the environment and have dedicated limitations regulated by the International Civil Aviation Organisation, ICAO The Embraer E-series jets in Flybe's service produce certified emissions significantly lower than the more stringent CAEP/6 regulations set by ICAO's Committee on Aviation Environmental Protection

Flybe has introduced flight efficiency measures to its Q400 operations that continue to improve the fuel consumption and CO_2 emissions of the fleet These measures involve speed control to achieve on-time arrivals and fuel efficient climb, cruise and descent profiles adjusted for specific flight and weather conditions Similar measures have been introduced to the Embraer fleets this year and further CO_2 savings are anticipated

Noise
The Q400 is one of the quietest passenger turboprop aircraft in the world Inside the Q400, the revolutionary Active Noise and Vibration Suppression ('ANVS') system significantly reduces noise and vibration, making it as quiet and comfortable as a jet Outside, it is 10 decibels quieter than 70 to 80 seat jets (measured by Exterior Perceived Noise in Decibels or EPNdB)

Flybe's commitment to reducing the impact to local communities is demonstrated by its latest E-series order. Working closely with the manufacturer, Embraer, Flybe developed a noise reduction kit that has been fitted to all of Flybe's E175 aircraft in order to reduce further the effect of noise on the local environment

Emissions Trading Scheme ('ETS')
During 2011/12 Flybe has been preparing its emissions and tonne kilometre reports in order to comply with regulations governing aviation's entry into the European ETS, with verified reports submitted prior to the deadline. During 2013 Flybe will be required to surrender permits covering its CO_2 emissions for the year to December 2012

Flybe supports initiatives which provide for an international framework for governing aviation emissions so long as this is consistent with, and not supplementary to, the European ETS It remains concerned about the imposition of specific aviation taxes, some of which purport to be linked to environmental objectives Flybe has campaigned for some time for the reform of UK air passenger duty and for the per passenger tax to be replaced with a per plane tax which is linked to the emissions of the aircraft and their deployment

Aviation entered the European ETS on 1 January 2012 Flybe complied fully with the requirements of the scheme to submit an independently verified report for the 2011 calendar year before the deadline of 31 March 2012 Flybe has subsequently received free allowances amounting to 46 8% of our requirement for the calendar year 2012 Flybe will be making purchases of allowances in order to comply with the terms of the scheme as the year progresses

The amount of CO_2 emitted by the Company is predominantly driven by its flying activities and, as fuel is a significant proportion of Flybe's operating expenditure, it is heavily incentivised to reduce fuel usage and hence its CO_2 emissions While step changes in lower CO_2 emissions require both major advances in technologies associated with next-generation aircraft and a substantial global investment in the production and supply of biofuels, there exist a number of opportunities for the Company to reduce its CO_2 emissions in the medium term For example, Flybe pilots are trained in economic flying techniques that involve

- → seeking direct routings between the departure airport and the arrival airport
- → flying at speeds that are economic for the engine's performance
- → planning descents into airports, with air traffic control assistance, that allow for the most fuel-efficient approach

Future developments
Flybe is exploring with mainstream fuel companies, specialist biofuel suppliers and its aircraft partners, opportunities to use biofuel technology in its operations

Flybe strongly supports the implementation of the Single European Sky policy and urges policy makers to speed up this important initiative. This will reduce wasteful emissions caused by the fragmented Air Traffic Management System that currently exists across Europe

Board of Directors

With the exception of Lord Digby Jones, who was appointed on 23 April 2012, all of the other Directors, the Company Secretary and Senior Managers identified below served throughout the year

Executive Directors

1 Jim French, Chairman and Chief Executive Officer (aged 58)
Jim French began his aviation career in 1970 with Caledonian Airways Limited, before joining Air UK Limited in 1980 During his 10 years at Air UK Limited, he held senior roles in commercial, planning and marketing areas

Jim first joined Flybe in 1990, becoming Commercial Director shortly after He subsequently became Deputy Chief Executive and Chief Operating Officer In June 2001, he was appointed Chief Executive Officer of Flybe and in 2002 developed the plan which transformed Flybe into Europe's largest regional airline Jim was appointed Executive Chairman in March 2005 Uniquely, he has been voted Airline Executive of the Year twice, in 2002 and 2004, by Regional Airline World Jim chairs Flybe's Nomination Committee Jim was awarded a CBE in the 2009 Queen's Birthday Honours list for services to aviation

2 Mark Chown, Director of Corporate Strategy (aged 54)
Mark Chown trained as a chartered accountant with Deloitte Haskins & Sells and spent 10 years in the venture capital industry, including six years with 3i plc He has been involved with Flybe for 15 years, working closely with the Board throughout that time, and continues to act as a representative of Rosedale Mark was Deputy Chairman of Flybe from 2005 to July 2011 when he moved across to concentrate on the expanded role associated with his responsibility for the Group's corporate strategy. Mark is Chairman of the board of the joint venture with Finnair, Flybe Nordic AB Mark is a member of the Nomination Committee.

3 Andrew Knuckey, Chief Financial Officer (aged 51)
Andrew Knuckey joined Flybe in 2005 He previously had a 24-year career with KPMG LLP, latterly as a partner in the audit and transaction services practice, and has held a number of other finance-related positions At Flybe, Andrew played a key role in the completion of the BA Connect acquisition and was appointed Chief Financial Officer in April 2007 Andrew sits on the board of the joint venture with Finnair, Flybe Nordic AB

4 Mike Rutter, Managing Director of Flybe Europe (aged 48)
Mike Rutter joined ICI plc from university and, after five years, moved to Cape Industries plc (a subsidiary of Charter Plc) Upon leaving Cape Industries plc, Mike joined Maytag Corporation's European Appliance group, where he became Vice President of European Marketing and Sales He joined Flybe in 2003 and was appointed Chief Commercial Officer in 2005. In July 2011 Mike was appointed Managing Director of Flybe Europe and sits on the board of the joint venture with Finnair, Flybe Nordic AB

5 Andrew Strong, Managing Director of Flybe UK (aged 39)
Andrew Strong joined Flybe in 1995 on a Flybe graduate scheme and proceeded to project manage fleet-type evaluation and aircraft introduction, at the same time as overseeing several key business development initiatives in the engineering wing of Flybe He was promoted to become Director of Flybe Aviation Services in 2003 and was appointed as Chief Operating Officer in 2005 In July 2011 Andrew was appointed Managing Director of Flybe UK Andrew sits on Flybe's Safety and Security Review Committee

Independent Non-Executive Directors

6 Charlie Scott, Deputy Chairman and Senior Independent Non-Executive Director (aged 63)
Charlie Scott was formerly chairman of William Hill plc from 2004 until 2010 He is a chartered accountant and was previously Chief Executive Officer at Saatchi & Saatchi plc and Chairman of Cordiant plc Charlie has held other non-executive positions, including with airport group TBI plc In July 2011 he was appointed as Deputy Chairman of Flybe. Charlie chairs Flybe's Audit Committee and sits on the Nomination, Remuneration and Mergers & Acquisitions Committees

7 Alan Smith, Independent Non-Executive Director (aged 65)
Alan Smith is currently Chairman of Fisher Leisure Holdings Limited and Empire World Trade Limited, a director of Displayplan Limited and NAAFI His career has included being Managing Director of Superdrug Stores plc, B&Q plc and The Victoria Wine Company Limited before working for the Boddingtons Group Limited as Group Managing Director In 1996, Alan moved to Evans Halshaw Holdings plc as Group Chief Executive before becoming Chief Executive of Somerfield plc from 2000 until 2002 Alan chairs the Mergers and Acquisitions Committee and sits on the Safety and Security Review, Audit and Remuneration Committees.

8 David Longbottom, Independent Non-Executive Director (aged 67)
David Longbottom is currently Pro-Chancellor and Chairman of the Board of Governors of London South Bank University He is Chairman of Horton International (UK) an executive search consultancy and held the post of senior independent director at Luminar Leisure plc Previously he was a main board director of DSG International where after joining the Group in 1987 he held a number of senior positions including Sales Director and latterly Group Human Resources Director. He has also worked with ICI, British Gas, Courtaulds and Lloyds of London David chairs Flybe's Remuneration Committee and sits on the Nomination Committee

9 Peter Smith, Independent Non-Executive Director (aged 66)
Peter Smith was previously Chief Executive of Menzies Aviation Group plc and a member of the main board of Menzies plc Prior to this, he held senior positions in various UK and overseas airlines He is currently a trustee of the Brooklands Museum Peter chairs Flybe's Safety and Security Review Committee and sits on the Remuneration Committee

10 Digby, Lord Jones of Birmingham Kt, Independent Non-Executive Director (aged 56)
Lord Digby Jones is an active cross-bencher in the House of Lords In addition he serves as Chairman of Triumph Motor Cycles Limited, Grove Industries and Neutrino Concepts Limited, is a Senior Advisor to HSBC, a Corporate Ambassador for Jaguar Cars, a Corporate Advisor to JCB, an Advisor to Babcock International Group plc and Chairman of its Emergency Services Advisory Board, a Senior Advisor to Harvey Nash plc, a Business Advisor to Barberry Properties Limited, a member of the Advisory Board of Monitise plc and non-executive director of Leicester Tigers plc Lord Jones was a corporate lawyer for 20 years, Director General of the CBI between 2000 and 2006, and was Minister of State for UK Trade and Industry from 2007 to 2008

Non-Executive Director

11 Anita Lovell, Non-Executive Director (aged 60)
Anita Lovell is a consultant to Hawksford International and Executive Director of the Walker Family Office She has been a practising solicitor for over 30 years, is a former president of the Association of English Solicitors in Jersey and continues to represent the Channel Islands at the International Lawyers Network based in New York As a director of Rosedale, she has been involved with Flybe since 1999 Anita sits on the Remuneration and Mergers and Acquisitions Committees

Company Secretary

Chris Simpson (aged 54)
Chris Simpson qualified as a chartered accountant in Scotland before moving into the airline industry in 1985 where he has served as Finance Director and Company Secretary of several airlines Between 2003 and 2007 Chris was Chief Financial Officer of Flybe, re-joining as Company Secretary in 2010

Senior Management

The Board is supported in its day-to-day running of the Group by the Senior Management, which comprise (in addition to Chris Simpson)

Simon Charles, Director of Human Resources (aged 45)
Simon Charles joined Flybe as Director of Human Resources in January 2007 from RHM Plc where he was Group Director of Organisation and People Development and part of the management team involved in the initial public offering of shares in RHM plc Simon is a Fellow of the CIPD and has spent over 20 years in human resources within significant companies, having been European Human Resources Director at Quaker Oats Limited and held management positions with PricewaterhouseCoopers, Pepsico Inc and Unilever plc Simon is a member of the Operating Board

Mark Elkins, Director of Information Technology (aged 52)
Mark Elkins' early career was within finance in the life assurance industry, latterly as a management accountant for Laurentian Life, before moving into the I T arena with Merchant Investors Limited (then part of the Allianz group) Mark gained a breadth of experience across multiple sectors including roles with Diageo plc, Westland Helicopters Limited (then part of the British Aerospace group) and Anite Systems Limited before joining Flybe in 2000 He was appointed to the position of Director of Information Technology in June 2008 Mark is a member of the Operating Board

John Palmer, Managing Director of Flybe Aviation Support (aged 50)
John has been associated with the aviation industry for 24 years having held senior management roles in British Airways and Virgin Atlantic Airways At British Airways he was responsible for Component Overhaul including opening new facilities in Wales and Middlesex At Virgin, John was responsible for Engineering and Sub-Contracted Maintenance, and the design and implementation of the Upper Class suite In 2006, John joined Flybe as Director of Aviation Services, initially responsible for the development of the engineering maintenance activity, then from 2009 Director of Airline Operations and Deputy COO In July 2011, John was appointed Managing Director for the Aviation Support division and joined the Operating Board

Corporate governance

This is the Board's second Corporate Governance report since the Group's shares were admitted to the Official List of the London Stock Exchange on 15 December 2010 (the 'IPO') The corporate governance rules that applied to the Company throughout the year are contained in the UK Corporate Governance Code issued by the Financial Reporting Council in June 2010 (the 'Code') a copy of which can be found at www frc org.uk/corporate/ukcgcode The Financial Services Authority's Listing Rules require the Company to set out how it has applied the main principles of the Code and to explain any non-compliance

Highlights

1. Mergers and Acquisitions Committee of the Board established, chaired by Alan Smith, an Independent Non-Executive Director, to consider matters such as significant acquisitions or other material projects
2. Internal Audit function established under leadership of an experienced Director of Internal Audit and Risk
3. Divisional structure created and three divisional Managing Directors appointed
4. Charlie Scott appointed Deputy Chairman replacing Mark Chown who was appointed Director of Corporate Strategy
5. Four Independent Non-Executive Directors re-appointed for a third term
6. Lord Digby Jones appointed as an Independent Non-Executive Director on 23 April 2012

Statement of compliance

The Board is committed to maintaining high standards of corporate governance and has fully considered the provisions of the Code The Board considers that the Company is a "smaller company" for the purposes of the Code which defines this as a company which has been below the FTSE350 throughout the year immediately prior to the reporting year Throughout the year ended 31 March 2012 and up to the date of approval of this Annual Report, the Board considers that it and the Company have complied with the best practice provisions set out in the Code with the following exceptions

1. The Code recommends that the roles of Chairman and Chief Executive Officer should be separated and clearly defined Jim French serves as both Chairman and Chief Executive Officer of the Group Jim has a long history of valuable experience in the airline industry, having joined Flybe in 1990 rising to become the Company's Chief Executive Officer in June 2001 and Chairman in 2005 He is credited with being one of the chief architects behind the Company's re-launch as Flybe and subsequent growth into the UK's premier domestic airline, Europe's largest regional airline and one of the leading independent regional aviation groups in Europe In his time with Flybe, Jim has accumulated a personal shareholding of 5.3% of the total issued share capital of the Company. As part of Flybe's preparations for the IPO, the matter of Jim French continuing to have a joint role as Chairman and Chief Executive Officer was fully debated with the Company's advisors and with potential investors The conclusion of the debate was that continuing with the joint role is the most appropriate arrangement given the circumstances and Jim's extensive knowledge of, and experience with, the Company and the industry This situation, along with the overall management and Board composition, will remain under review as the Company develops in future
2. The Code recommends that a majority of members of the Nomination Committee should be independent Non-Executive Directors Throughout the year, and subsequently, the Company's Nomination Committee has comprised David Longbottom and Charlie Scott, both of whom are independent Non-Executive directors, together with Mark Chown and Jim French, both of whom are Executive Directors The Board is satisfied that the members of the Nomination Committee are those who are best able to contribute to its objectives This situation, along with the overall management and Board composition, will remain under review as the Company develops in future

The following paragraphs explain how the Company has applied the principles of good governance and the code of best practice set out in the Code

The Board

Structure and leadership

At 31 March 2012, and throughout the year, the Board comprised ten Directors of whom five are Non-Executive and five (including the Chairman) are Executive

Executive Director	
Jim French	Chairman and Chief Executive Officer
Mark Chown	Director of Corporate Strategy
Andrew Knuckey	Chief Financial Officer
Andrew Strong	Flybe UK Managing Director
Mike Rutter	Flybe Europe Managing Director

Non-Executive Director	
Charlie Scott	Deputy Chairman and Senior Independent Non-Executive Director
Alan Smith	Independent Non-Executive Director
David Longbottom	Independent Non-Executive Director
Peter Smith	Independent Non-Executive Director
Anita Lovell	Non-Executive Director

Since 31 March 2012, the composition and balance of the Board has been strengthened by the appointment of a fifth Independent Non-Executive Director, Lord Digby Jones, who joined the Board on 23 April 2012

The Board is led by the Chairman and Chief Executive Officer, Jim French, who is responsible for ensuring its effectiveness in all aspects of its role The Board's key purpose is to provide the entrepreneurial leadership and vision necessary to ensure the Company's prosperity by collectively directing the Company's affairs while meeting the appropriate interests of its shareholders and stakeholders In addition to business and financial issues, the Board of Directors must deal with challenges and issues relating to corporate governance, corporate social responsibility and corporate ethics It has the ultimate responsibility for setting the Company's overall strategy and long-term direction and provides entrepreneurial leadership within a framework of effective controls which permit risk to be assessed and managed

The Directors' biographies appear on pages 38 and 39 and illustrate the range of experience which ensures an effective Board to lead and control the Group The size of the Board allows individuals to communicate openly and freely and to contribute through the exercise of their personal skills and experience The Directors have a complementary range of financial, commercial, operational and entrepreneurial experience which, in the opinion of the Board, provides it and its committees with the necessary balance of skills, diversity, independence and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively

The Non-Executive directors have been appointed on merit and for their specific areas of expertise and knowledge Their wide-ranging experience and backgrounds ensure that they are able to challenge and debate matters constructively both in relation to development of strategy and performance against objectives set by the Board

On resignation, concerns (if any) raised by an outgoing Non-Executive Director will be circulated by the Chairman to the remaining members of the Board

Operation of the Board

In carrying out its work, the Board focuses on key tasks, which include receiving reports on safety, security and health, business risks, long-term strategy, the Group's trading performance and the actions of the Operating Board and senior management The Board delegates specific responsibilities, with written terms of reference, to its Committees details of which appear below The Executive Directors of the Company may attend meetings of the Committees at the invitation of the respective Chairmen

The Executive Directors review and discuss with the Board all strategic projects and all material matters currently or prospectively affecting the Group and its performance The Board delegates its authority for executive management to the Chairman and Chief Executive Officer, subject to monitoring by the Board and those items referred to above

The Board met 13 times during the year, including two meetings solely to discuss strategy. The Board also meets as required on an ad hoc basis to deal with urgent business, including the consideration and approval of transactions where a decision is required before the next meeting The Board requires all Directors to devote sufficient time to their duties and to use their best endeavours to attend meetings The table below details the Directors' attendance at the Board and Committee meetings (with the number of possible attendances shown in brackets) during the year.

Independence

The Board considers each of its Non-Executive Directors to be independent in character and judgement and no one individual, or group of individuals, dominates the Board's decision making

David Longbottom, Charlie Scott, Alan Smith, Peter Smith and Lord Digby Jones have been identified as independent on the basis of the criteria specified in paragraph A 3 1 of the Code and, generally, are free from any business or other relationship which could materially interfere with the exercise of their independent judgement. Anita Lovell has a relationship with Rosedale Aviation Holdings Limited, a company which, until December 2010, held a controlling interest in the Company's issued share capital Consequently, she has not been identified as independent for the purposes of the Code

The role of Senior Independent Non-Executive Director has been held by Charlie Scott since April 2006

Conflicts of Interest

In accordance with the Companies Act 2006, the Company's Articles of Association permit the Board to consider and, if thought fit, to authorise actual or potential conflicts of interest which may arise and to impose such limits or conditions as it thinks fit The Board has established a formal procedure whereby actual and potential conflicts of interest can be recorded by each Director and authorised by the Board The decision to authorise a conflict can only be made by non-conflicted Directors (those who have no interest in the matter being considered) and in making such a decision the Directors must act in a way they consider in good faith will be most likely to promote the Company's success

Year ended 31 March 2012	Board	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Security Review Committee	Mergers & Acquisitions Committee
Executive Director						
Jim French	13 (13)		2 (2)			
Mark Chown	13 (13)		2 (2)			
Andrew Knuckey	13 (13)					
Andrew Strong	13 (13)				3 (4)	
Mike Rutter	12 (13)					
Non-Executive Director						
Charlie Scott	13 (13)	7 (7)	2 (2)	4 (5)		1 (1)
Alan Smith	13 (13)	7 (7)		5 (5)	4 (4)	1 (1)
David Longbottom	12 (13)		2 (2)	5 (5)		
Peter Smith	13 (13)			5 (5)	4 (4)	
Anita Lovell	12 (13)			4 (5)		1 (1)

Corporate governance
Continued

Directors' indemnity and insurance cover
In accordance with the Company's Articles of Association, throughout the year the Directors have been, and continue to be, indemnified to the fullest extent permitted by law Appropriate Directors' and Officers liability insurance cover is arranged and maintained via the Company's insurance brokers, Willis, and its terms are reviewed annually

Matters reserved for the Board
The Board has approved a schedule of matters reserved for decision by it This schedule is available for inspection at the Company's registered office and on the Company's website at www flybe.com/en/corporate/governance/. The matters reserved for specific approval by the Board can be subdivided into a number of key areas including but not limited to

- → reviewing the Group's overall safety and security arrangements
- → approving the Group's long term objectives and strategy
- → approving the Group's annual operating and capital expenditure budget
- → Group financial reporting and controls including the approval of interim and final financial statements, interim management statements and dividends
- → ensuring a sound system of internal controls and risk management
- → decisions relating to acquisitions, disposals and major items of capital expenditure
- → Board and Committee membership and succession planning
- → remuneration
- → corporate governance matters
- → approving certain of the Group's policies

Matters requiring Board approval are generally the subject of a proposal by the Executive Directors submitted to the Board, together with supporting information, as part of the Board, or Committee, papers circulated prior to the relevant meeting To enable the Board to function effectively, and to assist the Directors to discharge their responsibilities, a comprehensive set of papers is provided in advance of each Board and Committee meeting These include regular business progress reports, budgets, financial statements and shareholder information The Company Secretary manages the provision of information to the Board in consultation with the Chairman and Chief Executive Officer

Board performance and evaluation
The Board has considered, and supports, the Code's provisions on Board performance evaluation Led by the Deputy Chairman and Senior Independent Non-Executive Director, the Board conducted an internal evaluation of its own performance, and that of its Committees, using a self-assessment questionnaire The process is designed to ensure that they continue to act effectively and efficiently in fulfilling their respective duties, and to identify any training requirements Additionally, the Non-Executive Directors meet at least once each year without the Executive Directors present at which the performance of the Chairman and the Executive Directors is discussed Feedback from the current self-evaluation process has been co-ordinated and overseen by the Deputy Chairman who has produced a summary for the Board

Induction and continuing development of Directors
All new directors receive a tailored induction on joining the Board, including meetings with senior management and advisers and visits to major operating bases and locations The Chairman and Chief Executive Officer is responsible for reviewing the development needs of each individual Director All the Non-Executive Directors have, during the course of the year, attended briefings and seminars relevant to their role, including updates on best practice in audit and remuneration issues and economic affairs in general, as well as bringing knowledge and information gathered from their other business interests

All Directors have access to the advice and services of the Company Secretary who is responsible to the Chairman on matters of corporate governance and provides the Board with regular updates on relevant legislation, regulations and governance best practice The Directors may, at the Company's expense, take independent professional advice where necessary and appropriate to do so

Directors' election and re-election
In accordance with the Company's Articles of Association, Digby, Lord Jones of Birmingham Kt having been appointed by the Board since the last Annual General Meeting ('AGM'), will resign at the forthcoming AGM and, being eligible, will offer himself for election by the shareholders

In line with the Code, as it is applied to companies of our size, the Company's Articles of Association require Directors to submit themselves for re-election if they have not been elected or re-elected at either of the preceding two AGMs, and that one third of the Directors (or if not a whole number, the number which is nearest to, but does not exceed, one third) will retire from office and be eligible for re-election at each AGM Accordingly, David Longbottom, Mike Rutter and Andrew Strong will retire at the forthcoming AGM and, being eligible, will offer themselves for re-election

None of the Non-Executive Directors has served more than nine years in office

Any changes to the commitments of any Director are always considered by the Board to ensure they will continue to have sufficient time to enable them to fulfil their duties with the Company The Board is satisfied that all of the Directors standing for election and re-election at the forthcoming AGM continue to perform effectively and demonstrate commitment to their roles, including commitment of time for Board and Committee meetings and any other duties which may be undertaken by them from time to time

Operational management of the Group
Beneath the Board there is in place a clear and appropriate apportionment of responsibilities amongst the senior managers designed to ensure that the business can be managed and monitored effectively Senior managers report to the Operating Board which in turn reports to the Board. The Operating Board is led by the Chairman and Chief Executive Officer and comprises the Executive Directors together with the Director of Human Resources, Director of Information Technology and Managing Director of Flybe Aviation Support It has responsibility for implementing on a day to day basis the strategy that has been agreed by the Board Operating Board members report regularly to the Board on key issues

Board committees

In accordance with the principles laid down in the Code, the Board has established a committee structure to assist in the discharge of its responsibilities Details of each of the Audit, Mergers and Acquisitions, Nomination, Remuneration, and Safety and Security Review Committees, and the members, roles and activities thereof are detailed below Each Committee reports to, and has terms of reference approved by, the Board which are available for review on Flybe's website at www.flybe com/en/corporate/governance/ or on request from the Company Secretary The minutes of the meetings of the Committees, where appropriate, are circulated to, and reviewed by, the Board Biographies of each Board member are set out on pages 38 and 39

Audit Committee

The role of the Audit Committee is to provide formal and transparent arrangements for considering how to apply the financial reporting, risk management and internal control principles set out in the Code, and to maintain an appropriate relationship with the Company's auditor

The current members of the Audit Committee are Charlie Scott and Alan Smith, both of whom served throughout the year and are considered by the Board to be Independent Non-Executive Directors Charlie Scott, a Chartered Accountant, has chaired the Audit Committee throughout the year and the Board considers that he has the appropriate recent and relevant experience to enable him to fulfil this role The Code permits smaller companies to have an Audit Committee comprising a minimum of two independent Non-Executive Directors and the Board is satisfied that Flybe is a smaller company for this purpose The Board is satisfied that the members of the Audit Committee are those who are best able to contribute to its objectives

The Company Secretary acts as secretary to the Audit Committee

The Audit Committee met on seven occasions during 2011/12 Details of the attendance at its meetings are set out in the table on page 41

The Chairman and Chief Executive Officer, the Chief Financial Officer, the Director of Internal Audit and Risk, and representatives from the external auditor are invited to attend all meetings of the Audit Committee The Director of Internal Audit and Risk and the external auditor may also request a meeting with the Audit Committee without any member of management present if they consider it necessary In line with its terms of reference, the Audit Committee members met with the external auditor once during the year without management present

Members of the Audit Committee can, where they judge it necessary to discharge their responsibilities, obtain independent professional advice at the Company's expense

The duties of the Audit Committee include

→ monitoring the integrity of the Group's Financial Statements and formal announcements relating to Flybe's performance and to review any significant financial reporting issues and/or judgements contained therein

→ keeping under review the consistency of, and any changes to, accounting policies, both on a year to year basis and across the Group, and challenging where necessary, the Company's financial statements

→ reviewing, and challenging where necessary, the operating and financial/business review and corporate governance statement insofar as is relates to audit matters or risk management

→ considering management's response to any major external or internal audit recommendations

→ considering applications for the post of Director of Internal Audit and Risk, approving appointments to the post and any dismissal of that post holder

→ reviewing the effectiveness of the Group's internal controls and risk management systems

→ monitoring the effectiveness of the external audit process including the appointment, cost and independence of the external auditor – see Auditor Independence on page 47

→ developing and implementing policy on the engagement of the external auditor to supply non-audit services

→ ensuring that clear and effective channels are maintained for communication between the external auditor and the Group's financial and senior management

The Audit Committee undertakes its activities in line with an annual work plan designed to ensure that it meets its responsibilities under its terms of reference set by the Board The Audit Committee agrees the scope of the external audit work and discusses the results of the full year audit and half year review with the external auditor, the Chief Financial Officer and the Chief Executive Officer The ultimate responsibility for reviewing and approving the annual and other accounts remains with the Board, however the Audit Committee reviews these documents and discusses them with the Chairman and Chief Executive Officer and the Chief Financial Officer, particularly areas where there is subjectivity or the application of judgement, before making recommendations to the Board

The Audit Committee has responsibility for recommending the appointment, re-appointment and removal of the external auditor to the Board who, in turn, will propose a resolution for consideration by the shareholders During the year the Audit Committee recommended the re-appointment of the external auditor, Deloitte LLP, to the Board

During the year the Audit Committee reviewed the benefits which establishing an internal audit function could bring to the Group's controls effectiveness and recommended to the Board that one be set up The Board accepted the recommendation and appointed a Director of Internal Audit and Risk who joined the Company in January 2012

A review of the Group's whistle-blowing procedures was undertaken to ensure arrangements are in place to enable employees to raise concerns about possible malpractice or wrongdoing by the Group or any of its employees on a confidential basis This includes arrangements to investigate proportionately such matters for appropriate follow up action Further promotion and advertising of the policy is planned to ensure it is as far reaching across the organisation as is possible

Corporate governance
Continued

Other Audit Committee activities during the year included

- → reviewing trading updates and interim management statements
- → approving policy for use of professional services firms (including auditors on non-audit assignments)
- → reviewing internal controls and fraud prevention policies and procedures
- → reviewing the Group's treasury policy
- → approval of the 2012/13 Internal Audit and Risk plan
- → reviewing risk management procedures and the Risk Register
- → reviewing the effectiveness of the Audit Committee, its membership and its terms of reference

Remuneration Committee
The current members of the Remuneration Committee are David Longbottom (Committee Chairman), Anita Lovell, Charlie Scott, Alan Smith and Peter Smith all of whom served throughout the year

The Remuneration Committee met on five occasions during the year The attendance of the individual members at meetings is detailed in the table on page 41 The Remuneration Committee's purpose is to advise the Board and make recommendations to it about all elements of the remuneration packages of the Executive Directors and other members of senior management as it is designated to consider, including any major changes in employee benefit structures throughout the Group

The Company Secretary acts as secretary of the Remuneration Committee The Group's compliance with the provisions of the Code relating to directors' remuneration is further explained on pages 50 to 57

The Remuneration Committee meets at least twice each year and may request relevant Executive Directors and senior management to attend meetings by invitation During the year under review, the Committee received material assistance and advice from the Chairman and Chief Executive Officer and the Director of Human Resources No Director is involved in decisions relating to their personal remuneration package.

The Remuneration Committee and the Group also received advice from Kepler Associates, a firm of independent remuneration consultants who have not provided any other services to the Group The Committee has also been advised by Eversheds LLP, who are the Group's solicitors and who have advised the Group on other legal matters throughout the year (including on various corporate, regulatory, employment and commercial matters) Eversheds LLP provided advice on the legal aspects of the implementation and operation of Flybe's employee share schemes

The duties of the Remuneration Committee include

- → determining and agreeing with the Board the framework or broad policy for the remuneration of the Chairman and Chief Executive Officer, all other Executive Directors, the Company Secretary and any other members of the executive management that the Board delegates to it ensuring that such policy provides appropriate incentives to encourage enhanced performance and, in a fair and responsible manner, rewards executives for their individual contributions to the success of the Company When setting policy, have regard to trends across the Company, in other companies and to the provisions of the Code and associated guidance
- → determining the total individual remuneration package of the Chairman and Chief Executive Officer, all other Executive Directors, the Company Secretary and any other members of the executive management that the Board delegates to it including bonuses, incentive payments and share options or other share awards
- → approving the design of, and determining the targets for, any performance related pay schemes operated by the Company and approving the total annual payments made under such schemes
- → approving the design of all share incentive plans for approval by the Board and shareholders, determining on an annual basis whether awards will be made, and if so the amounts of such awards in total and to individuals
- → determining the policy for, and scope of, pension arrangements for each executive director and other designated senior executives
- → overseeing any major changes in employee benefits structures throughout the Group
- → recommending an annual report for the Board to put to shareholders on the Company's remuneration policies and practices compliant with relevant legal and regulatory provisions
- → ensuring that contractual terms on termination and payments made are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised

The Remuneration Committee is authorised by the Board to

- → be exclusively responsible for establishing the selection criteria and then for selecting, appointing and setting the terms of reference for any remuneration consultants providing advice to the Remuneration Committee, at the Company's expense
- → to obtain, at the Company's expense, expert legal or other professional advice where necessary in the course of its activities

Nomination Committee
The current members of the Nomination Committee are Jim French (Committee Chairman), Mark Chown, David Longbottom and Charlie Scott all of whom served throughout the year The attendance of the individual members at the two meetings of the Nomination Committee held during the year is detailed in the table on page 41. The Nomination Committee's purpose is to establish a formal, rigorous and transparent procedure for the appointment of new directors to the Board The Company Secretary acts as secretary of the Nomination Committee

The Code recommends that the majority of members of the Nomination Committee should be independent Non-Executive Directors Throughout the period the Nomination Committee has comprised David Longbottom and Charlie Scott both of whom are Independent Non-Executive directors, together with Mark Chown and Jim French The Board is satisfied that the members of the Nomination Committee are those who are best able to contribute to its objectives

The duties of the Nomination Committee include

→ regularly reviewing the structure, size and composition (including skills, knowledge, experience and diversity) of the Board and make recommendations to the Board with regard to any changes

→ keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability to compete effectively in the marketplace

→ identifying and nominating candidates, for the approval of the Board, to fill Board vacancies

→ evaluating, before any appointment is made by the Board, the balance of skills, knowledge, experience and diversity on the Board and in light of this preparing a description of the role and capabilities required for a particular appointment

→ giving full consideration to succession planning for directors and other senior executives taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in future

→ reviewing the time requirements of non-executive directors

The Board fully supports diversity, recognising the benefits that diverse viewpoints can contribute in decision making All Directors are committed to encouraging all of the Group's employees, and it's Board, to reach their full potential, irrespective of their gender, race, or sexuality It is the intention of the Board to always keep the benefits that derive from a diverse Board in mind when making appointments However, the Board does not believe that setting a quota is the most appropriate method for achieving a balanced Board and all appointments are made on merit The Board remains committed to developing talent throughout the Group, and to providing training, support and development to those identified as displaying potential

During the year the Nomination Committee recommended to the Board that three of its Independent Non-Executive Directors – David Longbottom, Charlie Scott and Alan Smith – should be re-appointed for a third and final term of three years, and that Peter Smith, who had intimated his intention to step down from the Board next year, should be appointed to serve a third and final term ending at the close of the 2013 Annual General Meeting Before making this recommendation, the Nomination Committee undertook a particularly rigorous review of the performance of these Directors, was satisfied that each of them was able to allocate sufficient time to the Company to discharge their responsibilities, and considered the need for progressive refreshment of the Board

The Nomination Committee reviewed Board succession planning during the year and considered several potential candidates for appointment as Independent Non-Executive Directors. The Nomination Committee met with Lord Digby Jones and made a recommendation to the Board that he should be appointed as an Independent Non-Executive Director The Nomination Committee concluded, and the Board concurred, that external search consultants would not be engaged for this appointment

The terms and conditions of appointment of all of the Non-Executive Directors are available for inspection at the Company's registered office during normal business hours, and at the AGM Each letter of appointment sets out clearly what is expected in the role, the anticipated level of time commitment including, where relevant, additional responsibilities derived from involvement in Board Committees Details of other material commitments are disclosed to the Board and a register is maintained by the Company Secretary

Safety and Security Review Committee
The current members of the Safety and Security Review Committee are Peter Smith (Committee Chairman), Alan Smith and Andrew Strong, all of whom served throughout the year The Safety and Security Review Committee met on four occasions during the year The attendance of the individual members at meetings of the Safety and Security Review Committee is detailed in the table on page 41 The Safety and Security Review Committee's purpose is to establish, review and monitor formal policies and procedures and have oversight of performance in connection with the safe and secure operation of the Group's business

The duties of the Safety and Security Review Committee include

→ reviewing matters concerned with the safe and secure operation (both in the air and on the ground) of any aircraft operated by the Group

→ considering reports on incidents involving any aircraft operated by the Group and ensuring that appropriate remedial action is taken including, where appropriate, that recommendations are made to third parties

Corporate governance
Continued

- → considering reports of significant incidents concerning safety at airports and in engineering facilities and ensure remedial action or appropriate recommendations are implemented
- → reviewing compliance with health and safety legislation
- → ensuring full attention is given to issues of security and advice received from relevant national agencies and authorities

The Safety and Security Review Committee produces an annual report which is reviewed and formally approved by the Board

Mergers and Acquisitions Committee
The Mergers and Acquisitions Committee was established by resolution of the Board in June 2011 and has formal terms of reference approved by the Board The current members of the Mergers and Acquisitions Committee, all of whom have served since its establishment, are Alan Smith (Committee Chairman), Charlie Scott and Anita Lovell The purpose of the Mergers and Acquisitions Committee is to scrutinise, via a formal and rigorous process, major acquisitions or mergers and, where appropriate, make recommendations to the Board

The Mergers and Acquisitions Committee met once during the year to consider the terms of the acquisition by the Company of a 60% holding in Flybe Nordic AB, the holding company for Flybe Finland Oy

The duties of the Mergers and Acquisitions Committee include

- → through evaluation, understanding the consequences of any proposal that constitutes a significant acquisition of or merger with another commercial entity, including funding and working capital arrangements, and recommending to the Board whether the proposed transaction should be approved, amended or denied
- → evaluating the predicted financial return on proposed significant investments including acquisition and capital investment projects
- → ensuring that proposed transactions are consistent with Flybe's strategic plan
- → ensuring the necessary financial, tax, legal, commercial, technical, safety and personnel due diligence has been undertaken and considered
- → ensuring that the appropriate financial and management controls are in place in an acquired business as soon as is practically possible following the completion of the transaction and that necessary personnel resources are allocated
- → through evaluation, understanding the likely regulatory consequences with special reference to UK, European and local competition regimes and requirements of aviation regulatory bodies
- → ensuring that there is in place an achievable and detailed implementation plan approved by the Board and supported by management of both Flybe and the acquired business
- → understanding the proposed communication plan with regard to all shareholders, employees, suppliers, customers and other stakeholders in both Flybe and the acquired business or businesses
- → carrying out a thorough post-completion evaluation of the transaction and the implementation plan As a result, to make recommendations as to the approach to future such transactions
- → give due consideration to the requirements of the Listing Rules of the UK Listing Authority as a result of the transaction

Internal Control
The Board has overall responsibility for maintaining, and reviewing the effectiveness of, the Group's systems of internal control which covers financial, operational and compliance controls together with risk management systems. The responsibility for establishing and operating detailed control procedures lies with the Chief Executive Officer supported by the Operating Board. However, the internal control systems are designed to manage, not eliminate, the risk of failure to achieve business objectives By their nature, they can only provide reasonable, but not absolute, assurance against material mis-statement or loss

Through the Audit Committee, the Board has conducted a review of the effectiveness of, and framework for, the Group's system of internal control and risk management systems during the year and no material weaknesses were identified The Audit Committee considers formal reports prepared by the Group's newly formed Internal Audit and Risk department and ensures the annual Internal Audit and Risk Plan reflects any material risks in internal control

In addition, the Audit Committee considers the report prepared by Deloitte LLP highlighting any matters identified in the course of its statutory audit work, which is reviewed by the Audit Committee in the presence of Deloitte LLP, the Chairman and Chief Executive Officer, the Chief Financial Officer and the Director of Internal Audit and Risk

Internal audit
During the year, the Board appointed an experienced Director of Internal Audit and Risk. An external firm of independent search consultants was engaged to identify suitable candidates and an external appointment was made

The Director of Internal Audit and Risk reports to the Chief Executive Officer and attends meetings of the Audit Committee which has approved an annual Internal Audit and Risk Plan, designed to provide effective risk based coverage over the internal control environment, for the coming year The key objectives of the Internal Audit and Risk department are to provide independent and objective business assurance to the Board based on its approved risk based audit plan

The Director of Internal Audit and Risk has the right to request a meeting with the Audit Committee, without management being present, if he considers it appropriate and necessary to do so

Risk management

The principal risks and uncertainties facing the business are discussed on pages 27 to 31 The Board has responsibility for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives and for oversight of the risk management process Flybe has used the experience gained over many years to develop structures and processes to identify, evaluate, manage and report on the significant risks faced by the Group These structures and processes, which are embedded within Flybe's operations, have been in place throughout the year and up to the date of approval of this Annual Report The Board is satisfied that these structures and processes ensure that risks are adequately and appropriately addressed and corrective actions taken

Monitoring reviews take place regularly within the Group's operating divisions and monthly reports are prepared for the Operating Board outlining events and mitigating actions taken

The Safety and Security Review Committee, chaired by an independent Non-Executive Director, meets quarterly, or more regularly where events require, to review the Group's safety performance and this committee reports to the Board

The Director of Internal Audit and Risk has facilitated risk review workshops with the Managing Directors of each division and their management teams and with senior managers in the Group's central services departments The purpose of these workshops has been to review enterprise-wide the likely risks to business objectives so that the Board can update its understanding of how well risks are understood and managed These workshops underpin a Risk Register which it uses to monitor the principal risks and uncertainties which Flybe faces, their potential impact, the mitigations and controls currently in place, and recommendations, where possible, for risk reduction

The Audit Committee and the Board review the Risk Register twice every year and will do so more frequently if necessary

Auditor independence

The Audit Committee is responsible for ensuring that an appropriate relationship is maintained between the Group and the external auditor The external auditor provides some non-audit services, primarily in the provision of taxation advice and advice on corporate transactions that may arise from time to time In order to ensure that auditor objectivity and independence are safeguarded the following controls have been implemented

(A) A formal policy on the use of the auditor for non-audit work has been agreed by the Audit Committee In summary, this ensures that, usually, such work is only awarded when, by virtue of the auditor's knowledge, skills or experience, the auditor is clearly to be preferred over alternative suppliers Any fees charged by the Group's auditor in respect of non-audit services over a set cumulative value of, currently, more than £50,000 requires the prior approval of the Audit Committee Under the policy, the external auditor is specifically excluded from providing any work that may impair their independence and from providing internal audit services to Flybe

(B) The Audit Committee receives and reviews each year an analysis of all non-audit work awarded to the auditor over the financial period A breakdown of the fees paid to the Group's auditor during the year is set out in note 6 to the consolidated financial statements A significant proportion of the non-audit services related to non-recurring work, primarily in respect of the Group's acquisition of a 60% holding in Flybe Nordic AB, the holding company for Flybe Finland Oy The provision of non-audit services was considered to be appropriate, given the external auditor's depth of knowledge of the affairs and financial practices of Flybe

(C) The Audit Committee receives each year a report from the external auditor as to any matters that the external auditor considers have, or may have, bearing on its independence and which need to be disclosed to the Audit Committee The Audit Committee is satisfied that, notwithstanding non-audit work, Deloitte LLP have retained objectivity and independence during the year The Audit Committee will continue to monitor its policy in this regard and accepts that non-audit work should be controlled to ensure that it does not compromise the independence of the auditor

Relations with shareholders

Communication with shareholders is given a high priority to assist investors' understanding of Flybe's business The Chairman and Chief Executive Officer and the Chief Financial Officer are the principal representatives with investors, analysts, press and other interested parties and feedback is provided to the Board on a regular basis The Chairman and Chief Executive Officer makes himself available for dialogue with the shareholders on strategy, corporate governance and Directors' remuneration Through its annual and interim reports, results and other announcements and the dissemination of information via Flybe's website at **www flybe.com/en/corporate/investors/**, the Board seeks to present its strategy and performance in an objective and balanced manner The Senior Independent Director is available to meet shareholders on request if they have concerns which contact through the normal channels of communication via the Chairman and Chief Executive Officer has failed to resolve, or for which such contact is inappropriate

Constructive use of the Annual General Meeting

The Annual General Meeting (the 'AGM') provides the Board with an opportunity to communicate with, and answer questions from, private and institutional shareholders and the majority of the Board will be available at the meeting to answer shareholders' questions. The Chairmen of each of the Board Committees will be available at the Annual General Meeting to answer questions At the AGM the chairman reports, after each show of hands, details of all proxy votes lodged for and against each resolution and the number of abstentions Subsequently, the results are published on the Group's website at www.flybe com/en/corporate/investors/

The Company's standard procedure is to ensure that the Notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting

Shareholder information

Share capital
Details of the movement in authorised and issued share capital during the year are provided in note 29 to the consolidated financial statements As at 31 March 2012, the Company's share capital comprised a single class of ordinary share of 1 pence each and the issued share capital of the Company was £751,529 comprising 75 2 million ordinary shares of 1 pence each

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association

Restrictions on share transfers
There are no restrictions on transfers of shares other than

- → where the Company has a lien on a partly-paid share unless to do so would prevent dealings in partly-paid shares from taking place on an open and proper basis
- → where the transfer is in favour of more than four joint transferees
- → where a transfer request is not accompanied by the relevant share certificate(s) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer
- → certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing
- → pursuant to the Company's code for securities transactions whereby the Directors and designated employees require approval to deal in the Company's shares
- → in certain circumstances where the shareholder in question has been issued with a notice under s793 of the Companies Act 2006
- → where a proposed transferee of the Company's shares has failed to furnish the Directors with a declaration of nationality (together with such evidence as the Directors may require) as required by the Company's Articles of Association
- → the powers given to the Directors by the Company's Articles of Association to limit the ownership of the Company's shares by non-UK nationals or non-EEA nationals and powers to enforce this limitation including the right to force the sale of any affected shares

As at 8 June 2012, the Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights

Shares with special rights
There are no shares in the Company with special rights with regard to control of the Company

Restrictions on Voting Rights
The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting

Employee share scheme
The trustee of the Flybe Share Incentive Plan (the 'Plan') will, on receipt of any offer, compromise arrangement or scheme which affects ordinary shares held in the Plan, invite participants to direct the trustee on the exercise of any voting rights attaching to the ordinary shares held by the trustee on their behalf and/or direct how the trustee shall act in relation to those ordinary shares. The trustee shall take no action in respect of those ordinary shares for which it has received no directions or ordinary shares which are unallocated Generally, on a poll, the trustee shall vote in accordance with directions given by participants In the absence of directions or on a show of hands the trustee shall not vote

The trustee of the Flybe Employee Share Trust (the 'Trust'), which is used in connection with the Flybe Long-term Incentive Plan, has the power to vote or not vote at its discretion in respect of any shares in the Company held in the Trust

Substantial interests
On 1 June 2012, the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company.

Name of holder	Percentage of voting rights and issued share capital	Number of ordinary shares	Nature of holding
Rosedale Aviation Holdings Limited	48 1%	36,146,250	Beneficial
International Consolidated Airlines Group, S A	14 5%	10,925,847	Beneficial
Quantum Partners LP	4 1%	3,074,200	Beneficial
James French	5 3%	4,016,250	Beneficial
Richard Griffiths	3 0%	2,255,863	Beneficial

Financial calendar

Annual general meeting	11 July 2012
First quarter IMS	10 August 2012
Half year results 2012/13	9 November 2012
Third quarter IMS	February 2013
Full year results 2012/13	June 2013

The dates above are indicative and confirmation will be listed on our website at www flybe com and through an RNS announcement

Registered office

Jack Walker House
Exeter International Airport
Exeter
Devon
EX5 2HL

Company registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone 0871 664 0300 (Calls cost 10 pence per minute plus network extras)

Outside of the UK +44 20 8639 3399

Company number

1373432

Auditor

Deloitte LLP
3 Rivergate
Temple Quay
Bristol
BS1 6GD

In the case of each of the persons who are Directors of the Company at the date when this report is approved

(1) so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware

(2) each of the Directors has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006

Deloitte LLP have expressed their willingness to continue in office as the Company's auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Approved by the Board of Directors
and signed on behalf of the Board

Chris Simpson
Company Secretary

8 June 2012

Directors' remuneration

Dear Shareholder,
I am pleased to introduce this year's Remuneration Report

As the Chairman and Chief Executive Officer has reported in his detailed review on page 12 the general market conditions and the UK domestic aviation market remained challenging Fuel prices have increased to their highest ever annualised figure compounded by the weak sterling to US dollar exchange rate While Flybe has increased its share of the UK domestic market, the overall UK market has declined As a consequence, these factors have influenced Executive remuneration

Despite the achievement of a number of significant strategic objectives during the year (such as securing about $500m of committed aircraft financing, the acquisition of Finncomm in joint venture with Finnair, the opening of Flybe's Training Academy and the partnership with Brussels Airlines), as a result of the Group's financial loss, and for the second successive year, no bonus will be paid to any Executive Director It is also the Committee's view at the end of the year that the performance targets attached to outstanding awards under the Performance Share Plan ('PSP') have a very low probability of being achieved based on performance to-date. The Committee is satisfied that the bonus outcome and current vesting expectations for PSP awards demonstrate that the current remuneration framework appropriately aligns executive and shareholder interests

During the year, the Committee reviewed the remuneration arrangements in place since IPO, and determined that the remuneration framework remains appropriately weighted between fixed and variable elements of pay, and between short- and long-term performance horizons, and helps foster a strong link between performance and reward that is beneficial to shareholders, employees and the Group as a whole

The Group announced changes to its organisational structure to enable its strategy of European expansion alongside continued growth in the UK After careful consideration the Committee decided on the appropriate salary for the new roles of the Managing Director of Flybe Europe and the Managing Director of Flybe UK At the same time the Committee also reviewed the salary for the expanded role of the Group CFO and determined that it should be increased in recognition of the increased responsibility following the Group's listing and expansion into mainland Europe

For PSP awards granted in August 2011, the Committee decided to make minor alterations to the calibration of the performance targets EPS targets have been defined as annualised 3-year percentage growth rates (rather than as absolute pence targets as previously), and the TSR comparator group has been revised to comprise airlines only (rather than broader transport companies) to help ensure Flybe's relative performance better reflects the economic and business factors that are specific to the airline industry, and to help ensure the PSP remains motivational

The Committee always welcomes and carefully considers feedback from shareholders, and particularly the recognition and encouragement that overall fixed and variable remuneration should be in the longer term interests of shareholders while motivational to key management in such a challenging economic environment

David Longbottom
Chairman
Remuneration Committee

Introduction

This report, which has been approved by the Board, has been prepared in compliance with the Listing Rules, the Companies Act 2006 and Schedule 8 to the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008 The Group has also followed the requirements of the UK Corporate Governance Code (the 'Code') This report will be put to the Group's shareholders for approval at the forthcoming Annual General Meeting

Unaudited Information

The Remuneration Committee

The Remuneration Committee's purpose is to advise the Board and make recommendations to it about all elements of the remuneration packages of the Executive Directors and other members of senior management as it is designated to consider, including any major changes in employee benefit structures throughout the Group The Committee has agreed terms of reference that are available on the Flybe website The Group complied with the provisions of the Code relating to Directors' remuneration throughout the financial year

The current members of the Remuneration Committee are

David Longbottom	Chairman of the Committee and Independent Non-Executive Director
Charlie Scott	Independent Non-Executive Director
Alan Smith	Independent Non-Executive Director
Peter Smith	Independent Non-Executive Director
Anita Lovell	Non-Executive Director

The Code requires that a remuneration committee should comprise at least three independent Non-Executive Directors The Remuneration Committee currently comprises four independent Non-Executive Directors and Anita Lovell who is not considered independent by the Board The terms of reference of the Remuneration Committee state that, in order for a meeting to be quorate, three members must be present

The Committee meets at least twice each year and may request relevant Executive Directors and senior management to attend meetings by invitation During the year under review the Committee received material assistance and advice from the Chairman and Chief Executive Officer and the Director of HR No Director is involved in decisions relating to their personal remuneration package

The Committee and the Group also received remuneration advice from Kepler Associates, a firm of independent remuneration consultants Kepler Associates does not provide any other services to the Group The Committee has also been advised by Eversheds LLP, who are the Group's solicitors and who have advised the Group on other legal matters throughout the year (including on various corporate, regulatory, employment and commercial matters) Eversheds LLP provided advice on the legal aspects of the implementation and operation of the Company's employee share schemes

During the year under review the Committee met on five occasions to consider, and agree, amongst other matters

1 Structure of the directors' remuneration report for the financial year ended 31 March 2011
2 Annual bonus performance and payments for the financial year ended 31 March 2011
3 Annual bonus structure and performance targets for the financial year ended 31 March 2012
4 PSP structure and performance targets for awards granted on 5 August 2011
5 Framework of executive total remuneration
6. Implementation of the UK SAYE plan
7 Committee terms of reference

Remuneration Policy

The Remuneration Committee and the Board believe that in order to attract, motivate and retain the best possible senior management team it is necessary to provide competitive, market-based, remuneration packages that are directly aligned with Group strategy, shareholder interests and that have a substantial proportion of performance-related elements to create sustained growth in shareholder value

The Committee believes that the current structure of senior executive remuneration is appropriately weighted between fixed and variable elements of pay, and between short- and long-term performance horizons The Committee regularly reviews the performance targets attached to both short- and long-term components of variable remuneration, to ensure that the targets it sets reinforce the Group's stated business strategy, are stretching and motivational This approach helps foster a strong link between performance and reward that is beneficial to shareholders, employees and the Group as a whole

In determining the structure and quantum of senior executive remuneration, the Committee also takes into account pay and employment conditions elsewhere in the Group The following table summarises the Group's policies in respect of the key elements of Executive Director remuneration

Directors' remuneration
Continued

Elements of remuneration

Element	2011/12 policy	2012/13 policy	Objective
Basic salary (see page 53)	Set with reference to external market data for comparable positions at companies of similar sector and size to Flybe	No change	Reflect size and nature of role, individual skills, experience and performance
Annual bonus (see page 53)	Normal maximum annual bonus of 100% of salary for Executive Directors, based on the achievement of Group profitability targets and on the achievement of personalised operational objectives In exceptional circumstances, and only if a bonus is also warranted by Flybe's profit performance, the Remuneration Committee may apply a multiplier of up to +/-50% to the bonus outcome to reflect under- or over-achievement against strategic milestones and personal performance	No change	Incentivise and reward Executive Directors for the delivery of business strategy by rewarding achievement of Group profit targets, wider business performance, the achievement of significant strategic milestones and an individual's contribution to the Group's success
Performance Share Plan (see page 53)	Conditional share awards of 100% of salary to Executive Directors, vesting on Flybe's EPS performance and TSR rank against sector comparators	No change	Incentivise senior executives to create long-term shareholder value Align the interests of senior executives with those of shareholders
Pension (see page 54)	Company contributions of 15% of salary for Executive Directors	No change	Provide competitive retirement benefits and the opportunity for the individual to save for their own retirement plan
Shareholding guidelines (see page 54)	100% of salary for Executive Directors	No change	Support alignment with shareholders

Executive Director pay mix

The following chart illustrates the proportions of the Executive Directors' remuneration packages comprising fixed (i e salary and pension) and variable elements of pay, based on the target annual bonus and expected value of long-term incentives for 2011/12

Base salary (2011/12 49%)
Annual bonus (2011/12 25%)
Performance share plan (2011/12 19%)
Pension (2011/12 7%)

Basic salary

Basic salaries are normally reviewed annually and any changes are effective from 1 April each year Pay reviews reflect the Remuneration Committee's assessment of externally benchmarked market data for comparable positions at companies of similar size and sector to Flybe, as well as the individual Director's experience, performance, role and value to the business Pay reviews will also consider the increasing size and complexity of the business, the general economy and remuneration levels that are being set across the rest of the Group

In July 2011, the Group announced changes to its organisational structure to enable its strategy of European expansion (alongside continuing growth in the UK market) The Group was consequently restructured into three separate divisions, Flybe Europe, Flybe UK and Flybe Aviation Support, led by Mike Rutter (formerly Group Chief Commercial Officer), Andrew Strong (formerly Group Chief Operating Officer) and John Palmer (formerly Director of Airline Operations), respectively After careful consideration, the Committee decided the appropriate salary for the expanded roles of the Managing Directors of Flybe Europe and Flybe UK is £300,000 This resulted in a 17 6% increase for Mr Rutter and Mr Strong with effect from 1 August 2011 No changes were made to other elements of their package

At the same time, the Committee also reviewed the salary for Andrew Knuckey, Group CFO and agreed a similar increase, with effect from the same date, in recognition of the increased responsibility of his role following the Group's listing

These salaries for Executive Directors are frozen until 31 March 2013

Executive Director	Salary at 1 April 2011 £ p a	Salary at 1 August 2011 £ p a	Salary earned for 2011/12 ** £	2012/13 salary £
Jim French	510,000	510,000	**510,000**	510,000
Andrew Knuckey	255,000	300,000	**285,000**	300,000
Andrew Strong	255,000	300,000	**285,000**	300,000
Mike Rutter	255,000	300,000	**285,000**	300,000
Mark Chown*	153,000	153,000	**153,000**	153,000

* Mr Chown s basic salary reflects the part time nature of his role

** Salary does not include service increment of between £50 £350 p a that is included on page 56

Annual bonus

For the year to 31 March 2012, Executive Directors participated in an annual bonus plan which for the year under review was based on the achievement of pre-defined Group profit before tax ('PBT') targets Executive Directors were eligible for a normal maximum bonus opportunity of 100% of salary, with 50% of salary payable for 'on-target' performance In addition, PBT-based annual bonus awards were also eligible for a performance multiplier of +/-50%, to be applied in exceptional circumstances only and based on the Remuneration Committee's discretionary assessment of the Group's under- or over-achievement of strategic milestones and an individual's personal performance

Based on the Group's PBT performance for the year to 31 March 2012, no bonus payments will be made to Executive Directors in respect of the year

For the year to 31 March 2013, Executive Directors will continue to be eligible for a normal maximum annual bonus of 100% of salary For Group-based Executive Directors, a meaningful proportion of the normal maximum annual bonus opportunity will continue to be based on the achievement of Flybe Group's PBT targets, with the remainder based on performance against personalised operational and/or strategic objectives For Division-based Executive Directors (Managing Director, Flybe Europe and Managing Director, Flybe UK), the annual bonus opportunity will also be based predominantly on Flybe Group's PBT, but will also include an element based on the financial performance of their respective Division The remainder of their normal bonus opportunity will be based on performance against personalised operational and/or strategic objectives

Annual bonus awards will also continue to be eligible for a performance multiplier of +/-50%, to be applied in exceptional circumstances only and based on the Remuneration Committee's discretionary assessment of the Group's under- or over-achievement of strategic milestones and an individual's personal performance No bonus will be payable under the personalised operational objectives element if the threshold level of performance under Flybe Group's profitability element is not met

Performance Share Plan

The Remuneration Committee believes that it is important to provide share incentives to Executive Directors and senior management to align their long term interests with those of shareholders On IPO, the Group adopted the Flybe Group plc Performance Share Plan ('PSP') The PSP provides for conditional awards of shares with a face value of not more than 150% of basic salary to senior executives (including Executive Directors) It is currently the Remuneration Committee's intention that awards will not normally exceed 100% of salary Conditional share awards will normally vest no earlier than the third anniversary of grant, and subject to the achievement of performance conditions set over three years

Awards worth 100% of salary to the Executive Directors were granted on 5 August 2011 These awards will normally vest on the third anniversary of grant and are subject to two corporate financial performance conditions The extent to which awards vest will depend 70% on Flybe's earnings per share ('EPS') performance and 30% on Flybe's relative total shareholder return ('TSR')

For August 2011 awards, the Committee decided to alter the calibration of the targets attached to the EPS element, setting 3-year compound annual growth targets instead of absolute pence targets for the final year of the performance period (as for awards granted in January 2011) August 2011 awards will therefore vest in full only if Flybe's EPS growth over the 3-year performance period is at least 18% p a. 25% of this element vests if Flybe's EPS growth over the period is 8% p a , with straight-line vesting between these points. If Flybe's EPS growth is less than 8% p a , this element will lapse

Directors' remuneration

Continued

The TSR element of August 2011 awards will vest on Flybe's TSR rank over the period from 1 April 2011 to 31 March 2014 relative to a comparator group comprising 11 other airlines (see below) Although the TSR element of PSP awards granted in January 2011 will vest on Flybe's TSR relative to a broader comparator group (comprising regional transport companies as well as airlines), the Committee felt that measuring Flybe's TSR performance against airlines only would be more relevant and motivational, as it would better reflect the economic and business factors that are specific to the airline industry

August 2011 PSP TSR comparator group

Aer Lingus
Air France-KLM
Air Berlin
Cimber Sterling
Dart Group
Deutsche Lufthansa
easyJet
Finnair
International Consolidated Airlines Group
Ryanair Holdings
SAS

This element will vest in full if Flybe's TSR ranks in at least the upper quartile against these comparators. 25% of this element will vest if Flybe ranks at median, with straight-line vesting between these points If Flybe's relative TSR is below median, this element of the award will lapse In addition, for this element of an award to vest, the Remuneration Committee must be satisfied that there has been an improvement in Flybe's underlying financial performance.

To the extent that the performance targets are not met over the performance period, awards will lapse, i e there is no re-testing of the performance conditions In the event of a change of control, vesting of PSP awards is not automatic and would depend on the extent to which the performance conditions had been met at the time and the period elapsed since the date of grant

Selection of performance conditions

The Committee continues to consider that a combination of relative TSR and EPS helps to appropriately balance relative and absolute performance, and internal with external perspectives EPS is considered to be the best internal measure of Flybe's financial performance, it is highly visible internally, regularly monitored and reported, and reinforces bottom-line growth for shareholders

All-employee share schemes

The Executive Directors are eligible to participate in the Group's approved Share Incentive Programme ('SIP') and the Group's approved Save As You Earn ('SAYE') scheme on the same basis as other eligible employees During the year under review, the Group invited eligible employees to participate in the SAYE scheme, under which participants save a fixed amount per month over three years and options have been granted with an exercise price at 80% of the market price at the date of grant No performance conditions apply to these options as they are a tax-efficient mechanism for all employees to acquire shares in the Group at their own cost

Further details on share and option awards made during the year to 31 March 2012 can be found in note 34

Dilution

The Group's share schemes can be funded through a combination of shares purchased in the market and new issue shares, as appropriate Funding of awards through new issue shares is subject to an overall dilution limit of 10% of issued share capital in any 10-year period Of this, 5% may be used in connection with the Group's discretionary share schemes As of 31 March 2012, a total of 4,020,208 (5 3%) shares have been issued or may be issuable, pursuant to awards made in the period since Admission in connection with all share schemes. Of this total, 1,278,362 (1.7%) shares relate to all-employee schemes, with the remaining 2,741,846 (3 6%) shares relating to discretionary schemes Awards that are made, but then lapse or are forfeited, are excluded from the calculations

Shareholding guidelines

To provide long term alignment with Shareholders the Executive Directors are required to build up a Flybe shareholding of 100% of basic salary Only shares acquired post-Admission will count towards this guideline While there is no specific timeframe within which the shares must be acquired, sale rights of outstanding equity-based awards will be restricted to 50% of the post-tax gain until the share ownership guideline is fulfilled

Pension contributions

Executive Directors are entitled to a company pension contribution of 15% of basic salary providing they make a personal contribution of not less than 4% into one of the Group's Personal Pension Plans ('GPPP') The main GPPP is a defined contribution scheme open to all UK employees From April 2011, should the combined employer and employee contribution exceed the new Pensions Annual Allowance of £50,000 then the Executive may elect to receive a non-bonusable cash supplement equal to the excess Executive Directors may also voluntarily participate in the Group's approved pension salary sacrifice scheme, which is open to all UK employees who are in the GPPP Mark Chown is not a member of any Group pension scheme

Other benefits

Benefits in kind for Executive Directors include the provision of car and accommodation allowances, fuel card, private medical insurance and life assurance Mark Chown was not provided with any of these benefits in kind

Executive Director service contracts

The Remuneration Committee's policy is to provide service contracts for Executive Directors with notice periods of 12 months or less Jim French, Andrew Knuckey, Andrew Strong, Mike Rutter and Mark Chown have all entered into service agreements with the Group dated 9 December 2010 that are subject to 12 months' notice by either party

Upon termination, Executive Directors are entitled to salary and benefits for the duration of their notice period It is the Remuneration Committee's policy to seek to mitigate the need for such payments Each Executive Director has post termination provisions which (among others) restrict the Executive Director from competing with Flybe for the duration of their notice period

External Non-Executive Directorships for Executive Directors

None of the Executive Directors currently has external Non-Executive Directorships although, at the discretion of the Board, they may be appointed as a Non-Executive Director at other companies Before granting permission the Board will take into account **inter alia** the time commitment of the new role, the competitive status of the other company, the Listing Rules and the Code

Non-Executive Directors ('NEDs')

All NEDs' services are provided for under the terms of a letter of appointment with the Group, and are subject to six months' notice by either party Details of the terms of the appointment of the current NEDs are as follows

Non Executive Director	Date of appointment	Expiry of current term
Charlie Scott	1 April 2006	31 March 2015
Alan Smith	1 April 2006	31 March 2015
David Longbottom	1 April 2006	31 March 2015
Peter Smith	1 April 2006	31 July 2013
Anita Lovell	8 July 2010	7 July 2013
Lord Digby Jones	23 April 2012	23 April 2015

The remuneration of the NEDs is determined by the Board and reflects the skills and experience of the NEDs, the market practice adopted in similar sized organisations, the committees chaired and anticipated time commitments The annual fees payable to the NEDs in the year to 31 March 2012 comprised the fees described below

Non Executive Director	Basic fee £	Audit/ Remuneration/ Safety/Mergers and Acquisitions Committee chairmanship fee £	Senior Independent Director fee £	Total £
Charlie Scott	38,760	8,000	15,000	61,760
Alan Smith	38,760	8,000	–	45,283
David Longbottom	38,760	8,000	–	46,760
Peter Smith	38,760	8,000	–	46,760
Anita Lovell	38,760	–	–	38,760

Following a review of NED fees, it was agreed that the basic fee be increased to £40,000 p a from 1 April 2012 NEDs are not eligible for bonuses or participation in share schemes and no pension contributions are made on their behalf

Total shareholder return

The charts below show the value of a hypothetical £100 holding from the date Flybe's shares were priced immediately prior to IPO (being 10 December 2010) to 31 March 2012 TSR has been calculated in British pounds sterling, and is based on spot share prices and includes dividends reinvested on the relevant ex-dividend date

The chart on the left illustrates the TSR performance of the Group against the FTSE SmallCap Index The FTSE SmallCap Index was chosen as it is a recognised broad equity market index of which the Group has been a member since Admission in December 2010

The second chart (below right) compares Flybe's TSR performance against that of the median-performing company of the 2011 PSP TSR comparator group (comprising 11 airlines), being the closest sector peers for Flybe

Directors' interests in shares

Executive Directors and NEDs had the following beneficial interests in the issued share capital of 1p ordinary shares in Flybe

Executive Director	31 March 2011	31 March 2012
Jim French	4,016,250	4,016,250
Andrew Knuckey	223,125	223,125
Andrew Strong	224,875	224,875
Mike Rutter	224,125	224,125
Mark Chown	–	376,725
Non Executive Director		
Charlie Scott	12,500	12,500
Alan Smith	12,500	22,500
David Longbottom	12,500	12,500
Peter Smith	18,000	39,000
Anita Lovell	–	–
Lord Digby Jones (appointed 23 April 2012)	n/a	n/a

Directors' remuneration

Continued

Audited information

Directors' remuneration

Year ended 31 March 2012	Salary/Fee £	Bonus £	Pension £	Benefits £	Total 2011/12 £	Total 2010/11 £
Executive Director						
Jim French*	510,000	–	77,622	19,163	606,785	596,298
Andrew Knuckey*	285,250	–	52,794	8,313	346,357	286,396
Andrew Strong*	285,350	–	52,818	8,050	346,218	286,352
Mike Rutter*	285,350	–	60,045	8,313	353,708	292,821
Mark Chown	153,000	–	–	–	153,000	112,346
Non-Executive Director						
Charlie Scott	61,760	–	–	–	61,760	61,000
Alan Smith**	45,283	–	–	–	45,283	38,000
David Longbottom	46,760	–	–	–	46,760	46,000
Peter Smith	46,760	–	–	–	46,760	46,000
Anita Lovell***	38,760	–	–	–	38,760	27,818
Totals	1,758,273	–	243,279	43,839	2,045,391	1,793,031

* Jim French Andrew Knuckey Andrew Strong and Mike Rutter participated in the Group s approved pension salary sacrifice scheme the effects of which have not been taken into account when reporting these Directors basic salaries and company pension contributions as above Also prior to the reduction in tax relief on pension contributions to £50 000 from April 2011 restrictions were put in place to prevent excess contributions being paid in advance of this date As defined under Schedule 35 of the Finance Act 2009 these anti forestalling provisions introduced a new tax charge called the Special Annual Allowance (SAA) An element of pension contributions for 2010/11 were deferred until April 2011 and therefore included in 2011/12 to minimise any SAA charge as part of this legislation as follows Andrew Knuckey £9 382 Andrew Strong £9 388 Mike Rutter £16 615 Should the combined employer and employee contribution exceed the new Pensions Annual Allowance of £50 000 then the Executive may elect to receive a non bonusable cash supplement equal to the excess

** Appointed Chairman of the Mergers and Acquisitions Committee on 7 June 2011

*** Appointed 8 July 2010

Executive Directors' share awards

The interests of the Executive Directors in the PSP and SIP are set out in the table below

	Date of grant	Share awards outstanding at 31 March 2011	Number granted in year	Share awards outstanding at 31 March 2012	Notes
Jim French					
PSP	21 January 2011	169,491	–	169,491	(a)
PSP	5 August 2011	–	294,797	294,797	(b)
SIP	21 January 2011	100	–	100	(c)
Andrew Knuckey					
PSP	21 January 2011	84,745	–	84,745	(a)
PSP	5 August 2011	–	173,410	173,410	(b)
SIP	21 January 2011	100	–	100	(c)
Andrew Strong					
PSP	21 January 2011	84,745	–	84,745	(a)
PSP	5 August 2011	–	173,410	173,410	(b)
SIP	21 January 2011	100	–	100	(c)
Mike Rutter					
PSP	21 January 2011	84,745	–	84,745	(a)
PSP	5 August 2011	–	173,410	173,410	(b)
SIP	21 January 2011	100	–	100	(c)
Mark Chown					
PSP	21 January 2011	50,847	–	50,847	(a)
PSP	5 August 2011	–	88,439	88,439	(b)
SIP	21 January 2011	100	–	100	(c)

(a) PSP awards granted on 21 January 2011 were calibrated using the Offer Price of 295p The exercise price is £nil Awards are subject to relative TSR and EPS The EPS target (applying to 70% of each award) requires EPS for the year to 31 March 2013 of 35p for 25% of that element to vest rising to full vesting for EPS for the year to 31 March 2013 of 48p or higher The TSR target (applying to the other 30% of each award) requires Flybe s TSR performance over the period from IPO to 31 March 2013 to rank at median against 17 airline and regional transport comparators for 25% of that element to vest rising to full vesting if Flybe s TSR ranks at or above the upper quartile against these peers

(b) Awards made during the year under the PSP are subject to the performance conditions set out on page 53 To the extent that the performance conditions are met at the end of the performance period awards will vest on the third anniversary of grant

(c) Awards made under the SIP are subject to no further performance conditions but are subject to a 3-year holding period

Executive Directors' share option awards

The interests of the Executive Directors in options over Ordinary Shares granted under the SAYE scheme were

	Number of shares under option							
	At 1 April 2011	Granted	Exercised	Lapsed	At 31 March 2012	Exercise price	Date from which first exercisable	Expiry date
Andrew Knuckey	–	790	–	–	790	137p	5 Aug 14	5 Feb 15
Andrew Strong	–	790	–	–	790	137p	5 Aug 14	5 Feb 15
Mike Rutter	–	790	–	–	790	137p	5 Aug 14	5 Feb 15
Mark Chown	–	790	–	–	790	137p	5 Aug 14	5 Feb 15

The closing mid-market price of the Group's shares on 30 March 2012 (the last trading day of the financial year) was 71p Over the period from 1 April 2011 to 31 March 2012, the price of the Group's shares varied between 55p and 256p The mid-market price of the Group's shares on 5 August 2011, being the date the PSP and SAYE awards were made, was 162p

On behalf of the Board

D.A. Longbottom

David Longbottom
Remuneration Committee Chairman

8 June 2012

Statement of Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS regulation and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period In preparing these financial statements, International Accounting Standard 1 requires that directors

→ properly select and apply accounting policies,

→ present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information,

→ provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance, and

→ make an assessment of the Company's ability to continue as a going concern

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 They 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 the maintenance and integrity of the corporate and financial information included on the Company's website Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Responsibility statement

We confirm that to the best of our knowledge

→ the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole, and

→ the review of the business, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face

By order of the Board

Jim French CBE
Chairman and Chief Executive Officer

8 June 2012

Andrew Knuckey
Chief Financial Officer

8 June 2012

Independent auditor's report to the members of Flybe group plc

We have audited the financial statements of Flybe Group plc for the year ended 31 March 2012 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Balance Sheets, the Consolidated and Parent Company Cash Flow Statements, and the related notes 1 to 43 The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As explained more fully in the Statement of Directors' Responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the Directors, and the overall presentation of the financial statements In addition, we read all of the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements
In our opinion

→ the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2012 and of the group's loss for the year then ended,

→ the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union,

→ the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006, and

→ the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

Opinion on other matters prescribed by the Companies Act 2006
In our opinion

→ the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and

→ the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following

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

→ adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or

→ the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or

→ certain disclosures of Directors' remuneration specified by law are not made, or

→ we have not received all the information and explanations we require for our audit

Under the Listing Rules we are required to review

→ the Directors' statement in relation to going concern,

→ the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review, and

→ certain elements of the report to shareholders by the Board on Directors' remuneration

Stuart N. Woodward

Stuart Woodward (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom

8 June 2012

Consolidated income statement

Year ended 31 March 2012

	Note	2012 £m	2011 (restated) £m
Total revenue under management		678 8	595 5
Less Joint venture revenue	16	(63 5)	–
Group revenue		**615.3**	**595 5**
Consisting of			
Ticket revenue		461 3	446 8
Ancillary revenue		104 3	98 9
Maintenance and other revenue		49.7	49 8
		615.3	595 5
Staff costs	8	(116 4)	(110 3)
Fuel		(106.4)	(92 5)
Net airport and en route charges		(118.1)	(113 6)
Ground operations		(86 7)	(89 0)
Maintenance		(37 7)	(37 2)
Depreciation and amortisation		(13 1)	(10 7)
Aircraft rental charges		(77 6)	(77 4)
Marketing and distribution costs		(25 5)	(24 5)
Other operating gains		4 2	2 5
Other operating expenses		(39 9)	(35 2)
Operating (loss)/profit before joint venture results, Initial Public Offering ('IPO') expenses and unrealised gains and losses on fuel and foreign exchange hedges		(1 9)	7 6
Share of joint venture loss	16	(3.0)	–
IPO expenses incurred	7	–	(1 7)
Losses on fuel and foreign exchange hedges		–	(6 8)
Operating loss	6	(4 9)	(0 9)
Investment income	9	0 8	0 3
Finance costs	10	(3 3)	(2 6)
Other gains and losses	11	1 2	(1 1)
Loss before tax		(6 2)	(4 3)
Tax (charge)/credit	12	(0 2)	8 1
(Loss)/profit for the year		(6 4)	3 8
(Loss)/earnings per share:			
Basic and diluted	13	(8 5)p	6 4p

Consolidated statement of comprehensive income

Year ended 31 March 2012

	2012 £m	2011 £m
(Loss)/profit for the financial year	(6 4)	3 8
Gains arising during the year on cash flow hedges	1 8	22 6
Reclassification of gains on cash flow hedges included in profit	(19.0)	(1 4)
Deferred tax arising on cash flow hedges	5 0	(5 5)
Actuarial (loss)/gain on defined benefit pension scheme	(0 4)	6 1
Other comprehensive (expense)/income for the year	(12 6)	21 8
Total comprehensive (expense)/income for the year	**(19 0)**	**25 6**

Consolidated statement of changes in equity

Year ended 31 March 2012

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Capital redemption reserve £m	Retained (deficit)/ earnings £m	Total equity £m
Balance at 1 April 2010	–	1 0	–	6 7	22 5	(8 7)	21 5
Profit for the year	–	–	–	–	–	3 8	3 8
Other comprehensive income for the year	–	–	15 7	–	–	6 1	21 8
Equity-settled share-based payment transactions	–	–	–	–	–	0 5	0 5
Share capital issued	0 7	65 3	–	–	–	–	66 0
Share issue expenses	–	(5.7)	–	–	–	–	(5 7)
Balance at 31 March 2011	0 7	60 6	15 7	6 7	22 5	1.7	107 9
Loss for the year	–	–	–	–	–	(6 4)	(6 4)
Other comprehensive expense for the year	–	–	(12 2)	–	–	(0 4)	(12 6)
Equity-settled share-based payment transactions	–	–	–	–	–	0.5	0.5
Balance at 31 March 2012	**0.7**	**60 6**	**3 5**	**6 7**	**22 5**	**(4 6)**	**89.4**

Consolidated balance sheet

At 31 March 2012

	Note	2012 £m	2011 £m
Non-current assets			
Intangible assets	14	10.1	10 4
Property, plant and equipment	15	162 1	136 3
Interests in joint ventures	16	16 2	–
Other non-current assets	18	40 0	32 4
Restricted cash	21	7 9	8 6
Deferred tax asset	27	8 6	9 9
Derivative financial instruments	26	–	0 1
		244 9	197 7
Current assets			
Inventories	19	6 6	5 8
Trade and other receivables	20	98 5	88 8
Cash and cash equivalents	21	42 9	87 7
Restricted cash	21	16 8	9 3
Derivative financial instruments	26	5 3	24 4
Assets held for sale	22	0 3	0 4
		170 4	216 4
Total assets		415 3	414 1
Current liabilities			
Trade and other payables	23	(89 0)	(80 4)
Deferred income	24	(63 2)	(64 2)
Borrowings	25	(21 3)	(16 9)
Provisions	28	(25 0)	(28 3)
Derivative financial instruments	26	(1 3)	(3 3)
		(199 8)	(193 1)
Non-current liabilities			
Borrowings	25	(76 0)	(66 8)
Deferred tax liabilities	27	(5 5)	(11 6)
Provisions	28	(32 1)	(20 4)
Deferred income	24	(12 4)	(14 3)
Derivative financial instruments	26	(0 1)	–
		(126.1)	(113 1)
Total liabilities		(325 9)	(306 2)
Net assets		89 4	107 9
Equity attributable to owners of the company			
Share capital	29	0 7	0 7
Share premium account		60 6	60 6
Hedging reserve		3 5	15 7
Other reserves		6 7	6 7
Capital redemption reserve		22.5	22 5
Retained (deficit)/earnings	30	(4 6)	1 7
Total equity		89 4	107 9

The financial statements of Flybe Group plc, registered number 1373432, were approved by the Board of Directors and authorised for issue on 8 June 2012

Signed on behalf of the Board of Directors

Jim French CBE
Director

Andrew Knuckey
Director

Consolidated cash flow statement

Year ended 31 March 2012

	2012 £m	2011 £m
Cash flows from operating activities		
(Loss)/profit for the year	(6.4)	3 8
Adjustments for:		
Unrealised losses on fuel and foreign exchange hedges	–	6 8
Depreciation, amortisation and impairment	16 2	15 9
Investment income	(0 8)	(0 3)
Finance costs	3 3	2 6
Other (gains)/losses	(1.8)	1 1
Gain on sale of property, plant and equipment and assets held for sale	(0.6)	(0 4)
Equity-settled share-based payment expenses	0 5	0 5
Joint venture result	3 0	–
Taxation	0 2	(8 1)
	13 6	21 9
Increase in restricted cash	(6.8)	(1 9)
Increase in trade and other receivables	(18.3)	(3 5)
(Increase)/decrease in inventories	(0 8)	0 3
Increase/(decrease) in trade and other payables	4 5	(2 8)
Decrease in assets held for sale	0 1	0 2
Increase in provisions and employee benefits	10 7	3 9
	(10 6)	(3 8)
Tax paid	–	–
Net cash flows from operating activities	3 0	18 1
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	72 4	21 7
Decrease/(increase) in pre-delivery deposits	1 0	(13 8)
Interest received	0 8	0 3
Acquisition of property, plant and equipment	(113 4)	(42 5)
Capitalised computer software expenditure	(0 7)	(1 1)
Acquisition of joint venture interest	(18 2)	–
Net cash flows from investing activities	(58 1)	(35.4)
Cash flows from financing activities		
Proceeds from new loans	90 9	17 6
Proceeds on issue of shares	–	60 3
Interest paid	(3 3)	(2 6)
Repayment of borrowings	(77 3)	(16 4)
Net cash flows from financing activities	10 3	58.9
Net (decrease)/increase in cash and cash equivalents	(44 8)	41.6
Cash and cash equivalents at beginning of year	87 7	46.1
Cash and cash equivalents at end of year	42 9	87.7

Notes to the consolidated financial statements

1. General information

Flybe Group plc is a company incorporated in the United Kingdom under the Companies Act 2006 The address of the registered office is given on page 49 The nature of the UK group's operations and its principal activities are set out in the Business review of pages 12 to 37

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates

2. Adoption of new and revised standards

The following amendments and interpretations are also effective for the first time in the current year but have had no impact on the results or financial position of the Group

Amendments to IAS 24 (November 2009)	Related party disclosures
Amendments to IFRIC 14 (November 2009)	Prepayments of a minimum funding requirement
IFRIC 19 (November 2009)	Extinguishing financial liabilities with equity instruments

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU)

Amendments to IAS 12 (December 2010)	Deferred tax – Recovery of underlying assets
IFRS 9 (November 2009)	Financial Instruments – Classification and Measurement
Amendments to IFRS 7 (October 2010 and December 2011)	Financial Instruments – Disclosures
IFRS 10 (May 2011)	Consolidation
IFRS 11 (May 2011)	Joint ventures
IFRS 12 (May 2011)	Disclosure of interests in other entities
IFRS 13 (May 2011)	Fair value measurement
IAS 27 revised (May 2011)	Separate Financial Statements
IAS 28 revised (May 2011)	Investments in Associates and Joint Ventures
Amendment to IAS 1 (June 2011)	Presentation of Financial Statements
Amendment to IAS 19 (June 2011)	Post-employment benefits
Amendment to IAS 32 (December 2011)	Financial Instruments – Presentation

Other than for IFRS 9 Financial Instruments – Classification and Measurement, where no assessment has as yet been undertaken, the directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group

3. Accounting policies

Basis of accounting

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRSs'). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are recorded at fair value The principal accounting policies adopted, which have been applied consistently in the current and the prior financial year, are outlined below

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 March each year Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases

All intra-group transactions, balances, income and expenses are eliminated on consolidation

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the financial statements Further detail is contained in the Business review on page 25

Business combinations

The cost of a business combination is measured as the aggregate of the fair values at the date of exchange of assets given and liabilities incurred or assumed in exchange for control The assets and liabilities and contingent liabilities of the acquired entity are measured at their fair values at the date of acquisition When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values to reflect new information about facts or circumstances which existed at the acquisition date are made within 12 months of the acquisition date

Where the cost of a business combination exceeds the net fair value of the acquired assets, liabilities and contingent liabilities, goodwill is recognised as an asset and initially measured at cost Where the net fair value of the acquired assets, liabilities and contingent liabilities exceeds the cost of a business combination, the identification of acquired assets, liabilities and contingent liabilities is reassessed before recognising the excess immediately in the income statement

Investments in joint ventures
A joint venture is an entity over which the Group has control jointly with one or more other parties and that is neither a subsidiary nor an interest in an associate Joint control is contractually agreed sharing of control over an economic activity, where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Under the equity method, the interest in joint ventures is carried on the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of the individual investments The Group income statement reflects the share of the jointly controlled entity's results after tax Where there has been a change recognised in the comprehensive income of the jointly controlled entity, the Group recognises its share of any such changes in the Group statement of comprehensive income Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture

Any goodwill arising on the acquisition of a jointly controlled entity, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the entity's identifiable assets, liabilities and contingent liabilities, is included in the carrying amount of the jointly controlled entity and is not amortised To the extent that the fair value of the entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the Group's share of the entity's profit or loss in the period in which the investment is acquired

Costs associated with the acquisition of a joint venture are capitalised into the initial cost of investment

Revenue and revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and comprises

Ticket revenue
Scheduled and charter passenger ticket sales, net of passenger taxes and discounts, are recorded in a 'forward sales' account and are included in current liabilities, within deferred income, until recognised as revenue when transportation occurs This also includes revenue derived from flights operated by the Group's codeshare partners

For flights purchased by members of the 'Frequent Flyer Programme', an element of revenue representing the sales value of flights which these customers may take in future at no cost is deferred and recognised when the related free flights have been taken The amount of deferral is based on the fair value of an equivalent flight

Unused tickets are recognised as revenue when the right to travel expires and the Group's obligation to refund ceases, which is determined by the terms and conditions of these tickets

Ancillary revenue
Ancillary revenue, comprising principally baggage carriage, advanced seat assignment, commissions, change fees and credit and debit card fees due to the Group, are recognised as revenue on the date the right to receive consideration occurs In respect of credit and debit card fees and hotel and insurance commission, this occurs when each flight is booked and paid for For the remaining ancillary revenue, this occurs on the date of transportation, as this is when the service is generally provided

Commission received from the issue of Flybe branded credit cards by a third party provider is deferred to the extent that it relates to free flights which the Group is required to offer as part of the transaction Commission received in excess of the sales value of free flights granted to card-holders is recognised immediately as revenue Revenue associated with free flights is recognised when the related flights are taken

Aircraft maintenance and other revenue
These represent the amounts derived from the provision of goods and services to customers during the year, including aircraft maintenance, overhauls and the associated rotable and consumable parts The amount of profit attributable to the stage of completion of an engine and maintenance overhaul contract is recognised when the outcome of the contract can be foreseen with reasonable certainty Revenue for such contracts is stated at the cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous years Provision is made for any losses as soon as they are foreseen

Other revenue, such as for cargo and contract flying, are recognised in the period when the services are provided

Interest revenue
Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition

Notes to the consolidated financial statements
Continued

3. Accounting policies continued

Operating (loss)/profit
Operating (loss)/profit is stated as (loss)/profit before tax, investment income, finance costs and other gains and losses.

Foreign currencies
Transactions arising, other than in the functional currency, are recorded using the rate of exchange ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies are re-translated using the rate of exchange ruling at the balance sheet date Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated

Exchange differences are recognised in the income statement in the period in which they arise

Property, plant and equipment
Property, plant and equipment are stated at their cost, less accumulated depreciation and impairment losses Aircraft and engines and other associated equipment are classified as aircraft All other equipment is classified as plant and equipment

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframe and is amortised over a period from one to five years from the date of purchase to the date of the next scheduled maintenance event for the component Subsequent costs, such as long-term scheduled maintenance and major overhaul of aircraft, are capitalised and amortised over the length of period benefiting from these costs All other costs relating to maintenance are charged to the income statement as incurred

Interest costs incurred on borrowings that specifically fund progress payments on assets under construction, principally aircraft, are capitalised up to the date of completion and included as part of the asset

Advance payments and option payments made in respect of aircraft purchase commitments and options to acquire aircraft where the balance is expected to be funded by lease financing are recorded at cost in current or non-current aircraft deposits On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date.

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Freehold land	Nil
Freehold and short leasehold buildings	2% to 10% per annum or lease term where shorter
Plant, equipment and motor vehicles	10% to 50% per annum
Aircraft	7% to 20% per annum
Maintenance assets	25% to 50% per annum

Estimated residual values are reviewed annually at each period end, with reference to current market conditions Where estimated residual values are found to have changed significantly, this is accounted for prospectively as a change in estimate and depreciation charges over the remaining useful life of the asset are adjusted to take account of the revised estimate of residual value.

Non-current assets held for sale
Where assets are available for sale in their current condition, and their disposal is highly probable (there is a committed plan to sell the asset and management has initiated the process to locate a buyer), they are reclassified as held for sale Assets held for sale are measured at the lower of their carrying value and the fair value less costs to sell

Depreciation on fixed or intangible assets ceases at the point of their reclassification to assets held for sale

Intangible assets
Computer software
Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to, and has the technical ability and sufficient resources to, complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads Other development expenditure is recognised in the income statement as an expense as incurred

Computer software is carried at cost less accumulated amortisation It is amortised on a straight-line basis over its useful economic life of five years

Landing rights
Intangible assets acquired are recognised to the extent it is probable that expected future benefits will flow to the Group and the associated costs can be measured reliably Landing rights acquired either as part of a business combination or separately are capitalised at fair value at that date and are not amortised where those rights are considered to be indefinite Landing rights are considered to have an indefinite life only when they will remain available for use for the foreseeable future provided minimum utilisation requirements are met The carrying value of these rights is subject to impairment testing annually or when events or changes in circumstances indicate that carrying values may not be recoverable

Disposals of property, plant, equipment and intangible assets
The gain or loss on disposal of property, plant, equipment and intangible assets after deducting any costs associated with selling, disposing of or retiring the relevant asset is recognised in the income statement and reported under other operating gains or losses

Impairment of tangible and intangible assets excluding goodwill
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any)

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount An impairment loss is recognised as an expense immediately

Government grants
Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received Once such assurance exists, government grants are either recognised in the income statement or, where related to property, plant and equipment, are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned

Inventories
Inventories are stated at the lower of cost or net realisable value as follows:

Aircraft consumables
These comprise aircraft parts which are non-repairable and non-renewable These are valued at the lower of cost or net realisable value for each separately identified batch purchased

Work in progress
The carrying value of engine overhaul and maintenance work in progress for third parties is based upon direct cost together with attributable overheads Materials issued from stores are valued as detailed above under 'aircraft consumables' Other direct materials are valued at actual cost Labour and attributable overhead rates are based upon normal levels of activity When it is probable that maintenance contract costs will exceed maintenance contract revenue, the expected loss is recognised as an expense immediately

Aircraft deposits
Aircraft deposits represent deposits made with aircraft manufacturers for future delivery of aircraft or deposits made with aircraft financiers or operating lessors to provide security for future maintenance work or lease payments

Financial instruments
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument

Classification of financial instruments issued by the Group
Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions

→ they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group, and

→ where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

Finance payments associated with financial liabilities are dealt with as part of finance expenses Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity

Hedge accounting
The Group designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges

At the inception of the hedge relationship, in order to qualify for hedge accounting, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Movements in the hedging reserve are detailed in the statement of changes in equity

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income The gain or loss relating to the ineffective portion is recognised immediately in the income statement, and is included in the 'other gains and losses' line item

Notes to the consolidated financial statements
Continued

3. Accounting policies continued
Hedge accounting continued
Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Financial assets
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned Initially they are measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ('FVTPL') or at fair value designated and effective as hedges, which are initially measured at fair value

Financial assets are classified into the following specified categories financial assets at FVTPL, financial assets that are designated and effective as hedging instruments and 'loans and receivables' The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition The Group holds no 'available for sale' or 'held to maturity' financial assets

Financial assets at FVTPL
Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL A fuel or foreign exchange hedging instrument is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument A fuel or foreign exchange hedging instrument may be designated as at FVTPL upon initial recognition if the instrument forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the income statement The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset and is included in the 'unrealised gains and losses on fuel and foreign exchange hedges' line item or 'other gains and losses' line item in the income statement depending upon the nature of the instrument Fair value is determined in the manner described in note 36

Loans and receivables
Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables' Loans and receivables are measured at amortised cost using the effective interest method, less any impairment Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial

Impairment of financial assets
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay

Derivative financial instruments
The Group is exposed to market risks relating to fluctuations in commodity prices, interest rates and currency exchange rates The objective of financial risk management is to minimise the impact of commodity prices, interest rate and foreign exchange fluctuations on the Group's earnings, cash flows and equity

Derivative financial instruments are stated at fair value Recognition of any resultant gain or loss depends on whether hedge accounting is in place for the particular item and on the nature of the item being hedged When the hedge is not effective, as defined by IFRS, any gains and losses arising on changes to fair values are recognised immediately in the income statement. For derivative instruments entered into before 31 March 2010, hedge accounting under IFRS was not in place For instruments entered into from 1 April 2010, the Group's policy is to designate them, where appropriate, as cash flow hedges that comply with the requirements under IFRS for hedge accounting

The fair value of forward foreign exchange contracts and jet fuel contracts is their quoted market price at the balance sheet date, being the present value of the forward quoted price

Cash and cash equivalents
Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Cash equivalents are current asset investments which are readily convertible into known amounts of cash at or close to their carrying values or traded in an active market, without curtailing or disrupting the business

Restricted cash
Restricted cash represents funds held by the Group in bank accounts which cannot be withdrawn until certain conditions have been fulfilled The aggregate restricted funds balance is disclosed by way of a note to these financial statements and is classified as a current or non-current asset based on the estimated remaining length of the restriction

Financial liabilities and equity
Debt and equity instruments are classified as either financial liabilities or equity instruments according to the substance of the contractual arrangements

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs

Financial liabilities
Financial liabilities are recognised as either financial liabilities at FVTPL, financial liabilities that are designated and effective as hedging instruments or other financial liabilities

Financial liabilities at FVTPL
Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL A fuel or foreign exchange hedging instrument is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument A fuel or foreign exchange hedging instrument may be designated as at FVTPL upon initial recognition if the instrument forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'unrealised gains and losses on fuel hedges' line item or 'other gains and losses' line item in the income statement Fair value is determined in the following manner

Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition

Derecognition of financial liabilities
The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire

Provisions
Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably

Leased aircraft maintenance provisions
The Group incurs liabilities for maintenance costs in respect of aircraft leased under operating leases during the term of the lease These arise from the contractual obligations relating to the condition of the aircraft when it is returned to the lessor. To discharge these obligations, the Group will either need to compensate the lessor for the element of the life of the component or maintenance interval used, or carry out the maintenance check before return of the aircraft to the lessor

The provisions recorded and charged to the income statement are dependent on the life of the component or maintenance interval used and the individual terms of the lease:

→ No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back

→ After a component or maintenance interval passes its half-life (or another measure depending on the individual lease) and compensation would be due to the lessor in accordance with the terms of the lease, a provision and matching income statement charge is recorded equal to the amount of compensation that would be required based on the hours or cycles flown at the balance sheet date

Notes to the consolidated financial statements
Continued

3. Accounting policies continued
Provisions continued

→ After a component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the specified work, a full provision for the cost of work is recorded To the extent that this provision represents an increase to the half-life compensation provision already recorded a maintenance asset is recorded within property, plant and equipment The asset is depreciated over the expected period to the next half-life compensation point, or the end of the lease, whichever is sooner

Where maintenance is provided under 'power by the hour' contracts and maintenance paid to maintenance providers to cover the cost of the work is deemed to be irrecoverable, these payments are expensed as incurred and maintenance provisions are reduced to reflect the fact that the Group has already paid for the related maintenance work Maintenance deposits which are refundable are recorded as other receivables

Estimates are required to establish the likely utilisation of the aircraft, the expected cost of a maintenance check at the time it is expected to occur, the condition of an aircraft and the lifespan of life-limited parts The bases of all estimates are reviewed once each year and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services

Leases

Operating leases
Rental charges on operating leases are charged to the income statement on a straight-line basis over the life of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the life of the respective asset

Sale and leaseback
The Group enters into sale and leaseback transactions whereby it sells aircraft, or rights to acquire aircraft, to a third party Flybe subsequently leases the aircraft back, by way of operating lease Any profit or loss on the disposal, where the price that the aircraft is sold for is not considered to be fair value, is deferred and amortised over the lease term of the asset.

Finance leases
Where the Group enters into a lease which entails taking substantially all the risk and rewards or ownership of an asset, the lease is treated as a 'finance lease' The asset is recorded in the balance sheet as property, plant and equipment, and is depreciated over the estimated useful life to the Group The asset is recorded at the lower of its fair value, less accumulated depreciation, and the present value of the minimum lease payments at the inception of the finance lease Future instalments under such leases, net of finance charges, are included as obligations under finance leases Rental payments are apportioned between the finance element, which is charged to the income statement, and the capital element, which reduces the outstanding obligation for future instalments The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability

Borrowing costs
Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation

All other borrowing costs are recognised in the income statement in the period in which they are incurred

Taxation
Tax on the profit or loss for the year comprises current and deferred tax Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity

Current tax
The tax currently payable is based on taxable profit for the year Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax
Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group 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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity

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 when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis

Employee benefit costs
The Group operates defined contribution and defined benefit pension schemes

For the defined contribution schemes, the assets of the schemes are held separately from those of the Group in independently administered funds The amount charged to the income statement represents the contributions payable to the schemes in respect of the accounting period

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods, that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted The liability discount rate is the yield at the balance sheet date on AA credit-rated bonds that have maturity dates approximating to the terms of the Group's obligations The calculation is performed by a qualified actuary using the projected unit credit method When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement

All actuarial gains and losses are recognised outside of profit in other comprehensive income in the period when they occur The actuarial valuations are obtained at least triennially and are updated at each balance sheet date The net surplus or deficit arising on the Group's defined benefit schemes is shown within non-current assets or liabilities on the balance sheet. The deferred tax impact of any such amount is disclosed separately within deferred tax

The expected cost of compensated holidays is recognised at the time that the related service is provided

Share-based payments
Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date The fair value excludes the effect of non-market-based vesting conditions Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 34

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market-based vesting conditions The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves

Notes to the consolidated financial statements
Continued

4. Critical accounting judgements and key sources of estimation uncertainty

Critical accounting judgements and key sources of estimation uncertainty
In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant Actual results may differ from these estimates

The estimates and underlying assumptions are reviewed on an ongoing basis Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods

Critical judgements in applying the Group's accounting policies
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 Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements

Carrying value of aircraft
The Group had a net book value of approximately £136 9m for aircraft as at 31 March 2012 Changes to the Group's estimation of useful lives, residual values and potential for impairment would have a material effect on the valuation of the Group's assets and on its operating (loss)/profit

Useful lives and residual values are reviewed at the end of each reporting period Estimates of useful lives of aircraft are based on judgements as to expected usage of the aircraft, timing of maintenance events, the Group's route and fleet plans and on changes within the wider aviation industry Estimates of residual value are based on current market values of aircraft in the same expected age and condition expected at the end of the asset's useful life to the Group

The carrying value of aircraft, property, equipment and other tangible assets is reviewed for impairment at least annually and when events or changes in circumstances indicate the carrying value may not be recoverable Factors that would indicate a potential impairment of aircraft would include a significant reduction in market values based on appraisers' data for the aircraft type, a significant change in the physical condition of the aircraft and a reduction in forecast cash flows arising from operating the asset Carrying value is assessed based on the appraised data and forecast cash flows.

Aircraft maintenance
On acquisition of an aircraft, a proportion of the cost of the aircraft is allocated to engines and other material components with different useful lives to the airframe. Judgement is required to determine the amount of cost to allocate based on the estimated cost of overhauling the component, and the time between maintenance events This judgement affects the amounts recognised as a depreciation expense given the different useful lives of the components

For aircraft held under operating leases, the Group has a commitment to return the aircraft in a specific maintenance condition at the end of the lease term Estimating the provision for maintenance costs requires judgement as to the cost and timing of future maintenance events This estimate is based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations Any change in these assumptions could potentially result in a significant change to the maintenance provisions and costs in future periods

Recognition of deferred tax assets
The Group recognises deferred tax assets and liabilities based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities Deferred tax assets are reviewed regularly to assess potential realisation and the portions of such assets that the Directors believe will not be ultimately realised are not recorded In performing this review, Flybe makes estimates and assumptions regarding projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies A change in these assumptions could cause an increase or decrease in the amount recognised resulting in an increase or decrease in the effective tax rate, which could materially impact the results of operations At 31 March 2012, the Directors had recorded previously unrecorded assets due to changes in the Group's future estimated profitability that were attributable to the Directors' expectation of the Group's future performance.

Key sources of estimation uncertainty
The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below

Employee benefits
The Directors have determined that the surplus of assets over projected liabilities within the defined benefit pension scheme should not be recognised on the basis that there is insufficient certainty that this surplus will be recoverable by the Group when the scheme has eventually settled all of its obligations

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events including, but not limited to, discount rates, life expectancy, future pay inflation, expected rate of return on plan assets and expected health care cost trend rates Determination of the projected benefit obligations for the Group's defined benefit schemes and post-retirement plans are important to the recorded amount of benefit expense in the income statement and valuation of the balance sheet Details of the assumptions used are included in note 35 Any change in these assumptions could potentially result in a significant change to the pension assets, commitments and pension costs in future periods

5. Business and geographical segments

Following the acquisition by Flybe Group plc of a joint venture described further in note 17, the divisional operating structure was organised into three separate operating divisions to support the Group's ongoing delivery of its strategy of European expansion and continued growth in its UK market

The chief operating decision maker responsible for resource allocation and when assessing performance of operating segments has been identified as the Operating Board Operating segments are reported in a manner which is consistent with internal reporting provided to the chief operating decision maker

Flybe UK	This business segment comprises the Group's main scheduled UK domestic and UK-Europe passenger operations and revenue ancillary to the provision of those services
Flybe Europe	This business segment comprises the European airline businesses, including Flybe Finland and any future acquisitions, as well as organic development
Flybe Aviation Support	This business segment comprises the MRO and Training businesses supporting Flybe's UK and Europe divisions and serving third party customers, including aircraft maintenance, overhauls and the associated rotables and consumable parts

Segment revenues and results

The segment result is (loss)/profit before tax, IPO expenses, and unrealised gains and losses on fuel and foreign exchange hedges

Transfer prices between business segments are set on an arm's length basis

	2012 £m	2011 £m
Segment revenues:		
Flybe UK	588 1	571 5
Flybe Europe	63 5	–
Flybe Aviation Support	47 3	39 7
Inter-segment sales	(20 1)	(15 7)
Revenue under management	678 8	595 5
Less Revenue from Flybe Europe joint venture (see note 16)	(63 5)	–
Group revenues (excluding investment income)	615 3	595 5
Segment results		
Flybe UK (including net finance costs of £1 6m in 2012 and £3 4m in 2011)	(2 0)	5 7
Flybe Europe (including investment income of £0 3m in 2012)	(3 9)	–
Flybe Aviation Support	(0 3)	(1 5)
Total segment results	(6 2)	4 2
Other items not allocated·		
Unrealised (losses)/gains on fuel and foreign exchange hedges	–	(6 8)
IPO expenses	–	(1 7)
Loss before tax	(6 2)	(4 3)

The Flybe UK segment includes group costs of £2.8m (2010/11 £2 5m) and revaluation gains on USD aircraft loans of £0 9m (2010/11 £nil)

Flybe Europe results include both appropriate share of joint venture results and other costs of running this division

For the purposes of monitoring segment performance and allocation of resources between segments, the Operating Board monitors the tangible, intangible and financial assets attributable to each segment All assets are allocated to reportable segments with the exception of revalued open fuel and foreign exchange derivatives and tax assets and liabilities. Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments

Notes to the consolidated financial statements

Continued

5. Business and geographical segments continued

	2012 £m	2011 (restated)* £m
Segment assets		
Flybe UK	351 5	343 5
Flybe Europe	16.4	-
Flybe Aviation Support	33 5	36 1
Total segment assets	401 4	379 6
Unallocated assets	13 9	34 5
Consolidated total assets	415 3	414 1
Segment liabilities		
Flybe UK	(300 4)	(273 2)
Flybe Europe	(1 1)	-
Flybe Aviation Support	(17 7)	(17 8)
Total segment liabilities	(319 2)	(291 0)
Unallocated liabilities	(6 7)	(15 2)
Consolidated total liabilities	(325 9)	(306 2)

* Following the changes in divisional reporting structure it was determined that the maintenance reserves for the Flybe UK Airline operations should be realigned to Flybe UK from Flybe Aviation Support Segmental assets and liabilities for year ended 31 March 2011 have therefore been restated with £47 4m of assets and £53 5m of liabilities being moved into Flybe UK from what is now Flybe Aviation Support No adjustments were required to segment profits

Other segment information

	2012 £m	2011 £m
Depreciation and amortisation		
Flybe UK	15 2	15 0
Flybe Europe	-	-
Flybe Aviation Support	1.0	0.9
	16.2	15.9
Investment income*		
Flybe UK	0 5	0 3
Flybe Europe	0 3	-
	0 8	0 3

	2012 £m	2011 (restated)* £m
Additions to non current assets		
Flybe UK	112 2	33 1
Flybe Aviation Support	1.9	10 5
	114.1	43 6

* Following the changes in divisional reporting structure it was determined that the maintenance asset for the Flybe UK Airline operations should be realigned to Flybe UK from Flybe Aviation Support Additions to non current assets for year ended 31 March 2011 have therefore been restated with £17 6m of additions being moved into Flybe UK from what is now Flybe Aviation Support No adjustments were required to segment profits

Geographical information

The Group's revenue from external customers by geographical location is detailed below

	2012 £m	2011 £m
Revenue under management from external customers		
United Kingdom	524 0	521 8
Europe excluding United Kingdom	154 8	73 7
Total revenue under management	678 8	595 5
Less Joint venture revenue (all categorised as Europe excluding United Kingdom)	(63.5)	-
Group revenue	615 3	595 5

No non-current assets were based outside of the United Kingdom for any of the periods presented other than joint venture assets

Information about major customers

None of the Group's customers exceeded 10% of its revenue

6. Operating (loss)/profit

	2012 £m	2011 £m
This has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	15 2	14 9
Amortisation of intangible assets	1.0	1 0
Profit on the disposal of property, plant and equipment	(0 4)	(0 4)
Operating leases·		
Land and buildings	3.7	3 2
Plant and machinery	0.2	0 2
Aircraft	77.6	77 4
Foreign exchange (gains)/losses	(1.0)	2 6

	2012 £m	2011 £m
Auditor's remuneration		
The analysis of auditor's remuneration is as follows		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	–	–
Non-statutory audit of interim financial statements	–	0 2
Audit of the financial statements of subsidiaries pursuant to legislation	0.2	0 2
Total audit fees	0.2	0 4
Tax advisory services	0.2	0 2
Expenses in connection with the IPO and other strategic projects	0.3	0 8
All other services	–	0 1
Total audit and non-audit fees	0.7	1 5

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the financial statements are required to disclose such fees on a consolidated basis

7. IPO expenses

During the year ended 31 March 2011, the Group incurred costs associated with listing on the London Stock Exchange. These costs were sufficiently unusual in nature to be presented separately on the face of the income statement Costs specific in respect of raising new equity were deducted from share premium Costs that related equally to the listing process and raising new equity were split between the income statement and the share premium account

8. Staff costs

The average monthly number of employees (including Executive Directors) was

	2012 No	2011 No
Flight and maintenance	1,447	1,447
Technical support services	787	809
Administration	547	530
	2,781	2,786

The Group's aggregate payroll costs in respect of those persons were as follows

	£m	£m
Wages and salaries	94 9	91 3
Social security costs	10 5	9 8
Other pension costs (see note 35)	6.6	5 9
Share-based payments (see note 34)	0 5	0 5
Amounts payable to temporary staff	3 9	2 8
	116 4	110 3

In addition to the above, an actuarial loss of £0 4m (2011 actuarial gain of £6 1m) was recognised in the consolidated statement of comprehensive income in respect of defined benefit pension schemes

Notes to the consolidated financial statements
Continued

9. Investment income

	2012 £m	2011 £m
Interest on bank deposits	0 8	0 3

10. Finance costs

	2012 £m	2011 £m
Interest expense on bank loans	3 3	2 6

11. Other gains and losses

	2012 £m	2011 £m
Gains arising on retranslation of foreign currency loans and deposits	0.8	1 0
Amounts arising on pension scheme (see note 35)	0 4	(2 1)
	1 2	(1.1)

12. Tax on loss on ordinary activities

	2012 £m	2011 £m
Deferred tax		
Origination of temporary differences	(0 9)	(7 1)
Reversal of tax losses recognised	1 1	(1 0)
Total credit for the year	0 2	(8 1)

The group did not record or pay any current tax in this or the prior year

The difference between the total tax shown above and the amount calculated by applying the standard rate of United Kingdom corporation tax to the loss before tax is as follows

	2012 £m	2011 £m
Loss on ordinary activities before tax	(6 2)	(4 3)
Tax on loss on ordinary activities before tax at 26% (2011 28%)	(1 6)	(1 2)
Factors affecting charge/(credit) for the year		
Items outside the scope of UK taxation	0 1	(1.0)
Effect of tax losses	(0 3)	(1.2)
Capital allowances in excess of depreciation	2 0	(4.7)
Total tax charge/(credit) for the year	0 2	(8.1)

The reduction in the corporation tax rate to 24%, from 1 April 2012 is not anticipated to materially affect the future tax charge

13. Earnings per share

The calculation of the basic, diluted, adjusted basic and adjusted diluted earnings per share is based on the following data

	2012 £m	2011 £m
Earnings		
(Loss)/earnings for the purposes of unadjusted earnings per share being net profit attributable to owners of the Group	(6.4)	3 8
Add back/(deduct)		
IPO expenses incurred	–	1 7
Unrealised losses on fuel and foreign exchange hedges	–	6 8
Effect of tax on the above adjustments	–	(2 4)
(Loss)/earnings for the purposes of adjusted earnings per share	**(6.4)**	**9 9**

	No	No
Weighted average number of ordinary shares for the purposes of basic earnings per share	75,152,881	59,109,256
Effect of dilutive potential ordinary shares		
Share options	–	177,159
Weighted average number of ordinary shares for the purposes of diluted earnings per share	75,152,881	59,286,415
(Loss)/earnings per ordinary share – basic and diluted	(8 5)p	6 4p
Adjusted (loss)/earnings per share – basic	(8 5)p	16 7p
Adjusted (loss)/earnings per share – diluted	(8 5)p	16 6p

Diluted earnings per share is the same as basic earnings per share in the year ended 31 March 2012 because the Group recorded a loss and as such none of the potentially issuable shares are dilutive

Number of shares in issue throughout the prior year ended 31 March 2011 was adjusted to reflect the bonus issue of 24 new shares for each existing share issued as at 25 November 2010

14. Intangible fixed assets

	Landing rights £m	Computer software £m	Total £m
Cost			
At 1 April 2010	8 5	7.2	15 7
Additions	–	1 0	1 0
At 31 March 2011	8 5	8.2	16 7
Additions	–	0.7	0 7
At 31 March 2012	**8 5**	**8.9**	**17.4**
Amortisation			
At 1 April 2010	–	5.3	5 3
Amortisation for the year	–	1.0	1 0
At 31 March 2011	–	6.3	6 3
Amortisation for the year	–	1.0	1 0
At 31 March 2012	**–**	**7.3**	**7 3**
Net book value			
At 1 April 2010	8 5	1.9	10 4
At 31 March 2011	8 5	1 9	10 4
At 31 March 2012	**8 5**	**1 6**	**10 1**

Landing rights are not amortised as they are considered to have an indefinite life. These assets are tested for impairment at each balance sheet date

Notes to the consolidated financial statements

Continued

15. Property, plant and equipment

	Assets under construction £m	Land and buildings £m	Plant, equipment and motor vehicles £m	Aircraft £m	Total £m
Cost					
At 1 April 2010	3 2	11 5	12 6	166 1	193 4
Additions	9 8	0 1	1 1	31 6	42 6
Disposals	–	–	–	(21 3)	(21 3)
Transfers to land and buildings	(13 0)	13 0	–	–	–
At 31 March 2011	–	24 6	13 7	176 4	214 7
Additions	–	0 7	2 0	110 7	113 4
Disposals	–	(0 8)	–	(80 5)	(81 3)
At 31 March 2012	–	24.5	15 7	206 6	246 8
Accumulated depreciation and impairment					
At 1 April 2010	–	3 2	7 8	52 5	63 5
Depreciation charge for the year	–	0 5	1 4	13 0	14 9
At 31 March 2011	–	3 7	9.2	65 5	78 4
Depreciation charge for the year	–	0 6	1.5	13 1	15 2
Disposals	–	–	–	(8 9)	(8 9)
At 31 March 2012	–	4 3	10.7	69 7	84 7
Net book value					
At 1 April 2010	3 2	8 3	4.8	113 6	129 9
At 31 March 2011	–	20 9	4 5	110 9	136 3
At 31 March 2012	–	20 2	5 0	136 9	162 1

The transfer between assets under construction and land and buildings in the year ended 31 March 2011 represents the costs associated with the Flybe Training Academy building that was completed in February 2011

Depreciation costs of £3 8m (2011: £5 2m) associated with the aircraft maintenance assets are included in the maintenance cost line in the consolidated income statement

16. Joint ventures

	2012 £m	2011 £m
Investment in joint ventures	16 2	–

Details of the joint ventures that the Group accounts for using the equity method are set out below

	Equity owned %	Principal activities	Holding	Country of incorporation and principal operations
Flybe Finland Oy	60.0	Airline operations	Ordinary shares	Finland
Finnish Aircraft Maintenance Oy*	46.3	Maintenance, repair and overhaul	Ordinary shares	Finland

* In June 2012 Flybe Group plc acquired for a consideration of £295,000 (€358 000) a further 13 7% holding (6 3% of which was acquired from a subsidiary of Finnair Oyj) of Finnish Aircraft Maintenance Oy to give a total ownership of 60 0% In order to simplify the joint venture arrangements Finnish Aircraft Maintenance Oy was transferred via a share-for share exchange into the Flybe Nordic AB group becoming a wholly owned subsidiary within that group

See note 17 for further details on the joint ventures, collectively referred to as Flybe Nordic

The followıng summarısed fınancıal ınformatıon (under IFRS) for Flybe Nordıc shows the assets and lıabılıtıes as at 31 March 2012 and revenue and results for the perıod from acquısıtıon to 31 March 2012

	Flybe Nordıc £m
Summarısed fınancıal ınformatıon	
Non-current assets	11 3
Current assets	17 6
Current lıabılıtıes	(25 4)
Non-current lıabılıtıes	(6 2)
Net lıabılıtıes	(2 7)
Revenue	63 5
Net loss after tax	(4 8)
Reconcılıatıon from summarısed fınancıal ınformatıon to the joınt venture carryıng amount	
Share of net assets at acquısıtıon	1 1
Goodwıll	18 0
Share of net loss after tax and foreıgn exchange on translatıon	(3 0)
Carryıng amount	16 2
Other ınformatıon	
Cash and cash equıvalents ıncluded ın current assets	5 2
Deprecıatıon and amortısatıon	(0 5)
Interest ıncome	0 1
Interest expense	(0 1)
Income tax credıt	2 6

The entıtıes are not lısted thus no quoted market prıce ıs avaılable. No dıvıdends have been receıved from joınt ventures

Flybe Group plc and Fınnaır Oyj entered ınto a guarantee to secure the overdraft oblıgatıons of Flybe Fınland Oy to Nordea Bank Fınland Plc ın February 2012 Flybe Group plc has entered ınto an undertakıng to provıde a general guarantee lımıted ın value to 60 0% of the aggregate lıabılıty of Flybe Fınland Oy to a maxımum amount of €3m

17. Acquisition of joint venture

The acquısıtıon of Fınnısh Commuter Aırlınes Oy ('FCA') by Flybe Nordıc, a joınt venture between Flybe (60 0%) and Fınnaır (40 0%), was completed on 18 August 2011 Flybe's share of the total acquısıtıon prıce plus assocıated costs was lımıted to £19 1m of whıch £18 2m was paıd on completıon Flybe acquıred 46 3% of Fınnısh Aırcraft Maıntenance Oy ('FAM') as part of the acquısıtıon of FCA FCA, whıch ıs now tradıng as Flybe Fınland, ıs managed wıthın Flybe Europe whıle FAM forms part of the busınesses managed by Flybe Avıatıon Support up to 31 May 2012 and as part of Flybe Europe thereafter The restructurıng of actıvıtıes took place shortly after the acquısıtıon of a further 13 6% ınterest ın FAM detaıled ın note 16 For further detaıl on segmental performance, see note 5

Both these operatıons are the subject of shareholder agreements requırıng the Group to enter ınto key management decısıons ın agreement wıth ıts partner, Fınnaır thereby gıvıng the Group joınt control of thıs operatıon, consequently they are treated as joınt ventures Flybe Group plc fınanced the acquısıtıon of the shares and the repayment of debt outstandıng from avaılable lıquıdıty.

The ınterests ın these joınt ventures have been accounted for usıng the equıty method of accountıng ın accordance wıth IAS 31 Interests ın Joınt Ventures and IAS 28 Investments ın Assocıates and Joınt Ventures The consolıdated results of the Group for the year ended 31 March 2012 ınclude a loss after tax of £3 0m, beıng the Group's share of the post-acquısıtıon fınancıal results of Flybe Fınland and FAM wıthın a sıngle lıne, ınterest ın joınt ventures Where necessary, adjustments are made to the fınancıal statements of joınt ventures to brıng the accountıng polıcıes used ınto lıne wıth those used by the Group

Although Flybe owns 60 0% of Flybe Nordıc, management has assessed the relatıonshıp as beıng one of 'joınt control' ın accordance wıth the requırements of IAS 31, whıch results ın the dısclosure ın the Group prımary statements of the Flybe Fınland Oy results beıng lımıted to the share of net assets and result for the perıod sınce contract effectıveness ın August 2011

Notes to the consolidated financial statements
Continued

17. Acquisition of joint venture continued

	Fair value at the acquisition date £m
Net assets acquired	
Identifiable intangible assets	0 4
Property, plant and equipment	4 9
Cash and cash equivalents	8 1
Inventories	1 7
Other non-current assets	3 7
Trade and other receivables	9 8
Deferred tax liability	(1 3)
Trade and other payables	(16 1)
Deferred income	(4 5)
Borrowings	(4 6)
Identifiable net assets	**2 1**
Group share of identifiable assets	**1 1**
Allocated purchase consideration:	
Cash consideration	16 4
Contingent consideration arrangement	0 9
Costs capitalised of acquisition	1 8
Total allocated purchase consideration	**19 1**
Goodwill recognised	**18 0**

The goodwill of £18.0m arising from the acquisition represents the value to the Group that can be obtained from these underlying assets over the life of the joint venture acquired None of the goodwill is expected to be deductible for income tax purposes

The contingent consideration arrangement requires the vendor to agree adjustments in respect of working capital and other matters with the joint venture partners The potential undiscounted amount of all future payments that Flybe Group plc could be required to make under the contingent consideration arrangement is between £nil and £0 9m The maximum fair value of the contingent consideration arrangement of £0 9m was estimated by applying the cash value of the transactions that may be claimed by the vendor under the sale and purchase agreement completed on 18 August 2011 No discounting has been applied as any amounts due should be settled within one year from the date of acquisition.

18. Other non-current assets

	2012 £m	2011 £m
Aircraft deposits	9.3	8 6
Aircraft operating lease prepayments	11.7	13 8
Other non-current assets	19.0	10 0
	40.0	32 4

19. Inventories

	2012 £m	2011 £m
Work in progress	–	0 9
Goods for resale	0.8	0 8
Aircraft consumables	5.8	4 1
	6.6	5 8

20. Trade and other receivables

	2012 £m	2011 £m
Amounts receivable	44 4	32 8
Allowance for doubtful debts	(0 1)	(0 1)
Trade receivables, net	44.3	32 7
Amounts recoverable on contracts	4 4	1 3
Other receivables	22.7	26 1
Aircraft deposits	10 5	12 1
Prepayments	16 6	16 6
	98 5	88 8

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost

Trade receivables include amounts (see below for aged analysis) which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts continue to be considered recoverable

The allowance for doubtful debts arises from trade customers in liquidation or with significantly overdue debts No impairment was recognised in the year to 31 March 2012 (2011 impairment gain of £0 6m)

Ageing of trade receivables that are not provided for

	2012 £m	2011 £m
Not yet due	33 3	25 5
30 to 60 days overdue	5.9	3 5
60 to 90 days overdue	2 2	1 6
90+ days overdue	2 9	2 1
	44 3	32 7

21. Cash, cash equivalents and restricted cash

	2012 £m	2011 £m
Cash and cash equivalents	42 9	87 7
Current restricted cash	16 8	9 3
Non-current restricted cash	7 9	8 6
	67 6	105 6
Restricted cash comprises:		
Aircraft operating lease deposits	7 3	7.2
Aircraft maintenance deposits	1 7	2.0
Other (see note 31)	15 7	8.7
	24 7	17 9

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less The carrying amount of cash, cash equivalents and restricted cash is approximately equal to their fair value

22. Assets held for sale

At 31 March 2010, it was determined that the carrying value of the owned Embraer 145 rotables held by the Group would be recovered through a sale transaction as the aircraft type was withdrawn from the fleet during the year Consequently those assets, with a fair value of £0 6m at 31 March 2010, were reclassified from property, plant and equipment to assets held for sale.

At 31 March 2011, no further reclassifications were made and the net book value of Embraer 145 rotables had reduced to £0 4m as a result of disposals during the year During the year ended 31 March 2012 a further £0 1m of rotables was sold, reducing the balance to £0 3m

Notes to the consolidated financial statements
Continued

23. Trade and other payables

	2012 £m	2011 £m
Trade payables	23 9	20 1
Accrued expenses	30 7	34 1
Other payables	34 4	26 2
	89 0	80 4

The average credit period taken for trade purchases is 14 days (2011 14 days) The carrying amount of trade payables approximates their fair value The Group manages credit terms with its suppliers in a way to ensure payments are made to them on commercially acceptable terms

24. Deferred income

	2012 £m	2011 £m
Current	63.2	64 2
Non-current	12 4	14 3
	75 6	78 5

Deferred income includes government grants totalling £6 9m (2011 £7 1m) for capital financial support towards the capital costs of the Flybe Training Academy building, a national training centre for the airline industry Of this, £0 1m will be released within one year and £6 8m will be released after more than one year

Government grants were provided by the South West of England Regional Development Agency and the Learning Skills Council (and its successor) and are subject to various conditions These institutions may be entitled to clawback all or part of the grant up to 31 December 2020 if the Group ceases to operate the building as a training centre providing education and training to internal and external delegates

25. Borrowings

This note provides information about the contractual terms of the Group's interest bearing loans and borrowings For more information about the Group's exposure to interest rate and foreign currency risk, as well as the repayment profiles, see note 36

Secured bank loans

	2012 £m	2011 £m
Amount due for settlement within 12 months	21.3	16 9
Amount due for settlement after 12 months	76.0	66 8
	97.3	83 7

Terms

	2012		2011	
	Interest rate %	Amount £m	Interest rate %	Amount £m
Floating rate sterling loans	3 2	20 6	2 6	41 6
Floating rate US dollar loans	1 2	65 5	3 6	29 6
Fixed rate sterling loans	7 0	10.4	7 0	11 6
Fixed rate US dollar loans	5.4	0.8	6 1	0 9
		97.3		83 7

The interest rate above relates to the weighted average for the year or period Floating rates are based upon LIBOR with margins of between 0 1% and 3 8% The loans are repayable over a period to 31 December 2026 All loans are secured on specific aircraft assets or land and buildings As at 31 March 2012, one of the loans, with £3 3m outstanding, contained financial covenants which had been complied with

At 31 March 2012, the Group had £2.2m of unused borrowing facilities in the form of guarantees (2011: unused guarantee and overdraft facilities of £7 7m)

26. Derivative financial instruments

	2012 £m	2011 £m
Non-current assets		
Forward foreign currency contracts/options that are designated and effective as hedging instruments carried at fair value	–	0 1
Total derivative financial assets held as non-current assets	–	0 1
Current assets		
Forward foreign currency contracts/options	1 4	0 7
Fuel contracts/options	3 9	23 7
Derivative instruments that are designated and effective as hedging instruments carried at fair value	5 3	24 4
Total derivative financial assets held as current assets	5.3	24 4
Current liabilities		
Forward foreign currency contracts/options	(1 2)	(3 3)
Fuel contracts/options	(0 1)	–
Derivative instruments that are designated and effective as hedging instruments carried at fair value	(1 3)	(3 3)
Total derivative financial assets held as current liabilities	(1 3)	(3 3)
Non-current liabilities		
Forward foreign currency contracts/options that are designated and effective as hedging instruments carried at fair value	(0 1)	–
Total derivative financial assets held as non-current liabilities	(0 1)	–

Further details of derivative financial instruments are provided in note 36

27. Deferred tax

The following movements in the major deferred tax liabilities and (assets) were recorded by the Group during the current and prior reporting period

	Property plant and equipment £m	Intangible assets £m	Financial instruments £m	Tax losses £m	Total £m
At 1 April 2010	0 5	1 2	3 1	(0 5)	4 3
Credit to income statement	(4 0)	–	(2 8)	(1 0)	(7 8)
Charge to equity	–	–	5 5	–	5 5
Effect of rate change	–	(0 1)	(0 2)	–	(0 3)
At 31 March 2011	(3 5)	1 1	5 6	(1 5)	1 7
Credit to income statement	(1 7)	–	0 4	1 2	(0 1)
Charge to equity	–	–	(5 0)	–	(5 0)
Effect of rate change	0 3	(0 1)	0 1	–	0 3
At 31 March 2012	(4 9)	1.0	1 1	(0 3)	(3 1)

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities	
	2012 £m	2011 £m	2012 £m	2011 £m
Property, plant and equipment	8.6	8.5	(3 5)	(5 0)
Intangible assets	–	–	(1 1)	(1 1)
Financial instruments	–	–	(1 0)	(5 6)
Tax value of loss carried forward	–	1 4	0.1	0 1
Tax assets/(liabilities)	8.6	9.9	(5 5)	(11 6)

Where carried forward losses or unclaimed capital allowances are available, they are recognised to the extent that it is probable sufficient taxable profits will be available to allow all or part of the asset to be recovered. At each balance sheet date, the Group recognised deferred tax assets primarily on previously unrecognised losses or unutilised capital allowances. The recognition of an asset, as well as the composition of that asset, was a result of management's judgement that it was probable that it would realise such deferred tax assets in future periods, when taking into consideration the availability of feasible tax planning strategies and estimates of future taxable income in which these operating losses and other tax attributes exist

Notes to the consolidated financial statements
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27. Deferred tax continued
The Group has significant deferred assets due to the accumulation of accelerated capital allowances in prior periods The realisation of these assets is not assured and is dependent on the generation of sufficient taxable income in the future The Directors have exercised judgement in determining the extent of the realisation of these losses based upon estimates of future taxable income Where there is an expectation that on the balance of probabilities there will not be sufficient taxable profits to utilise these assets they have not been recognised. If actual events differ from the Directors' estimates, or to the extent that these estimates are adjusted in the future, any recognition in the future of previously generated assets would have a material impact on the Group's effective tax rates

The Group has not recognised a deferred tax asset in relation to the following

	2012 £m	2011 £m
Capital allowances	34 4	18 9
Unused tax losses available for offset in future	–	4 9
Other timing differences	–	0 4
	34 4	24 2

No deferred tax asset has been recognised in respect of these items as it is not considered probable that there will be future taxable profits available These unutilised deferred tax assets may be carried forward indefinitely

During the period the Group has reflected the change in the enacted tax rate from 26% to 24%, which is effective from 1 April 2012 The government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 23% by 1 April 2014 The future 1% main tax rate reductions are not expected to have a material impact on the financial statements

28. Provisions

	2012 £m	2011 £m
Leased aircraft maintenance provision	57 1	48 7

	2012 £m	2011 £m
Current	25 0	28 3
Non-current	32 1	20 4
	57 1	48 7

Aircraft maintenance provisions are made in respect of contractual obligations to maintain aircraft under operating lease contracts The amount and timing of the maintenance costs are dependent on future usage of the relevant aircraft Typically this will be utilised within two years.

The Group's provisions are as follows

	Leased aircraft maintenance £m
At 1 April 2011	48 7
Additional provision in the year	32 6
Utilisation of provision	(24 2)
At 31 March 2012	**57 1**

The additional provision in the year is included within maintenance charges shown in the consolidated income statement

29. Share capital

	2012 £000	2011 £000
Authorised		
2,301,500,000 ordinary shares of 1p each (2011 2,301,500,000)	23,015	23,015
Issued and fully paid		
75,152,881 ordinary shares of 1p each (2011 75,152,881)	752	752

In the year ended 31 March 2012 no shares were issued The Company has one class of ordinary shares which carry no right to fixed income

30. Retained (deficit)/ earnings

	£m
Balance at 1 April 2010	(8 7)
Net profit for the year	3 8
Actuarial gain on defined benefit pension scheme	6 1
Credit to equity for equity-settled share-based payments	0 5
Balance at 31 March 2011	1 7
Net loss for the year	(6 4)
Actuarial loss on defined benefit pension scheme	(0 4)
Credit to equity for equity-settled share-based payments	0 5
Balance at 31 March 2012	**(4 6)**

31. Contingencies

The Group has entered into arrangements to guarantee the Group's credit card arrangements and has placed bonds in favour of various aircraft lessors, handling agents, fuel suppliers and customs offices

	2012 £m	2011 £m
Credit card arrangements	14 0	14 0
Bonds	8 8	8 2
Total	**22 8**	22 2
Cash deposited to secure the above arrangements	15 7	8 7

In order to secure some of the arrangements highlighted above, the Group deposited amounts with its bankers that are classified as part of other restricted cash (see note 21)

Flybe Group plc and Finnair Oyj entered into a guarantee to secure the overdraft obligations of Flybe Finland Oy to Nordea Bank Finland Plc in February 2012 Flybe Group plc has entered into an undertaking to provide a general guarantee limited in value to 60 0% of the aggregate liability of Flybe Finland Oy to a maximum amount of €3m

32. Operating lease arrangements

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non cancellable operating leases, which fall due as follows

	Property and equipment		Aircraft	
	2012 £m	2011 £m	2012 £m	2011 £m
Less than one year	3.1	3 2	78 6	79 3
Between one and two years	1.6	2 0	78 1	77 7
Between two and five years	2.9	3 1	193.7	211 2
More than five years	10.6	12 3	132.8	188 5
	18.2	20 6	483.2	556 7

The majority of aircraft operating leases are denominated in US Dollars

33. Capital commitments

The Group has, over time, contractually committed to the acquisition of aircraft with a total list price before escalations and discounts as follows

	2012 £m	2011 £m
Aircraft	720 9	858 0

It is intended that these aircraft will be financed partly though cash flow and partly through external financing and leasing arrangements The number of aircraft covered by these arrangements is as follows

	No.	No
Bombardier Q400	–	3
Embraer E-Series	31	35
Total	**31**	38

Notes to the consolidated financial statements
Continued

34. Share-based payments
Performance Share Plan ('PSP')
The Company has a share award scheme under which all employees of the Group may be granted awards Awards are exercisable at nil consideration The vesting period is three years and awards are forfeited if the employee leaves the Group before the awards vest

The vesting of these awards is subject to the performance of Flybe over a three-year period 70% of the award will be subject to a target based on the Company's earnings per share (EPS) at the end of the performance period and 30% of the award will be subject to Flybe's total shareholder return (TSR) relative to a comparator group The comparator group comprises a number of European airlines and other regional transport companies, as set out in the directors' remuneration report

	2012		2011	
	Number of share awards	Weighted average exercise price (£)	Number of share awards	Weighted average exercise price (£)
Outstanding at beginning of period	937,146	–	–	–
Granted during the period	1,803,725	–	937,146	–
Forfeited during the period	(7,551)	–	–	–
Outstanding at the end of the period	2,733,320	–	937,146	–
Exercisable at the end of the period	–	–	–	–

On 21 January 2011, 937,146 shares were awarded The share price on the date of the award was £3.25. During the year 7,551 shares were forfeited and no awards were exercised The options outstanding at 31 March 2012 had a weighted average exercise price of £nil and will be available for exercise on 31 March 2013

The likelihood of awards being made under the January 2011 issue under the PSP was re-assessed during the year ended 31 March 2012 and a credit to the income statement of less than £0 1m was made in respect of the EPS element (70% of the total award) that is no longer expected to vest The charge for the TSR element of this award for the year was £0 1m (2011 £0 1m)

On 5 August 2011, a further 1,803,725 shares were awarded The share price at the date of the award was £1 62 No shares were forfeited or exercised during the year The options outstanding at 31 March 2012 had a weighted average exercise price of £nil and will be available for exercise on 31 March 2014

Again it was determined that the EPS element (70% of the total award) of the August 2011 issue would not be likely to vest and therefore only the TSR element would be charged to the income statement The charge for the TSR element of this award for the year was less than £0 1m

The aggregate of the estimated fair values of the awards granted during the year is £0 5m The inputs into the Monte Carlo valuation are as follows

	2012 award	2011 award
Weighted average share price	£1.62	£3 25
Weighted average exercise price	£nil	£nil
Expected volatility	49%	46%
Risk-free rate of interest	0 8%	1 3%
Expected dividend yields	n/a	n/a
Forfeiture	5%	5%

In total the Group recognised expenses of £0.1m in relation to the PSP scheme in the year to 31 March 2012

Share Incentive Plan ('SIP')
The SIP was open to all UK employees with at least 12 months service as at 15 December 2010 The 100 'free' shares were allocated to all eligible employees and are held in the SIP trust for a period of three years If during the three-year holding period an individual ceases to be an employee or otherwise attempts to withdraw their 'free' shares from the SIP, the shares shall be forfeited

On 24 January 2011, 280,000 ordinary shares were issued by the Company for this purpose The calculation of the charge is based on the market value at the date of allocation of £3 25 and under the assumption that 75% of shares issued will be redeemed in three years

The charge for the year in relation to this scheme was £0 2m

Save As You Earn ('SAYE')
The Flybe Sharesave SAYE scheme was offered to all employees with a length of service more than 12 months at 30 June 2011 and provides for an employee to be granted an option when entering into a savings contract ('SAYE Contract') The eligible employees are able to save a regular sum each month for a three-year period of not less than £5 and not more than £30 An option to acquire ordinary shares will be granted to each eligible employee who entered into the SAYE Contract On 5 August 2011, 998,362 of options over ordinary shares were issued by the Company for this purpose

The aggregate of the estimated fair values of the awards granted during the year is £0 6m The inputs into the Black-Scholes model are as follows

	2012
Weighted average share price	£1 62
Weighted average exercise price	£1 37
Expected volatility	53%
Risk-free rate of interest	0 9%
Expected dividend yields	n/a
Forfeiture	5%

The Group recognised expenses of £0 1m in relation to this award in the year to 31 March 2012

Summary
In total 2,802,087 options over the share capital of the Company were granted during the year to 31 March 2012, of which 906,626 were awarded to key management personnel The Group recognised total expenses of £0.5m in relation to share-based payments in the year ended 31 March 2012 (2011 £0 5m)

35. Employee benefits

Defined contribution schemes
The Group operates defined contribution retirement schemes for all qualifying employees in the United Kingdom. The assets of the schemes are held separately from those of the Group in funds under the control of Trustees

The total cost charged to income of £6 6m (2011 £5 9m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans

Defined benefit scheme
The defined benefit scheme operated by the Group was acquired on 5 March 2007 as part of the acquisition of BA Connect The scheme was closed to contributions during that year and its members now contribute to the Group's defined contribution scheme No asset is recognised in respect of the net surplus because the Group does not have sufficient certainty that any asset will eventually be realised

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2010 The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

	Valuation at	
	2012 %	2011 %
Key assumptions used		
Discount rate	4 9	5 6
Expected return on scheme assets	5 3	6 1
Expected rate of salary increases	n/a	n/a
Future pension increases	3 5/2 4	3 6/2 4
Inflation	3 3	3 5

The post-retirement mortality rate assumed at 31 March 2012 was based on the Small Area Population Statistics ('SAPS') tables with a minus one year age rating and the Continuous Mortality Investigation ('CMI') 2009 1% long-term rate projections (2011 the mortality rate was also based on SAPS)

As required by the Scheme Rules, the Scheme valuation applies the statutory basis of revaluation under the prevailing revaluation order contained in legislation The current revaluation order uses the September 2010 Consumer Prices Index ('CPI') rather than the Retail Prices Index ('RPI') The effect of this change in the statutory basis for deferred revaluation is to reduce liabilities by £8 7m

Notes to the consolidated financial statements

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35. Employee benefits continued

Defined benefit scheme continued

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below.

Assumption	Change in assumption	2012 £m	2011 £m
Discount rate	Increase by 0 1%	(2 5)	(2 5)
Rate of inflation	Increase by 0 1%	1 7	1 7

The amount included in the balance sheet arising from the Group's obligations in respect of its defined retirement benefit schemes is as follows

	2012 £m	2011 £m
Present value of defined benefit obligations	(119 6)	(110 5)
Fair value of scheme assets	120 9	115 1
Net surplus	1 3	4 6
Unrecognised actuarial gains	(1 3)	(4 6)
Recognised liability for defined benefit obligations	–	–

Amounts recognised in income in respect of these defined benefit schemes are as follows

	2012 £m	2011 £m
Expected return on pension scheme assets	(6 5)	(4 5)
Interest on defined benefit pension plan obligation	6 1	6 6
Total	(0.4)	2 1

The expense is recognised in the following line items in the consolidated income statement

	2012 £m	2011 £m
Other (gains) and losses (see note 11)	(0 4)	2 1

Amounts recognised in the consolidated statement of comprehensive income are as follows

	2012 £m	2011 £m
Opening cumulative value	4 5	(1 6)
Actuarial (losses)/gains on liabilities	(5 9)	9 8
Actuarial gains on assets	2 2	0 9
Release of provision for unrealised assets	3 3	(4 6)
Recognised in the year	(0 4)	6 1
Closing cumulative value	4 1	4 5

Movements in the present value of defined benefit obligations were as follows

	2012 £m	2011 £m
At 1 April	110 5	116 7
Interest cost	6 1	6 6
Benefits paid	(2 9)	(3 0)
Actuarial losses/(gains)	5 9	(9 8)
At 31 March	119 6	110 5

The triennial valuation as at 31 March 2010 reported a net surplus on the actuarial basis of £2 5m In the year ended 31 March 2011 a tax charge of £1 9m in relation to the Isle of Man portion of the scheme was paid and reported as part of other gains and losses This was partially offset by a £0 8m contribution that was paid into the plan by the former owner of the business to which the scheme relates, which was recorded within other operating gains No such items have occurred in the year ended 31 March 2012

Movements in fair value of scheme assets were as follows

	2012 £m	2011 £m
At 1 April	115.1	111 9
Expected return on plan assets	6.5	4 5
Employer contributions	–	0 8
Actuarial gains	2 2	0 9
Benefits paid	(2 9)	(3 0)
At 31 March	120 9	115 1

The analysis of the scheme assets and the return on those assets at the balance sheet date were as follows.

	2012 £m	2011 £m
Fair value of assets		
Equities	44.3	43 0
Bonds and gilts	76.4	71 6
Cash	0.2	0 5
	120.9	115 1
Actual return on scheme assets	5 4%	3 9%

In conjunction with the trustees, the Group has recently conducted an asset-liability review for its defined benefit pension scheme The results of this review are used to assist the trustees and the Group to determine the optimal long-term asset allocation with regard to the structure of the liabilities of the scheme They are also used to assist the trustees in managing the volatility in the underlying investment performance and risk of a significant increase in the defined benefit deficit by providing information used to determine the scheme's investment strategy

The five-year history of experience adjustments is as follows

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit obligations	(119 6)	(110.5)	(116 7)	(91 7)	(101 2)
Fair value of scheme assets	120 9	115.1	111 9	95 0	105 2
Adjustment to reflect unrecognised asset	(1 3)	(4.6)	–	(3 3)	(4 0)
Deficit in the scheme	–	–	(4 8)	–	–
Experience adjustments on scheme liabilities	(5 9)	9.8	(22 5)	(12 8)	(13 4)
Percentage on scheme liabilities	4 9%	8 9%	19 3%	14 0%	13 2%
Experience adjustments on scheme assets	2 2	0 9	14 5	(13 4)	(7 7)
Percentage of scheme assets	1 8%	0 8%	13 0%	14 1%	7 3%

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £nil

Notes to the consolidated financial statements
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36. Financial instruments
Significant accounting policies
Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements

Categories of financial instruments

	2012 Carrying value £m	2012 Fair value £m	2011 Carrying value £m	2011 Fair value £m
Financial assets				
Cash, cash equivalents and restricted cash	67.6	67.6	105 6	105 6
Loans and receivables				
Trade and other receivables	95 3	95.3	72 8	72 8
Derivative instruments in designated hedge accounting relationships	5 3	5.3	24 5	24 5
Financial liabilities				
Liabilities held at amortised cost				
Trade and other payables	(36.8)	(36.8)	(27 3)	(27 3)
Debt	(97.3)	(104.2)	(83 7)	(94 5)
Derivative instruments in designated hedge accounting relationships	(1 4)	(1.4)	(3 3)	(3 3)

Valuation techniques and assumptions applied for the purposes of measuring fair value
The fair values of financial assets and financial liabilities are determined as follows

→ The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices

→ The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments

→ The fair values of derivative instruments are calculated using quoted prices Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates

Financial instruments recorded at fair value at 31 March 2012
The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable

→ Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

→ Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i e as prices) or indirectly (i e derived from prices), and

→ Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1 £m	Level 2 £m	Level 3 £m
Foreign exchange derivatives	–	0 1	–
Fuel derivatives	–	3 8	–
At 31 March 2012	–	3.9	–
Foreign exchange derivatives	–	(2 5)	–
Fuel derivatives	–	23 7	–
At 31 March 2011	–	21 2	–

Financial risk management objectives
The Group is exposed to financial risks in respect of

→ liquidity and management of working capital

→ foreign currency

→ interest rates

→ credit risk

→ fuel price

A description of each risk, together with the policy for managing risk is given below To manage these risks, the Group uses various derivative financial instruments, including foreign currency forward contracts and commodity contracts These derivative financial instruments are generally held to maturity and are not actively traded The Group enters into these arrangements with the goal of hedging its operational and balance sheet, income statements and cash flow risk However, the Group's exposure to commodity price and currency exchange fluctuations cannot be neutralised completely

Liquidity and working capital risk management
The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance The capital structure of the Group consists of debt, which includes the borrowings (see note 25), cash and cash equivalents (see note 21) and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity and notes 29 and 30.

Gearing ratio
The Group's board reviews the capital structure on a regular basis As part of this review, the board considered the cost of capital and the risks associated with each class of capital The gearing ratio at the year end is as follows

	2012 £m	2011 £m
Debt	(97 3)	(83 7)
Cash, cash equivalents and restricted cash	67 6	105 6
Net (debt)/funds	(29 7)	21 9
Equity	89 4	107 9
Net debt to equity ratio	33 2%	Not meaningful

Debt is defined as long-term and short-term borrowings as detailed in note 25 Equity includes all capital and reserves of the Group attributable to equity holders of the parent

Notes to the consolidated financial statements

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36. Financial instruments continued

Liquidity risk management

The Directors believe that the Group has adequate cash holdings to meet its short-term creditors as they fall due The Group also arranges to borrow funds in order to finance purchase of aircraft and engines The following table, which does not take into account the discounting of cash flows and includes forecast interest payments, shows the contractual maturity of the Group's non-derivative financial instruments

	Weighted average effective interest rate %	Within 1 year £m	1 2 years £m	2 5 years £m	Over 5 years £m	Total £m
2012						
Financial assets						
Cash, cash equivalents and restricted cash (variable interest rates)	0 5	59 6	1 5	1 2	5 3	67 6
Loans and receivables	–	70 0	19 0	–	6 3	95 3
Financial liabilities						
Trade and other payables	–	(36 8)	–	–	–	(36.8)
Borrowings						
Variable interest rates	1.7	(11 1)	(8 1)	(32 7)	(40 2)	(92.1)
Fixed interest rates	6 9	(11 2)	(0 1)	(0 5)	(0 3)	(12.1)
2011						
Financial assets						
Cash, cash equivalents and restricted cash (variable interest rates)	0 5	97 4	1.1	2.6	4 5	105 6
Loans and receivables	–	56 6	9 9	–	6 3	72 8
Financial liabilities						
Trade and other payables	–	(27 3)	–	–	–	(27 3)
Borrowings						
Variable interest rates	3 0	(16 2)	(7.3)	(32 0)	(24 6)	(80 1)
Fixed interest rates	7 0	(1 4)	(12 0)	(0 5)	(0 5)	(14 4)

All financial assets and financial liabilities are non-interest bearing unless otherwise stated

The following table, which is based on market pricing in place at the end of each reporting period, shows the maturity of the Group's derivative financial instruments

	Within 1 year £m	1 2 years £m	Total £m
2012			
Net settled derivatives			
Fuel derivatives	3 8	–	3 8
Gross settled derivatives			
Foreign currency payments	0 2	(0 1)	0 1
	4 0	(0 1)	3 9
2011			
Net settled derivatives:			
Fuel derivatives	23 7	–	23 7
Gross settled derivatives·			
Foreign currency payments	(2 6)	0 1	(2 5)
	21 1	0 1	21 2

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, primarily the leasing and purchase of aircraft, spare parts and fuel in US dollars Hence, significant exposures to exchange rate fluctuations arise to US dollars In addition, certain sales and airport costs are incurred in Euros.

Exchange rate exposures are managed within approved parameters by entering into a series of forward foreign exchange contracts Foreign exchange forward contracts are used in conjunction with fuel derivatives to mitigate fuel procurement price risk In addition, foreign exchange forward contracts are matched to planned purchases of aircraft, spare parts and lease costs It is the policy of the Group to enter into forward foreign exchange contracts to cover specific US dollar payments to cover up to 90% of the exposure generated

The Group does not enter into significant Euro forward foreign exchange contracts as the Euro payment exposure is largely, though not entirely, offset by Euro revenue receipts At 31 March 2011, the Group had entered into six short-term contracts to purchase a total of €6m These contracts matured during the year ended 31 March 2012 There were no Euro contracts at 31 March 2012

All Group companies mainly use US dollars foreign exchange derivative instruments The following table summarises the Group's derivative financial instruments that are used to mitigate the exposures described above

	Average exchange rate	Foreign currency $m	Contract value £m	Fair value of asset/(liability) £m
At 31 March 2012	**$1 5974**	**279 3**	**174 8**	**0 1**
At 31 March 2011	$1 5733	289 7	184 1	(2 5)

It is estimated that a general strengthening/weakening of Sterling against the US Dollar and the Euro would improve/(worsen) both the Group's result before tax and increase its equity by approximately

	2012	2011
Percentage increase	1%	1%
US Dollar (£m)	0 5	1 5
Euro (£m)	0 1	0 1

In addition to the above, Flybe will continue to be exposed to significant non-cash revaluation gains/losses on its US Dollar denominated aircraft loans, which will be adjusted in arriving at the Group's underlying results

The carrying value of the Group's foreign currency denominated non-derivative monetary assets and liabilities at the balance sheet date is as follows

	2012 £m	2011 £m
Assets		
Euro		
Cash and cash equivalents	4 2	3 1
Trade receivables	7 7	5 0
US Dollar		
Restricted cash	9 0	9 1
Trade receivables	3 4	10 4
	24 3	27 6
Liabilities		
Euro		
Trade and other payables	(10 7)	(10 2)
US Dollar		
Trade and other payables	(15 6)	(7 4)
Debt	(66 3)	(30 5)
	(92 6)	(48 1)

Notes to the consolidated financial statements
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36. Financial instruments continued

Cash flow hedge effectiveness

The Group designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges At 31 March 2012, the Group has identified 66 (2011 50) contracts for foreign exchange purchases and 19 (2011 21) contracts for fuel purchases which have been designated as cash flow hedges For these hedges the changes in the fair value of the financial instrument were compared to market movement in the underlying hedged item and were found to be an effective offset As a result a decrease in the fair value of these financial derivative instruments of £17 3m (2011 increase £21 2m) was taken to equity through the hedging reserve.

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds in order to finance the purchase of aircraft and engines at both fixed and floating interest rates The risk is managed by the Group maintaining an appropriate mix that varies from time-to-time between fixed and floating rate borrowings based on current year conditions and debt levels

The Group's exposure to interest rates in financial assets and financial liabilities is detailed in the liquidity risk management section of this note

It is estimated that a general increase/decrease in interest rates would (worsen)/improve the group's result before tax and (decrease)/increase its equity by approximately

	2012	2011
Percentage increase	1%	1%
Impact on loss/profit before tax and equity (£m)	(0 5)	0 2

Credit risk management

Disclosures in respect of credit risk management for trade and other receivables are provided in note 20

In respect of financial assets other than trade and other receivables, the Group uses well regarded financial institutions to provide the services required and deposits surplus cash with a variety of institutions in order to minimise its exposure to the possibility of the counter-party defaulting Similarly, the Group has counter-party relationships in respect of derivative financial institutions with at least two institutions other than the Group's bankers

The table below shows the Group's major counterparties at the balance sheet date using the Standard and Poor's credit rating symbols and its aggregate exposure to those counter-parties

Counterparty	Location	Rating	2012 £m	2011 £m
Barclays Bank plc	United Kingdom	A+	24 2	42 3
Blackrock Inc	Republic of Ireland	AAA	5 1	19 9
Lloyds Banking Group plc	United Kingdom	A	17 6	25 1
Morgan Stanley & Co Plc	United Kingdom	A	1 3	13 4
Deutsche Bank AG	United Kingdom	A+	8 0	19 9
Royal Bank of Scotland plc	United Kingdom	A	9 0	–
			65 2	120 6

During 2011/12, the Standard Life investment portfolio was taken over by Deutsche Bank AG and all Flybe contracts and holdings were transferred to the new investment manager

The maximum exposure to credit risk is all financial assets plus any financial guarantees

Fuel price risk management

The Group purchases fuel on the open market from recognised fuel suppliers in order to operate its fleet of aircraft and this constitutes a substantial portion of the Group's activities (approximately 17 9% and 15 6% of Flybe UK segment costs in the years ended 31 March 2012 and 2011 respectively) The Group engages in fuel price hedging and foreign exchange transactions from time to time to meet its policy of entering into forward fuel price exchange contracts and other related financial instruments to cover a significant percentage of its anticipated requirements for fuel over a 12 month period.

Aviation fuel is a significant variable cost which has had a material impact on the Group's results during the period under review A variety of external factors, such as changes in supply and demand for oil and oil-related products and the increasing role of speculators and funds in the futures markets, have played their part in making aviation fuel prices highly volatile It is fuel price volatility which is the main driver of variances in the Group's overall fuel costs.

The Group operates a policy during normal trading conditions of managing this volatility by entering into derivative contracts representing a portion of its aviation fuel requirements up to 12 months forward Prices have fallen from the peaks of 2011 but the group continues to exercise caution when forward buying fuel above the $1,000 mark

The actual amount covered by such contracts, amounted to 42 6% of the following year's budgeted fuel consumption as at 31 March 2012 (2011 67 5%). The amount of fuel actually consumed was 2 3% less than anticipated for the year ended 31 March 2012 (2011 2 8% less than anticipated)

The following table details the fair values of forward fuel price contracts outstanding at each balance sheet date

	2012 £m	2011 £m
Fair value of contracts to buy fuel expiring		
In less than 3 months	0 1	8 6
Between 3 and 6 months	1.3	8 6
Between 6 and 12 months	2 4	6 5
	3.8	23 7

The highs and lows recorded in each period for jet fuel prices were as follows

	2012		2011	
	Price per tonne US$	Date	Price per tonne US$	Date
High	1,140	8 Apr 2011	1,061	31 Mar 2011
Low	949	4 Oct 2011	647	25 May 2010

The Group uses fuel derivatives to mitigate those exposures. It is estimated that an increase in the market price of aviation fuel would increase/decrease both the Group's loss/profit before tax and decrease its equity by approximately

	2012	2011
Percentage increase in cost of fuel	10%	10%
Impact on loss/profit before tax and equity (£m)	(2 0)	(1 6)

Notes to the consolidated financial statements
Continued

37. Related parties
At 31 March 2012, the Group is 48 1% (unchanged from 2011) owned by Rosedale Aviation Holdings Limited, incorporated in Jersey

Group companies entered into the following transactions with related parties which are not members of the Group

	Sales of services	
	2012 £m	2011 £m
Preston Travel (CI) Limited	1 3	1 2
Flybe Nordic	2 6	–

	Amounts owed by related parties	
	2012 £m	2011 £m
Preston Travel (CI) Limited	0 3	0 1
Flybe Nordic	1 5	–

The Group provided services to Preston Travel (CI) Limited which, together with Rosedale Aviation Holdings Limited, is a subsidiary of Rosedale (J W) Investments Limited

The Group also provided services to Flybe Nordic of which a 60 0% holding was acquired during the period

	Purchases of services	
	2012 £m	2011 £m
Edenfield Investments Limited	0 4	0 3
Downham Properties Limited	0 4	0 2

The transactions with Edenfield Investments Limited and Downham Properties Limited are disclosed although there is no holding or subsidiary company relationship between these two companies and Rosedale Aviation Holdings Limited These two companies are owned and controlled by the EJ Walker 1964 settlement, established by the former wife of the late Mr Jack Walker, this trust is separate for tax purposes from the Jack Walker Settlement which controls Rosedale Aviation Holdings Limited The Group also purchased property services from Edenfield Investments Limited and from Downham Properties Limited

No amounts were owed to related parties at years ended 2012 or 2011

Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 6.9% of the voting shares of the Company (2011 6 3%)

The remuneration of the directors, who are the key management personnel of the Group, is set out below Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report and form part of these audited financial statements

	2012 £m	2011 £m
Key management emoluments	1 8	1 6
Company contributions to personal pension schemes	0 2	0 2

A subsidiary of the Group has the following outstanding loans due from Directors, made prior to their appointment as Directors, to enable them to acquire a beneficial interest in shares in Flybe Group plc

	2012 £000	2011 £000
Mike Rutter	63	63
Andrew Knuckey	20	20

In addition, the following Directors have received loans from the Group's then immediate parent company, Rosedale Aviation Holdings Limited, to enable them to acquire an interest in shares in Flybe Group plc

	2012 £000	2011 £000
Andrew Knuckey	134	134
Andrew Strong	36	36
David Longbottom	9	9
Charlie Scott	9	9
Alan Smith	9	9
Peter Smith	9	9

The loans made by the Group and Rosedale Aviation Holdings Limited total £289,000 at 31 March 2012 (2011. £289,000) These loans bear no interest and are repayable out of the proceeds receivable by each Director from a subsequent sale of his respective ordinary shares and at the discretion of Rosedale Aviation Holdings Limited

There are no other transactions or balances with key management

Company balance sheet

	Note	2012 £m	2011 £m
Non-current assets			
Investment in subsidiaries	39	33.2	33 2
Current assets			
Other receivables	40	57.6	57 2
Total assets		90.8	90 4
Current liabilities			
Trade and other payables	41	–	(0 1)
Total liabilities		–	(0 1)
Net assets		90 8	90 3
Equity attributable to members of the company			
Called up share capital	42	0 7	0 7
Share premium account		60 6	60 6
Merger reserve		6 7	6 7
Capital redemption reserve		22 5	22 5
Profit and loss account		0 3	(0.2)
Total equity		90 8	90 3

The financial statements of Flybe Group plc, registered number 1373432, were approved by the Board of Directors and authorised for issue on 8 June 2012

Signed on behalf of the Board of Directors

Jim French CBE
Director

Andrew Knuckey
Director

Company statement of changes in equity

Year ended 31 March 2012

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Total equity £m
Balance at 1 April 2010	–	1 0	6 7	22.5	2 1	32.3
Total comprehensive income for the year	–	–	–	–	(2 8)	(2.8)
Issue of new shares	0 7	65 3	–	–	–	66.0
Share issue expenses	–	(5 7)	–	–	–	(5 7)
Equity-settled share-based payment transactions	–	–	–	–	0 5	0.5
Balance at 31 March 2011	0 7	60 6	6 7	22 5	(0 2)	90.3
Equity-settled share-based payment transactions	–	–	–	–	0 5	0.5
Balance at 31 March 2012	0 7	60 6	6 7	22.5	0 3	90.8

Company cash flow statement

Year ended 31 March 2012

	2012 £m	2011 £m
Operating loss	–	(2.8)
Credit to equity for share-based payments	0 5	0.5
Increase in receivables	(0.4)	(57 2)
Decrease in payables	(0 1)	(0.8)
Net cash flows from operating activities	–	(60.3)
Financing activities		
New equity raised	–	60.3
Net cash flows from financing activities	–	60.3
Net increase/(decrease) in cash and cash equivalents	–	–
Cash and cash equivalents at beginning and end of year	–	–

Notes to the Company financial statements

38. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006 As permitted by the Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union

The financial statements have been prepared on the historical cost basis The principal accounting policies are the same as those set out in note 3 to the consolidated financial statements except as noted below

In accordance with section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement The Company's loss for the year was £nil (2011 £2 8m)

39. Additional information on subsidiaries and related companies

Details of the Company's subsidiaries and related companies at 31 March 2012 are as follows

	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %
Flybe Limited	Great Britain	100	100
Walker Aviation Leasing (UK) Limited	Great Britain	100	100
British Regional Air Lines Group Limited	Great Britain	100	100
British Regional Airlines Limited	Great Britain	100	100
Flybe Leasing Limited	Great Britain	100	100
Flybe (IoM) Limited	Isle of Man	100	100
Jersey European Airways Limited *	Jersey	100	100
JEA Engineering (UK) Limited	Great Britain	100	100
Guide Leasing Limited	Great Britain	100	100
Westcountry Aircraft Servicing Limited	Great Britain	100	100
Deutsche European Limited	Great Britain	100	100
BEA com Limited	Great Britain	100	100
British European Air Limited	Great Britain	100	100
British European Limited	Great Britain	100	100
Irish European Limited	Great Britain	100	100
British European Airlines Limited	Great Britain	100	100
British European com Limited	Great Britain	100	100
Flybe com Limited	Great Britain	100	100
Jersey European Airways (UK) Limited	Great Britain	100	100
Flybe Holdings Limited	Great Britain	100	100
Walker Aviation Limited	Great Britain	100	100
Flybe Nordic AB	Sweden	60	60
Flybe Finland Holdings Oy	Finland	60	60
Flybe Finland Oy	Finland	60	60
Finncomm Training Centre Oy	Finland	60	60
Finnish Aircraft Maintenance Oy	Finland	46	46

* In liquidation

The investments in subsidiaries and related companies are all stated at cost

On 31 May 2012, the voting and ownership interests in Finnish Aircraft Maintenance Oy increased to 60 0% as described in note 16

Flybe Leasing Cayman 1 Limited, a company registered in the Cayman Islands was established during the year in order to secure financing arrangements for the purchase of the E175 aircraft from Embraer

Notes to the Company financial statements

Continued

40. Other receivables

Amounts due from Group undertakings

Amounts due from Group undertakings are £57 6m (2011 £57 2m) The carrying amount of trade and other receivables approximates to their fair value

41. Trade and other payables

As at 31 March 2012 there were no accruals (2011 £0 1m) The carrying amount of trade and other payables approximates to their fair value

42. Share capital

This is disclosed in note 29 in the consolidated financial statements

43. Related parties

The Company has provided cross guarantee arrangements to its operating subsidiaries in the following areas

→ suppliers of fuel and other services to the principal operating company

→ operating lease and loan repayments for aircraft used in the business

→ derivative instruments used to secure fuel and foreign exchange purchases

Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under these arrangements

The maximum amount that the Company could be forced to settle under the above arrangements is £606 8m (2011 £683 3m)

Five-year summary

	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m
Financial measures					
Total revenue under management	535 9	573 1	570 5	595 5	**678 8**
Less Joint venture revenue	–	–	–	–	**(63 5)**
Group Revenue	535 9	573 1	570 5	595 5	**615.3**
EBITDA	29 0	11 2	27 2	23 5	**12.1**
EBITDAR	79 4	72 2	90 9	100 9	**88.8**
Operating profit/(loss)	16 2	(25 8)	27 6	(0 9)	**(4 9)**
Profit/(loss) before tax	13 3	(33 7)	24 6	(4 3)	**(6 2)**
Earnings/(loss) per share (basic)	29 5p	(53 3)p	42 4p	6.4p	**(8.5)p**
Aircraft (at net book value)	136 7	119 8	113 5	110 9	**136 9**
Net (debt)/funds	(70 6)	(54 7)	(21.4)	21 9	**(29 7)**
Operating cash flow	(2.7)	19 0	14 9	18 1	**3 0**

	2008	2009	2010	2011	2012
Operating measures					
Average number of operating aircraft	72 8	68.4	67 5	68 3	**84 3**
Scheduled sectors flown	144,000	140,400	135,100	138,200	**147,800**
Seats flown	10,748,400	11,137,200	11,304,400	11,620,600	**12,239,400**
Sold passengers	6,974,300	7,281,400	7,178,000	7,166,200	**7,579,100**
Passenger yield	£72 61	£73 74	£72 55	£76 15	**£77 21**
Load factor	64 9%	65.4%	63 5%	61 7%	**61 9%**

All figures are reported under IFRS IFRS financial statements for the years to March 2008 and 2009 can be found in the Global Offer Prospectus issued in December 2010 A copy of this document can be found on the Investor Relations pages of the Group's website: www flybe com

Earnings per share has been restated for each year to take account of the share bonus issue that occurred in December 2010

Glossary

advanced seat assignment
a product offered by the Group allowing passengers to pre-select their seats on an aircraft for an additional charge

Air Operator's Certificate
an air operator's certificate issued by the national regulator – the Civil Aviation Authority in the UK and the Transport Safety Agency, Trafi, in Finland

ancillary yield
total ancillary revenue per passenger

CAA
the UK Civil Aviation Authority

codeshare
an arrangement whereby multiple airlines sell seats on the same flights and multiple flight designators and flight numbers are used for the same flight

contract flying
a leasing agreement whereby an aircraft (together with its operating crew), maintenance, support and insurance are provided from one party to another, otherwise known as an ACMI agreement

domestic
passengers from one UK airport (including the Channel Islands and the Isle of Man) to another UK airport (including the Channel Islands and the Isle of Man)

eco labelling scheme
a scheme, introduced by Flybe, concerning the measurement of aircraft performance in respect of noise and greenhouse gas emissions, during operation

effective exchange rate
the cost of currency for a period implicit through the weighted average cost of (i) currency acquired through forward contracts, and (ii) currency bought in the spot markets

ETS
Emissions Trading Scheme

European business cities market
the market for air travel from regional UK airports to Amsterdam, Barcelona, Berlin, Brussels, Copenhagen Dusseldorf Frankfurt, Lisbon Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart and Vienna

FAM
Finnish Aircraft Maintenance Oy owned as at 31 March 2012, 46 3% by each Flybe and Finnair Oyj with the balance owned by the management team (see note 16)

Flybe Finland
Flybe Finland Oy (formerly Finnish Commuter Airlines Oy) of which 60% is owned by Flybe and 40% by Finnair Oyj

Flybe Nordic
Joint venture between Flybe and Finnair Oyj incorporating Flybe Finland and Finnish Aircraft Maintenance Oy

IATA
International Air Transport Association

IPO
the admission, through an Initial Public Offering, of the Company s shares to the Official List of the London Stock Exchange on 15 December 2010

line maintenance
minor or scheduled maintenance carried out on an aircraft that is in service to ensure that the aircraft is fit for its next flight (including defect rectification, daily checks, visual inspections minor repairs and modifications which do not require extensive disassembly)

load factor
the number of seats sold divided by seat capacity (and flown load factor, the number of seats flown divided by seat capacity)

MRO
maintenance, repairs and overhaul

passenger
a person with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable)

purchase rights
the right to purchase additional aircraft under the same terms and conditions as for firm and option aircraft Such rights to be exercised within a finite time

regional aircraft
turboprop aircraft and regional jets

regional airline
an airline that flies predominantly regional aircraft

regional UK
an airport or destination in the UK (including the Channel Islands) but excluding London

Rosedale
Rosedale Aviation Holdings Limited

route
a scheduled service flown by an airline other than any franchise route

scheduled sectors flown
the total number of aircraft flights per annum, excluding contract flying positioning, charter and training flights

seat capacity
the average number of seats per aircraft multiplied by the number of scheduled sectors flown

sector
a flight between an originating airport and a destination airport, typically with no intervening stops

sector length
the distance typically in kilometres of a flown sector

slot
an authorisation to arrive at or depart from a stand at a particular airport at a specific time on a particular day

summer season
the last Saturday in March until the last Saturday in October in any particular year

ticket yield
the total ticket revenue per passenger (after the deduction of government taxes and levies)

UK domestic routes
routes where both the departure and destination airports are within the United Kingdom, the Isle of Man or the Channel Islands

Under management
Figures presented for revenue, passengers and seats flown 'under management' include both Group and joint venture activity, but exclude contract flying

winter season
the first Sunday following the last Saturday in October to the Friday before the last Saturday in March in any particular year

yield
total ticket revenue per passenger (after the deduction of government taxes and levies)

Acknowledgments
Flybe would like to thank all those who participated in producing this report, particularly the members of staff for their contributions

This report is available on our website http //www flybe com/corporate/investors/

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