Company registration number 1373432

Flybe Group plc

31 March 2013

Fit to Compete

Flybe Group plc
Annual Report 2012/13

Flybe remains Europe's largest independent regional airline, flying over 200 routes from more than 100 airports across 23 countries, with a strong reputation and a standing amongst our peers that means we can do business with all the major airline groups in Europe. We continue to make real and measurable progress in Europe, with our contract flying business in particular being a stable, income-generating entity.

Much more importantly than being the largest independent regional airline, though, is our desire to become Europe's most profitable regional airline. The difficult decisions we took in Phases 1 and 2 of our Turnaround Plan represent significant steps in the right direction. Our choices with regard to cost savings, outsourcing, headcount reduction, aircraft delivery deferrals and the sale of our Gatwick slots demonstrate the resilience and single-mindedness of the management team to turnaround Flybe.

We expect to see considerable reductions in the cost base of the business in both this year and the next, thanks to the actions taken during the course of 2013 that are targeted to be complete later this year. The Group is now more strongly placed for the future.

Jim French CBE
Chairman and Chief Executive Officer

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

Revenue growth in a tough market

- → Revenue under management growth of 15.1% (2011/12: 14.0%) to £781.5m (2011/12: £678 8m)
- → Group revenue (excluding joint venture) has remained steady at £614.3m (2011/12. £615.3m)
- → Passenger numbers under management were stable at 7.6 million (2011/12: 7.6 million) at a load factor of 62.6% (2011/12 61.9%)
- → Fleet under management of 98 aircraft with an average age at year end of 5.1 years (2011/12: 83 aircraft with an average age of 4 6 years)

Delivering connectivity for the UK regions

- → Leading airline brand in the UK regional market with 52.4% market share (2011/12· 50.7%). In the domestic market, Flybe's share was 28.1% (2011/12: 28 0%)
- → Operating from 13 UK bases and serving 35 airports in total throughout the UK and 39 other European countries*
- → Flybe UK's passenger revenue per seat was in line with prior year at £48.84 (2011/12: £48.71)
- → Manchester hub fully operational

Delivering on Flybe's strategic objectives

- → Contract flying by Flybe Finland was expanded to comprise 28 aircraft with 21 aircraft on contract flying terms
- → Fleet renewal continuing with the arrival of a further five Embraer E175s during the financial year; two owned and loan financed by BNDES and three on operating lease

	2013 £m	2012 £m
Total revenue under management**	781 5	678 8
Less joint venture revenue	(167 2)	(63 5)
Group revenue	614 3	615 3
Adjusted loss before tax, restructuring and surplus capacity costs***	(23 2)	(7 1)
Adjusted loss before tax and restructuring****	(32.7)	(6 2)
Loss before tax	(40 7)	(6 2)
Loss after tax	(41 8)	(6 4)

* Includes our franchise partner Loganair

** Includes our joint venture Flybe Finland

*** Adjusted loss before tax restructuring and surplus capacity costs defined as loss before tax restructuring and surplus capacity costs of £12 8m (2011/12 £nil) and revaluation losses/(gains) on USD aircraft loans of £4 7m (2011/12 £(0 9m)) Surplus capacity costs represent the costs incurred in the year relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in November 2012 The majority of these costs were removed from the business by May 2013 and form a part of the Phase 1 cost savings.

**** Adjusted loss before tax and restructuring defined as loss before tax and restructuring costs of £8 0m (2011/12 £nil)

Overview

Business review

Governance

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Notes

The Directors present the Annual Report and Accounts for the year ended 31 March 2013 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 1 to 60 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

Flybe's growth as a European regional airline

10 years of progress across the continent

Airports served 2002/03

38	Routes
31	Aircraft
2.2m	Scheduled passengers
1,533	Employees*
21	Airports served
£219.1m	Revenue under management

* 2013 group and joint venture

→ Scheduled passengers under management during 2012/13: 7.6m (2011/12: 7.6m)
→ Passengers including contract flying 2012/13: 9.4m (2011/12: 8.1m)
→ Routes operated 2012/13: 242 (2011/12: 225)
→ Scheduled seats flown under management 2012/13: 12.2m (2011/12: 12.2m)
→ Airports served 2012/13: 112 (2011/12: 102)

242

Airports
served
2012/13

98

7.6m

3,451

112

£781.5m

Who we are: Flybe UK

Serving the UK regions

2012/13 was a difficult and challenging year for Flybe in the UK. The combination of a flat-lining economy, stubbornly high fuel costs, punitive levels of Air Passenger Duty ('APD') and a depreciation of Sterling against the US Dollar meant that both revenues and passenger numbers were down slightly year-on-year and costs increased significantly.

To respond to these challenges, Flybe took a proactive approach to capacity management, by means of frequency reductions and also by stripping out twelve non-strategic loss-making routes from its portfolio of around 150 The removal of these routes enabled the airline to focus its fleet and resources more deliberately on the most important of the high-frequency services and provide Flybe UK's 7 2 million passengers with a national network that was leaner and more attuned to customer demand

The business took further decisive action in January 2013 with the announcement of Phase 1 of its turnaround plan and then again in May with the second phase of the plan In total, more than £50m per annum of costs are expected to be taken out of the business by 2014/15, and full details of the turnaround can be found on page 20

Despite these testing conditions, there were still a number of highlights in relation to the Flybe UK business

Fleet management

Flybe continues to operate its fleet in a way that optimises the use of the aircraft in service, responding to market demands while at the same time managing its existing portfolio by means of disposal and renewal

During the year, the airline took delivery of five more Embraer E175s, three of which were financed under operating leases 2012/13 also saw the successful on-time return to the lessors of two operating leased Q400s and, in May 2013, the sale of a further two Q400 owned aircraft for a modest book profit

The deals were reconfirmation of Flybe UK's commitment to maintaining one of the world's youngest regional fleets, which totalled 68 aircraft with an average age of 5 5 years at 14 June 2013, consisting of 45 Q400s, 14 E195s and nine E175s

Manchester hub

In April 2012, Flybe created a regional network hub with the announcement of its Manchester hub The concept increases the choice of domestic flights, giving passengers an affordable choice of multiple day returns throughout the UK Working with Manchester Airport to streamline connectivity and reduce minimum connecting times, Flybe has seen a significant increase in the number of passengers using the hub, underpinned by the creation of 86 regional point-to-point connections

Prior to the introduction of the Manchester hub, in the month of February 2012, just 2,800 passengers boarded a connecting flight through the airport with Flybe One year on, the success of the hub has led to that number more than tripling to some 9,200 passengers per month by March 2013 The significant month-on-month rises, led to an annual increase of 115 2% in Flybe passengers connecting through Manchester – up from 47,500 passengers to 102,300 since April 2012

Improving the passenger experience

Flybe constantly seeks to improve the speed and convenience of its product and last year introduced two innovative services to make the passenger experience even more hassle-free

From December 2012, Flybe became the first UK airline to offer automatic check-in at point of booking, enabling an electronic boarding pass to be automatically sent direct to the customer's smart phone or e-mail between 36 and 15 hours prior to departure Uptake of the product has been excellent, with more than a quarter of all passengers making use of the service in the first six months of operation For passengers who choose the SMS option, their phone is now all they need to pass through security and board the aircraft

The airline also launched its first mobile website optimised for a wide variety of devices including iPhone, Blackberry, Windows 7 and Android in July 2012 Available in four languages – English, Finnish, French and German – it offers customers the ability to search and book all direct and indirect services available whilst on the move via their mobile devices Customers can also choose any of the numerous add-on choices available during the booking process that includes pre-assigned seat selection and baggage options This was a response to the rapid growth in mobile technology that is arguably more important for air travellers than most other sectors

52.4%

(2011/12: 50.7%) UK regional market share (including our franchise partner, Loganair)

28.1%

(2011/12: 28.0%) UK domestic market share (including our franchise partner, Loganair)

Punctuality

Ensuring passengers arrive at their destination safely and on time is the bread and butter of any airline and 2012/13 was another positive year for Flybe UK

Of those airlines that operated more than 30,000 flights during 2012 from the 10 Civil Aviation Authority (CAA) reporting airports, the statistics confirmed that Flybe maintained its strong performance, delivering an 83 2% on-time ranking for its reported sample of 107,900 flights The airline's performance across its entire network was even better, with an 85 2% on-time punctuality level, and was among the best that have been delivered in Flybe's 10 years of operations

Markets and market share

Flybe continues to serve a balanced market segmentation that is not reliant upon any one sector for its passenger groups During financial year 2013, just under 40% of Flybe's passengers were travelling on business, with those visiting friends and relatives ('VFR') market totalling some 30% The share of passengers travelling for a holiday or break in 2012/13 rose to around 26% reflecting both a small squeeze on business travel and also a deliberate effort by the airline to offer an increased amount of sun and ski leisure routes throughout the period Flybe will continue to adjust its network to match customer needs during the next year

Despite the more than 21% fall in the number of UK domestic airline passengers since 2007, Flybe's brand share of that market in that time has grown markedly, and its market share in 2012/13 was slightly higher at 28 1% (2011/12 28 0%) Included within that growth are strategically key routes that have witnessed major increases They include Edinburgh to Manchester where market share has risen from 55 5% to 65 2% over the last year, Aberdeen to Manchester which has similarly grown from 55 1% to 76 4% and Belfast City to Birmingham with a 14 2 percentage point rise from 64 1% share to 78 3%

Public policy

Like many other airlines, Flybe has become increasingly concerned that successive UK governments have had neither a strategy for, nor a commitment to, aviation Over the last few years, government's stubborn refusal to amend APD rates for domestic operators, its lack of support for the UK regions and its support for ETS derogation for international, but not intra-European services, have served to reinforce that view It is difficult to see how the government's goal of re-balancing the economy towards the regions can be achieved without providing them with the requisite infrastructure options

Ten full years after the publication of the 'White Paper on the Future of Air Transport', Flybe remains disappointed that the current government has yet to publish an over-arching, holistic strategy for aviation in the UK The Aviation Policy Framework ('APF') issued in March 2013 was a document that paid scant attention to the needs of the regional economies, made no reference to the impact of increased airport charges and kicked the issue of capacity in the south-east into the political long grass with the creation of the Airports Commission Although APD is the preserve of HM Treasury, it was noticeable that the APF failed to recognise the damaging effect of the tax and the impact it has had on the sector and the wider economy The industry has every right to ask why, if the Department of Transport will not represent its concerns with the Treasury, what contribution it makes to the development of transport within the UK?

Over the last few years, the industry has repeatedly warned successive governments that it is facing a 'perfect storm' of regulatory and economic challenges that would inevitably lead to difficult decisions being taken to preserve its viability For Flybe, this demonstrated itself most obviously in the difficult decisions taken in the Turnaround Plan announced on 23 January 2013 and expanded upon on 23 May 2013

Who we are: Flybe Outsourcing Solutions

Providing customer with an integrated aviation product

The 2011/12 Annual Report outlined the decision to re-structure the business into three divisions – Flybe UK, Flybe Europe and Aviation Services – providing a clear focus and drive to the implementation of the Group's growth strategy. As 2012/13 progressed it became evident that more of the work Flybe was engaging in, bidding for and winning, was in fact a combination of various outsourcing elements. To that end, Flybe Outsourcing Solutions was created in January 2013 in order to meet those challenges and brought together the previous Flybe Europe, the organisational name of our joint venture with Finnair, and Aviation Services divisions to provide an integrated outsourcing product to customers.

Trading as separate divisions for the first nine months of the year, it is logical to examine the two businesses in turn

Flybe Finland

2012/13 was a year of growth for Flybe's joint venture operation in Finland, with a step change in the results of the business, driven by capacity changes in commercial flying, a €3m overhead and supplier cost reduction programme and above all, the further contract flying deal with Finnair which commenced on 28 October 2012

The Finnair contract flying deal was the culmination of months of negotiation and planning and transformed Flybe overnight into the biggest provider of contract flying services in Europe with 2 5 million seats flown in 2012/13 (2011/12 0 9 million)

The smooth and efficient transfer of a further 12 E190 regional jets on operating lease and 136 flight deck crew, along with the recruitment of 150 cabin crew, for the commencement of expanded contract flying operations from 28 October 2012, was a tremendous logistical achievement, matched only by the absence of any disruption to the scheduled flying in the Nordic region Similarly, there was no increase to overhead costs as a result of the new operation, and profit from contract flying has led to the overall Flybe Finland business posting monthly profits by the end of the 2012/13 financial year

The existing commercial flying programme in Finland was remodelled, with reduced capacity and routes leading to its losses being significantly reduced

Other KPIs that exemplify the successful turnaround of the Nordic business include a significant reduction on overheads per flown passenger, a substantial increase in commercial ancillary revenue by flown passenger as well as increases in commercial revenue per sector flown

The transformation of Flybe Finland into a profitable, self-financed, sustainable business for the future bodes well towards meeting Flybe's stated strategic objective of expansion in Europe The business looks forward to a positive future, particularly in contract flying opportunities outside of the UK

Flybe Aircraft Maintenance

Market conditions in the regional aviation sector remained weak, caused by lower flying activity in this segment leading to reduced maintenance volume, which in turn increased available maintenance capacity across the aircraft types served by Flybe Despite these pressures, Flybe's Maintenance Repair and Overhaul ('MRO') business, Flybe Aircraft Maintenance, delivered a solid performance, even with the challenges faced by the business

The MRO continued to build on its strategy of extending its third party maintenance coverage of the BAE146/RJ, ATR turboprop and Bombardier Q400 aircraft types and this success meant the business grew third party sales in these markets by more than 54% on the previous year for all of these types combined

Further evidence of the MRO's determination to widen its core customer base came from new initiatives with operators in the Middle East and Eastern Europe as well as its traditional markets in western and southern Europe. The MRO also took steps to establish support initiatives such as through life maintenance and continuous airworthiness packages being offered to both lessors and aircraft manufacturers seeking to encourage start up operators

1.8m

contract flying passengers under management during 2012/13 (2011/12: 0.5m)

However, these successes were not sufficient to maintain its profitability and, in January 2013, the MRO also launched a cost saving plan which saw it resize its available capacity and labour establishment

Overall, Flybe Aircraft Maintenance has taken positive steps to retain its position as a quality service provider with its focus strongly placed on sustaining an efficient cost base that enables it to react competitively to the needs of an ever changing and diverse regional aircraft sector

Flybe Training Academy

Flybe continues to develop and promote talent within the aviation industry through the training programme it provides at its Training Academy facilities in Exeter The state-of-the-art facility has 26 classrooms, a simulator hall with two full flight Level D simulators, cabin crew simulator hulls for safety and refresher training, and an engineering apprentice workshop

Qualifications offered 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, Foundation and Bachelor degrees, and engineering aircraft type approvals Flybe already has over 100 students engaged on the Diploma in Engineering, which after four years provides successful students with a Foundation Degree level qualification, a BTEC and Diploma in Engineering and a Part 66 engineering module towards gaining their licence 2012/13 has been another year of outstanding student achievement and success for the diploma programme The first ever cohort of students completing their training in July 2012 achieved a 100% pass rate All of the students found jobs within the aviation industry prior to leaving the programme

Flybe Training Academy's flexible training solutions and its ability to offer training to be delivered at customer's chosen locations across the world, has seen instructors travelling as far afield as Dubai, Papua New Guinea, Namibia and Russia to deliver technical training courses The technical training being offered has extended over the past 12 months to include ATR aircraft

The customer service team has extended its reach to the non-aviation sector after winning a notable contract with the First Great Western to deliver bespoke Customer Service training to over 1,000 employees The series of 92, specialist one-day sessions commenced in June 2013, delivered by Flybe Customer Training staff at inter-city locations, and combines Flybe's successful customer service training programme with First Great Western's 'Five Guiding Principles of Customer Service'

Partnership with Brussels Airlines

Flybe's strategy of increased contract flying is not confined to Finland In June 2012, an extension to the contract flying agreement with Brussels Airlines was announced, to provide a further two Bombardier Q400 aircraft, complete with pilots, cabin crew and engineering support Those aircraft joined the two Q400s already provided to the airline in an identical contract flying agreement announced in March 2012, taking the number of Flybe aircraft operating on behalf of Brussels Airlines to four The third aircraft commenced contract flying operations from the beginning of September 2012 and the fourth began operations at the start of the IATA Winter Season

The four aircraft operating for Brussels Airlines, when combined with those undertaking similar work for Finnair, meant that, by the end of 2012/13, more than 25% of Flybe's fleet under management was deployed under contract flying arrangements

10 years of building Europe's largest regional airline

2002

A new beginning for the airline as British European dramatically changes its business model to survive in a highly competitive and aggressive new low-cost travel era Flybe was born and, along with it, a bright, modern brand and changes to commercial, fleet and operational policies that transformed the airline

2003

Flybe increases flights to and from Southampton Airport, creating its first base offering 15 routes to popular holiday destinations including Malaga, Alicante and Bergerac

2004

Flybe increases its services out of Exeter Airport, creating its second base offering flights to popular destinations Malaga, Alicante, Belfast, Edinburgh, Faro, Glasgow and Newcastle

2005

Flybe becomes the first airline to introduce Fair Deal on Baggage

A massive aircraft order is announced for new Embraer 195 aircraft (14 firm orders) which sees Flybe as the global launch customer

2006

Flybe's brand new £12m hangar facility at Exeter Airport opens Within two years, Flybe's Maintenance Repair and Overhaul business becomes one of Europe's largest

2007

Flybe completes the acquisition of BA Connect, British Airways' UK regional airline In a transformational agreement, Flybe becomes Europe's largest regional airline overnight and integrates the new business within three weeks of acquisition

Launches the world first eco-labelling scheme for the airline industry

Rewards4all, the UK's first lowcost customer loyalty scheme is offered to all passengers

2008

Flybe announces a landmark franchise agreement with Loganair, the Scottish regional airline, seeing it take to the skies in Flybe colours in October 2008 The deal replaces Loganair's previous agreement with British Airways

2009

Flybe wins the prestigious Air Transport World 'Regional Airline of the Year' award in Washington DC – only the second occasion a UK airline has won the trophy in its 35 year history

2010

Flybe overtakes Easyjet to become the UK's Number One domestic airline, with a 26% market share In an incredible turnaround, Flybe has moved from fifth position with 11% market share to top spot in just six and a half years

Flybe signs a multi-billion dollar deal with Embraer for up to 140 Embraer E-Jet 175 aircraft to support its planned European growth

Flybe and Air France sign an extensive codeshare agreement covering some 62 routes

Flybe is floated on the London Stock Exchange

2011

Flybe acquires Finnish Commuter Airlines (Finncomm), Finland's largest domestic air carrier, in a newly-formed joint 60-40% venture with Finnair, Finland's flag carrier

£13 million new state of the-art Flybe Training Academy at Exeter Airport officially opened by Rt Hon George Osborne MP

Flybe becomes the first independent carrier in the UK to create a regional network hub in Manchester from where passengers have an additional weekday choice of 86 improved connections through Manchester Airport, reducing minimum connecting times to as little as 35 minutes

This proves beneficial for passengers travelling to Aberdeen, Belfast City Edinburgh, Exeter, Glasgow, Inverness and the Isle of Man as well as those flying with franchise partner, Loganair from Norwich

2012

Making Flybe Fit to Compete

Jim French has been at the helm of Flybe for the last 12 years and is one of the most respected leaders in aviation. Here, he examines the challenges of the last year.

Q. 2012/13 was another difficult year for Flybe. What do you put that down to?

A. There's no doubt that the last few years have been tough for Flybe The business has not progressed the way I, or any of the Board, would have wanted but I think it's very important to put our performance into context against the very serious headwinds the industry has been battling

There are four key challenges the business has had to deal which have contributed to our performance being below the Board's expectations for the year

Firstly, the state of the UK economy.

Flybe earns the substantial majority of its revenues from within the UK, about 70% of total revenue We say it often, but it is a source of real pride that Flybe serves more UK airports than any of our competitors. Outside London, our market share is a very healthy 52 4%, which is a sure sign that we are, without question, the UK regions' domestic airline of choice However, continued austerity and anaemic growth has meant that there are significantly fewer total passengers than there were pre-recession In particular, the volume of domestic passengers, whose primary purpose of travel is for business or short family visits, has seen a significant fall of over 21% since 2007, an unprecedented decline

By contrast, the international travel market has enjoyed continued growth over the period, reflecting once again that, while the consumer and business are cutting back on domestic flying, they are still determined to have that overseas family holiday where the sun is guaranteed. And international businesses are taking advantage of the depreciation of the pound in recent years and are continuing to expand their international sales activities

Q. Moving on from there, what role has Government played?

A. The public policy landscape is the second major issue that Flybe has faced with successive governments as they have become increasingly unsupportive and with no clear aviation strategy or policy

Most particularly, the actions of successive administrations in constantly raising the levels of Air Passenger Duty ('APD') have had a profoundly damaging impact on the domestic air travel market

In 2007, the government charged £5 one-way to every passenger on a domestic flight, but by 2013 that figure had risen to £13, a 160% increase This tax now represents an average of 18% top line tax on our business, a figure which we understand to be several times higher than incurred by any of our peer group due to our significantly greater proportion of domestic passengers

Flybe has to collect £26 from each passenger flying a return domestic flight in the UK before we start adding our own costs, the costs of fuel, airport charges and the rest And, of course, the domestic passenger is penalised further because they pay APD on both legs of their journey, as opposed to the single levy paid by a passenger on a departing international flight, meaning that in 2012/13 Flybe paid £70m in UK APD I have been quoted as describing this 'double hit' as ludicrous and penal and I see no reason to change my view

There is much industry criticism and media coverage dedicated to the lack of government policy regarding additional runway capacity in the South East, however there is little attention given to the complete lack of any policy regarding ensuring the long-term provision of services from the UK Regions into the nation's central hub airport – or even the South East of England, for that matter And given it is a cornerstone of the coalition government's economic policy to develop the economy and encourage economic growth away from the South East, it seems almost ridiculous that they have no aviation policy or taxation policy, with regard to APD, which supports this objective

Unfortunately, our regulators have also not been as supportive as perhaps they should have been The CAA's failure to apply a system of robust regulation on its regulated airports was exposed by our Section 41 complaint to them against London Gatwick citing anti-competitive and discriminatory charging After nearly two years of deliberation, the CAA found in favour of an airport that had increased our landing charges by 110% in six years and this has unfortunately led to the inevitable outcome of us having to withdraw from our Gatwick operations from March 2014

Q. What are the other challenges?

A. The two other major headwinds we face are those of fuel costs and the depreciation of Sterling, particularly against the US Dollar Fuel is obviously a major cost for an airline and, although we have a young fleet that is much less thirsty than many of our competitors, the highest annualised price in history has had a big impact, with a year-on-year increase in fuel costs in 2012/13 alone of £16m

Lastly, because a significant element of Flybe's costs are US Dollar denominated, including aircraft ownership, fuel and maintenance, we have a particular exposure to changes in the value of Sterling The 25% depreciation of Sterling against the US Dollar in the past five years or so has led to an increase in our annual cost base over that period of around £40m

We have comprehensive hedging policies and procedures for both the Dollar and fuel However these are designed to smooth short-term shocks but, ultimately, any increase does flow through

Q. So Flybe clearly has some major challenges, but that's the same throughout aviation, isn't it? You can't go on making such losses can you – what are you doing about it?

A. I would re-iterate that while there are indeed many challenges common to all sectors in aviation, the domestic market has been hit badly by the burden of APD and there are no signs of significant change to any of the above key factors Therefore, we have had to take significant actions with the primary focus of reducing our costs by simplifying the business, outsourcing where possible, using new technology to alleviate more labour-intensive procedures and thoroughly reviewing every cost area in the organisation

In January 2013, we unveiled Phase 1 of the Flybe Turnaround Plan where we laid out medium-term profit targets, and the actions we were going to take to return the Group to profitability

The Group addressed the immediate challenges and opportunities by means of, firstly, a cost reduction and de-risking plan which will underpin the return to profitability of the UK scheduled flying business and secondly, a clear plan to respond to the increasing opportunities available in the European outsourced aviation market and build on Flybe's recent very strong growth and reputation in the contract flying sector

Making Flybe Fit to Compete
Continued

We created a leaner and more focused organisation, comprising two divisions to replace the former three All UK-based scheduled services will be managed within Flybe UK, while all outsourced services provided to third party customers including contract flying, MRO services and training, were brought together under one division, Flybe Outsourcing Solutions

Flybe UK has been transformed into a leaner division, more focused on a cost based return to profitability Within three months of that announcement, we had successfully begun the process of outsourcing, including to date, our call centre, line maintenance, ground handling and on-board catering On a personal level, it was sad to see so many loyal colleagues leave the organisation – more than 20% of the workforce However, it was unquestionably the right thing to do in order to secure our long-term future.

In addition to the outsourcing moves, we reduced our management posts by 20% and trimmed our overhead and production roles by more than 10% Again, tough calls to make and not pleasant, but designed to get the company back on track

Q. But you can't turnaround a business just by headcount reduction, can you?

A. I agree – even with the reductions, Flybe still retains a staff of 2,319 in the UK business

On 23 May 2013, the company updated the London Stock Exchange on the progress of Phase 1 of our turnaround plan, and the actions taken to that point We were able to inform them not only that we had managed to secure £30m of cost savings in 2013/14 against a target of £25m, but were targeting a further £10m of cost savings in 2013/14, rising to £19m in 2014/15

In addition, we need to ensure our cash balances are continuously strengthened and we also announced two very significant transactions to assist in financing the transition period of the turnaround plan.

The first of these was that we had reached an agreement with Embraer to defer 14 new E175 aircraft originally contracted for delivery during 2014 and 2015 The aircraft will now be delivered between 2017 and 2019 and as a consequence, will save us £20m of peak exposure on pre-delivery payments in the winter of 2013/14

The second transaction was an agreement to sell all of our arrival and departure slots at Gatwick to easyJet for £20m Again, it was a tough decision to make but, as I mentioned earlier, inevitable once the CAA had thrown out our appeal against the doubling of our costs by the owners of London Gatwick We have served Gatwick from the regions for over 20 years, and it was an announcement I wished we hadn't had to make.

I said at the time of these proposed cost increases, and also consistently during Flybe's hearing process with the CAA, that Flybe had to accept the ugly reality that London Gatwick simply doesn't want smaller, regional aircraft at their airport and that it is inevitable that higher frequency services from the regions will ultimately be squeezed out of Gatwick, much as they have been from Heathrow Without any Government Aviation Policy designed to protect regional connectivity, the regulators had a very narrow band of competitive regulation to work within in coming to their decision to uphold Gatwick's right to apply these significant increased charges

Q. If the regional economies rely on Flybe for their air travel and airports like Gatwick drive you out, doesn't that mean your business model is broken?

A. Not at all, it simply means that we have to adapt If London Gatwick doesn't want the half a million passengers we delivered them last year, there are plenty of airports that do and we are working with major airports such as Birmingham, Southampton, Manchester, Glasgow and Edinburgh in the UK and Paris CDG and Amsterdam in mainland Europe to ensure regional passengers don't miss out on the connectivity they so badly need

Our business model remains sound but, as I say, does have to change and evolve We're currently undertaking a review of our network strategy that will focus on developing a number of core defensible bases These bases will represent the network points that will be prioritised for investment and growth I'm confident that this revised focus, together with the cost reduction and efficiency measures we are introducing, will provide the airline with strong foundations for a long-term profitable future, and restore our leading position in the UK and European regional flying market.

"I believe that 2013/14 will see Flybe make a very significant step towards returning to profitability and to our medium-term goal of being Europe's most profitable regional airline."

On top of that work in the UK, our business model in Europe continues to adapt and grow The success of our contract flying arrangement with Finnair has catapulted us from nowhere to being the number one provider in European contract flying That's a strong performance by the team and a signal that the business retains its ability to be fleet of foot – hardly a sign of a broken model!

Q. You mentioned £30m of savings made Where has this all come from, and doesn't it suggest the company was carrying too much cost in the first place?

A. The savings come not just from outsourcing and staff costs which, by the way, I expect by the end of this financial year to be back down to 2006/07 levels, but also from various initiatives to reduce costs by maximising the use of automation for the customers in their journey experience and completely reviewing our procurement management and processes We've called the plan, taken as a whole, 'Making Flybe Fit to Compete', which I think neatly and concisely sums up what we're about

In terms of the savings being delivered, our aim is nothing short of embedding a permanent change in Flybe's culture of buying services and goods to ensure that the cost savings are maintained for the future

Q. Those are significant savings, what guarantee can you give passengers that safety won't be compromised by making Flybe fit to compete?

A. Our systems are second to none and the staff who operate them are the best I have ever worked with in my forty years in aviation No airline would ever put safety anything other than at the very top of its priorities – and Flybe is certainly no different

Q. The share price has fallen about 20% over the last 18 months, why would anyone invest in Flybe?

A. Of course, it has been disappointing for all of us to see the value of our shares fall in the way they have but, set against our various headwinds, I believe the business is now moving in the right direction Our major shareholders have confidence in the business model and more than one city analyst has described us as a company that is poised to benefit from the upturn in the economy when it comes

I won't deny that the changes we have made over the last few months have been difficult and painful but unquestionably they were the right thing to do as they provide us with a leaner, stronger business on which to build the next phase of the Flybe story

Flybe is now in much better shape to capitalise on any recovery in our core markets as the domestic and European economies begin to pick up again

Q. So finally, what can shareholders and passengers expect to see from Flybe in 2013/14?

A. I think there are three clear deliverables that our various stakeholders will witness over the next year

Firstly, they will see an airline that genuinely is 'fit to compete' I'm not a fan of slogans or sound bites because they're often just PR hiding something that has no depth or meaning but, making Flybe truly fit to compete, and take on our competitors successfully, has to be at the heart of everything we do and every decision we make

Secondly, they will see an airline that still offers quality service, competitive fares and a high frequency that meets the needs of the regional passenger It will reflect the new financial environment under which airlines must now operate, and will continue to offer the business passenger everything he or she needs from an airline while offering more leisure routes to allow hard-working families the chance to enjoy the sun or to ski All with safety at the very heart of everything it does.

Thirdly, and lastly, I believe that 2013/14 will see Flybe make a very significant step towards returning to profitability and to our medium-term goal of being Europe's most profitable regional airline

Chairman and Chief Executive Officer's Statement

Jim French CBE
Chairman and Chief Executive Officer

Key financial headlines

	2013 £m	2012 £m	Change %
Total revenue under management	781 5	678 8	15 1
Less joint venture revenue	(167 2)	(63 5)	163 3
Group revenue	614 3	615 3	(0 2)
Adjusted EBITDAR before restructuring and surplus capacity costs*	71 4	88 8	(19 6)
Adjusted EBITDAR before restructuring costs**	66 6	88 8	(25 0)
Adjusted loss before tax, restructuring and surplus capacity costs***	(23 2)	(7 1)	n/m
Adjusted loss before tax and restructuring****	(32 7)	(6 2)	n/m
Loss before tax	(40 7)	(6 2)	n/m
Loss after tax	(41 8)	(6 4)	n/m
Operating cash (outflow)/inflow	(2.9)	3 0	n/m
Net debt*****	(66.3)	(29 7)	n/m

* Adjusted EBITDAR before restructuring and surplus capacity costs defined as operating profit or loss before joint venture results after adding back restructuring and surplus capacity costs of £12 8m depreciation amortisation and aircraft rental charges Surplus capacity costs represent the costs incurred in the year relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in November 2012 The majority of these costs were removed from the business by May 2013 and form a part of the Phase 1 cost savings

** Adjusted EBITDAR before restructuring defined as operating profit or loss before joint venture results after adding back depreciation amortisation and aircraft rental charges and restructuring costs of £8 0m

Adjusted loss before tax restructuring and surplus capacity costs defined as loss before tax restructuring and surplus capacity costs of £12 8m (2011/12 £nil) and revaluation losses/(gains) on USD aircraft loans of £4 7m (2011/12 £(0 9m))

**** Adjusted loss before tax and restructuring defined as loss before tax and restructuring costs of £8 0m (2011/12 £nil)

***** Net debt includes restricted cash

Overview

A Business Fit To Compete

Flybe's financial performance for 2012/13, while in line with market expectations, was nonetheless still disappointing The ongoing difficulties faced by UK regional aviation – most notably the anaemic state of the economy, the continuing penal 'double hit' of APD on UK domestic passengers and the stubbornly high cost of fuel – meant that 2012/13 could best be described as a year of turnaround and refocus for the business

Last year, I outlined how the Group would invest for the future by means of a three-pronged strategy of positioning the Group to capitalise on UK recovery, expanding into Europe, and undertaking a wholesale fleet substitution

£781.5m

Revenue under management up from £678.8m in 2011/12

12.2m

Seats flown under management in line with 12 2m in 2011/12

programme While the Group's adjusted loss before tax for the year was £23 2m, we continued to deliver this strategy Although the restructuring decisions we took with regard to the size and scale of the business were tough, the Board and I believe they were the right ones to make and will ensure that Flybe is genuinely 'Fit to Compete'

Divisional structure

As per the Phase 1 announcement on 23 January 2013, the Group has been refocused into two operating divisions

- → Flybe UK, comprising the UK domestic and UK to Europe scheduled airline business Andrew Strong is Managing Director of this division Contract flying activity previously recorded in this division now forms part of the Group's newly formed division, Flybe Outsourcing Solutions
- → Flybe Outsourcing Solutions, comprising all Flybe's contract flying operations and its European scheduled flying businesses, as well as the MRO and Training businesses supporting Flybe's airline divisions and serving third party customers Mike Rutter heads up this division as Managing Director Flybe's scheduled services in the Nordic and Baltic States are also managed by this division

Some 82% of European scheduled contract flying is currently delivered by loss making in-house subsidiaries Flybe strongly believes that pressure on network carriers and small-scale state-owned airlines to outsource will increase and presents a major contract flying opportunity, along the lines of the US model The contract flying model delivers predictable income streams per aircraft, with lower commercial risk, producing annuity-style earnings

Due to its success with Finnair, Brussels Airlines and, in previous years, Olympic Air, and its acknowledged expertise in this area, Flybe has developed into the largest independent schedule contract flying provider in the European regional sector operating about 5,000 flights per month, more than twice that of our nearest competitors

The Board anticipates significant growth in European scheduled contract flying over the next few years and believes that Flybe is well placed to exploit this rapidly growing sector

Results

Flybe delivered a result for the year in line with market expectations Revenue under management, including the full year impact of Flybe Finland, increased 15 1% to £781 5m (2011/12: £678 8m) Adjusted EBITDAR before restructuring and surplus capacity costs fell 19 6% to £71 4m (2011/12 £88 8m) with an adjusted loss before tax, gains/(losses) on revaluation of USD aircraft loans, restructuring costs and surplus capacity costs of £23.2m (2011/12 loss of £7 1m) and a reported loss before tax of £40 7m (2011/12 loss of £6 2m)

This disappointing performance reflects the combined impact of a further 1% underlying decline in Flybe UK's core domestic market during the year along with high fuel prices and other cost pressures, particularly in US Dollar denominated costs and in regulated areas such as airport charges and air navigation fees Both divisions were loss-making with Flybe UK losing, excluding the revaluation loss on USD aircraft loans, restructuring and surplus capacity costs, £17 3m and Flybe Outsourcing Solutions losing £2 3m on the same basis In addition, restructuring costs of £8 0m and surplus capacity costs of £4 8m were incurred during the successful implementation of the first phase of our plans to restore both divisions to profitability and positive cash generation This first phase has led to 240 people leaving the business through voluntary and compulsory redundancy and resignation, and another 250 via transfer under TUPE regulations to other businesses

The Group's balance sheet had total cash, including restricted funds, of £54 7m at 31 March 2013 (2012 £67 6m), and net debt of £66 3m (2012 net debt of £29 7m)

Divisional Review

Flybe UK

Flybe UK recorded revenue of £575 2m (2011/12 £588 1m) and a reported segment loss before tax of £32.5m (2011/12 loss of £2 2m)

The Flybe UK results include Group costs of £3 6m (2011/12 £3 3m) Excluding Group costs, Flybe UK's adjusted loss before tax, restructuring of £4 0m, surplus capacity costs of £2.9m and revaluation losses on USD aircraft loans of £4 7m (2011/12 gains of £0 9m) was £17 3m (2011/12 profit of £0 2m).

Flybe UK passenger numbers were stable at 7 2 million, only 1 1% down on 2011/12's 7 3 million despite seat capacity reducing by 2 7% to 11 3 million and sectors flown reducing by 3 5% to 132,600 (137,400 in 2011/12) Load factor improved by 1 0 percentage points (from 63.1% to 64 1%), continuing the improving trend that started in the previous year

Flybe Outsourcing Solutions

The core businesses in this division are the joint venture with Finnair, Flybe Finland, which derives its revenues mainly from contract flying, the maintenance, repair and overhaul business ('MRO'), branded as Flybe Aircraft Maintenance, and Flybe Training Academy operations based in Exeter

With revenue of £167 2m (2011/12 £63 5m) and costs of £173 7m (2011/12 £72 6m), £41 3m of which was fuel, Flybe Finland generated a reduced loss before tax of £6 5m

Chairman and Chief Executive Officer's Statement

Continued

(2011/12 loss before tax of £9 1m) in what has been its first full year of operations Flybe's share of loss after tax in the joint venture Flybe Finland was £2 8m (2011/12 £3 0m in the year of acquisition) The division is on track to deliver profits in 2013/14

The MRO (Flybe Aircraft Maintenance) and Flybe Training Academy support both Flybe's UK and Finnish activities as well as serving third-party customers These businesses, together with contract flying arrangements for Brussels Airlines (see below) delivered revenue of £58 1m (2011/12 £47 3m), an adjusted profit before tax of £1 2m and a loss before tax of £4 7m (2011/12 loss of £0 5m), after restructuring costs of £4 0m and surplus capacity costs of £1 9m

The MRO (Flybe Aircraft Maintenance) and Flybe Training Academy businesses support both Flybe's UK and Europe divisions as well as serving third-party customers These businesses, together with contract flying arrangements for Brussels Airlines (see below) delivered revenue of £58 1m (2011/12 £47 3m), an adjusted profit before tax of £1 2m and a loss before tax of £4 7m (2011/12 loss of £0 5m), after restructuring costs of £4 0m and surplus capacity costs of £1 9m

The year saw total training revenue for the Flybe Training Academy increase by 65 4% to £5 0m (2011/12 £3 0m)

Contract flying for Brussels Airlines generated revenues of £12 6m for the provision of four crewed Q400 turboprops in arrangements lasting up to two years These expire in April and October 2014

Corporate governance

Because we are committed to high standards of corporate governance, which we believe benefits all of our stakeholders, my fellow Directors and I are continually looking for ways in which we can improve governance at Flybe. We monitor developments in relevant legislation, regulation and voluntary codes of practice and institutions' guidelines and we continue to seek to embed governance into our routine Board and sub-committee processes. Our statement on compliance, and greater detail on how we apply the principles set out in the UK Corporate Governance Code, are set out on pages 40 to 48

People

2013 saw the resignations from the Board of Lord Digby Jones on 13 March and Anita Lovell on 17 May Both have made positive contributions to the Board and I would like to thank them for their support during their appointments.

In November 2012, we announced our plan to split my role as Chairman and CEO, as stated at the time of the IPO Given the critical importance of successfully delivering on our turnaround plan, we have concentrated all our efforts in that area We will appoint a CEO once the Board is satisfied that sufficient development along these lines has been made

As outlined above, our turnaround plan has involved considerable efforts to reduce the cost base of the business Inevitably, and sadly, this process has to date involved the departure of around 490 people from the business as a result of redundancy, resignation or transfer to other organisations under TUPE arrangements 21 of these redundancies were compulsory We do not underestimate the effect of these difficult decisions on those staff leaving and the friends and colleagues that they leave behind

On behalf of the whole Board, I would like to thank all of our employees for their talent, hard work, support and resilience through what is proving to be a very challenging period for the business and its staff.

Outlook

Flybe remains Europe's largest independent regional airline, flying over 200 routes from more than 100 airports across 23 countries, with a strong reputation and a standing amongst our peers that means we can do business with all the major airline groups in Europe We continue to make real and measurable progress in Europe, with our contract flying business in particular being a stable, income-generating entity

Much more importantly than being the largest independent regional airline, though, is our desire to become Europe's most profitable regional airline The difficult decisions we took in Phases 1 and 2 of our Turnaround Plan represent significant steps in the right direction Our choices with regard to cost savings, outsourcing, headcount reduction, aircraft delivery deferrals and the sale of our Gatwick slots demonstrate the resilience and single-mindedness of the management team to turnaround Flybe

We expect to see considerable reductions in the cost base of the business in both this year and the next, thanks to the actions taken during the course of 2013 that are targeted to be complete later this year The Group is now more 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 34
Build on the Group's track record of passenger revenue growth	UK passenger revenue stable at £551.8m (2012· £565 6m) UK passenger revenue per seat has grown to £48 84 from £48 71 in 2012 Customer satisfaction based on punctuality – on-time departures were at 85 2% in 2013 (2012 84 9%) and complaints were 2 8 per thousand passengers (2012 2 0 per thousand passengers)
Capitalise on leading positions in Flybe's core UK regional and domestic markets	No 1 in UK regional market (52 4% market share, up from 50 7% in 2012)* No 1 in UK domestic market (28 1% market share, up from 28 0% in 2012)*
Drive European expansion	Flybe has strong relationships with other major carriers Finnair is the other joint venture partner in Flybe Nordic, contract flying activity expanded The Air France and KLM codeshares continue to provide strong revenue opportunities while Flybe also maintains a 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 £43 32 to £46 21 Group operating costs excluding fuel have increased from £510 8m to £522 2m. Phases 1 and 2 of Flybe's turnaround plan are targeting reducing costs per seat in Flybe UK by c£5 per seat by 2014/15
Develop the Flybe MRO and Training Academy operation	Man hours in the MRO operation, Flybe Aircraft Maintenance, reduced from 647,000 to 526,000 this year, reflecting the challenging regional aviation marketplace Flybe's Training Academy increased its revenue from £3 0m to £5 0m

* Includes passengers travelling with our franchise partner Loganair

* Constant currency is calculated for the 2011/12 year by applying the effective exchange rates that prevailed for reporting the 2012/13 results of $1 52 and €1 18

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 £678 8m to £781 5m with Group revenue stable at £614 3m (2012 £615 3m)
Maintain profitability	Adjusted EBITDAR before restructuring and surplus capacity costs* at £71 4m from £88 8m last year and adjusted loss before tax, restructuring and surplus capacity costs** up from £6 2m to £23 2m Loss before tax £40 7m (2012 £6.2m)
Maintain appropriate debt profile	Net debt of £66.3m compared with £29 7m last year

* Adjusted EBITDAR before restructuring and surplus capacity costs defined as operating profit or loss before joint venture results after adding back restructuring and surplus capacity costs of £12 8m depreciation amortisation and aircraft rental charges. Surplus capacity costs represent the costs incurred in the year relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in November 2012 The majority of these costs were removed from the business by May 2013 and form a part of the Phase 1 cost savings

** Adjusted loss before tax restructuring and surplus capacity costs defined as loss before tax restructuring and surplus capacity costs of £12 8m (2011/12 £nil) and revaluation losses/(gains) on USD aircraft loans of £4 7m (2011/12 £(0 9m))

Financial Review

Andrew Knuckey
Chief Financial Officer

Summary

Flybe has had perhaps its most challenging year since the re-branding and re-launch of the airline over a decade ago, and 2012/13 saw losses generated in both divisions However, Group revenue was stable and we saw growth in revenue under management thanks to the first full year of operation of our joint venture with Finnair, Flybe Finland

→ The core Flybe UK business has experienced the dual challenges of a difficult economic backdrop and higher costs, particularly fuel The division recorded an adjusted loss before tax, restructuring and surplus capacity costs* of £17 3m, and a loss before tax** of £28 9m We remain one of the leading carriers of UK domestic passengers with a 28 1% market share, the largest UK regional carrier for passengers outside of London with a 52 4% market share and our passenger numbers remained stable at 7 2 million (2012 7 3 million)

→ Flybe Outsourcing Solutions, generated an adjusted loss before tax, restructuring and surplus capacity costs for the year of £2 3m*** and loss before tax of £8 2m, comprising a loss of £2 8m derived from the joint venture, Flybe Finland, plus associated central management costs of £0 7m, and a £4 7m loss (adjusted profit of £1 2 before £5 9m of restructuring and surplus capacity costs) in the Exeter-based maintenance, repair and overhaul ('MRO'), Training Academy and other contract flying businesses Flybe Finland recorded its first monthly profits towards the end of the financial year and the division is on track to deliver profits in 2013/14

→ Currently, Flybe's key challenge is to restructure the cost base of its UK-based businesses and refocus the operational activity so that it is able to develop profits and positive operational cash flows. A regrettable but necessary side effect of this is that we have seen, under Phase 1 of the restructuring plan, 240 people leave the business on redundancy programmes or resignation, while a further 250 were transferred to other employers to support the line maintenance, ground handling and other activities Flybe has outsourced £8 0m was provided in the 2012/13 income statement for restructuring costs, with a further £4 8m of surplus capacity costs incurred taking total restructuring costs in 2012/13 to £12 8m We expect that a further £5m will be incurred in 2013/14 on similar measures However, the benefits of these very painful and disruptive short-term measures are significant with £30m of year-on-year cost reductions already secured for 2013/14 and a further £19m of cost saving measures targeted for 2014/15

→ Group costs were £3 6m up slightly on last year's £3 3m with an increase in salary costs offset by slightly lower advisor and other fees

* Flybe UK adjusted loss before tax, restructuring and surplus capacity costs is the segment result after adding back Group costs of £3 6m total restructuring of £4 0m and surplus capacity costs of £2 9m and revaluation losses/(gains) on USD aircraft loans of £4 7m (2011/12 £(0 9m)) Surplus capacity costs represent the costs incurred in the Winter 2012/13 flying season relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in November 2012 The majority of these costs were removed from the business by May 2013 and form a part of the Phase 1 cost savings

* Flybe UK loss before tax is the segment result after adding back Group costs of £3 6m

*** Flybe Outsourcing Solutions adjusted loss before tax restructuring and surplus capacity costs is the segment result after adding back restructuring of £4 0m and surplus capacity costs of £1 9m

£23.2m

adjusted loss before tax, restructuring and surplus capacity costs*** (2011/12: loss of £7 1m)

£71.4m

Adjusted EBITDAR before restructuring and surplus capacity costs* (2011/12· £88.8m)

At 31 March 2013, Flybe had net assets of £48 1m, total cash of £54 7m, unrestricted cash of £23 3m and net debt (i e total cash less borrowings) of £66 3m

Key financial headlines

	2013 £m	2012 £m	Change %
Revenue under management	781 5	678 8	15 1
Group revenue	614 3	615 3	(0 2)
Adjusted EBITDAR before restructuring and surplus capacity costs*	71 4	88 8	(19 6)
Adjusted EBITDAR before restructuring **	66 6	88 8	(25 0)
Adjusted loss before tax, restructuring and surplus capacity costs***	(23 2)	(7 1)	n/m
Adjusted loss before tax and restructuring****	(32 7)	(6 2)	n/m
Loss before tax	(40 7)	(6 2)	n/m
Loss after tax	(41 8)	(6 4)	n/m

* Adjusted EBITDAR before restructuring and surplus capacity costs defined as operating profit or loss before joint venture results after adding back restructuring and surplus capacity costs of £12 8m depreciation amortisation and aircraft rental charges. Surplus capacity costs represent the costs incurred in the Winter 2012/13 flying season relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in November 2012 The majority of these costs were removed from the business by May 2013 and form a part of the Phase 1 cost savings.

** Adjusted EBITDAR before restructuring defined as operating profit or loss before joint venture results after adding back depreciation amortisation aircraft rental charges and restructuring costs of £8 0m

** Adjusted loss before tax restructuring and surplus capacity costs defined as loss before tax restructuring and surplus capacity costs of £12.8m (2011/12 £nil) and revaluation losses/(gains) on USD aircraft loans of £4 7m (2011/12 £(0 9m))

**** Adjusted loss before tax and restructuring defined as loss before tax and restructuring costs of £8 0m (2011/12 £nil)

Revenue under management has grown 15 1% to £781 5m from £678 8m due to the Group's joint venture with Finnair in the Nordic and Baltic region, Flybe Finland In its first full year of operation, Flybe Finland has built on its good start, achieving our financial expectations by reaching a monthly profit position by the end of the year The success of this venture was reinforced by the commencement on 28 October 2012 of a five year arrangement to fly a further 12 Embraer E190 regional jets for Finnair

Group revenue was stable at £614 3m, achieved against a backdrop of a continuing decline in the overall UK domestic market and the continuing weakness of the UK economy in general Flybe has shown considerable resilience over this period, maintaining its UK domestic market share at 28 1% and overall passenger numbers of 7 2 million

Adjusted EBITDAR before restructuring and surplus capacity costs declined to £71 4m, down 19 6% from the previous year's adjusted EBITDAR of £88 8m and reported EBITDAR was down 34 0% to £58 6m from 2011/12's £88 8m The Group's adjusted loss before tax was £23 2m (2011/12 £7 1m), and the reported loss before tax increased from £6 2m to £40 7m

Set out below is a reconciliation from operating loss to the adjusted EBITDAR figures All EBITDAR metrics are non-GAAP measures**

EBITDAR is a common airline profit measure which is used for making comparisons between airlines An adjusted EBITDAR measure is presented removes restructuring costs reported in the income statement

	2013 £m	2012 £m	Change %
Operating loss – unadjusted	(34.3)	(4 9)	n/m
Joint venture results	2.8	3 0	(6 7)
Depreciation and amortisation*	12 0	13 1	(8 4)
Aircraft rental charges	78.1	77 6	0 6
EBITDAR – unadjusted	58.6	88 8	(34 0)
Restructuring costs reported in the income statement	8.0	–	n/m
Adjusted EBITDAR before restructuring costs	66.6	88 8	(25 0)

The adjusted EBITDAR before restructuring costs is further adjusted to remove surplus capacity costs within the business during the Winter 2012/13 flying season This measure demonstrates how EBITDAR might have appeared if it had been possible to remove these identified surplus costs in November 2012 More detail on restructuring and surplus capacity costs is provided below

	2013 £m	2012 £m	Change %
Adjusted EBITDAR before restructuring costs	66 6	88 8	(25 0)
Surplus capacity costs***	4 8	–	n/m
Adjusted EBITDAR before restructuring and surplus capacity costs	71 4	88 8	(19 6)

The table below sets out a reconciliation from loss before tax which adjusts the result for restructuring costs reported in the income statement

	2013 £m	2012 £m	Change %
Loss before tax – unadjusted	(40 7)	(6 2)	n/m
Restructuring costs reported in the income statement	8 0	–	n/m
Adjusted loss before tax and restructuring	(32.7)	(6.2)	n/m

Adjusted loss before tax and restructuring is further adjusted to remove the revaluation loss/(gain) on USD aircraft loans and the surplus capacity costs within the business during the Winter 2012/13 flying season This measure demonstrates how adjusted loss before tax and restructuring might have appeared if it had been possible to remove these surplus capacity costs in November 2012

Financial Review

Continued

	2013 £m	2012 £m	Change %
Adjusted loss before tax and restructuring	(32 7)	(6 2)	n/m
Revaluation loss/(gain) on USD aircraft loans	4.7	(0 9)	n/m
Surplus capacity costs***	4.8	–	n/m
Adjusted loss before tax, restructuring and surplus capacity costs	**(23 2)**	**(7 1)**	**(227 7)**

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

* Non GAAP measures exclude amounts that are included in the most directly comparable measure calculated and presented in accordance with IFRS or are calculated using financial measures that are not calculated in accordance with IFRS The reconciliations above describe how the non GAAP measure is determined from the most directly comparable measure calculated and presented in accordance with IFRS The non-GAAP measures are not regarded as a substitute for or to be superior to the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS The non-GAAP measures described may not be directly comparable with similarly-titled measures used by other companies

* Surplus capacity costs represent the costs incurred in the Winter 2012/13 flying season relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken In November 2012 The majority of these costs were removed from the business by May 2013 and form a part of the Phase 1 cost savings outlined in the table below

The adjusted loss before tax figures given above are non-GAAP measures**

Restructuring the business

The costs incurred in restructuring Flybe's business were as follows

	Incurred and paid in the period £m	Incurred but not paid in the period £m	Total incurred in 2012/13 £m
Redundancies	0 9	4 6	5.5
Legal, professional and other support costs	0 2	1 0	1.2
Other restructuring costs	0 3	1 0	1 3
Reported in the income statement	**1 4**	**6 6**	**8 0**
Surplus capacity costs	4 6	0 2	4.8
Restructuring and other similar costs	**6 0**	**6.8**	**12.8**

In addition, management expect to incur further restructuring and surplus capacity costs of about £5m in 2013/14, taking the total costs of delivering the turnaround to some £18m

Unfortunately, the restructuring of the business has taken its toll on our loyal and much valued staff in all areas of the business Under Phase 1 of the restructuring programme, redundancies of roles identified to the end of March 2013 meant that some 490 people left the business under a mix of redundancy, resignation and TUPE measures, with a further 90 anticipated to be leaving in the next financial year

Legal, professional and other support costs have been incurred on negotiating the redundancies mentioned above as well as on providing outsourcing services to those leaving Flybe However, the major cost in this area is in relation to the provision of specialist services around procurement that have helped us to negotiate better terms in relation both to rates and payment periods from our supplier base Further costs in both these areas will continue to be incurred during 2013/14

Other restructuring costs relate to reducing space occupied at the many airports Flybe serves, particularly as the outsourcing of services has reduced the need for Flybe itself to have local facilities

Steps were taken over the winter of 2012/13 to improve the efficiency of both divisions, leading to surplus capacity in respect of aircraft, crew and maintenance staff being identified and incurred through the Winter 2012/13 flying season An estimate of the cost savings that would have been made had we been able to remove these costs before the 2012/13 Winter flying season is highlighted above as surplus capacity costs These costs were removed from the business by May 2013 and form a part of the Phase 1 cost savings outlined in the table below Because these costs formed a part of the operating cost base during the year ended 31 March 2013, it is not possible to identify these costs separately within the financial statements

Further efficiency measures are in the process of being developed and will lead to further costs in 2013/14 as activities are further restructured or outsourced

These restructuring costs set out above and the related actions are targeted to deliver the following cost savings:

	Generated in 2012/13 £m	Target savings in the year to 31 March 2014 £m	Targeted annualised savings from 2014/15 onwards £m
Staff costs reductions	–	22	25
Business efficiency and outsourcing	1	8	8
Supplier costs	2	10	16
Total	**3**	**40**	**49**

Other than for staff costs where headcount reduction has been the prime driver, other cost lines will benefit from the general renegotiation of rates and payment terms across the supplier base In addition, costs will benefit from outsourcing activities and marketing and distribution cost savings will also be derived from lower levels of advertising spend

98 aircraft

70 operated by Flybe UK and 28 by Flybe Europe

Of the total target savings in 2013/14 of £40m, £30m has been identified as being part of Phase 1, in excess of the £25m previously targeted, and these projects are almost complete As noted in our announcement on 23 May 2013, we have accelerated the implementation of Phase 2, which is now underway, in order to address additional profit pressures that have arisen from slightly lower revenues than expected in the final quarter of 2012/13 and additional cost pressures from adverse movements in Sterling's exchange rate with the US Dollar Phase 2 cost savings are expected to amount to £10m in 2013/14 On an annualised basis, ongoing cost savings arising from Phases 1 and 2 estimated to amount to £49m from 2014/15 onwards

Fleet

Flybe UK

In 2012/13, Flybe UK took delivery of a further five E175 regional jets from Embraer (out of its firm order for 35 E175s), taking the total delivered to nine with another four contracted for delivery between September and December 2013 Four Bombardier Q400 aircraft are currently being operated on a contract flying agreement with Brussels Airlines that commenced in March 2012

Two of these aircraft are due to return to Flybe service in April 2014 with the remaining pair finishing their contracts by the end of October 2014 Another two Q400 turboprops that were contracted for sale to Aero Nigeria at 31 March 2013 completed the disposal process in May 2013 at a small book profit

Since 2011 Flybe has been rebalancing the UK-based fleet towards a more equal combination of regional jets and turboprop aircraft by introducing 88-seat Embraer 175 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 we are experiencing on UK-European routes where we have replaced the Q400 turboprop with the E175 jets

Flybe Outsourcing Solutions

12 E190 aircraft were leased by Flybe Finland from Finnair on 28 October 2012, and are now being flown by Flybe Finland under a five-year contract flying arrangement with Finnair Flybe Finland has also leased one ATR 72 turboprop and handed back an ATR 42 It is currently intended that the Flybe Finland fleet will continue to comprise Embraer E-series regional jets and ATR turboprops in the longer term

Embraer E175 order

In July 2010 Flybe UK announced the firm order of 35 Embraer 175s for delivery between 2011 and 2016 with options and purchase rights over a further 105 E-series regional jets In May 2013, Flybe and Embraer agreed delivery deferrals for 16 aircraft due for delivery in 2014 and 2015 to the period from 2017 to 2019, thus de-risking growth aircraft for the business and providing some £20m of cash alleviation in terms of cash exposure on pre-delivery payments in the winter of 2013/14

Fleet under management

The profile of Flybe's fleet under management in the 2012/13 year is summarised below

		Number of aircraft		
	Number of seats	At 31 March 2012	Net movements in period	At 31 March 2013
Flybe UK				
Embraer E195 regional jet	118	14	–	14
Embraer E175 regional jet	88	4	5	9
Bombardier Q400 turboprop*	78	50	(3)	47
		68	2	70
Flybe Finland				
ATR 42 turboprop	48	3	(1)	2
ATR 72 turboprop	68-72	11	1	12
Embraer E170 regional jet	76	2	–	2
Embraer E190 regional jet	100	–	12	12
		16	12	28
Total		84	14	98
Held on operating lease		74	14	88
Owned and debt financed*		10	–	10
Total*		84	14	98
Total seats in fleet		6,960		8,390
Average seats per aircraft		82 9		85 6
Average age of fleet (years)		4 6		5 1

* 31 March 2012 position restated

In 2012/13, three Q400 leases expired in the second half of the year As at 14 June 2013, following the completion of the sale of two Q400 turboprop aircraft, the Group's fleet under management now stands at 96 aircraft, consisting of 45 Q400 and 14 ATR turboprops, and 37 E-series jets

The Group will continue to act opportunistically to match capacity to demand, particularly in its core UK market, which drives about 72% of revenue under management As part of this initiative the Group is currently marketing for sale a further two Q400 aircraft

Financial Review
Continued

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

	2013 £m	2012 (restated) £m
Divisional revenues		
Flybe UK	575 2	588 1
Flybe Outsourcing Solutions	225 3	110 8
Inter-segment sales	(19 0)	(20 1)
Revenue under management	781 5	678 8
Less Revenue from Flybe Finland joint venture	(167 2)	(63 5)
Group revenue	614 3	615 3
Divisional results.		
Flybe UK		
Adjusted (loss)/profit before tax	(17 3)	0 2
Restructuring and surplus capacity costs	(6 9)	-
Revaluation (loss)/gain on USD aircraft loans	(4 7)	0 9
(Loss)/profit before tax	(28 9)	1 1
Flybe Outsourcing Solutions		
Adjusted loss before tax	(2 3)	(4 0)
Restructuring and surplus capacity costs	(5.9)	-
Loss before tax	(8 2)	(4 0)
Group		
Adjusted (loss)/profit before tax		
Flybe UK	(17.3)	0 2
Flybe Outsourcing Solutions	(2.3)	(4 0)
Group costs	(3 6)	(3 3)
Group adjusted loss before tax:	(23 2)	(7 1)
Restructuring and surplus capacity costs	(12.8)	-
Revaluation (loss)/gain on USD aircraft loans	(4 7)	0 9
Group loss before tax	(40 7)	(6 2)

Flybe UK
Revenue

	2013 £m	£ per seat	2012 £m	£ per seat
Passenger revenue	551 8	48 84	565 6	48 71
Other revenue	23 4		22 5	
Total revenue – Flybe UK	575 2		588 1	

Flybe UK passenger numbers were down 1 1% at 7 2 million versus 7 3 million in 2011/12, despite the active management of seat capacity which reduced by 2 7% to 11 3 million and sectors flown were down by 3 5% to 132,600 (137,400 in 2011/12) In recent years, capacity management has been a key theme for Flybe in order to help mitigate the adverse effect of the depressed UK economic environment coupled with the upward march of fuel prices to what are now stable, but high levels

The reduction in passenger numbers, combined with relatively stable passenger revenue per seat, meant that passenger revenue was down from £565 6m to £551.8m Passenger revenue per seat was broadly flat at £48 84 (2011/12 £48 71), comprising an increase in load factor of 1 0 percentage points (from 63 1% to 64 1%) and a reduction in passenger yield from £77 21 to £76 16

Other revenue in Flybe UK totalled £23 4m, representing a 4 0% increase on the £22 5m generated in 2011/12, and arose primarily from increases in charter revenue with other revenue streams remaining broadly stable

Operating costs, excluding restructuring and surplus capacity costs

	2013		2012		
	£m	£ per seat	(restated*) £m	£ per seat	£ per seat at constant currency and fuel price*
Staff costs	85.9	7 60	85 4	7 36	7 36
Fuel	122 6	10 85	106 4	9 17	10 68
Net airport costs, en route charges and ground operations	200 1	17.71	204 8	17 65	17 18
Aircraft ownership and maintenance costs	134.2	11.88	145 7	12.56	12 38
Marketing and distribution costs	24.5	2.17	24 8	2 14	2 12
Other operating costs	26 8	2.37	21 6	1 87	1 86
Operating costs	594.1	52.58	588 7	50 75	51 58

Staff costs for 2011/12 have been restated by £6 1m to reflect the change in presentation of flight duty allowance of £4 3m from other operating expenses and £1 8m in relation to maintenance staff who transferred from Flybe Aircraft Maintenance (the MRO activity within Flybe Outsourcing Solutions) into the Flybe UK division from April 2012 and therefore the comparative has been adjusted accordingly

* Constant currency is calculated for the 2011/12 year by applying the effective exchange rates that prevailed for reporting the 2012/13 results of $1 55 and €1 18 and constant fuel is calculated for the 2011/12 year by applying the effective blended rate paid for jet fuel per tonne in 2012/13

£48.84

Flybe UK passenger yield per seat, up 0.3% from £48.71 in 2011/12

7.2m

Flybe UK passenger numbers remained stable at 7.2 million (2011/12: 7.3 million)

Operating costs increased by 0 9% from £588 7m to £594 1m largely as a result of the increase in the price of jet fuel which went up by £1 68 per seat, more than 90% of the overall rise of £1 83 per seat On a constant currency and fuel basis, underlying operating costs decreased by 0 7% from £598 3m in 2011/12 to £594 1m

Operating costs per seat increased by 3 6% from £50 75 to £52 58 On a constant currency and fuel basis, this unit cost measure increased by 1 9% to £52 58 (2011/12 £51 58)

Operating costs, including restructuring and surplus capacity costs

	2013		2012		
	£m	£ per seat	£m	£ per seat	£ per seat at constant currency and fuel price*
Staff costs	90 3	7 99	85 4	7 36	7 36
Fuel	122.6	10 85	106 4	9 17	10 68
Net airport costs, en route charges and ground operations	200 1	17 71	204 8	17 65	17 18
Aircraft ownership and maintenance costs	135 4	11 98	145 7	12 56	12 38
Marketing and distribution costs	24 5	2 17	24 8	2 14	2 12
Other operating costs	28 1	2 49	21 6	1 87	1 86
Operating costs	601 0	53 19	588 7	50 75	51 58

* Constant currency is calculated for the 2011/12 year by applying the effective exchange rates that prevailed for reporting the 2012/13 results of $1 55 and €1 18 and constant fuel is calculated for the 2011/12 year by applying the effective blended rate paid for jet fuel per tonne in 2012/13

Restructuring and surplus capacity costs

The division incurred costs of restructuring and surplus capacity as follows

	Incurred and paid in the period £m	Incurred but not paid in the period £m	Total incurred in the period £m
Redundancies	0 5	2 2	2 7
Legal, professional and other support costs	0 2	1 0	1 2
Other restructuring costs	0 1	–	0 1
Reported as restructuring in the income statement	0 8	3 2	4 0
Surplus capacity costs	2.7	0 2	2 9
Restructuring and other surplus capacity costs	3 5	3 4	6 9

These costs are discussed in more detail on page 20 above

Fuel

Flybe UK's results are subject to significant change as a result of movements in the price of fuel which forms a significant variable cost for this business Although 2012/13 has seen a reduction in volatility for fuel prices, it has been at the expense of that price stabilising at a relatively high level – Brent crude has been in the $110 to $120 a barrel range for most of the year Overall, the price of jet fuel was slightly lower than in 2011/12, peaking at $1,116 per tonne on 3 April 2012 Flybe's fuel costs increased to £122 6m from £106 4m, largely due to the realisation of favourable hedge positions during 2011/12 that had been taken out in 2009/10 and 2010/11 – the benefit of these was not available in 2012/13 Aviation fuel prices remain capable of large and unpredictable movements due to a variety of external factors, such as changes in supply and demand for oil and oil-related products and the role of speculators and funds in the futures markets

During the year to 31 March 2013, Flybe UK used some 179,300 tonnes of jet fuel, a reduction on 2011/12 of 2 3% from 183,500 tonnes The average market price during the year was $1,018 per tonne (2011/12 $1,036), with the Group paying a blended rate (net of hedges) of $1,002 per tonne (2011/12 $853) Including 'into plane' costs, Flybe's fuel costs in 2012/13 of £122 6m (2011/12 £106 4m) represent an all-in cost of $1,061 per tonne for 2012/13 (2011/12 $916) Using constant currency and fuel prices, our fuel costs per seat increased by 1 6% from £10 68 to £10 85

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 14 June 2013, 73.2% of the year to 31 March 2014 was hedged at an average price of $996 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 2013/14 by £1 2m

Efficiencies have been derived from our fleet replacement programme, operational improvements and careful management of routes and frequencies Overall, 15 9kg of fuel was consumed for each seat flown (2011/12: 15 8kg per seat) as a result of the introduction and use of slightly larger jet aircraft as the continuing replacement of some of the division's turboprops continues This remains a significant improvement on the 19.1kg per seat in 2007/08 due to our investment in a modern, fuel-efficient two-type aircraft fleet best suited to regional flying

Financial Review

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Other operating costs

Staff costs, before restructuring and surplus capacity costs, at £85 9m were higher by 0 6%

Net airport costs, en route charges and ground operations decreased by 2 3% largely due to lower charges levied by air traffic control and ground handling providers more than offsetting the small increase in airport costs On a constant currency per seat basis, net airport costs, en route charges and ground operations increased by 3 1% to £17 71 (2011/12 £17 18)

Aircraft ownership and maintenance costs decreased by 7 9%, primarily due to lower maintenance costs as the fleet moves into its more mature phase and lower depreciation from a smaller owned-fleet size across the year In part, these were driven by exchange rate movements as, on a constant currency per seat basis, aircraft ownership and maintenance costs decreased by 4 1% to £11 88 (2011/12 £12 38)

Other operating costs, before restructuring and surplus capacity costs, increased to £26 8m from £21 6m in 2011/12 since 2012/13 did not benefit to the same extent from non-reoccurring other operating gains predominantly related to the profit on sale of aircraft assets and income related to aircraft performance reliability compensation

Net finance costs increased by £5 1m largely due to the £4 7m of non-cash losses arising on the retranslation of US Dollar denominated debt used to fund the acquisition of aircraft, particularly the newer E175 regional 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 This income statement charge has therefore been adjusted in arriving at adjusted profit before tax

Foreign exchange

The Group foreign currency hedging policy has an objective to reduce the volatility of costs Flybe manages its foreign exchange positions based on its net foreign currency exposure, being foreign currency expenditure less associated revenue Flybe UK currently has a relatively small net exposure to the Euro, but has significant US Dollar costs in relation to fuel, maintenance, aircraft operating leases and loan repayments The Group 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 14 June 2013, 72 5% of our anticipated US Dollar requirements for the year to 31 March 2014 were hedged at an average exchange rate of $1 56 All existing derivative financial instruments are forward swap arrangements

The table below sets out Flybe UK's US Dollar hedging position for each of the periods under review

	2013	2012
Anticipated foreign currency requirement	$385m	$349m
Proportion hedged at beginning of period	61%	82%
Effective exchange rate	$1 55	$1 58

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 2013/14 by approximately £3 4m

Carbon Emissions

The Group is required to purchase carbon allowances for all flights departing from and arriving into the EU in order to offset its carbon footprint in each calendar year Flybe manages its exposure by purchasing carbon emissions allowances through a forward purchase programme to top up the free allowances awarded to it under the scheme The table below sets out Flybe UK's emissions and carbon allowances for each of the periods under review

	2013	2012
Anticipated carbon allowances required, tonnes (actual for calendar year 2012)	572,600	566,800
Free allowance allocation, tonnes	259,800	274,900
Proportion hedged at beginning of period	53%	n/a*
Effective carbon rate	€4 87	n/a*

* The carbon hedging programme for Flybe commenced in April 2012 therefore the comparative for 2012 is not available for the beginning of the period for 2012

Flybe Outsourcing Solutions

The core businesses in this division are the joint venture with Finnair, Flybe Finland, which derives its revenues mainly from contract flying, and the maintenance, repair and overhaul ('MRO') and Training Academy operations based in Exeter

	2013 £m	2012 £m	Change %
Revenue			
Flybe Finland	167.2	63 5	163 3
Contract flying revenue	12 6	–	n/m
MRO	40.5	44 3	(8 6)
Training Academy	5 0	3 0	66 7
	225 3	110 8	103 3
Joint venture revenue	(167 2)	(63 5)	163 3
Divisional revenue	58 1	47 3	22 8
Adjusted costs (excluding restructuring and surplus capacity costs and Flybe Finland)	(57 6)	(48.3)	(19 3)
Joint venture result	(2 8)	(3 0)	6 7
Divisional adjusted loss before tax	(2 3)	(4 0)	42 5
Restructuring and surplus capacity costs	(5 9)	–	n/m
Divisional loss before tax	(8 2)	(4 0)	105 0

Flybe Finland's results are summarised as follows

	2013		2012*	
	£m	£m	£m	£m
Flybe Finland joint venture				
Revenue				
Contract flying		132 4		41 3
Passenger revenue		30.6		19 6
Other revenue		4 2		2 6
		167 2		63 5
Costs				
Fuel	(41.3)		(12 3)	
Other operating costs	(132 4)		(60 3)	
		(173 7)		(72 6)
Loss before tax		(6.5)		(9 1)
Tax credit		1 6		4 3
Loss after tax		(4 9)		(4 8)
60% share of Flybe Finland joint venture loss*		(2.8)		(3 0)
Other net costs including interest		(0.7)		(0 5)
Business result – Flybe Finland		(3 5)		(3 5)

* For the period from acquisition on 18 August 2011 to 31 March 2012

With revenue of £167 2m (2011/12 £62 7m) and costs of £173 7m (2011/12 £72 6m), £41 3m of which was fuel, Flybe Finland generated a significantly smaller loss before tax of £6 5m (2011/12 loss before tax of £9 1m) in what has been its first full year of operations A tax credit of £1 6m relating to deferred tax on the losses generated was also reported, resulting in a loss after tax for Flybe Finland of £4 9m (2011/12 loss after tax £4 8m) Flybe Finland also reported its first months of profit in the final quarter of 2012/13 and is on course to deliver annual profitability in 2013/14

Contract flying for Finnair accounted for 1 6 million passengers (period from acquisition to 31 March 2012 0 5 million passengers) In addition, Flybe Finland's passenger numbers on commercial flying represented 0 4 million passengers (period from acquisition to 31 March 2012 0 3 million) with a load factor of 41 8% (2011/12 40 4%) Contract flying is expected to dominate this business in 2013/14 onwards and will provide a stable platform for future profit and cash generation

The exposures of Flybe's joint venture in Finland to fuel price and exchange rate volatility have been monitored during 2012/13, but no hedging has yet been undertaken due to the minimal nature of the underlying exposure This is because Flybe Finland's leases are denominated in Euros, its main operating currency, leaving fuel prices and US Dollar exposure on fuel and maintenance costs as its primary exposures These costs are currently smaller exposures to the business and are related to the commercial rather than contract flying operations Management will continue to monitor these exposures and hedge them should they become significant

During the year, Finnish Aircraft Maintenance Oy which had previously sat elsewhere within the Flybe Nordic joint venture with Finnair was acquired by Flybe Finland for a cash consideration of £0 3m All of its activities are treated as part of the activities of Flybe Finland for the year under review and further details are given in notes 16 and 17 in the financial statements

Central overhead costs, net of interest amounted to £0 7m (2012 £0 5m) Further details on the joint venture's performance are given in note 16 to the financial statements

The results of Flybe's MRO, Training Academy and non-Finnish contract flying arrangements are summarised as follows

	2013 £m	2012 £m	Change %
Revenue			
Contract flying	12.6	–	n/m
Maintenance, repair and overhaul	40 5	44 3	(8 6)
Training Academy	5 0	3 0	66 7
	58 1	47 3	22 8
Operating costs before restructuring and surplus capacity costs	(56 9)	(47 8)	(19 0)
Adjusted profit/(loss) before tax	1.2	(0 5)	n/m
Restructuring and surplus capacity costs	(5 9)	–	n/m
Business loss before tax	(4 7)	(0 5)	n/m

Contract flying represents the provision of four crewed Q400 turboprops to Brussels Airlines in arrangements lasting up to two years and which expire in April and October 2014

MRO revenue declined by 8 6% in 2012/13 to £40 5m (2011/12 £44 3m), of which £25 0m was for third party customers (2011/12 £26.4m) This decrease was driven by the 18 7% decline in man hours from 647,000 hours in 2011/12 to 526,000 hours

In its second full year of operation, the Training Academy successfully grew its revenue to £5 0m from £3 0m, helping to reduce reported losses to £0 3m (2011/12 loss of £1 2m)

The MRO, Training Academy and non-Finnish contract flying arrangements recorded a loss before tax of £4 7m (2011/12 £0 5m) after total restructuring and surplus capacity costs of £5 9m (2011/12 £nil) Excluding these restructuring and surplus capacity costs, the adjusted profit before tax for this business was a profit of £1 2m (2011/12 loss £0 5m)

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Restructuring and surplus capacity costs
The division incurred costs of restructuring and surplus capacity as follows.

	Incurred and paid in the period £m	Incurred but not paid in the period £m	Total incurred in the period £m
Redundancies	0 5	2 4	2 9
Other restructuring costs	0 2	0 9	1 1
Reported as restructuring costs in the income statement	0 7	3 3	4 0
Surplus capacity costs	1 9	-	1 9
Restructuring and surplus capacity costs	2 6	3 3	5 9

These costs are discussed in more detail on page 20 above

Group costs
Group costs of £3 6m (2011/12 £3 3m) include Group Board salary costs and group related legal and professional fees The movement is largely the result of the full year impact of the new internal audit function coupled with the internal realignment of responsibilities within the business as a whole

Loss before tax
The Group's adjusted loss before tax, revaluation loss/(gain) on USD aircraft loans, restructuring and surplus capacity costs was £23 2m (2011/12 loss of £7 1m)

After restructuring and surplus capacity costs of £12 8m (2011/12 £nil) and non-cash losses on USD aircraft loans of £4 7m (2011/12 gain of £0 9m), the Group's reported loss before tax was £40 7m (2011/12 £6 2m loss)

Loss after tax
Loss after tax was £41 8m (2011/12 loss after tax £6 4m) The current year tax charge was £1 1m (2011/12 charge of £0 2m)

EPS and dividends
Basic loss per share for the year was (55 6)p, compared with loss per share of (8 5)p in 2011/12 Adjusted loss per share (see note 13 to the consolidated financial statements) was (38 7)p, compared with adjusted loss per share of (9 7)p for 2011/12

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

Cash flow

	2013 £m	2012 £m	Change £m
Net cash (outflow)/inflow from operating activities before restructuring	(1 5)	3 0	(4 5)
Cash flows associated with restructuring activities	(1 4)	-	(1 4)
Net cash (outflow)/inflow from operating activities after restructuring	(2 9)	3 0	(5 9)
Net capital expenditure after disposal proceeds	(33 0)	(40 7)	7 7
Net proceeds from new loans	18 5	13 6	4 9
Acquisition of joint venture interest	(0.3)	(18 2)	17 9
Net interest paid	(1 9)	(2 5)	0 6
Net decrease in cash and cash equivalents	(19 6)	(44 8)	25 2
Cash and cash equivalents at beginning of year	42 9	87 7	(44 8)
Cash and cash equivalents at end of year	23 3	42 9	(19 6)
Restricted cash	31 4	24 7	6 7
Total cash	54 7	67 6	(12 9)

The losses incurred this year have led the Group to net cash operating outflow on a reported basis However, if surplus capacity costs of £4 6m (see page 20) are added back, the Group delivered an adjusted net cash inflow before restructuring and surplus capacity costs of £3 1m The activities of both divisions are being restructured in order to return the Group to both operating profit and cash generation Costs incurred on IFRS restructuring largely relate to redundancies

The largest movements in net capital expenditure were in relation to pre-delivery deposits for new aircraft and the acquisition, during the year, of five Embraer E175 regional jets, two of which were financed by loans from BNDES Deposits were received in respect of the disposal of two Q400 turboprops to Aero Nigeria

£54.7m

Total cash (2011/12: £67.6m)

£405.8m

Total assets (2011/12 £415.3m)

Balance sheet

	2013 £m	2012 £m	Change £m
Airport landing slots	8 5	8 5	–
Aircraft	140 4	136 9	3 5
Other property, plant and equipment	25 0	25 2	(0 2)
Interest in joint ventures	13 2	16 2	(3 0)
Net debt	(66 3)	(29 7)	(36.6)
Derivative financial instruments	4 2	3 9	0 3
Other working capital – net	(81 5)	(71 8)	(9 7)
Deferred taxation	2 0	3 1	(1 1)
Other non-current assets and liabilities	2 6	(2 9)	5 5
Net assets	48 1	89 4	(41 3)

The value of airport landing slots remained unchanged, with no additions, disposals or impairments On 23 May 2013, Flybe announced the sale of all of the airport landing slots to easyJet for a gross cash consideration of £20 0m The contract is subject to Flybe shareholder approval, and this approval is expected to be received in July 2013

The £140 4m of net book value of aircraft represents owned aircraft, engines and aircraft modifications, with two further Embraer E175s aircraft being acquired under finance lease

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 In June 2012, Flybe purchased a further 13 7% of the share capital of Finnish Aircraft Maintenance Oy for cash consideration of £0 3m and the company was transferred through the Group structure, becoming a subsidiary within the Flybe Nordic AB group On 31 January 2013, Finnish Aircraft Maintenance Oy merged with Flybe Finland Oy leaving the latter as the surviving company After Flybe's share of joint venture losses of £2 8m in 2012/13, the carrying value of the interest in joint ventures at 31 March 2013 stood at £13 2m (2012 £16 2m)

Net debt at 31 March 2013 of £66 3m (2012 net debt of £29 7m) reflected the capital outflows referred to in the cash flow section above Borrowings increased by £23 7m to £121 0m as a result of new loans being taken out to finance two new finance leased Embraer E175s delivered during the year Net debt at 31 March 2013 includes restricted cash of £31 4m (£24 7m at 31 March 2012) 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 increased from £3 9m to £4 2m, as foreign exchange rates and fuel prices remained broadly stable across the year Net negative other working capital increased from £71 8m to £81 5m, largely due to a combination of reductions in trade and other receivables and increases in trade and other payables. Two Q400 aircraft reported as assets held for sale under contracts with Aero Nigeria that completed in April 2013 did not offset all of this increase in negative other working capital

Shareholders' equity decreased by £41 3m driven principally by the losses generated in the period of £41 8m The balance sheet does not include the impact of the defined benefit pension scheme surplus of £1 5m 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 the covenants tested since the inception of the arrangements to 31 March 2013 (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 30 to 33 and note 36 'Financial instruments'

Financial Review
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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 14 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 15 to 16 and in the financial review on pages 18 to 29 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

As part of their regular assessment of the business working capital and financing position, the Directors have prepared a detailed trading budget and cash flow forecast for a period which covers at least 12 months after the date of approval of these financial statements In assessing the forecast, the Directors have considered

- → trading risks presented by current economic conditions in the aviation sector, particularly in relation to passenger volumes, yields and routes, and the delivery of cost reduction plans;
- → the impact of certain macro-economic factors, specifically fluctuations in fuel prices and foreign exchange rates, and
- → the status of the Group's financial arrangements including the provision of card acquiring services and the related level of collateral required, the investment in and financing of new aircraft, other sources of finance, the Group's covenant obligations under existing finance arrangements or operating leases and the management of working capital

The progress made against the Group's plans for cost reduction is set out in the financial review Not all of the Phase 2 cost reductions are secured, although there are firm plans in place as to how they will be achieved

Under the terms of the provision of card acquiring services, collateral is required to be made available by the Group in order to provide security against the amounts that would be repayable to ticket purchasers should the Group be unable to provide the relevant flights (see note 31) These collateral arrangements are regularly reviewed with the card acquiring service provider using information on the trading performance of the Group A significant increase in the level of collateral required would require the Group to consider the need to obtain additional finance or to take other mitigating actions The Directors maintain a regular dialogue with the card acquiring service provider as part of the process to manage the risk of variations in collateral requirements

The Group has new aircraft on order for delivery in 2013 An export credit loan facility is already in place which will allow the Group to finance up to 85% of the purchase price Should the Directors determine not to finance the remaining equity stake, they would need to secure alternative finance arrangements either for the remaining equity stake, or, for the whole aircraft under operating leases Discussions are in progress with potential lenders or lessors and the Directors consider, on the basis of these discussions that suitable facilities would be available if necessary

The Directors note that significant adverse movements in any of the above trading, macro-economic and financing areas could lead to a significant deterioration in profitability, cash generation and free cash flow compared to the amounts that the Directors believe that the Group will achieve

Flybe had free cash balances of £23 3m at 31 March 2013, and has met all of its operating lease commitments and debt repayments as they have fallen due during the year

The Group is selling its rights to airport slots at Gatwick for £20 0m subject to a simple majority shareholder approval, over 54% of shareholders have given their irrevocable approval to this transaction as at 20 June 2013 The forecast assumes that these proceeds will be received Closure of the Gatwick routes will create capacity within the aircraft fleet from April 2014 and the Directors are putting plans in place to address this through a combination of changes to the route network and management of the aircraft fleet

The forecasts 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, having considered the forecasts, the risks and the associated mitigating actions, 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 (following the deferral agreement referred to earlier) between November 2011 and December 2019, nine of these aircraft had been delivered by 31 March 2013 This contract also contains options to purchase a further 65 E-series aircraft (with delivery dates between July 2015 and January 2022) with purchase rights for a further 40 E-series 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 finance and operating 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 the covenants tested have been satisfied since inception of the agreements

Investec Bank plc provide pre-delivery loan financing for 13 aircraft ordered from Embraer in an arrangement that commenced in December 2012 The last aircraft that is covered by these arrangements is due to be delivered in December 2013

Commercial arrangements
Four Bombardier Q400 aircraft are currently being operated on a contract flying agreement with Brussels Airlines that commenced on 25 March 2012 Two of these aircraft are due to return to Flybe service in April 2014 with the remaining pair finishing their contracts by the end of October 2014 The Bombardier Q400 aircraft serve core routes for the Belgian airline to various European destinations The aircraft carry the livery of Brussels Airlines but operate under the Flybe Air Operating Certificate, are crewed by Flybe pilots and cabin crew and are maintained by Flybe engineers

In October 2010, Flybe entered into a codeshare agreement with Air France which allows each airline to sell seats in their own name and apply their own flight number designation to services on specified routes The agreement applies primarily to flights between various airports in France and certain UK airports serviced by Flybe The agreement is now 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 Codeshare agreements 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 2013 were equivalent to 12 (2012 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

Trend key

Same Increase Decrease New

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		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 34) 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	Adverse pressure on revenue and load factors		Flybe monitors route performance within its commercial teams and adjusts flying patterns to customer demand
Flybe is exposed to a reduction in UK and Finnish domestic air travel	Adverse effect on Flybe's growth prospects, financial condition and the value of its assets, particularly, aircraft		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 highly competitive transport, MRO and training markets	Adverse effect on market share leading to reduced revenue		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
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		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

Risk description	Potential impact	Inherent risk trend (movement against prior year)	Mitigation
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		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		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
Implementing growth strategy			
Flybe may not be successful in implementing its long term strategy	Adverse impact on revenue and costs, resulting in reduced profitability Increased investment not supported by profit generation		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		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		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		Well-developed contingency plans are in place to react to such scenarios and communicate effectively with passengers and other stakeholders

Risks and uncertainties

Continued

Trend key

Same Increase Decrease New

Risk description	Potential impact	Inherent risk trend (movement against prior year)	Mitigation
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 Flybe contracts with third parties for the provision of IT services and solutions where the service is subject to disruption or could be lost entirely The incidence of cyber-attacks has increased worldwide and Flybe is exposed to this as a result of its reliance on the internet for a high proportion of delivery of its sales	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		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 Where Flybe uses third parties to supplement its own resources, effective processes relating to contract review, compliance and management are in place to mitigate the consequent risks that arise
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		Flybe has robust security procedures in place which are tested and reviewed by independent third parties
People			
Flybe is exposed to shortages of key personnel	Adversely affect Flybe's reputation and operational performance		Flybe continues to ensure its employment remuneration reflects current market conditions and practices that are supported by succession planning policies
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		Flybe has well-developed consultation and negotiation processes with its employees and its unions
Suppliers			
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		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

Risk description	Potential impact	Inherent risk trend (movement against prior year)	Mitigation
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		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 23 and 24
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		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 2017
Flybe is reliant on the continuing performance of counter-parties	Flybe invests its surplus funds in money market funds or bank deposits and has hedged its fuel, forex and ETS exposures with a variety of counter parties There is a risk of material loss in the event of non-performance by these counter parties		Flybe's policy is to invest surplus funds and enter into hedging agreements only with 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		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 an independent Non-Executive Director, Peter Smith, with his considerable aviation experience, 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

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

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'), Approved Training Organisation ('ATO'), EASA Part M – aircraft continuing airworthiness, 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 approval for its Part 145 Maintenance Organisation

3,451

Group and joint venture employees at 31 March 2013

People

Flybe is only as good as its talented team, which delivers an excellent service to its loyal customers every day During the year, the Company has undertaken an important rightsizing programme that will ensure its cost of employment remains fit to compete 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 long-term and challenging career can be built on equality of opportunity It is proud to be one of the very few airlines that enables many of its employees to live where they work – locally, within the regions both in the UK and in the European business

Values

Flybe is committed 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 2013, Flybe employed 2,764 employees across 13 regional UK bases with another 687 employed by our joint venture in Finland Nearly 16% of our UK employees worked part-time or flexibly to balance their lifestyle needs and now nearly 70% of its staff have more than five years' service and an average attendance rate of over 96% Unfortunately, the impact of the widespread restructuring programme has led to 270 staff being made redundant in 2013 and a further 250 have left the business as part of the transfer of their roles to outsourced service providers

Talent development

Flybe's aim is to develop and promote talent internally and the completion of Flybe's 5,500m² 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 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 students engaged on 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 and the majority of our people managers have completed 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

Flybe's Operating Board has also introduced an annual performance management system as well as a succession planning process as part of its commitment to 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 Auto-Enrolment and NEST staging date of August 2013 Flybe has 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

Corporate responsibility

Continued

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

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's partnership with Cancer Research UK celebrated its fourth anniversary with the successful month-long on-board collection during June 2012 Thanks to the generosity of passengers and the continuing support of staff around the network, the sum of £97,000 was collected in just 30 days

As well as this on-board collection, encompassing more than 12,000 flights, Flybe staff raised additional money through cake sales, sponsored parachute jumps, donation days, dress-down Fridays and raffles throughout the network, pushing the yearly total to beyond £110,000 through 2012/13

Flybe did not make any political donations during the year (2011/12 nil)

Environment

In its first ten years of operations, Flybe has made it a centrepiece of its commitment to environmental sustainability to operate one of youngest fleets in aviation As we enter our second decade, the 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 around 2% 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 continues to be 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 remains 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

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 last year, 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

The airline's Fuel Efficiency Programme, introduced in 2009 has resulted in a 13 4% reduction over the average in-flight fuel burn before the programme was launched. The programme relies on finely tuned strategies to reduce fuel consumption. These include lowering the aircraft's maximum operational cruise speed by an average of 20 knots and optimising performance during each phase of flight (climb profile, approach from cruise altitude, low speed decent and APU use) There are also complex tankering strategies for refueling from the lowest cost vendor

15.9kg

Flybe UK fuel burn per seat (2007/08: 19.1 kg)

While the programme sets the parameters, the minute-to-minute decisions made by Flybe's flight crews are what make a real difference These decisions are based on the dynamic fuel efficiency reports, which evaluate each crew's performance in flight The Flight Efficiency program is part of a toolbox of different items crews can use to assess costs in a dynamic operating environment In 2012-13 alone, the Q400 fleet realised a 1 5% fuel burn saving through these means

A further development over the last twelve months has been that of the use of single engine taxi-ing on the Q400 fleet

Similar measures have been introduced to the Embraer fleets this year and further CO_2 savings are anticipated

Noise
The Q400 is rightfully heralded as 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 jets with a similar number of seats (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')
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 and has continued to comply fully with the requirements for the 2012 calendar year

During 2012/13 Flybe has been purchasing carbon allowances in order to comply with regulations governing aviation's entry into the European ETS During 2013 Flybe will be required to surrender permits covering its CO_2 emissions for the year to December 2012.

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 economical for the engine's performance

→ planning descents into airports, with air traffic control assistance, that allow for the most fuel-efficient approach

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

Board of Directors

1 2 3 4 5

6 7 8 9

With the exception of Digby, Lord Jones of Birmingham Kt, who served as an independent non-executive director between 23 April 2012 and 13 March 2013, all of the other Directors, the Company Secretary and Senior Managers identified below served throughout the year Anita Lovell resigned on 17 May 2013

Executive Directors

1 Jim French, Chairman and Chief Executive Officer (aged 59)
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 55)
Mark Chown has worked closely with the Board since his involvement with Flybe began in 1996 A Chartered Accountant, he spent 10 years in the private equity industry and subsequently gained wide experience in the IT, property and leisure sectors At Flybe Mark has either led, or been closely involved in, the company's major corporate transactions including the acquisition of BA Connect, the IPO, Flybe's Nordic joint venture with Finnair and the proposed sale of landing slots at London Gatwick airport Mark is Chairman of the Board of the joint venture with Finnair, Flybe Nordic AB and is also a member of the Nomination Committee

3 Andrew Knuckey, Chief Financial Officer (aged 52)
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 Outsourcing Solutions (aged 49)
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, a role that expanded in January 2013 when he became Managing Director of Flybe Outsourcing Solutions Mike sits on the board of the joint venture with Finnair, Flybe Nordic AB

5 Andrew Strong, Managing Director of Flybe UK (aged 40)
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

1 Charlie Scott, Deputy Chairman and Senior Independent Non-Executive Director (aged 64)
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

2 Alan Smith, Independent Non-Executive Director (aged 66)
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 With effect from 1 November 2012 he was appointed to the Nomination Committee

3 David Longbottom, Independent Non-Executive Director (aged 68)
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

4 Peter Smith, Independent Non-Executive Director (aged 67)
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.

Digby, Lord Jones of Birmingham Kt, Independent Non-Executive Director (aged 57)
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 BP plc, 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

Anita Lovell, Non-Executive Director (aged 61)
Anita Lovell is a consultant to 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 represented the Channel Islands at the International Lawyers Network based in New York As a former director of Rosedale, she has been involved with Flybe since 1999 Anita served on the Remuneration and Mergers and Acquisitions Committees

Company Secretary

Chris Simpson (aged 55)
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 46)
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

Corporate governance

This is the Board's third 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 Conduct 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

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 2013, 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 as it applies to "smaller companies", 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. Alan Smith, an Independent Non-Executive Director, was appointed to the Company's Nomination Committee on 1 November 2012, served to the end of the year and continues to serve. The Board is satisfied that the members of the Nomination Committee are those who are best able to contribute to its objectives

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 2013 the Board comprised ten Directors of whom five are Non-Executive and five (including the Chairman) are Executive Lord Digby Jones was appointed as an Independent Non-Executive Director on 23 April 2012 and resigned on 13 March 2013 Anita Lovell resigned on 17 May 2013

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 Outsourcing Solutions 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
Lord Digby Jones	Independent Non-Executive Director (appointed 23 April 2012, resigned 13 March 2013)
Anita Lovell	Non-Executive Director (resigned 17 May 2013)

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 Board has responsibility for approving the financial statements, significant acquisitions and disposals, major non-recurring projects and major capital expenditures

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 Lord Digby Jones, an Independent Non-Executive Director, stepped down during the year to concentrate on his other business interests, Mrs Anita Lovell stepped down on 17 May 2013, her term of office having been due to expire in July 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

The Company has governance procedures in place to ensure that on resignation concerns, if any, raised by an outgoing Non-Executive Director are circulated by the Chairman to the remaining members of the Board Neither Lord Digby Jones nor Mrs Anita Lovell have raised concerns

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, the work of its Committees 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, who leads the Operating Board, subject to monitoring by the Board and those items referred to above

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

The Board held 11 scheduled meetings during the year In addition the Board met on several occasions on an ad hoc basis to deal with urgent business, including the consideration and approval of transactions where a decision was required before the next meeting The Senior Independent Non-Executive Director and the Non-Executive Directors have met without the Chairman and Executive Directors being present

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 scheduled 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 had 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

Year ended 31 March 2013	Board	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Security Review Committee	Mergers & Acquisitions Committee
Executive Director						
Jim French	10 (11)		2 (2)			
Mark Chown	10 (11)		2 (2)			
Andrew Knuckey	11 (11)					
Andrew Strong	11 (11)				4 (4)	
Mike Rutter	11 (11)					
Non-Executive Director						
Charlie Scott	11 (11)	6 (6)	2 (2)	2 (2)		1 (1)
Alan Smith	11 (11)	6 (6)	1 (1)	2 (2)	4 (4)	1 (1)
David Longbottom	11 (11)		2 (2)	2 (2)		
Peter Smith	10 (11)			2 (2)	4 (4)	
Anita Lovell	9 (11)			2 (2)		1 (1)
Lord Digby Jones	6 (9)					

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

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

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 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 Peter Smith has notified the Company of his intention to retire at the 2013 AGM and consequently will not be offering himself for re-election Charlie Scott and Alan Smith will retire at the forthcoming AGM and, being eligible, will offer themselves for re-election A biography for each of these Directors, together with a description of the skills and experience they possess that the Company considers relevant, will be included in the proposals put to shareholders at the 2013 AGM

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 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 and the Director of Information Technology 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 six occasions during 2012/13 Details of the attendance at its meetings are set out in the table on page 41

The Chairman and Chief Executive Officer, Chief Financial Officer, Group Financial Controller, 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 responsibilities 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 48
- → 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

Corporate governance

Continued

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 Chairman and 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 considered the continuation of the appointment of Deloitte LLP and, having regard to all of the facts available to the committee, recommended the re-appointment of Deloitte to the Board

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

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 Bribery Act 2010 compliance policy and procedures
- → reviewing reports from the Director of Internal Audit and Risk
- → approval of the annual Internal Audit and Risk plan
- → reviewing risk management procedures and the Risk Register
- → reviewing the Audit Committee's own Terms of Reference
- → 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), Charlie Scott, Alan Smith and Peter Smith all of whom served throughout the year, as did Anita Lovell until her resignation from the Board

The Remuneration Committee met twice 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 51 to 59

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 responsibilities 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, Charlie Scott and Alan Smith 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. Additionally, Alan Smith, an Independent Non-Executive Director, was appointed to the Company's Nomination Committee on 1 November 2012, served to the end of the year and continues to serve The Board is satisfied that the members of the Nomination Committee are those who are best able to contribute to its objectives

The responsibilities of the Nomination Committee include

→ regularly reviewing the structure, size and composition (including skills, knowledge, experience and diversity) of the Board and making 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 activities of the Committee included succession planning and a review of its own membership In its 2012/13 Half-year Report the Group reported that, at the time of its IPO in December it had been stated that 'within the next three years, the Board and executive management intend to facilitate an orderly separation of the Chairman and Chief Executive Officer roles' Accordingly, the Nomination Committee recommended a timetable, which the Board approved, to commence a search, both internally and externally using external search consultants, for a new Chief Executive Officer with a view to completing the process during the first half of 2013 and for the transition and handover to be completed as soon as practicable thereafter In the 2012/13 Half-year Report the Board also announced that, at its request, Jim French will continue as non-executive Chairman for a three year term following the appointment of the new CEO As explained in the Chairman and Chief Executive Officer's statement on page 16, given the critical importance of successfully delivering on Flybe's turnaround plan, the Board has concentrated its efforts in that area The Board will appoint a CEO once it is satisfied that sufficient development along these lines has been made

Corporate governance
Continued

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
- → 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 current members of the Mergers and Acquisitions Committee, all of whom have served throughout the year, are Alan Smith (Committee Chairman) and Charlie Scott with Anita Lovell having being a member until her resignation from the Board 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 progress of the joint venture with Finnair and other potential opportunities

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 and risk management

The Group has a clear internal control system, the purpose of which is to safeguard investment and the Group's assets, which accords with the Financial Reporting Council's publication Internal Control· the Revised Guidance for Directors on the Combined Code ('the Revised Guidance') which can be accessed at www.frc org uk The Board has overall responsibility for maintaining, and reviewing the effectiveness of, the Group's systems of internal control, including its joint ventures, 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 and to provide reasonable but not absolute assurance that assets are safeguarded against unauthorised use or material loss, and that its transactions are properly authorised and recorded

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 Internal Audit and Risk department and ensures the annual Internal Audit and Risk Plan reflects any material risks in internal control

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

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

Review of business risk

The principal risks and uncertainties facing the business are discussed on pages 30 to 33 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 annually and will do so more frequently if necessary

Corporate governance
Continued

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 external auditor for non-audit work has been agreed by the Audit Committee and is available on the Company's website at www flybe com/en/corporate/governance In summary, this ensures that, usually, such work is only awarded when, by virtue of the auditor's knowledge, skills or experience, the external auditor is clearly to be preferred over alternative suppliers Any fees charged by the Group's external 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 external auditor over the financial period A breakdown of the fees paid to the Group's external auditor during the year is set out in note 6 to the consolidated financial statements

(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 external 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 Where appropriate, the views of major shareholders are sought on certain issues

As explained in the Financial Review on page 28, a Relationship Agreement is in place between the Group and its principal shareholder, Rosedale Aviation Holdings Limited ('Rosedale'), which permits Rosedale to appoint one person to the Board if Rosedale holds in excess of 15% of Flybe's Ordinary Shares and two people if it holds in excess of 30% of the Ordinary Shares

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 2013, 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 20 June 2013, 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 14 June 2013, 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 2%	3,216,200	Beneficial
James French	5 3%	4,016,250	Beneficial
Richard Griffiths	3 0%	2,265,173	Beneficial

Financial calendar

Annual general meeting	31 July 2013
First quarter IMS	August 2013
Half-year results 2013/14	November 2013
Third quarter IMS	February 2014
Full year results 2013/14	June 2014

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

Shareholder Information
Continued

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
Abbots House
Abbey Street
Reading
RG1 3BD

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

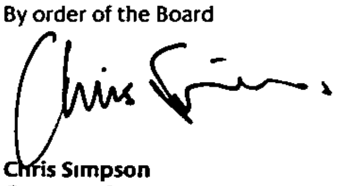
(1) so far as each of the Directors is aware, there is no relevant audit information of which the Company's auditor is unaware

(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

By order of the Board



Chris Simpson
Company Secretary

20 June 2013

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 pages 15 to 16 the general market conditions and the UK domestic aviation market were challenging throughout the 2012/13 financial year Fuel prices remained stubbornly high, compounded by the weak sterling to US dollar exchange rate, economic recovery was anaemic and the government's aviation strategy remains unclear The overall UK domestic aviation market has continued to decline As a consequence, these factors have influenced Executive Remuneration.

The Group has had to take firm, tough and difficult restructuring decisions as part of its business turnaround plan – Fit to Compete – to create a leaner and more focused organisation While significant progress has been made towards that transformation programme, the Group's financial loss means that for the third successive year, no bonus will be paid to any Executive Director It is also the Committee's view based on performance to-date that the long-term performance targets attached to outstanding awards under the Performance Share Plan ('PSP') have a low probability of being achieved and are therefore likely to lapse Furthermore, the Committee wishes to report that, in light of the continued difficult market conditions faced by the Group, the Executive Directors recommended (and the Remuneration Committee approved) that their basic salaries be reduced through four weeks' annual salary sacrifice with effect from 1 July 2013, for an initial twelve month period The Committee is satisfied that the bonus outcome, the current vesting expectations for PSP awards and the Directors' salary reduction 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 in December 2010, 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 underpin a strong link between performance and reward

The Committee always welcomes and carefully considers feedback from shareholders, and particularly welcomed 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

Directors' remuneration
Continued

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') In recognition of the new regulations governing the reporting of executive remuneration due to come into force in October 2013, this report also incorporates a number of the reporting requirements being proposed by the Department of Business, Innovation and Skills ('BIS') to enhance transparency for our shareholders. This report will be put to an advisory vote for approval by the Group's shareholders 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, served as a member of this Committee until her resignation from the Board on 17 May 2013

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, until her resignation from the Board, Anita Lovell who was 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 individual 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 is a signatory of the Code of Conduct for Remuneration Consultants and does not provide any other services to the Group During the year, the Committee conducted a review of Kepler Associates at the end of the three-year term of their initial appointment Following this review, the Committee decided to retain Kepler Associates as its appointed external advisor. 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)

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

1 The structure of the directors' remuneration report for the financial year ended 31 March 2012
2 Annual bonus performance and payments for the financial year ended 31 March 2012
3 Annual bonus structure and performance targets for the financial year ended 31 March 2013
4 PSP and all-employee share plan awards for the financial year ended 31 March 2013
5 The re-appointment of its external advisors
6 An evaluation of the Committee's own performance

Our 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

Summary of Flybe's 2013/14 remuneration policy for Executive Directors (unchanged from 2012/13)

Purpose and link to strategy of element	Operation	Opportunity	Performance metrics
Basic salary To attract and retain talent	Basic salaries are reviewed annually, taking into account the size and nature of the role, individual skills, experience and performance, with reference to pay and conditions elsewhere in the Group, and external market data for comparable positions at companies of similar sector and size to Flybe	Any increase in basic salary is effective from 1 April (unless there is a change of responsibility during the year)	Personal performance in the role and against personal objectives
Benefits To provide competitive benefits	Benefits include (where provided) car and accommodation allowances, fuel card, private medical insurance and life assurance	Varies by role, and reviewed periodically against market	None
Pension To provide competitive retirement benefits	Executives participate in a contributory scheme, and are able to elect to receive a cash supplement in lieu of pension above the Pensions Annual Allowance	15% of salary for Executive Directors (Mark Chown does not receive pension)	None
Annual bonus Incentivise and reward Executive Directors for the delivery of business strategy	Performance targets are agreed at the start of each financial year Payments (made following the end of each performance year) are based on the Committee's assessment of the Group's performance against these targets	Up to 100% of salary for Executive Directors (150% of salary in truly exceptional circumstances)	Group PBT, achievement of strategic milestones and personal objectives Awards are eligible for a+/-50% uplift based on the achievement of significant strategic milestones and personal performance in exceptional circumstances, and only if warranted by Flybe's profit performance
Performance Share Plan Incentivise senior executives to create long-term shareholder value, and align the interests of senior executives with those of shareholders	Awards of conditional shares granted to executives normally vest on the third anniversary of grant subject to the achievement of 3-year performance conditions The performance conditions are reviewed by the Committee prior to each award	100% of salary for Executive Directors (150% of salary in exceptional circumstances)	3-year EPS growth (70% of an award) 3-year relative TSR rank (30% of an award)
Shareholding guidelines Support alignment with shareholders	Requirement for executives to retain 50% of any net vested shares until the guideline is met using shares acquired post IPO only	100% of salary for Executive Directors	None

Directors' remuneration
Continued

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	See below
Lord Digby Jones*	23 April 2012	See below

* Lord Digby Jones and Anita Lovell retired from the Board on 13 March and 17 May 2013 respectively

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 2013 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	40,000	8,000	15,000	63,000
Alan Smith	40,000	8,000	–	48,000
David Longbottom	40,000	8,000	–	48,000
Peter Smith	40,000	8,000	–	48,000
Anita Lovell	40,000	–	–	40,000
Lord Digby Jones	40,000	–	–	40,000

NED fees will remain at the above levels for the 2013/14 financial year NEDs are not eligible for bonuses or participation in share schemes and no pension contributions are made on their behalf

Implementation Report
The following section provides details of how the remuneration policy was implemented during the year

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 size and complexity of the business, the general economy, and remuneration levels and conditions across the rest of the Group

In light of the continued difficult market conditions faced by the Group, the Executive Directors recommended (and the Remuneration Committee approved) that their basic salaries be reduced through four weeks' annual salary sacrifice with effect from 1 July 2013 for an initial twelve month period, as follows

Executive Director	Salary** from 1 April 2012 £	Salary** from 1 July 2013 £
Jim French	510,000	470,781
Andrew Knuckey	300,000	276,930
Andrew Strong	300,000	276,930
Mike Rutter	300,000	276,930
Mark Chown*	153,000	141,234

* 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 58

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

Annual bonus

For the year to 31 March 2013, 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 2013, no bonus payments will be made to Executive Directors in respect of the year

For the year to 31 March 2014, 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 Outsourcing Solutions 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

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 base 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

In light of the difficult market conditions that continue to be faced by the Group, the Executive Directors recommended to the Remuneration Committee that it would be inappropriate to make awards under the PSP during 2012/13 Although the Remuneration Committee believes that it is important to reinforce the alignment of executive and shareholder interests through the use of incentives, the Committee agreed with the recommendation of the Executive Directors, taking into account the existing level of shareholder alignment achieved through senior executives' shareholdings in the Group since before IPO, and accordingly no PSP awards were granted in the year ended 31 March 2013

Details of outstanding awards under the PSP (granted in prior years) are summarised below

IPO PSP awards

Awards of 100% of salary were granted to Executive Directors shortly after IPO in January 2011, and were subject to two corporate financial performance conditions, as follows

Flybe s EPS for the year ended 31 March 2013	% of award vesting
Less than 35p	0%
35p	17 5%
48p or greater	70%
Between 35p and 48p	Straight line sliding scale (between 17 5% and 70%)
Performance period	1 Apr 10 – 31 Mar 13

Flybe s TSR rank vs selected comparators	% of award vesting
Less than median	0%
Median	7.5%
Upper quartile or above	30%
Between median and upper quartile	Straight line sliding scale (between 7 5% and 30%)
Performance period	9 Dec 10 – 31 Mar 13

Based on performance over the period to 31 March 2013, these awards did not vest and will lapse in full

Directors' remuneration

Continued

August 2011 awards

Awards of 100% of salary were granted to Executive Directors in August 2011, and are subject to the following performance conditions

Flybe's EPS growth	% of award vesting
Less than 8% p a	0%
8% p a	17 5%
18% p a or greater	70%
Between 8% and 18% p a	Straight line sliding scale (between 17 5% and 70%)
Performance period	1 Apr 11 – 31 Mar 14

Flybe's TSR rank vs selected comparators	% of award vesting
Less than median	0%
Median	7 5%
Upper quartile or above	30%
Between median and upper quartile	Straight line sliding scale (between 7 5% and 30%)
Performance period	1 Apr 11 – 31 Mar 14

These awards will normally vest, to the extent these performance conditions are met, on the third anniversary of grant 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

TSR comparator groups

The table below summarises the comparator groups against which Flybe's relative TSR performance will be measured

Company	Comparator IPO PSP award	Comparator August 2011 award
Aer Lingus	✓	✓
Air France-KLM	✓	✓
Dart Group	✓	✓
Deutsche Lufthansa	✓	✓
easyJet	✓	✓
IAG	✓	✓
Ryanair	✓	✓
SAS	✓	✓
Air Partner	✓	
Avis Europe	✓	
FirstGroup	✓	
Go-Ahead Group	✓	
Irish Continental Group	✓	
National Express Group	✓	
Stagecoach Group	✓	
Thomas Cook Group	✓	
TUI Travel	✓	
Air Berlin		✓
Cimber Sterling		✓
Finnair		✓

Selection of performance conditions

The Committee considers 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 It is anticipated that, if PSP awards are granted in the year ending 31 March 2014, the vesting of these awards will be subject to 3-year EPS growth and relative TSR performance.

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 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

During the year to 31 March 2013, no awards were made under the SIP or SAYE

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 2013, a total of 3,746,036 (5 0%) 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, 1,012,716 (1 3%) shares relate to all-employee schemes, with the remaining 2,733,320 (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

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 2013 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 first chart (below 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, 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

	31 March 2012	31 March 2013
Executive Director		
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	376,725
Non-Executive Director		
Charlie Scott	12,500	12,500
Alan Smith	22,500	22,500
David Longbottom	12,500	12,500
Peter Smith	39,000	46,000
Anita Lovell	–	–
Lord Digby Jones*	–	–

* Lord Digby Jones's holding is reported as of the date of his retirement from the Board on 13 March 2013

Directors' remuneration
Continued

Audited information
Directors' remuneration

Year ended 31 March 2013	Salary/Fee £	Pension £	Benefits £	Bonus £	Total 2012/13 £	Total 2011/12 £	PSP £	Single figure ** £
Executive Director								
Jim French*	505,785	75,430	19,186	–	600,401	606,785	–	600,401
Andrew Knuckey*	300,300	45,706	8,486	–	354,492	346,357	–	354,492
Andrew Strong*	295,729	45,713	8,188	–	349,630	346,218	–	349,630
Mike Rutter*	300,350	59,203	8,486	–	368,039	353,708	–	368,039
Mark Chown	153,000	–	–	–	153,000	153,000	–	153,000
Non-Executive Director								
Charlie Scott	63,000	–	–	–	63,000	61,760	–	63,000
Alan Smith	48,000	–	–	–	48,000	45,283	–	48,000
David Longbottom	48,000	–	–	–	48,000	46,760	–	48,000
Peter Smith	48,000	–	–	–	48,000	46,760	–	48,000
Anita Lovell	40,000	–	–	–	40,000	38,760	–	40,000
Lord Digby Jones**	40,000	–	–	–	40,000	–	–	40,000
Totals	1,842,164	226,052	44,346	–	2,112,562	2,045,391	–	2,112,562

* Jim French Andrew Knuckey Andrew Strong and Mike Rutter participated in the Group s defined contribution pension scheme Contributions are made via an approved salary sacrifice arrangement and the figures disclosed above are before the application of salary sacrifice Figures for 2011/12 include contributions originally due in 2010/11 which were deferred in order to minimise Special Annual Allowance changes which were introduced under the Finance Act 2009 as part of anti-forestalling provisions relating to the reduction in the Annual Allowance (the annual limit on pension contributions which attract tax relief) The amounts of deferred contributions are as follows Andrew Knuckey £9 382 Andrew Strong £9 388 Mike Rutter £16 615 The Annual Allowance for 2012/13 is £50 000 and should the combined employer and employee contribution for any Executive Director exceed this level they may elect to receive a cash supplement which is equal to the excess
Appointed 23 April 2012 and retired from the Board on 13 March 2013

** In line with the latest reporting requirements proposed by BIS the above table includes columns detailing the value of PSP awards vesting based on performance over the period ending 31 March 2013 and a single figure of total pay for each director

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 2012	Number granted in year	Share awards outstanding at 31 March 2013	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 Following the end of the performance period on 31 March 2013 the Remuneration Committee determined that these awards would lapse in full The lapse of these awards will be disclosed in next year s report
(b) PSP awards granted on 5 August 2011 are subject to the performance conditions set out on page 56 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 2012	Granted	Exercised	Lapsed	At 31 March 2013	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 28 March 2013 (the last trading day of the financial year) was 43p Over the period from 1 April 2012 to 31 March 2013, the price of the Group's shares varied between 43p and 78p

On behalf of the Board

David Longbottom
Remuneration Committee Chairman

20 June 2013

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

20 June 2013

Andrew Knuckey
Chief Financial Officer

20 June 2013

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 2013 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 42 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 2013 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

Anna Marks

Anna Marks (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom

20 June 2013

Consolidated income statement

Year ended 31 March 2013

	Note	2013 Before restructuring costs £m	2013 Restructuring costs (note 7) £m	2013 Total £m	2012 (restated) £m
Total revenue under management		781 5	–	781.5	678 8
Less Joint venture revenue	16	(167 2)	–	(167.2)	(63 5)
Group revenue		614 3	–	614 3	615 3
Consisting of:					
Passenger revenue		551.8	–	551 8	565 6
Contract flying revenue		12.8	–	12 8	–
Revenue from other activities		49 7	–	49.7	49 7
		614 3	–	614.3	615 3
Staff costs	8	(124.0)	(5 6)	(129 6)	(120 7)
Fuel		(122 6)	–	(122.6)	(106 4)
Net airport and en route charges		(117 0)	–	(117 0)	(118 1)
Ground operations		(83.7)	–	(83 7)	(86 7)
Maintenance		(33 7)	–	(33.7)	(37 7)
Depreciation and amortisation		(12 0)	–	(12.0)	(13 1)
Aircraft rental charges		(78 1)	–	(78.1)	(77 6)
Marketing and distribution costs		(25 1)	–	(25 1)	(25 5)
Other operating (losses)/gains		(1.2)	–	(1.2)	4 2
Other operating expenses		(40.4)	(2 4)	(42 8)	(35 6)
Operating loss before joint venture results		(23.5)	(8.0)	(31.5)	(1 9)
Share of joint venture loss	16	(2.8)	–	(2 8)	(3 0)
Operating loss	6	(26.3)	(8.0)	(34.3)	(4 9)
Investment income	9	0 6	–	0 6	0 8
Finance costs	10	(2 5)	–	(2 5)	(3 3)
Other (losses) and gains	11	(4 5)	–	(4.5)	1 2
Loss before tax		(32.7)	(8 0)	(40.7)	(6 2)
Tax charge		(1.1)	–	(1 1)	(0 2)
Loss for the year		(33 8)	(8 0)	(41 8)	(6 4)
Loss per share					
Basic and diluted				(55 6)p	(8 5)p

Consolidated statement of comprehensive income

Year ended 31 March 2013

	2013 £m	2012 £m
Loss for the financial year	(41 8)	(6 4)
Items that will not be reclassified to profit or loss		
Actuarial loss on defined benefit pension scheme	(0 2)	(0 4)
Items that may be reclassified subsequently to profit or loss		
Gains/(losses) arising during the year on cash flow hedges	3.7	1 8
Reclassification of losses on cash flow hedges included in the income statement	(2 8)	(19 0)
Deferred tax arising on cash flow hedges	–	5 0
Foreign exchange translation differences	(0.8)	–
	0 1	(12 2)
Other comprehensive loss for the year	(0 1)	(12 6)
Total comprehensive loss for the year	(41 9)	(19 0)

Consolidated statement of changes in equity

Year ended 31 March 2013

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Total equity £m
Balance at 1 April 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
Loss for the year	–	–	–	–	–	(41 8)	(41 8)
Other comprehensive expense for the year	–	–	0 1	–	–	(0 2)	(0 1)
Equity settled share based payment transactions	–	–	–	–	–	0 6	0 6
Balance at 31 March 2013	0 7	60 6	3.6	6 7	22.5	(46 0)	48 1

Consolidated balance sheet

At 31 March 2013

	Note	2013 £m	2012 £m
Non-current assets			
Intangible assets	14	13.2	10 1
Property, plant and equipment	15	165.4	162 1
Interests in joint ventures	16	13.2	16 2
Other non-current assets	18	42 5	40 0
Restricted cash	21	7.2	7 9
Deferred tax asset	27	4 6	8 6
		246.1	244 9
Current assets			
Inventories	19	6.8	6 6
Trade and other receivables	20	87.8	98 5
Cash and cash equivalents	21	23 3	42 9
Restricted cash	21	24.2	16 8
Derivative financial instruments	26	5 7	5 3
Assets held for sale	22	11 9	0 3
		159 7	170 4
Total assets		405.8	415 3
Current liabilities			
Trade and other payables	23	(97 9)	(89 0)
Deferred income	24	(63 2)	(63 2)
Borrowings	25	(18 7)	(21 3)
Provisions	28	(26.9)	(25 0)
Derivative financial instruments	26	(1.5)	(1 3)
		(208.2)	(199 8)
Non-current liabilities			
Borrowings	25	(102 3)	(76 0)
Deferred tax liabilities	27	(2 6)	(5 5)
Provisions	28	(33.8)	(32 1)
Deferred income	24	(10 8)	(12 4)
Derivative financial instruments	26	–	(0 1)
		(149 5)	(126 1)
Total liabilities		(357.7)	(325 9)
Net assets		48 1	89 4
Equity attributable to owners of the Company			
Share capital	29	0.7	0 7
Share premium account		60 6	60.6
Hedging reserve		3.6	3 5
Other reserves		6.7	6 7
Capital redemption reserve		22.5	22 5
Retained deficit	30	(46.0)	(4 6)
Total equity		48 1	89 4

The financial statements of Flybe Group plc, registered number 1373432, were approved by the Board of Directors and authorised for issue on 20 June 2013

Signed on behalf of the Board of Directors

Jim French CBE
Director

Andrew Knuckey
Director

Consolidated cash flow statement

Year ended 31 March 2013

	2013 £m	2012 £m
Cash flows from operating activities		
Loss for the year	(41.8)	(6 4)
Adjustments for:		
Restructuring costs	8.0	-
Unrealised losses on derivative contracts	0.7	-
Depreciation, amortisation and impairment	13 5	16 2
Investment income	(0.6)	(0 8)
Finance costs	2.5	3 3
Other net losses/(gains)	4.5	(1 8)
Loss/(profit) on sale of property, plant and equipment	1.4	(0 6)
Transfer of property, plant and equipment to assets held for sale	(11.6)	-
Equity-settled share-based payment expenses	0.6	0 5
Joint venture result	2.8	3 0
Taxation	1.1	0 2
	(18 9)	13 6
Cash paid in respect of restructuring costs	(1.4)	-
Increase in restricted cash	(6 7)	(6 8)
Decrease/(increase) in trade and other receivables	8.4	(18 3)
Increase in inventories	(0.2)	(0 8)
Increase in trade and other payables	7.3	4 5
Increase in assets held for sale	11.6	0 1
(Increase)/decrease in provisions and employee benefits	(3 0)	10 7
	16 0	(10 6)
Tax paid	–	–
Net cash flows from operating activities	(2.9)	3 0
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	10.6	72 4
(Increase)/decrease in pre-delivery deposits	(0 2)	1 0
Interest received	0.6	0 8
Acquisition of property, plant and equipment	(39.4)	(113 4)
Capitalised computer software expenditure	(4.0)	(0 7)
Acquisition of joint venture interest	(0.3)	(18 2)
Net cash flows from investing activities	(32.7)	(58 1)
Cash flows from financing activities		
Proceeds from new loans	39.5	90 9
Interest paid	(2.5)	(3 3)
Repayment of borrowings	(21.0)	(77 3)
Net cash flows from financing activities	16 0	10 3
Net decrease in cash and cash equivalents	(19 6)	(44 8)
Cash and cash equivalents at beginning of year	42.9	87 7
Cash and cash equivalents at end of year	23.3	42 9

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 50 The nature of the UK group's operations and its principal activities are set out in the Business review of pages 14 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 12 (December 2010)	Deferred tax – Recovery of underlying assets
Amendments to IFRS 7 (October 2010)	Financial Instruments – Disclosures
Amendment to IAS 1 (June 2011)	Presentation of Financial Statements

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)

FRS 9 (November 2009)	Financial Instruments – Classification and Measurement
Amendments to IFRS 7 (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 19 (June 2011)	Post-employment Benefits
Amendment to IAS 32 (December 2011)	Financial Instruments – Presentation

No assessment has as yet been undertaken in respect of IFRS 9 Financial Instruments – Classification and Measurement The amendment to IAS 19 Post-employment Benefits would have led the credit to operating profit of £0 2m in the 2012/13 financial year being reported as a charge of £0.2m The directors do not expect that the adoption, in future periods, of the other Standards and Interpretations listed above 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 28.

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 year 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:

Passenger 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, 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

Operating loss
Operating loss is stated as loss before tax, investment income, finance costs and other gains and losses

Notes to the consolidated financial statements

Continued

3. Accounting policies continued

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

Derivative financial instruments and hedging
The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and commodity prices and uses forward foreign exchange contracts and commodity swaps to hedge these exposures The Group does not use derivative financial instruments for trading purposes

Derivative financial instruments are initially recognised and subsequently re-measured at fair value.

The Group designates hedges of foreign exchange and commodity price risks on firm commitments as cash flow hedges Hedge accounting is applied to these instruments

Cash flow hedges
Changes in the fair value of derivative financial instruments that are designated and are effective as hedges of future cash flows are recognised directly in other comprehensive income and any ineffective portion is recognised immediately in the income statement in the 'other gains and losses' line item

Amounts deferred in other comprehensive income are recognised in the income statement in the same period in which the hedged item affects net income or loss These amounts are recorded in the same line of the income statement as the 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

Notes to the consolidated financial statements
Continued

3. Accounting policies continued
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.

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

→ 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

Notes to the consolidated financial statements
Continued

3. Accounting policies continued

Restructuring provision
A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised valid expectations in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity

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

4. 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 £140 4m for aircraft as at 31 March 2013 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

Notes to the consolidated financial statements
Continued

4. Critical accounting judgements and key sources of estimation uncertainty continued

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 where the Directors believe that realisation is not probable, that portion of the asset is 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 As a result of the Group's performance, the deferred tax asset has reduced from £3 1m to £2 0m at 31 March 2013 (per note 27)

Restructuring provision

The Group recognises a restructuring provision when the detailed formal plan for the restructuring has been determined and has raised valid expectations in those affected that it will carry out the restructuring by announcing its main features to those affected by it or implement the plan Flybe makes estimates and assumptions particularly in relation to whether a cost will be incurred, its value and the period in which cash (or other resources) will leave the Group A change in these assumptions could cause an increase or decrease in the amount recognised as a provision which could materially impact the results of operations

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

As part of the Turnaround plan announced on 23 January 2013, Flybe Group plc was restructured to create a leaner, more focused business, with the number of divisions reduced to two, Flybe UK and Flybe Outsourcing Solutions

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 Outsourcing Solutions	This business segment aims to provide low cost outsourcing to short haul aviation customers in Western Europe It comprises three business units Flybe Contract Flying (including Flybe Finland which was previously within the Flybe Europe segment), Flybe Aircraft Maintenance and Flybe Training Academy (the MRO and training businesses which were previously in the Flybe Aviation Support segment)

Comparatives for the year ended 31 March 2012 have been restated to correspond with the new structure.

Segment revenues and results

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

	2013 £m	2012 (restated) £m
Segment revenues		
Flybe UK	575 2	588 1
Flybe Outsourcing Solutions	225.3	110 8
Inter-segment sales	(19.0)	(20 1)
Revenue under management	781 5	678 8
Less Revenue from Flybe Finland joint venture (see note 16)	(167.2)	(63 5)
Group revenue (excluding investment income)	614.3	615 3

	2013 Before restructuring costs £m	2013 Restructuring costs (note 7) £m	2013 Total £m	2012 (restated) £m
Segment results				
Flybe UK (including net finance costs of £1 6m in 2013 and £1 6m in 2012)	(28.5)	(4.0)	(32 5)	(2 2)
Flybe Outsourcing Solutions (including investment income of £0 3m in 2013 and £0 3m in 2012)	(4 2)	(4.0)	(8 2)	(4 0)
Total segment loss before tax	(32 7)	(8.0)	(40.7)	(6 2)

The Flybe UK segment includes group costs of £3 6m (2011/12 restated £3 1m) and revaluation losses on USD aircraft loans of £4 7m (2011/12 gains of £0 9m)

Flybe Outsourcing Solutions results include both the appropriate share of the Flybe Finland joint venture results and other costs of running this business unit

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

	2013 £m	2012 (restated) £m
Segment assets		
Flybe UK	346 4	351 5
Flybe Outsourcing Solutions	49 0	49 9
Total segment assets	395 4	401 4
Unallocated assets	10 4	13 9
Consolidated total assets	405.8	415 3
Segment liabilities		
Flybe UK	(326 8)	(300 4)
Flybe Outsourcing Solutions	(24.3)	(18 8)
Total segment liabilities	(351 1)	(319 2)
Unallocated liabilities	(6 6)	(6 7)
Consolidated total liabilities	(357.7)	(325 9)

Other segment information

	2013 £m	2012 (restated) £m
Depreciation and amortisation:		
Flybe UK	12 5	15 2
Flybe Outsourcing Solutions	1 0	1 0
	13 5	16 2
Investment income:		
Flybe UK	0 3	0 5
Flybe Outsourcing Solutions	0 3	0 3
	0 6	0 8
Additions to non-current assets		
Flybe UK	42.3	112 2
Flybe Outsourcing Solutions	1 1	1 9
	43 4	114 1

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

	2013 £m	2012 £m
Revenue under management from external customers		
United Kingdom	528.5	524 0
Europe excluding United Kingdom	237 8	142 6
Rest of world	15 2	12 2
Total revenue under management	781 5	678 8
Less Joint venture revenue (all categorised as Europe excluding United Kingdom)	(167 2)	(63 5)
Group revenue	614 3	615 3

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 Group revenue

6. Operating loss

	2013 £m	2012 £m
This has been arrived at after charging/(crediting)		
Depreciation of property, plant and equipment	12 6	15 2
Amortisation of intangible assets	0 9	1 0
Loss/(profit) on the disposal of property, plant and equipment	1 4	(0 4)
Write-down of inventories as a result of restructuring	0 2	–
Operating leases		
Land and buildings	4.1	3 7
Plant and machinery	1 9	1 0
Aircraft	78 1	77 6
Foreign exchange losses/(gains)	1 9	(1 0)

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	–	–
Audit of the financial statements of subsidiaries pursuant to legislation	0 2	0 2
Total audit fees	0 2	0 2
Tax advisory services	0 1	0 2
Expenses in connection with the IPO and other strategic projects	–	0 3
All other services	–	–
Total audit and non-audit fees	0 3	0 7

Fees payable to Deloitte LLP and its 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. Restructuring costs

On 23 January 2013, the Group announced the setting of medium-term operational profit targets and a turnaround plan to return the Group to profitability Costs incurred include redundancies for 200 staff, outsourcing of activities previously performed by the Group itself (250 staff), cost reduction programme with suppliers and legal, professional and support costs associated with these activities Detail of the restructuring provision is provided in note 28

	2013		
	Flybe UK £m	Flybe Outsourcing Solutions £m	Total £m
Redundancy costs	2 7	2 9	5.6
Staff costs	2 7	2.9	5.6
Legal, professional and support costs	1 2	–	1 2
Property and other exit costs	0.1	1.1	1 2
Other operating expenses	1.3	1 1	2.4
Total restructuring costs	4.0	4 0	8.0

Notes to the consolidated financial statements

Continued

8. Staff costs

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

	2013 No	2012 No
Flight and maintenance	1,418	1,447
Technical support services	724	787
Administration	525	547
	2,667	2,781

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

	2013 £m	2012 (restated*) £m
Wages and salaries	103 0	99 2
Social security costs	11.0	10 5
Other pension costs (see note 35)	7 1	6 6
Share-based payments (see note 34)	0.6	0 5
Redundancy costs (see note 7)	5 6	–
Amounts payable to temporary staff	2 3	3 9
	129 6	120 7

* Year ended 31 March 2012 has been restated to reflect the change in presentation of flight duty allowance of £4 3m from other operating expenses

In addition to the above, an actuarial gain of £0 2m (2012 actuarial gain of £0 4m) was recognised in the consolidated statement of comprehensive income in respect of defined benefit pension schemes

9. Investment income

	2013 £m	2012 £m
Interest on bank deposits	0 6	0 8

10. Finance costs

	2013 £m	2012 £m
Interest expense on bank loans	2 5	3 3

11. Other gains and losses

	2013 £m	2012 £m
(Losses)/gains arising on retranslation of foreign currency loans and deposits	(4 7)	0 8
Amounts arising on pension scheme (see note 35)	0 2	0 4
	(4 5)	1 2

12. Tax on loss on ordinary activities

	2013 £m	2012 £m
Deferred tax		
Origination of temporary differences	1 2	(0 9)
Reversal of tax losses recognised	(0.1)	1 1
Total tax (credit)/charge for the year	1.1	0 2

The Group did not incur 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

	2013 £m	2012 £m
Loss on ordinary activities before tax	(41 8)	(6 2)
Tax on loss on ordinary activities before tax at 24% (2012 26%)	(9 6)	(1 6)
Factors affecting tax (credit)/charge for the year		
Items outside the scope of UK taxation	0 1	0 1
Effect of change in corporation tax rate	(0 2)	–
Effect of tax losses	(0.6)	(0 3)
Capital allowances in excess of depreciation	11.4	2 0
Total tax charge for the year	1.1	0 2

In the Budget on 21 March 2012 the UK Government announced that legislation will be introduced in the Finance Bill 2012 to reduce the main rate of corporation tax from 24% to 23% from 1 April 2013 On 3 July 2012 a resolution approving the rate change to 23% was passed and therefore 23% has been used to calculate the position on deferred tax at 31 March 2013 (2012 24%) The further phased reductions discussed in the Budget on 20 March 2013, reducing the corporation tax rate to 20% from 1 April 2015, have not yet been enacted The Directors are not aware of any other factors that will 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

	2013 £m	2012 (restated) £m
Earnings		
Loss for the purposes of unadjusted earnings per share being net loss attributable to owners of the Group	(41.8)	(6 4)
Add back		
Restructuring costs	8 0	–
Revaluation loss/(gain) on USD aircraft loans	4 7	(0 9)
Loss for the purposes of adjusted earnings per share	(29.1)	(7 3)

	No.	No
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	75,152,881	75,152,881
Loss per ordinary share – basic and diluted	(55 6)p	(8 5)p
Adjusted loss per share – basic and diluted	(38.7)p	(9 7)p

Diluted earnings per share is the same as basic earnings per share in the years ended 31 March 2013 and 31 March 2012 because the Group recorded a loss and as such none of the shares that could, potentially, be issued are dilutive

Notes to the consolidated financial statements

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14. Intangible fixed assets

	Landing rights £m	Computer software £m	Computer software in the course of construction £m	Total £m
Cost				
At 1 April 2011	8 5	8 2	–	16 7
Additions	–	0 7	–	0 7
At 31 March 2012	8 5	8 9	–	17 4
Additions	–	1 1	2 9	4 0
At 31 March 2013	**8.5**	**10.0**	**2 9**	**21 4**
Amortisation				
At 1 April 2011	–	6 3	–	6 3
Amortisation for the year	–	1 0	–	1 0
At 31 March 2012	–	7 3	–	7 3
Amortisation for the year	–	0 9	–	0 9
At 31 March 2013	**–**	**8 2**	**–**	**8 2**
Net book value				
At 1 April 2011	8 5	1 9	–	10 4
At 31 March 2012	8 5	1 6	–	10 1
At 31 March 2013	**8 5**	**1 8**	**2 9**	**13 2**

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 At 31 March 2013, the landing rights were tested for impairment by comparing the balance sheet value of £8 5m to open market values of these landing rights to a third party On 23 May 2013, the Group announced that it would dispose of all of these landing rights to easyJet plc for gross cash consideration of £20 0m Completion of the transaction is subject to approval by Flybe's shareholders

15. Property, plant and equipment

	Land and buildings £m	Plant equipment and motor vehicles £m	Aircraft £m	Total £m
Cost				
At 1 April 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
Additions	0 1	3 0	36 3	39 4
Reclassified as held for sale	–	–	(24 0)	(24 0)
Disposals	–	(1 7)	(26 0)	(27 7)
At 31 March 2013	**24 6**	**17 0**	**192.9**	**234 5**
Accumulated depreciation and impairment				
At 1 April 2011	3 7	9 2	65 5	78 4
Depreciation charge for the year	0 6	1 5	13 1	15 2
At 31 March 2012	4 3	10 7	69 7	84 7
Depreciation charge for the year	0 5	1 6	10 5	12 6
On assets reclassified as held for sale	–	–	(12 4)	(12 4)
Disposals	–	(0 5)	(15 3)	(15 8)
At 31 March 2013	**4 8**	**11.8**	**52 5**	**69 1**
Net book value				
At 1 April 2011	20 9	4 5	110 9	136 3
At 31 March 2012	20 2	5 0	136 9	162 1
At 31 March 2013	**19 8**	**5 2**	**140 4**	**165 4**

Depreciation costs of £1 5m (2012 £3 8m) associated with the aircraft maintenance assets are included in the maintenance cost line in the consolidated income statement

An impairment review was performed at the balance sheet date to determine whether these assets were impaired Separate cash-generating units are established for Flybe UK, Flybe Aircraft Maintenance and Flybe Training Academy The recoverable amount was calculated using a value in use model and determined to be higher than the assets recoverable amount by £6 3m, £9 7m and £0 6m, and no impairment was required The key assumption in the review of the Flybe UK and Flybe Training Academy assets was the weighted average cost of capital used of 8 4%. Only when the weighted average cost of capital is increased to 9 2% and 9 0% respectively, does the recoverable amount equal its carrying amount

Notes to the consolidated financial statements

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16. Joint ventures

	2013 £m	2012 £m
Investment in joint ventures	13.2	16 2

Details of the joint venture 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

The following summarised financial information (under IFRS) shows the assets and liabilities and revenue and results for Flybe Finland

	2013 £m	2012* £m
Summarised financial information		
Non-current assets	11 5	11 3
Current assets	26.2	17 6
Current liabilities	(40 0)	(25 4)
Non-current liabilities	(6.1)	(6 2)
Net liabilities	(8 4)	(2 7)
Revenue	167 2	63 5
Net loss after tax	(4 9)	(4 8)
Reconciliation from summarised financial information to the joint venture carrying amount		
Share of net assets brought forward/at acquisition	16 2	1 1
Goodwill	–	18 0
Share of net loss after tax and foreign exchange on translation	(3.0)	–
Carrying amount	13 2	16 2
Other information		
Cash and cash equivalents included in current assets	5.4	5 2
Depreciation and amortisation	(0.7)	(0 5)
Interest income	–	0 1
Interest expense	(0.1)	(0 1)
Income tax credit	1 6	4 3

* 2012 shows the assets and liabilities as at 31 March 2012 and revenue and results for the period from acquisition to 31 March 2012

See note 17 for further information on the acquisition of a further stake in Finnish Aircraft Maintenance Oy in June 2012 and note 31 for details of the arrangements supporting the €3 0m overdraft guarantee provided by the Group to Flybe Finland Oy

The entities are not listed thus no quoted market price is available No dividends have been received from joint ventures.

17. Acquisition of joint venture

The acquisition, in a related party transaction, of Finnish Commuter Airlines Oy ('FCA') by Flybe Nordic, a joint venture between Flybe (60 0%) and Finnair (40 0%), was completed on 18 August 2011 Flybe's share of the total acquisition price plus associated costs was limited to £19 1m of which £18 2m was paid on completion Flybe acquired 46 3% of Finnish Aircraft Maintenance Oy ('FAM') as part of the acquisition of FCA FCA, renamed as Flybe Finland Oy, is managed by Flybe Outsourcing Solutions

In June 2012, a wholly owned subsidiary of 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 FAM, to give a total ownership of 60 0% In order to simplify the joint venture arrangements, FAM was transferred, via a share-for-share exchange, into the Flybe Nordic AB group becoming a wholly owned subsidiary within that group On 31 January 2013, FAM merged with Flybe Finland Oy leaving the latter as the surviving entity

18. Other non-current assets

	2013 £m	2012 £m
Aircraft deposits	9.9	9 3
Aircraft operating lease prepayments	9 0	11 7
Other non-current assets	23.6	19 0
	42.5	40 0

19. Inventories

	2013 £m	2012 £m
Goods for resale	0.8	0 8
Aircraft consumables	6.0	5 8
	6.8	6 6

20. Trade and other receivables

	2013 £m	2012 £m
Amounts receivable	35.9	44 4
Allowance for doubtful debts	(0 1)	(0 1)
Trade receivables, net	35 8	44 3
Amounts recoverable on contracts	1 8	4 4
Other receivables	22.1	22 7
Aircraft deposits	11.8	10 5
Prepayments	16.3	16 6
	87 8	98 5

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

Aircraft deposits includes £1 7m which was repaid to the Group after the year end as the delivery dates for the associated aircraft have been deferred until later in 2013

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 2013 (2012 nil)

Notes to the consolidated financial statements
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20. Trade and other receivables continued
Ageing of trade receivables that are not provided for

	2013 £m	2012 £m
Not yet due	28.6	33 3
30 to 60 days overdue	2 2	5 9
60 to 90 days overdue	2 1	2 2
90+ days overdue	2 9	2 9
	35 8	44 3

21. Cash, cash equivalents and restricted cash

	2013 £m	2012 £m
Cash and cash equivalents	23.3	42 9
Current restricted cash	24 2	16 8
Non-current restricted cash	7 2	7 9
	54 7	67 6
Restricted cash comprises		
Aircraft operating lease deposits	7 2	7 3
Aircraft maintenance deposits	1 5	1 7
Other (see note 31)	22 7	15 7
	31.4	24 7

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 2013, it was determined that two Bombardier Q400 turboprop aircraft with a carrying value of £11 9m would be recovered through a sales transaction and thus reclassified to assets held for sale In May 2013, the identified aircraft were sold for cash consideration of £12 5m and the associated loans repaid

23. Trade and other payables

	2013 £m	2012 £m
Trade payables	19 3	23 9
Accrued expenses	36.9	30 7
Other payables	41 7	34 4
	97.9	89 0

The average credit period taken for trade purchases is 12 days (2012 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

	2013 £m	2012 £m
Current	63 2	63 2
Non-current	10 8	12 4
	74 0	75 6

Deferred income includes government grants totalling £6 7m (2012 £6 9m) 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 6m 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 which have not been breached 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

	2013 £m	2012 £m
Secured bank loans		
Amount due for settlement within 12 months	18 7	21 3
Amount due for settlement after 12 months	102 3	76 0
	121 0	97 3

Borrowing costs amounting to £9 1m (2012 £5 6m) were capitalised in relation to qualifying assets.

Terms

	2013		2012	
	Interest rate %	Amount £m	Interest rate %	Amount £m
Floating rate sterling loans	2 7	17.7	3 2	20 6
Floating rate US dollar loans	1.4	97 9	1 2	65 5
Fixed rate sterling loans	3 2	4 6	7 0	10 4
Fixed rate US dollar loans	5 4	0 8	5 4	0 8
		121.0		97 3

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 8 5% The loans are repayable over a period to 31 March 2027 All loans are secured on specific aircraft assets or land and buildings. All of the covenants tested have been satisfied since inception of the agreements

At 31 March 2013, the Group had £2 7m of unused borrowing facilities in the form of guarantees (2012 £2 2m)

26. Derivative financial instruments

	2013 £m	2012 £m
Current assets		
Forward foreign currency contracts/options	5.3	1 4
Fuel contracts/options	0 4	3 9
Derivative instruments that are designated and effective as hedging instruments carried at fair value	5 7	5 3
Total derivative financial assets held as current assets	5 7	5 3
Current liabilities		
Forward foreign currency contracts/options	(0.2)	(1 2)
Fuel contracts/options	(1 3)	(0 1)
Derivative instruments that are designated and effective as hedging instruments carried at fair value	(1 5)	(1 3)
Total derivative financial assets held as current liabilities	(1 5)	(1 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 2011	(3 5)	1 1	5 6	(1 5)	1 7
Recognised in the 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)
Recognised in the income statement	4 4	–	(0 1)	(3.1)	1 2
Effect of rate change	(0 1)	–	–	–	(0 1)
At 31 March 2013	(0.6)	1 0	1 0	(3 4)	(2 0)

Deferred tax assets and liabilities are attributable to the following

	Assets		Liabilities	
	2013 £m	2012 £m	2013 £m	2012 £m
Property, plant and equipment	1 2	8 6	(0.6)	(3 5)
Intangible assets	–	–	(1.0)	(1 1)
Financial instruments	–	–	(1 0)	(1 0)
Tax value of loss carried forward	3 4	–	–	0 1
Tax assets/(liabilities)	4 6	8 6	(2 6)	(5 5)

Where carried forward losses or unclaimed capital allowances are available, they are recognised to the extent that it is probable that 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

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 capital allowances amounting to £6 0m (2012 £34 4m).

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 23%, which is effective from 1 April 2013 The government has also indicated that it intends to enact future reductions in the main tax rate of 1% each year down to 21% by 1 April 2015 The future 1% main tax rate reductions are not expected to have a material impact on the financial statements

28. Provisions

	2013 £m	2012 £m
Leased aircraft maintenance	54 1	57 1
Restructuring	6 6	-
	60 7	57 1
Current	26 9	25 0
Non-current	33 8	32 1
	60.7	57 1

The Group's provisions are as follows

	Leased aircraft maintenance £m	Restructuring (note 7) £m	Total £m
At 1 April 2012	57 1	–	57 1
Additional provision in the year	18 4	8 0	26 4
Utilisation of provision	(21 4)	(1 4)	(22 8)
At 31 March 2013	54 1	6.6	60 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 additional provision in the year is included within maintenance charges shown in the consolidated income statement.

On 23 January 2013, the Group announced the setting of medium-term operational profit targets and a turnaround plan to return the Group to profitability A specific restructuring provision has therefore been made at 31 March 2013 for direct expenditure arising from the turnaround plan and not associated with the ongoing activities of the Group This provision is expected to be utilised in the next financial year

29. Share capital

	2013 £000	2012 £000
Issued and fully paid		
75,152,881 ordinary shares of 1p each (2012· 75,152,881)	752	752

The Company has one class of ordinary shares which carry no right to fixed income

Notes to the consolidated financial statements

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30. Retained (deficit)/earnings

	£m
Balance at 1 April 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)
Net loss for the year	(41 8)
Actuarial loss on defined benefit pension scheme	(0 2)
Credit to equity for equity-settled share-based payments	0 6
Balance at 31 March 2013	**(46 0)**

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 as follows

	2013 £m	2012 £m
Credit card arrangements	14 0	14 0
Bonds	8 7	8 8
Total	22 7	22 8
Cash deposited to secure the above arrangements as other restricted cash (note 21)	22.7	15 7

Since 31 March 2013, the Group has agreed to deposit an additional maximum amount of £15m to secure its card acquiring facilities

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	
	2013 £m	2012 £m	2013 £m	2012 £m
Less than one year	2 9	3 1	85 1	78 6
Between one and two years	1 1	1 6	78 1	78 1
Between two and five years	2 5	2 9	196 1	193 7
More than five years	9.9	10 6	108 6	132 8
	16.4	18 2	467 9	483 2

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

	2013 £m	2012 £m
Embraer E-Series aircraft	636 2	720 9

It is intended that these aircraft will be financed partly though cash flow and partly through external financing and leasing arrangements 26 aircraft were covered by these arrangements at 31 March 2013 (31 March 2012 31) with the next four aircraft due to be received in 2013/14 No further deliveries are contracted until 2015/16

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

	2013		2012	
	Number of share awards	Weighted average exercise price (£)	Number of share awards	Weighted average exercise price (£)
Outstanding at beginning of year	2,733,320	–	937,146	–
Granted during the year	–	–	1,803,725	–
Forfeited during the year	–	–	(7,551)	–
Outstanding at the end of the year	2,733,320	–	2,733,320	–
Exercisable at the end of the year	–	–	–	–

On 21 January 2011, 937,146 shares were awarded The share price on the date of the award was £3 25 No shares were forfeited or exercised during the year The options outstanding at 31 March 2013 had a weighted average exercise price of £nil and will be available for exercise on 21 January 2014 Based on performance over the period to 31 March 2013, these awards will not vest and will lapse in full

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 it was determined that the EPS element (70% of the total award) was no longer expected to vest The market conditions have not changed and therefore the charge for the TSR element of this award for the year was £0 2m (2012 £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 2013 had a weighted average exercise price of £nil and will be available for exercise on 5 August 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 market conditions have not changed and therefore the charge for the TSR element of this award for the year was, as it had been in the year to 31 March 2012, less than £0 1m

In total, the Group recognised expenses of £0 2m (2012 £0 1m) in relation to the PSP scheme in the year to 31 March 2013

34. Share-based payments continued

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 (2012 £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 During the year ended 31 March 2013, 250,636 options were cancelled and a further 15,010 options lapsed At 31 March 2013, there were 732,716 options remaining (2012 998,362)

The Group recognised expenses of £0 2m in relation to this award in the year to 31 March 2013 (2012 £0 1m)

Summary

The Group recognised total expenses of £0 6m in relation to share-based payments in the year ended 31 March 2013 (2012 £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 £7 1m (2012 £6 6m) 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 and a valuation at 31 March 2013 is underway, but is not yet complete 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	
	2013 £m	2012 £m
Key assumptions used		
Discount rate	4.6	4 9
Expected return on scheme assets	4.6	5 3
Expected rate of salary increases	n/a	n/a
Future pension increases	3 6/2.4	3 5/2 4
RPI inflation	3.4	3 3

The post-retirement mortality rate assumed at 31 March 2013 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 (2012· the mortality rate was also based on SAPS)

The overall expected return on assets is calculated as the weighted average of the expected return of each asset class The expected return on equities is the sum of dividend growth and capital growth net of investment expenses The return on gilts and bonds is the current market yield on long-term bonds

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below

Assumption	Change in assumption	2013 £m	2012 £m
Discount rate	Increase by 0 1%	(2.5)	(2 5)
Rate of inflation	Increase by 0 1%	1 9	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

	2013 £m	2012 £m
Present value of defined benefit obligations	(129 3)	(119 6)
Fair value of scheme assets	130 8	120 9
Net surplus	1.5	1 3
Unrecognised actuarial gains	(1 5)	(1 3)
Recognised liability for defined benefit obligations	–	–

Amounts recognised in income in respect of these defined benefit schemes are as follows

	2013 £m	2012 £m
Expected return on pension scheme assets	6.0	6 5
Interest on defined benefit pension plan obligation	(5 8)	(6 1)
Total	0 2	0 4

The income is recognised in the following line items in the consolidated income statement

	2013 £m	2012 £m
Other gains (see note 11)	0.2	0 4

Amounts recognised in the consolidated statement of comprehensive income are as follows

	2013 £m	2012 £m
Opening cumulative value	4 1	4 5
Actuarial losses on liabilities	(7.8)	(5 9)
Actuarial gains on assets	7 8	2 2
(Release)/increase of provision for unrealised assets	(0 2)	3 3
Recognised in the year	(0.2)	(0 4)
Closing cumulative value	3 9	4 1

Movements in the present value of defined benefit obligations were as follows

	2013 £m	2012 £m
At 1 April	119 6	110 5
Interest cost	5.8	6 1
Benefits paid	(3 9)	(2 9)
Actuarial losses	7 8	5 9
At 31 March	129.3	119 6

The triennial valuation as at 31 March 2010 reported a net surplus on the actuarial basis of £2 5m

Notes to the consolidated financial statements
Continued

35. Employee benefits continued
Movements in fair value of scheme assets were as follows

	2013 £m	2012 £m
At 1 April	120 9	115 1
Expected return on plan assets	6.0	6 5
Actuarial gains	7 8	2 2
Benefits paid	(3 9)	(2 9)
At 31 March	**130 8**	**120 9**

The analysis of the scheme assets and the return on those assets at the balance sheet date were as follows

	2013 £m	2012 £m
Fair value of assets		
Equities	50.5	44 3
Bonds and gilts	80.0	76 4
Cash	0.3	0 2
	130 8	120 9
Actual return on scheme assets	4 6%	5 4%

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

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Present value of defined benefit obligations	(129 3)	(119 6)	(110 5)	(116 7)	(91 7)
Fair value of scheme assets	130 8	120 9	115 1	111 9	95 0
Adjustment to reflect unrecognised asset	(1 5)	(1 3)	(4 6)	–	(3 3)
Deficit in the scheme	–	–	–	(4 8)	–
Experience adjustments on scheme liabilities	(7.8)	(5 9)	9 8	(22 5)	(12 8)
Percentage of scheme liabilities	6 0%	4 9%	8 9%	19 3%	14 0%
Experience adjustments on scheme assets	7 8	2 2	0 9	14 5	(13 4)
Percentage of scheme assets	6 0%	1 8%	0 8%	13 0%	14 1%

The estimated amount of contributions expected to be paid to the scheme during the current financial year is £nil

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

	2013		2012	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash, cash equivalents and restricted cash	54.7	54 7	67 6	67 6
Loans and receivables				
Trade and other receivables	90.2	90 2	95 3	95 3
Derivative instruments in designated hedge accounting relationships	5 7	5.7	5 3	5 3
Financial liabilities				
Liabilities held at amortised cost				
Trade and other payables	(35 7)	(35 7)	(36 8)	(36 8)
Debt	(121.0)	(126 8)	(97 3)	(104 2)
Derivative instruments in designated hedge accounting relationships	(1.5)	(1.5)	(1 4)	(1 4)

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 2013

Financial instruments that are measured subsequent to initial recognition at fair value are 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)

Notes to the consolidated financial statements

Continued

36. Financial instruments continued

The following table provides an analysis of the Group's financial instruments, all of which are grouped into Level 2

	£m
Foreign exchange derivatives	5 1
Fuel derivatives	(0 9)
Carbon derivatives	-
At 31 March 2013	**4.2**
Foreign exchange derivatives	0 1
Fuel derivatives	3 8
Carbon derivatives	-
At 31 March 2012	3 9

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

→ commodities

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

	2013 £m	2012 £m
Debt	(121 0)	(97 3)
Cash, cash equivalents and restricted cash	54 7	67 6
Net debt	(66 3)	(29 7)
Equity	49 4	89 4
Net debt to equity ratio	137 8%	33 2%

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

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
2013						
Financial assets						
Cash, cash equivalents and restricted cash (variable interest rates)	0 1	46 8	1 4	1 0	5.5	54 7
Loans and receivables	–	58 5	23 6	–	8.1	90.2
Financial liabilities						
Trade and other payables	–	(35.7)	–	–	–	(35 7)
Borrowings						
Variable interest rates	1 6	(18.0)	(10.6)	(38.8)	(53 6)	(121 0)
Fixed interest rates	3 5	(1 5)	(1 5)	(2 7)	(0.1)	(5 8)
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)

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
2013			
Net settled derivatives			
Fuel derivatives	(0 9)	–	(0 9)
Gross settled derivatives			
Foreign currency payments	5.1	–	5 1
	4 2	–	4 2
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

Notes to the consolidated financial statements

Continued

36. Financial instruments continued

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 There were no Euro contracts at 31 March 2013 or 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 2013	$1 5702	233.2	148 5	5 1
At 31 March 2012	$1 5974	279 3	174 8	0 1

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

	2013 £m	2012 £m
Percentage increase	1%	1%
US Dollar (£m)	0 4	0 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

	2013 £m	2012 £m
Assets		
Euro		
Cash and cash equivalents	5 0	4 2
Restricted cash	1 0	–
Trade receivables	3 1	7 7
US Dollar		
Cash and cash equivalents	1.2	-
Restricted cash	15 3	9 0
Trade receivables	1 6	3 4
	27 2	24 3
Liabilities		
Euro		
Trade and other payables	(1.0)	(10 7)
US Dollar		
Trade and other payables	(15 5)	(15 6)
Debt	(98 7)	(66 3)
	(115 2)	(92 6)

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 2013, the Group has identified 56 (2012 66) contracts for foreign exchange purchases and 99 (2012 19) 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 an increase in the fair value of these financial derivative instruments of £0 9m (2012 decrease £17 3m) 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

	2013 £m	2012 £m
Percentage increase	1%	1%
Impact on loss before tax and equity (£m)	(1 2)	(0 5)

Credit risk management
Disclosures in respect of credit risk management for trade and other receivables are provided in note 20

The Group is exposed to credit risk arising from cash and deposits, derivative financial instruments and trade and other receivables. The risk of loss of value due to a counterparty default is minimised by entering into transactions with counterparties that have a minimum credit rating of AA (or equivalent) as awarded by Moody's, Fitch or Standard and Poor's In addition, counterparties with a credit rating of B or above can be used provided the exposure to that institution does not exceed £3 0m

The maximum exposure to credit risk is all financial assets plus any financial guarantees

Commodity 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 20 6% and 18 1% of Flybe UK segment costs in the years ended 31 March 2013 and 2012 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

The actual amount covered by such contracts, amounted to 63 2% of the following year's budgeted fuel consumption as at 31 March 2013 (2012 42 6%) The amount of fuel actually consumed was 4 6% less than anticipated for the year ended 31 March 2013 (2012 2 3% less than anticipated)

The Group is required to offset its carbon footprint by purchasing carbon allowances for submission to the EU on an annual basis The amount of allowances required to be submitted is based upon the fuel burned on all flights departing and arriving into the EU The Group seeks to minimise its exposure to fluctuating carbon prices by entering into swap derivative contracts or by purchasing the permits as required in order to remain compliant with EU regulations

The actual number of emissions credits purchased for calendar year 2012 amounted to 566,800 tonnes including free allowances of 274,900 tonnes at a cost of €1 7m

Carbon emissions requirements for calendar year 2013 currently are expected to amount to 573,600 tonnes including free allowances of 259,800 So far the Group has purchased 52 9% of its requirement for 2013

Notes to the consolidated financial statements
Continued

36. Financial instruments continued
The following table details the fair values of forward fuel price contracts outstanding at each balance sheet date.

	2013 £m	2012 £m
Fair value of contracts to buy fuel expiring		
In less than 3 months	(0.6)	0 1
Between 3 and 6 months	(0.2)	1 3
Between 6 and 12 months	(0 1)	2 4
	(0 9)	3 8

The highs and lows recorded in each period for jet fuel prices were as follows

	2013		2012	
	Price per tonne US$	Date	Price per tonne US$	Date
High	1,116	3 Apr 2012	1,140	8 Apr 2011
Low	862	25 Jun 2012	949	4 Oct 2011

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

	2013	2012
Percentage increase in cost of fuel	10%	10%
Impact on loss before tax and equity (£m)	(3 3)	(2 0)

37. Related parties
At 31 March 2013, the Group is 48.1% (unchanged from 2012) 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	
	2013 £m	2012 £m
Preston Travel (CI) Limited	1 1	1 3
Flybe Finland Oy	5 5	2 6

	Amounts owed by related parties	
	2013 £m	2012 £m
Preston Travel (CI) Limited	0 4	0 3
Flybe Finland Oy	0.5	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 its 60 0% owned operations, Flybe Finland At 31 March 2013, £6 3m (2012. £2 9m) was owed in respect of revenue collected on behalf of Flybe Finland

See note 31 for details of the arrangements supporting Flybe Finland Oy's overdraft via a guarantee provided by the Group and note 17 for details of the acquisition of a further 13 7% interest in Flybe Aircraft Maintenance Oy

	Purchase of services	
	2013 £m	2012 £m
Edenfield Investments Limited	0 4	0 4
Downham Properties Limited	0.4	0 4

No amounts were owed to related parties at years ended 2013 or 2012

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

Transactions with key management personnel
Directors of the Company and their immediate relatives control approximately 6 9% of the voting shares of the Company (2012 6 9%)

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

	2013 £m	2012 £m
Key management emoluments	1 9	1 8
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

	2013 £000	2012 £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

	2013 £000	2012 £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 2013 (2012 £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

At 31 March 2013

	Note	2013 £m	2012 £m
Non-current assets			
Investments in subsidiaries	39	33 2	33 2
Current assets			
Other receivables	40	14.9	57 6
Total and net assets		48 1	90 8
Equity attributable to owners of the company			
Share capital	41	0 7	0 7
Share premium account		60.6	60 6
Merger reserve		6.7	6 7
Capital redemption reserve		22 5	22 5
Retained earnings		(42 4)	0 3
Total equity		48 1	90 8

The financial statements of Flybe Group plc, registered number 1373432, were approved by the Board of Directors and authorised for issue on 20 June 2013

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 2013

	Share capital £m	Share premium £m	Merger reserves £m	Capital redemption reserve £m	Retained earnings/(deficit) £m	Total equity £m
Balance at 1 April 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
Loss for the year	–	–	–	–	(43 3)	(43 3)
Equity-settled share-based payment transactions	–	–	–	–	0 6	0 6
Balance at 31 March 2013	0 7	60.6	6 7	22 5	0.9	48 1

Company cash flow statement

Year ended 31 March 2013

	2013 £m	2012 £m
Operating loss	–	–
Credit to equity for share-based payments	0 6	0 5
Increase in receivables	(0.6)	(0 4)
Decrease in payables	–	(0 1)
Net cash flows from operating activities and net movement 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 £43 3m (2012. £nil)

39. Additional information on subsidiaries and related companies

Details of the Group's subsidiaries and related companies at 31 March 2013 are as follows

	Place of incorporation and operation	Proportion of ownership interest %	Proportion of voting power held %
Flybe Limited	Great Britain	100	100
British European Limited*	Great Britain	100	100
Irish European Limited*	Great Britain	100	100
British European com 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
Flybe Holdings Limited	Great Britain	100	100
British European Airlines Limited*	Great Britain	100	100
Flybe Ireland Limited (incorporated on 22 February 2013)*	Ireland	100	100
Guide Leasing Limited	Great Britain	100	100
Flybe Ireland Limited (incorporated on 5 February 2013)*	Great Britain	100	100
JEA Engineering (UK) 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
Flybe com Limited	Great Britain	100	100
Jersey European Airways (UK) Limited	Great Britain	100	100
Walker Aviation Limited	Great Britain	100	100
Jersey European Airways Limited (in liquidation)	Jersey	100	100
Flybe Nordic AB*	Sweden	60	60
Flybe Finland Holdings Oy*	Finland	60	60
Flybe Finland Oy*	Finland	60	60

* Indirectly held by Flybe Group plc

The investments in subsidiaries and related companies are all stated at cost

In June 2012, the voting and ownership interests in Finnish Aircraft Maintenance Oy increased to 60 0% as described in note 17 On 31 January 2013, this company was merged with Flybe Finland Oy leaving the latter as the surviving legal entity

Flybe Leasing Cayman 1 Limited, a company registered in the Cayman Islands, was established during the previous financial year in order to secure financing arrangements for the purchase of the E175 aircraft from Embraer

Fastnet Aviation 1 Limited, a company registered in Ireland, was established during the financial year as part of the process of obtaining financing for the pre-delivery deposits for the aircraft ordered from Embraer It is 100% owned by an independent corporate trustee that is unrelated to either the Group or the financing company

40. Other receivables

Amounts due from Group undertakings

Amounts due from Group undertakings after provision for doubtful debts are £14 9m (2012: £57 6m) The carrying amount of trade and other receivables approximates to their fair value

The allowance for doubtful debts arises from inter-company balances that are not viewed as recoverable A provision for doubtful debts of £43 3m was recognised in the year to 31 March 2013 (2012 nil) All receivables that are not provided are not yet due at both 31 March 2013 and 2012.

41. Share capital

This is disclosed in note 29 in the consolidated financial statements

42. 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 £614 6m (2012 £606 8m)

Five-year summary

	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m
Financial measures					
Total revenue under management	573 1	570 5	595 5	678 8	**781 5**
Less Joint venture revenue	–	–	–	(63 5)	**(167 2)**
Group revenue	573 1	570 5	595 5	615 3	**614 3**
EBITDA	11 2	27 2	23 5	12 1	**(22.3)**
EBITDAR	72 2	90 9	100 9	88 8	**58.6**
Operating (loss)/profit	(25 8)	27 6	(0 9)	(4 9)	**(34 3)**
(Loss)/profit before tax	(33 7)	24 6	(4 3)	(6 2)	**(40 7)**
(Loss)/earnings per share (basic)	(53 3)p	42 4p	6 4p	(8 5)p	**(55 6)p**
Aircraft (at net book value)	119 8	113 5	110 9	136 9	**140 4**
Net (debt)/funds	(54 7)	(21 4)	21 9	(29 7)	**(66 3)**
Operating cash flow	19.0	14 9	18 1	3 0	**(2 9)**

	2009	2010	2011	2012	2013
Operating measures					
Average number of operating aircraft*	68 4	67 5	68 3	84 3	**81 0**
Scheduled sectors flown*	140,400	135,100	138,200	147,800	**178,700**
Schedule seats flown*	11,137,200	11,304,400	11,620,600	12,239,400	**12,157,300**
Schedule sold passengers*	7,281,400	7,178,000	7,166,200	7,579,100	**7,604,400**
Flybe UK passenger yield	£73 74	£72 55	£76 15	£77 21	**£76 59**
Schedule load factor*	65 4%	63 5%	61 7%	61 9%	**62.6%**

* Under management

All figures are reported under IFRS IFRS financial statements for the year to March 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

Operating measures are stated on an under management basis and so include the impact of the joint venture, Flybe Finland

Earnings per share have been restated for the 2009 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 ('AOC)
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

Air Passenger Duty (APD)
an excise duty which is charged by the UK government on the carriage of passengers flying from a United Kingdom airport

Civil Aviation Authority (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

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)

passenger yield
total ticket and ancillary revenue per passenger (after the deduction of government taxes and levies)

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

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

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

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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