

Company Registration Number 2769768

FLYBE LIMITED

Report and Financial Statements

31 March 2011

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FLYBE LIMITED

REPORT AND FINANCIAL STATEMENTS 2011

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FLYBE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Jim French CBE (Chairman)
Mark Chown
Andrew Knuckey
Mike Rutter
Andrew Strong

SECRETARY

Chris Simpson

REGISTERED OFFICE

Jack Walker House
Exeter International Airport
Exeter
Devon
EX5 2HL

AUDITOR

Deloitte LLP
3 Rivergate
Temple Quay
Bristol
BS1 6GD

FLYBE LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2011

PRINCIPAL ACTIVITY

The principal activities of the Company throughout the year were those of an airline operator and the provision of aircraft technical support services

The Company results for the year are shown in the profit and loss account on page 10 of these financial statements

The Company has grown revenue and underlying profits, maintained our position as the leading carrier of UK domestic passengers with a 27.0% market share and our passenger numbers have been stable at 7.2 million

	2011 £m	2010 £m	Change %
Revenue	595.5	570.5	4.4
EBITDAR – underlying *	122.2	91.6	33.4
EBITDAR – unadjusted	104.1	91.6	13.6
Profit before tax – underlying *	21.8	4.6	372.7
(Loss)/profit before tax – unadjusted	(3.1)	21.8	n/a
Profit after tax – unadjusted	1.9	15.2	(87.5)

* See table below for reconciliation from unadjusted to underlying results

Revenue increased by 4.4% despite the impact of volcanic ash and weather disruption, without which the growth rate would have been significantly higher

Underlying EBITDAR grew by £30.6m (or 33.4%) to £122.2m, and underlying profit before tax also advanced strongly, increasing by £17.2m (or 372.7%) to £21.8m

After adjusting for the estimated impact of disruption from volcanic ash and extreme weather and unrealised gains and losses on fuel and foreign exchange hedges, the Company reported an EBITDAR of £122.2m and a loss before tax of £(3.1)m. Set out below is a reconciliation from unadjusted EBITDAR and profit before tax to underlying figures

	2011 £m	2010 £m	Change %
Operating (loss)/profit	(1.3)	22.5	
IPO expenses	-	1.1	
Unrealised gains and losses on fuel and foreign exchange hedges			
Depreciation and amortisation	12.8	13.0	
Aircraft rental charges	85.8	73.3	
EBITDAR – unadjusted	104.1	91.6	13.6
Estimated impact of disruption from volcanic ash (£11.6m) and weather (£6.5m)	18.1	-	
EBITDAR – underlying	122.2	91.6	33.4

FLYBE LIMITED

DIRECTORS' REPORT (continued)

	2011 £m	2010 £m	Change %
(Loss)/profit before tax – unadjusted	(3.1)	21.8	
Estimated impact of disruption from volcanic ash and weather	18.1	-	
Unrealised gains and losses on fuel and foreign exchange hedges	6.8	(18.3)	
IPO expenses	-	1.1	
Profit before tax – underlying	21.8	4.6	372.7

The Company is a member of the Group headed by Flybe Group plc (formerly Flybe Group Limited) (the 'Group'). Flybe Group plc manages its operations on a combined basis. For this reason, the Company's directors believe that further key performance indicators are not necessary for an understanding of the development, performance or position of the business. The performance of the Company is discussed within the Directors' Report of Flybe Group plc for the year ended 31 March 2011, which does not form part of this report.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The Company intends to continue to expand its operations in accordance with its medium-term plans.

DIVIDENDS

The directors do not recommend a final dividend (2010: £nil).

PRINCIPAL RISKS AND UNCERTAINTIES

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

<i>Risk description</i>	<i>Potential impact</i>	<i>Mitigation</i>
Safety and security		
Failure to prevent a safety or security related incident or to respond adequately to a safety or security-related event	Adversely affect Flybe's reputation, financial results and operational performance	Safe and secure operations are the key priority for all of Flybe's management and staff. The Company operates a strong safety management system. Flybe has appropriate systems and procedures in place, including trained staff, to respond effectively to such incidents.
External risks		
<i>Macroeconomic environment</i>		
Flybe is exposed to sustained deterioration in general economic conditions. Flybe is exposed to a reduction in UK domestic air travel.	Adverse pressure on revenue and load factors. Adverse effect on Flybe's growth prospects, financial condition and the value of assets, particularly aircraft.	Flybe monitors route performance within its commercial team and adjusts flying patterns to customer demand. The December 2010 IPO has strengthened Flybe's balance sheet. Flybe's fleet planning is designed to provide it with the most fuel-efficient aircraft available under a mix of ownership and lease terms. The management team continues to seek to exploit opportunities to grow its business outside the UK domestic market.

FLYBE LIMITED

DIRECTORS' REPORT (continued)

<i>Competition</i>		
Flybe operates in a highly competitive transport market	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 and alliances. Processes are in place to monitor and report on route-by-route performance and competitor activity and to react rapidly where necessary.
<i>Regulation</i>		
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.
<i>Duties and taxes</i>		
Airlines may be adversely affected by increases in Air Passenger Duty in the UK and its equivalent in other countries. Value Added Tax may be imposed on domestic air travel. Duties may be introduced on jet fuel.	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.
<i>Environment</i>		
Airlines may be adversely affected by any future application of restrictions 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 has completed the first phase of compliance 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.
<i>Implementing growth strategy</i>		
Flybe may not be successful in implementing its growth strategy, particularly its expansion into Europe. Costs will be incurred in developing new routes, and new routes proposed by Flybe may not be profitable.	Adverse impact on costs resulting in reduced profitability. Increased investment not supported by profit generation.	The management team successfully integrated BA Connect into its operations after its acquisition in March 2007. The management team is experienced in identifying business opportunities and developing them profitably.
<i>Reputation</i>		
Flybe is exposed to an event damaging 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).	Reduced demand, market share and revenue any of which may adversely affect Flybe's financial condition. Adversely affect Flybe's reputation, financial results or operational performance.	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. Well-developed contingency plans are in place to react to such scenarios and communicate effectively with passengers and other stakeholders.

FLYBE LIMITED

DIRECTORS' REPORT (continued)

<i>Risk description</i>	<i>Potential impact</i>	<i>Mitigation</i>
IT systems and the internet		
Flybe is heavily dependent on its information technology systems and the internet to operate its business	<p>Loss of systems or connectivity to the internet could lead to disruption and lost revenue with an adverse impact on Flybe's financial condition</p> <p>Breaches in IT security, or fraud, could adversely affect Flybe's brand and reputation, and have an adverse impact on revenue</p>	<p>A disaster recovery plan is in place and includes moving certain operations to other sites</p> <p>Flybe has robust security procedures in place which are tested and reviewed by independent third parties</p>
People		
Flybe is dependent on good industrial relations 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
Flybe is exposed to shortages of key personnel	Loss of key personnel could lead to a lack of expertise in the short term	Flybe completes regular talent management and succession planning for key roles
Supplier		
Flybe is exposed to the failure or non-performance of commercial counterparties as well as requiring the services of key suppliers such as airports, air traffic control systems and fuel supply companies	Adversely affect Flybe's reputation, financial results or operational performance. A loss or adverse change in the contractual relationship with key suppliers could significantly increase its future operating costs	<p>Most suppliers (including some airports) can be replaced by an alternate</p> <p>Contract negotiation teams are highly experienced and knowledgeable of the industry with a strong track record of developing value for Flybe</p>
Financial risks		
<p>Flybe is exposed to risks associated with fluctuations in fuel prices and foreign exchange rates</p> <p>Flybe is exposed to fluctuations in interest rates and the availability of suitable financing</p>	<p>Adverse movements in these areas can adversely affect both Flybe's profit and financial position</p> <p>Adversely affect Flybe's financial results and its ability to negotiate favourable financing arrangements in the future</p>	<p>A well-established hedging strategy is in place that is designed to provide certainty over Flybe's cost base</p> <p>An appropriate balance between fixed and floating interest rates for the financing of aircraft is sought</p> <p>Cash is deposited in order to manage counter-party risk and to develop appropriate returns</p>
Flybe holds significant cash balances as a form of risk management	Lack of adequate liquid resources could result in business disruption	Flybe's policy is to maintain appropriate levels of free cash which will be available to meet costs in the event that its normal activities are temporarily disrupted by, for example, severe weather, volcanic ash, extended industrial dispute or fleet grounding
Flybe is reliant on the continuing performance of its financial counter-parties	Flybe invests its surplus funds in money market funds or bank deposits and there is a risk of material loss in the event of non-performance by a financial counter-party	Flybe's policy is to invest surplus funds only with financial counter-parties that meet certain credit rating criteria.

FLYBE LIMITED

DIRECTORS' REPORT (continued)

EMPLOYEES

It is the policy of the Company to ensure that employees are aware of their individual roles and responsibilities, and are informed about the trading performance and progress of the Company. The Company ensures that the disabled continue to receive consideration for employment which is equal to that given to the able-bodied, taking account of their particular abilities and job requirements. All possible efforts are made to maintain continuity of employment for existing employees who become disabled.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Company made no political or charitable contributions during the year (2010 £nil)

GOING CONCERN

The Company is a wholly owned subsidiary of Flybe Group plc (the 'Group'). The directors of Flybe Limited have therefore reviewed the financial performance and forecasts of the Group in considering the going concern basis of accounting for Flybe Limited. The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review of Flybe Group plc's 2011 Annual Report and Accounts ('the Report'). The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in that Report and this information is relevant to Flybe Limited, the main trading entity in the Group.

The directors have considered the uncertainties presented by current economic conditions in relation to passenger volumes and yields, fuel prices, foreign exchange, route selection and investment in new aircraft.

The Group has met all of its operating lease commitments and debt repayment obligations as they have fallen due.

The balance sheet on page 12 presents a shareholders' surplus of £29.4m at 31 March 2011 (2010 deficit £67.2m). Included within this balance sheet is an inter-company balance due to British Regional Air Lines Group Limited (a fellow subsidiary) of £12.0m (2010 £67.4m). During the year to 31 March 2011, British Regional Air Lines Group Limited waived £55.4m of the brought forward balance, which was recorded as a capital contribution in this company.

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

The directors have a reasonable expectation that the Company 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.

FLYBE LIMITED

DIRECTORS' REPORT (continued)

DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The Company's principal financial instruments, other than derivatives, comprise aircraft mortgages, finance leases, cash and other short-term deposits. The main purpose of these financial instruments is to provide finance for the Company's operations. The Company also has various other financial instruments, such as trade debtors and trade creditors, that arise directly from its operations.

Outstanding derivative transactions at the year-end relate to foreign currency and aviation fuel hedging instruments. The purpose of these is to manage the currency risks and fuel price arising from the Company's operations and sources of finance. The Company's treasury policy permits the use of such instruments to manage these risks. It is the Company's policy that no trading in financial instruments shall be undertaken.

As explained further in note 2, the directors have elected to prepare the financial statements on a fair value basis and so have adopted FRS 26 and FRS 29 when accounting for financial instruments.

The fair value of the Company's derivatives at 31 March 2011 was a net asset of £21.2m (2010 £7.2m).

DIRECTORS

The directors, who served throughout the year, were as follows:

Jim French CBE (Chairman)
Mark Chown
Andrew Knuckey
Mike Rutter
Andrew Strong

AUDITOR

Each of the persons who is a director at the date of approval of this report confirms that:

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

A resolution to reappoint Deloitte LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

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



Andrew Knuckey
Director

29 July 2011

FLYBE LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

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

The directors are 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLYBE LIMITED

We have audited the financial statements of Flybe Limited for the year ended 31 March 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Directors' Responsibilities Statement, 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 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 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 company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

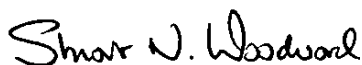
Opinion on other matter prescribed by the Companies Act 2006

In our opinion 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 matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements 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.



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

29 July 2011

FLYBE LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 March 2011

	<i>Note</i>	2011 £m	2010 (restated) £m
TURNOVER	<i>1</i>	595.5	570.6
Cost of sales		(547.6)	(499.1)
GROSS PROFIT		47.9	71.5
<i>Other administrative expenses</i>		(49.2)	(47.1)
<i>Exceptional administrative expenses</i>	<i>5</i>	-	(1.9)
Administrative expenses		(49.2)	(49.0)
<i>Operating (loss)/profit before exceptional items</i>		(1.3)	24.4
<i>Exceptional items</i>	<i>5</i>	-	(1.9)
OPERATING (LOSS)/PROFIT		(1.3)	22.5
Profit on sale of fixed assets		0.4	0.5
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		(0.9)	23.0
Interest receivable and similar income	<i>8</i>	0.3	0.2
Interest payable and similar charges	<i>9</i>	(2.5)	(1.4)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	<i>4</i>	(3.1)	21.8
Tax credit/(charge) on profit on ordinary activities	<i>10</i>	5.0	(6.6)
PROFIT FOR THE FINANCIAL YEAR	<i>23</i>	1.9	15.2

All activities of the Company are regarded as continuing

FLYBE LIMITED**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**
Year ended 31 March 2011

	2011 £m	2010 (restated) £m
Profit for the financial year	1 9	15 2
Gains arising during the year on cash flow hedges	22 6	-
Reclassification of gains on cash flow hedges included in profit	(1 4)	-
Deferred tax arising on cash flow hedges	(5 5)	-
Actuarial gains/(losses) on defined benefit scheme (note 21)	6 1	(4 7)
Total recognised gains relating to the year	23 7	10 5
Prior year adjustment (explained in note 2)	4 8	
Total gains recognised since last annual report and financial statements	28 5	

FLYBE LIMITED

BALANCE SHEET
At 31 March 2011

	Note	2011		2010 (restated)	
		£m	£m	£m	£m
FIXED ASSETS					
Intangible assets	12		8 5		8 5
Tangible assets	13		96 0		86 6
Investments	11		-		-
			<u>104 5</u>		<u>95 1</u>
CURRENT ASSETS					
Stocks	14	5 8		6 1	
Debtors – due within one year	15	117 8		86 7	
Debtors – due after more than one year	15	32 3		32 1	
Cash at bank and in hand		105 5		62 1	
		<u>261 4</u>		<u>187 0</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(240 1)		(252 6)	
NET CURRENT ASSETS/(LIABILITIES)			<u>21 3</u>		<u>(65 6)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>125 8</u>		<u>29 5</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	17		(47 7)		(47 5)
PROVISIONS FOR LIABILITIES	18		(48 7)		(44 4)
PENSION LIABILITIES	21		-		(4 8)
NET ASSETS/(LIABILITIES)			<u>29 4</u>		<u>(67 2)</u>
CAPITAL AND RESERVES					
Called up share capital	22		1 0		1 0
Hedging reserve	23		15 7		-
Profit and loss account	23		12 7		(68 2)
SHAREHOLDERS' FUNDS/(DEFICIT)	24		<u>29 4</u>		<u>(67 2)</u>

The financial statements of Flybe Limited, registered number 2769768, were approved by the Board of Directors and authorised for issue on 29 July 2011

Signed on behalf of the Board of Directors



Andrew Knuckey
Director



Jim French CBE
Director

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year with the exception of the policies for foreign exchange and financial instruments explained in note 2.

Basis of preparation

The financial statements have been prepared under the historical cost convention, except for financial instruments which are recorded at fair value as permitted by the Companies Act 2006, and in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

The Company is exempt from the requirements of FRS 1 (Revised) 'Cash flow statements' to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of Flybe Group plc (formerly Flybe Group Limited) (the 'Group') and its cash flows are included within the consolidated cash flow statement of that company.

The Company is exempt from the requirement of FRS 8 'Related party disclosures' to disclose related party transactions with Flybe Group plc and its associated undertakings on the grounds that all are wholly owned subsidiary undertakings of Flybe Group plc.

Going concern

The Company is a wholly owned subsidiary of Flybe Group plc. The directors of Flybe Limited have therefore reviewed the financial performance and forecasts of the Group in considering the going concern basis of accounting for Flybe Limited. The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review of Flybe Group plc's 2011 Annual Report and Accounts (the 'Report'). The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in that Report and this information is relevant to Flybe Limited, the main trading entity in the Group.

The directors have considered the uncertainties presented by current economic conditions in relation to passenger volumes and yields, fuel prices, foreign exchange, route selection and investment in new aircraft.

The Group has met all of its operating lease commitments and debt repayment obligations as they have fallen due.

The balance sheet on page 12 presents a shareholders' surplus of £29.4m at 31 March 2011 (*2010 deficit £67.2m*). Included within this balance sheet is an inter-company balance due to British Regional Air Lines Group Limited (a fellow subsidiary) of £12.0m (*2010 £67.4m*). During the year to 31 March 2011, British Regional Air Lines Group Limited waived £55.4m of the brought forward balance, which was recorded as a capital contribution in this company.

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

The directors have a reasonable expectation that the Company 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.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

1. ACCOUNTING POLICIES (continued)

Intangible fixed assets

Airport landing and take-off slots are valued at cost or initially at fair value if acquired as part of a business. Slots have a value where the airport is constrained by the number of aircraft that can land and demand exceeds supply. In the directors' opinion, this condition is likely to persist in the long term for major UK airports, such as Heathrow and Gatwick, and residual values for slots will not decrease. Accordingly, airport slots are considered to have an indefinite life and are not amortised. Instead, they are subject to an annual impairment review and a provision is booked for any identified impairment.

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment. Income from investments relates to dividends received which are recognised at the date the dividend distribution is formally approved.

Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost net of depreciation and any provision for impairment.

Depreciation is provided to write off the cost or valuation 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% - 10% per annum or lease term where shorter
Plant and equipment	-	10% - 50% per annum
Motor vehicles	-	20% - 25% per annum
Aircraft	-	7% - 20% per annum of cost less residual value
Rotable aircraft parts	-	10% - 15% per annum

No depreciation is provided on assets in the course of construction.

Estimated residual values are set at the acquisition of the asset and are reviewed annually, with reference to external valuations to ensure that they remain achievable. If estimated residual values are found to have diminished, then this change is allowed for in the depreciation charged over the remaining useful economic life of the asset.

An element of the cost of new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframe and is amortised over a period ranging from one year from the date of purchase to the end of its estimated economic life. Subsequent costs incurred which provide enhancement to future periods, such as long-term scheduled maintenance and major overhauls of aircraft, are capitalised and amortised over the length of the period benefiting from these enhancements. All other costs relating to maintenance are charged to the profit and loss account 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.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible fixed 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

1. ACCOUNTING POLICIES (continued)

Provisions

Provisions are recognised when the Company has a present obligation and, as a result of a past event, it is probable that the Company will have to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised 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 future cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows, discounted at a rate representing the risk inherent in the liability.

Leases

Where the Company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element, which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight-line basis over the life of the lease.

Pension and other post-retirement benefits

The Company operates four defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

The Company operates a defined benefit scheme, which was closed to new contributions and future benefit accruals during the year ended 31 March 2008. Amounts charged to the profit and loss account are the current service costs and gains and losses on settlements and curtailments, they are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the Company in separate trustee-administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

1. ACCOUNTING POLICIES (continued)

Stocks

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

Aircraft rotables

These comprise aircraft parts which have a renewable time/usage life which upon expiry are required by the Civil Aviation Authority to be serviced by approved engineers. Such parts are stated at the lower of cost or net realisable value.

Aircraft consumables

These comprise aircraft parts having a non-renewable life. These are valued at the lower of cost or net realisable value for each separately identified batch purchased.

Work in progress

Engine overhaul and maintenance work in progress valuation is based upon direct cost together with attributable overheads and profit is based on the stage of completion of the contract. Materials issued from stores are valued as detailed above. Other direct materials are valued at actual cost. Labour and attributable overhead rates are based upon normal levels of activity.

Leased aircraft maintenance costs

The Company incurs liabilities for maintenance costs in respect of aircraft leased under operating leases during the term of the lease. These arise from the legal and constructive contractual obligations relating to the condition of the aircraft when it is returned to the lessor. To discharge these obligations, the Company 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 profit and loss account are dependent on the life of the component or maintenance interval used and the individual terms of the lease, split into three categories:

- 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 half-life (or another measure depending on the individual lease) and compensation would be due to the lessor, a provision and matching profit and loss account 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.
- Once the component or maintenance interval has passed the trigger point such that the Company is contractually obliged to carry out the related work, a full provision for the work is recorded. To the extent that this provision represents an increase to the half-life compensation provision already recorded, a maintenance asset is established 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 non-refundable maintenance deposits are paid to maintenance providers to cover the cost of the work, these payments are expensed as incurred and maintenance provisions are reduced to reflect the fact that the Company has already paid for the related maintenance work. Other maintenance deposits which are refundable are recorded as other debtors.

Estimates are required for the likely utilisation of the aircraft, the expected cost of the maintenance check at the time it is expected to occur, the condition of the aircraft and the lifespan of the 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.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

1. ACCOUNTING POLICIES (continued)

Turnover

Turnover (excluding value added tax and its overseas equivalent) comprises

Airline operations

Scheduled and charter passenger ticket sales, net of passenger taxes and discounts, are recorded in a 'forward sales' account and are included in creditors, within deferred income, until recognised as revenue when transportation occurs. This also includes revenues derived from flights operated by the Group's codeshare partners. For flights purchased by members of the 'Frequent Flyer Program', 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 value of an equivalent flight. Unused tickets are recognised as revenue when the right to travel expires and the Company's obligation to refund ceases, which is determined by both the terms and conditions of these tickets.

Ancillary revenues, comprising principally baggage carriage, advanced seat assignment, commissions, change fees and credit card fees, are recognised as revenue on the date the right to receive consideration occurs. In respect of credit 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 allocated between the sales value of free flights and revenue. Revenue associated with free flights is recognised when the related flights are taken and remaining revenue is recognised on receipt, provided that it is not refundable and there are no further obligations on the Group.

Cargo revenues are recognised in the period in which the services are provided.

Technical support services

This represents the amounts derived from the provision of goods and services to customers during the year, including aircraft maintenance, overhauls and the associated rotatable and consumable parts.

The amount of profit attributable to the stage of completion of a maintenance overhaul contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Turnover for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Share-based payments

The Company has applied the requirements of FRS 20 'Share-based payments'. The Company issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value, excluding the effect of non market-based vesting conditions, at the date of the grant. The fair value determined at the grant date is expensed to the profit and loss account evenly over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Exceptional items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the Company and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size of incidence if the financial statements are to give a true and fair view. Items which relate to ongoing operations are recorded within the operating result for the year. Those items which relate to a fundamental restructuring of the business are recorded as a separate item after operating result.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

1. ACCOUNTING POLICIES (continued)

Government grants

Government grants related to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned

Financial instruments

The directors have elected to adopt FRS 26 and FRS29 when accounting for financial instruments. The impact of this change in policy is set out in note 2

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

Classification of financial instruments issued by the Company

Financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions

- they include no contractual obligations upon the Company 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 Company, 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's 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 exclude amounts in relation to those shares

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

Hedge accounting

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

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

Movements in the hedging reserve are detailed in notes 23 and 24

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

1. ACCOUNTING POLICIES (continued)

Hedge accounting (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the Statement of Total Recognised Gains and Losses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account within operating profit.

Amounts previously recognised in the Statement of Total Recognised Gains and Losses and accumulated in equity are reclassified to the profit and loss account in the periods when the hedged item is recognised in the profit and loss account, in the same line of the profit and loss account as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Company 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 the Statement of Total Recognised Gains and Losses at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the profit and loss account.

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 the terms of which 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 Company 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 company'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 profit and loss account. The net gain or loss recognised in the profit and loss account incorporates any dividend or interest earned on the financial asset and is included in the operating profit or interest payable in the profit and loss account depending upon the nature of the instrument. Fair value is determined in the manner described in note 27.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

1. ACCOUNTING POLICIES (continued)

Hedge accounting (continued)

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 Company 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 Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Derivative financial instruments

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

Derivative financial instruments are stated at fair value. Recognition of any resultant gain or loss depends on whether hedge accounting is in place for the particular item and on the nature of the item being hedged. When the hedge is not effective, as defined by United Kingdom Generally Accepted Accounting Principles (UK GAAP), any gains and losses arising on changes to fair values are recognised immediately in the profit and loss account. For the year ended 31 March 2010, hedge accounting under UK GAAP was not in place. For instruments entered into from 1 April 2010, the Company's policy is to designate them, where appropriate, as cash flow hedges that comply with the requirements under UK GAAP for hedge accounting (see above).

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

Cash at bank and in hand

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand. This balance includes 'restricted cash' which represents funds held by the Company in bank accounts, however, funds cannot be withdrawn until certain conditions have been fulfilled.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values, or traded in an active market.

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

1. ACCOUNTING POLICIES (continued)

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company 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 Company'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 either operating profit or interest payable in the profit and loss account. Fair value is determined in the manner described below.

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 Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Foreign currencies

The directors have elected to adopt FRS 23 when accounting for foreign currencies. The impact of this change in policy is set out in note 2.

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 retranslated.

Exchange differences are recognised in the profit and loss account in the period in which they arise.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

2. CHANGES IN ACCOUNTING POLICY

Since the last annual report, the directors have elected to prepare the financial statements on a fair value basis and therefore have adopted the following accounting policies

FRS 23 The Effects of Changes in Foreign Exchange Rates

FRS 24 Financial Reporting in Hyperinflationary Economies*

FRS 26 Financial Instruments Recognition and Measurement

FRS 29 Financial Instruments Disclosures

* FRS 24 Financial Reporting in Hyperinflationary Economies has no effect on the reported results

The effect of these changes, which primarily result in the fair value of derivative financial instruments being recognised on the balance sheet and liabilities being revalued to year end exchange rates (including the associated deferred tax impacts), on the results for the years ended 31 March 2011 and 2010 are highlighted below

	Note	2011	2010
		FRS 23 & FRS 26 £m	FRS 23 & FRS 26 £m
(Charged)/credited to the profit and loss account:			
Cost of sales		(10 8)	11 4
Other administration expenses		4 0	6 9
Net (charge)/credit before tax		(6 8)	18 3
Deferred tax on the above		2 0	(7 9)
Net (charge)/credit after tax		(4 8)	10 4
Profit after tax as previously reported			4 8
Profit after tax as restated			15 2
Credited to the statement of total recognised gains and losses:			
Gains on cash flow hedges, after deferred tax		15 7	-
Balance sheet:			
Net liabilities as previously reported			(72 0)
Current assets	(i)		8 1
Creditors amounts falling due within one year	(ii)		(1 7)
Provisions for liabilities			(1 6)
Net liabilities as restated			(67 2)

- (i) Being the impact of recognising the fair value of derivative financial instruments of £10 1m less the deferred tax impact of the total adjustments of £2 0m
- (ii) Being the impact of recognising the fair values of derivative financial instruments on the balance sheet of £2 9m, the revaluation of creditors to year end foreign exchange rates of £2 5m less the adjustment associated with the settled hedge contract

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

3. SEGMENT INFORMATION

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

Airline The Airline business segment comprises the Group's main scheduled passenger operations and revenues ancillary to the provision of those services. The Airline business provides services between European airports.

Aviation Services The Aviation Services segment comprises the Group's provision of goods and services to customers during the period, including aircraft maintenance, overhauls and the associated rotatable and consumable parts. Training and other non-Airline related activities are also included due to their relatively small impact on the segment's results.

2011	Airline £m	Aviation services £m	Total £m
Turnover			
Total sales	571.5	39.7	611.2
Inter-segment sales	-	(15.7)	(15.7)
Sales to third parties	571.5	24.0	595.5
Profit/(loss) on ordinary activities before interest	0.6	(1.5)	(0.9)
Finance costs (net)			(2.2)
Loss on ordinary activities before taxation			(3.1)
Segment net (liabilities)/assets	(8.2)	12.1	3.9
Unallocated net assets*			25.5
Total assets less current liabilities, being net assets			29.4

*All assets are allocated to reportable segments with the exception of revalued open fuel and foreign exchange derivatives and tax assets and liabilities.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

3. SEGMENT INFORMATION (continued)

2010	Airline £m	Aviation services £m	Other £m	Total £m
Turnover				
Total sales	542.4	45.2	-	587.6
Inter-segment sales	-	(17.0)	-	(17.0)
Sales to third parties	542.4	28.2	-	570.6
Profit/(loss) on ordinary activities before interest	23.3	1.6	(1.9)	23.0
Finance costs (net)				(1.2)
Profit on ordinary activities before taxation				21.8
Segment net (liabilities)/assets	(76.3)	(3.0)	-	(79.3)
Unallocated net assets				12.1
Total assets less current liabilities, being net liabilities				(67.2)

Geographical information

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

	2011 £m	2010 £m
Turnover from external customers		
United Kingdom	521.8	483.5
Rest of Europe	73.7	87.1
Total	595.5	570.6

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2011	2010
	£m	(restated) £m
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation and other amounts written off tangible assets		
Owned	12.8	13.0
Profit on disposal of tangible fixed assets	(0.4)	(0.5)
Operating leases		
Land and buildings	3.3	3.4
Plant and machinery	0.2	0.2
Aircraft	85.8	73.3
Exchange losses/(gains)	2.1	(2.0)
Losses/(gains) on derivative financial instruments	6.8	(18.3)
	<u> </u>	<u> </u>
Auditor's remuneration		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	0.1	0.1
Audit of financial statements of subsidiaries pursuant to legislation	0.1	0.1
Non-statutory audit of interim financial statements	-	0.2
	<u> </u>	<u> </u>
Total audit fees	<u>0.2</u>	<u>0.4</u>
Fees payable to the Company's auditor and its associates in respect of		
Tax services	0.2	0.1
Expenses in connection with a group IPO	-	0.4
All other services	0.1	0.1
	<u> </u>	<u> </u>
Total non-audit fees	<u>0.3</u>	<u>0.6</u>

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

5. EXCEPTIONAL ITEMS	2011 £m	2010 £m
Exceptional items reported in operating profit		
Legal and professional fees in connection with a strategic project	-	(1 1)
Impairment charge on amount owed by group undertakings	-	(0 8)
	<u>-</u>	<u>(1 9)</u>

Items reported in operating profit

During the year to March 2010, the Company incurred legal and professional fees in connection with a strategic project of £1 1m (2011 nil)

During the year to March 2010, an impairment charge of £0 8m (2011 nil) has been recognised in relation to a balance due from a fellow subsidiary undertaking with net liabilities. This charge has been recognised within administrative expenses.

The impact on tax of exceptional items in 2010 is a credit of £0 5m.

6. REMUNERATION OF DIRECTORS	2011 £m	2010 £m
Directors' emoluments	<u>1 4</u>	<u>1 6</u>
Company contributions to personal pension schemes	<u>0 2</u>	<u>0 1</u>

The aggregate emoluments of the highest paid director were £0 5m (2010 £0 6m) and company pension contributions of £0 1m (2010 £0 1m) were made to a personal pension scheme on his behalf.

In 2011, pension contributions for four (2010 four) directors were made to defined contribution personal pension schemes on their behalf.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

7. STAFF NUMBERS AND COSTS

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows

	Number of employees	
	2011	2010
Technical support services	809	828
Administration	530	539
Flight and maintenance	1,447	1,431
	<u>2,786</u>	<u>2,798</u>

The aggregate payroll costs of these persons were as follows

	2011 £m	2010 £m
Wages and salaries	91.3	91.7
Social security costs	9.8	10.1
Other pension costs (see note 21)	5.9	5.5
Share-based payments charge (see note 20)	0.5	0.4
	<u>107.5</u>	<u>107.7</u>

In addition to the above, actuarial gains of £6.1m (2010 losses of £4.7m) were recognised in the statement of total recognised gains and losses in respect of defined benefit pension schemes

8. INTEREST RECEIVABLE AND SIMILAR INCOME

	2011 £m	2010 £m
Bank interest	<u>0.3</u>	<u>0.2</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £m	2010 £m
On bank loans and overdrafts	1.0	2.1
Less interest capitalised	-	(0.1)
Gains arising on retranslation of foreign currency loans and deposits used to fund aircraft purchases	(0.5)	(0.7)
Net finance charge in respect of pension scheme liabilities	<u>2.1</u>	<u>0.1</u>
	<u>2.5</u>	<u>1.4</u>

Interest payable and similar charges includes gains and losses arising on the retranslation of loans and deposits used to fund aircraft purchases as the directors believe that this is appropriate for the nature of the transactions

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

10. TAXATION	2011 £m	2010 (restated) £m
<i>Analysis of tax credit/(charge) in the year</i>		
<i>Deferred tax (see note 19):</i>		
Tax credit/(charge) for the year	5 0	(6 6)
Tax credit/(charge) on profit on ordinary activities	5 0	(6 6)

No current tax was payable in this or the preceding year

Factors affecting the tax credit/(charge) for the year

The current tax credit/(charge) for the year is different to the tax charge which arises under the standard rate of corporation tax in the UK, of 28% (2010 28%). The differences are explained below

	2011 £m	2010 (restated) £m
<i>Current tax reconciliation:</i>		
(Loss)/profit on ordinary activities before taxation	(3 1)	21 8
Current tax at 28% (2010 28%)	0 8	(6 1)
<i>Effects of</i>		
Non taxable items/(expenses not deductible for tax purposes)	0 9	(0 3)
Capital allowances in excess of depreciation/ (depreciation in excess of capital allowances)	2 3	(4 5)
(Group relief surrendered)/utilisation of tax losses brought forward	(0 7)	5 8
Origination and reversal of timing differences	(3 3)	-
Items outside the scope of UK taxation	-	5 1
Total current tax charge	-	-

The forthcoming change in the corporation tax rate from 28% to 26% from 6 April 2011 will not materially affect the future tax charge

11. INVESTMENTS	2011 £m	2010 £m
Cost and net book value		
At the beginning and end of the year	-	-

Details of the company's principal subsidiary undertakings at 31 March 2011 are as follows

Name	Country of incorporation	Nature of business	% owned by ordinary shares
British European Limited	England	Dormant	100%
British European com Limited	England	Dormant	100%
British European Airlines Limited	England	Dormant	100%
Irish European Limited	England	Dormant	100%

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

12. INTANGIBLE FIXED ASSETS

Airport slots	£m
Cost and net book value	
At beginning of year and end of year	<u>8 5</u>

Airport slots represent amounts paid to third parties to secure permission to operate aircraft at UK and overseas airports at a designated time. As explained in accounting policy in note 1, airport slots are subject to an impairment review rather than amortisation.

13. TANGIBLE FIXED ASSETS

	Freehold land and buildings £m	Short leasehold buildings £m	Plant, equipment and motor vehicles £m	Aircraft £m	Assets under construction £m	Total £m
Cost						
At beginning of year	11 3	0 2	19 7	93 0	3 2	127 4
Additions	0 1	-	2 2	31 6	9 8	43 7
Disposals	-	-	-	(21 5)	-	(21 5)
Transfer to freehold	13 0	-	-	-	(13 0)	-
At end of year	<u>24 4</u>	<u>0 2</u>	<u>21 9</u>	<u>103 1</u>	<u>-</u>	<u>149 6</u>
Depreciation						
At beginning of year	3 2	0 1	12 8	24 7	-	40 8
Charge for year	0 5	-	2 5	9 8	-	12 8
At end of year	<u>3 7</u>	<u>0 1</u>	<u>15 3</u>	<u>34 5</u>	<u>-</u>	<u>53 6</u>
Net book value						
At 31 March 2011	<u>20 7</u>	<u>0 1</u>	<u>6 6</u>	<u>68 6</u>	<u>-</u>	<u>96 0</u>
At 31 March 2010	<u>8 1</u>	<u>0 1</u>	<u>6 9</u>	<u>68 3</u>	<u>3 2</u>	<u>86 6</u>

The value of the land component of the freehold land and buildings is not available.

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

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

14. STOCKS	2011	2010
	£m	£m
Work in progress	0 9	1 1
Goods held for resale	0 8	0 7
Aircraft consumables	4 1	4 3
	<u>5 8</u>	<u>6 1</u>
15. DEBTORS	2011	2010
	£m	(restated)
	£m	£m
Due within one year		
Trade debtors	32 7	29 5
Amounts recoverable on contracts	1 3	1 3
Amounts owed by group undertakings	-	0 8
Other taxation and social security	3 5	2 3
Aircraft deposits	12 1	0 7
Other debtors	22 6	19 2
Prepayments and accrued income	16 8	18 0
Deferred tax asset (see note 19)	4 3	4 8
Derivative financial instruments (see note 27)	24 5	10 1
	<u>117 8</u>	<u>86 7</u>
Due after one year		
Aircraft lease deposits	8 6	7 5
Other debtors	23 7	24 6
	<u>32 3</u>	<u>32 1</u>
Total debtors	<u>150 1</u>	<u>118 8</u>

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

Trade debtors disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful debtors because there has not been a significant change in credit quality and the amounts (which include interest accrued after the receivable is overdue) are still considered recoverable

Ageing of past due but not impaired debtors

	2011	2010
	£m	£m
Not yet due	25 5	24 5
30 to 60 days overdue	3 5	1 3
61 to 90 days overdue	1 6	1 5
91 to 120 days overdue	2 1	2 2
	<u>32 7</u>	<u>29 5</u>

The impairment loss recognised in the two years to 31 March 2011 was £nil

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

16. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2011 £m	2010 (restated) £m
Preference shares (see note 22)	-	17.5
Bank loans (see note 17)	13.0	6.0
Trade creditors	20.0	28.3
Amounts owed to group undertakings	80.3	75.0
Other taxation and social security	18.9	18.7
Other creditors	7.8	9.5
Accruals	32.7	33.9
Deferred income	64.1	60.8
Derivative financial instruments (see note 27)	3.3	2.9
	<u>240.1</u>	<u>252.6</u>

Bank loans are secured on the assets to which they relate. For further details of these loans, see note 17.

All amounts owed to subsidiaries of the ultimate holding company are interest-free.

Deferred income above and in note 17 includes government grants totalling £7.1m (2010: £nil) 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 £7.0m (within the deferred income balance in note 17) will be released after more than one year.

Government grants were provided by the South West of England Regional Development Agency and the Learning Skills Council (and its successor) and are subject to various conditions. These institutions may be entitled to claw back 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.

FLYBE LIMITED

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Year ended 31 March 2011

17. CREDITORS- AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2011 £m	2010 £m
Secured bank loans	33.7	38.6
Deferred income	14.0	8.9
	<u>47.7</u>	<u>47.5</u>

For further detail on deferred income see note 16

The maturity of bank loans is as follows

	2011 £000	2010 £m
In one year or less, or on demand	13.0	6.0
Between one and two years	4.3	8.2
Between two and five years	13.0	12.1
In five years or more	16.4	18.3
	<u>46.7</u>	<u>44.6</u>

Rates of interest charged on bank loans vary between 1.8% (2010 1.7%) and 6.1% (2010 4.3%) The bank loans are secured on the assets to which they relate

18. PROVISIONS FOR LIABILITIES

	Onerous leases £m	Leased aircraft main- tenance costs £m	Total (restated) £m
At beginning of year	0.1	44.3	44.4
Charge for the year in the profit and loss account	-	26.0	26.0
Utilised during year	(0.1)	(21.6)	(21.7)
At end of year	<u>-</u>	<u>48.7</u>	<u>48.7</u>

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 written off over a range of one to two years.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

19. DEFERRED TAXATION

	£m
Asset at 1 April 2010 – as previously reported	6 8
Prior year adjustment (see note 2)	(2 0)
Net asset at 1 April 2010 – as restated	4 8
Recognised in the profit and loss account in the year	5 0
Recognised in equity	(5 5)
Asset at 31 March 2011	4 3

The elements of deferred taxation are as follows

	Recognised net deferred tax asset		Unrecognised net deferred tax asset	
	2011	2010 (restated)	2011	2010 (restated)
	£m	£m	£m	£m
Difference between accumulated depreciation and capital allowances	8 8	6 8	4 0	12 3
Financial instruments	(5 5)	(2 0)	-	-
Tax losses	1 0	-	-	-
Undiscounted deferred tax (see note below)	4 3	4 8	4 0	12 3

Where carried-forward losses or unclaimed capital allowances are available, they are recognised to the extent that taxable profits are forecast to arise in the next 12 months. No deferred tax assets have been recognised in respect of tax losses in excess of one year's forecast taxable profits due to uncertainty as to when these assets will be realised.

20. EQUITY-SETTLED SHARE SCHEME

Pre-admission Share Scheme

The Employees' Trust had a share distribution scheme open to qualifying employees whereby such employees of the Group could acquire beneficial interests in a given number of shares in the parent company, Flybe Group plc which were held by the Employee Trust. The employees had an option to sell their shares in the event of a flotation or trade sale. Shares were forfeited if the employee left the Group before a flotation or trade sale.

During December 2010, Flybe Group plc raised capital by way of an IPO and as a result ownership of these share awards was transferred to the employee. The shares awarded were accounted for as equity-settled.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

20. EQUITY-SETTLED SHARE SCHEME (continued)

This table sets out Flybe Group plc share awards granted to employees of this company and their exercise price prior to the Flybe Group plc bonus issue of 24 new shares for each existing share on 25 November 2010

	2011		2010	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding at the beginning of the period	94,860	-	98,292	-
Forfeited during the period	(3,150)	-	(3,432)	-
Exercised during the period	(91,710)	-	-	-
Outstanding at the end of the period	-	-	94,860	-
Exercisable at the end of the period	-	-	-	-

The fair value of services received in return for the beneficial interest in shares granted was measured by reference to the fair value of the beneficial interest in the share granted. No share awards were capable of being exercised prior to 31 March 2010 and all share awards were exercised as a result of the IPO of Flybe Group plc in December 2010.

The total expense recognised in the profit and loss account to reflect the fair value of the awards given in the year to 31 March 2011 was £0.4m (2010: £0.4m).

Performance Share Plan ('PSP')

Flybe Group plc 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. If the awards remain unexercised after a period of five years from the date of grant, the awards expire. Awards are forfeited if the employee leaves the Group before the awards vest.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

20. EQUITY-SETTLED SHARE SCHEME (continued)

The vesting of these awards is subject to the performance of Flybe Group plc over a three-year period. 70% of the award will be subject to a target based on Flybe Group plc's consolidation earnings per share at the end of the performance period and 30% of the award will be subject to Flybe Group plc's total shareholder return 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 in the accounts of Flybe Group plc.

	2011 Number of share awards	2011 Weighted average exercise price (£)
Granted during and outstanding at the end of the period	937,146	£nil
Exercisable at the end of the period	-	-

On 21 January 2011, 937,146 shares were awarded. The share price on the date of the award was £3.25. No shares were forfeited or exercised during the year. The awards outstanding at 31 March 2011 had a weighted average exercise price of £nil and will be available for exercise in 2.1 years and will expire after 4.1 years.

The aggregate of the estimated fair values of the awards granted during the year is £1.5m. The inputs into the Monte Carlo valuation are as follows:

	2011
Weighted average share price	£3.25
Weighted average exercise price	£nil
Expected volatility	46%
Risk-free rate of interest	1.3%
Expected dividend yields	n/a
Forfeiture	5%

The Company recognised expenses of £0.1m in relation to this PSP scheme in the year to 31 March 2011.

Share Incentive Plan ("SIP")

The SIP is open to all UK employees in the Group 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 Flybe Group plc 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.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

21. PENSION LIABILITIES

British Regional Air Lines Group Pension Scheme

Composition of the scheme

The defined benefit scheme operated by the Group was acquired on 5 March 2007 as part of the acquisition of BA Connect. The scheme was closed to contributions during that year and its members now contribute to the Group's defined contribution scheme. No asset is recognised in respect of the net surplus because the Group does not have sufficient certainty that any asset will eventually be realised.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2010. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method.

Contributions of £nil were payable to the fund at year-end (2010: £nil).

The following assumptions have been adopted in determining the pension liability:

	2011	2010
	%	%
Discount rate	5.6	5.7
Expected return on scheme assets	6.1	6.3
Rate of increase in pensions in payment accrued before 1 October 2006	3.6	3.6
Rate of increase in pensions in payment accrued after 1 October 2006	2.4	2.5
Inflation assumption	3.5	3.6

The post-retirement mortality rate assumed at 31 March 2011 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 (2010 mortality rate was based on PA92 tables with long cohort projection).

As required by the Scheme Rules, the Scheme valuation applies the statutory basis of revaluation under the prevailing revaluation order contained in legislation. The current revaluation order uses the September 2010 Consumer Prices Index ('CPI') rather than the Retail Prices Index ('RPI'). The effect of this change in the statutory basis of revaluation has not been quantified and may be material.

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

Assumption	Change in assumption	2011 £m	2010 £m
Discount rate	Increase by 0.1%	(2.5)	(2.5)
Rate of inflation	Increase by 0.1%	1.7	2.0

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

21. PENSION LIABILITIES (continued)

Scheme assets

The assets in the scheme and the expected rates of return were

	Long-term rate of return 31 March 2011	Value at 31 March 2011 £m	Long-term rate of return 31 March 2010	Value at 31 March 2010 £m
Equities	7.5%	43.0	8.0%	42.9
Bonds and gilts	5.3%	71.6	5.3%	68.5
Cash	0.1%	0.5	3.0%	0.5
Total market value of assets		115.1		111.9
Actuarial value of liability		(110.5)		(116.7)
Surplus/(deficit) in the scheme		4.6		(4.8)
Amount of surplus not recognised		(4.6)		-
Net pension liability		-		(4.8)

The rates quoted above are the expected net rates of return after allowance for expenses

	2011 £m	2010 £m
Movements in the scheme liabilities during the year		
Opening liability	(116.7)	(91.7)
Interest cost	(6.6)	(5.8)
Benefits paid	3.0	3.3
Actuarial gain/(loss)	9.8	(22.5)
Closing liability	(110.5)	(116.7)

	2011 £m	2010 £m
Movements in the scheme assets during the year		
Opening assets	111.9	95.0
Expected return on assets	4.5	5.7
Employer contributions	0.8	-
Benefits paid	(3.0)	(3.3)
Actuarial gain	0.9	14.5
Closing assets	115.1	111.9

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

21. PENSION LIABILITIES (continued)

	2011	2010
	£m	£m
Analysis of amounts credited to net finance charges		
Interest cost	6.6	5.8
Expected return on assets	(4.5)	(5.7)
Net return	<u>2.1</u>	<u>0.1</u>

	2011	2010
	£m	£m
Analysis of amount recognised in statement of total recognised gains and losses		
Actuarial gain on scheme assets	0.9	14.5
Actuarial gain/(loss) arising on scheme liabilities	9.8	(22.5)
Adjustment to amount not recognised as an asset	(4.6)	3.3
Net gain/(loss) recognised	<u>6.1</u>	<u>(4.7)</u>

	2011	2010	2009	2008
	£m	£m	£m	£m
History of experience gains and losses				
Actuarial gain/(loss) on scheme assets	0.9	14.5	(13.5)	(7.7)
Percentage of year-end scheme assets	0.8%	13.0%	14.1%	7.3%
Actuarial gain/(loss) arising on scheme liabilities	9.8	(22.5)	12.8	13.4
Percentage of present value of year-end scheme liabilities	8.9%	19.3%	13.0%	14.0%
Adjustment to reflect unrecognised asset	4.6	-	3.3	(3.9)
Actuarial loss recognised in statement of total recognised and losses	<u>6.1</u>	<u>(4.7)</u>	<u>-</u>	<u>1.8</u>
Percentage of present value of year-end scheme liabilities	<u>5.5%</u>	<u>4.0%</u>	<u>n/a</u>	<u>2.0%</u>

Other schemes

The Company also operates defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Company to the schemes and amounted to £5.9m (2010: £5.5m).

There are no outstanding or prepaid contributions at either the beginning or the end of the financial year.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

22. SHARE CAPITAL	2011 £m	2010 £m
Authorised		
1,000,000 ordinary shares of £1 each (2010 1,000,000)	1 0	1 0
Nil redeemable preference shares of £1 each (2010 17,500,000)	-	17 5
	<u>1 0</u>	<u>18 5</u>
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each (2010 1,000,000)	1 0	1 0
Nil redeemable preference shares of £1 each (2010 17,500,000)	-	17 5
	<u>1 0</u>	<u>18 5</u>
Shares classified as equity	1 0	1 0
Shares classified as liabilities (see note 16)	-	17 5
	<u>1 0</u>	<u>18 5</u>

On 15 December 2010, the Company reduced its share capital by cancelling 17,500,000 redeemable preference shares of £1 each. This redemption represented all redeemable preference shares in issue.

23. STATEMENT OF MOVEMENTS ON RESERVES

	Hedging reserve £m	Profit and loss account (restated) £m	Total (restated) £m
At beginning of year – as previously reported	-	(73 0)	(73 0)
Prior year adjustment (see note 2)	-	4 8	4 8
At beginning of year – as restated	-	(68 2)	(68 2)
Profit for the financial year	-	1 9	1 9
Capital contribution	-	55 4	55 4
Actuarial gains related to the pension scheme	-	6 1	6 1
Redeemable preference share capital cancellation (see note 22)	-	17 5	17 5
Gain arising on cash flow hedges	15 7	-	15 7
At end of year	<u>15 7</u>	<u>12 7</u>	<u>28 4</u>

On 15 December 2010, British Regional Air Lines Group Limited, a fellow subsidiary, released the Company from its liability to repay £55.4m of intercompany debt.

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NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

24. STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS/(DEFICIT)

	2011 £m	2010 (restated) £m
At beginning of year– as previously reported	(72 0)	(72 1)
Prior year adjustment (see note 2)	4 8	(5 6)
At beginning of year – as restated	(67 2)	(77 7)
Profit for the financial year	1 9	15 2
Capital contribution	55 4	-
Actuarial gains/(losses) related to the pension scheme	6 1	(4 7)
Redeemable preference share capital cancellation	17 5	-
Gain arising on cash flow hedges	15 7	-
At end of year	29 4	(67 2)

On 15 December 2010, British Regional Air Lines Group Limited, a fellow subsidiary, released the Company from its liability to repay £55 4m of intercompany debt

25. CONTINGENT LIABILITIES AND GUARANTEES

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

	2011 £m	2010 £m
Credit card arrangements	14 0	14 0
Bonds	8 2	7 8
Total	22 2	21 8

In order to secure some of the arrangements highlighted above, the Company deposited amounts with its bankers that are classified as part of other restricted cash

Cash at bank and in hand therefore includes restricted cash comprising

	2011 £m	2010 £m
Aircraft operating lease deposits	7 2	6 0
Aircraft maintenance deposits	2 0	2 0
Cash deposited to secure the above guarantee and bond arrangements	8 7	8 0
	17 9	16 0

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

26. COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows

	2011		2010	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire				
Within one year	1.4	1.1	2.0	0.8
In the second to fifth years inclusive	1.4	22.7	1.3	10.5
Over five years	0.7	61.7	0.6	65.4
	<u>3.5</u>	<u>85.5</u>	<u>3.9</u>	<u>76.7</u>

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

	2011 £m	2010 £m
Aircraft	<u>858.0</u>	<u>65.9</u>

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

	No.	No.
Bombardier Q400	3	4
Embraer E-Series	35	-
Total	<u>38</u>	<u>4</u>

The Company has no further capital commitments in respect of the Flybe Training Academy, which was completed in February 2011 (2010 £7.7m commitment)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

27. 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 1 to the financial statements

Categories of financial instruments

	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Cash and bank balances	105.5	105.5	62.1	62.1
Loans and receivables				
Trade, other receivables and inter-company	72.8	72.8	66.5	66.5
Derivative instruments at fair value through profit and loss	-	-	10.1	10.1
Derivative instruments in designated hedge accounting relationships	24.5	24.5	-	-
Financial liabilities				
Liabilities held at amortised cost				
Trade, other payables and inter-company	(108.2)	(108.2)	(130.3)	(130.3)
Debt	(46.7)	(52.1)	(44.6)	(53.5)
Derivative instruments at fair value through profit and loss	-	-	(2.9)	(2.9)
Derivative instruments in designated hedge accounting relationships	(3.3)	(3.3)	-	-

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates

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NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

27. FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value at 31 March 2011

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices), and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1 £m	Level 2 £m	Level 3 £m
Foreign exchange derivatives	-	(2.6)	-
Fuel derivatives	-	23.8	-
At 31 March 2011	-	21.2	-
Foreign exchange derivatives	-	7.5	-
Fuel derivatives	-	(0.3)	-
At 31 March 2010	-	7.2	-

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

27. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives

The Company is exposed to financial risks in respect of

- liquidity and management of working capital
- foreign currency
- interest rates
- liquidity
- credit risk
- fuel price

A description of each risk, together with the policy for managing risk is given below. To manage these risks, the Company 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 Company enters into these arrangements with the goal of hedging its operational balance sheet and profit and loss account and cash flow risk. However, the Company's exposure to commodity price and currency exchange fluctuations cannot be neutralised completely.

Liquidity and working capital risk management

The Company manages its capital so that it will be able to continue as a going concern. The capital structure of the Company consists of debt, which includes the bank loans (note 17), cash and bank balances and equity as disclosed in notes 22 to 24.

Gearing ratio

The Company'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:

	2011 £m	2010 £m
Bank loans	(46.7)	(44.6)
Cash at bank and in hand	105.5	62.1
Net funds	58.8	17.5
 Equity	 30.4	 (67.2)
 Net debt to equity ratio	 n/a	 n/a

Debt is defined as bank loans as detailed in note 17. Equity includes all capital and reserves.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2011

27. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

The directors believe that the Company has adequate cash holdings to meet its short-term creditors as they fall due. The Company also arranges to borrow funds in order to finance the 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 Company's non-derivative financial instruments.

	Weighted average effective interest rate %	Within 1 year £	1-2 years £	2-5 years £	Over 5 years £	Total £
2011						
Financial assets						
Cash, cash equivalents and restricted cash (variable interest rates)	0.5	97.3	1.1	2.6	4.5	105.5
Loans and receivables	-	56.6	9.9	-	6.3	72.8
Financial liabilities						
Trade and other payables	-	(108.2)	-	-	-	(108.2)
Borrowings						
Variable interest rates	2.8	(13.5)	(4.5)	(13.9)	(19.0)	(50.9)
Fixed interest rates	6.1	(0.1)	(0.1)	(0.5)	(0.5)	(1.2)
2010						
Financial assets						
Cash, cash equivalents and restricted cash (variable interest rates)	0.8	54.1	1.0	3.5	3.5	62.1
Loans and receivables	-	50.8	8.2	-	7.5	66.5
Financial liabilities						
Trade and other payables	-	(130.3)	-	-	-	(130.3)
Borrowings						
Variable interest rates	3.3	(6.2)	(8.7)	(12.9)	(25.7)	(53.5)

All financial assets and financial liabilities are non-interest bearing unless otherwise stated.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

27 FINANCIAL INSTRUMENTS (continued)

The following table, which is based on market pricing in place at the end of each reporting period, shows the maturity of the Company's derivative financial instruments

	Within 1 year £	1-2 years £	Total £
2011			
Net settled derivatives			
Fuel derivatives	23.7	-	23.7
Gross settled derivatives			
Foreign currency payments	(2.6)	0.1	(2.5)
	<u>21.1</u>	<u>0.1</u>	<u>21.2</u>
2010			
Net settled derivatives			
Fuel derivatives	(0.3)	-	(0.3)
Gross settled derivatives			
Foreign currency payments	7.5	-	7.5
	<u>7.2</u>	<u>-</u>	<u>7.2</u>

Foreign currency risk management

The Company undertakes certain transactions denominated in foreign currencies, primarily the leasing and purchase of aircraft, spare parts and fuel in US dollars. In addition, certain sales and airport costs are incurred in Euros. Hence, significant exposures to exchange rate fluctuations arise in US dollars.

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 Company to enter into forward foreign exchange contracts to cover specific US dollar payments to cover up to 90% of the exposure generated.

The Company does not enter into significant Euro forward foreign exchange contracts as the Euro payment exposure is largely, though not entirely, offset by Euro revenue receipts. At 31 March 2011, the Company had entered into six short-term contracts to purchase a total of €6m. These contracts mature by September 2011 and the fair value at 31 March 2011 was not materially different from their value at inception.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

27. FINANCIAL INSTRUMENTS (continued)

The Company has a pound sterling functional currency and mainly uses only US dollars foreign exchange derivative instruments. The following table summarises the Company'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 2011	\$1 5733	289.7	184.1	(2.5)
At 31 March 2010	\$1 6997	105.0	61.8	7.5

It is estimated that a general strengthening/weakening of Sterling against the US Dollar and the Euro would increase/worsen both the Company's result before tax and increased/decrease its equity by approximately

	2011	2010
Percentage increase	1%	1%
US Dollar (£m)	1.5	1.2
Euro (£m)	0.1	0.1

The carrying values of the Company's foreign currency denominated non-derivative monetary assets and liabilities at the balance sheet date are as follows

	2011 £m	2010 £m
Assets		
Euro		
Cash and cash equivalents	3.1	0.7
Trade receivables	5.0	4.7
US Dollar		
Cash and cash equivalents	-	24.0
Restricted cash	9.1	8.0
Trade receivables	10.4	8.3
	<u>27.6</u>	<u>45.7</u>
Liabilities		
Euro		
Trade and other payables	(10.2)	(9.9)
US Dollar		
Trade and other payables	(7.4)	(11.7)
Debt	(30.5)	(27.2)
	<u>(48.1)</u>	<u>(48.8)</u>

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

27. FINANCIAL INSTRUMENTS (continued)

Cash flow hedge effectiveness

The Company designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges. At 31 March 2011, the Company has identified 50 contracts for foreign exchange purchases and 21 contracts for fuel purchases which have been designated as cash flow hedges. For these hedges the changes in the fair value of the financial instrument were compared to market movement in the underlying hedged item and were found to be an effective offset. As a result an increase in the fair value of these financial derivative instruments of £21.2m was taken to equity through the hedging reserve.

Interest rate risk management

The Company is exposed to interest rate risk as the Company 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 Company 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 Company'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 Company's result before tax and decrease/increase its equity by approximately

	2011	2010
Percentage increase	1%	1%
Impact on profit before tax and equity (£m)	(0.2)	(0.1)

Credit risk management

Disclosures in respect of credit risk management for trade and other receivables are provided in note 15.

In respect of financial assets other than trade and other receivables, the Company uses well regarded financial institutions to provide the services required and deposits surplus cash with a variety of institutions in order to minimise its exposure to the possibility of the counterparty defaulting. Similarly, the Company has counterparty relationships in respect of derivative financial institutions with at least two institutions other than the Company's bankers.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

27. FINANCIAL INSTRUMENTS (continued)

The table below shows the Company's major counterparties at the balance sheet date using the Standard and Poor's credit rating symbols

Counterparty	Location	Rating	2011 £m	2010 £m
Barclays Bank plc	United Kingdom	AA –	42.3	38.8
Standard Life plc	United Kingdom	A –	19.9	10.0
Blackrock Inc	Republic of Ireland	A +	19.9	10.0
Lloyds Banking Group plc	United Kingdom	A	25.1	4.9
Morgan Stanley & Co plc	United Kingdom	A+	13.4	3.5
			<u>120.6</u>	<u>67.2</u>

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

Fuel price risk management

The Company 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 Company's activities (approximately 15.6% and 15.2% of revenues in the years ended 31 March 2011 and 2010 respectively). The Company 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 generally at least 60% 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 Company'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 Company's overall fuel costs.

The Company operates a policy during normal trading conditions of managing this volatility by entering into derivative contracts representing a portion (between 60% and 90%) of its aviation fuel requirements up to 12 months forward. In the unusual trading conditions experienced since February 2011, when the price of jet fuel increased from \$885 per tonne in January 2011 to \$1,117 per tonne in April 2011, this policy was temporarily suspended. New contracts were not entered into during this period since it was considered to be a short-term spike in oil prices. In May 2011, trading recommenced as the oil price per tonne decreased. The intention of this programme is to provide a significant element of certainty over its fuel costs for any forthcoming IATA season.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

27. FINANCIAL INSTRUMENTS (continued)

Forward fuel price exchange contracts

The actual amount covered by such contracts, amounted to 67.5% of the following year's budgeted fuel consumption as at 31 March 2011 (2010 78.7%). The amount of fuel actually consumed was 2.8% less than anticipated for the year ended March 2011 (2010 4.9% less than anticipated)

The following table details the fair values of forward fuel price contracts outstanding at each balance sheet date

	2011 £m	2010 £m
Fair value of contracts to buy fuel expiring		
In less than 3 months	8.6	(2.5)
Between 3 and 6 months	8.6	0.5
Between 6 and 12 months	6.5	1.7
	<u>23.7</u>	<u>(0.3)</u>

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

	2011 Price per tonne US\$	Date	2010 Price per tonne US\$	Date
High	1,061	31 March	726	31 March
Low	647	25 May	450	1 April

The Company 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 Company's loss/profit before tax and decrease its equity by approximately

	2011	2010
Percentage increase in cost of fuel	10%	1%
Impact on profit before tax and equity (£m)	(1.6)	(0.5)

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 March 2011

28. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties

	Sales of services		Amounts owed by related parties	
	2011 £m	2010 £m	2011 £m	2010 £m
Preston Travel (CI) Limited	1.2	1.4	0.1	0.1

The Company provided services to Preston Travel (CI) Limited, a subsidiary of Rosedale (JW) Investments Limited

	Purchases of services		Amounts owed to related parties	
	2011 £m	2010 £m	2011 £m	2010 £m
Edenfield Investments Limited	0.3	0.2	-	-
Downham Properties Limited	0.2	0.1	-	-

The transactions with Edenfield Investments Limited and Downham Properties Limited are disclosed, although there is no holding/subsidiary company relationship between these two companies and Rosedale (JW) Investments Limited. These two companies are owned and controlled by the Eleanor J 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 (JW) Investments Limited. The Company purchased property services from Edenfield Investments Limited and from Downham Properties Limited.

The Company had made the following loans to directors, prior to their appointment as directors, to enable them to acquire a beneficial interest in shares in Flybe Group plc

	2011 £'000	2010 £'000
Andrew Knuckey	20	20
Mike Rutter	63	63

In addition, the following directors had received loans from the Group's immediate parent company, Rosedale Aviation Holdings Limited, to enable them to acquire an interest in shares in Flybe Group plc

	2011 £'000	2010 £'000
Andrew Knuckey	134	134
Andrew Strong	36	36

The loans made by the Group and Rosedale Aviation Holdings Limited total £253,000 at 31 March 2011 (31 March 2010 £252,000), 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.

FLYBE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 March 2011

29. PARENT COMPANY AND CONTROLLING PARTY

The directors regard Flybe Group plc, registered in England and Wales, as the parent company and controlling party

The largest and smallest group in which the results of the Company are consolidated is that headed by Flybe Group plc, incorporated in Great Britain and registered in England and Wales. The consolidated financial statements of the Group are available to the public and may be obtained from the Registrar of Companies, Crown Way, Mandy, Cardiff CF14 3UZ