

REGISTRAR OF COMPANIES

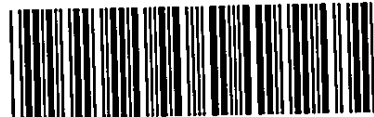
FLYBE LIMITED

Annual report and financial statements

Registered number 2769768

31 March 2012

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FLYBE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 MARCH 2012

CONTENTS

	Page
Officers and professional advisers	1
Directors' report	2
Directors' responsibilities statement	10
Independent auditor's report	11
Profit and loss account	12
Statement of total recognised gains and losses	13
Balance sheet	14
Notes to the financial statements	15

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

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 March 2012

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 12 of these financial statements

The company has grown revenue, maintained our position as the leading carrier of UK domestic passengers with a 28.0% market share, and our passenger numbers have grown by 2.2% to 7.3 million

	2012 £m	2011 £m	Change %
Revenue	615.3	595.5	3.3
EBITDAR – underlying *	93.3	115.4	(19.2)
EBITDAR – unadjusted	93.3	97.3	(4.1)
(Loss)/profit before tax – underlying *	(4.1)	21.8	n/m
(Loss)/profit before tax – unadjusted	(3.2)	(3.1)	(3.2)
(Loss)/profit after tax – unadjusted	(5.7)	1.9	n/m

* See table below for reconciliation from unadjusted to underlying results

Revenue increased by 3.3% to £615.3m from £595.5m in the previous year, a period that had been affected by disruption caused by the volcanic ash cloud and the adverse weather conditions in November and December 2010. This growth in revenue was against a backdrop of a continuing decline in the overall UK domestic market.

Underlying EBITDAR declined by £22.1m (or 19.2%) to £93.3m, and underlying loss before tax also fell to £(4.1m) from a profit of £21.8m in the previous financial year largely as the result of increased fuel, maintenance and staff costs.

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

	2012 £m	2011 £m	Change %
Operating (loss)/profit	(3.4)	(1.3)	
Depreciation and amortisation (note 11)	11.6	12.8	
Aircraft rental charges (note 3)	85.1	85.8	
EBITDAR – unadjusted	93.3	97.3	(4.1)
Estimated impact of disruption from volcanic ash (£11.6m) and weather (£6.5m)	-	18.1	
EBITDAR – underlying	93.3	115.4	(19.2)

DIRECTORS' REPORT (continued)

	2012 £m	2011 £m	Change %
Loss before tax – unadjusted	(3 2)	(3 1)	(3 2)
Revaluation gain on USD aircraft loans	(0 9)	-	
Estimated impact of disruption from volcanic ash and weather	-	18 1	
Unrealised gains and losses on fuel and foreign exchange hedges	-	6 8	
(Loss)/profit before tax – underlying	<u>(4 1)</u>	<u>21 8</u>	n/m

The company is a member of the Group headed by Flybe Group plc (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 2012, and 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 (2011: £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>Inherent risk trend (Movement against prior year)</i>	<i>Mitigation</i>
Safety and security			
Failure to prevent a safety or security-related incident including terrorist threat, or attacks from either internal or external sources or to respond adequately to a safety or security-related event	Significant adverse effect on Flybe's reputation, financial results and operational performance	Same	Safe and secure operation is the key priority for all of Flybe's management and staff. It operates a strong safety management system. Flybe has appropriate systems and procedures in place, including trained staff, to respond effectively to such incidents.

DIRECTORS' REPORT (continued)

<i>Risk description</i>	<i>Potential impact</i>	<i>Inherent risk trend (Movement against prior year)</i>	<i>Mitigation</i>
External risks			
<i>Macroeconomic environment</i>			
<p>Flybe is exposed to sustained deterioration in general economic conditions</p> <p>Flybe is exposed to a reduction in UK domestic air travel</p>	<p>Adverse pressure on revenue and load factors</p> <p>Adverse effect on Flybe's growth prospects, financial condition and the value of its assets, particularly, aircraft</p>	Same	<p>Flybe monitors route performance within its commercial teams and adjusts flying patterns to customer demand</p> <p>Flybe's fleet planning is designed to provide it with the most fuel-efficient aircraft available under a mix of ownership and lease terms</p> <p>The management team continues to seek to exploit opportunities to grow its business outside the UK domestic market</p>
<i>Competition</i>			
Flybe operates in a highly competitive transport market	Adverse effect on market share leading to reduced revenue	Same	<p>Flybe has a strong position in the markets where it operates and extends the reach of its brand through franchising, joint ventures and alliances. Processes are in place to monitor and report on route by route performance and competitor activity and to react rapidly where necessary</p> <p>Expansion plans outside existing markets are well advanced</p>
<i>Regulation</i>			
<p>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</p> <p>Flybe is exposed to various regulators across its network. This will increase as Flybe expands its operations in other countries</p>	<p>Adverse impact on reputation, costs and market share coupled with decline in growth opportunities</p> <p>Lack of adequate knowledge or misinterpretation of local regulations may result in fines or enforcement orders</p>	Same	<p>Management engages with governments through direct contact and membership of industry organisations</p> <p>Specific regulatory issues arising from Flybe's market position and its business development are identified and addressed promptly</p>

DIRECTORS' REPORT (continued)

<i>Risk description</i>	<i>Potential impact</i>	<i>Inherent risk trend (Movement against prior year)</i>	<i>Mitigation</i>
Duties and Taxes			
Airlines may be adversely affected by increases in Air Passenger Duty in the UK and its equivalent in other countries	Increased costs and reduced demand across the airline industry which may result in reduced profitability for Flybe	Same	<p>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</p> <p>Flybe seeks to pass on additional duties to its passengers through higher yields</p>
Environment			
<p>Airlines may be adversely affected by any future amendment with regard to regulation of emissions trading and other environmental laws and regulations</p> <p>Flybe is exposed to negative environmental perception of the airline industry</p>	Reduced demand for aviation across the industry	Same	<p>Flybe continues to be compliant with the new ETS regime</p> <p>Flybe operates fuel-efficient aircraft for its flying pattern and seeks to develop further fuel efficiencies through changes in its practices</p>
Implementing growth strategy			
<p>Flybe may not be successful in implementing its growth strategy</p> <p>Costs will be incurred in developing new routes, and new routes proposed by Flybe may not be profitable</p>	<p>Adverse impact on revenue and costs, resulting in reduced profitability</p> <p>Increased investment not supported by profit generation</p>	Same	<p>The management team successfully integrated BA Connect into its operations after its acquisition in March 2007</p> <p>The management team is experienced in identifying business opportunities and developing them profitably</p>
Reputation			
Flybe is exposed to an event damaging its fleet reputation, company reputation or brand	Reduced demand, market share and revenue any of which may adversely affect Flybe's financial condition	Same	Flybe has a strong culture of safety management and a positive business culture supported by a code of ethics and appropriate HR policies. Flybe has procedures in place to respond to events with the potential to cause damage to its reputation or brand

DIRECTORS' REPORT (continued)

<i>Risk description</i>	<i>Potential impact</i>	<i>Inherent risk trend (Movement against prior year)</i>	<i>Mitigation</i>
Reputation (continued)			
Flybe is exposed to the effects of extraneous events, such as epidemics, natural occurrences or disasters (such as severe weather or ash cloud disruption)	Adversely affect Flybe's reputation, financial results or operational performance	Same	Well-developed contingency plans are in place to react to such scenarios and communicate effectively with passengers and other stakeholders
IT Systems and the Internet			
Flybe is heavily dependent on its information technology systems, the ongoing development of those systems, and the internet to operate its business	<p>Loss of systems or connectivity to the internet, as a result of internal or external threat, could lead to disruption and lost revenue with an adverse impact on Flybe's financial condition</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>Inability to implement successful development could lead to Flybe's business plans not being fulfilled</p>	Same	<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> <p>Flybe uses third parties to supplement its own resources where possible and effective to do so</p>
Flybe operates an e-commerce business and deals with a significant amount of personal and business information	A security breach could lead to material reputational damage	Same	Flybe has robust security procedures in place which are tested and reviewed by independent third parties
People			
Flybe is dependent on good industrial relations, across all its regions, with a workforce that is, in part, unionised	Adversely affect Flybe's reputation, financial results or operational performance	Same	Flybe has well-developed consultation and negotiation processes with its employees and its unions
Supplier			
Flybe is exposed to the failure or non-performance of commercial counter-parties 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>Increase</p> <p>Due to the general downturn in economic conditions, this risk is considered to have increased</p>	<p>Most suppliers 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>

DIRECTORS' REPORT (continued)

<i>Risk description</i>	<i>Potential impact</i>	<i>Inherent risk trend (Movement against prior year)</i>	<i>Mitigation</i>
Financial risks			
Flybe is exposed to risks associated with fluctuations in fuel prices and foreign exchange rates	Adverse movements in these areas can adversely affect both Flybe's profit and financial position	Same	While hedging cannot guarantee against significant long-term price changes, a well-established hedging strategy is in place that is designed to provide certainty over a significant proportion of Flybe's cost base in the coming 12 months
Flybe is exposed to the unavailability of suitable financing	Lack of adequate liquid resources could result in business disruption and adversely affect Flybe's financial results	Same	<p>Flybe's policy seeks to maintain appropriate levels of free cash which will be available to meet costs in the event that our normal activities are temporarily disrupted by, for example, severe weather, volcanic ash, extended industrial dispute or fleet grounding</p> <p>This cash is deposited in order to manage counter-party risk and to develop appropriate returns</p> <p>Flybe has secured committed financing for all scheduled aircraft deliveries up to August 2014</p>
Flybe is reliant on the continuing performance of counter-parties	Flybe invests its surplus funds in money market funds or bank deposits and has hedged its fuel, forex and ETS exposures with a variety of counter-parties. There is a risk of material loss in the event of non-performance by these counter-parties	Same	Flybe's policy is to invest surplus funds and enter into hedging agreements only with counter-parties that meet certain credit rating criteria
The residual value of assets could be materially less than budgeted disposal costs	Material differences between the budgeted residual value of an asset and its actual disposal value could see a moderate impact on the Group's income statement	Same	<p>There are rigorous terms and conditions in place to protect Flybe interests</p> <p>Flybe's aircraft fleet remains predominately financed by operating leases, on which there is no residual value risk for Flybe</p>

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 (2011 £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 2012 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 company has met all of its operating lease commitments and debt repayment obligations as they have fallen due. The balance sheet on page 14 presents a shareholders' surplus of £11.1m at 31 March 2012 (2011 £29.4m).

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.

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 1, the directors have elected to prepare the financial statements on a fair value basis and so apply FRS 26 and FRS 29 when accounting for financial instruments.

The fair value of the company's derivatives at 31 March 2012 was a net asset of £3.9m (2011: £21.2m).

DIRECTORS

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

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

AUDITOR

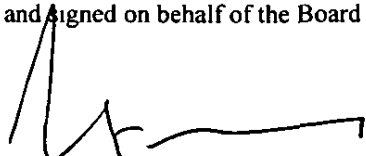
Each of the persons who is a director at the date of approval of this report confirms that:

- (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

3 August 2012

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 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 26. 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 2012 and of its loss 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.

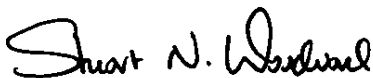
Opinion on other matter prescribed by the Companies Act 2006

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

3 August 2012

FLYBE LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
31 MARCH 2012

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2012

		2012	2011
	<i>Note</i>	£m	£m
TURNOVER	2	615.3	595.5
Cost of sales		(566.3)	(547.6)
GROSS PROFIT		49.0	47.9
Administrative expenses		(52.4)	(49.2)
OPERATING LOSS		(3.4)	(1.3)
Profit on sale of fixed assets		0.4	0.4
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST		(3.0)	(0.9)
Finance charges (net)	6	(0.2)	(2.2)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(3.2)	(3.1)
Tax (charge)/credit on profit on ordinary activities	7	(2.5)	5.0
(LOSS)/PROFIT FOR THE FINANCIAL YEAR	20	(5.7)	1.9

All activities of the company are regarded as continuing

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 March 2012

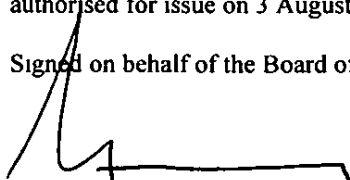
	2012 £m	2011 £m
(Loss)/profit for the financial year	(5 7)	1 9
Gains arising during the year on cash flow hedges	1 8	22 6
Reclassification of gains on cash flow hedges included in profit	(19 0)	(1 4)
Deferred tax arising on cash flow hedges	5 0	(5 5)
Actuarial (losses)/gains on defined benefit scheme (note 18)	(0 4)	6 1
Total recognised (losses)/gains for the year	<u><u>(18 3)</u></u>	<u><u>23 7</u></u>


BALANCE SHEET
At 31 March 2012

	<i>Note</i>	2012	2011
		£m	£m
FIXED ASSETS			
Intangible assets	9	8 5	8 5
Tangible assets	10	126 1	96 0
		<u>134 6</u>	<u>104 5</u>
CURRENT ASSETS			
Stocks	11	6 6	5 8
Debtors – due within one year	12	129 3	117 8
Debtors – due after more than one year	12	40 0	32 3
Cash at bank and in hand		67 6	105 5
		<u>243 5</u>	<u>261 4</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(241 6)	(240 1)
NET CURRENT ASSETS		<u>1 9</u>	<u>21 3</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		136 5	125 8
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	14	(68 3)	(47 7)
PROVISIONS FOR LIABILITIES	15	(57 1)	(48 7)
NET ASSETS		<u>11 1</u>	<u>29 4</u>
CAPITAL AND RESERVES			
Called up share capital	19	1 0	1 0
Hedging reserve	20	3 5	15 7
Profit and loss account	20	6 6	12 7
SHAREHOLDERS' FUNDS	21	<u>11 1</u>	<u>29 4</u>

The financial statements of Flybe Limited, registered number 2769768, were approved by the Board of Directors and authorised for issue on 3 August 2012

Signed on behalf of the Board of Directors


Andrew Knuckey
 Director


Jim French CBE
 Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

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 (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 subsidiary 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 2012 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 14 presents a shareholders' surplus of £11.1m at 31 March 2012 (2011: £29.4m).

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.

Intangible fixed assets

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

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, equipment and motor vehicles	10% - 50% per annum
Aircraft	7% - 20% per annum of cost less residual value
Maintenance assets	25% - 50% 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 2012

1. ACCOUNTING POLICIES (continued)

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 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.

Stocks

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

Aircraft consumables

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Stocks (continued)

Work in progress

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

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.

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 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.

- 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.
- After a component or maintenance interval has passed the trigger point such that the company is contractually obliged to carry out the specified 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 tangible fixed assets. The asset is depreciated over the expected period to the next half-life compensation point, or the end of the lease, whichever is sooner.

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

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Turnover and revenue recognition

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

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 and debit card fees, are recognised as revenue on the date the right to receive consideration occurs. In respect of credit and debit card fees and hotel and insurance commission, this occurs when each flight is booked and paid for. For the remaining ancillary revenue, this occurs on the date of transportation, as this is when the service is generally provided.

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

Other revenue, such as for cargo and contract flying, are recognised in the period when 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 an engine and 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.

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

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.

Financial instruments

The company has applied the requirements of FRS 26 and FRS 29 when accounting for financial instruments. 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 20 and 21.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

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 24.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Restricted cash

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

Financial liabilities and equity

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

1. ACCOUNTING POLICIES (continued)

Foreign currencies

The directors have elected to adopt FRS 23 when accounting for foreign currencies. Transactions arising, other than in the functional currency, are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

2 SEGMENT INFORMATION

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

Flybe UK This business segment comprises the main scheduled UK domestic and UK-Europe passenger operations and revenues ancillary to the provision of those services.

Flybe Aviation Support This business segment comprises the MRO and Training businesses supporting Flybe UK and serving third party customers, including aircraft maintenance, overhauls and the associated rotables and consumable parts.

2012	Flybe UK £m	Flybe Aviation Support £m	Total £m
Turnover			
Total sales	588.1	47.3	635.4
Inter-segment sales	-	(20.1)	(20.1)
	<hr/>	<hr/>	<hr/>
Sales to third parties	588.1	27.2	615.3
	<hr/>	<hr/>	<hr/>
Loss on ordinary activities before interest	(2.6)	(0.4)	(3.0)
	<hr/>	<hr/>	<hr/>
Finance costs (net)			(0.2)
			<hr/>
Loss on ordinary activities before taxation			(3.2)
			<hr/>
Segment net (liabilities)/assets	(14.2)	14.4	0.2
	<hr/>	<hr/>	<hr/>
Unallocated net assets*			10.9
			<hr/>
Net assets			11.1
			<hr/>

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

2. SEGMENT INFORMATION (continued)

2011	Flybe UK £m	Flybe Aviation Support £m	Total £m
Turnover			
Total sales	571.5	39.7	611.2
Inter-segment sales	-	(15.7)	(15.7)
	<hr/>	<hr/>	<hr/>
Sales to third parties	571.5	24.0	595.5
	<hr/>	<hr/>	<hr/>
Profit/(loss) on ordinary activities before interest	0.6	(1.5)	(0.9)
	<hr/>	<hr/>	<hr/>
Finance costs (net)			(2.2)
			<hr/>
Loss on ordinary activities before taxation			(3.1)
			<hr/>
Segment net (liabilities)/assets*	(14.3)	18.2	3.9
	<hr/>	<hr/>	<hr/>
Unallocated net assets			25.5
			<hr/>
Net assets			29.4
			<hr/>

* Following the changes in divisional reporting structure it was determined that the maintenance reserves for the Flybe UK Airline operations should be realigned to Flybe UK from Flybe Aviation Support. Segmental assets and liabilities for year ended 31 March 2011 have therefore been restated with £47.4m of assets and £53.5m of liabilities being moved into Flybe UK from what is now Flybe Aviation Support. No adjustments were required to segment profits.

Geographical information

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

	2012 £m	2011 £m
Turnover from external customers		
United Kingdom	524.0	521.8
Rest of Europe	91.3	73.7
	<hr/>	<hr/>
Total	615.3	595.5
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

3. LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION

	2012	2011
	£m	£m
Loss on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation and other amounts written off owned tangible assets	11.6	12.8
Profit on disposal of tangible fixed assets	(0.4)	(0.4)
Operating leases		
Land and buildings	3.7	3.3
Plant and machinery	0.2	0.2
Aircraft	85.1	85.8
Exchange (gains)/losses	(1.1)	2.1
Losses on derivative financial instruments	-	6.8
	<u> </u>	<u> </u>
Auditor's remuneration		
The analysis of auditor's remuneration is as follows		
Fees payable to the company's auditor and its associates for the audit of the Company's annual financial statements	0.1	0.1
Audit of financial statements of subsidiaries pursuant to legislation	0.1	0.1
	<u> </u>	<u> </u>
Total audit fees	0.2	0.2
Tax advisory services	0.2	0.2
All other services	-	0.1
	<u> </u>	<u> </u>
Total audit and non-audit fees	<u>0.4</u>	<u>0.5</u>

4. REMUNERATION OF DIRECTORS

	2012	2011
	£m	£m
Directors' emoluments	<u>1.5</u>	<u>1.4</u>
Company contributions to personal pension schemes	<u>0.2</u>	<u>0.2</u>

The aggregate emoluments of the highest paid director were £0.5m (2011 £0.5m) and company pension contributions of £0.1m (2011 £0.1m) were made to a personal pension scheme on his behalf

In both 2011 and 2012, pension contributions for four directors were made to defined contribution personal pension schemes on their behalf

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

5. 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	
	2012	2011
Flight and maintenance	1,447	1,447
Technical support services	787	809
Administration	547	530
	<u>2,781</u>	<u>2,786</u>

The aggregate payroll costs of these persons were as follows

	2012	2011
	£m	£m
Wages and salaries	94.9	91.3
Social security costs	10.5	9.8
Other pension costs (see note 18)	6.6	5.9
Share-based payments charge (see note 17)	0.5	0.5
	<u>112.5</u>	<u>107.5</u>

In addition to the above, an actuarial loss of £0.4m (2011 gains of £6.1m) was recognised in the Statement of Total Recognised Gains and Losses in respect of defined benefit pension scheme

6. FINANCE CHARGES (NET)

	2012	2011
	£m	£m
Interest payable and similar (income)/charges		
On bank loans and overdrafts	1.8	0.9
Investment income		
Bank interest	(0.5)	(0.3)
Other finance (income)/charges		
Gains arising on retranslation of foreign currency		
loans and monetary deposits used to fund aircraft and engine purchases	(0.7)	(0.5)
Net finance (gains)/charge in respect of pension scheme liabilities	(0.4)	2.1
	<u>(1.1)</u>	<u>1.6</u>
Finance charges (net)	<u>0.2</u>	<u>2.2</u>

Finance charges (net) includes gains arising on the retranslation of loans and deposits used to fund aircraft and engine purchases as the directors believe that this is appropriate for the nature of the transactions

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

7. TAXATION

	2012 £m	2011 £m
Analysis of tax (charge)/credit in the year		
Deferred tax (see note 16):		
Tax (charge)/credit for the year	(2 5)	5 0
Tax (charge)/credit on profit on ordinary activities	(2 5)	5 0
No current tax was payable in this or the preceding year		

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

The current tax (charge)/credit for the year is different to the tax charge which arises under the standard rate of corporation tax in the UK, of 26% (2011 28%). The differences are explained below

	2012 £m	2011 £m
Current tax reconciliation:		
Loss on ordinary activities before taxation	(3 2)	(3 1)
Current tax at 26% (2011 28%)	0 8	0 8
Effects of		
(Expenses not deductible for tax purposes)/non-taxable items	(0 1)	0 9
(Depreciation in excess of capital allowances)/ capital allowances in excess of depreciation	(1 5)	2 3
Utilisation of tax losses brought forward/(group relief surrendered)	0 9	(0 7)
Origination and reversal of timing differences	(0 1)	(3 3)
Total current tax charge	-	-

The forthcoming change in the corporation tax rate from 26% to 24% from April 2012, and the subsequent change to 23% in April 2013, will not materially affect the future tax charge

8. INVESTMENTS

	2012 £m	2011 £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 2012 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%
Irish European Limited	England	Dormant	100%

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

9. INTANGIBLE FIXED ASSETS

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

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

10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £m	Short leasehold buildings £m	Plant, equipment and motor vehicles £m	Aircraft £m	Total £m
Cost					
At beginning of year	24 4	0 2	21 9	103 1	149 6
Additions	0 7	0 1	2 7	110 9	114 4
Disposals	(0 9)	-	-	(80 7)	(81 6)
	<u>24 2</u>	<u>0 3</u>	<u>24 6</u>	<u>133 3</u>	<u>182 4</u>
Depreciation					
At beginning of year	3 7	0 1	15 3	34 5	53 6
Charge for year	0 6	0 1	2 4	8 5	11 6
Disposals	-	-	-	(8 9)	(8 9)
	<u>4 3</u>	<u>0 2</u>	<u>17 7</u>	<u>34 1</u>	<u>56 3</u>
Net book value					
At 31 March 2012	<u>19 9</u>	<u>0 1</u>	<u>6 9</u>	<u>99 2</u>	<u>126 1</u>
At 31 March 2011	<u>20 7</u>	<u>0 1</u>	<u>6 6</u>	<u>68 6</u>	<u>96 0</u>

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

Included within aircraft are assets with a net book value of £64.6m held under finance leases (2011: £nil).

11. STOCKS

	2012 £m	2011 £m
Work in progress	-	0 9
Goods held for resale	0 8	0 8
Aircraft consumables	5 8	4 1
	<u>6 6</u>	<u>5 8</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

12. DEBTORS	2012	2011
	£m	£m
Due within one year		
Trade debtors	44.1	32.7
Amounts recoverable on contracts	4.4	1.3
Amounts owed by group undertakings	18.8	-
Other taxation and social security	1.4	3.5
Aircraft deposits	10.5	12.1
Other debtors	21.2	22.6
Prepayments and accrued income	16.7	16.8
Deferred tax asset (see note 16)	6.9	4.3
Derivative financial instruments (see note 24)	5.3	24.5
	<u>129.3</u>	<u>117.8</u>
Due after one year		
Aircraft lease deposits	9.3	8.6
Other debtors	19.0	23.7
Prepayments	11.7	-
	<u>40.0</u>	<u>32.3</u>
Total debtors	<u><u>169.3</u></u>	<u><u>150.1</u></u>

Trade debtors disclosed above are classified as loans and debtors 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 debts because there has not been a significant change in credit quality and the amounts continue to be considered recoverable

The allowance for doubtful debts arises from trade customers in liquidation or with significantly overdue debts. The impairment loss recognised in each of the years to 31 March 2012 and 2011 was £nil.

Ageing of past due but not impaired debtors

	2012	2011
	£m	£m
Not yet due	33.1	25.5
30 to 60 days overdue	5.9	3.5
61 to 90 days overdue	2.2	1.6
91 to 120 days overdue	2.9	2.1
	<u>44.1</u>	<u>32.7</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012	2011
	£m	£m
Bank loans (see note 14)	5 0	13 0
Obligations under finance leases (see note 14)	3 2	-
Trade creditors	24 1	20 0
Amounts owed to group undertakings	80 7	80 3
Other taxation and social security	21 6	18 9
Other creditors	13 3	7 8
Accruals	29 3	32 7
Deferred income	63 1	64 1
Derivative financial instruments (see note 24)	1 3	3 3
	<u>241 6</u>	<u>240 1</u>

Bank loans are secured on the assets to which they relate. For further details of these loans, see note 14.

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

Deferred income above and in note 14 includes government grants totalling £6.9m (2011: £7.1m) for capital financial support towards the capital costs of the Flybe Training Academy building, a national training centre for the airline industry. Of this, £0.1m will be released within one year and £6.8m (within the deferred income balance in note 14) 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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2012	2011
	£m	£m
Secured bank loans	6 3	33 7
Obligations under finance leases	49 6	-
Deferred income (see also note 13)	12 3	14 0
Derivative financial instruments	0 1	-
	<u>68 3</u>	<u>47 7</u>

The maturity of borrowings including finance leases is as follows

	Bank	2012		Bank	2011	
	loans	Finance	Total	loans	Finance	Total
	£m	leases	£m	£m	leases	£m
	£m	£m	£m	£m	£m	£m
In one year or less, or on demand	5 0	3 2	8.2	13 0	-	13.0
Between one and two years	1 7	3 3	5.0	4 3	-	4.3
Between two and five years	3 3	9 8	13.1	13 0	-	13.0
In five years or more	1 3	36 5	37.8	16 4	-	16.4
	<u>11 3</u>	<u>52 8</u>	<u>64.1</u>	<u>46 7</u>	<u>-</u>	<u>46.7</u>

Rates of interest charged on borrowings including finance leases vary between 0.5% (2011: 1.8%) and 5.4% (2011: 6.1%). The bank loans are secured on the assets to which they relate.

15. PROVISIONS FOR LIABILITIES

	Leased aircraft maintenance costs
	£m
At beginning of year	48 7
Charge for the year in the profit and loss account	32 6
Utilised during year	<u>(24 2)</u>
At end of year	<u>57 1</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 utilised within two years.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

16. DEFERRED TAXATION

	£m
Asset at 1 April 2011	4 3
Recognised in the profit and loss account in the year	(1 7)
Recognised in equity	5 0
Effect of rate change	(0 7)
Asset at 31 March 2012	6 9

The elements of deferred taxation are as follows

	Recognised net deferred tax asset		Unrecognised net deferred tax asset	
	2012	2011	2012	2011
	£m	£m	£m	£m
Difference between accumulated depreciation and capital allowances	7 8	8 8	9 1	4 0
Financial instruments	(0 9)	(5 5)	-	-
Tax losses	-	1 0	-	-
Undiscounted deferred tax	6 9	4 3	9 1	4 0

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.

17. EQUITY-SETTLED SHARE SCHEME

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. Awards are forfeited if the employee leaves the Group before the awards vest.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

17. EQUITY-SETTLED SHARE SCHEME (continued)

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

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

The likelihood of awards being made under the January 2011 issue under the PSP was re-assessed during the year ended 31 March 2012 and a credit to the profit and loss account of the Company of less than £0.1m was made in respect of the EPS element (70% of the total award) that is no longer expected to vest. The charge for the TSR element of this award was £0.1m for the year (2011: £0.1m).

On 5 August 2011, a further 1,803,725 shares were awarded to employees of the Company. The share price at the date of the award was £1.62. No shares were forfeited or exercised during the year. The options outstanding at 31 March 2012 had a weighted average exercise price of £nil and will be available for exercise on 31 March 2014.

Again it was determined that the EPS element (70% of the total award) of the August 2011 issue would not be likely to vest and therefore only the TSR element would be charged to the profit and loss account. The charge for the TSR element of this award for the year was less than £0.1m.

The aggregate of the estimated fair values of the awards granted during the year is £0.5m. The inputs into the Monte Carlo valuation are as follows:

	2012 award	2011 award
Weighted average share price	£1.62	£3.25
Weighted average exercise price	£nil	£nil
Expected volatility	49%	46%
Risk-free rate of interest	0.8%	1.3%
Expected dividend yields	n/a	n/a
Forfeiture	5%	5%

In total, the company recognised expenses of £0.1m in relation to this PSP scheme in the year to 31 March 2012.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

17 EQUITY-SETTLED SHARE SCHEME (continued)

Share Incentive Plan ('SIP')

The SIP was 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.

The charge for the year recorded by the Company in relation to this scheme was £0.2m.

Save As You Earn ('SAYE')

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

The aggregate of the estimated fair values of the awards granted during the year is £0.6m. The inputs into the Black-Scholes model are as follows:

	2012 award
Weighted average share price	£1.62
Weighted average exercise price	£1.37
Expected volatility	53%
Risk-free rate of interest	0.9%
Expected dividend yields	n/a
Forfeiture	5%

The Group recognised expenses of £0.1m in relation to this award in the year to 31 March 2012.

Summary

In total 2,802,087 options over the share capital of Flybe Group plc were granted to employees of the Company. The company recognised total expenses of £0.5m in relation to share-based payments in the year ended 31 March 2012 (2011: £0.5m).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

18. PENSION ARRANGEMENTS

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 (2011: £nil).

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

	2012	2011
	%	%
Discount rate	4.9	5.6
Expected return on scheme assets	5.3	6.1
Expected rate of salary increases	n/a	n/a
Future pension increases	3.5/2.4	3.6/2.4
Inflation assumption	3.3	3.5

The post-retirement mortality rate assumed at 31 March 2012 was based on the Small Area Population Statistics ('SAPS') tables with a minus one year age rating and the Continuous Mortality Investigation ('CMI') 2009 1% long-term rate projections (2011: the mortality rate was also based on SAPS).

As required by the Scheme Rules, the Scheme valuation applies the statutory basis of revaluation under the prevailing revaluation order contained in legislation. The current revaluation order uses the September 2010 Consumer Prices Index ('CPI') rather than the Retail Prices Index ('RPI'). The effect of this change in the statutory basis of revaluation is to reduce liabilities by £8.7m.

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

Assumption	Change in assumption	2012	2011
		£m	£m
Discount rate	Increase by 0.1%	(2.5)	(2.5)
Rate of inflation	Increase by 0.1%	1.7	1.7

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

18. PENSION ARRANGEMENTS (continued)

Scheme assets

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

	Long-term rate of return 31 March 2012	Value at 31 March 2012 £m	Long-term rate of return 31 March 2011	Value at 31 March 2011 £m
Equities	7.0%	44.3	7.5%	43.0
Bonds and gilts	4.4%	76.4	5.3%	71.6
Cash	0.5%	0.2	0.1%	0.5
Total market value of assets		120.9		115.1
Actuarial value of liability		(119.6)		(110.5)
Surplus in the scheme		1.3		4.6
Amount of surplus not recognised		(1.3)		(4.6)
Net pension liability		-		-

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

	2012 £m	2011 £m
Movements in the scheme liabilities during the year		
Opening liability	(110.5)	(116.7)
Interest cost	(6.1)	(6.6)
Benefits paid	2.9	3.0
Actuarial (loss)/gain	(5.9)	9.8
Closing liability	(119.6)	(110.5)
	2012 £m	2011 £m
Movements in the scheme assets during the year		
Opening assets	115.1	111.9
Expected return on assets	6.5	4.5
Employer contributions	-	0.8
Benefits paid	(2.9)	(3.0)
Actuarial gain	2.2	0.9
Closing assets	120.9	115.1

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

18. PENSION ARRANGEMENTS (continued)

	2012 £m	2011 £m
Analysis of amounts (credited)/charged to net finance charges		
Interest cost	6.1	6.6
Expected return on assets	(6.5)	(4.5)
Net return	<u>(0.4)</u>	<u>2.1</u>
	2012 £m	2011 £m
Analysis of amount recognised in Statement of Total Recognised Gains and Losses		
Actuarial gain on scheme assets	2.2	0.9
Actuarial (loss)/gain arising on scheme liabilities	(5.9)	9.8
Adjustment to amount not recognised as an asset	3.3	(4.6)
Net (loss)/gain recognised	<u>(0.4)</u>	<u>6.1</u>

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
History of experience gains and losses					
Actuarial gain/(loss) on scheme assets	2.2	0.9	14.5	(13.5)	(7.7)
Percentage of year-end scheme assets	1.8%	0.8%	13.0%	14.1%	7.3%
Actuarial (loss)/gain arising on scheme liabilities	(5.9)	9.8	(22.5)	12.8	13.4
Percentage of present value of year-end scheme liabilities	4.9%	8.9%	19.3%	13.0%	14.0%
Adjustment to reflect unrecognised asset	1.3	4.6	-	3.3	(3.9)
Actuarial loss recognised in Statement of Total Recognised Gains and Losses	<u>(0.4)</u>	<u>6.1</u>	<u>(4.7)</u>	<u>-</u>	<u>1.8</u>
Percentage of present value of year-end scheme liabilities	<u>0.3%</u>	<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 £6.6m (2011: £5.9m).

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

19. SHARE CAPITAL		2012	2011
		£m	£m
Authorised, allotted, called up and fully paid 1,000,000 ordinary shares of £1 each		1 0	1 0
		<u> </u>	<u> </u>
20. STATEMENT OF MOVEMENTS ON RESERVES			
	Hedging reserve £m	Profit and loss account £m	Total £m
At beginning of the financial year	15 7	12 7	28 4
	<u> </u>	<u> </u>	<u> </u>
Loss for the financial year	-	(5 7)	(5 7)
Actuarial loss related to the pension scheme	-	(0 4)	(0 4)
Loss, net of deferred tax, arising on cash flow hedges	(12 2)	-	(12 2)
	<u> </u>	<u> </u>	<u> </u>
At end of the financial year	3 5	6 6	10 1
	<u> </u>	<u> </u>	<u> </u>
21. STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS			
		2012	2011
		£m	£m
At beginning of year		29 4	(67 2)
(Loss)/profit for the financial year		(5 7)	1 9
Capital contribution		-	55 4
Actuarial (losses)/gains related to the pension scheme		(0 4)	6 1
Redeemable preference share capital cancellation		-	17 5
(Losses)/gains, net of deferred tax, arising on cash flow hedges		(12 2)	15 7
		<u> </u>	<u> </u>
At end of year		11 1	29 4
		<u> </u>	<u> </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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

22. CONTINGENT LIABILITIES AND GUARANTEES

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

	2012 £m	2011 £m
Credit card arrangements	14 0	14 0
Bonds	8 8	8 2
Total	<u>22 8</u>	<u>22 2</u>

In order to secure some of the arrangements highlighted above, the company deposited amounts with its bankers that are classified as part of cash at bank and in hand. Cash at bank and in hand therefore includes restricted cash comprising

	2012 £m	2011 £m
Aircraft operating lease deposits	7 3	7 2
Aircraft maintenance deposits	1 7	2 0
Cash deposited to secure the above guarantee and bond arrangements	15 7	8 7
	<u>24 7</u>	<u>17 9</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

23. COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows

	2012		2011	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire				
Within one year	1 6	0 3	1 4	1 1
In the second to fifth years inclusive	0 9	25 9	1 4	22 7
Over five years	0 8	56 3	0 7	61 7
	<u>3 3</u>	<u>82 5</u>	<u>3 5</u>	<u>85 5</u>

The majority of aircraft operating leases are denominated in US Dollars

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

	2012 £m	2011 £m
Aircraft	<u>720 9</u>	<u>858 0</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
Embraer E-Series	<u>31</u>	<u>35</u>
Total	<u>31</u>	<u>38</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. 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

	2012		2011	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash and bank balances	67.6	67.6	105.5	105.5
Loans and receivables				
Trade, other receivables and inter-company	113.8	113.8	72.8	72.8
Derivative instruments in designated hedge accounting relationships	5.3	5.3	24.5	24.5
Financial liabilities				
Liabilities held at amortised cost				
Trade, other payables and inter-company	(117.9)	(117.9)	(108.2)	(108.2)
Borrowings including finance leases	(64.1)	(67.5)	(46.7)	(52.1)
Derivative instruments in designated hedge accounting relationships	(1.4)	(1.4)	(3.3)	(3.3)

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value at 31 March 2012

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

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

	Level 1 £m	Level 2 £m	Level 3 £m
Foreign exchange derivatives	-	0.1	-
Fuel derivatives	-	3.8	-
	<hr/>	<hr/>	<hr/>
At 31 March 2012	-	3.9	-
	<hr/>	<hr/>	<hr/>
Foreign exchange derivatives	-	(2.6)	-
Fuel derivatives	-	23.8	-
	<hr/>	<hr/>	<hr/>
At 31 March 2011	-	21.2	-
	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. 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 14), cash and bank balances and equity as disclosed in notes 19 to 21.

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:

	2012 £m	2011 £m
Borrowings including finance leases	(64.1)	(46.7)
Cash at bank and in hand (including restricted cash)	67.6	105.5
Net funds	<u>3.5</u>	<u>58.8</u>
 Equity	 <u>16.0</u>	 <u>29.4</u>
 Net debt to equity ratio	 <u>n/m</u>	 <u>n/m</u>

Borrowings is defined as bank loans and amounts due under finance leases as detailed in note 14. Equity includes all capital and reserves.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. 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 £
2012						
Financial assets						
Cash, cash equivalents and restricted cash (variable interest rates)	0.5	59.6	1.5	1.2	5.3	67.6
Loans and receivables	-	88.5	19.0	-	6.3	113.8
Financial liabilities						
Trade and other payables	-	(117.9)	-	-	-	(117.9)
Borrowings						
Variable interest rates	1.1	(8.2)	(5.0)	(13.5)	(39.8)	(66.5)
Fixed interest rates	5.4	(0.1)	(0.1)	(0.5)	(0.3)	(1.0)
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)

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. 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 £
2012			
Net settled derivatives			
Fuel derivatives	3 8	-	3 8
Gross settled derivatives			
Foreign currency payments	0 2	(0 1)	0 1
	<u>4 0</u>	<u>(0 1)</u>	<u>3 9</u>
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>

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. Hence, significant exposures to exchange rate fluctuations arise to US dollars. In addition, certain sales and airport costs are incurred in Euros.

Exchange rate exposures are managed within approved parameters by entering into a series of forward foreign exchange contracts. Foreign exchange forward contracts are used in conjunction with fuel derivatives to mitigate fuel procurement price risk. In addition, foreign exchange forward contracts are matched to planned purchases of aircraft, spare parts and lease costs. It is the policy of the 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 matured during the year ended 31 March 2012. There were no Euro contracts at 31 March 2012.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. FINANCIAL INSTRUMENTS (continued)

The company has a pound sterling functional currency and uses mainly US dollar 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 2012	\$1.5974	279.3	174.8	0.1
At 31 March 2011	\$1.5733	289.7	184.1	(2.5)

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

	2012	2011
Percentage increase	1%	1%
US Dollar (£m)	0.5	1.5
Euro (£m)	0.1	0.1

The carrying value of the company's foreign currency denominated non-derivative monetary assets and liabilities at the balance sheet date is as follows:

	2012 £m	2011 £m
Assets		
Euro		
Cash and cash equivalents	4.2	3.1
Trade receivables	7.4	5.0
US Dollar		
Cash and cash equivalents		
Restricted cash	9.0	9.1
Trade receivables	3.4	10.4
	<u>24.0</u>	<u>27.6</u>
Liabilities		
Euro		
Trade and other payables	(10.7)	(10.2)
US Dollar		
Trade and other payables	(15.6)	(7.4)
Borrowings including finance leases	(56.9)	(20.0)
	<u>(83.2)</u>	<u>(37.6)</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. 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 2012, the company has identified 66 (2011: 50) contracts for foreign exchange purchases and 19 (2011: 21) contracts for fuel purchases which have been designated as cash flow hedges. For these hedges the changes in the fair value of the financial instrument were compared to market movement in the underlying hedged item and were found to be an effective offset. As a result an increase in the fair value of these financial derivative instruments of £17.3m (2011: £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:

	2012	2011
Percentage increase	1%	1%
Impact on loss/profit before tax and equity (£m)	(0.3)	0.2

Credit risk management

Disclosures in respect of credit risk management for trade and other receivables are provided in note 12.

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. FINANCIAL INSTRUMENTS (continued)

The table below shows the company's major counter-parties at the balance sheet date using the Standard and Poor's credit rating symbols

Counterparty	Location	Rating	2012 £m	2011 £m
Barclays Bank plc	United Kingdom	A+	24.2	42.3
Blackrock Inc	Republic of Ireland	AAAm	5.1	19.9
Lloyds Banking Group plc	United Kingdom	A	17.6	25.1
Morgan Stanley & Co plc	United Kingdom	A	1.3	13.4
Deutsche Bank AG	United Kingdom	A+	8.0	19.9
Royal Bank of Scotland plc	United Kingdom	A	9.0	-
			<u>65.2</u>	<u>120.6</u>

During 2011/12, the Standard Life investment portfolio was taken over by Deutsche Bank AG and all Flybe contracts and holdings were transferred to the new investment manager

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

Fuel price risk management

The 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 17.9% and 15.6% of revenues in the years ended 31 March 2012 and 2011 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 of its aviation fuel requirements up to 12 months forward. Prices have fallen from the peaks of 2011 but the company continues to exercise caution when forward buying fuel above the \$1,000 mark.

The actual amount covered by such contracts, amounted to 42.6% of the following year's budgeted fuel consumption as at 31 March 2012 (2011: 67.5%). The amount of fuel actually consumed was 2.3% less than anticipated for the year ended 31 March 2012 (2011: 2.8% less than anticipated).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

24. FINANCIAL INSTRUMENTS (continued)

Forward fuel price exchange contracts

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

	2012	2011
	£m	£m
Fair value of contracts to buy fuel expiring		
In less than 3 months	0.1	8.6
Between 3 and 6 months	1.3	8.6
Between 6 and 12 months	2.4	6.5
	<u>3.8</u>	<u>23.7</u>

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

	2012		2011	
	Price per tonne US\$	Date	Price per tonne US\$	Date
High	1,140	8 Apr 2011	1,061	31 Mar 2011
Low	949	4 Oct 2011	647	25 May 2010

The 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

	2012	2011
Percentage increase in cost of fuel	10%	10%
Impact on profit before tax and equity (£m)	(2.0)	(1.6)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

25. RELATED PARTY TRANSACTIONS

The company entered into the following transactions with related parties

	Sales of services		Amounts owed by related parties	
	2012	2011	2012	2011
	£m	£m	£m	£m
Preston Travel (CI) Limited	1.3	1.2	0.3	0.1
Flybe Nordic	2.6	-	1.5	-
	<u>3.9</u>	<u>1.2</u>	<u>1.8</u>	<u>0.1</u>

The company provided services to Preston Travel (CI) Limited which, together with Rosedale Aviation Holdings Limited, is a subsidiary of Rosedale (J W) Investments Limited. Rosedale Aviation Holdings Limited owns 48.1% of the ultimate controlling party, Flybe Group plc.

The company also provided services to Flybe Nordic of which a 60.0% holding was acquired during the period by Flybe Holdings Limited, another subsidiary of the parent and controlling party, Flybe Group plc.

	Purchases of services		Amounts owed to related parties	
	2012	2011	2012	2011
	£m	£m	£m	£m
Edenfield Investments Limited	0.4	0.3	-	-
Downham Properties Limited	0.4	0.2	-	-
	<u>0.8</u>	<u>0.5</u>	<u>-</u>	<u>-</u>

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 Aviation Holdings 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 Aviation Holdings 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.

	2012	2011
	£000	£000
Andrew Knuckey	20	20
Mike Rutter	63	63
	<u>83</u>	<u>83</u>

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2012

25. RELATED PARTY TRANSACTIONS (continued)

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

	2012	2011
	£000	£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 2012 (31 March 2011 £253,000), 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

Arrangements with Group pension schemes are disclosed in note 18

26. 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, Maundy, Cardiff CF14 3UZ