

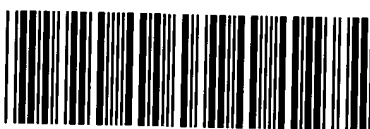
**FLYBE LIMITED**

**Annual Report and Financial Statements**

**Registered number 02769768**

**for the year ended 31<sup>st</sup> March 2016**

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## **OFFICERS AND PROFESSIONAL ADVISERS**

### **DIRECTORS**

Saad Hammad  
Philip de Klerk

### **COMPANY SECRETARY**

Catherine Ledger (appointed 4<sup>th</sup> January 2016)

### **REGISTERED OFFICE**

New Walker Hangar  
Exeter International Airport  
Clyst Honiton  
Exeter  
Devon  
EX5 2BA

### **AUDITOR**

Deloitte LLP  
Chartered Accountants and Statutory Auditor  
3 Rivergate  
Temple Quay  
Bristol  
BS1 6GD

## STRATEGIC REPORT

The directors present their strategic report for the year ended 31<sup>st</sup> March 2016.

### REVIEW OF THE BUSINESS

The principal activities of the Company throughout the year were those of an airline operator. On 1<sup>st</sup> November 2014, Flybe Limited sold the trade and assets of the Maintenance, Repair and Overhaul 'MRO' business to its subsidiary, Flybe Aviation Services Limited. The results of the MRO business up to the date of disposal for the year ended 31<sup>st</sup> March 2015 are shown under discontinued operations.

The Company results for the year are shown in the income statement on page 15 of these financial statements.

#### Key financial highlights

	2016 £m	2015 £m	Change %
Revenue	600.9	550.9	9.1
EBITDAR	114.8	95.0	20.8
Adjusted profit/(loss) before tax, discontinued operations and revaluation loss on USD loans	1.8	(16.2)	111.1
Loss before tax on continuing operations	(1.0)	(26.4)	n/m
Loss after tax and discontinued operations	(4.2)	(18.9)	n/m

The continuing operations within the Flybe Limited business are the scheduled UK domestic and UK-Europe passenger operations and revenue ancillary to the provision of those services.

The MRO business generated a profit before tax of £1.9m between March 2014 and October 2014.

The Company made substantial progress in 2015/16 in terms of revenue growth (an increase of 9.1%) and adjusted profit of £1.8m in 2015/16, an improvement of £18.0m from an adjusted loss of £(16.2m) in 2014/15. The profit improvement excludes USD loan revaluation losses of £(2.8m) (2014/15: losses of £(10.2m)) as these non-cash revaluations are intended to be natural hedges against the value of each aircraft, whose underlying value is denominated in US dollars. Including these revaluations, the loss before tax on continued operations was £(1.0m) (2014/15: loss of £(26.4)m).

Operating profit on continuing operations was £3.8m, an improvement of £19.4m on 2014/15. This profit was driven by a combination of network and commercial enhancements and improved operational delivery in addition to a focus on unit cost reduction.

The Company discontinued under-performing routes and drove load factors by yield investment and improved marketing. The 9.7% increase in seat capacity was offset by a 2.6 percentage points decrease in load factor to 72.6%. This resulted in annual passenger numbers increasing to 8.2 million (2014/15: 7.7 million).

EBITDAR improved by 20.8% to £114.8m from 2014/15's £95.0m as operational profitability was achieved.

### Reconciliation and explanation of adjusted figures

EBITDAR is a common airline profit measure which is used for making comparisons between airlines. Set out below is a reconciliation from operating profit to the unadjusted EBITDAR figures. All EBITDAR metrics are non-GAAP measures:

	2016 £m	2015 £m	Change %
<b>Operating profit/(loss) on continuing operations</b>	<b>3.8</b>	<b>(15.6)</b>	<b>124.4</b>
Depreciation and amortisation	31.7	27.7	144.4
Aircraft rental charges	79.3	82.9	(4.3)
<b>EBITDAR<sup>1</sup></b>	<b>114.8</b>	<b>95.0</b>	<b>20.8</b>

<sup>1</sup> 2015 EBITDAR has been restated to show the gross depreciation on maintenance assets. These were previously reported as net. EBITDAR has been calculated for continuing operations only to aid comparability of the results.

Adjusted profit before tax allows for the revaluation gains/ (losses) on USD aircraft loans:

	2016 £m	2015 £m	Change %
<b>Loss before tax and discontinued operations<sup>1</sup></b>	<b>(1.0)</b>	<b>(26.4)</b>	<b>96.2</b>
Revaluation loss on USD aircraft loans	2.8	10.2	(72.5)
<b>Adjusted profit/(loss) before tax and revaluation loss on USD aircraft loans</b>	<b>1.8</b>	<b>(16.2)</b>	<b>111.1</b>

<sup>1</sup> EBITDAR for continuing operations only to aid comparability of the results.

### KEY PERFORMANCE INDICATORS

Flybe has a robust mix of operational and financial KPIs which are monitored closely to assess the effectiveness of performance. Targets are set periodically and results are reviewed on a regular basis.

Description	Key measure
<b>Safety reporting</b>	Increased reporting rates in 2015/16 following a company-wide safety awareness and training programme designed to maximise ownership of safety issues across all employees.
<b>Employee satisfaction</b>	An increase of 8 percentage points this year in employee engagement.
<b>Revenue growth</b>	Deliver year-on-year improvement in revenue per seat and total passenger revenue.
<b>Load factor</b>	Managing load factor is a lever for driving revenue growth. Following the external challenges faced in 2015/16, it was decided to maintain yield at the expense of load factor in order to optimise revenue.
<b>Reliability</b>	Reliability has been improved year-on-year following investment in reliability modifications for the Q400 and the launch of a preventative maintenance programme in 2015/16.
<b>On-time performance</b>	The primary performance measure for customers is on-time performance. 85.4% of flights arrived within 15 minutes of their scheduled arrival time.
<b>Customer satisfaction</b>	Improvements in our schedule quality and end-to-end customer experience yielded a three percentage point improvement in customer satisfaction in 2015/16.
<b>Cost reduction</b>	Cost reduction effectiveness is measured by tracking unit cost performance via two cost indicators; cost per seat both including and excluding fuel.

Description	Key measure
	Continued focus on costs has enabled us to grow while driving a reduction year-on-year in cost per seat both including and excluding fuel in 2015/16.
<b>Asset utilisation</b>	Ensuring high levels of aircraft utilisation which in turn drives improvement in asset turn. Aircraft utilisation has improved to 7h02m in 2015/16.
<b>EBITDAR</b>	Improve EBITDAR
<b>Cash</b>	The main measure is total cash, which is a combination of free cash and restricted cash. Total cash at 31 <sup>st</sup> March 2016 was £171.3m as three aircraft had been purchased in February 2016 for £24.4m. Debt was taken out against these aircraft in May 2016, post year-end.

Flybe Limited is a subsidiary of Flybe Group plc (see note 37). The full narrative on key performance indicators is on pages 10 to 13 of the Flybe Group plc Annual Report 2015/16.

## FUTURE DEVELOPMENTS

The Company has a clear strategy for growth and is committed to the four strategic drivers that are showing positive results:

The four strategy drivers	Progress on strategy
<b>Revenue growth</b>	<ul style="list-style-type: none"> <li>Following a planned reduction in capacity in 2014/15, Flybe returned to growth in 2015/16 and its focus is on sustainable profitable growth going forward.</li> <li>Flybe expects to grow in the next financial year and will continue its expansion into Europe.</li> </ul>
<b>Cost reduction</b>	<ul style="list-style-type: none"> <li>Sustained cost focus across all company activities. Aim to reduce cost per seat year-on-year.</li> <li>Flybe has resolved the last key legacy issue, the grounded E195 aircraft, mitigating c£40m of the £80m lease obligations over four years.</li> </ul>
<b>Asset utilisation</b>	<ul style="list-style-type: none"> <li>Continually improve the utilisation of our assets, with the primary asset being our aircraft.</li> <li>Flybe has increased aircraft utilisation in terms of block hours per aircraft per day, despite significant increase of capacity in winter.</li> </ul>
<b>Profit and cash delivery</b>	<ul style="list-style-type: none"> <li>Continued sustainable growth in profit levels.</li> <li>Drive cash generation.</li> <li>Flybe has resolved all key legacy issues and improved the performance of our core UK business.</li> </ul>

The full narrative on strategy is on pages 14 to 15 of the Flybe Group plc Annual Report 2015/16.

## PRINCIPAL RISKS AND UNCERTAINTIES

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

<i>Description</i>	<i>Impact</i>	<i>Risk trend*</i>	<i>Mitigation</i>
<b>Safety and security</b>			
Failure to identify or prevent a health and safety or security-related incident including terrorist, or internal or external attack, or to respond appropriately to a safety or security-related event.	Significant adverse effect on Flybe's reputation, financial results and operational performance.	Stable	Safe and secure operations are the number one priority for all of Flybe's management and staff. A Safety and Security Review Board, chaired by Sir Timo Anderson, is responsible for assuring all policy and governance. Flybe operates both a strong Safety Management System and a comprehensive Security Management System and has appropriate procedures in place, including trained staff. An emergency response plan is in place and is reviewed and tested, including full crisis management.
Information security and cyber threats remain a key focus for the Company. The incidence of cyber-attacks has increased worldwide and Flybe is exposed to this as a result of its reliance on the internet for a high proportion of delivery of its sales.	Loss of systems or connectivity to the internet, as a result of internal or external threat, could lead to disruption and lost revenue with an adverse impact on Flybe's financial condition.  Breaches in IT security, or fraud, could adversely affect Flybe's brand and reputation; and have an adverse impact on revenue.	Reduced	A security improvement programme is underway to improve resilience in this area.
<b>Commercial and operational</b>			
Flybe is exposed to sustained deterioration in general economic conditions, and reduction in domestic and regional air travel, particularly in the UK.	Adverse pressure on revenue and load factors, and negative impact on Flybe's growth prospects, financial condition and the value of its assets, particularly aircraft.	Stable	Flybe monitors route performance within its commercial teams and adjusts flying patterns to customer demand.  Flybe's fleet planning is designed to provide it with the most fuel-efficient aircraft available under a mix of ownership and lease terms.
Flybe operates in a highly competitive aviation market.	Adverse effect on market share leading to reduced revenue and profits.	Stable	Flybe has a strong position in the markets where it operates and extends the reach of its brand through franchising and alliances. Processes are in place to monitor and report on route-by-route performance and competitor activity and to react rapidly where necessary.

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<i>Description</i>	<i>Impact</i>	<i>Risk trend*</i>	<i>Mitigation</i>
Flybe is exposed to the effects of extraneous events, such as epidemics or natural disasters (e.g. severe weather or ash cloud disruption).	Reduced demand, market share and revenue, any of which may adversely affect Flybe's financial results or operational performance.	Stable	Flybe has procedures in place to respond to such events, and to communicate effectively with passengers and shareholders.
Flybe is becoming increasingly reliant on the Bombardier Q400 aircraft, with dispatch reliability being a key factor in the performance of the airline.	Technical or mechanical issues could result in a grounding of the fleet which would impact the flying programme and negatively impact the reputation of the aircraft type.	Stable	Flybe operates a rigorous aircraft maintenance programme, with continuous improvement to aircraft reliability through development of modifications through Bombardier. Standby aircraft within the programme allows some flexibility in aircraft availability.
Flybe is heavily dependent on its information technology systems, the ongoing development of those systems, and the internet to operate its business. Future scalability and resilience of such key systems are an issue to the business maintaining a competitive advantage.	Inability to implement successful development could lead to Flybe's business plans not being fulfilled.	Stable	IT project prioritisation and control are in place in order to adequately focus attention and resources on the key project deliverables.  Flybe uses third parties to supplement its own resources. Effective processes relating to contract review, compliance and management are in place to mitigate the consequent risks that arise.
Flybe depends on good industrial relations, across all its regions, with a workforce that is, in significant part, unionised, and is exposed to shortages of key personnel.	Adverse effect on Flybe's reputation, financial results and operational performance.	Stable	Flybe has well-developed consultation and negotiation processes with its employees and the unions and continues to ensure its employment remuneration reflects current market conditions and practices that are supported by succession planning policies.
<b>Financial</b>			
Flybe is exposed to the failure or non-performance of commercial counterparties as well as requiring the services of key suppliers such as airports, air traffic control systems, fuel supply companies, and single source suppliers.	Adverse effect on Flybe's reputation, financial results or operational performance.	Increased	Most suppliers can be replaced by an alternative suitable supplier. Contract negotiation teams are highly experienced and knowledgeable of the industry with a strong track record of delivering value for Flybe, and therefore the risk has reduced.
Fluctuations in fuel prices and foreign exchange rates.	Adverse movements in these areas can adversely affect both Flybe's profit and financial position.	Stable	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.



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<i>Description</i>	<i>Impact</i>	<i>Risk trend*</i>	<i>Mitigation</i>
Unavailability of suitable financing.	Lack of adequate liquid resources could disrupt and adversely affect Flybe's financial results.	Stable	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. The failure to remove surplus aircraft costs, or to have delivery of additional aircraft surplus to requirements, has been removed and is therefore no longer a risk.
<b>Regulatory</b>			
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.  In the event that the UK leaves the European Union, this could have an effect on the Company due to its operations across Europe.	Adverse impact on reputation, costs and market share coupled with decline in growth opportunities.	Stable	Management engages with governments through direct contact and membership of industry organisations. Flybe has an in-house legal team to monitor compliance with formal regulatory requirements.
Airlines may be adversely affected by increases in Air Passenger Duty in the UK and its equivalent in other countries, and by any future amendment with regard to regulation of emissions trading and other environmental laws and regulations, or negative environmental perception of the airline industry.	Increased costs and reduced demand across the airline industry which may result in reduced profitability for Flybe.  Reduced demand for aviation across the industry.	Stable	Management monitors governments' proposals with regard to changes in planned approach to aviation taxation and engages with governments through direct contact and membership of industry organisations. Flybe seeks to pass on additional duties to its passengers through its pricing approaches.  Flybe continues to be compliant with the ETS regime. Flybe operates fuel-efficient aircraft for its flying pattern and seeks to develop further fuel efficiencies through changes in its practices.

\* movement against prior year

The full narrative on risks and uncertainties is on pages 28 to 31 of the Flybe Group plc Annual Report 2015/16.

## FINANCIAL INSTRUMENTS

The Company finances its activities with a combination of bank loans, finance leases and hire purchase contracts, cash and short-term deposits, as disclosed in note 31. Other financial assets and liabilities, such as trade receivables and trade payables, arise directly from the Company's operating activities. The Company also enters into derivative transactions, being foreign currency forward contracts and fuel commodity contracts. The purpose is to manage fuel costs and currency risks arising from the Company's operations.

Financial instruments give rise to foreign currency, interest rate, credit, price and liquidity risk information on how these risks arise is set out above in the Principal risks and uncertainties section, as are the objectives, policies and processes for their management and the methods used to measure each risk. For detail on financial, liquidity and working capital risk management, see note 31.

#### *Use of derivatives*

The Company uses foreign currency forward contracts to reduce exposure to the variability of foreign exchange rates by fixing the rate of any material payments in a foreign currency. The Company also uses fuel commodity contracts to manage the cost of fuel. Hedge accounting is used when certain criteria are met as explained in the accounting policy in note 2.

### **PEOPLE ENGAGEMENT**

Flybe is only as good as the quality and engagement of its people. The Company's people strategy is to have the right people in the right jobs and to make Flybe an attractive workplace in which a long-term career can be built on equality of opportunity. Flybe is proud to be one of the very few airlines that enables many of its employees to live where they work – locally, within the regions.

The Company has adopted purple, not just as our new brand colour, but also as a signifier of a new set of behavioural norms within the organisation designed to maximise individual, team and business performance. These Purple norms are captured by the five Ps:

- People focus = having empathy or putting oneself in the shoes of the other person and being caring with customers and colleagues alike
- Positivity = having a can-do attitude and being optimistic and enthusiastic
- Performance-driven = being totally committed to key business and personal objectives and acting systematically to deliver these
- Playfulness = having fun and being light-hearted without sacrificing safety or performance or causing offence
- Passion = embracing the job and Company direction with a commitment to excel and go the extra mile where possible

All employees and business partners have been trained through a structured engagement in the 'Purple Way'.

### **EMPLOYEE COMMUNICATION**

Flybe continues to focus on active two-way communications with its dispersed workforce through line management. During the year five CEO "Ask Saad" conference calls were held where all employees had direct access to ask the CEO and Board questions on any relevant topic. "Ask Saad" has now become a bi-monthly event, complementing regular email and intranet updates, as well as a monthly CEO newsletter. In the UK, in addition to active engagement with its recognised trade union partners, Flybe uses its consultative body known as Open Channel for non-unionised staff. Open Channel meets quarterly, is chaired by a member of the Executive Committee and is attended by up to 15 elected representatives.

Senior management has continued with back-to-the-floor sessions as well as regular base visits across our network to engage with our people. In addition to this, our Purple Leadership Team meets on a regular basis to discuss, share and agree on the dissemination of information and key messages to our people.

### **EQUALITY AND DIVERSITY**

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

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

## **EVENTS SINCE THE BALANCE SHEET DATE**

### *Fleet*

The stated strategy of the Parent Company, Flybe Group plc, is to rebalance its aircraft fleet away from operating leases towards outright ownership, which brings cost savings. In line with this, Flybe Limited took ownership in February 2016 of three Q400 aircraft, previously on operating leases, from Rand Merchant Bank (RMB) for a cash consideration of £24.4m. Flybe Limited took out debt against these aircraft in May 2016 of US dollars 23m.

Flybe has entered into a contract with Nordic Aviation Capital (NAC) to cancel obligations to lease nine used Bombardier Q400 turboprop aircraft, while taking ownership of 10 Q400 aircraft it was under contract to lease, for a cash consideration of c£86m, with delivery and consideration to take place over the next 12 months. The aircraft will be financed at c70% of loan-to-value post-purchase on an individual basis through an arrangement with Nord LB. Flybe is still committed to leasing the remaining five ex-Republic aircraft from NAC. By September 2016, the first six aircraft have been delivered and refinanced.

### *BREXIT*

Post-UK referendum, Flybe will remain focused on its day-to-day mission of connecting regional customers and doing so cost effectively, punctually and with warmth. The lead-time to formal EU exit is two years from when the UK Government triggers Article 50 in the Lisbon Treaty.

During this period of at least two years, it is undeniable there will be some uncertainty as well as revenue and cost challenges for all airlines while new arrangements are negotiated, but Flybe will channel its energies on making itself as strong as it can be to enable us to succeed during this interim period and beyond.

The implications for Flybe in the near term are:

- Travel demand may weaken: all airlines serving the UK market may face immediate business travel declines given economic and political uncertainty and also weaker outbound leisure demand, as the GBP weakens.
- A weaker GBP will inflate UK airlines' US dollar denominated costs such as fuel, aircraft and maintenance costs.
- Both the above put a premium on cost control and capacity discipline. The Company's plans are well advanced on both fronts.
- On costs, mitigations are in place including hedging of USD and fuel for 90% of our requirements for the current fiscal year and on capacity, the NAC deal helps us to moderate significantly our seat capacity growth this year and next (from 17% to 15% in 2016/17 and from 10% to 6% in the following financial year).

Long-term implications are:

- Whatever the form of the country's new arrangements after EU exit, the UK remains geographically part of Europe with continuing important cultural, social and economic links with the mainland. Flybe's long-term mission is therefore unaffected by the EU referendum vote. What the Company does as a business model (connecting regional communities increasingly underserved by other airlines and alternative modes of transport) fulfils a very important social and economic need which is independent of political arrangements.
- However, the economics of delivering the Company's full potential across Europe will depend on the outcome of the UK Government's negotiation of alternative arrangements with the EU. In particular, the Company needs to see whether the UK will be able to re-join the EU Single Aviation area without significant penalties.

## **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 strategic report of Flybe Group plc's 2015/16 Annual Report and Financial Statements ('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. In addition, note 34 of the Report covers the Company's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

Flybe Limited had free cash balances of £163.5m at 31<sup>st</sup> March 2016, and has met all of its operating lease commitments and debt repayments as they have fallen due during the year. The Company has a net current asset position (when balances with group undertakings are excluded) of £10.1m 31<sup>st</sup> March 2016.

Flybe Limited faces trading risks presented by current economic conditions in the aviation sector, particularly in relation to passenger volumes and yields and the associated profitability of individual routes.

The Company is exposed to fluctuations in fuel prices and foreign exchange rates. The Company's policy is to hedge between 60% and 90% of estimated exposures 12 months in advance. As of 31<sup>st</sup> May 2016, 90% of our anticipated fuel requirements and 90% of our anticipated US dollar requirements for the following 12 months had been purchased.

The Company increasingly purchases aircraft outright rather than leasing, and has access to a loan facility to part fund such purchases as described above.

The directors have prepared a detailed trading budget and cash flow forecast for a period which covers at least 12 months after the date of approval of these financial statements. Having considered the forecasts and making other enquiries, the directors have a reasonable expectation that Flybe has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## **APPROVAL OF STRATEGIC REPORT**

This report was approved by the Board of Directors on 29 September 2016 and signed on its behalf by:



**Philip de Klerk**

Director

New Walker Hangar  
Exeter International Airport  
Clyst Honiton  
Exeter  
Devon  
EX5 2BA

## **DIRECTORS' REPORT**

The directors present their directors' report for the year ended 31<sup>st</sup> March 2016.

### **CONTENT INCLUDED IN THE STRATEGIC REPORT**

The Companies Act 2006 (as amended) requires certain information to be included in either the directors' report, or, where it is not, for that information to be included in the strategic report and cross-referenced. The items included in the strategic report are:

<b>Item</b>	<b>Page number</b>
Future developments	4
Financial instruments	7
People engagement	8
Employee communication	8
Equality and diversity (including employment of disabled people)	8
Events since the balance sheet date	9
Going concern	10

### **DIRECTORS**

The directors who held office during the period are shown on page 1.

On 31<sup>st</sup> May 2015, Annelie Carver resigned as Company Secretary with Kevin Bodley taking over the role. Kevin Bodley resigned on 4<sup>th</sup> January 2016, with Catherine Ledger being appointed on the same day.

### **DIVIDENDS**

The directors do not recommend a final dividend (2015: nil).

### **POLITICAL DONATIONS**

The Company and associated group companies did not make any political donations during the year (2014/15: nil).

### **DIRECTORS' INDEMNITIES**

The Company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

**DIRECTORS' STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITOR**

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

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself 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.

This report was approved by the Board of Directors on 29 September 2016 and signed on its behalf by:



**Philip de Klerk**

Director

New Walker Hangar  
Exeter International Airport  
Clyst Honiton  
Exeter  
Devon  
EX5 2BA

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the Annual Report including 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), including FRS 101 "Reduced Disclosure Framework". 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.

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

## 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 2016 which comprise the Income Statement, the Statement of Comprehensive Income, the Balance Sheet and the Statement of Changes in Equity and the related notes 1 to 38. 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), including FRS 101 "Reduced Disclosure Framework".

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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 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 Strategic Report and 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.



**Sonya Butters ACA (Senior statutory auditor)**

**for and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditor

Bristol, United Kingdom

*29 September 2016*

## INCOME STATEMENT

For the year ended 31<sup>st</sup> March 2016

	Note	2016 £m	2015 £m
Revenue	5	600.9	550.9
Cost of sales		(562.9)	(538.6)
<b>GROSS PROFIT</b>		<b>38.0</b>	<b>12.3</b>
Administrative expenses		(34.2)	(27.9)
<b>OPERATING PROFIT/(LOSS)</b>	12	<b>3.8</b>	<b>(15.6)</b>
Investment income	8	0.8	0.8
Finance costs	9	(2.8)	(1.4)
Other losses	10	(2.8)	(10.2)
<b>LOSS BEFORE TAX ON CONTINUING OPERATIONS</b>		<b>(1.0)</b>	<b>(26.4)</b>
Tax (charge)/credit	11	(3.2)	5.6
<b>LOSS AFTER TAX ON CONTINUING OPERATIONS</b>		<b>(4.2)</b>	<b>(20.8)</b>
Result for discontinued operations	4	-	1.9
<b>LOSS FOR THE FINANCIAL YEAR</b>		<b>(4.2)</b>	<b>(18.9)</b>

## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31<sup>st</sup> March 2016

	2016 £m	2015 £m
<b>LOSS FOR THE FINANCIAL YEAR</b>	<b>(4.2)</b>	<b>(18.9)</b>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR:</b>		
Items that will not be reclassified to profit and loss:		
Re-measurement of net defined benefit obligation	6.3	(18.4)
Deferred tax arising on net defined benefit obligation	(1.3)	4.1
	5.0	(14.3)
Items that may be reclassified subsequently to profit and loss:		
Losses arising during the year on cash flow hedges	(26.4)	(23.4)
Reclassification of gains on cash flow hedges included in the income statement	30.6	15.5
Deferred tax arising on cash flow hedges	-	(0.3)
Foreign exchange translation differences	(3.8)	4.7
	0.4	(3.5)
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR NET OF TAX</b>	<b>5.4</b>	<b>(17.8)</b>
<b>TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE FINANCIAL YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY</b>	<b>1.2</b>	<b>(36.7)</b>

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31<sup>st</sup> March 2016

	Share capital £m	Hedging reserve £m	Retained earnings/ (deficit) £m	Total £m
<b>BALANCE AT 1<sup>ST</sup> APRIL 2014</b>	<b>1.0</b>	<b>(6.7)</b>	<b>15.3</b>	<b>9.6</b>
Loss for the financial year	-	-	(18.9)	(18.9)
Other comprehensive loss for the year	-	(3.5)	(14.3)	(17.8)
<b>BALANCE AT 31<sup>ST</sup> MARCH 2015</b>	<b>1.0</b>	<b>(10.2)</b>	<b>(17.9)</b>	<b>(27.1)</b>
Loss for the financial year	-	-	(4.2)	(4.2)
Other comprehensive income for the year	-	0.4	5.0	5.4
<b>BALANCE AT 31<sup>ST</sup> MARCH 2016</b>	<b>1.0</b>	<b>(9.8)</b>	<b>(17.1)</b>	<b>(25.9)</b>

## BALANCE SHEET

As at 31<sup>st</sup> March 2016

	Note	2016 £m	2015 £m
<b>NON-CURRENT ASSETS</b>			
Intangible assets	13	12.1	7.7
Property, plant and equipment	14	206.0	181.7
Investments in subsidiary	15	-	-
Other receivables	16	40.7	38.0
Restricted cash	17	7.8	7.1
Deferred tax asset	18	11.0	15.5
Derivative financial instruments	19	0.8	0.2
		<b>278.4</b>	<b>250.2</b>
<b>CURRENT ASSETS</b>			
Inventories	20	-	0.2
Trade and other receivables	16	107.3	111.4
Cash and cash equivalents	17	163.5	177.8
Restricted cash	17	-	10.9
Derivative financial instruments	19	9.7	14.1
		<b>280.5</b>	<b>314.4</b>
<b>TOTAL ASSETS</b>		<b>558.9</b>	<b>564.6</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	21	(276.3)	(269.6)
Deferred income	22	(83.0)	(75.9)
Borrowings	23	(8.9)	(7.4)
Obligations under finance leases	24	(5.8)	(5.6)
Provisions	25	(42.3)	(51.9)
Derivative financial instruments	19	(18.8)	(18.9)
		<b>(435.1)</b>	<b>(429.3)</b>
<b>NET CURRENT LIABILITIES</b>		<b>(154.6)</b>	<b>(114.9)</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>123.8</b>	<b>135.3</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	23	(33.7)	(41.9)
Obligations under finance leases	24	(60.8)	(64.3)
Deferred income	22	(7.4)	(8.3)
Long-term provisions	25	(30.9)	(24.3)
Employee benefits	26	(15.3)	(21.0)
Derivative financial instruments	19	(1.6)	(2.6)
		<b>(149.7)</b>	<b>(162.4)</b>
<b>TOTAL LIABILITIES</b>		<b>(584.8)</b>	<b>(591.6)</b>
<b>NET LIABILITIES</b>		<b>(25.9)</b>	<b>(27.1)</b>

## BALANCE SHEET (CONTINUED)

As at 31<sup>st</sup> March 2016

	Note	2016 £m	2015 £m
<b>EQUITY</b>			
Share capital	28	1.0	1.0
Cash flow hedge reserve	29	(9.8)	(10.2)
Retained deficit	30	(17.1)	(17.9)
<b>EQUITY ATTRIBUTABLE TO THE OWNERS</b>		<b>(25.9)</b>	<b>(27.1)</b>

The financial statements of Flybe Limited, registered number 02769768, were approved by the Board of Directors and authorised for issue on 29 September 2016. They were signed on its behalf by:

  
Philip de Klerk  
Director

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

Flybe Limited is a Company incorporated in the United Kingdom under the Companies Act 2006.

The Company is a private Company limited by shares and is registered in England. The address of the Company's registered office is shown on page 1. The nature of the Company's operations and its principal activities are set out in the strategic report on pages 2 to 10.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Company operates (its functional currency). These financial statements are separate financial statements. The Company is exempt from the preparation and delivery of consolidated financial statements, because it is included in the group accounts of Flybe Group plc. The group accounts of Flybe Group plc are available to the public and can be obtained as set out in note 37.

The Company has applied Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101) issued by the Financial Reporting Council (FRC) incorporating the Amendments to FRS 101 issued by the FRC in July 2015 and the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 prior to their mandatory effective date of accounting periods beginning on or after 1<sup>st</sup> January 2016.

#### Adoption of new and revised Standards

##### Amendments to IFRSs and the new Interpretation that are mandatorily effective for the current year

In the current year, the Company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2015. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Annual Improvements to IFRSs: 2011-2013	The Company has adopted the various amendments to a number of standards: IFRS 3 <i>Business Combinations</i> , IFRS 13 <i>Fair Value Measurement</i> and IAS 40 <i>Investment Property</i> . The majority of the amendments are in the nature of clarifications rather than substantive changes to existing requirements.
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### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of accounting

The Company meets the definition of a qualifying entity under Financial Reporting Standard 101 (FRS 101) issued by the Financial Reporting Council. Accordingly, in the year ended 31<sup>st</sup> March 2016 the Company has changed its accounting framework from pre-2015 UK GAAP to FRS 101 and has, in doing so, applied the requirements of IFRS 1.6-33 and related appendices. These financial statements have been prepared in accordance with FRS 101 'Reduced Disclosure Framework'.

The prior year financial statements were restated for material adjustments on adoption of FRS 101 in the current year. For more information see note 38.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of an opening balance sheet, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions.

Where relevant, equivalent disclosures have been given in the group accounts of Flybe Group plc.

The financial statements have been prepared on the historical cost basis, except for financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for the goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset

or a liability, the Company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

#### **Investments in subsidiaries**

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment.

#### **Revenue recognition**

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

##### **Passenger revenue**

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

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

Ancillary revenue, comprising principally baggage carriage, advanced seat assignment, commissions, change fees and credit and debit card fees due to the Company, 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.

##### **Aircraft maintenance and other revenue**

These represent the amounts derived from the provision of goods and services to customers during the year, including aircraft maintenance, overhauls and the associated 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. Revenue for such contracts is stated at the cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

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

### ***Frequent Flyer Programme***

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

During the previous financial year (2014/15), Flybe moved to a new point-purchasing agreement with Avios, a subsidiary of International Airlines Group. Flybe also allows customers to redeem their points on Flybe travel through the Avios.com website and BA Executive Club website.

Flybe has entered into an agreement with Avios to enable passengers to accrue Avios points when flying on Flybe tickets. Flybe simply purchases points from Avios at a pre-agreed rate and the cost of purchasing the points is charged against the passenger revenues at the point that transportation occurs. In addition, Avios purchases passenger tickets from Flybe in order to include Flybe in its redemption network. Revenues from these tickets is accounted for as passenger revenue.

Avios and BA Executive Club members can earn points by using Flybe's network offering, including partners. The cost of the points is treated as a revenue reduction at the point of complete transportation provision in the income statement and at the point of sale recorded as a liability against deferred income.

Avios purchases the flights from Flybe on behalf of its customers and these are included in the deferred income and, once transportation has been provided, in the income statement revenues. Currently Flybe is drawing down on a £1.5m prepayment made by Avios at the outset of the arrangement.

### ***Interest revenue***

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

### ***Leases***

#### ***Operating leases***

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

At 31<sup>st</sup> March 2016, 77% of Flybe's fleet was leased via operating leases from nine lessors. The aircraft are owned by the lessor (or a special purpose company they manage) and Flybe and the lessor enter into an operating lease agreement. Operating leases are less cash-intensive at delivery – contrasted to a loan with an initial deposit requirement – and remove aircraft residual value risk.

During the lease term Flybe is responsible for paying rent to the lessor and for the operation, maintenance and insurance of the aircraft. At the end of the lease term the aircraft is redelivered to the lessor in a condition described in the lease. Some of the leases include extension rights which can be exercised to extend the lease by a further fixed term; the leases are not open-ended. Maintenance provisions are discussed in the accounting policy on page 29.

#### ***Sale and leaseback***

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



### ***Finance leases***

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

### ***Onerous leases***

Onerous lease provisions are made in respect of the present obligation arising under an onerous contract. The provision recognised is for any unavoidable net loss arising from the contract, being the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract.

### ***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 retranslated using the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

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

### ***Government grants***

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

### ***Operating profit/(loss)***

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

### ***Retirement benefit costs***

The Company operates defined contribution and defined benefit pension schemes.

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due. For the defined contribution schemes, the assets of the schemes are held separately from those of the Company in independently administered funds. The amount charged to the income statement represents the contributions payable to the schemes in respect of the accounting period.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Re-measurement comprising actuarial gains and losses, the effect of the asset ceiling and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge to the statement of comprehensive income in the period in which they occur. Re-measurement recorded in the statement of comprehensive income is not recycled. Net-interest income (or expense) is recognised within finance costs and is calculated by applying a discount rate to the net defined benefit liability. The Company presents the administration costs of the scheme in administrative expenses in its income statement.

The retirement benefit obligation recognised in the balance sheet represents the deficit in the Company's defined benefit schemes. If a surplus resulted from this calculation it would be limited to the present value of any economic benefit available in the form of refund from the schemes or reduction in future contributions to the schemes.

## **Taxation**

The tax expense represents the sum of the tax currently payable and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### ***Current tax***

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

### ***Deferred tax***

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

## **Property, plant and equipment**

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

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

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

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

Freehold land	Nil
Freehold and short leasehold buildings	2% to 10% per annum or lease term where shorter
Plant, equipment and motor vehicles	10% to 50% per annum
Aircraft	4% to 20% per annum
Maintenance assets	25% to 50% per annum

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

### **Intangible assets**

#### ***Computer software***

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

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

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

### **Disposals of property, plant, equipment and intangible assets**

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

### **Impairment of property, plant and equipment and intangible assets**

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

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

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

### **Inventories**

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

#### ***Aircraft consumables***

These comprise aircraft parts which are non-repairable and non-renewable. These are valued at the lower of cost or net realisable value.

#### ***Aircraft deposits***

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

### **Cash and cash equivalents**

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

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

### **Restricted cash**

Restricted cash represents funds held by the Company 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 instruments**

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

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

### **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 income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset and is included in the 'unrealised gains and losses on fuel and foreign exchange hedges' line item or 'other gains and losses' line item in the income statement depending upon the nature of the instrument.

### **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.

***Financial liabilities and equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised 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 the 'unrealised gains and losses on fuel hedges' line item or 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 31.

***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.

### ***Derivative financial instruments***

The Company enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts, interest rate swaps and cross-currency swaps. Further details of derivative financial instruments are disclosed in note 19.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset due after one year or a payable due after more than one year if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

### ***Hedge accounting***

The Company designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, 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.

Note 31 sets out details of the fair values of the derivative instruments used for hedging purposes.

Movements in the hedging reserve in equity are detailed in note 29.

### ***Cash flow hedge***

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

Amounts deferred in other comprehensive income are recognised in the income statement in the same period in which the hedged item affects net income or loss. These amounts are recorded in the same line of the income statement as the hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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 other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

### ***Provisions***

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

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

its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

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

#### ***Leased aircraft maintenance provisions***

The 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 intervals used, or carry out the maintenance check before return of the aircraft to the lessor.

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

- No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back.
- After a component or maintenance interval passes its half-life (or another measure depending on the individual lease) and compensation would be due to the lessor in accordance with the terms of the lease, a provision and matching income statement charge is recorded equal to the amount of compensation that would be required based on the hours or cycles flown at the balance sheet date.
- After a component or maintenance interval has passed the trigger point such that the Company is contractually obliged to carry out the specified work, a full provision for the cost of work is recorded. To the extent that this provision represents an increase to the half-life compensation provision already recorded, a maintenance asset is recorded within property, plant and equipment. The asset is depreciated over the expected period to the next half-life compensation point, or the end of the lease, whichever is sooner.

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

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

#### ***EU261 passenger delay compensation***

Provision is made for passenger compensation claims when the Company has an obligation to recompense customers under regulation EU261 where technical issues have caused flights to be delayed. Provisions are measured based on known eligible flight delays and historic claim rates and are expected to unwind across the claim window, which is six years.

#### ***Share-based payments***

Where the Company grants to its employees rights to equity instruments of its parent, the Company accounts for such arrangements as cash-settled share-based payment arrangements.

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At each balance sheet date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact

of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

SAYE share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in accelerated recognition of the expenses that would have arisen over the remainder of the original vesting period.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled, and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

### **3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Company's accounting policies, which are described in note 2, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

#### **Critical judgements in applying the Company's accounting policies**

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

##### ***Aircraft maintenance***

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

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

##### ***Recognition of deferred tax assets***

The Company recognises deferred tax assets and liabilities based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are reviewed regularly to assess potential realisation, and where the directors believe that realisation is not probable, that portion of the asset is not recorded. In performing this review, Flybe makes estimates and assumptions regarding projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. A change in these assumptions could cause an increase or decrease in the amount recognised resulting in an increase or decrease in the effective tax rate, which could materially impact the results of operations. As a result of the Company's performance, the net deferred tax asset has decreased from £15.5m to £11.0m at 31<sup>st</sup> March 2016 (see note 18).

##### ***Impairment of property, plant and equipment and intangible assets***

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



Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. If there is an impairment loss, it is recognised as an expense immediately.

As a result of the impairment review performed at the balance sheet date, no impairment was required.

#### **Key sources of estimation uncertainty**

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

#### **Passenger delay compensation**

In 2005, EU261 was promulgated, requiring airlines to provide flight delay compensation for passengers at predetermined rates. Uncertainty over the types of delay leading to compensation was finally clarified in October 2014 where the appeal cases of Dawson v Thompson Airways and Huzar vs Jet 2 concluded that technical issues should be included within the ambit of this regulation. In essence, airlines are required to compensate passengers where delays in arrival, greater than three hours, are deemed to have been under the control of the airline – including technical delays. Claims may go back six years.

We estimate the full liability associated with this regulation based on number of passengers delayed and the average compensation due. The claim rate associated with this liability is then estimated based on historical experience and expected claim rates. This adjusted liability is then provided for in the period of the delay.

In 2014/15, a historical catch-up provision was created on the basis of the October 2014 appeal case. This has then been adjusted over the period as payments have been made for historical claims and an additional liability has been provided for associated with incremental compensation liability. The outstanding liability estimated at 31<sup>st</sup> March 2016 was £1.1m.

#### **Employee benefits**

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events including, but not limited to, discount rates, life expectancy, future pay inflation and expected health care cost trend rates. Determination of the projected benefit obligations for the Company's defined benefit scheme is important to the recorded amount of benefit expense in the income statement and valuation of the balance sheet. Details of the assumptions used are included in note 26. Any change in these assumptions could potentially result in a significant change to the pension assets/(liabilities), commitments and pension costs in future periods.

## **4. DISCONTINUED OPERATIONS**

On 1<sup>st</sup> November 2014, Flybe Limited sold the trade and assets of the Maintenance, Repair and Overhaul 'MRO' business to its subsidiary, Flybe Aviation Services Limited. The results of the MRO business up to the date of disposal and the comparatives for the year ended 31<sup>st</sup> March 2015 are shown under discontinued operations.

## **5. REVENUE**

	2016 £m	2015 £m
<b>Continuing operations</b>		
Revenue	600.9	550.9
Investment income	0.8	0.8
	<b>601.7</b>	<b>551.7</b>
<b>Discontinued operations (note 4)</b>	<b>-</b>	<b>12.1</b>
	<b>601.7</b>	<b>563.8</b>

An analysis of the Company's revenue by geographical market is set out below:

	2016 £m	2015 £m
<b>Revenue from external customers:</b>		
<b>Continuing operations</b>		
United Kingdom	510.7	479.1
Europe excluding United Kingdom	80.9	66.0
Rest of world	9.3	5.8
	<b>600.9</b>	<b>550.9</b>
<b>Discontinued operations (note 4)</b>	-	<b>12.1</b>
<b>Revenue (excluding investment income)</b>	<b>600.9</b>	<b>563.0</b>

## 6. AUDITOR'S REMUNERATION

Fees payable to Deloitte LLP and their associates for the audit of the Company's annual accounts were £0.2m (2015: £0.2m).

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

## 7. STAFF COSTS

The average monthly number of persons employed by the Company (including executive directors) was:

	2016 No.	2015 No.
Flight and maintenance	1,221	1,118
Administration	387	319
	<b>1,608</b>	<b>1,437</b>

The aggregate remuneration comprised:

	2016 £m	2015 £m
Wages and salaries	68.0	66.8
Social security costs	7.0	7.6
Other pension costs (see note 26)	4.5	5.0
Share-based payments (see note 27)	0.2	0.2
Redundancy costs	1.1	-
	<b>80.8</b>	<b>79.6</b>

Disclosure of directors' remuneration is included in note 36.

## 8. INVESTMENT INCOME

	2016 £m	2015 £m
Interest on bank deposits	0.8	0.8

## 9. FINANCE COSTS

	2016 £m	2015 £m
Interest expense on bank loans	2.0	0.6
Interest on obligations under finance leases	0.1	0.6
Net interest cost on defined benefit costs (see note 26)	0.7	0.2
	<b>2.8</b>	<b>1.4</b>

## 10. OTHER LOSSES

	2016 £m	2015 £m
Losses arising on retranslation of foreign currency loans	(2.8)	(10.2)

## 11. TAXATION

	2016 £m	2015 £m
<b>Deferred tax charge/(credit) for the year (see note 18)</b>	<b>3.2</b>	<b>(5.6)</b>

No current tax was payable in this or the preceding year.

The current tax charge/(credit) for the year is different to the tax charge/(credit) which arises under the standard rate of corporation tax in the UK of 20% (2015: 21%).

The charge for the year can be reconciled to the loss in the income statement as follows:

	2016 £m	2015 £m
Loss on ordinary activities before taxation	(1.0)	(24.5)
Current tax at 20% (2015: 21%)	(0.2)	(4.9)
<b>Factors affecting the tax charge/(credit) for the year:</b>		
Expenses not deductible for tax purposes	1.0	(0.1)
Capital allowances in excess of depreciation	1.7	5.3
Group relief surrendered	0.7	(5.7)
Adjustments in respect of prior years	-	(0.2)
<b>Total tax charge/(credit) for the year</b>	<b>3.2</b>	<b>(5.6)</b>

## 12. OPERATING PROFIT/(LOSS)

Operating profit/(loss) on ordinary activities is stated after charging/(crediting):

	2016 £m	2015 £m
Depreciation of property, plant and equipment <sup>1</sup>	30.2	27.0
Amortisation of intangibles	1.5	0.7
Loss on disposal of property, plant and equipment	4.2	-
Gain on disposal of intangible assets	(0.1)	-
Foreign exchange gain	(6.1)	(1.5)

<sup>1</sup> In 2014/15 aircraft depreciation costs have been restated to show the gross movement on the maintenance assets. These were previously reported as a net depreciation movement of £2.2m.

## 13. INTANGIBLE FIXED ASSETS

	Computer software £m	Computer software in the course of construction £m	Total £m
<b>Cost</b>			
At 1 <sup>st</sup> April 2015	1.3	6.4	7.7
Additions	0.9	4.9	5.8
Reclassifications <sup>1</sup>	5.3	(5.3)	-
Reclassifications from property, plant and equipment <sup>2</sup>	11.6	-	11.6
Disposals	(4.2)	(0.2)	(4.4)
At 31 <sup>st</sup> March 2016	14.9	5.8	20.7
<b>Amortisation</b>			
At 1 <sup>st</sup> April 2015	-	-	-
Amortisation for the year	(1.5)	-	(1.5)
Reclassifications from plant, property and equipment <sup>2</sup>	(11.2)	-	(11.2)
Disposals	4.1	-	4.1
At 31 <sup>st</sup> March 2016	(8.6)	-	(8.6)
<b>Net book value</b>			
<b>At 31<sup>st</sup> March 2016</b>	<b>6.3</b>	<b>5.8</b>	<b>12.1</b>
At 31 <sup>st</sup> March 2015	1.3	6.4	7.7

<sup>1</sup> Assets costing £5.3m were reclassified from software in the course of construction to computer software. There was no impact on the income statement or balance sheet.

<sup>2</sup> Assets with a net book value of £0.4m (2015: £nil) were reclassified from property, plant and equipment. This had no impact on the total balance sheet or income statement.

The amortisation period for development costs incurred on the Company's computer software is five years. Development costs have been capitalised in accordance with IAS 38 *Intangible Assets*.

#### 14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £m	Plant, equipment and motor vehicles £m	Aircraft £m	Total £m
<b>Cost</b>				
At 1 <sup>st</sup> April 2015	12.1	11.9	201.8	225.8
Additions	-	0.2	59.0	59.2
Disposals	(0.3)	(5.8)	(26.2)	(32.3)
Reclassifications <sup>1</sup>	0.2	(0.1)	(0.1)	-
Reclassifications to intangible assets <sup>2</sup>	-	(1.9)	-	(1.9)
At 31 <sup>st</sup> March 2016	12.0	4.3	234.5	250.8
<b>Accumulated depreciation and impairment</b>				
At 1 <sup>st</sup> April 2015	0.2	8.4	35.5	44.1
Depreciation charge for the year	0.3	0.9	29.0	30.2
Reclassifications <sup>1</sup>	0.1	(0.1)	-	-
Reclassifications to intangible assets <sup>2</sup>	-	(1.5)	-	(1.5)
Disposals	(0.5)	(5.6)	(21.9)	(28.0)
At 31 <sup>st</sup> March 2016	0.1	2.1	42.6	44.8
<b>Net book value</b>				
<b>At 31<sup>st</sup> March 2016</b>	<b>11.9</b>	<b>2.2</b>	<b>191.9</b>	<b>206.0</b>
At 31 <sup>st</sup> March 2015	11.9	3.5	166.3	181.7

<sup>1</sup> Assets with a net book value of £0.1m were reclassified between aircraft, plant, equipment and motor vehicles and land and buildings in the year. There was no impact on the income statement or the balance sheet.

<sup>2</sup> Assets with a net book value of £0.4m (2015: £nil) were reclassified to intangible fixed assets. There was no impact on total balance sheet or the income statement.

The Company's obligations under finance leases (see note 24) are secured by the lessors' title to the leased assets, which have a carrying amount of £74.6m (2015: £81.1m).

Included above are fully depreciated assets with an original cost of £22.6m (2015: £19.5m).

## 15. SUBSIDIARIES

	2016 £m	2015 £m
<b>Cost and net book value at beginning and end of the year</b>	-	-

The Company's has an investment in the following subsidiary undertaking:

	Aggregate of capital and reserves	Profit and loss for the year	Registered office address	Holding
Flybe Aviation Services Limited	£3.1m	£2.3m	New Walker Hangar, Exeter International Airport, Exeter, EX5 2BA	100%

## 16. TRADE AND OTHER RECEIVABLES

	2016 £m	2015 £m
<b>Amounts falling due within one year:</b>		
Amounts receivable	30.2	30.2
Amounts owed by group undertakings	12.2	17.9
Other taxation and social security	2.7	1.5
Other receivables	48.6	46.3
Prepayments and accrued income	13.6	15.5
<b>Included in current assets</b>	<b>107.3</b>	<b>111.4</b>
<b>Amounts due after more than one year:</b>		
Aircraft deposits	1.7	3.1
Aircraft security deposits	9.9	7.8
Aircraft operating lease prepayments	3.5	4.3
Other non-current assets	25.6	22.8
<b>Included in non-current assets</b>	<b>40.7</b>	<b>38.0</b>
<b>Total trade and other receivables</b>	<b>148.0</b>	<b>149.4</b>

Other receivables and other non-current assets include maintenance receivables aged less than/more than one year plus other receivables.

Amounts receivable disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

No impairment loss on amounts receivable was recognised in the year to 31<sup>st</sup> March 2016 (2015: nil).

## 17. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

	2016 £m	2015 £m
Cash and cash equivalents	163.5	177.8
Current restricted cash	-	10.9
Non-current restricted cash	7.8	7.1
	171.3	195.8
Restricted cash comprises:		
Aircraft operating lease deposits	6.5	7.1
Aircraft maintenance deposits	1.3	0.9
Other (cash deposited to secure card-acquiring facilities)	-	10.0
	7.8	18.0

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

Since 31<sup>st</sup> March 2015, there has been a reduction in restricted cash of £10.2m in total which was as a result of two items: a £10.0m reduction in restricted cash relating to secure card-acquiring facilities; and £0.2m relating to a reduction in other restricted cash.

## 18. DEFERRED TAXATION

The following are the major deferred tax liabilities and assets recognised by the Company and movements thereon during the current and prior reporting period:

	Property, plant and equipment £m	Intangible assets £m	Employee benefits £m	Financial instruments £m	Tax losses £m	Total £m
At 1 <sup>st</sup> April 2014	(3.9)	-	(0.6)	(1.6)	-	(6.1)
Recognised in the income statement	(5.8)	-	0.4	-	-	(5.4)
Recognised in other comprehensive income	-	-	(4.1)	0.2	-	(3.8)
Effect of rate change	(0.1)	-	-	(0.1)	-	(0.2)
At 31 <sup>st</sup> March 2015	(9.7)	-	(4.3)	(1.5)	-	(15.5)
Recognised in the income statement	3.2	-	-	-	-	3.2
Recognised in other comprehensive income	-	-	1.3	-	-	1.3
At 31 <sup>st</sup> March 2016	(6.5)	-	(3.0)	(1.5)	-	(11.0)

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Deferred tax assets and liabilities are offset where the Company has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Deferred tax assets	11.0	15.5
Deferred tax liabilities	-	-
	<b>11.0</b>	<b>15.5</b>

The UK Government announced reductions in the UK corporation tax rate from 20% to 19% from 1 April 2017 and from 19% to 18% from 1 April 2020, which were substantively enacted on 26 October 2015.

The reduction in the balance sheet carrying value of deferred tax asset to reflect the rate of tax at which those differences are expected to reverse has not had a material impact on the current year tax charge.

At the balance sheet date, the Company has no unused tax losses available for offset against future profits (2015: £nil). No tax losses have been recognised within the deferred tax asset (2015: £nil).

The Company has significant deferred assets due to the accumulation of accelerated capital allowances in prior periods. The realisation of these assets is not assured and is dependent on the generation of sufficient taxable income in the future. The directors have exercised judgement in determining the extent of the realisation of these assets based upon estimates of future taxable income. Where there is an expectation that on the balance of probabilities there will not be sufficient taxable profits to utilise these assets, they have not been recognised.

£13.0m of deferred tax assets have not been recognised in the year (2014/15: £6.3m). If actual events differ from the directors' estimates, or to the extent that these estimates are adjusted in the future, any recognition in the future of previously generated assets would have a material impact on the Company's effective tax rates.



## 19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives that are designated and effective as hedging instruments carried at fair value:	2016 £m	2015 £m
<b>Current assets</b>		
Forward foreign currency contracts	9.0	14.1
Fuel swaps	0.7	-
	9.7	14.1
<b>Non-current assets</b>		
Forward foreign currency contracts	0.4	0.2
Fuel swaps	0.4	-
	0.8	0.2
<b>Total derivative financial assets</b>	<b>10.5</b>	<b>14.3</b>
<b>Current liabilities</b>		
Forward foreign currency contracts	(0.4)	-
Fuel swaps	(19.7)	(27.2)
	(20.1)	(27.2)
Margin calls on derivative instruments	1.3	8.3
	(18.8)	(18.9)
<b>Non-current liabilities</b>		
Forward foreign currency contracts	(0.2)	-
Fuel swaps	(1.4)	(2.6)
	(1.6)	(2.6)
<b>Total derivative financial liabilities</b>	<b>(20.4)</b>	<b>(21.5)</b>
<b>Net derivative financial liabilities</b>	<b>(9.9)</b>	<b>(7.2)</b>

The Company has entered into master netting agreements with the following counterparties:

	2016 £m	2015 £m
<b>Barclays Bank plc:</b>		
Derivative assets	-	-
Derivative liabilities	(3.0)	(1.6)
	(3.0)	(1.6)
<b>Brittanic Trading Limited:</b>		
Derivative assets	-	-
Derivative liabilities	(2.0)	(5.3)
	(2.0)	(5.3)
<b>Goldman Sachs International:</b>		
Derivative assets	-	-
Derivative liabilities	(5.2)	(0.1)
	(5.2)	(0.1)
<b>Investec Bank plc:</b>		
Derivative assets	-	-
Derivative liabilities	(2.1)	(5.2)
	(2.1)	(5.2)
<b>Macquarie Bank Limited:</b>		
Derivative assets	-	-
Derivative liabilities	(0.6)	(5.8)
	(0.6)	(5.8)
<b>Morgan Stanley:</b>		
Derivative assets	-	-
Derivative liabilities	(4.9)	(9.1)
	(4.9)	(9.1)
<b>Shell International Trading and Shipping Company Limited:</b>		
Derivative assets	-	-
Derivative liabilities	(0.3)	(2.7)
	(0.3)	(2.7)
<b>Société Générale:</b>		
Derivative assets	-	-
Derivative liabilities	(1.9)	-
	(1.9)	-
<b>Total derivatives</b>	<b>(20.0)</b>	<b>(29.8)</b>

The derivative assets and liabilities with all counterparties in the table above meet the offsetting criteria in paragraph 42 of IAS 32. Consequently, the gross derivative liability is set off against the gross derivative asset, resulting in the presentation of a net derivative liability of £18.7m in the Company's balance sheet.

Cash collateral has also been paid to Brittanic Trading Limited of £1.2m and Shell International Trading and Shipping Company Limited of £0.1m, for a portion of the net derivative liability (total £1.3m). The cash collateral of £1.3m does not meet the offsetting criteria in paragraph 42 of IAS 32, but it can be set off against the net amount of the derivative asset and derivative liability in the case of default and insolvency or bankruptcy, in accordance with associated collateral arrangements.

The Company did not enter into any other enforceable netting arrangements than discussed above.

Further details of derivative financial instruments are provided in note 31.

## 20. INVENTORIES

	2016 £m	2015 £m
Aircraft consumables	-	0.2

## 21. TRADE AND OTHER PAYABLES

	2016 £m	2015 £m
Trade payables	24.3	24.5
Amounts owed to group undertakings	176.9	176.8
Other taxation and social security	21.3	26.1
Other payables	17.4	20.9
Accruals	36.4	21.3
	<b>276.3</b>	<b>269.6</b>

The carrying amount of trade payables approximates their fair value. The Company manages credit terms with its suppliers in a way to ensure payments are made to them on commercially acceptable terms.

Other payables include passenger taxes, output VAT, fuel hedges and other cash liabilities.

## 22. DEFERRED INCOME

	2016 £m	2015 £m
Current	83.0	75.9
Non-current	7.4	8.3
	<b>90.4</b>	<b>84.2</b>

Deferred income includes government grants totalling £6.2m (2015: £6.4m (restated)) for capital financial support towards the capital costs of the Flybe Training Academy building, a national training centre for the airline industry.

Government grants were provided by the South West of England Regional Development Agency and the Learning Skills Council (and its successor). These institutions may be entitled to claw back all or part of the grant up to 31<sup>st</sup> December 2020 if the Company ceases to operate the building as a training centre providing education and training to internal and external delegates.

## 23. BORROWINGS

	2016 £m	2015 £m
<b>Unsecured borrowings:</b>		
Amounts owed to group undertakings	176.9	176.8
<b>Secured borrowings:</b>		
Bank loans	42.6	49.3
<b>Total borrowings</b>	<b>219.5</b>	<b>226.1</b>

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	2016			2015		
	Bank loans	Group undertak ings	Total	Bank loans	Group undertak ings	Total
	£m	£m	£m	£m	£m	£m
<b>Amount due for settlement:</b>						
Within 12 months	8.9	176.9	185.7	7.4	176.8	184.2
Between one and five years	21.5	-	21.6	25.1	-	25.1
After more than five years	12.2	-	12.2	16.8	-	16.8
<b>Total borrowings</b>	<b>42.6</b>	<b>176.9</b>	<b>219.5</b>	<b>49.3</b>	<b>176.8</b>	<b>226.1</b>

	Interest rate	Amount	Interest rate	Amount
	%	£m	%	£m
Floating rate sterling loans	3.5	24.9	3.4	28.8
Floating rate US dollar loans	3.9	16.4	3.5	17.4
Fixed rate sterling loans	3.0	0.9	3.1	2.5
Fixed rate US dollar loans	5.4	0.4	5.4	0.6
		42.6		49.3

The average loan term is 4.3 years (2015: 5.4 years).

#### 24. OBLIGATIONS UNDER FINANCE LEASES

	2016 £m	2015 £m
<b>Minimum lease payments</b>		
Amounts payable under finance leases:		
Within one year	6.0	5.7
In the second to fifth years inclusive	24.4	23.2
After five years	37.7	42.1
	68.1	71.0
Less: future finance charges	(1.5)	(1.1)
<b>Present value of lease obligations</b>	<b>66.6</b>	<b>69.9</b>

#### Present value of minimum lease payments

Amounts payable under finance leases:		
Within one year	5.8	5.6
In the second to fifth years inclusive	23.9	22.8
After five years	36.9	41.5
<b>Present value of lease obligations</b>	<b>66.6</b>	<b>69.9</b>

#### Finance lease payments analysed as:

Amounts due for settlement within 12 months (current liability)	5.8	5.6
Amounts due for settlement after 12 months (non-current liability)	60.8	64.3
	<b>66.6</b>	<b>69.9</b>

Borrowing costs amounting to £6.9m (2015: £7.6m) were capitalised in relation to qualifying assets.

The average lease term is 10.8 years (2015: 11.8 years). For the year ended 31<sup>st</sup> March 2016, the average effective borrowing rate was 2.2% (2015: 1.8%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in US dollars.

The Company's obligations under finance leases are secured by the lessors' rights over the leased assets disclosed in note 14.

## 25. PROVISIONS FOR LIABILITIES

	2016 £m	2015 £m
Leased aircraft maintenance	71.4	68.8
EU261 regulation	1.1	6.7
Onerous lease provisions	0.7	0.7
	<b>73.2</b>	<b>76.2</b>
Current	42.3	51.9
Non-current	30.9	24.3
	<b>73.2</b>	<b>76.2</b>

The Company's provisions are as follows:

	Leased aircraft maintenance £m	EU261 regulation £m	Onerous lease £m	Total £m
At 1 <sup>st</sup> April 2015	68.8	6.7	0.7	76.2
Additional provision in the year	22.3	0.2	0.7	23.2
Utilisation of provision	(19.7)	(5.8)	(0.7)	(26.2)
<b>At 31<sup>st</sup> March 2016</b>	<b>71.4</b>	<b>1.1</b>	<b>0.7</b>	<b>73.2</b>

Aircraft maintenance provisions are made in respect of contractual obligation's to maintain aircraft under operating lease contracts. The amount and timing of the maintenance costs are dependent on future usage of the relevant aircraft. Typically this will be utilised within two years. The additional provision in the year is included within cost of sales shown in the income statement.

Onerous lease provisions are made in respect of the present obligation arising under an onerous contract. The provision recognised is for any unavoidable net loss arising from the contract, being the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract. The £0.7m onerous lease provision at 31<sup>st</sup> March 2015 was in respect of an E195 aircraft; this provision was utilised in the year. The £0.7m onerous lease provision at 31<sup>st</sup> March 2016 is in respect of office buildings.

Provision is made for passenger compensation claims when the group has an obligation to recompense customers under regulation EU261 where issues have caused flights to be delayed. Provisions are measured based on known eligible flights delays and historic claim rates and are expected to unwind across the claim window, which is six years. The majority of claims paid in the year were as a result of court rulings clarifying the liability; these included current and prior period claims.

## 26. RETIREMENT BENEFIT SCHEMES

### Defined contribution schemes

The Company operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The total cost charged to the income statement of £4.5m (2015: £5.0m) represents contributions payable to these schemes by the Company at rates specified in the rules of the plans. As at 31<sup>st</sup> March 2016, contributions of £0.6m (2015: £0.6m) due in respect of the current reporting period had not been paid over to the schemes and are included in other payables.

#### Defined benefit scheme

The defined benefit scheme operated by the Company was acquired on 5<sup>th</sup> 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 Company's defined contribution scheme. The estimated amount of contributions expected to be paid to the scheme in the next financial year is £0.5m (current year: £0.5m). At 31<sup>st</sup> March 2016, the net deficit has been recognised in the balance sheet.

The triennial valuation is carried out for the Trustee by a professionally qualified independent actuary. The purpose of the valuation is to design a funding plan to ensure that the scheme has sufficient funds available to meet future benefit payments. The latest funding valuation was performed as at 31<sup>st</sup> March 2013 and showed a deficit of approximately £7.0m. The Company is currently paying deficit contributions of £0.5m which, along with the investment returns from return-seeking assets, is expected to make good this shortfall by 31<sup>st</sup> March 2023. A valuation at 31<sup>st</sup> March 2016 is underway and is expected to be completed by Summer 2017.

The principal assumptions used for the purpose of the actuarial valuation were as follows:

	2016 %	Valuation at 2015 %
Key assumptions used:		
Discount rate	3.7	3.5
Future pension increases	3.5/2.0	3.5/2.1
RPI inflation	3.1	3.1

The post-retirement mortality rate assumed at 31<sup>st</sup> March 2016 was based on the Small Area Population Statistics ('SAPS') tables with a minus one year age rating and the Continuous Mortality Investigation ('CMI') 2015 long-term rate projections of 1.5% pa for males and 1.25% pa for females (2015: the mortality rate was also based on SAPS).

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

Assumption	Change in assumption	2016 £m	2015 £m
Discount rate	Increase by 0.1%	(3.3)	(3.6)
Rate of inflation	Increase by 0.1%	2.3	2.4

The amount included in the balance sheet arising from the Company's obligations in respect of its defined retirement benefit scheme is as follows:

	2016 £m	2015 £m
Present value of defined benefit obligations	(153.6)	(164.9)
Fair value of scheme assets	138.3	143.9
Net deficit	(15.3)	(21.0)
<b>Recognised net liability from defined benefit obligation</b>	<b>(15.3)</b>	<b>(21.0)</b>

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Amounts recognised in the income statement in respect of the defined benefit scheme are as follows:

	<b>2016 £m</b>	<b>2015 £m</b>
Administration costs	0.4	0.4
Net interest payable	0.7	0.2
<b>Charge to profit or loss before tax</b>	<b>1.1</b>	<b>0.6</b>

Re-measurements recognised in the statement of comprehensive income are as follows:

	<b>2016 £m</b>	<b>2015 £m</b>
Return on scheme assets in excess of interest	(6.6)	11.9
Gains/(losses) arising from changes in financial assumptions	8.2	(28.3)
Gains/(losses) arising from changes in demographic assumptions	4.9	(2.0)
<b>Total re-measurements</b>	<b>6.5</b>	<b>(18.4)</b>

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

	<b>2016 £m</b>	<b>2015 £m</b>
Opening defined benefit obligation	165.1	132.3
Interest cost	5.7	6.1
Benefits paid	(4.1)	(3.8)
Actuarial (gain)/loss arising from changes in financial assumptions	(8.2)	28.3
Actuarial (gain)/ loss arising from changes in demographic assumptions	(4.9)	2.0
<b>Closing defined benefit obligation</b>	<b>153.6</b>	<b>164.9</b>

Movements in fair value of scheme assets were as follows:

	<b>2016 £m</b>	<b>2015 £m</b>
Opening fair value of scheme assets	143.9	129.8
Interest income	5.0	5.9
Benefits paid	(4.1)	(3.8)
Administration costs	(0.4)	(0.4)
Employer contributions	0.5	0.5
Actuarial (loss)/gain on scheme assets	(6.6)	11.9
<b>Closing fair value of scheme assets</b>	<b>138.3</b>	<b>143.9</b>

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

	2016 £m	2015 £m
<b>Fair value of assets</b>		
Equities	54.0	62.9
Bonds and gilts	83.0	79.6
Cash	1.3	1.4
	138.3	143.9
<b>Actual return on scheme assets</b>	3.6%	4.1%

## 27. SHARE-BASED PAYMENTS

Flybe Limited is a subsidiary of Flybe Group plc (see note 37). All share-based payment arrangements for the employees of Flybe Limited concern the equity instruments of Flybe Group plc. Full share-based payment disclosures are therefore included in note 32 of the consolidated financial statements for Flybe Group plc.

The Company recognised total expenses of £0.6m in relation to share-based payments in the year ended 31<sup>st</sup> March 2016 (2015: £0.2m). In addition, £0.4m was credited to the income statement as a result of movement on valuation of LTIPs (2015: £0.2m charge). The Parent Company, Flybe Group plc, has recorded total liabilities in respect of the LTIP schemes of less than £0.1m at 31<sup>st</sup> March 2016 (2015: £0.4m).

## 28. SHARE CAPITAL

	2016 £m	2015 £m
<b>Authorised, issued and fully paid</b>		
1,000,000 ordinary shares of £1 each	1.0	1.0

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

## 29. CASH FLOW HEDGE RESERVE

	2016 £m	2015 £m
Balance at 1 <sup>st</sup> April	(10.2)	(6.7)
(Loss)/gain recognised in other comprehensive income:		
Open effective cash flow hedges (foreign currency forward contracts and fuel swaps)	(26.4)	(23.4)
Income tax related to gains/(losses) on effective hedges	-	(0.3)
Foreign exchange translation differences	(3.8)	4.7
	(30.2)	(19.0)
Gain recognised in the income statement:		
Matured effective cash flow hedges (foreign currency forward contracts and fuel swaps)	30.6	15.5
<b>Balance at 31<sup>st</sup> March</b>	<b>(9.8)</b>	<b>(10.2)</b>

The hedging reserve represents the cumulative amount of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is



recognised in profit or loss only when the hedged transaction impacts the income statement, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

Gains and losses transferred from the hedging reserve into profit or loss during the period are included in cost of sales.

### 30. RETAINED EARNINGS

	2016 £m	2015 £m
Balance at 1 <sup>st</sup> April	(17.9)	15.3
Net loss for the year	(4.2)	(18.9)
Other comprehensive gains/(losses) for the financial year	5.0	(14.3)
<b>Balance at 31<sup>st</sup> March</b>	<b>(17.1)</b>	<b>(17.9)</b>

### 31. FINANCIAL INSTRUMENTS

Flybe Limited is a subsidiary of Flybe Group plc (see note 37). Full financial instrument disclosures are therefore included in note 34 of the consolidated financial statements for Flybe Group plc.

#### **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 2 to the financial statements.

### Categories of financial instruments

	2016 Carrying value £m	Fair value £m	2015 Carrying value £m	Fair value £m
<b>Financial assets</b>				
Cash, cash equivalents and restricted cash	171.3	171.3	195.8	195.8
Loans and receivables:				
Trade and other receivables and inter-company	126.5	126.5	125.0	125.0
Assets held at fair value through other comprehensive income:				
Derivative instruments in designated hedge accounting relationships	10.5	10.5	14.3	14.3
<b>Financial liabilities</b>				
Liabilities held at amortised cost:				
Trade and other payables and inter-company	(218.6)	(218.6)	(222.1)	(222.1)
Debt	(109.2)	(112.1)	(119.2)	(122.2)
Liabilities held at fair value through other comprehensive income:				
Derivative instruments in designated hedge accounting relationships	(20.4)	(20.4)	(21.5)	(21.5)

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

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

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

### Financial instruments recorded at fair value at 31<sup>st</sup> March 2016

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

	<b>2016</b>	<b>2015</b>
	<b>£m</b>	<b>£m</b>
Foreign exchange derivatives	8.8	14.3
Margin calls	1.3	8.3
Fuel derivatives	(20.0)	(29.8)
	<b>(9.9)</b>	<b>(7.2)</b>

Changes in fair value in respect of derivatives in cash flow hedging relationships are presented in note 29.

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

#### **Financial risk management objectives**

The Company is exposed to financial risks in respect of:

- liquidity and management of working capital;
- foreign currency;
- interest rates;
- credit risk; and
- commodities.

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 and balance sheet, income statement 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 to ensure that entities in the Company will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes the borrowings (see note 23), obligations under finance leases (see note 24), cash and cash equivalents (see note 17) and equity attributable to the Parent Company, Flybe Group plc, comprising issued capital, reserves and retained earnings as disclosed in the statement of changes in equity and notes 28 to 30.

#### **Foreign currency forward contracts**

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 foreign exchange forward contracts. These 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.

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The Company does not enter into significant euro foreign exchange forward contracts as the euro payment exposure is largely, though not entirely, offset by euro revenue receipts. There were no euro contracts at 31<sup>st</sup> March 2016 or 31<sup>st</sup> March 2015.

The following table summarises the Company's derivative financial instruments that are used to mitigate the exposures described above:

	Average exchange rate	Foreign currency USDm	Contract value £m	Fair value of asset/ (liability) £m
At 31 <sup>st</sup> March 2016	USD 1.4940	350.0	234.3	8.8
At 31 <sup>st</sup> March 2015	USD 1.6191	253.0	156.3	14.3

### Commodity contracts

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. 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 a significant percentage of its anticipated requirements for fuel over a 12-month period.

Aviation fuel is a 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 a minimum of 12 months forward. The actual amount covered by such contracts amounted to 90% of the following year's budgeted fuel consumption as at 31<sup>st</sup> March 2016 (2015: 70%).

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

	2016 £m	2015 £m
<b>Fair value of contracts to buy fuel expiring</b>		
In less than 3 months	(7.3)	(7.5)
Between 3 and 6 months	(5.2)	(9.1)
Between 6 and 12 months	(6.4)	(12.0)
More than 12 months	(1.1)	(1.2)
	<b>(20.0)</b>	<b>(29.8)</b>

The actual number of emissions credits purchased for calendar year 2015 amounted to 503.7 tonnes, including free allowances of 222.8 tonnes; the average price of the purchased allowances was €6.33.

Carbon emissions requirements for calendar year 2016 are currently expected to amount to 507.2 tonnes including free allowances of 222.8 tonnes. So far the Company has purchased 100% of its requirement for 2016 at an average cost of €7.36.

### 32. OPERATING LEASE ARRANGEMENTS

	2016 £m	2015 £m
Lease payments under operating leases recognised as an expense in the year	81.7	85.8

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

	Property and equipment 2016 £m	2015 £m	Aircraft 2016 £m	2015 £m
Less than one year	1.7	1.3	79.2	71.8
Between one and two years	1.0	0.8	77.0	71.3
Between two and five years	1.9	1.8	161.0	167.0
More than five years	10.4	10.2	28.0	54.1
	15.0	14.1	345.2	364.2

The majority of aircraft operating leases are denominated in US dollars.

### 33. CONTINGENT LIABILITIES AND GUARANTEES

The Company has placed bank guarantees and letters of credit in favour of various aircraft lessors, handling agents, fuel suppliers and customs offices as follows:

	2016 £m	2015 £m
Bank guarantees and letters of credit issued	6.8	7.9

### 34. FINANCIAL COMMITMENTS

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

	2016 £m	2015 £m
Aircraft	103.4	100.1

It is intended that these aircraft will be financed partly through cash flow and partly through external financing and leasing arrangements.

### 35. POST BALANCE SHEET EVENT

The stated strategy of the Parent Company, Flybe Group plc, is to rebalance its aircraft fleet away from operating leases towards outright ownership, which brings cost savings. In line with this, Flybe Limited took ownership in February 2016 of three Q400 aircraft, previously on operating leases, from Rand Merchant Bank (RMB) for a cash consideration of £24.4m. Flybe Limited took out debt against these aircraft in May 2016 of US dollars 23m.

Flybe has entered into a contract with Nordic Aviation Capital (NAC), to cancel obligations to lease nine used Bombardier Q400 turboprop aircraft, while taking ownership of 10 Q400 aircraft it was under contract

to lease, for a cash consideration of c£86m, with delivery and consideration to take place over the next 12 months. The aircraft will be financed at c70% of loan-to-value post-purchase on an individual basis through an arrangement with Nord LB. Flybe is still committed to leasing the remaining five ex-Republic aircraft from NAC. By September 2016, the first six aircraft have been delivered and refinanced.

### 36. RELATED PARTIES

The directors' remuneration, analysed under the headings required by Company law, is set out below:

	2016 £m	2015 £m
<b>Directors' remuneration:</b>		
Directors' emoluments	1.5	1.0
Company contributions to personal pension schemes	0.1	0.2
Compensation for loss of office	0.1	-
	1.7	1.2

	2016 Number	2015 Number
<b>The number of directors who:</b>		
Are members of a money purchase pension scheme	1	2

	2016 £m	2015 £m
<b>Remuneration of the highest paid director:</b>		
Emoluments	0.4	0.4

### 37. 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, Maindy, Cardiff CF14 3UZ.

### 38. EXPLANATION OF TRANSITION TO FRS 101

This is the first year that the Company has presented its financial statements under FRS 101. The following disclosures are required in the year of transition. The last financial statements under a previous GAAP (pre-2015 UK GAAP) were for the year ended 31<sup>st</sup> March 2015 and the date of transition to FRS 101 was therefore 1<sup>st</sup> April 2015.

#### Reconciliation of equity:

Note	At 1 <sup>st</sup> April 2014 £m	At 31 <sup>st</sup> March 2015 £m
Equity reported funds/(deficit) under previous UK GAAP	9.7	(26.7)
Adjustments to equity on transition to FRS 101:		
(a) Employee benefits - holiday pay accrual	(0.3)	(0.4)
Equity reported under FRS 101	9.4	(27.1)

#### Notes to the reconciliation of equity:

- (a) Under UK GAAP, there is no requirement to recognise a holiday pay accrual. On transition to FRS 101, a holiday pay accrual has been recognised totalling £0.3m at 1<sup>st</sup> April 2014, increasing to £0.4m at 31<sup>st</sup> March 2015.

#### Reconciliation of total comprehensive income for the year ended 31<sup>st</sup> March 2015:

Note	2015 £m
Total comprehensive income for the financial year under previous UK GAAP	(36.4)
Profit and loss for the financial year:	
(a) Employee benefits - holiday pay accrual	(0.3)
(b) Employee benefits - defined benefit obligation	(1.1)
(c) Employee benefits - deferred tax on defined benefit obligation	0.1
	(1.3)
Other comprehensive income/(loss) for the financial year:	
Items that will not be reclassified to profit and loss:	
(b) Re-measurement of defined benefit pension scheme	1.1
(c) Deferred tax arising on defined benefit pension scheme	(0.1)
Movement in other comprehensive income/(loss) for the financial year	1.0
<b>Total comprehensive income for the financial year under FRS 101</b>	<b>(36.7)</b>

#### Notes to the reconciliation of profit or loss for year ended 31<sup>st</sup> March 2015:

- (a) Under UK GAAP, there is no requirement to recognise a holiday pay accrual. On transition to FRS 101 an accrual of £0.4m at 31<sup>st</sup> March 2015 has been recognised, resulting in a charge to the income statement of £0.4m
- (b) Under previous UK GAAP, an FRS 17 gain of £(0.5m) was recognised. On transition to FRS 101, an IAS 19 charge of £0.6m was booked for past service costs and net interest on the defined benefit pension liability, resulting in a movement of £1.1m through the income statement, with a corresponding reduction in re-measurement gains recognised in other comprehensive income.
- (c) As a result of the transition from FRS 17 to IAS 19, deferred tax on the defined benefit obligation had to be recalculated on the revised balance, resulting in a £(0.1m) gain in the income statement, with a corresponding loss in other comprehensive income.

**Balance sheet reclassifications as at 31<sup>st</sup> March 2015**

The last financial statements under a previous GAAP were for the year ended 31<sup>st</sup> March 2015. This balance sheet has therefore been remapped as a result of the transition to FRS 101 and the following reclassifications have been made:

- £6.4m of intangible assets have been identified and reclassified from property, plant and equipment to the intangible assets line.
- £10.9m of current restricted cash and £7.1m of non-current restricted cash (£18.0m in total) has been reclassified from the cash and cash equivalents line to the respective restricted cash lines.
- The defined benefit pension scheme liability had been previously measured under FRS 17. Under FRS 17, the liability was presented net of deferred tax asset. On application of IAS 19, the deferred tax has been presented gross. This resulted in the deferred tax asset presented on the face of the balance sheet increasing from £11.2m (in current assets) to £15.5m (in non-current assets) and the employee benefit liability increasing from £16.7m to £21.0m.
- Trade and other payables and the retained deficit have increased as a result of the holiday pay accrual being recognised when applying FRS101 (discussed further in the above transition reconciliations)
- Previously all provisions for liabilities were treated as non-current. As part of the transition, this balance has been split between current and non-current, which resulted in £51.9m being reclassified to current liabilities.