FLYBE LIMITED

Annual Report and Financial Statements

Registered number 2769768

31 March 2014

CONTENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Saad Hammad
Andrew Knuckey

REGISTERED OFFICE

Jack Walker House
Exeter International Airport
Exeter
Devon
EX5 2HL

AUDITOR

Deloitte LLP
Abbots House
Abbey Street
Reading
RG1 3BD

STRATEGIC REPORT

The directors, in preparing this Strategic report, have complied with s414C of the Companies Act 2006.

REVIEW OF THE BUSINESS

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

The Company results for the year are shown in the profit and loss account on page 20 of these financial statements.

Key financial highlights

	2014 £m	2013 £m	Change %
Turnover	620.5	614.3	1.0
Adjusted EBITDAR before net restructuring[1]	101.5	68.7	47.8
Adjusted profit/(loss) before tax, net restructuring and surplus capacity costs[2]	4.6	(22.2)	n/m
Adjusted profit/(loss) before tax and net restructuring[3]	10.8	(31.4)	n/m
Profit/(loss) before tax	10.6	(39.4)	n/m
Profit/(loss) after tax	11.5	(43.7)	n/m

1 Adjusted EBITDAR before net restructuring defined as operating profit/(loss) after adding back depreciation and aircraft rental charges and net restructuring costs of £0.2m (2012/13: £8.0m).

2 Adjusted profit/(loss) before tax, restructuring and surplus capacity costs defined as profit/(loss) before tax, net restructuring and surplus capacity costs of £1.9m (2012/13: £12.8m) and revaluation gains/(losses) on USD aircraft loans of £7.9m (2012/13: £(4.4m)). Surplus capacity costs represent the costs incurred in the year relating to capacity that is considered by management to be surplus as a result of restructuring decisions. See 'Restructuring the business' section below.

3 Adjusted profit/(loss) before tax and restructuring defined as profit/(loss) before tax and net restructuring costs of £0.2m (2012/13: £8.0m).

Turnover increased 1.0% to £620.5m (2012/13: £614.3m). Adjusted EBITDAR before net restructuring increased 47.8% to £101.5m. Adjusted profit before tax, net restructuring and surplus capacity costs and revaluation gains on USD aircraft loans was £4.6m (2012/13: loss of £22.2m), and the reported profit before tax increased from a loss of £39.4m to a profit of £10.6m.

2013/14 has been a year of transformation for Flybe Limited, with significant actions taken to reduce the cost base and to refocus the commercial operations of the business. These have entailed the departure of over 1,100 employees, a reconfiguration of the routes served and the closure of six bases at the end of March 2014. These actions, along with many others, have enabled a return to profit from last year's substantial losses, on turnover that was only slightly ahead of 2012/13.

The significant improvement in Flybe Limited's trading performance resulted mainly from the Turnaround Plans announced in January and May 2013, and the further Immediate Actions announced in November 2013. Combined, these initiatives delivered cost savings of £47m in 2013/14, and this is expected to increase to £71m in 2014/15 (see 'Restructuring the business' section below).

REVIEW OF THE BUSINESS (continued)

Reconciliation and explanation of adjusted figures

Set out below is a reconciliation from operating profit/(loss) to the adjusted EBITDAR figures. All EBITDAR metrics are non-GAAP measures[1].

EBITDAR is a common airline profit measure which is used for making comparisons between airlines. The adjusted EBITDAR measure presented removes restructuring costs reported in the profit and loss account.

	2014 £m	2013 £m	Change %
Operating profit/(loss) – unadjusted	3.6	(34.3)	n/m
Depreciation (note 11) [2]	12.1	12.4	(2.4)
Aircraft rental charges (note 3)	85.6	82.6	3.7
EBITDAR – unadjusted	**101.3**	**60.7**	67.0
Net restructuring costs reported in the profit and loss account (note 4)	0.2	8.0	(97.5)
Adjusted EBITDAR before restructuring costs	**101.5**	**68.7**	47.8

The table below sets out a reconciliation from profit/(loss) before tax to adjusted profit/(loss) before tax which adjusts the result for net restructuring costs (which include the profit on disposal of the take-off and landing rights at London Gatwick to easyJet reported in the profit and loss account).

	2014 £m	2013 £m	Change %
Profit/(loss) before tax – unadjusted	**10.6**	**(39.4)**	n/m
Net restructuring costs reported in the profit and loss account (note 4)	0.2	8.0	(97.5)
Adjusted profit/(loss) before tax and restructuring	**10.8**	**(31.4)**	n/m

Adjusted profit/(loss) before tax and net restructuring is further adjusted to remove the revaluation (gain)/loss on USD aircraft loans and the surplus capacity costs within the business. This measure demonstrates how adjusted profit/(loss) before tax and net restructuring might have appeared if it had been possible to remove these surplus capacity costs arising from restructuring decisions taken in 2012/13.

	2014 £m	2013 £m	Change %
Adjusted profit/(loss) before tax and net restructuring	**10.8**	**(31.4)**	n/m
Surplus capacity costs[3]	1.7	4.8	(64.6)
Revaluation (gain)/loss on USD aircraft loans (note 7)	(7.9)	4.4	n/m
Adjusted profit/(loss) before tax, net restructuring, surplus capacity costs and revaluation (gain)/loss on USD aircraft loans	**4.6**	**(22.2)**	n/m

The adjusted profit/(loss) before tax figures given above are non-GAAP measures[1].

1. Non-GAAP measures exclude amounts that are included in the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. The reconciliations above describe how the non-GAAP measure is determined from the most directly comparable measure calculated and presented in accordance with IFRS. The non-GAAP measures are not regarded as a substitute for, or to be superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS. The non-GAAP measures described may not be directly comparable with similarly-titled measures used by other companies.
2. Excludes depreciation on maintenance assets set up in accordance with IFRS requirements.
3. Surplus capacity costs represent the costs incurred relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in 2012/13.

REVIEW OF THE BUSINESS (continued)

Business results

	2014 £m	2013 (restated) £m
Business turnover:		
Flybe UK	599.6	589.9
MRO	35.4	40.0
Inter-segment sales	(14.5)	(15.6)
Turnover	**620.5**	**614.3**
Business adjusted profit/(loss) before tax:		
Flybe UK[1]	5.8	(19.3)
MRO[2]	2.4	0.7
Group costs	(3.6)	(3.6)
Adjusted profit/(loss) before tax, net restructuring and surplus capacity costs[3]	**4.6**	**(22.2)**
Restructuring and surplus capacity costs	(1.9)	(12.8)
Revaluation gain/(loss) on USD aircraft loans	7.9	(4.4)
Profit/(loss) before tax	**10.6**	**(39.4)**

1 Flybe UK adjusted profit/(loss) before tax, restructuring and surplus capacity costs is the segment profit of £1.2m (2012/13: segment loss of £29.2m) plus net finance income of £7.0m (2012/13: finance costs of £5.1m), after adding back group costs of £3.6m (2012/13: £3.6m), net restructuring costs of £0.2m (2012/13: £4.1m), surplus capacity costs of £1.7m (2012/13: £2.9m) and revaluation gains on USD aircraft loans of £7.9m (2012/13: losses of £4.4m).

2 MRO adjusted profit before tax, restructuring and surplus capacity costs is the segment profit of £2.4m (2012/13: segment loss of £5.1m) after adding back restructuring of £nil (2012/13: £3.9m) and surplus capacity costs of £nil (2012/13: £1.9m).

3 Adjusted profit/(loss) before tax, net restructuring and surplus capacity costs defined as profit/(loss) before tax, net restructuring and surplus capacity costs of £1.9m (2012/13: £12.8m) and revaluation gains on USD aircraft loans of £7.9m (2012/13: loss of £4.4m). Surplus capacity costs represent the costs incurred in the year relating to capacity that is considered by management to be surplus as a result of restructuring decisions taken in 2012/13.

The Flybe UK business, which also comprises the UK-based contract flying businesses, recorded an adjusted profit before tax, restructuring and surplus capacity costs of £5.8m (2012/13: loss of £19.3m), and a profit before tax[4] of £11.8m (2012/13: loss of £30.7m). Flybe Limited is one of the leading carriers of UK domestic passengers with a 28.3% sector share, the largest UK regional carrier for passengers outside London with a 55.1% sector share, and passenger numbers grew by 6.9% to 7.7 million (2012/13: 7.2 million).

The MRO business, Flybe Aviation Services, generated a profit before tax of £2.4m (2012/13: adjusted profit before tax £0.7m before restructuring and surplus capacity costs of £5.8m, and a loss before tax of £5.1m).

In 2013/14, Flybe has continued restructuring the cost base of its UK-based businesses and refocused the commercial and operational activities to enable it to transform its financial performance and be in a position to grow profitably. £10.7m was provided in the 2013/14 profit and loss account for restructuring costs. However, £10.5m profit was recorded on the sale of slots at London Gatwick, resulting in a net £0.2m restructuring cost being recorded in the profit and loss account (see note 4 for split of net restructuring between businesses). With a further £1.7m of surplus capacity costs being incurred in 2013/14, total net restructuring and surplus capacity costs stood at £1.9m. Other than ownership costs on grounded E195 aircraft, we do not expect any material further restructuring costs in 2014/15. The benefits of these very painful measures are significant, with £47m of year-on-year cost reductions delivered for 2013/14 and a further £24m of cost saving measures targeted for 2014/15.

4 Flybe UK profit/(loss) before tax is the segment profit of £1.2m (2012/13: segment loss of £29.2m) plus net finance income of £7.0m (2012/13: finance costs of £5.1m), after adding back group costs of £3.6m (2012/13: £3.6m).

REVIEW OF THE BUSINESS (continued)

Restructuring the business

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

	Incurred in 2013/14	Incurred in 2012/13	Total incurred since restructuring announcement
	£m	£m	£m
Redundancies	(9.6)	(5.5)	(15.1)
Legal, professional and other support costs	(1.1)	(1.2)	(2.3)
Other restructuring costs	-	(1.3)	(1.3)
Restructuring costs	(10.7)	(8.0)	(18.7)
Profit on London Gatwick slot sales	10.5	-	10.5
Net restructuring costs reported in the profit and loss account	**(0.2)**	**(8.0)**	**(8.2)**
Surplus capacity costs	(1.7)	(4.8)	(6.5)
Restructuring and surplus capacity costs	**(1.9)**	**(12.8)**	**(14.7)**

Other than ownership costs on grounded E195 aircraft, management does not expect to incur significant further restructuring costs in 2014/15.

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

Other restructuring costs in 2012/13 related to reducing space occupied at the many airports Flybe serves, particularly as the outsourcing of services has reduced the need for Flybe itself to have local facilities.

In 2012/13, steps were taken to improve the efficiency of the businesses, leading to surplus capacity in respect of aircraft (and also crew and maintenance staff in 2012/13) being identified and incurred in both this year and the previous one. The cost savings that would have been made had we been able to remove these costs is highlighted above as surplus capacity costs. Because these costs formed a part of the operating cost base during the periods under review, it is not possible to identify these costs separately within the financial statements.

REVIEW OF THE BUSINESS (continued)

Restructuring the business (continued)

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

	Generated in 2012/13	Generated in 2013/14 (cumulative)	Targeted cumulative annualised savings from 2014/15 onwards
	£m	£m	£m
Staff cost reductions	-	22	42
Business efficiency and outsourcing	1	17	15
Supplier costs	2	8	14
Total	**3**	**47**	**71**

Other than for staff costs where headcount reduction has been the prime driver, other cost lines have benefited from the general renegotiation of rates and payment terms across the supplier base, and from outsourcing activities and marketing and distribution cost savings.

Of the £71m target cumulative annual savings from 2014/15 onwards, £30m has been identified as being part of Phase 1 announced in January 2013, and these projects are complete. Phase 2, announced in May 2013, is expected to deliver annualised savings of £15m, and these projects are almost complete. The further Immediate Actions announced in November 2013 are expected to deliver a further £26m of savings from 2014/15 onwards, and projects comprising some 65% of this target have been completed.

FUTURE PROSPECTS AND DEVELOPMENTS

The Turnaround Plan has enabled the business to return to profitability. With the strengthened balance sheet, Flybe Limited can leverage the position of being Europe's largest regional airline and start to implement the twin-engine strategy of growing both the UK branded business and white label operations across Europe. The Company is now stronger and is well placed to deliver future profitable growth and become Europe's best local airline.

In April 2014, a five-year agreement with London City Airport was announced, with a five aircraft operation commencing on 27 October 2014. This major expansion will see Flybe significantly boost connectivity between the UK regions and Ireland to and from London. These five additional aircraft have been acquired post year-end. One was purchased by Flybe Limited and four aircraft were purchased by another member of the Flybe group. The Company has an agreement with the fellow group company to lease the four aircraft until their out-of-service dates (unless sold to a third party beforehand), at which point the aircraft will be sold. Flybe's new franchisee, Stobart Air, commenced Flybe operations from Southend Airport in June, flying two ATR72s in Flybe's new purple livery.

One of the Company's subsidiaries, Irish European Limited, was renamed as Flybe Aviation Services Limited on 18 June 2014 and it is intended that the MRO activities of Flybe Limited will be transferred to this company later in 2014.

KEY PERFORMANCE INDICATORS

Description	Key measures
Overall – maximise stakeholder confidence	
Safety underpins everything we do	Well-developed safety procedures are in place to generate continuous improvement in performance.
Realise value for parent company by driving improvements in financial performance.	Turnover increased 1.0% to £620.5m (2012/13: £614.3m). Adjusted EBITDAR before net restructuring[1] increased to £101.5m (2012/13: £68.7m). Adjusted profit before tax, net restructuring and surplus capacity costs and revaluation gains on USD aircraft loans[2] was £4.1m (2012/13: loss of £22.2m). Profit before tax £10.6m (2012/13: loss of £39.4m).
Maximise employee satisfaction	First benchmark survey to be run in 2014/15.
Regional branded airline	
Commercialisation	
Deliver growth in passengers	UK passengers were up 6.9% to 7.7m (2012/13: 7.2m), with load factor improving by 5.4 percentage points (from 64.1% to 69.5%).
Capitalise on leading positions in Flybe's core UK regional and domestic markets	No. 1 in UK regional market (55.1% sector share, up from 52.4% in 2013)[3]. No. 1 in UK domestic market (28.3% sector share, up from 28.1% in 2013)[3].
Customer satisfaction	First benchmark survey to be run in 2014/15. Complaints were 2.9 per thousand passengers (2012/13: 2.8 per thousand passengers).
Configuration	
Deliver market leading punctuality	Customer satisfaction based on punctuality – on-time departures within 15 minutes were at 84.4% in 2013/14 (2012/13: 82.7%).
Deliver a focused and productive operation with the right aircraft on right routes	Bases reduced from 13 to seven in the year. 55 routes (40% of total) modified for Summer 2014 (30 culled, 25 with frequency or gauge change). Fleet under management stable at 98 aircraft with 10 grounded. Aircraft utilisation up 1.9% to 7.3 hours per day.
Costs	
Deliver an efficient cost base	Operating costs excluding fuel, restructuring and surplus capacity costs have decreased from £513.8m to £494.7m.
Cash	
Ensure minimum free cash balances equivalent to 10 weeks' operating costs	Free cash at year-end of £177.9m, equivalent to 15 weeks' of 2013/14 operating costs (2013: 2 weeks).
White label provider	
Expand white label services in Europe	In 2013/14, Flybe Limited operated four white label aircraft for Brussels Airlines. Flybe has strong relationships with other major carriers, and discussions continue on a number of incremental white label opportunities.

1 Adjusted EBITDAR before net restructuring defined as operating profit/(loss) after adding back depreciation and aircraft rental charges and net restructuring costs of £0.2m (2012/13: £8.0m).

2 Adjusted profit/(loss) before tax, restructuring and surplus capacity costs defined as profit/(loss) before tax, net restructuring and surplus capacity costs of £1.9m (2012/13: £12.8m) and revaluation gains/(losses) on USD aircraft loans of £7.9m (2012/13: £(4.4m)). Surplus capacity costs represent the costs incurred in the year relating to capacity that is considered by management to be surplus as a result of restructuring decisions.

3 Includes passengers travelling with our franchise partner, Loganair.

As a result of the strategic review announced on 11 November 2013 and the formation of a single organisation structure for the business as a whole, the management and purpose of both the MRO and the Training Academy changed. The focus of these businesses is now to provide the achievement of a high quality service to the core airline business at a cost that is as low as is achievable.

PRINCIPAL RISKS AND UNCERTAINTIES

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

Risk description	*Potential impact*	*Inherent risk trend (movement against prior year)*	*Mitigation*
(a) Safety and security			
Failure to prevent a safety or security-related incident including terrorist threat, or attacks from either internal or external sources or to respond adequately to a safety or security-related event.	Significant adverse effect on Flybe's reputation, financial results and operational performance.	Same	Safe and secure operation is the key priority for all of Flybe's management and staff. Flybe operates a strong safety management system and has appropriate systems and procedures in place, including trained staff, to respond effectively to any such incidents.
(b) Extraneous matters			
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.	Same	Flybe monitors route performance within its commercial teams and adjusts flying patterns to customer demand. Flybe's fleet planning is designed to provide it with the most fuel-efficient aircraft available under a mix of ownership and lease terms. Reduced reliance on scheduled flying activities through increased contract flying activities.
Flybe operates in a highly competitive aviation market.	Adverse effect on market share leading to reduced revenue and profits.	Same	Flybe has a strong position in the markets where it operates and extends the reach of its brand through franchising, joint ventures and alliances. Processes are in place to monitor and report on route-by-route performance and competitor activity and to react rapidly where necessary.
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.	Adverse impact on reputation, costs and market share coupled with decline in growth opportunities.	Same	Management engages with Governments through direct contact and membership of industry organisations.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risk description	*Potential impact*	*Inherent risk trend (movement against prior year)*	*Mitigation*
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.	Same	Management monitors Governments' proposals with regard to changes in planned approach to aviation taxation and engages with Governments through direct contact and membership of industry organisations. Flybe seeks to pass on additional duties to its passengers through its pricing approaches. Flybe continues to be compliant with the new ETS regime. Flybe operates fuel-efficient aircraft for its flying pattern and seeks to develop further fuel efficiencies through changes in its practices.
Flybe is exposed to the failure or non-performance of commercial counterparties as well as requiring the services of key suppliers such as airports, air traffic control systems, and fuel supply companies.	Adversely affect Flybe's reputation, financial results or operational performance.	Same	Most suppliers can be replaced by an alternate. Contract negotiation teams are highly experienced and knowledgeable of the industry with a strong track record of developing value for Flybe.
Flybe is exposed to the effects of extraneous events, such as epidemics, natural occurrences or 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.	Same	Flybe has procedures in place to respond to such events, and to communicate effectively with passengers and other stakeholders.
(c) Reputational risk			
Flybe is exposed to an event damaging its fleet reputation, company reputation or brand.	Reduced demand, market share and revenue, any of which may adversely affect Flybe's reputation, financial results or operational performance.	Same	Flybe has a strong culture of safety management and a positive business culture supported by a code of ethics and appropriate HR policies. Flybe has procedures in place to respond to events with the potential to cause damage to its reputation or brand, and to communicate effectively with passengers and other stakeholders.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risk description	*Potential impact*	*Inherent risk trend (movement against prior year)*	*Mitigation*
(d) IT systems and the internet			
Flybe is heavily dependent on its information technology systems, the ongoing development of those systems, and the internet to operate its business. The incidence of cyber-attacks has increased worldwide and Flybe is exposed to this as a result of its reliance on the internet for a high proportion of delivery of its sales.	Loss of systems or connectivity to the internet, as a result of internal or external threat, could lead to disruption and lost revenue with an adverse impact on Flybe's financial condition. Breaches in IT security, or fraud, could adversely affect Flybe's brand and reputation, and have an adverse impact on revenue. Inability to implement successful development could lead to Flybe's business plans not being fulfilled.	Increase	A disaster recovery plan is in place and includes moving certain operations to other sites. Flybe contracts with third parties for the provision of IT services and solutions where the service is subject to disruption or could be lost entirely. Where Flybe uses third parties to supplement its own resources, effective processes relating to contract review, compliance and management are in place to mitigate the consequent risks that arise. Flybe has robust security procedures in place which are tested and reviewed by independent third parties.
Flybe operates an e-commerce business and deals with a significant amount of personal and business information.	A security breach could lead to material reputational damage.	Same	Flybe has robust security procedures in place which are tested and reviewed by independent third parties.
(e) Relationships with our people			
Flybe is dependent 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.	Adversely affect Flybe's reputation, financial results and operational performance.	Same	Flybe has well-developed consultation and negotiation processes with its employees and its unions, and continues to ensure its employment remuneration reflects current market conditions and practices that are supported by succession planning policies.

PRINCIPAL RISKS AND UNCERTAINTIES (continued)

Risk description	*Potential impact*	*Inherent risk trend (movement against prior year)*	*Mitigation*
(f) **Financial risks** Flybe is exposed to risks associated with:			
(i) Fluctuations in fuel prices and foreign exchange rates.	Adverse movements in these areas can adversely affect both Flybe's profit and financial position.	Same	While hedging cannot guarantee against significant long-term price changes, a well-established hedging strategy is in place that is designed to provide certainty over a significant proportion of Flybe's cost base in the coming 12 months.
(ii) Unavailability of suitable financing.	Lack of adequate liquid resources could result in business disruption and adversely affect Flybe's financial results.	Decrease	Flybe's policy seeks to maintain appropriate levels of free cash (15 weeks at 31 March 2014) 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.
(iii) Continuing performance of counterparties.	There is a risk of material loss in the event of non-performance by these counterparties.	Same	Flybe's policy is to invest surplus funds and enter into hedging agreements only with counterparties that meet certain credit-rating criteria.
(iv) Failure to remove grounded aircraft costs, or have to take delivery of new aircraft surplus to requirements.	Adversely affect Flybe's financial results.	New	Flybe is in a number of discussions with other airlines and lessors about removing grounded aircraft costs, and with aircraft manufacturers to ensure aircraft deliveries, and types of aircraft, match Flybe's requirements.

EMPLOYEE INVOLVEMENT

Flybe is only as good as its talented team, which endeavours to deliver an excellent service to its loyal customers every day. During the year, the Company has undertaken an important rightsizing programme that will ensure its cost of employment remains competitive. The Company's goal is to have the right people in the right jobs and for Flybe to be an attractive workplace in which a long-term and challenging career can be built on equality of opportunity. It is proud to be one of the very few airlines that enables many of its employees to live where they work – locally, within the regions both in the UK and in the European business.

Flybe has launched an employee engagement programme called 'The Purple Way' to align all employees with the Company's strategy and journey to become Europe's Best Local Airline. The engagement programme will be followed by a customer service training programme called 'Flybe Loves Service'.

EMPLOYEE INVOLVEMENT (continued)

Values

Flybe is committed to certain core principles. These are expressed in its People Strategy or 'The Way We Do Business' that includes our 'START' values of:

→ **S:** Safety – no compromises

→ **T:** Teamwork – 'One Flybe': collaboration as a way of life

→ **A:** Alignment – acting with urgency and embracing our goals and 'The Purple Way'

→ **R:** Responsibility – take accountability and ownership

→ **T:** Transparency –open, upfront, authentic and share

Our people

As at 31 March 2014, Flybe employed 1,960 employees across seven regional UK bases. Nearly 22% of our employees worked part-time or flexibly to balance their lifestyle needs and now over 75% of its employees have more than five years' service and an average attendance rate of over 96%. Unfortunately, the impact of the widespread restructuring programme has led to over 1,100 employees leaving the business including a significant change in the Flybe Leadership Team of senior managers.

Talent development

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

Management development

To engage a dispersed workforce, line management has been empowered to lead and the majority of our people managers have completed the Flybe Leader initiative in the UK. This is a bespoke 12-month modular development programme that can progress to an Institute of Leadership and Management qualification or further to a Foundation Degree in Leadership and Management.

Flybe's Operating Board has also introduced an annual performance management system as well as a succession planning process as part of its commitment to developing key talent.

EMPLOYEE INVOLVEMENT (continued)

Benefits

Flybe aims to provide fixed and variable pay and short- and long-term benefits (including insured benefits) that, in the round, are affordable, competitive in its marketplace, performance-led and flexible. Employees have been able to participate in the Share Incentive Programme ('SIP') under which all eligible employees were awarded 100 free shares shortly after Flybe Group plc's IPO and the Group's approved Save As You Earn Scheme ('SAYE') launched in 2011. Flybe Limited operates a Group Personal Pension Plan (or equivalent in relevant territories) and almost 95% of employees have elected to participate and benefit from employer's contributions to their personal fund. Flybe Limited has salary sacrifice schemes to include pensions and buying extra days off work and child-care vouchers.

Employee communication

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

Flybe has an ongoing employee engagement programme, 'The Purple Way'. The purpose is to share the Group's vision and strategy with all employees through a series of connection workshops and emotionally engage them on the journey the Company is on.

Flybe also utilises surveys to seek feedback from staff. The first of these was initiated in Spring 2014 and the results have been communicated to employees with action plans put in place to address the issues raised.

Safety Culture Diagnostic – facilitated by external consultants and aimed at improving safety awareness for all employees. The diagnostic consists of an online survey, focus groups and individual interviews and results in a structured risk-based action plan.

Employee satisfaction – managers review results with their teams and agree actions or areas to focus on to improve employees' experience of work. Year-on-year improvement is sought both in terms of level of participation and the actual results themselves.

Human rights

Flybe operates entirely with staff employed in the EU and consequently has not developed a separate, all-encompassing human rights policy. Detailed policies and procedures exist, among others, around:

- → Equality and diversity – see below
- → Grievances
- → Disciplinary procedures
- → Whistle-blowing
- → Harassment and bullying
- → Bribery.

In addition, Flybe uses its relationship with its employees to raise, air and resolve issues, whether this is through Open Channel or its established trade unions.

EMPLOYEE INVOLVEMENT (continued)

Equality and diversity

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

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

The breakdown of employees by gender is as follows:

	31 March 2014				31 March 2013			
	Male		**Female**		Male		Female	
	No.	**%**	**No.**	**%**	No.	%	No.	%
Board	6	100	-	0	9	90	1	10
Senior management (Flybe Leadership Team)	32	80	8	20	35	85	6	15
All other employees of the Company	1,117	58	797	42	1,562	58	1,151	42
	1,155	59	805	41	1,606	58	1,158	42

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 2014 Annual Report and Accounts ('the Report'). The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in that Report and this information is relevant to Flybe Limited, the main trading entity in the Group. In addition, note 25 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.

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

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

Flybe Limited had total free cash balances of £177.9m at 31 March 2014, and has met all of its operating lease commitments and debt repayments as they have fallen due during the year.

Flybe 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 policy is to hedge between 60% and 90% of estimated exposures 12 months in advance. As of 29 July 2014, Flybe Limited had purchased 70.9% of its anticipated fuel requirements and 68.3% of its anticipated US Dollar requirements for the following 12 months.

The Directors having considered the detailed trading budget and cash flow forecasts, and on making other enquiries, the Directors have a reasonable expectation that Flybe Limited 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

The report was approved by the Board of Directors on 31 July 2014 and signed on its behalf by:

Andrew Knuckey
Director

DIRECTORS' REPORT

The Directors present their Annual Report on the affairs of the Group, together with the Financial Statements and Auditor's Report for the year ended 31 March 2014.

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:

Item	Page number
Future prospects and developments	6
Employee involvement	11
Equality and diversity	14

DIRECTORS AND SECRETARY

The Directors who held office during the period and subsequently, unless otherwise stated, were as follows:

Saad Hammad	(appointed 8 August 2013)
Andrew Knuckey	
Jim French CBE	(resigned 8 August 2013)
Mark Chown	(resigned 2 October 2013)
Mike Rutter	(resigned 2 October 2013)
Andrew Strong	(resigned 2 October 2013)

Chris Simpson resigned as Company Secretary on 7 March 2014 to be replaced by Andrew Knuckey. On 17 July 2014, Annelie Carver joined Flybe Limited and was appointed as Company Secretary to replace Andrew Knuckey who has resigned from the Board and will cease to be a Director on 1 August 2014.

DIVIDENDS

The directors do not recommend a final dividend (2013: £nil).

POLITICAL CONTRIBUTIONS

The Company made no political contributions during the year (2013: £nil).

DIRECTORS' REPORT (CONTINUED)

AUDITOR

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

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

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

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

This report was approved by the board of Directors on 31 July 2014 and signed on its behalf by:

Annelie Carver
Company Secretary

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FLYBE LIMITED

We have audited the financial statements of Flybe Limited for the year ended 31 March 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 27. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements 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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the 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.

Anna Marks

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

31 July 2014

PROFIT AND LOSS ACCOUNT
Year ended 31 March 2014

	Note	2014 £m	2013 (restated) £m
TURNOVER	2	620.5	614.3
Cost of sales		(573.6)	(589.7)
GROSS PROFIT		46.9	24.6
Administrative expenses		(43.3)	(49.6)
OPERATING PROFIT/(LOSS)		3.6	(25.0)
Profit/(loss) on sale of fixed assets	3	0.2	(1.3)
Profit on sale of intangible fixed assets	3,4	10.5	-
Restructuring costs	4	(10.7)	(8.0)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE INTEREST		3.6	(34.3)
Net finance income/(charge)	7	7.0	(5.1)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	10.6	(39.4)
Tax credit/(charge) on profit/(loss) on ordinary activities	8	0.9	(4.3)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	21	**11.5**	**(43.7)**

All activities of the Company are regarded as continuing.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 March 2014

	2014	2013
	£m	£m
PROFIT/(LOSS) FOR THE FINANCIAL YEAR	**11.5**	**(43.7)**
(Losses)/gains arising during the year on cash flow hedges	(16.0)	3.3
Reclassification of gains/(losses) on cash flow hedges included in profit and loss	3.2	(2.7)
Deferred tax arising on cash flow hedges	2.1	(0.1)
Actuarial losses on defined benefit scheme (note 19)	(2.2)	(0.2)
Capital contribution from Flybe Group plc and fellow subsidiaries of Flybe Group plc as a result of loan waivers	43.4	-
TOTAL RECOGNISED GAINS/(LOSSES) FOR THE FINANCIAL YEAR	**42.0**	**(43.4)**

BALANCE SHEET
At 31 March 2014

		2014		2013	
	Note	£m	£m	£m	£m
FIXED ASSETS					
Intangible assets	10		-		8.5
Tangible assets	11		163.5		155.5
			163.5		164.0
CURRENT ASSETS					
Stocks	12	6.8		6.8	
Debtors – due within one year	13	118.3		115.8	
Debtors – due after more than one year	13	36.1		42.5	
Cash at bank and in hand		218.4		54.7	
		379.6		219.8	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(362.0)		(259.7)	
NET CURRENT ASSETS/(LIABILITIES)			17.6		(39.9)
TOTAL ASSETS LESS CURRENT LIABILITIES			181.1		124.1
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15		(91.7)		(95.7)
PROVISIONS FOR LIABILITIES	16		(77.2)		(60.7)
PENSION LIABILITIES	19		(2.5)		-
NET ASSETS/(LIABILITIES)			**9.7**		**(32.3)**
CAPITAL AND RESERVES					
Called up share capital	20		1.0		1.0
Hedging reserve	21		(6.7)		4.0
Profit and loss account	21		15.4		(37.3)
SHAREHOLDERS' FUNDS/(DEFICIT)	22		**9.7**		**(32.3)**

The financial statements of Flybe Limited, registered number 2769768, were approved by the Board of Directors and authorised for issue on 31 July 2014.

Signed on behalf of the Board of Directors

Andrew Knuckey
Director

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. ACCOUNTING POLICIES

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

Basis of preparation

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

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

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

Consolidated financial statements

The company is a wholly-owned subsidiary undertaking of Flybe Group plc, the group financial statements of which are publicly available from Companies House, Crown Way, Maindy, Cardiff CF14 3UZ. Accordingly, the company has taken advantage of the exemption given in s400 of the Companies Act 2006 from preparing and delivering group financial statements. As a result these financial statements present information about the company and not about its group.

Going concern

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Strategic report on page 15.

Intangible fixed assets

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

Investments

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Tangible fixed assets and depreciation

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

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

Freehold land	Nil
Freehold and short leasehold buildings	2% - 10% per annum or lease term where shorter
Plant, equipment and motor vehicles	10% - 50% per annum
Aircraft and components	7% - 20% per annum of cost less residual value
Maintenance assets (within aircraft in note 11)	25% - 50% per annum

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

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

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

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

Impairment

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

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

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

Research and development

Research expenditure is written off as incurred. Development expenditure is also written off, except where directors are satisfied as to the technical, commercial and financial viability of individual projects. In such cases, the identifiable expenditure is deferred and amortised over the five-year period during which the Company is expected to benefit. Provision is made for any impairment.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Leases

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

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

Pension and other post-retirement benefits

The Company operates defined contribution and defined benefit pension schemes.

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 profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

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

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

Taxation

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

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

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

Stocks

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

Aircraft consumables

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Stocks (continued)

Work in progress

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

Provisions

Provisions are recognised when the Company has a present obligation and, as a result of a past event, it is probable that the Company will have to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using future cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows, discounted at a rate representing the risk inherent in the liability.

Leased aircraft maintenance costs

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Restructuring provisions

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

Turnover and revenue recognition

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

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

Airline operations

Scheduled and charter passenger ticket sales, net of passenger taxes and discounts, are recorded in a 'forward sales' account and are included in creditors, within deferred income, until recognised as revenue when transportation occurs. This also includes revenues derived from flights operated by the Company's codeshare partners. For flights purchased by members of the 'Frequent Flyer Program', an element of revenue representing the sales value of flights which these customers may take in future at no cost is deferred and recognised when the related free flights have been taken. The amount of deferral is based on the value of an equivalent flight. Unused tickets are recognised as revenue when the right to travel expires and the Company's obligation to refund ceases, which is determined by both the terms and conditions of these tickets.

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

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

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

Technical support services

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

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

Government grants

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. **ACCOUNTING POLICIES (continued)**

Share-based payments

The Company has applied the requirements of FRS 20 'Share-based payments'.

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

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 expense that would have arisen over the remainder of the original vesting period.

For cash-settled share-based payments, 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.

Financial instruments

The Company has applied the requirements of FRS 26 and FRS 29 when accounting for financial instruments. Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions of the relevant instrument.

Classification of financial instruments issued by the Company

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

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

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

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

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

Hedge accounting

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

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

Movements in the hedging reserve are detailed in note 21.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Hedge accounting (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the statement of total recognised gains and losses. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account within operating profit/(loss).

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

Hedge accounting is discontinued when the Company revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in the statement of total recognised gains and losses at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the profit and loss account.

Financial assets

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

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

Financial assets at FVTPL

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the profit and loss account. The net gain or loss recognised in the profit and loss account incorporates any dividend or interest earned on the financial asset and is included in operating profit/(loss) or interest payable in the profit and loss account depending upon the nature of the instrument. Fair value is determined in the manner described in note 25.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Hedge accounting (continued)

Loans and debtors

Trade debtors, loans, and other debtors that have fixed or determinable payments that are not quoted in an active market are classified as loans and debtors. Loans and debtors 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 debtors when the recognition of interest would be immaterial.

Impairment of financial assets

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

Derecognition of financial assets

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

Derivative financial instruments

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

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

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

Cash at bank and in hand

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

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

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 (see note 23).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

1. ACCOUNTING POLICIES (continued)

Financial liabilities and equity

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

Equity instruments

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

Financial liabilities

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

Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in either operating profit/(loss) or interest payable in the profit and loss account. Fair value is determined in the manner described below.

Other financial liabilities

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

Derecognition of financial liabilities

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

Foreign currencies

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

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

2. SEGMENT INFORMATION

During the financial year, the Group's divisions have been removed and the business has been refocused into One Flybe. Under SSAP 25, Flybe reports three business segments in order to comply with accounting standards. Comparatives for the year ended 31 March 2013 have been restated to correspond with the new structure.

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

Flybe UK	This business segment comprises the scheduled UK domestic and UK-Europe passenger operations and revenue ancillary to the provision of those services.
MRO	This segment aims to provide aviation services to customers, largely in Western Europe. The MRO supports Flybe UK as well as serving the Finnish activities and third-party customers.

2014	Flybe UK[1]	MRO	Total
	£m	£m	£m
Turnover			
Total sales	599.6	35.4	635.0
Inter-segment sales	-	(14.5)	(14.5)
Sales to third parties	**599.6**	**20.9**	**620.5**
Profit on ordinary activities before interest and restructuring costs	1.4	2.4	3.8
Net restructuring costs (note 4)	(0.2)	-	(0.2)
Profit on ordinary activities before interest	1.2	2.4	3.6
Finance costs (net)			7.0
Profit on ordinary activities before taxation			**10.6**
Segment net (liabilities)/assets	(8.0)	11.6	3.6
Unallocated net assets[2]			6.1
Net assets			**9.7**

[1] The Flybe UK segment includes group costs of £3.6m (2012/13: £3.6m) and revaluation gains on USD aircraft loans of £7.9m (2012/13: losses of £4.4m).

[2] All assets are allocated to reportable segments with the exception of tax assets and liabilities.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

2. SEGMENT INFORMATION (continued)

2013	Flybe UK (restated[1]) £m	MRO (restated[1]) £m	Total (restated[1]) £m
Turnover			
Total sales	589.9	40.0	629.9
Inter-segment sales	-	(15.6)	(15.6)
Sales to third parties	**589.9**	**24.4**	**614.3**
Loss on ordinary activities before interest and restructuring costs	(25.1)	(1.2)	(26.3)
Net restructuring costs	(4.1)	(3.9)	(8.0)
Loss on ordinary activities before interest	(29.2)	(5.1)	(34.3)
Finance costs (net)			(5.1)
Loss on ordinary activities before taxation			**(39.4)**
Segment net (liabilities)/assets	(39.7)	4.7	(35.0)
Unallocated net assets			2.7
Net liabilities			**(32.3)**

[1] *The segment information for financial year ended 31 March 2013 has been restated to reflect the change in business segments* which occurred during financial year ended 31 March 2014. The cost of sales and administrative expenses figures shown on the profit and loss account on page 20, for financial year 31 March 2013, have also been restated to reflect a reallocation of £3.4m between the two lines as a result of the change in segments. The operating loss remains unchanged.

Geographical information

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

	2014 £m	2013 £m
Turnover from external customers:		
United Kingdom	537.0	528.5
Europe excluding United Kingdom	70.2	70.6
Rest of world	13.3	15.2
	620.5	**614.3**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2014 £m	2013 £m
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
Owned	5.0	6.6
Held under finance leases	7.1	5.8
(Profit)/loss on disposal of tangible fixed assets	(0.2)	1.3
Profit on disposal of intangible assets	(10.5)	-
Research and development		
Current year expenditure	0.1	-
Amortisation of deferred expenditure	0.3	-
Operating leases:		
Land and buildings	2.7	4.1
Plant and machinery	1.9	1.9
Aircraft	85.6	82.6
Foreign exchange losses	0.3	1.7

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2014 £m	2013 £m
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	0.2	0.2
Total audit fees	0.2	0.2
Tax compliance and advisory services	0.2	0.1
Total audit and non-audit fees	**0.4**	**0.3**

4. RESTRUCTURING COSTS

Detail of the restructuring provision is provided in note 16.

	2014	2013 (restated[1])		
	Flybe UK[2] £m	Flybe UK £m	MRO £m	Total £m
Redundancy costs	9.6	2.8	2.8	5.6
Staff costs	9.6	2.8	2.8	5.6
Legal, professional and support costs	1.1	1.2	-	1.2
Property and other exit costs	-	0.1	1.1	1.2
Other operating expenses	1.1	1.3	1.1	2.4
Total restructuring costs	**10.7**	**4.1**	**3.9**	**8.0**
Profit on slot sales (note 10)	**(10.5)**	**-**	**-**	**-**
Net restructuring costs	**0.2**	**4.1**	**3.9**	**8.0**

1 Restated figures for Flybe UK and MRO due to change in business segments – see note 2.
2 All 2014 net restructuring costs relate to Flybe UK.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

5. REMUNERATION OF DIRECTORS

	2014 £m	2013 £m
Directors' emoluments	1.9	1.8
Compensation for loss of office	0.1	-
	2.0	**1.8**
Company contributions to personal pension schemes	**0.2**	**0.2**

The aggregate emoluments of the highest paid Director were £0.4m (2013: £0.5m) and company pension contributions of less than £0.1m (2013: £0.1m) were made to a personal pension scheme on his behalf.

In 2014, pension contributions for five Directors (2013: four) were made to defined contribution personal pension *schemes on their behalf.*

6. STAFF NUMBERS AND COSTS

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

	2014 No.	2013 No.
Flight and maintenance	564	1,418
Technical support services	371	724
Administration	1,250	525
	2,185	**2,667**

The aggregate payroll costs of these persons were as follows:

	2014 £m	2013 £m
Wages and salaries	79.3	103.0
Social security costs	9.0	11.0
Other pension costs (see note 19)	6.6	7.1
Share-based payments (see note 18)	1.5	0.6
Redundancy costs (see note 4)	9.6	5.6
	106.0	**127.3**

In addition to the above, an actuarial loss of £0.2m (2013: loss of £0.2m) was recognised in the statement of total recognised gains and losses in respect of the defined benefit pension scheme.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

7. NET FINANCE CHARGES

	2014 £m	2013 £m
Interest payable and similar charges on:		
Bank loans and overdrafts	1.0	0.9
Finance leases	0.3	0.4
	1.3	1.3
Investment income: bank interest	(0.2)	(0.4)
Other finance (income)/charges:		
(Gains)/losses arising on retranslation of foreign currency loans and monetary deposits used to fund aircraft and engine purchases	(7.9)	4.4
Net finance gains in respect of pension scheme liabilities	(0.2)	(0.2)
	(8.3)	3.8
Finance charges (net)	**(7.0)**	**5.1**

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

8. TAXATION

	2014 £m	2013 £m
Analysis of tax credit/(charge) in the year:		
Deferred tax (see note 17) credit/(charge) for the year	0.9	(4.3)
Tax credit/(charge) on profit/(loss) on ordinary activities	**0.9**	**(4.3)**

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

8. TAXATION *(continued)*

The current tax charge for the year is different to the tax charge which arises under the standard rate of corporation tax in the UK, of 23% (2013: 24%). The differences are explained below:

	2014 £m	2013 £m
Current tax reconciliation:		
Profit/(loss) on ordinary activities before taxation	10.6	(39.4)
Current tax at 23% (2013: 24%)	(2.4)	9.5
Effects of:		
Expenses not deductible for tax purposes	(0.1)	(0.1)
Capital allowances in excess of depreciation/(depreciation in excess of capital allowances)	4.2	(5.8)
Group relief surrendered	(1.3)	(3.4)
Origination and reversal of timing differences	(0.4)	(0.2)
Total current tax charge	-	-

The main rate of corporation tax reduced from 23% to 21% from 1 April 2014 and Parliament has substantially enacted a further reduction to 20% from 1 April 2015. 21% has been used to calculate the position on deferred tax at 31 March 2014 (2013: 23%). The Directors are not aware of any other factors that will materially affect the future tax charge.

9. INVESTMENTS

	2014 £m	2013 £m
Cost and net book value at beginning and end of the year	-	-

Details of the Company's principal subsidiary undertakings at 31 March 2014 are as follows:

	Country of incorporation	Nature of business	% owned by ordinary shares
British European Limited	England	Dormant	100
Flybe Aviation Services Limited (formerly Irish European Limited)	England	Dormant	100
British European.com Limited	England	Dormant	100

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

10. INTANGIBLE FIXED ASSETS

	Total £m
Cost	
At beginning of year	8.5
Disposals	(8.5)
At end of year	-
Net book value	
At 31 March 2014	-
At 31 March 2013	8.5

Landing rights are not amortised as they are considered to have an indefinite life.

On 22 May 2013, the Company entered into an agreement with the easyJet Airline Company Limited to dispose of its takeoff and landing rights ('slots') at London Gatwick for a gross cash consideration of £20.0m. After expenses of £1.5m, the profit on disposal was £10.5m (see note 4).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

11. TANGIBLE FIXED ASSETS

	Land and buildings £m	Short leasehold buildings £m	Plant, equipment and motor vehicles £m	Aircraft £m	Total £m
Cost					
At beginning of year	24.3	0.3	29.9	168.9	223.4
Additions	0.1	-	1.8	19.3	21.2
Disposals	(0.1)	-	(0.1)	(2.7)	(2.9)
At end of year	**24.3**	**0.3**	**31.6**	**185.5**	**241.7**
Depreciation					
At beginning of year	4.8	0.2	19.6	43.3	67.9
Charge for the year	0.5	-	2.2	9.4	12.1
Disposals	-	-	(0.1)	(1.7)	(1.8)
At end of year	**5.3**	**0.2**	**(21.7)**	**(51.0)**	**78.2**
Net book value					
At 31 March 2014	**19.0**	**0.1**	**9.9**	**134.5**	**163.5**
At 31 March 2013	19.5	0.1	10.3	125.6	155.5

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

Included within aircraft are assets with a net book value of £85.6m held under finance leases (2013: £92.1m). Capitalised development costs of £4.1m (2013: £3.3m) are contained within plant, equipment and motor vehicles which included £3.6m of development costs for projects which are in the course of construction (2013: £2.9m).

An impairment review was performed at the balance sheet date to determine whether these assets were impaired. Separate cash-generating units are established for Flybe UK and MRO. No impairment review was required for the MRO. For Flybe UK, the recoverable amount was calculated using a value in use model and determined to be higher than the assets recoverable amount by £36.6m and no impairment was required. The key assumption in the review of the Flybe UK assets was the weighted average cost of capital used of 9.5%. Only when the weighted average cost of capital is increased to 12.8% does the recoverable amount equal its carrying amount.

12. STOCKS

	2014 £m	2013 £m
Goods for resale	-	0.8
Aircraft consumables	6.8	6.0
	6.8	**6.8**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

13. DEBTORS

	2014 £m	2013 £m
Due within one year		
Trade debtors	26.1	35.2
Amounts recoverable on contracts	1.3	1.8
Amounts owed by group undertakings	21.0	20.3
Other taxation and social security	1.3	1.2
Aircraft deposits	6.1	11.8
Other debtors	37.7	20.9
Prepayments and accrued income	18.3	16.2
Deferred tax asset (see note 17)	6.1	2.7
Derivative financial instruments (see note 25)	0.4	5.7
	118.3	**115.8**
Due after one year		
Aircraft lease deposits	3.8	9.9
Other debtors	25.8	23.6
Prepayments	6.5	9.0
	36.1	**42.5**
Total debtors	**154.4**	**158.3**

Trade debtors disclosed above are classified as loans and debtors and are therefore measured at amortised cost. Trade debtors disclosed above include amounts (see below for aged analysis) which are past due at the reporting date but against which the Company has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts continue to be considered recoverable.

The allowance for doubtful debts arises from trade customers in liquidation or with significantly overdue debts. No impairment loss was recognised in the year to 31 March 2014 (2013: nil).

Ageing of past due but not impaired debtors

	2014 £m	2013 £m
Not yet due	20.6	28.0
30 to 60 days overdue	2.9	2.2
60 to 90 days overdue	2.2	2.1
90+ days overdue	0.4	2.9
	26.1	**35.2**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2014 £m	2013 £m
Bank loans (see note 15)	3.8	10.7
Obligations under finance leases (see note 15)	4.9	5.1
Trade creditors	23.6	19.3
Amounts owed to group undertakings	194.3	82.5
Other taxation and social security	20.6	25.3
Other creditors	13.2	16.4
Accruals	22.9	35.8
Deferred income	70.7	63.1
Derivative financial instruments (see note 25)	8.0	1.5
	362.0	**259.7**

Bank loans are secured on the assets to which they relate. For further details of these loans, see note 15.

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

Deferred income above and in note 15 includes government grants totalling £6.7m (2013: £6.8m) for capital financial support towards the capital costs of the Training Academy building, a national training centre for the airline industry. Of this, £0.1m will be released within one year and £6.6m (within the deferred income balance in note 15) will be released after more than one year.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

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

	2014	2013
	£m	£m
Secured bank loans	20.8	10.9
Obligations under finance leases	61.4	73.9
Deferred income (see also note 14)	9.5	10.9
	91.7	**95.7**

The maturity of borrowings including finance leases is as follows:

	2014			2013		
	Bank loans	Finance leases	Total	Bank loans	Finance leases	Total
	£m	£m	£m	£m	£m	£m
In one year or less, or on demand	3.8	4.9	8.7	10.7	5.1	15.8
Between one and two years	3.4	4.9	8.3	3.1	5.5	8.6
Between two and five years	7.5	14.9	22.4	7.5	16.7	24.2
In five years or more	9.9	41.6	51.5	0.3	51.7	52.0
After more than one year	20.8	61.4	82.2	10.9	73.9	84.8
	24.6	**66.3**	**90.9**	**21.6**	**79.0**	**100.6**

Rates of interest charged on borrowings including finance leases vary between 1.6% (2013: 0.3%) and 5.4% (2013: 8.7%). The bank loans are secured on the assets to which they relate. All of the covenants tested have been satisfied since the inception of the agreements.

Borrowing costs amounting to £8.4m (2013: £9.1m) were capitalised in relation to qualifying assets.

16. PROVISIONS FOR LIABILITIES

	Leased aircraft maintenance	Restructuring (note 4)	Total
	£m	£m	£m
At 1 April 2013	54.1	6.6	60.7
Additional provision in the year	40.4	10.7	51.1
Utilisation of provision	(21.8)	(12.8)	(34.6)
At 31 March 2014	**72.7**	**4.5**	**77.2**

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

On 23 January 2013 and 23 May 2013, the Group announced Phases 1 and 2 of its Turnaround Plan to return the Group to profitability. An Immediate Action plan was also announced on 11 November 2013. A specific restructuring provision is therefore in place for direct restructuring expenditure and not associated with the ongoing activities of the Group. This provision is expected to be utilised in the current financial year.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

17. DEFERRED TAXATION

	£m
Asset at 1 April 2013	2.7
Recognised in the profit and loss account in the year	0.4
Recognised in equity	2.5
Effect of rate change	0.5
Asset at 31 March 2014	**6.1**

The elements of deferred taxation are as follows:

	Recognised net deferred tax asset		Unrecognised net deferred tax asset	
	2014	2013	2014	2013
	£m	£m	£m	£m
Difference between accumulated depreciation and capital allowances	3.9	0.2	-	6.4
Employee benefits	0.6	-	-	-
Financial instruments	1.6	(1.0)	-	-
Tax losses	-	3.5	-	-
Undiscounted deferred tax	**6.1**	**2.7**	-	**6.4**

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

18. SHARE SCHEMES

Performance Share Plan ('PSP')

The parent company, Flybe Group plc, has a share award scheme under which all employees of the Company may be granted awards. Awards are exercisable at nil consideration. The vesting period is three years and awards are forfeited if the employee leaves the Company before the awards vest.

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

18. SHARE SCHEMES (continued)

Performance Share Plan ('PSP') (continued)

	2014		2013	
	Number of share awards	Weighted average exercise price (£)	Number of share awards	Weighted average exercise price (£)
Outstanding at beginning of year	2,733,320	-	2,733,320	-
Expired during the year	(929,595)	-	-	-
Outstanding at the end of the year	**1,803,725**	-	**2,733,320**	-
Exercisable at the end of the year	-	-		-

January 2011 award
On 21 January 2011, 937,146 shares were awarded to employees of the Company. The share price on the date of the award was £3.25. 7,551 share options were forfeited in the year ended 31 March 2012. No share options have been forfeited in this or the preceding financial year. The share award was available for exercise on 21 January 2014. However, based on performance over the period to 31 March 2014, these awards did not vest and the 929,595 awards expired.

The likelihood of awards in Flybe Group plc being made under the January 2011 issue under the PSP was re-assessed during the year ended 31 March 2012 and it was determined that the EPS element (70% of the total award) was no longer expected to vest. The market conditions have not changed and therefore the charge for the TSR element of this award for the year was £0.1m (2013: £0.2m).

August 2011 award
On 5 August 2011, a further 1,803,725 shares were awarded to employees of the Company. The share price at the date of the award was £1.62. No shares were forfeited or exercised during this year or the preceding financial year. The options outstanding at 31 March 2014 had a weighted average exercise price of £nil and will be available for exercise on 5 August 2014. Based on performance over the period to 31 March 2014, these awards will not vest and will lapse in full.

Again it was determined that the EPS element (70% of the total award) of the August 2011 issue would not be likely to vest and therefore only the TSR element would be charged to the profit and loss account. The market conditions have not changed and therefore the charge for the TSR element of this award for the year was £0.1m (2013: less than £0.1m).

In total, the Company recognised expenses of £0.2m (2013: £0.2m) in relation to the PSP scheme in the year to 31 March 2014.

Share Incentive Plan ('SIP')

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

On 24 January 2011, 280,000 ordinary shares were issued by Flybe Group plc for this purpose. The calculation of the charge is based on the market value at the date of allocation of £3.25 and under the assumption that 75% of shares issued will be redeemed in three years.

The charge for the year in relation to this scheme was £0.2m (2013: £0.2m). The charge in relation to this scheme ceased in December 2013.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

18. SHARE SCHEMES (continued)

Save As You Earn ('SAYE')

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

	2014 £m	2013 £m
Outstanding at the beginning of the year	732,716	998,362
Forfeited during the year	(15,537)	(15,010)
Cancelled during the year	(137,011)	(250,636)
Expired	(109,887)	-
Outstanding at the end of the year	**470,281**	**732,716**

The Company recognised expenses of £0.2m in relation to this award in the year to 31 March 2014 (2013: £0.2m).

Long-Term Incentive Plan ('LTIP')

The Flybe LTIP 2013

The parent company, Flybe Group plc, has a share award scheme, Flybe LTIP 2013 Awards ('LTIP Award'), under which all employees of the Company may be granted awards. No Directors of the Company may be granted an LTIP Award under this scheme.

Awards granted take the form of a conditional right to receive a cash amount, the value of which is calculated by reference to the number of ordinary shares which are notionally subject to an LTIP Award multiplied by the increase in the market value of an ordinary share in Flybe Group plc between the date of grant (unless determined otherwise by the remuneration committee) and the market value of an ordinary share in Flybe Group plc on the third anniversary of grant. Market value on a particular date will be calculated by reference to an average of the closing price of an ordinary share in Flybe Group plc for the three months prior to such date. The closing price at the third anniversary of the grant date in respect of an LTIP Award may not exceed 400 per cent. of the opening price and therefore will be capped at the amount equal to 400 per cent. of the opening price.

The vesting of LTIP Awards granted will be conditional upon the achievement of an objective performance target set at the time of grant. It is intended that the performance target will be that the closing price in respect of an LTIP Award at the first vesting date must exceed a pre-determined level.

	2014	
	Number of share awards	**Weighted average exercise price (£)**
Granted and outstanding at the end of the year	**2,751,951**	**-**
Exercisable at the end of the year	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

18. SHARE SCHEMES (continued)

On 21 November 2013, 2,751,951 shares were awarded to employees of the Company. Fair value of the award at 31 March 2014 has been calculated using a Monte Carlo valuation model. The inputs into the valuation are as follows:

Flybe Group plc	2014
Exercise price	78.5p
Share price at 31 March 2014 (the measurement date)	131.5p
Risk-free rate of interest	0.97%
Flybe volatility	45%
Dividend yield	nil

As participation is limited to a small population, no forfeiture risk has been assumed in the valuation.

The Company recognised a charge for the year in relation to this scheme of £0.1m. The parent company, Flybe Group plc, has recorded liabilities of £0.1m at 31 March 2014.

The Saad Hammad LTIP ('SH Plan')

Mr. Hammad is the sole participant under the SH Plan, which is specifically designed in order to incentivise him to grow the market capitalisation of Flybe Group plc, the parent company of Flybe Limited, over a three-year performance period commencing on the date that he joined the Company.

The award made under the terms of the SH Plan entitles Mr. Hammad to receive a cash payment depending upon the extent to which the performance conditions have been satisfied, over a three-year performance period commencing on the date that he joined the Company. The performance condition is that the market capitalisation of Flybe Group plc at the end of the performance period must be greater than the market capitalisation of Flybe Group plc at the start of the performance period. If this condition is not satisfied, no payment will be made. The Directors' Remuneration Report of Flybe Group plc gives further details.

The LTIP award was granted on 1 August 2013. Fair value of the award at 31 March 2014 has been calculated using a Monte Carlo valuation model. The inputs into the valuation are as follows:

Flybe Group plc	2014
Starting market capitalisation	£39.5m
Starting issued share capital	75.2m
Issued share capital at 31 March 2014 (the measurement date)	216.7m
Share price at 31 March 2014 (the measurement date)	131.5p
Aggregate price paid for new shares	£155.7m
Risk-free rate of interest	0.85%
Flybe volatility	45%
Dividend yield	nil

As participation is limited to one individual, no forfeiture risk has been assumed in the valuation.

The Company recognised a charge for the year in relation to this scheme of £0.8m. The parent company, Flybe Group plc, has recorded liabilities of £0.8m at 31 March 2014.

Summary

The Company recognised total expenses of £1.5m in relation to share-based payments in the year ended 31 March 2014 (2013: £0.6m).

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

19. PENSION ARRANGEMENTS

British Regional Air Lines Group Pension Scheme

Composition of the scheme

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

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 31 March 2013. The valuation was finalised in June 2014 and showed a deficit position of £7.0m. The present value of the defined benefit obligation, the related current service cost and past service cost were measured using the projected unit credit method. As a result of the valuation, it was agreed that Flybe Limited would contribute £0.5m per annum on or before 30 June in each calendar year from 2014 to 2023 inclusive. The contribution for calendar year 2014 of £0.5m was paid in June 2014. The valuation will be reviewed at the next actuarial valuation date of 31 March 2016.

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

	2014	2013
Discount rate	4.6	4.6
Expected return on scheme assets	5.5	5.0
Expected rate of salary increases	n/a	n/a
Future pension increases	5.0/3.0	5.0/3.0
RPI inflation	3.4	3.4

The post-retirement mortality rate assumed at 31 March 2014 was based on the Small Area Population Statistics ('SAPS') tables with a minus one year age rating and the Continuous Mortality Investigation ('CMI') 2009 1% long-term rate projections (2013: the mortality rate was also based on SAPS).

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

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

Assumption	Change in assumption	2014 £m	2013 £m
Discount rate	Increase by 0.1%	(2.9)	(2.5)
Rate of inflation	Increase by 0.1%	2.0	1.9

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

19. PENSION ARRANGEMENTS (continued)

Scheme assets

The assets in the scheme were:

	2014 £m	2013 £m
Equities	58.4	50.5
Bonds and gilts	71.3	80.0
Cash	0.1	0.3
Total market value of assets	129.8	130.8
Actuarial value of liability	(132.3)	(129.3)
(Deficit)/surplus in the scheme	(2.5)	1.5
Amount of surplus not recognised	-	(1.5)
Deficit on balance sheet	**(2.5)**	**-**

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

	2014 £m	2013 £m
Movements in the scheme liabilities during the year		
Opening liability	(129.3)	(119.6)
Interest cost	(5.8)	(5.8)
Benefits paid	5.0	3.9
Actuarial losses	(2.2)	(7.8)
Closing liability	**(132.3)**	**(129.3)**

	2014 £m	2013 £m
Movements in the scheme assets during the year		
Opening assets	130.8	120.9
Expected return on assets	6.0	6.0
Actuarial (losses)/gains	(2.0)	7.8
Benefits paid	(5.0)	(3.9)
Closing assets	**129.8**	**130.8**

	2014 £m	2013 £m
Analysis of amounts (credited)/charged to net finance charges		
Expected return on assets	(6.0)	(6.0)
Interest cost	5.8	5.8
Net gain	**(0.2)**	**(0.2)**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

19. PENSION ARRANGEMENTS (continued)

	2014 £m	2013 £m
Analysis of amount recognised in statement of total recognised gains and losses		
Actuarial losses on scheme liabilities	(2.2)	(7.8)
Actuarial gains on scheme assets	(2.0)	7.8
Adjustment to amount not recognised as an asset	1.5	(0.2)
Net loss recognised	(2.7)	(0.2)
Deferred tax	0.5	-
Net loss recognised after deferred tax	**(2.2)**	**(0.2)**

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Actuarial gain on scheme assets	2.0	7.8	2.2	0.9	14.5
Percentage of year-end scheme assets	1.5%	6.0%	1.8%	0.8%	13.0%
Actuarial (loss)/gain arising on scheme liabilities	(2.2)	(7.8)	(5.9)	9.8	(22.5)
Percentage of present value of year-end scheme liabilities	1.7%	6.0%	4.9%	8.9%	19.3%
Adjustment to reflect unrecognised asset	-	1.5	1.3	4.6	-
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(0.2)	(0.2)	(0.4)	6.1	(4.7)
Percentage of present value of year-end scheme liabilities	0.2%	0.2%	0.3%	5.5%	4.0%

Other schemes

The Company also operates defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Company to the schemes and amounted to £6.6m (2013: £7.1m).

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

20. SHARE CAPITAL

	2014 £m	2013 £m
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	1.0	1.0

21. STATEMENT OF MOVEMENTS ON RESERVES

	Hedging reserve £m	Profit and loss account £m	Total £m
At beginning of the financial year	4.0	(37.3)	(33.3)
Profit for the financial year	-	11.5	11.5
Actuarial loss related to the pension scheme	-	(2.2)	(2.2)
Capital contribution [1]	-	43.4	43.4
Gain, net of deferred tax, arising on cash flow hedges	(10.7)	-	(10.7)
At end of the financial year	**(6.7)**	**15.4**	**8.7**

[1] Capital contribution from Flybe Group plc and fellow subsidiaries of Flybe Group plc as a result of loan waivers.

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

	2014 £m	2013 £m
At beginning of the financial year	(32.3)	11.1
Profit/(loss) for the financial year	11.5	(43.7)
Actuarial loss related to the pension scheme	(2.2)	(0.2)
Capital contribution [1]	43.4	-
(Loss)/gain, net of deferred tax, arising on cash flow hedges	(10.7)	0.5
At end of the financial year	**9.7**	**(32.3)**

[1] Capital contribution from Flybe Group plc and fellow subsidiaries of Flybe Group plc as a result of loan waivers.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

23. CONTINGENT LIABILITIES AND GUARANTEES

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

	2014 £m	2013 £m
Credit card arrangements	24.0	14.0
Bonds	7.2	8.7
Total	**31.2**	**22.7**

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

	2014 £m	2013 £m
Aircraft operating lease deposits	6.6	7.2
Aircraft maintenance deposits	2.6	1.5
Cash deposited to secure the above guarantee and bond arrangements	31.3	22.7
Total restricted cash	**40.5**	**31.4**

24. COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	2014		2013	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	0.6	3.4	1.8	3.2
In the second to fifth years inclusive	0.2	40.0	0.8	30.2
Over five years	0.5	38.7	0.6	53.7
	1.3	**82.1**	**3.2**	**87.1**

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

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

	2014		2013	
	No.	£m	No.	£m
Embraer E-Series aircraft	**24**	**534.9**	**26**	**636.2**

It is intended that these aircraft will be financed partly though cash flow and partly through external financing and leasing arrangements. No further deliveries are contracted until 2016/17.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

25. FINANCIAL INSTRUMENTS

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Categories of financial instruments

	2014		2013	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Cash, cash equivalents and restricted cash	218.4	218.4	54.7	54.7
Loans and debtors:				
Trade and other debtors	118.8	118.8	109.9	109.9
Derivative instruments in designated hedge accounting relationships	0.4	0.4	5.7	5.7
Financial liabilities				
Liabilities held at amortised cost:				
Trade and other creditors	(231.1)	(231.1)	(118.0)	(118.0)
Debt	(90.9)	(92.9)	(100.6)	(104.6)
Derivative instruments in designated hedge accounting relationships	(8.0)	(8.0)	(1.5)	(1.5)

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.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

25. FINANCIAL INSTRUMENTS (continued)

Financial instruments recorded at fair value at 31 March 2014

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

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

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

	2014 £m	2013 £m
Foreign exchange derivatives	(7.5)	5.1
Fuel derivatives	(0.1)	(0.9)
At 31 March	**(7.6)**	**4.2**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

25. FINANCIAL INSTRUMENTS (continued)

Financial risk management objectives

The Company is exposed to financial risks in respect of:

- liquidity and management of working capital
- foreign currency
- interest rates
- credit risk
- 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 balance sheet and profit and loss account and cash flow risk. However, the Company's exposure to commodity price and currency exchange fluctuations cannot be neutralised completely.

Liquidity and working capital risk management

The Company manages its capital so that it will be able to continue as a going concern. The capital structure of the Company consists of debt, which includes the bank loans (note 15), cash and bank balances and equity as disclosed in notes 20 to 22.

Gearing ratio

The Company's Board reviews the capital structure on a regular basis. As part of this review, the Board considered the cost of capital and the risks associated with each class of capital. The gearing ratio at the year-end is as follows:

	2014 £m	2013 £m
Debt	(90.9)	(100.6)
Cash, cash equivalents and restricted cash	218.4	54.7
Net funds/(debt)	**127.5**	**(45.9)**
Equity	**9.7**	**32.3**
Net funds/(debt) to equity ratio	n/m	n/m

Debt is defined as bank loans and amounts due under finance leases as detailed in note 15. Equity includes all capital and reserves.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

25. FINANCIAL INSTRUMENTS (continued)

Liquidity risk management

The Directors believe that the Company has adequate cash holdings to meet its short-term creditors as they fall due. The Company also arranges to borrow funds in order to finance the purchase of aircraft and engines. The following table, which does not take into account the discounting of cash flows and includes forecast interest payments, shows the contractual maturity of the Company's non-derivative financial instruments:

	Weighted average effective interest rate %	Within 1 year £m	1-2 years £m	2-5 years £m	Over 5 years £m	Total £m
2014						
Financial assets:						
Cash, cash equivalents and restricted cash (variable interest rates)	0.1	211.8	-	0.7	5.9	218.4
Loans and debtors	-	86.1	25.8	-	6.9	118.8
Financial liabilities:						
Trade and other creditors	-	(231.1)	-	-	-	(231.1)
Borrowings:						
Variable interest rates	2.2	(6.8)	(6.7)	(21.8)	(52.6)	(87.9)
Fixed interest rates	3.4	(2.0)	(1.8)	(1.2)	-	(5.0)
2013						
Financial assets:						
Cash, cash equivalents and restricted cash (variable interest rates)	0.1	46.8	1.4	1.0	5.5	54.7
Loans and debtors	-	78.2	23.6	-	8.1	109.9
Financial liabilities:						
Trade and other creditors	-	(118.0)	-	-	-	(118.0)
Borrowings:						
Variable interest rates	1.2	(15.1)	(7.4)	(22.7)	(53.6)	(98.8)
Fixed interest rates	3.5	(1.5)	(1.5)	(2.7)	(0.1)	(5.8)

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

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

25. FINANCIAL INSTRUMENTS (continued)

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

	Within 1 year £m
2014	
Net settled derivatives:	
Fuel derivatives	(0.1)
Gross settled derivatives:	
Foreign currency payments	(7.5)
	(7.6)
2013	
Net settled derivatives:	
Fuel derivatives	(0.9)
Gross settled derivatives:	
Foreign currency payments	5.1
	4.2

Foreign currency risk management

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

Exchange rate exposures are managed within approved parameters by entering into a series of foreign exchange forward contacts. 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 foreign exchange forward contracts to cover specific US dollar payments to cover up to 90% of the exposure generated.

The Company does not enter into significant Euro foreign forward exchange contracts as the Euro payment exposure is largely, though not entirely, offset by Euro revenue receipts. There were no Euro contracts at 31 March 2014 or 31 March 2013.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

25. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management (continued)

The Company has a pound sterling functional currency and uses mainly US dollar foreign exchange derivative instruments. The following table summarises the Company's derivative financial instruments that are used to mitigate the exposures described above:

	Average exchange rate	Foreign currency $m	Contract value £m	Fair value of asset/ (liability) £m
At 31 March 2014	$1.5801	233.1	147.5	(7.5)
At 31 March 2013	$1.5702	233.2	148.5	5.1

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

	2014	2013
Percentage increase	1%	1%
US Dollar (£m)	0.5	0.4
Euro (£m)	0.1	0.1

In addition to the above, Flybe will continue to be exposed to significant non-cash revaluation gains/(losses) on its US Dollar denominated aircraft loans, which will be adjusted in arriving at the Company's underlying results.

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

	2014 £m	2013 £m
Assets		
Euro:		
Cash and cash equivalents	6.1	5.0
Restricted cash	0.9	1.0
Trade debtors	3.2	2.5
US Dollar:		
Cash and cash equivalents	0.8	1.2
Restricted cash	12.9	15.3
Trade debtors	1.4	1.6
	25.3	**26.6**
Liabilities		
Euro:		
Trade and other creditors	(3.2)	(1.0)
US Dollar:		
Trade and other creditors	(10.2)	(15.5)
Debt	(90.9)	(90.0)
	(104.3)	**(106.5)**

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

25. FINANCIAL INSTRUMENTS (continued)

Cash flow hedge effectiveness

The Company designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges. At 31 March 2014, the Company has identified 86 (2013: 56) contracts for foreign exchange purchases and 70 (2013: 99) contracts for fuel purchases which have been designated as cash flow hedges. For these hedges the changes in the fair value of the financial instrument were compared to market movement in the underlying hedged item and were found to be an effective offset. As a result a decrease in the fair value of these financial derivative instruments of £10.4m (2013: decrease of £0.9m) was taken to equity through the hedging reserve.

Interest rate risk management

The Company is exposed to interest rate risk as the Company borrows funds in order to finance the purchase of aircraft and engines at both fixed and floating interest rates. The risk is managed by the Company maintaining an appropriate mix that varies from time-to-time between fixed and floating rate borrowings based on current year conditions and debt levels.

The Company's exposure to interest rates in financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

It is estimated that a general increase/decrease in interest rates would (worsen)/improve the Company's result before tax and (decrease)/increase its equity by approximately:

	2014	2013
Percentage increase	1%	1%
Impact on profit/(loss) before tax and equity (£m)	(0.9)	(0.5)

Credit risk management

Disclosures in respect of credit risk management for trade and other debtors are provided in note 13.

The Company is exposed to credit risk arising from cash and deposits, derivative financial instruments and trade and other debtors. The risk of loss of value due to a counterparty default is minimised by entering into transactions with counterparties that have a minimum credit rating of AA (or equivalent) as awarded by Moody's, Fitch or Standard and Poor's. In addition, counterparties with a credit rating of B or above can be used provided the exposure to that institution does not exceed £5.0m.

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

Commodity price risk management

The Company purchases fuel on the open market from recognised fuel suppliers in order to operate its fleet of aircraft and this constitutes a substantial portion of the Company's activities (approximately 20.1% and 19.8% of Flybe UK segment costs in the years ended 31 March 2014 and 2013 respectively). The Company engages in fuel price hedging and foreign exchange transactions from time-to-time to meet its policy of entering into forward fuel price exchange contracts and other related financial instruments to cover a significant percentage of its anticipated requirements for fuel over a 12-month period.

Aviation fuel is a significant variable cost which has had a material impact on the Company's results during the period under review. A variety of external factors, such as changes in supply and demand for oil and oil-related products and the increasing role of speculators and funds in the futures markets, have played their part in making aviation fuel prices highly volatile. It is fuel price volatility which is the main driver of variances in the Company's overall fuel costs.

The Company operates a policy during normal trading conditions of managing this volatility by entering into derivative contracts representing a portion of its aviation fuel requirements up to 24 months forward.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

25. FINANCIAL INSTRUMENTS (continued)

Commodity price risk management (continued)

The actual amount covered by such contracts amounted to 71.1% of the following year's budgeted fuel consumption as at 31 March 2014 (2013: 63.2%). The amount of fuel actually consumed was 6.1% less than anticipated for the year ended 31 March 2014 (2013: 4.6% less than anticipated).

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

The actual number of emissions credits purchased for calendar year 2013 amounted to 555.9 tonnes, including free allowances of 259.8 tonnes, at an average cost of €4.00.

Carbon emissions requirements for calendar year 2014 are currently expected to amount to 492.8 tonnes, including free allowances of 259.8 tonnes. So far the Company has purchased 99.2% of its requirement for 2014 at an average cost of €5.59.

Forward fuel price exchange contracts

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

	2014 £m	2013 £m
Fair value of contracts to buy fuel expiring		
In less than 3 months	0.1	(0.6)
Between 3 and 6 months	-	(0.2)
Between 6 and 12 months	(0.2)	(0.1)
	(0.1)	**(0.9)**

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

	2014		2013	
	Price per tonne US$	Date	Price per tonne US$	Date
High	1,047	29 Aug 2013	1,116	3 Apr 2012
Low	883	01 May 2013	862	25 Jun 2012

The Company uses fuel derivatives to mitigate those exposures. It is estimated that an increase in the market price of aviation fuel would increase/(decrease) both the Company's profit/(loss) before tax and decrease its equity by approximately:

	2014	2013
Percentage increase in cost of fuel	10%	10%
Impact on profit/(loss) before tax and equity (£m)	(4.8)	(3.3)

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

26. POST BALANCE SHEET EVENTS

One Bombardier Q400 aircraft was acquired post year-end that had been previously leased by the Company. Four further Q400 aircraft were purchased by another member of the Flybe Group. The Company has an agreement with a fellow group company to lease these four aircraft until their out-of-service dates (unless sold to a third party beforehand), at which point the aircraft will be sold.

27. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

	Sales of services	
	2014	2013
	£m	£m
Preston Travel (CI) Limited[1]	1.2	1.1
Flybe Finland Oy	4.0	5.5

[1] Period until 12 November 2013 when Rosedale Aviation Holdings Limited ceased to be a related party.

	Amounts owed by related parties	
	2014	2013
	£m	£m
Preston Travel (CI) Limited[1]	0.3	0.4
Flybe Finland Oy	0.6	0.5

[1] As at 12 November 2013 when Rosedale Aviation Holdings Limited ceased to be a related party.

The Company provided services to Preston Travel (CI) Limited which, together with Rosedale Aviation Holdings Limited, is a subsidiary of Rosedale (J.W.) Investments Limited. At 31 March 2013, the ultimate controlling party, Flybe Group plc, was 48.1% owned by Rosedale Aviation Holdings Limited, incorporated in Jersey. Rosedale Aviation Holdings Limited sold all its shares in Flybe Group plc on 12 November 2013. At this point, Preston Travel (CI) Limited ceased to be a related party of Flybe Limited.

The Company also provided services to Flybe Finland Oy of which a 60.0% holding is held by Flybe Holdings Limited, another subsidiary of the parent and ultimate controlling party, Flybe Group plc. At 31 March 2014, £2.7m (2013: £6.3m) was owed in respect of revenue collected on behalf of Flybe Finland.

	Purchases of services	
	2014[1]	2013
	£m	£m
Edenfield Investments Limited	0.2	0.4
Downham Properties Limited	0.2	0.4

[1] Period until 12 November 2013 when Rosedale Aviation Holdings Limited ceased to be a related party.

No amounts were owed to related parties at 12 November 2013 (when Edenfield Investments Limited and Downham Properties Limited ceased to be related parties) or at 31 March 2013.

The transactions with Edenfield Investments Limited and Downham Properties Limited are disclosed although there is no holding or subsidiary company relationship between these two companies and Rosedale Aviation Holdings Limited. These two companies are owned and controlled by the EJ Walker 1964 settlement, established by the former wife of the late Mr Jack Walker; this trust is separate for tax purposes from the Jack Walker Settlement which controls Rosedale Aviation Holdings Limited. The Group also purchased property services from Edenfield Investments Limited and from Downham Properties Limited. Rosedale Aviation Holdings Limited sold all its shares in Flybe Group plc on 12 November 2013. At this point, Edenfield Investments Limited and Downham Properties Limited ceased to be related parties of Flybe Limited.

NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 March 2014

26. RELATED PARTY TRANSACTIONS (continued)

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

	2014 £000	2013 £000
Mike Rutter	-	63
Andrew Knuckey	20	20

In addition, the following Directors and former Directors have received loans from the Group's then immediate parent company, Rosedale Aviation Holdings Limited, to enable them to acquire an interest in shares in Flybe Group plc:

	2014 £000	2013 £000
Andrew Knuckey	134	134
Andrew Strong	36	36

The loans made by the Group and Rosedale Aviation Holdings Limited total £190,000 at 31 March 2014 (31 March 2013: £253,000), bear no interest and are repayable out of the proceeds receivable by each director from a subsequent sale of his respective ordinary shares and at the discretion of Rosedale Aviation Holdings Limited.

Arrangements with company pension schemes are disclosed in note 19.

27. 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.