FLYBE LIMITED

Annual Report and Financial Statements

Registered number 02769768

for the year ended 31 March 2015

CONTENTS

	Page
Officers and professional advisers	1
Strategic report	2
Directors' report	14
Directors' responsibilities statement	16
Independent auditor's report	17
Profit and loss account	18
Statement of total recognised gains and losses	19
Balance sheet	20
Notes to the financial statements	21

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Saad Hammad
Philip de Klerk

COMPANY SECRETARY

Kevin Bodley

REGISTERED OFFICE

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

AUDITOR

Deloitte LLP
Chartered Accountants and Statutory Auditors
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. On 1st November 2014, Flybe Ltd sold the trade and assets of the Maintenance, Repair and Overhaul 'MRO' business to its subsidiary, Flybe Aviation Services Ltd. The results of the MRO business up to the date of disposal and the comparatives for the year ended 31 March 2015 are shown under discontinued operations.

The Company results for the year are shown in the profit and loss account on page 18 of these financial statements.

Key financial highlights

	2015 £m	2014 £m	Change %
Turnover	563.0	620.5	(9.3)
EBITDAR unadjusted	82.9	101.3	(18.2)
Adjusted (loss) / profit before tax and revaluation gains / (losses) on USD loans	(12.9)	2.7	(577.8)
(Loss) / Profit before tax	(23.1)	10.6	(317.9)
(Loss) / Profit after tax	(17.7)	11.5	(253.9)

Turnover decreased 9.3% to £563.0m (2013/14: £620.5m), as the UK business has optimised its network through the planned reduction of overall capacity by 7.6% to 10.3m seats whilst maintaining passenger numbers at 2013/14 levels (7.7m) through yield investment and improved marketing. EBITDAR unadjusted decreased by 18.2% to £82.9m (2013/14: £101.3m). Adjusted (loss)/ profit before tax and revaluation gains/ (losses) on USD aircraft loans was £(12.9)m (2013/14: £2.7m), and the reported profit before tax decreased from a profit of £10.6m to a loss of £(23.1)m.

STRATEGIC REPORT (continued)

Reconciliation and explanation of adjusted figures

Set out below is a reconciliation from operating profit to the unadjusted EBITDAR figures. All EBITDAR metrics are non-GAAP measures.

EBITDAR is a common airline profit measure which is used for making comparisons between airlines.

	2015 £m	2014 £m	Change %
Operating (loss) / profit – unadjusted	(13.0)	3.6	(461.1)
Depreciation (note 11)	13.0	12.1	7.4
Aircraft rental charges (note 3)	82.9	85.6	(3.2)
EBITDAR – unadjusted	**82.9**	**101.3**	(18.2)

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

	2015 £m	2014 £m	Change %
(Loss) / profit before tax - unadjusted	**(23.1)**	**10.6**	(317.9)
Revaluation gain / (loss) on USD aircraft loans (note 7)	10.2	(7.9)	(229.1)
Adjusted profit before tax and revaluation gain / (loss) on USD aircraft loans	**(12.9)**	**2.7**	(577.8)

Business results

	2015 £m	2014 £m
Business turnover:		
Flybe UK	550.9	599.6
MRO	23.0	35.4
Inter-segment sales	(10.9)	(14.5)
Turnover	**563.0**	**620.5**
Business adjusted (loss)/ profit before tax:		
Flybe UK[1]	(14.8)	0.3
MRO[2]	1.9	2.4
adjusted profit before tax	**(12.9)**	**2.7**
Revaluation (loss)/ gain on USD aircraft loans	(10.2)	7.9
(Loss) / Profit before tax - unadjusted	**(23.1)**	**10.6**

1 Flybe UK adjusted loss before tax is the segment loss of £(14.9)m (2013/14: segment profit of £1.2m) plus net finance costs of £(10.1)m (2013/14: net finance income of £7.0m), after adding back revaluation losses on USD aircraft loans of £(10.2)m (2013/14: gains of £7.9m).

2 MRO adjusted profit is the segment profit of £1.9m (2013/14: segment profit of £2.4m).

STRATEGIC REPORT (continued)

The Flybe UK business which comprises the Group's main scheduled UK domestic and UK-Europe passenger operations and revenue ancillary to the provision of those services, recorded an adjusted loss before tax of £(25.0)m (2013/14: profit of £8.2m). Passenger numbers remained at 7.7 million.

The MRO business generated a profit before tax of £1.9m (2013/14: £2.4m) between March 2014 and October 2014. From November 2014, the MRO business was transferred to a new legal entity, Flybe Aviation Services Ltd.

Restructuring the business

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

	Incurred in 2014/15	Incurred in 2013/14	Total incurred since restructuring announcement
	£m	£m	£m
Redundancies	-	(9.6)	(15.1)
Legal, professional and other support costs	-	(1.1)	(2.3)
Other restructuring costs	-	-	(1.3)
Restructuring costs	-	(10.7)	(18.7)
Profit on London Gatwick slot sales	-	10.5	10.5
Net restructuring costs reported in the profit and loss account	-	**(0.2)**	**(8.2)**

In 2014/15, 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. The benefits of these very painful measures are significant, with £47m of year-on-year cost reductions delivered for 2013/14 and a further £27m of cost saving measures in 2014/15.

STRATEGIC REPORT (continued)

FUTURE PROSPECTS AND DEVELOPMENTS

Following a detailed review of our turnaround strategy and progress to date, we have identified three priorities for the next phase of our turnaround:

1. Simplifying the business and resolving the remaining seven E195s

- To maximise focus on our core UK business, we plan to resolve the remaining E195 aircraft.

2. Energising our organisation to drive profitable growth

- Our strategy remains to serve regional customers punctually and cost-effectively on thin routes with a high frequency product predominantly via Q400 turbo-prop aircraft, focused in the main on region to city routes. We currently connect Britain through our regional network; our vision is to connect to regional Europe. In the near term, this means more UK to Europe connections especially via our hubs at Manchester and Birmingham.

- To ensure effective implementation of our strategy, we will continue to optimise frequencies, discontinue poor performing routes and certain bases saddled with unsustainable costs, and launch new routes and bases with careful investment. We will mobilise our people to operate our routes effectively. We are a people business and it is only through focus on people that we can drive fundamental business improvements. A key area of focus alongside induction of all employees in the "Purple Way", will be a vigorous programme to address crew lifestyle issues which have arisen as a result of a return to rapid growth and network expansion.

3. Securing the basics

   In order to maximise success in the next phase of the turnaround, we will continue to improve:

- Our network development and scheduling execution, as we continue to grow seat capacity and launch new routes.

- The quality and depth of management. We have recently recruited a new Chief Operations Officer, a new Head of Operations Planning, a new Head of Ground Operations, a new Head of IT and a new Group Financial Controller.

- Operational delivery including schedule reliability and punctuality. Flybe was named top UK airline for punctuality in a report issued by UK consumer watchdog Which? in December 2014. We are keen to build on this to ensure we consistently fly the published schedule reliably and achieve 85% on-time performance within 15 minutes of scheduled arrival times.

- Our back office processes and systems.

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS

Description	Key measures
Safety underpins everything we do	Roll-out of Flybe Safety Promise, new safety training programme, new safety reporting system and well developed safety procedures are in place to generate continuous improvement in safety performance.
Employee satisfaction	Improvement in 55% employee engagement score from 2014/15 survey.
Customer satisfaction	Improvement in 55% customer satisfaction score from 2014/15 survey.
Reliability	Improve overall reliability of the fleet above 98.7% achieved in 2014/15.
On-time performance	Deliver on-time performance of 85% within 15 minutes of scheduled arrival time.
Load factor	Deliver minimum 70% load factor as year-round average.
Revenue	Deliver year-on-year improvement in Revenue per Seat and overall revenue
Cost	Deliver a reduction in year-on-year Cost per Seat. Find permanent and economically acceptable solutions for surplus E195 aircraft Drive year-on-year improvement in aircraft utilisation
EBITDAR	Improve EBITDAR as a % of revenue
ROCE	Deliver ROCE in excess of cost of capital
Cash	Maintain a minimum total cash balance equivalent to 10 weeks of cash operating costs

STRATEGIC REPORT (continued)

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*
Safety and security			
Failure to prevent a health and 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 both a strong Safety Management System and a comprehensive Security Management System and has appropriate systems and procedures in place, including trained staff, to respond effectively to such incidents.
Commercial and Operational			
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 regional aircraft available under a mix of ownership and lease terms.
Flybe operates in a highly competitive aviation market.	Adverse effect on market share leading to reduced revenue and profits.	Same	Flybe has a strong position in the markets where it operates and extends the reach of its brand through franchising and alliances. Processes are in place to monitor and report on route-by-route performance and competitor activity and to react rapidly where necessary.
Flybe is exposed to the effects of extraneous events, such as epidemics, natural disasters (e.g. severe weather or ash cloud disruption).	Reduced demand, market share and revenue, any of which may adversely affect Flybe's financial results or operational performance.	Same	Flybe has procedures in place to respond to such events, and to communicate effectively with passengers and shareholders.

Risk description	*Potential impact*	*Inherent risk trend (movement against prior year)*	*Mitigation*
Flybe is becoming increasingly reliant on the Bombardier Q400 aircraft, with dispatch reliability being a key factor in the performance of the airline.	Technical or mechanical issues could result in a grounding of the fleet which would impact the flying programme and negatively impact the reputation of the aircraft type.	New	Flybe operates a rigorous aircraft maintenance programme, with continuous improvement to the aircraft reliability. In addition, the Strategic Services Agreement signed with Bombardier delivers modifications to Flybe's Q400 fleet over the next three years which will improve technical despatch reliability. Standby aircraft within Flybe's flying programme also allow some flexibility in aircraft availability.
Flybe is heavily dependent on its information technology systems, the ongoing development of those systems, and the internet to operate its business. Future scalability and resilience of such key systems are an issue to the business maintaining a competitive advantage.	Inability to implement successful development could lead to Flybe's business plans not being fulfilled.	Increase	IT project prioritisation and control are in place in order to adequately focus attention and resources on the key project deliverables. Flybe uses third parties to supplement its own resources; effective processes relating to contract review, compliance and management are in place to mitigate the consequent risks that arise.
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 an 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.	Same	A disaster recovery plan is in place and includes moving certain operations to other sites. Flybe uses third party experts to assess risk and recommend mitigating actions that are being implemented over time. Flybe has robust security procedures in place which are tested and reviewed by independent third parties.

Risk description	*Potential impact*	*Inherent risk trend (movement against prior year)*	*Mitigation*
Flybe depends on good industrial relations, across all its regions, with a workforce that is, in significant part, unionised and is exposed to shortages of key personnel.	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.
Financial			
Flybe is exposed to the failure or non-performance of commercial counterparties as well as requiring the services of key suppliers such as airports, air traffic control systems, fuel supply companies, and single source suppliers.	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.
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.
Unavailability of suitable financing.	Lack of adequate liquid resources could disrupt and adversely affect Flybe's financial results.	Reduced	Flybe's policy seeks to maintain appropriate levels of free cash which will be available to meet costs in the event that our normal activities are temporarily disrupted by, for example, severe weather, volcanic ash, extended industrial dispute or fleet grounding.
Continuing performance of counterparties.	There is a lack 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.
Failure to remove surplus aircraft costs, or to have to take delivery of additional aircraft surplus to requirements.	Adversely affect Flybe's financial results.	Reduce	Flybe is in a number of discussions with other airlines and lessors about removing surplus aircraft costs, and with aircraft suppliers to ensure aircraft deliveries, and types of aircraft, match Flybe's requirements.

Risk description	*Potential impact*	*Inherent risk trend (movement against prior year)*	*Mitigation*
Reputational			
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.
Regulatory			
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.
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.	Reduced	Management monitors governments' proposals with regard to changes in planned approach to aviation taxation and engages with governments through direct contact and membership of industry organisations. Flybe seeks to pass on additional duties to its passengers through its pricing approaches. Flybe continues to be compliant with the ETS regime. Flybe operates fuel-efficient aircraft across its network and seeks to develop further fuel efficiencies through improvements in its operational practices.

STRATEGIC REPORT (continued)

SAFETY

Flybe is committed to developing, implementing, maintaining and constantly improving strategies and processes to ensure that all our aviation activities take place under an appropriate allocation of organisational resources, aimed at achieving the highest level of safety performance, while delivering our services.

Flybe's Safety Policy recognises that safety is everyone's personal responsibility whether an employee, passenger, contractor, visitor or supplier and is a primary responsibility of all managers and employees. All levels of management and employees are accountable for delivery of the Group's safety performance, starting with the Chief Executive Officer. In addition, managers ensure that our Safety Policy is implemented and understood by all employees and contractors.

Hazards resulting from our operations and activities are analysed and their risk assessed in order to eliminate, mitigate or manage safety risks to acceptable levels or better.

All personnel are encouraged to report any safety issue, irrespective of the cause, in the knowledge that Flybe operates in an open, fair and balanced way that does not attribute blame – a 'Just Culture', with all incidents investigated objectively and thoroughly.

The Flybe Safety and Security Committee ('SSC'), chaired by an independent Non-Executive Director, meets quarterly and is charged with holding the operational executive management team to account for all safety and compliance matters, reporting directly to the Board. The SSRC was chaired by Alan Smith until August 2014. Alan Smith has now passed the chair to Sir Timo Anderson.

The Flybe Safety Management System ('SMS') co-ordinates all safety activity across the Flybe operation. This allows safety data derived from both normal operations and safety events to be used in the review of operational procedures and training. The SMS is reviewed on a monthly basis at the Safety Action Group chaired by the Accountable Manager, Flybe's Director of Operations, John Palmer (Luke Farajallah from 1st April 2015). Actions from these meetings are reviewed at the quarterly Safety Review Board chaired again by the Accountable Manager and attended by the Operating Board.

Additional oversight is demonstrated through Flybe's membership of IATA and it has held the International Operational Safety Audit ('IOSA') accreditation since October 2007.

COMPLIANCE MONITORING (QUALITY ASSURANCE)

The establishment and maintenance of an effective compliance monitoring function ensures not only an effective and efficient operation but also a safe one. The compliance monitoring function oversees all operational activity and consists of two teams. The first is dedicated to the airline, covering:

→ the Air Operator's Certificate

→ Approved Training Organisation; and

→ EASA Part M, aircraft continuing airworthiness.

The second team is dedicated to the MRO and covers:

→ Part 145, for an aircraft maintenance organisation

→ Part 147, for an engineering licence type training organisation

→ Part 21G, for a production organisation; and

→ Part 21J, for a design organisation.

Both the compliance monitoring managers have a direct line of report to the Accountable Manager who has overall responsibility for the safe operation of Flybe's activities under civil aviation legislation in the UK.

STRATEGIC REPORT (continued)

HEALTH AND SAFETY

Health & Safety is not about red tape and statistics. It is not separate from the day to day to day business. It is central to everything at Flybe, and there is absolutely no compromise where Health & Safety is concerned. Flybe's goal is for zero avoidable accidents to its workforce and customers. The Flybe Management continues to demonstrate its commitment to Health and Safety through proactive initiatives and close liaison with staff and union safety representatives. Managers undergo training in their roles and responsibilities in relation to Health & Safety, in order to be able to perform their responsibilities accordingly.

Health and safety is incorporated into the Flybe SMS and overseen by the Flybe Health & Safety Committee, which reports ultimately into the FSC. Flybe policy for Health & Safety is defined in the Health & Safety manual. In turn this shapes the procedures throughout the organisation which define how the policy is implemented within each department. The policies and procedures are drawn up with the full involvement of the union safety representatives and Flybe's HR team, and are subject to oversight by the Flybe Health & Safety Committee.

PEOPLE ENGAGEMENT

Flybe is only as good as the quality and engagement of its people, which endeavours to deliver an excellent service to its loyal customers every day. 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.

In 2014 Flybe 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. This engagement programme has been embedded with a customer service training programme called 'Flybe Loves Service', which we are aiming every employee attend by the end of summer 2015.

During the year, in order to improve visibility and communications, each Director made at least seven base visits and also spent time working on the shop floor with front line colleagues.

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.

STRATEGIC REPORT (continued)

GOING CONCERN

The Company is a wholly-owned subsidiary of Flybe Group plc (the 'Group'). The directors of Flybe Limited have therefore reviewed the financial performance and forecasts of the Group in considering the going concern basis of accounting for Flybe Limited. The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report of Flybe Group plc's 2015 Annual Report and Financial Statements ('the Report'). The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in that Report and this information is relevant to Flybe Limited, the main trading entity in the Group. In addition, note 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 2015, 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 5th June 2015, Flybe Limited had purchased 81% of its anticipated fuel requirements and 64% 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 9th December 2015 and signed on its behalf by:

Philip de Klerk
Director

DIRECTORS' REPORT

The Directors present their Annual Report on the affairs of the Group, together with the audited Financial Statements and Auditor's Report for the year ended 31 March 2015.

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	5
Equality and diversity	12

DIRECTORS AND SECRETARY

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

Saad Hammad
Robert Andrew Knuckey (resigned 1st August 2014)
Philip de Klerk (appointed 19th August 2014)

On 23 June 2014, Robert Andrew Knuckey resigned as Company Secretary with Annelie Carver taking over this role. On 31st May 2015, Annelie Carver resigned as Company Secretary with Kevin Bodley taking over her role.

DIVIDENDS

The directors do not recommend a final dividend (2014: £nil).

POLITICAL CONTRIBUTIONS

The Company made no political contributions during the year (2014: £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 9th December 2015 and signed on its behalf by:

Kevin Bodley

Kevin Bodley
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.

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

Responsibility statement

We confirm that to the best of our knowledge:

→ the Financial Statements, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company;

→ the Annual Report, including the Strategic Report, and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, strategy and business model; and

→ the Strategic Report includes a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that they face.

By order of the Board

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 2015 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 28. 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 2015 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Anna Marks

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

9th December 2015

PROFIT AND LOSS ACCOUNT
For the year ended 31 March 2015

	Note	2015 £m	2014 £m
TURNOVER			
Continuing Operations	2	550.9	599.6
Discontinued Operations	2	12.1	20.9
		563.0	620.5
Cost of sales		(545.9)	(573.6)
GROSS PROFIT		17.1	46.9
Administrative expenses		(30.1)	(43.3)
OPERATING (LOSS) /PROFIT			
Continuing Operations		(14.9)	1.2
Discontinued Operations		1.9	2.4
		(13.0)	3.6
Profit on sale of fixed assets	3	-	0.2
Profit on sale of intangible fixed assets	3,4	-	10.5
Restructuring costs	4	-	(10.7)
(LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		(13.0)	3.6
Net finance (expense)/ income	7	(10.1)	7.0
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(23.1)	10.6
Tax credit on (loss)/ profit on ordinary activities	8	5.4	0.9
(LOSS) / PROFIT FOR THE FINANCIAL YEAR	22	(17.7)	11.5

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the year ended 31 March 2015

	2015 £m	2014 £m
(LOSS)/ PROFIT FOR THE FINANCIAL YEAR	(17.7)	11.5
Losses arising during the year on cash flow hedges (note 21)	(23.4)	(16.0)
Reclassification of gains on cash flow hedges included in profit and loss (note 21)	15.5	3.2
Deferred tax arising on cash flow hedges (note 21)	(0.3)	2.1
FX on cash flow hedges	4.7	-
Actuarial losses on defined benefit scheme (note 19)	(19.5)	(2.7)
Deferred tax arising on defined benefit scheme	4.3	0.5
Capital contribution from Flybe Group plc and fellow subsidiaries of Flybe Group plc as a result of loan waivers	-	43.4
TOTAL RECOGNISED (LOSSES)/ GAINS FOR THE FINANCIAL YEAR	(36.4)	42.0

BALANCE SHEET
As at 31 March 2015

	Note	2015		2014	
		£m	£m	£m	£m
FIXED ASSETS					
Intangible assets	10		1.3		
Tangible assets	11		188.1		163.5
			189.4		163.5
CURRENT ASSETS					
Stocks	12	0.2		6.8	
Debtors – due within one year	13	142.9		118.3	
Debtors – due after more than one year	13	31.8		36.1	
Cash at bank and in hand		195.8		218.4	
		370.7		379.6	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(376.9)		(362.0)	
NET CURRENT (LIABILITIES)/ASSETS			(6.2)		17.6
TOTAL ASSETS LESS CURRENT LIABILITIES			183.2		181.1
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15		(117.1)		(91.7)
PROVISIONS FOR LIABILITIES	16		(76.2)		(77.2)
PENSION LIABILITIES	19		(16.8)		(2.5)
NET (LIABILITIES)/ ASSETS			(26.9)		9.7
CAPITAL AND RESERVES					
Share capital	20		1.0		1.0
Hedging reserve	21		(10.2)		(6.7)
Profit and loss account	21		(17.7)		15.4
TOTAL SHAREHOLDERS' (DEFICIT) / FUNDS	22		(26.9)		9.7

The financial statements of Flybe Limited, registered number 02769768, were approved by the Board of Directors and authorised for issue on 9th December 2015.

Signed on behalf of the Board of Directors

Philip de Klerk
Director

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 March 2015

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 13.

Turnover and revenue recognition

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

Passenger revenue

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

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

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

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

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

Aircraft maintenance and other revenue

These represent the amounts derived from the provision of goods and services to customers during the year, including aircraft maintenance, overhauls and the associated rotable and consumable parts. The amount of profit attributable to the stage of completion of an engine and maintenance overhaul contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Revenue for such contracts is stated at the cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

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

Frequent Flyer Programme

During the financial year, Flybe has moved to a new point purchasing agreement with Avios, a subsidiary of International Airlines Group. Flybe also allows customer to redeem their points on Flybe travel through the Avios.com website and BA Executive Club website.

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the Year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

Interest revenue

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

Operating (loss)/ profit

Operating (loss)/ profit is stated as (loss)/ profit after charging restructuring costs but before tax, investment income, finance costs and other gains and losses.

Foreign currencies

The Company has applied the requirements of FRS23 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 translated.

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

Tangible fixed assets and depreciation

Tangible fixed assets are recorded at cost net of depreciation and provision for any impairment. Aircraft and engines and other associated equipment are classified as aircraft. All other equipment is classified as plant and equipment.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

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

Depreciation is provided 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% to 10% per annum or lease term where shorter
Plant, equipment and motor vehicles	10% to 50% per annum
Aircraft	7% to 20% per annum
Maintenance assets	25% to 50% per annum

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

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

Intangible assets

Computer software

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

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

Disposals of property, plant, equipment and intangible assets

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

Impairment of tangible and intangible assets excluding goodwill

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

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

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

Government grants

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

Inventories

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

Aircraft consumables

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

Aircraft deposits

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

Financial instruments

The Company has applied the requirements of FRS26 and FRS29 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 exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

Derivative financial instruments and hedging

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and are effective as hedges of future cash flows are recognised directly in the statement of total recognised gains and losses, and any 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 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 whose terms require delivery of the investment within the timeframe established by the market concerned. Initially they are measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ('FVTPL') or at fair value designated and effective as hedges, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at FVTPL, financial assets that are designated and effective as hedging instruments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The 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 Group's documented risk management strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the 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 (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (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.

Cash and 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 and is classified as a current or non-current asset based on the estimated remaining length of the restriction.

Financial liabilities and equity

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

Equity instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

Financial liabilities

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

Financial liabilities at FVTPL

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'unrealised gains and losses on fuel hedges' line item or 'other gains and losses' line item in the profit and loss account. Fair value is determined in the following manner:

Other financial liabilities

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

Derecognition of financial liabilities

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

Provisions

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

Leased aircraft maintenance provisions

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

The provisions recorded and charged to the 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 its half-life (or another measure depending on the individual lease) and compensation would be due to the lessor in accordance with the terms of the lease, a provision and matching 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 cost of work is recorded. To the extent that this provision represents an increase to the half-life compensation provision already recorded, a maintenance asset is recorded within 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 to establish the likely utilisation of the aircraft, the expected cost of a maintenance check at the time it is expected to occur, the condition of an aircraft and the lifespan of life-limited parts. The bases of all estimates are reviewed once each year and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

EU261 Passenger delay compensation

Provision is made for passenger compensation claims when the Company has an obligation to recompense customers under regulation EU261 where technical issues have caused flights to be delayed. Provisions are measured based on known eligible flights delays and historic claim rates and are expected to unwind across the claim window, which is 6 years.

Leases

Operating leases

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

Sale and leaseback

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

Finance leases

Where the Company enters into a lease which entails taking substantially all the risk and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as tangible fixed assets, and is depreciated over the estimated useful life to the Company. The asset is recorded at the lower of its fair value, less accumulated depreciation, and the present value of the minimum lease payments at the inception of the finance lease. Future instalments under such leases, net of finance charges, are included within creditors. Rental payments 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. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the costs of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit and loss account in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

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

Deferred tax

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

1. ACCOUNTING POLICIES (continued)

Employee benefit costs

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.

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 the profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

2. SEGMENT INFORMATION

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

Flybe UK — This business segment comprises the 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 third-party customers. On 1st November 2014, Flybe Ltd sold the trade and assets of the MRO business to its subsidiary, Flybe Aviation Services Ltd.

The amount included in turnover from continuing operations is £550.9m (2014: £599.6m) and turnover from discontinued operations is £12.1m (2014: £20.9m).

2015	**Flybe UK[1]** **£m**	**MRO** **£m**	**Total** **£m**
Turnover			
Total sales	550.9	23.0	573.9
Inter-segment sales	-	(10.9)	(10.9)
Sales to third parties	**550.9**	**12.1**	**563.0**
(Loss)/profit on ordinary activities before interest	(14.9)	1.9	(13.0)
Finance cost (net)	(10.1)	-	(10.1)
(Loss)/profit on ordinary activities before taxation	**(25.0)**	**1.9**	**(23.1)**
Segment net liabilities	**(26.9)**	**-**	**(26.9)**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

2. SEGMENT INFORMATION (continued)

2014	Flybe UK[1] £m	MRO £m	Total £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	-	7.0
Profit on ordinary activities before taxation	**8.2**	**2.4**	**10.6**
Segment net (liabilities)/assets	(8.0)	11.6	3.6
Unallocated net assets[2]	-	-	6.1
Net (liabilities)/ assets	**(8.0)**	**11.6**	**9.7**

[1] The Flybe UK segment includes revaluation losses on USD aircraft loans of £(10.2)m (2013/14: gains of £7.9m).

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

Geographical information

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

	2015 £m	2014 £m
Turnover from external customers:		
United Kingdom	491.2	537.0
Europe excluding United Kingdom	66.0	70.2
Rest of world	5.8	13.3
	563.0	**620.5**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

3. (LOSS)/ PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2015 £m	2014 £m
(Loss)/profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets		
Owned	7.2	5.0
Held under finance leases	5.8	7.1
Profit on disposal of tangible fixed assets	-	(0.2)
Profit on disposal of intangible assets	-	(10.5)
Research and development		
Current year expenditure	-	0.1
Amortisation of deferred expenditure	0.7	0.3
Operating leases:		
Land and buildings	1.0	2.7
Plant and machinery	1.9	1.9
Aircraft	82.9	85.6
Foreign exchange (gains)/losses	(1.5)	0.3

Auditor's remuneration

The analysis of auditor's remuneration is as follows:

	2015 £m	2014 £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
Total audit and non-audit fees	**0.2**	**0.4**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

4. RESTRUCTURING COSTS

Detail of the restructuring provision is provided in note 16.

	2015	2014
	Flybe UK	Flybe UK[1]
	£m	£m
Staff costs[2]	-	9.6
Other operating expenses[3]	-	1.1
Total restructuring costs	-	**10.7**
Profit on slot sales	-	**(10.5)**
Net restructuring costs	-	**0.2**

1 All 2014 net restructuring costs relate to Flybe UK.
2 Staff costs in 2014 were costs of redundancy.
3 Other operating expenses in 2014 were legal, professional and support costs.

5. REMUNERATION OF DIRECTORS

	2015 £m	2014 £m
Directors' emoluments	1.0	1.9
Compensation for loss of office	-	0.1
	1.0	**2.0**
Company contributions to personal pension schemes	**0.2**	**0.2**

The aggregate emoluments of the highest paid Director were £0.4m (2014: £0.4m) and company pension contributions of £nil (2014: £0.1m) were made to a personal pension scheme on his behalf.

In 2015, pension contributions for five Directors (2014: five) were made to defined contribution personal pension schemes on their behalf.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

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:

	2015 No.	2014 No.
Flight and maintenance	1,118	564
Technical support services	-	371
Administration	264	1,250
	1,382	**2,185**

The aggregate payroll costs of these persons were as follows:

	2015 £m	2014 £m
Wages and salaries	66.8	79.3
Social security costs	7.6	9.0
Other pension costs (see note 19)	5.0	6.6
Share-based payments (see note 18)	0.2	1.5
Redundancy costs (see note 4)	-	9.6
	79.6	**106.0**

In addition to the above, an actuarial loss of £0.5m (2014: loss of £0.2m) was recognised in the statement of total recognised gains and losses in respect of the defined benefit pension scheme.

7. NET FINANCE CHARGES

	2015 £m	2014 £m
Interest payable and similar charges on:		
Bank loans and overdrafts	0.6	1.0
Finance leases	0.6	0.3
	1.2	1.3
Investment income: bank interest	(0.8)	(0.2)
Other finance expense/(income):		
Losses/(gains) arising on retranslation of foreign currency loans and monetary deposits used to fund aircraft and engine purchases	10.2	(7.9)
Net finance gains in respect of pension scheme liabilities	(0.5)	(0.2)
	8.9	(8.3)
Finance charges (net)	**10.1**	**(7.0)**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

8. TAXATION

	2015 £m	2014 £m
Analysis of tax credit in the year:		
Deferred tax (see note 17) credit for the year	5.4	0.9
Tax credit on (loss)/ profit on ordinary activities	**5.4**	**0.9**

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

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 21% (2014: 23%). The differences are explained below:

	2015 £m	2014 £m
Current tax reconciliation:		
(Loss)/profit on ordinary activities before taxation	(23.1)	10.6
Current tax at 21% (2014: 23%)	4.9	(2.4)
Effects of:		
Expenses not deductible for tax purposes	(0.1)	(0.1)
Capital allowances in excess of depreciation	1.1	4.2
Group relief surrendered	(5.7)	(1.3)
Origination and reversal of timing differences	(0.2)	(0.4)
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. 20% has been used to calculate the position on deferred tax at 31 March 2015 (2014: 21%). The Directors are not aware of any other factors that will materially affect the future tax charge.

9. INVESTMENTS

	2015 £m	2014 £m
Cost and net book value at beginning and end of the year	-	-

Details of the Company's principal subsidiary undertakings at 31 March 2015 are as follows:

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

British European Limited and British European.com Limited were liquidated in July 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

10. INTANGIBLE FIXED ASSETS

	Total £m
Cost	
At beginning of year	-
Additions	1.3
At end of year	**1.3**
Net book value	
At 31 March 2015	**1.3**
At 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	31.6	185.5	241.7
Additions	11.8	-	4.8	59.0	75.6
Disposals	(24.0)	(0.3)	(8.4)	(43.0)	(75.7)
At end of year	**12.1**	**-**	**28.0**	**201.5**	**241.6**
Depreciation					
At beginning of year	(5.3)	(0.2)	(21.7)	(51.0)	(78.2)
Charge for the year	(0.4)	-	(2.0)	(10.6)	(13.0)
Disposals	5.5	0.2	5.6	26.4	37.7
At end of year	**(0.2)**	**-**	**(18.1)**	**(35.2)**	**(53.5)**
Net book value					
At 31 March 2015	**11.9**	**-**	**9.9**	**166.3**	**188.1**
At 31 March 2014	19.0	0.1	9.9	134.5	163.5

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 £81.1m held under finance leases (2014: £85.6m). Capitalised development costs of £4.1m (2014: £4.1m) are contained within plant, equipment and motor vehicles which included £3.8m of development costs for projects which are in the course of construction (2014: £3.6m).

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

11. TANGIBLE FIXED ASSETS (continued)

An impairment review was performed at the balance sheet date to determine whether these assets were impaired. The recoverable amount was calculated using a value in use model and determined to be higher than the assets recoverable amount by £186.9m 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 10.0%. Only when the weighted average cost of capital is increased to 26.0% does the recoverable amount equal its carrying amount.

12. STOCKS

	2015 £m	2014 £m
Aircraft consumables	0.2	6.8

13. DEBTORS

	2015 £m	2014 £m
Due within one year		
Trade debtors	30.2	26.1
Amounts recoverable on contracts	-	1.3
Amounts owed by group undertakings	17.9	21.0
Other taxation and social security	1.5	1.3
Aircraft deposits	6.1	6.1
Other debtors	46.3	37.7
Prepayments and accrued income	15.3	18.3
Deferred tax asset (see note 17)	11.3	6.1
Derivative financial instruments (see note 25)	14.3	0.4
	142.9	**118.3**
Due after one year		
Aircraft lease deposits	4.7	3.8
Other debtors	22.8	25.8
Prepayments	4.3	6.5
	31.8	**36.1**
Total debtors	**174.7**	**154.4**

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

13. DEBTORS (continued)

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 2015 (2014: nil).

Ageing of past due but not impaired debtors

	2015 £m	2014 £m
Not yet due	27.8	20.6
30 to 60 days overdue	-	2.9
60 to 90 days overdue	2.4	2.2
90+ days overdue	-	0.4
	30.2	**26.1**

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2015 £m	2014 £m
Bank loans (see note 15)	7.4	3.8
Obligations under finance leases (see note 15)	5.6	4.9
Trade creditors	24.4	23.6
Amounts owed to group undertakings	176.8	194.3
Other taxation and social security	26.1	20.6
Other creditors	20.5	13.2
Accruals	21.3	22.9
Deferred income	75.9	70.7
Derivative financial instruments (see note 25)	18.9	8.0
	376.9	**362.0**

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 £6.6m (2014: £6.7m) 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 £6.5m (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 (continued)
For the year ended 31 March 2015

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

	2015 £m	2014 £m
Secured bank loans	41.9	20.8
Obligations under finance leases	64.3	61.4
Deferred income (see also note 14)	8.3	9.5
Derivative financial instruments	2.6	-
	117.1	**91.7**

The maturity of borrowings including finance leases is as follows:

	2015			2014		
	Bank loans £m	Finance leases £m	Total £m	Bank loans £m	Finance leases £m	Total £m
In one year or less, or on demand	7.4	5.6	13.0	3.8	4.9	8.7
Between one and two years	8.7	5.6	14.3	3.4	4.9	8.3
Between two and five years	16.5	17.2	33.7	7.5	14.9	22.4
In five years or more	16.7	41.5	58.2	9.9	41.6	51.5
After more than one year	41.9	64.3	106.2	20.8	61.4	82.2
	49.3	**69.9**	**119.2**	**24.6**	**66.3**	**90.9**

Rates of interest charged on borrowings including finance leases vary between 1.6% (2014: 1.6%) and 5.4% (2014: 5.4%). 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 £7.6m (2014: £8.4m) were capitalised in relation to qualifying assets.

16. PROVISIONS FOR LIABILITIES

	Leased aircraft maintenance £m	EU 261 regulation £m	Onerous lease £m	Restructuring (note 7) £m	Total £m
At 31st March 2014	72.7	-	-	4.5	77.2
Additional provision in the year	17.3	6.7	0.7	-	24.7
Utilisation of provision	(21.2)	-	-	(4.5)	(25.7)
At 31st March 2015	68.8	6.7	0.7	-	(76.2)

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 in the consolidated income statement.

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

17. DEFERRED TAXATION

	£m
Asset at 1 April 2014	6.1
Recognised in the profit and loss account in the year (note 8)	5.2
Recognised in equity	4.0
Effect of rate change (note 8)	0.2
Asset at 31 March 2015	**15.5**

The elements of deferred taxation are as follows:

	Recognised net deferred tax asset		Unrecognised net deferred tax asset	
	2015	2014	2015	2014
	£m	£m	£m	£m
Difference between accumulated depreciation and capital allowances	9.8	3.9	6.3	-
Employee benefits	4.3	0.6	-	-
Financial instruments	1.4	1.6	-	-
Tax losses	-	-	-	-
Undiscounted deferred tax	**15.5**	**6.1**	**6.3**	-
Amount shown within pension liability	**4.2**	-	-	-
Amount shown within debtors	**11.3**	**6.1**	**6.3**	-
Total	**15.5**	**6.1**	**6.3**	-

Where carried-forward losses or unclaimed capital allowances are available, they are recognised to the extent that taxable profits are forecast to arise in the next 12 months. No deferred tax assets have been recognised in respect of tax losses in excess of one year's forecast taxable profits due to uncertainty as to when these assets will be realised. Where there is an expectation that on the balance of probabilities there will not be sufficient taxable profits to utilise these assets, they have not been recognised. £6,278,120 of deferred tax assets have not been recognised in the year (2013/14: £nil).

18. SHARE SCHEMES

Long-Term Incentive Plan ('LTIP')

The Flybe LTIP 2013

All employees of the Parent Company, Flybe Group plc, may be granted Flybe LTIP 2013 Awards ('LTIP Award'). No Directors of the Company may be granted an LTIP Award under this scheme.

18. SHARE SCHEMES (continued)

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 between the date of grant (unless determined otherwise by the remuneration committee) and the market value of an ordinary share 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 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.

	2015	
	Number of share awards	**Weighted average exercise price (£)**
Granted and outstanding at the end of the year	2,751,591	-
Exercisable at the end of the year	-	-

On 21st November 2013, 2,751,951 shares were awarded. Fair value of the award at 31st March 2015 has been calculated using a Monte Carlo valuation model. The inputs into the valuation are as follows:

	2015
Exercise price	78.5p
Share price at 31st March 2015 (the measurement date)	58p
Risk-free rate of interest	0.37%
Flybe volatility	45%
Dividend yield	nil

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

The charge for the year in relation to this scheme was £nil. The parent company, Flybe Group plc, has recorded accruals of £0.1m at 31st March 2015.

The weighted average vesting period is 3.375 years.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

18. SHARE SCHEMES (continued)

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 the Company 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 the Parent Company, Flybe Group plc, at the end of the performance period must be greater than the market capitalisation of the parent company, Flybe Group plc, at the start of the performance period. If this condition is not satisfied, no payment will be made.

The LTIP award was granted on 1 August 2013. Fair value of the award at 31st March 2015 has been calculated using a Monte Carlo valuation model. The inputs into the valuation are as follows:

	2015
Starting market capitalisation	39.5m
Starting issued share capital	75.2m
Issued share capital at 31st March 2015 (the measurement date)	216.7m
Share price at 31st March 2015 (the measurement date)	58p
Aggregate price paid for new shares	155.7m
Risk-free rate of interest	0.33%
Flybe volatility	45%
Dividend yield	nil

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

The charge for the year in relation to this scheme was £0.2m. The parent company, Flybe Group plc, has recorded accruals of £0.6m at 31st March 2015.

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 Group before the awards vest.

The vesting of these awards is subject to the performance of Flybe share price hurdle at the end of the three-year period. Awards will vest in full if Flybe's 3 month average share price at the end of the 3 year performance period has met the performance hurdle.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

18. SHARE SCHEMES (continued)

	2015		2014	
	Number of share awards	Weighted average exercise price (£)	Number of share awards	Weighted average exercise price (£)
Outstanding at beginning of year	1,803,725	-	2,733,320	-
Granted during the year	1,037,657			
Forfeited during the year	(1,803,725)	-	(929,595)	-
Outstanding at the end of the year	1,037,657	-	1,803,725	-
Exercisable at the end of the year			-	-

April 2014 award

On 22nd April 2014, 450,398 shares were awarded. The 3 month average share price on the date of the award was £1.24. 1,803,725 share options have been forfeited in this financial year. The share award will be available for exercise on 22nd April 2019.

The charge for the year in relation to this scheme was £0.1m. The Parent Company, Flybe Group plc, has recorded liabilities of £0.1m at 31st March 2015.

February 2015 award

On 5th February 2015, a further 587,259 shares were awarded. The 3 month average share price on the date of the award was £1.06. No share options have been forfeited in this financial year. The share award will be available for exercise on 4th February 2018.

Share Incentive Plan ('SIP')

The SIP was open to all UK employees with at least 12 months service as at 15th 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 24th January 2012, 280,000 ordinary shares were issued by the Company for this purpose. The calculation of the charge is based on the market value at the date of allocation of £3.25 and under the assumption that 75% of shares issued will be redeemed in three years.

The charge for the year in relation to this scheme was £nil (2014: £0.2m). The charge in relation to this scheme ceased in December 2013.

Save As You Earn ('SAYE')

The Flybe Sharesave SAYE scheme was offered to all employees with a length of service more than 3 months at 14 April 2014 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 £100. An option to acquire ordinary shares will be granted to each eligible employee who entered into the SAYE Contract. On 8 August 2014, 1,659,467 of options over ordinary shares were issued by the Company for this purpose.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

18. SHARE SCHEMES (continued)

	2015 £m	2014 £m
Outstanding at the beginning of the year	470,281	732,716
Granted during the year	1,659,467	-
Forfeited during the year	(18,834)	(15,537)
Cancelled during the year	(123,206)	(137,011)
Expired	(435,496)	(109,887)
Exercised	(1,975)	-
Outstanding at the end of the year	1,550,237	470,281

The Company recognised expenses of £0.1m in relation to this award in the year to 31st March 2015 (2014: £0.2m).

Summary

The Company recognised total expenses of £0.2m in relation to share-based payments in the year ended 31st March 2015 (2014: £1.5m). The Parent Company, Flybe Group plc, has recorded total accruals in respect of the LTIP schemes of £0.4m at 31st March 2015.

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 2015. The present value of the defined benefit obligation, the related current service cost, and the past service cost were measured using the projected unit credit method.

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

	2015	2014
Discount rate	3.5	4.6
Expected return on scheme assets	4.5	4.5
Expected rate of salary increases	n/a	n/a
Future pension increases	3.5/2.1	3.6/2.4
RPI inflation	3.1	3.4

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

19. PENSION ARRANGEMENTS (continued)

The post-retirement mortality rate assumed at 31 March 2015 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 (2014: 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	2015 £m	2014 £m
Discount rate	Increase by 0.1%	(3.6)	(2.9)
Rate of inflation	Increase by 0.1%	2.4	2.0

Scheme assets

The assets in the scheme were:

	2015 £m	2014 £m
Equities	62.9	58.4
Bonds and gilts	79.6	71.3
Cash	1.4	0.1
Total market value of assets	143.9	129.8
Actuarial value of liability	(164.9)	(132.3)
(Deficit) in the scheme	(21.0)	(2.5)
Amount of surplus not recognised	-	-
Deficit	(21.0)	(2.5)
Deferred tax	4.2	-
Deficit on balance sheet	**(16.8)**	**(2.5)**

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

19.PENSION ARRANGEMENTS (continued)

	2015 £m	2014 £m
Movements in the scheme liabilities during the year		
Opening liability	(132.3)	(129.3)
Interest cost	(6.1)	(5.8)
Benefits paid	3.8	5.0
Actuarial losses	(30.3)	(2.2)
Closing liability	**(164.9)**	**(132.3)**

	2015 £m	2014 £m
Movements in the scheme assets during the year		
Opening assets	129.8	130.8
Expected return on assets	6.6	6.0
Actuarial gains/ (losses)	10.8	(2.0)
Benefits paid	(3.8)	(5.0)
Employer contributions	0.5	-
Closing assets	**143.9**	**129.8**

	2015 £m	2014 £m
Analysis of amounts charged/ (credited) to net finance charges		
Expected return on assets	(6.6)	(6.0)
Interest cost	6.1	5.8
Net gain	**(0.5)**	**(0.2)**

	2015 £m	2014 £m
Analysis of amount recognised in statement of total recognised gains and losses		
Actuarial losses on scheme liabilities	(30.3)	(2.2)
Actuarial gains/ (losses) on scheme assets	10.8	(2.0)
Adjustment to amount not recognised as an asset	-	1.5
Net loss recognised	(19.5)	(2.7)
Deferred tax	4.2	0.5
Net loss recognised after deferred tax	**(15.3)**	**(2.2)**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

19. PENSION ARRANGEMENTS (continued)

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Actuarial gain on scheme assets	10.8	(2.0)	7.8	2.2	0.9
Percentage of year-end scheme assets	7.5%	1.5%	6.0%	1.8%	0.8%
Actuarial (loss)/gain arising on scheme liabilities	(30.3)	(2.2)	(7.8)	(5.9)	9.8
Percentage of present value of year-end scheme liabilities	18.4%	1.7%	6.0%	4.9%	8.9%
Adjustment to reflect unrecognised asset	-	-	1.5	1.3	4.6
Actuarial (loss)/gain recognised in statement of total recognised gains and losses	(0.5)	(0.2)	(0.2)	(0.4)	6.1
Percentage of present value of year-end scheme liabilities	0.3%	0.2%	0.2%	0.3%	5.5%

Other schemes

The Company also operates defined contribution pension schemes. The pension cost charge for the year represents contributions payable by the Company to the schemes and amounted to £5.0m (2014: £6.6m).

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

20. SHARE CAPITAL

	2015 £m	2014 £m
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	**1.0**	**1.0**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

21. STATEMENT OF MOVEMENTS ON RESERVES

	Hedging reserve £m	Profit and loss account £m	Total £m
At beginning of the financial year	(6.7)	15.4	8.7
Loss for the financial year	-	(17.7)	(17.7)
Actuarial loss related to the pension scheme	-	(15.4)	(15.4)
Gain, net of deferred tax, arising on cash flow hedges	(3.5)	-	(3.5)
At end of the financial year	**(10.2)**	**(17.7)**	**(27.9)**

22. STATEMENT OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2015 £m	2014 £m
At beginning of the financial year	9.7	(32.3)
Loss for the financial year	(17.7)	11.5
Actuarial loss related to the pension scheme	(15.4)	(2.2)
Capital contribution [1]	-	43.4
(Loss) net of deferred tax, arising on cash flow hedges	(3.5)	(10.7)
At end of the financial year	**(26.9)**	**9.7**

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

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.

	2015 £m	2014 £m
Credit card arrangements	10.0	24.0
Bonds	7.6	7.2
Total	**17.6**	**31.2**

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:

	2015 £m	2014 £m
Aircraft operating lease deposits	7.1	6.6
Aircraft maintenance deposits	0.9	2.6
Cash deposited to secure the above guarantee and bond arrangements	10.0	31.3
Total restricted cash	**18.0**	**40.5**

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

24. COMMITMENTS

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

	2015		2014	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Operating leases which expire:				
Within one year	0.7	0.6	0.6	3.4
In the second to fifth years inclusive	-	33.9	0.2	40.0
Over five years	0.8	36.7	0.5	38.7
	1.5	**71.2**	**1.3**	**82.1**

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:

	2015 No.	2015 £m	2014 No.	2014 £m
Embraer E-Series aircraft	**4**	**100.1**	**24**	**534.9**

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 (continued)
For the year ended 31 March 2015

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

	2015		2014	
	Carrying value	Fair value	Carrying value	Fair value
	£m	£m	£m	£m
Financial assets				
Cash, cash equivalents and restricted cash	195.8	195.8	218.4	218.4
Loans and receivables:				
Trade and other receivables	125.0	125.0	118.8	118.8
Derivative instruments in designated hedge accounting relationships	14.3	14.3	0.4	0.4
Financial liabilities				
Liabilities held at amortised cost:				
Trade and other payables	(221.7)	(221.7)	(231.1)	(231.1)
Debt	(119.2)	(122.2)	(90.9)	(92.9)
Liabilities held at fair value through other comprehensive income:				
Derivative instruments in designated hedge accounting relationships	(21.5)	(21.5)	(8.0)	(8.0)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

25. FINANCIAL INSTRUMENTS (continued)

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

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

→ The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

→ The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

→ The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Financial instruments recorded at fair value at 31st March 2015

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

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

→ Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

→ Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	2015 £m	2014 £m
Foreign exchange derivatives	14.3	(7.5)
Fuel derivatives	(29.8)	(0.1)
	(15.5)	(7.6)
Margin calls	8.3	-
At 31st March	(7.2)	(7.6)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

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 and balance sheet, profit and loss accounts and cash flow risk. However, the Company's exposure to commodity price and currency exchange fluctuations cannot be neutralised completely.

Liquidity and working capital risk management

The Company manages its capital to ensure that the Company will be able to continue as going concerns while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Company consists of debt, which includes the borrowings (see note 15), cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings (see notes 21 to 22).

Capital Management and 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:

	2015 £m	2014 £m
Debt	(119.2)	(90.9)
Cash, cash equivalents and restricted cash	195.8	218.4
Net cash	76.6	127.5
Equity	(26.9)	9.7
Net debt to equity ratio	n/m	n/m

Debt is defined as long-term and short-term borrowings as detailed in note 15. Equity includes all capital and reserves of the Company.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

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 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
2015						
Financial assets:						
Cash, cash equivalents and restricted cash (variable interest rates)	0.1	187.6	-	1.5	6.7	195.8
Loans and receivables	-	117.3	-	5.4	2.3	125.0
Financial liabilities:						
Trade and other payables	-	(221.7)	-	-	-	(221.7)
Borrowings:						
Variable interest rates	2.5	(11.5)	(14.1)	(34.0)	(59.3)	(118.9)
Fixed interest rates	3.5	(1.9)	(0.7)	(0.7)	-	(3.3)
2014						
Financial assets:						
Cash, cash equivalents and restricted cash (variable interest rates)	0.1	211.8	-	0.7	5.9	218.4
Loans and receivables	-	86.1	25.8	-	6.9	118.8
Financial liabilities:						
Trade and other payables	-	(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)

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

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	Within 2 years £m	Total £m
2015			
Net settled derivatives:			
Fuel derivatives	(27.2)	(2.6)	(29.8)
Gross settled derivatives:			
Foreign currency payments	14.1	0.2	14.3
	(13.1)	(2.4)	(15.5)
2014			
Net settled derivatives:			
Fuel derivatives	(0.1)	-	(0.1)
Gross settled derivatives:			
Foreign currency payments	(7.5)	-	(7.5)
	(7.6)	-	(7.6)

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 contracts. These contracts are used in conjunction with fuel derivatives to mitigate fuel procurement price risk. In addition, foreign exchange forward contracts are matched to planned purchases of aircraft, spare parts and lease costs. It is the policy of the Company to enter into forward foreign exchange contracts to cover specific US dollar payments to cover up to 90% of the exposure generated.

The Company does not enter into significant Euro foreign exchange forward contracts as the Euro payment exposure is largely, though not entirely, offset by Euro revenue receipts. There were no Euro contracts at 31st March 2015 or 31st March 2014.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

25. FINANCIAL INSTRUMENTS (continued)

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

	Average exchange rate	Foreign currency USDm	Contract value £m	Fair value of asset/ (liability) £m
At 31st March 2015	**USD1.6191**	**253.0**	**156.3**	**14.3**
At 31st March 2014	USD1.5801	233.1	147.5	(7.5)

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

	2015	**2014**
Percentage increase	1%	1%
US Dollar (£m)	0.5	0.5
Euro (£m)	0.1	0.1

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

25. FINANCIAL INSTRUMENTS (continued)

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

	2015 £m	2014 £m
Assets		
Euro:		
Cash and cash equivalents	4.9	6.1
Restricted cash	-	0.9
Trade receivables	8.4	3.2
US Dollar:		
Cash and cash equivalents	3.1	0.8
Restricted cash	7.9	12.9
Trade receivables	2.9	1.4
	27.2	25.3
Liabilities		
Euro:		
Trade and other payables	(5.1)	(3.2)
US Dollar:		
Trade and other payables	(7.8)	(10.2)
Debt	(119.2)	(90.9)
	(132.1)	(104.3)

Cash flow hedge effectiveness

The Company designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges. At 31st March 2015, the Company has identified 99 (2014: 86) contracts for foreign exchange purchases and 102 (2014: 70) 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 £3.5m (2014: £10.4m) was taken to equity through the hedging reserve.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

25. FINANCIAL INSTRUMENTS (continued)

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 Group's result before tax and (decrease)/increase its equity by approximately:

	2015	2014
Percentage increase	1%	1%
Impact on loss before tax and equity (£m)	(1.2)	(0.9)

Credit risk management

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

The Company is exposed to credit risk arising from cash and deposits, derivative financial instruments and trade and other receivables. The risk of loss of value due to a counterparty default is minimised by entering into transactions with counterparties that have a minimum credit rating of A (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 Group's activities (approximately 18.7% and 20.1% of Flybe UK segment costs in the years ended 31st March 2015 and 2014 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 variable cost which has had a material impact on the Company's results during the year 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

25. FINANCIAL INSTRUMENTS (continued)

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.

The actual amount covered by such contracts, amounted to 70% of the following year's budgeted fuel consumption as at 31st March 2015 (2014: 71.1%). The amount of fuel actually consumed was 2.0% less than anticipated for the year ended 31st March 2015 (2014: 6.1% less than anticipated).

The actual number of emissions credits purchased for calendar year 2014 amounted to 448.9 tonnes, including free allowances of 222.8 tonnes; the average price of the purchased allowances was €5.04.

Carbon emissions requirements for calendar year 2015 currently are expected to amount to 544.4 tonnes including free allowances of 222.8 tonnes. So far the Company has purchased 100% of its requirement for 2015 at an average cost of €5.40.

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

	2015 £m	2014 £m
Fair value of contracts to buy fuel expiring		
In less than 3 months	(7.5)	0.1
Between 3 and 6 months	(9.1)	-
Between 6 and 12 months	(12.0)	(0.2)
More than 12 months	(1.2)	-
	(29.8)	(0.1)

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

	2015		2014	
	Price per tonne USD	Date	Price per tonne USD	Date
High	1,010	19 June 2014	1,047	29 Aug 2013
Low	507	13 January 2015	883	01 May 2013

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

	2015	2014
Percentage increase in cost of fuel	10%	10%
Impact on loss before tax and equity (£m)	(3.9)	(4.8)

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

26. POST BALANCE SHEET EVENTS

In April 2015 a net capital contribution of £4.9m was transferred to Walker Aviation Leasing (UK) Limited as a result of the liquidation of the entity and the write down of the intercompany balance with Flybe Ltd.

In October 2015, Flybe announced a five year commercial arrangement that had been signed with Rigby Group-owned Regional & City Airports (RCA) for one E195 aircraft to be based in Exeter to serve Exeter and Norwich airports with eight routes to five destinations in Mainland Europe starting in March 2016.

Of the original fleet of fourteen legacy E195s, five were handed back to lessors, two have been based at Cardiff Airport under a long-term agreement signed in March 2015 with the airport operators, Cardiff Airport Limited. The agreement with RCA provided resolution for the eighth aircraft.

In November Flybe announced that the remaining six E195s will be redeployed effective from end March 2016. One aircraft will replace a Q400 aircraft at Newquay under a redefined Public Service Obligation (PSO) agreement with Cornwall Council to satisfy increased demand on the Newquay-London Gatwick route already operated by Flybe. Two will be based at Doncaster Sheffield Airport, flying to key cities and regional centres across Mainland Europe, under a long-term agreement with the Airport to provide much needed regional connectivity to the people of South Yorkshire and the surrounding area. Three aircraft will operate at Birmingham and Manchester Airports. Two of these will provide additional capacity on high load factor routes and the third E195 will provide Ejet standby cover across Flybe's network.

27. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties:

	Sales of services	
	2015	2014
	£m	£m
Preston Travel (CI) Limited*	-	1.2
Flybe Finland Oy**	-	4.0

* Period until 12 November 2013 when Rosedale Aviation Holdings Limited ceased to be a related party.
** As at 31st March 2015, the Flybe interest in Flybe Finland was sold. Therefore Flybe Finland ceased to be a related party.

	Amounts owed by related parties	
	2015	2014
	£m	£m
Preston Travel (CI) Limited*	-	0.3
Flybe Finland Oy**	-	0.6

* As at 12 November 2013 when Rosedale Aviation Holdings Limited ceased to be a related party.
** As at 31st March 2015, the Flybe interest in Flybe Finland was sold. Therefore Flybe Finland ceased to be a related party.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

27. RELATED PARTY TRANSACTIONS (continued)

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.

The Company also provided services to Flybe Finland Oy of which a 60% holding was held by Flybe Holdings Limited, another subsidiary of Flybe Group plc. At 31st March 2015, £7.5m (2014: £2.7m) was owed in respect of revenue collected on behalf of Flybe Finland and a further £2.9m (2014: zero) was owed in respect of ETS credits purchased on behalf of Flybe Finland.

	Purchases of services	
	2015*	**2014**
	£m	£m
Edenfield Investments Limited	-	0.2
Downham Properties Limited	-	0.2

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

No amounts were owed to related parties at 12th November 2013 (when Edenfield Investments Limited and Downham Properties Limited ceased to be related parties) or at 31st March 2015.

The transactions with Edenfield Investments Limited and Downham Properties Limited are disclosed although there is no holding or subsidiary company relationship between these two companies and Rosedale Aviation Holdings Limited. These two companies are owned and controlled by the EJ Walker 1964 settlement, established by the former wife of the late Mr Jack Walker; this trust is separate for tax purposes from the Jack Walker Settlement which controls Rosedale Aviation Holdings Limited. The Group also purchased property services from Edenfield Investments Limited and from Downham Properties Limited.

Transactions with key management personnel

The Company has the following outstanding loans due from Directors and former Directors, made prior to their appointment as Directors, to enable them to acquire a beneficial interest in shares in Flybe Group plc:

	2015	**2014**
	£000	**£000**
S Charles	32	-
A Knuckey	-	20

There are no other transactions or balances with key management.

NOTES TO THE FINANCIAL STATEMENTS (continued)
For the year ended 31 March 2015

28. 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.

29. SALE OF SUBSIDIARY UNDERTAKING

On 1st November 2014, the net assets of the Maintenance, Repair and Overhaul business (MRO) were transferred to Flybe Aviation Services Ltd.

Net assets disposed of were as follows:	£m
Assets transferred	21.1
Liabilities transferred	(2.9)
Net Assets transferred (see note 2)	18.2