Half-year Report 2011/12

flybe.

UK leadership European growth

UK's No. 1 domestic airline
28% domestic market share and largest carrier at 12 UK airports

Europe's largest regional airline
Supported by one of Europe's leading regional MRO operations

Expansion under way
Flybe Finland has commenced operations

"Despite the UK domestic air travel market being 10% below pre-volcanic levels, and given the UK represents circa 70% of Flybe's passenger volumes, these financial results demonstrate the resilience of our business model. Alongside good growth in load factors, we continue to benefit from our focus on revenue generation with revenue per seat, ticket yield and ancillary yield all showing increases. We have also maintained our market leading positions.

In just three months since the acquisition of Finnish Commuter Airlines in joint venture with Finnair, Flybe Finland is now flying 26 routes, 10 of which are new. We are looking selectively at further opportunities across Europe.

While there are many external economic and political factors which are creating uncertainty and volatility in the market, we remain focused on delivering our short and long term goals and are pleased with the progress being made."

Jim French CBE
Chairman and Chief Executive Officer

+6.4%
Increase in Group revenue

£14.3m
Profit before tax

Financial highlights

- Group revenue growth of 6.4% to £341.6m (H1 2010/11: £321.0m)
- Flybe Finland, our new joint venture with Finnair, generated revenues of £8.6m in September 2011, its first month of trading. Therefore, total revenues under Flybe's management in H1 2011/12 were £350.2m, a year-on-year increase of 9.1%
- Profit before tax of £14.3m (H1 2010/11: £8.2m*, £19.8m underlying**)
- Profit after tax improved to £14.6m (H1 2010/11: £7.1m)
- Operating cash inflow in H1 2011/12 of £13.0m (H1 2010/11: outflow £(4.2)m)
- Robust balance sheet with net assets of £112.5m at 30 September 2011 (31 March 2011: £107.9m; 30 September 2010: £34.9m) and total cash of £88.4m at 30 September 2011 (31 March 2011: £105.6m; 30 September 2010: £41.8m)
- Fuel hedged at $918 per tonne for 90% of forecast H2 2011/12 burn, and at $1,006 per tonne for 44% of forecast H1 2012/13 burn

Operational highlights

- Passenger numbers up by 5.0% to 4.2 million at a load factor of 65.6% (H1 2010/11: 64.0%)
- Passenger revenue per seat up 5.8% to £49.88 (H1 2010/11: £47.14)
- Seats flown increased by 3.2% to 6.4 million (decrease of 1.6% excluding the impact of volcanic ash disruption in 2010)
- Maintained leadership and increased share in UK domestic market – total domestic market share*** of the Flybe brand in the year to September 2011 was 27.9%, up from 26.9%
- Acquisition of Finnish Commuter Airlines by Flybe Nordic, a new joint venture with Finnair:
  - transaction successfully completed on 18 August 2011
  - airline rebranded as Flybe Finland
  - revised network commenced operation at the beginning of the IATA winter season on 30 October 2011, which is historically the stronger half of the year in these territories
- Strengthened Group Board and Divisional Operating Structure (Flybe UK, Flybe Europe and Flybe Aviation Support) to help drive the Group's growth strategy
- Focus on managing a modern, right-sized fuel-efficient regional aircraft fleet continues:
  - sale of five Bombardier Q400 aircraft to Rand Merchant Bank ("RMB") at a modest book profit, with two further aircraft disposed of in October 2011
  - 16 regional aircraft (14 ATR turboprops, two E170 regional jets) operated in Flybe Finland – average age 3.3 years, all held on operating lease
  - first four Embraer E175s due for delivery in Q3 2011/12

Key financial headlines

	H1 2011/12 £m	H1 2010/11 £m	Change %
Revenue	341.6	321.0	6.4
Operating profit*	16.2	11.3	43.4
Profit before tax*	14.3	8.2	74.4
Profit before tax – unadjusted	14.3	1.7	741.2
Operating cash inflow/(outflow)	13.0	(4.2)	N/M
Total cash at period end****	88.4	41.8	111.5

* Before Initial Public Offering ("IPO") expenses and unrealised gains and losses on fuel and foreign exchange hedges
** H1 2010/11 underlying profit before tax before impact of volcanic ash, IPO expenses and unrealised gains and losses on fuel and foreign exchange hedges
*** Source: CAA statistics
**** Total cash comprises cash and cash equivalents of £70.3m (H1 2010/11 £24.7m) and restricted cash of £18.1m (H1 2010/11 £17.1m)

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Business review

> "Despite the UK domestic air travel market being 10% below pre-volcanic levels, and given the UK represents circa 70% of Flybe's passenger volumes, these financial results demonstrate the resilience of our business model."

Jim French CBE
Chairman and Chief Executive Officer

Overview

Flybe has continued to focus on its distinct and proven business model, offering high frequency services from convenient regional airports, serving markets with limited surface transport alternatives. This business model results in high levels of repeat travel across business, social and leisure segments. Utilising modern, right-sized aircraft on an optimal capacity/demand basis, Flybe is able to operate on break-even load factors in the low-60s%.

In the UK, Flybe is the largest airline brand in the UK domestic market with 27.9% passenger market share in the year ended September 2011, up from 26.9% in the previous year. The UK division currently operates out of 14 UK bases and serves 73 airports in total over the UK and 12 other European countries.

The Group is also Europe's largest regional airline and we continue to see exciting opportunities to grow further on the continent by exporting our proven regional business model to targeted regions. The market trend supporting this growth strategy is strong, as European flag carriers increasingly focus more on long-haul, premium business, and, in many cases, look to restructure non-core regional operations.

Flybe generates additional revenue from its Aviation Support division, a complementary MRO and training business which services third parties as well as Flybe.

Group results

Despite well publicised adverse macro-economic conditions, and the previously reported slowdown in sales seen from September, Flybe performed satisfactorily in the six month period to 30 September 2011. Revenues under management grew 9.1% to £350.2m compared to the volcanic ash-affected H1 2010/11 of £321.0m and the Group achieved a profit before tax of £14.3m (H1 2010/11: £1.7m unadjusted, £19.8m underlying). The adverse variance in H1 2011/12 profit before tax versus the underlying result for H1 2010/11 was primarily due to improvements in load factors and yields being more than offset by the adverse impact of fuel and US dollar in the period.

In H1 2011/12, Flybe generated operating cash inflows of £13.0m (H1 2010/11: outflow £(4.2)m).

The Group has a strong balance sheet with total cash, including restricted funds, of £88.4m at 30 September 2011 (31 March 2011: £105.6m; 30 September 2010: £41.8m).

Fleet

Three Q400 aircraft were acquired during H1 2011/12 and the sale of seven Q400s to Rand Merchant Bank was announced with five of these disposals being completed in H1 2011/12. The remaining two aircraft disposals were completed in October 2011 and two further Q400 aircraft are due to be returned to the lessors in the second half of 2011/12.

The first four 88-seat Embraer E175 regional jets (from our firm order for 35 aircraft placed in July 2010) are due to be delivered by the end of this calendar year, maintaining our two-type fleet model in Flybe UK. These firm orders were put in place largely to replace 25 returning aircraft over the next five years.

Flybe Finland's fleet comprises 16 leased aircraft (14 ATR turboprops, two Embraer E170 regional jets) with an average age of 3.3 years. The fleet is held on operating lease agreements, with an average outstanding lease period of 4.5 years. Of the 16 aircraft, eight are operated under contract flying arrangements for Finnair and eight deployed on Flybe Finland's own routes.

Flybe's total fleet at 30 September 2011 totalled 83 aircraft with an average age of 4.4 years (31 March 2011: 69 aircraft, average age 4.3 years), as summarised below:

		Number of aircraft		
	Number of seats	At 31 March 2011	Net movements in period	At 30 September 2011
Flybe UK				
Embraer E-series regional jets	118	14	–	14
Bombardier Q400 turboprops	78	55	(2)	53
Flybe Europe				
ATR 42 turboprop	48	–	4	4
ATR 72 turboprop	68-72	–	10	10
Embraer E170 regional jet	76	–	2	2
Total		69	14	83
Held on operating lease		59	16	75
Owned and debt financed		10	(2)	8
Total		69	14	83
Total seats in fleet		5,942		6,818
Average seats per aircraft		86.1		82.1
Average age of fleet (years)		4.3		4.4

Board and divisional structure

During the period Flybe strengthened and structured its Group Board and Divisional Operating Structure into three divisions: Flybe UK, Flybe Europe and Flybe Aviation Support. This is providing focus and drive for the ongoing implementation of the Group's growth strategy.

- Flybe UK – comprising the UK domestic and UK-Europe airline business. Andrew Strong, previously the Group's Chief Operating Officer, is Managing Director of this division.
- Flybe Europe – comprising the European airline businesses, including Flybe Finland and any future acquisitions, as well as organic development. Mike Rutter, previously Chief Commercial Officer of Flybe, heads up this division as Managing Director.
- Flybe Aviation Support – comprising the MRO and Training businesses supporting Flybe's airline divisions and serving third party customers. John Palmer, previously Director of Airline Operations, is Managing Director of Flybe Aviation Support.

As part of the continuing development of Corporate Governance within the Group, in addition to the Audit, Safety, Remuneration and Nominations Committees, a Mergers and Acquisitions ("M&A") Committee has been established to monitor and review all potential acquisitions, and make appropriate recommendations to the Group Board. The M&A Committee is chaired by Alan Smith (Independent Non-Executive Director since 2006).

Mark Chown, previously Deputy Chairman of Flybe and a Trustee of the Walker Trust, one of the Group's major shareholders, has been appointed as Director of Corporate Strategy at Flybe. The Corporate Strategy role will include responsibility for identifying, evaluating and delivering M&A opportunities. Mark has worked with Flybe since 1996 and has been closely involved with significant strategic developments at the Group, including the acquisition and integration of BA Connect, Flybe's IPO in December 2010 and led the acquisition of what is now Flybe Nordic.

In light of his new executive role, Mark has been replaced as Deputy Chairman by Charlie Scott, Flybe's Senior Independent Director.

Divisional review

Flybe UK

Flybe UK, comprising our UK domestic route network and UK regions to Europe routes, delivered a good revenue performance with an increase of 6.8% to £329.1m (H1 2010/11: £308.1m). This would have been an estimated 0.3% increase excluding the impact of the 2010 volcanic ash disruption. Operating profit was £15.4m (H1 2010/11: £8.5m). The UK regions to European routes, especially business city destinations, performed particularly well.

Seats flown increased by 3.2% to 6.4 million, a decrease, excluding the impact of volcanic ash disruption in 2010, of 1.6%. Passengers increased by 5.0% to 4.2 million, representing a 1.6ppt improvement in load factor to 65.6%. Business travellers represented circa 37% of our passengers (H1 2010/11: 38%).

With the ongoing focus on maximising passenger revenue per seat, it is pleasing to report that H1 2011/12 saw improvements in passenger numbers, load factor and both ticket yield (2.6% increase to £62.11) and ancillary yield (6.3% increase to £13.95), resulting in a year-on-year increase in passenger revenue per available seat of 5.8% to £49.88 (H1 2010/11: £47.14).

In light of current economic conditions, the short-term focus is to continue to protect profits and our market leading position in the UK by matching seat capacity to demand, maintaining the route profile and continuing to build on our attractive customer service proposition.

Business review
Continued

As and when the UK economy begins to recover and demand begins to strengthen, the longer-term strategy, as outlined at IPO, will be to capitalise on that recovery by rebuilding seat capacity and growing profits in the division.

During the course of H1 2011/12, the price of jet fuel has traded between $949 and $1,140 per tonne. As at 31 October 2011, 90% of Flybe UK's forecast fuel burn for H2 2011/12 was hedged at an average price of $918 per tonne, and 44% of the expected fuel burn on H1 2012/13 was hedged at an average price of $1,006 per tonne.

Flybe Europe
On 1 July 2011, Flybe announced the acquisition of Finnish Commuter Airlines Oy ("FCA") in a 60:40 joint venture with Finland's flag carrier, Finnair. The acquisition was completed on 18 August 2011 with Flybe's share of the total acquisition price, including net cash at completion, totalling £18.1m (€21.0m).

In the one month since acquisition, Flybe Finland generated revenues of £8.6m, carried 98,500 passengers and performed in line with expectations. Under its new branding of Flybe Finland, the airline commenced its new route network on 30 October 2011, flying 26 routes including 10 new ones. These are the first steps on a journey that we expect will see Flybe Finland increase in size and profitability from operations that will be developed across the Nordic and Baltic regions. In the near term and with the revised commercial and operational structure we have put in place, we expect to see the airline achieve a break-even position in the 2012/13 year and move to profitability in 2013/14.

In addition, Flybe acquired 46.3% of Finnish Aircraft Maintenance Oy ("FAM") as part of the acquisition of FCA (collectively, "Flybe Nordic"). FAM now forms part of the businesses managed by Flybe Aviation Support.

This acquisition marks the first important step in fulfilling Flybe's strategic aim of increasing operations within continental Europe. The Nordic region offers particularly strong growth opportunities due to favourable market conditions, namely, a fragmented regional airlines marketplace, the weakness of certain flag carriers in this area and the stimulus of growing competition from low-cost carriers, which helps legitimise Flybe's ancillary revenue model. Furthermore, in the absence of alternative viable transportation options, there is a high propensity for air travel in Finland and the wider Nordic region and, accordingly, the market enjoys high yields compared with Flybe UK.

Selective acquisitions offer the fastest and most visible route to profitability in the regional airline sector in Europe, while partnership with major airlines significantly reduces entry risk. Flybe is actively exploring further opportunities for low-risk entry into other regional European markets through acquisitions or by way of alliances with flag carriers such as joint ventures, contract flying or codeshares. All opportunities must meet Flybe's stringent criteria of being able to provide a 15%+ profit before tax return in the second full year post acquisition.

Flybe Aviation Support

Flybe Aviation Support includes state-of-the-art maintenance, repair and overhaul ("MRO") and training facilities in Exeter, and MRO and training support businesses in Finland.

Revenues during the period were up 13.0% to £22.6m (H1 2010/11: £20.0m) with an operating loss of £(0.4m) (H1 2010/11: loss £(0.3m)).

The regional MRO business is one of the largest in Europe and enables the Group to provide safe and timely scheduled maintenance of its own fleet as well as to generate profits from its third party customers. There are indications that MRO activity is building again after a weaker market in 2010/11, although the sector has experienced short term scheduling variations as airlines continue to restructure their fleet plans. Consequently, this business saw lower levels of third party activity than had been expected in Q1 2011/12 but the July to September 2011 period has shown signs of improvement with volumes of new and unplanned work from third parties emerging, and these encouraging trends have continued into the start of H2 2011/12.

Flybe's Training Academy, officially opened in April 2011, has 26 classrooms and flight simulation equipment. The Group's strategy is to replicate the third party work profile already achieved by the MRO business.

Summary and outlook

Despite the UK domestic air travel market being 10%* below pre-volcanic levels, and given the UK represents circa 70% of Flybe's passenger volumes, these financial results demonstrate the resilience of our business model. Alongside good growth in load factors, we continue to benefit from our focus on revenue generation with revenue per seat, ticket yield and ancillary yield all showing increases. We have also maintained our market leading positions.

In Flybe UK, trading conditions remain challenging, as expected. Forward ticket sales revenue for winter 2011/12 is currently down 1% year-on-year, while our capacity management programme means seats flown will be down by 6% against the previous year. We will continue to monitor closely trends and review our flying programme to ensure that capacity remains optimally matched to demand. Across the Flybe Group including Flybe Finland, however, we are expecting an increase in scheduled seat capacity managed by Flybe in winter 2011/12 of circa 7% year-on-year, with a similar increase in passengers.

In Flybe Aviation Support, we have seen indications in recent months that MRO activity is building again after a weaker market in 2010/11, and these encouraging trends have continued into the start of H2 2011/12.

In just three months since the acquisition of Finnish Commuter Airlines in joint venture with Finnair, Flybe Finland is now flying 26 routes, 10 of which are new. We are looking selectively at further opportunities across Europe.

In terms of the business as a whole, through a focus on costs and capacity management, we continue to mitigate the impact of the economic slowdown in the UK; our UK to Europe sales are holding up well; we are pleased with progress in Flybe's operations in Finland; and our balance sheet is stronger than at any time in our history. Taken together, this gives us confidence both in the long-term future as well as ensuring we optimise our results for the current year.

* Source: CAA statistics

Financial review

Summary

Flybe has had a satisfactory H1 2011/12, which has seen growth in both revenue and profits. In addition, we have maintained our position as the leading carrier of UK domestic passengers with a 27.9% market share and our passenger numbers have increased by 5.0% to 4.2 million.

Flybe maintained its strong financial position, with net assets of £112.5m, total cash of £88.4m, unrestricted cash of £70.3m and net cash (i.e. total cash less borrowings) of £21.8m.

Flybe Nordic is held and operated in joint venture relationships with Finnair. Their results are therefore equity accounted rather than included in the line-by-line consolidated figures below. In H1 2011/12, Flybe Nordic had only one month of trading (following the acquisition of what was then Finnish Commuter Airlines in August 2011). In our full year results to 31 March 2012, we will provide a detailed analysis of Flybe Nordic's results for the seven month period then ended.

Key financial headlines

	H1 2011/12 £m	H1 2010/11 £m	Change %
Revenue	341.6	321.0	6.4
EBITDAR	60.9	55.8	9.1
Operating profit*	16.2	11.3	43.4
Profit before tax	14.3	1.7	741.2
Profit after tax	14.6	7.1	105.6

* Operating profit before IPO expenses and unrealised gains and losses on fuel and foreign exchange hedges

Group revenue increased by 6.4%, EBITDAR grew by £5.1m (or 9.1%) to £60.9m, and profit before tax also advanced strongly, increasing by £12.6m to £14.3m.

Flybe's EBITDAR in H1 2011/12 and H1 2010/11 is calculated as follows:

	H1 2011/12 £m	H1 2010/11 £m	Change %
Operating profit before IPO expenses and unrealised gains and losses on fuel and foreign exchange hedges	16.2	11.3	43.4
Depreciation and amortisation*	5.9	5.6	5.4
Aircraft rental charges	38.8	38.9	(0.3)
EBITDAR	60.9	55.8	9.1

* Excludes depreciation on maintenance assets set up in accordance with IFRS requirements

Set out below is a reconciliation of unadjusted profit before tax to underlying figures:

	H1 2011/12 £m	H1 2010/11 £m	Change %
Profit before tax – unadjusted	14.3	1.7	741.2
Estimated impact of volcanic ash disruption	–	11.6	
Unrealised gains and losses on fuel and foreign exchange hedges	–	5.4	
IPO expenses	–	1.1	
Profit before tax – underlying	14.3	19.8	(27.8)

Revenue

Revenue grew to £341.6m in H1 2011/12 from the £321.0m reported in the volcanic ash cloud affected period in H1 2010/11.

Seat capacity rose from 6.2 million in H1 2010/11 to 6.4 million, with sectors flown increasing to 75,500 from the 73,900 flown in H1 2010/11. Adjusting for the impact of volcanic ash in H1 2010/11, seat capacity in H1 2011/12 fell year-on-year by 1.6%, reflecting our announcement in May 2011 of flat underlying seat capacity for 2011/12.

Passenger numbers increased by 5.0% to 4.2 million, representing a 1.6ppt improvement in load factor to 65.6%.

	H1 2011/12		H1 2010/11	
	£m	£ per seat	£m	£ per seat
Ticket revenue	260.0	40.73	241.3	38.74
Ancillary revenue	58.4	9.15	52.3	8.40
Passenger revenue	318.4	49.88	293.6	47.14
Maintenance and other revenue	23.2		27.4	
Revenue	341.6		321.0	

The growth in revenue has come from increased passenger numbers, improved load factors and improved ticket and ancillary yields.

Total passenger yield was up 3.3% to £76.06 from £73.65 in H1 2010/11, comprising a 2.6% increase in ticket yield (from £60.53 to £62.11) and a 6.3% increase in ancillary yield (from £13.12 to £13.95).

This improvement in yields per passenger, together with an improvement in load factor of 1.6ppt (from 64.0% to 65.6%), resulted in passenger revenue per seat increasing by 5.8% from £47.14 to £49.88, and total passenger revenues increasing by 8.4% from £293.6m to £318.4m.

Maintenance, training and other revenue in H1 2011/12 totalled £23.2m, a decrease of 15.3% on H1 2010/11's revenues of £27.4m (which included £5.9m of revenue from wet leasing four aircraft to Olympic Air – there was no equivalent revenue in H1 2011/12). Our MRO operation continued to see lower levels of third party activity than had been expected but the July to September 2011 period has shown signs of improvement with

volumes of new and unplanned work from third parties emerging, and these encouraging trends have continued into the start of H2 2011/12. The new training academy has seen a bedding-down of its facilities since it was completed in February 2011. This period is coming to a close and improvements in utilisation and growth in third party revenues are expected to emerge in the second half of the year. In particular the Q400 simulator is now often fully utilised and a companion for the E-series jets will be installed in 2012 in time for the start of the new financial year.

Operating costs

	H1 2011/12		H1 2010/11		
	£m	£ per seat	£m	£ per seat	£ per seat at constant currency*
Staff costs	(57.6)	(9.00)	(53.3)	(8.60)	(8.60)
Fuel	(55.9)	(8.73)	(51.0)	(8.23)	(8.48)
Net airport costs, en route charges and ground operations	(113.9)	(17.80)	(107.4)	(17.32)	(17.39)
Aircraft ownership costs	(65.7)	(10.27)	(66.5)	(10.73)	(10.93)
Marketing and distribution costs	(12.7)	(1.98)	(12.1)	(1.95)	(1.96)
Other operating costs	(19.1)	(2.98)	(19.4)	(3.13)	(3.13)
Operating costs**	(324.9)	(50.76)	(309.7)	(49.96)	(50.49)

* Constant currency is calculated for the H1 2010/11 period by applying the effective exchange rates that prevailed for reporting the H1 2011/12 results of $1.58 and €1.14

** Operating costs exclude IPO expenses and unrealised gains and losses on fuel and foreign exchange hedges

Underlying operating costs increased by 4.9% from £309.7m to £324.9m. This was largely due to a 3.2% volume related increase in seats flown to 6.4m.

Underlying operating costs per seat increased by 1.6% from £49.96 to £50.76. On a constant currency basis, this unit cost measure showed an increase of 0.6% from £50.49 to £50.76.

Fuel

Fuel is a significant variable cost which has a material impact on Flybe's results. 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, has played a part in making aviation fuel prices highly volatile. During the course of H1 2011/12, the price of jet fuel has traded between $949 and $1,140 per tonne.

During H1 2011/12, Flybe UK used some 101,700 tonnes of jet fuel. The average market price during the period was $1,033 per tonne, with the Group paying a blended rate (net of hedges) of $792 per tonne. Including 'into plane' costs, Flybe UK's fuel costs of £55.9m represent an all-in cost of $876 per tonne during H1 2011/12. Using constant currency, our fuel cost per seat increased by 3.3% to £8.76 from £8.48 as the result of the consistently high oil price experienced throughout the period being largely offset by the strong hedge book Flybe has in place for 2011/12. Fuel efficiency has continued to improve with 15.9kgs of fuel being consumed for each seat flown (H1 2010/11: 16.2kgs per seat).

During normal market conditions, Flybe operates a policy of managing fuel price volatility by entering into derivative contracts representing a portion (between 60% and 90%) of its aviation fuel requirements up to 12 months forward. The intention of this programme is to provide a significant element of certainty over its fuel costs for any forthcoming IATA season. As at 31 October 2011, 90% of the division's forecast fuel burn for H2 2011/12 was hedged at an average price of $918 per tonne, and 44% of Flybe UK's expected fuel burn on H1 2012/13 was hedged at an average price of $1,006 per tonne.

Other operating costs

Staff costs increased by 8.1% largely due to increased staff numbers and pay rises awarded with effect from April 2011.

Net airport costs, en route charges and ground operations increased largely due to a greater number of flights, higher charges levied by air traffic control providers and movements in exchange rates. On a constant currency per seat basis, net airport costs, en route charges and ground operations increased by 2.4% to £17.80 (2010/11: £17.39).

Aircraft ownership costs decreased because of movements in fleet numbers. On a constant currency per seat basis, aircraft ownership costs decreased by 6.0% to £10.27 (2010/11: £10.93).

Foreign exchange

The Group manages its foreign exchange positions based on its net foreign currency exposure. As regards 'net' foreign currency exposure (i.e. foreign currency expenditure less associated revenues), Flybe currently has a relatively small net exposure to the Euro, but has to purchase a significant volume of US dollars to settle expenditure on items such as fuel, maintenance and aircraft operating leases. Flybe generates no significant US dollar revenues and actively manages its US dollar position through a foreign exchange forward purchase programme similar to that outlined for fuel. As at 31 October 2011, 99% of Flybe UK's anticipated US dollar requirements for H2 2011/12 were hedged at an average exchange rate of $1.60, and 64% of its forecast US dollar requirements for H1 2012/13 were hedged at an average exchange rate of $1.62.

Financial review
Continued

The table below sets out for each of the periods under review (i) Flybe's US dollar and Euro requirements, (ii) forward derivative instruments taken out in each currency at the beginning of each period and (iii) blended exchange rate achieved for each currency:

	H1 2011/12	H1 2010/11
US dollar		
Foreign currency requirement	$183m	$178m
Proportion hedged at beginning of period	86%	44%
Effective exchange rate	$1.56	$1.64
Euro		
Net foreign currency requirement	€21m	€3m
Proportion hedged at beginning of period	24%	0%
Effective exchange rate	€1.20	€1.19

Group
Overall, our Flybe Finland joint venture contributed a loss of £0.5m for the period since its acquisition in August 2011, in line with our expectations. Further details are given in note 12 to the condensed financial statements.

Consequently, the Group's operating profit was £16.2m (H1 2010/11: £4.8m).

After net finance costs of £0.8m (2010/11: £1.2m) and other gains and losses of £1.1m (2010/11: £1.9m), profit before tax was £14.3m (H1 2010/11 £1.7m).

Profit after tax
Profit after tax was £14.6m (H1 2010/11: £7.1m).

The tax credit was £0.3m (H1 2010/11: £5.4m). The tax credit results from the historical position of the Group, which had been loss-making, being converted into a profitable position and the associated deferral of build-up of accumulated capital allowances. The tax credit results from the recognition of previously unrecognised deferred tax assets (relating primarily to capital allowances) due to our expectation that taxable profits will increase as time progresses.

EPS and dividends
Basic earnings per share for H1 2011/12 were 19p, compared with 13p in H1 2010/11. Adjusted earnings per share (see note 8 to the condensed financial statements) were 19p, compared with 23p for H1 2010/11.

No dividends were paid or proposed in either the current or prior financial period.

Cash flow

	H1 2011/12 £m	H1 2010/11 £m	Change £m
Net cash inflow/(outflow) from operating activities	13.0	(4.2)	17.2
Net capital expenditure after disposal proceeds	(9.7)	(5.3)	(4.4)
Net interest paid	(1.5)	(1.2)	(0.3)
Net repayment of borrowings	(19.2)	(10.7)	(8.5)
Net decrease in cash and cash equivalents	(17.4)	(21.4)	4.0
Cash and cash equivalents at beginning of period	87.7	46.1	41.6
Cash and cash equivalents at end of period	70.3	24.7	45.6
Restricted cash	18.1	17.1	1.0
Total cash	88.4	41.8	46.6

The largest movements in net capital expenditure were in relation to the acquisition of Flybe Nordic, deposits for aircraft and the acquisition of three Q400 aircraft. Seven Q400 aircraft were identified for disposal to RMB of which the sale of five was completed during the period. The disposal of the remaining two Q400 aircraft was completed in October 2011.

As at 30 September 2011, there were five aircraft deposits in place against four deliveries due in H2 2011/2 and one delivery in H1 2012/13 (only one such deposit was in place at 30 September 2010).

Balance sheet

	30 Sept 2011 £m	31 Mar 2011 £m	Change £m
Airport landing slots	8.5	8.5	–
Aircraft	97.3	110.9	(13.6)
Interest in joint ventures	17.6	–	17.6
Net funds	21.8	21.9	(0.1)
Other working capital – net	(57.5)	(56.8)	(0.7)
Deferred taxation	2.2	(1.7)	3.9
Other non-current assets and liabilities	22.6	25.1	(2.5)
Net assets	112.5	107.9	4.6

The value of airport landing slots remained unchanged, with no additions, disposals or impairments. The £97.3m of net book value of aircraft represents owned aircraft, engines and aircraft modifications.

On 18 August 2011, Flybe and Finnair entered into a 60:40 joint venture which completed the acquisition of Finnish Commuter Airlines Oy ("FCA") and also involved Flybe acquiring a 46.3% stake in Finnish Aircraft Maintenance Oy (collectively, "Flybe Nordic"). Flybe's share of the total consideration was £18.1m (€21.0m). Due to the nature of the joint venture agreement between the shareholders, which requires certain key decisions to be agreed jointly, these acquisitions have been treated as joint ventures. After Flybe's share of joint venture losses of £(0.5m) in H1 2011/12, the carrying value of the interest in joint ventures at 30 September 2011 stood at £17.6m.

Net funds at 30 September 2011 of £21.8m were in line with the position at 31 March 2011 of £21.9m, with the profit and associated operating cash flow generated in the period being offset by the cash used to purchase Flybe Nordic. Borrowings declined by £17.1m to £66.6m as loans associated with the five aircraft sales completed were repaid. This offset the cash outflows of £41.1m arising on the purchase of three aircraft as well as other property, plant and equipment.

The finance raised at our IPO on 15 December 2010 has partly been utilised in the acquisition of Flybe Nordic, with the balance being retained as free cash. We expect to use this to assist with the funding of further expansion opportunities in Europe and our contracted aircraft purchase of 35 E-series jets from Embraer announced in July 2010.

Net funds at 30 September 2011 include restricted cash of £18.1m (£17.9m at 31 March 2011) which represents, predominantly, cash deposits held in favour of aircraft owners to secure operating lease arrangements and cash held with the Group's principal banker to facilitate guarantee arrangements with suppliers. Net negative other working capital was stable at £57.5m.

Shareholders' equity increased by £4.6m driven principally by profits generated in the period offset by the reduction in derivatives fair value of £12.8m. This does not include the impact of the defined benefit pension scheme surplus of £0.8m. The scheme is closed to future benefit accrual and the surplus has not been recognised as the assets cannot be recovered by the Group.

Related party transactions

Related party transactions are disclosed in note 17 to the condensed financial statements. There have been no material related party transactions since the last annual report.

Going concern

Flybe's business activities, together with the factors likely to affect its future development, performance and position, are set out in the business review on pages 2 to 5. The financial position of the Group, its cash flows and liquidity position are described in the financial review section above.

The Directors have considered the sensitivities presented by current economic conditions in the aviation sector in relation to passenger volumes and yields, fuel prices, foreign exchange, route selection and investment in new aircraft and will assess any actions they feel are necessary.

Flybe has free cash balances of £70.3m, has met all of its operating lease commitments and debt repayment obligations as they have fallen due and passed all its financial covenants.

The Directors have prepared a trading and cash flow forecast which indicates that Flybe will be able to trade using operating cash flows for at least 12 months from the date of signing this interim statement and will be able to meet its operating lease commitments and debt repayments as they become due.

The Directors have a reasonable expectation that Flybe has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing these condensed financial statements.

Risks and uncertainties

This section describes the principal risks and uncertainties which may affect Flybe's business, financial results and prospects. The Board has determined that these continue to be the principal risks and uncertainties facing the Group for the remaining six months of the year. Further details on the principal risks and uncertainties can be found on pages 27 to 29 of the Group's annual report for the year ended 31 March 2011 and which is available for download from its website at http://www.flybe.com/en/corporate/investors.

Safety and security

- Failure to prevent a safety or security related incident or to respond adequately to a safety or security related event.

External risks

Macroeconomic environment

- Flybe is exposed to a sustained deterioration in general economic conditions.
- Flybe is exposed to a reduction in UK domestic air travel.

Competition

- Flybe operates in a highly competitive transport market.

Regulation

- Regulatory changes in the airline industry may have an adverse impact on an airline's costs, operational flexibility, marketing strategy, business model and ability to expand.
- Flybe is exposed to various regulators across its network. This will increase as Flybe expands its operations in other countries.

Duties and taxes

- Airlines may be adversely affected by increases in Air Passenger Duty in the UK and its equivalent in other countries.
- Value Added Tax may be imposed on domestic air travel.
- Duties may be introduced on jet fuel.

Environment

- Airlines may be adversely affected by any future application of restrictions with regard to regulation of emissions trading and other environmental laws and regulations.
- Flybe is exposed to negative environmental perception of the airline industry.

Implementing growth strategy

- Flybe may not be successful in implementing its growth strategy, particularly its expansion into Europe.
- Costs will be incurred in developing new routes, and new routes proposed by Flybe may not be profitable.

Reputation

- Flybe is exposed to an event damaging its reputation or brand.
- Flybe is exposed to the effects of extraneous events, such as epidemics, natural occurrences or disasters (such as severe weather or ash cloud disruption).

IT systems and the internet

- Flybe is heavily dependent on its information technology systems and the internet to operate its business.

People

- Flybe is dependent on good industrial relations with a workforce that is, in part, unionised.
- Flybe is exposed to shortages of key personnel.

Supplier

- Flybe is exposed to the failure or non-performance of commercial counterparties as well as requiring the services of key suppliers such as airports, air traffic control systems and fuel supply companies.

Financial risks

- Flybe is exposed to risks associated with fluctuations in fuel prices and foreign exchange rates.
- Flybe is exposed to fluctuations in interest rates and the availability of suitable financing.
- Flybe holds significant cash balances as a form of risk management.
- Flybe is reliant on the continuing performance of its financial counter-parties.

Statement of Directors' responsibilities

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Chairman and Chief Executive Officer
Jim French CBE

8 November 2011

Chief Financial Officer
Andrew Knuckey

8 November 2011

Independent review report to Flybe Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2011 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 17. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom

8 November 2011

Notes: A review does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial information since first published. These matters are the responsibility of the Directors but no control procedures can provide absolute assurance in this area.

Consolidated income statement

Six months ended 30 September 2011

	Note	Six months ended 30 September 2011 £m (unaudited)	2010 £m (unaudited)
Total revenue under management	3	350.2	321.0
Less: Joint venture revenues		(8.6)	–
Group revenue		341.6	321.0
Consisting of:			
Ticket revenue		260.0	241.3
Ancillary revenue		58.4	52.3
Maintenance and other revenue		23.2	27.4
		341.6	321.0
Staff costs		(57.6)	(53.3)
Fuel		(55.9)	(51.0)
Net airport and en route charges		(68.2)	(63.2)
Ground operations		(45.7)	(44.2)
Maintenance		(21.0)	(22.0)
Depreciation and amortisation		(5.9)	(5.6)
Aircraft rental charges		(38.8)	(38.9)
Marketing and distribution costs		(12.7)	(12.1)
Other operating gains/(losses)		1.7	(0.9)
Other operating expenses		(20.8)	(18.5)
Share of joint venture results	12	(0.5)	–
Operating profit before Initial Public Offering ('IPO') expenses and unrealised gains and losses on fuel and foreign exchange hedges		16.2	11.3
IPO expenses incurred	5	–	(1.1)
Losses on fuel and foreign exchange hedges		–	(5.4)
Operating profit		16.2	4.8
Investment income		0.3	0.1
Finance costs		(1.1)	(1.3)
Other gains and losses		(1.1)	(1.9)
Profit before tax		14.3	1.7
Tax credit	6	0.3	5.4
Profit for the period		14.6	7.1
Earnings per share:			
Basic and diluted	8	£0.19	£0.13

Consolidated statement of comprehensive income

Six months ended 30 September 2011

	Six months ended 30 September	
	2011 £m (unaudited)	2010 £m (unaudited)
Profit for the financial period	14.6	7.1
(Losses)/gains arising during the period on cash flow hedges	(2.0)	0.1
Reclassification of gains on cash flow hedges included in profit	(11.7)	–
Deferred tax arising on cash flow hedges	3.6	–
Actuarial (loss)/gain on defined benefit pension scheme	(0.2)	6.0
Other comprehensive (loss)/income for the period	(10.3)	6.1
Total comprehensive income for the period	4.3	13.2

Consolidated statement of changes in equity

Six months ended 30 September 2011

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Total equity £m
Balance at 1 April 2011	0.7	60.6	15.7	6.7	22.5	1.7	107.9
Profit for the period	–	–	–	–	–	14.6	14.6
Other comprehensive loss for the period	–	–	(10.1)	–	–	(0.2)	(10.3)
Equity-settled share-based payment transactions	–	–	–	–	–	0.3	0.3
Balance at 30 September 2011 (unaudited)	0.7	60.6	5.6	6.7	22.5	16.4	112.5

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Total equity £m
Balance at 1 April 2010	–	1.0	–	6.7	22.5	(8.7)	21.5
Profit for the period	–	–	–	–	–	7.1	7.1
Other comprehensive income for the period	–	–	0.1	–	–	6.0	6.1
Equity-settled share-based payment transactions	–	–	–	–	–	0.2	0.2
Balance at 30 September 2010 (unaudited)	–	1.0	0.1	6.7	22.5	4.6	34.9

Consolidated balance sheet

At 30 September 2011

	Note	30 September 2011 £m (Unaudited)	31 March 2011 £m (Audited)
Non-current assets			
Intangible assets		10.1	10.4
Property, plant and equipment	9	122.1	136.3
Interests in joint ventures	12	17.6	–
Other non-current assets		34.0	32.4
Restricted cash		7.3	8.6
Deferred tax asset		10.2	9.9
Derivative financial instruments		0.4	0.1
		201.7	197.7
Current assets			
Inventories		7.3	5.8
Trade and other receivables		96.7	88.8
Cash and cash equivalents		70.3	87.7
Restricted cash		10.8	9.3
Derivative financial instruments		10.6	24.4
Assets held for sale		0.3	0.4
		196.0	216.4
Total assets		397.7	414.1
Current liabilities			
Trade and other payables		(105.3)	(80.4)
Deferred income		(36.7)	(64.2)
Borrowings	10	(14.8)	(16.9)
Provisions		(27.9)	(28.3)
Derivative financial instruments		(2.5)	(3.3)
		(187.2)	(193.1)
Non-current liabilities			
Borrowings	10	(51.8)	(66.8)
Deferred tax liabilities		(8.0)	(11.6)
Provisions		(25.0)	(20.4)
Deferred income		(13.1)	(14.3)
Derivative financial instruments		(0.1)	–
		(98.0)	(113.1)
Total liabilities		(285.2)	(306.2)
Net assets		112.5	107.9
Equity attributable to owners of the company			
Share capital	11	0.7	0.7
Share premium account		60.6	60.6
Hedging reserve		5.6	15.7
Other reserves		6.7	6.7
Capital redemption reserve		22.5	22.5
Retained earnings		16.4	1.7
Total equity		112.5	107.9

Consolidated cash flow statement

Six months ended 30 September 2011

	Six months ended 30 September	
	2011 (Unaudited) £m	2010 (Unaudited) £m
Cash flows from operating activities		
Profit for the period	14.6	7.1
Adjustments for:		
Unrealised losses on fuel and foreign exchange hedges	–	5.4
Depreciation, amortisation and impairment	7.6	10.5
Investment income	(0.3)	(0.1)
Finance costs	1.8	1.3
Other losses	–	1.9
Gain on sale of property, plant and equipment and assets held for sale	(0.8)	(0.4)
Equity-settled share-based payment expenses	0.3	0.2
Joint venture result	0.5	–
Taxation	(0.3)	(5.4)
	23.4	20.5
Increase in restricted cash	(0.2)	(1.1)
Increase in trade and other receivables	(10.1)	(0.2)
Increase in inventories	(1.5)	(0.9)
Decrease in trade and other payables	(4.9)	(27.6)
Decrease in assets held for sale	0.1	0.1
Increase in provisions and employee benefits	6.2	5.0
	(10.4)	(24.7)
Tax (paid)/received	–	–
Net cash from operating activities	13.0	(4.2)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	48.2	11.9
Decrease/(increase) in pre-delivery deposits	0.6	(3.8)
Interest received	0.3	0.1
Acquisition of property, plant and equipment	(41.1)	(12.7)
Capitalised development expenditure	(0.2)	(0.7)
Acquisition of joint venture interest	(17.2)	–
Net cash from investing activities	(9.4)	(5.2)
Cash flows from financing activities		
Proceeds from new loans	31.4	2.2
Interest paid	(1.8)	(1.3)
Repayment of borrowings	(50.6)	(12.9)
Net cash from financing activities	(21.0)	(12.0)
Net decrease in cash and cash equivalents	(17.4)	(21.4)
Cash and cash equivalents at beginning of period	87.7	46.1
Cash and cash equivalents at end of period	70.3	24.7

Notes to the condensed set of financial statements

Six months ended 30 September 2011

1. General information

The information for the year ended 31 March 2011 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

2. Accounting policies

Basis of accounting

The annual financial statements of Flybe Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting, as adopted by the European Union.

Going concern

The Directors are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements. Further detail is contained in the financial review on page 9.

Changes in accounting policy

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, with the addition of a new policy for accounting for investments in joint ventures, set out below.

A number of amended standards and interpretations are effective for the current financial year, but none of them has had any material impact on the condensed financial information:

IFRS 10 (May 2011)	Consolidation
IFRS 11 (May 2011)	Joint ventures
IFRS 12 (May 2011)	Disclosure of interests in other entities
IFRS 13 (May 2011)	Fair value measurement
Amendment to IAS 19 (June 2011)	Post-employment benefits

Investments in joint ventures

In the six months ended 30 September 2011, Flybe Group plc acquired a joint venture interest – see note 12 for further detail.

A joint venture is an entity over which the Group has control jointly with one or more other parties and that is neither a subsidiary nor an interest in an associate. Joint control is contractually agreed sharing of control over an economic activity, where the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Under the equity method, the interest in joint ventures is carried on the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of the individual investments. The Group income statement reflects the share of the jointly controlled entity's results after tax. Where there has been a change recognised in the comprehensive income of the jointly controlled entity, the Group recognises its share of any such changes in the Group statement of comprehensive income. Losses of a joint venture in excess of the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture) are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

Any goodwill arising on the acquisition of a jointly controlled entity, representing the excess of the cost of the investment compared to the Group's share of the net fair value of the entity's identifiable assets, liabilities and contingent liabilities, is included in the carrying amount of the jointly controlled entity and is not amortised. To the extent that the fair value of the entity's identifiable assets, liabilities and contingent liabilities is greater than the costs of the investment, a gain is recognised and added to the Group's share of the entity's profit or loss in the period in which the investment is acquired.

Costs associated with the acquisition of a joint venture are capitalised into the initial cost of investment.

3. Business segments

Following the acquisition of a joint venture described further in note 12 by Flybe Group plc, the divisional operating structure was organised into three separate operating divisions to support the Group's ongoing delivery of its strategy of European expansion and continued growth in its UK market.

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 Group's main scheduled UK domestic and UK-Europe passenger operations and revenues ancillary to the provision of those services.
Flybe Europe	This business segment comprises the European airline businesses, including Flybe Finland and any future acquisitions, as well as organic development.
Flybe Aviation Support	This business segment comprises the MRO and Training businesses supporting Flybe's UK and Europe divisions and serving third party customers, including aircraft maintenance, overhauls and the associated rotables and consumable parts.

Notes to the condensed set of financial statements
Continued

3. Business segments continued
Segment revenues and results
The segment result is profit before tax, IPO expenses, and unrealised gains and losses on fuel and foreign exchange.

Transfer prices between business segments are set on an arm's length basis.

	Six months ended 30 September 2011 £m	Six months ended 30 September 2010 £m
Segment revenues:		
Flybe UK	329.1	308.1
Flybe Europe	8.6	–
Flybe Aviation Support	22.6	20.0
Inter-segment sales	(10.1)	(7.1)
Revenues under Flybe management	350.2	321.0
Less: Revenues from Flybe Europe joint venture (note 12)	(8.6)	–
Group revenues (excluding investment income)	341.6	321.0
Segment results:		
Flybe UK (including finance costs of £1.1m in 2011 and £1.3m in 2010)	15.4	8.5
Flybe Europe	(0.7)	–
Flybe Aviation Support	(0.4)	(0.3)
Total segment results	14.3	8.2
Other items not allocated:		
Unrealised losses on fuel and foreign exchange hedges	–	(5.4)
IPO expenses	–	(1.1)
Profit before tax	14.3	1.7

Segment assets and liabilities
For the purposes of monitoring segment performance and allocation of resources between segments the Operating Board monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of revalued open fuel and foreign exchange derivatives and tax assets and liabilities. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

	30 September 2011 £m	31 March 2011 (restated)* £m
Segment assets:		
Flybe UK	323.7	343.5
Flybe Europe	17.6	–
Flybe Aviation Support	35.2	36.1
Total segment assets	376.5	379.6
Unallocated assets	21.2	34.5
Consolidated total assets	397.7	414.1
Segment liabilities:		
Flybe UK	(256.5)	(273.2)
Flybe Europe	(0.9)	–
Flybe Aviation Support	(17.0)	(17.8)
Total segment liabilities	(274.4)	(291.0)
Unallocated liabilities	(10.8)	(15.2)
Consolidated total liabilities	(285.2)	(306.2)

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

4. Seasonality

Flybe's results of operations vary significantly from quarter to quarter within the financial year and the first half of the year is generally stronger than the second half of the year. The airline industry is highly seasonal and demand and yields are significantly higher during the summer. Historically, Flybe has generated more than 50% of its passenger revenues during the summer season.

5. IPO expenses

During the six months ended 30 September 2010, the Group incurred costs associated with listing on the London Stock Exchange. These costs were sufficiently unusual in nature to be presented separately on the face of the income statement. Costs specifically in respect of raising new equity were deducted from share premium. Costs that related equally to the listing process and raising new equity were split between the income statement and the share premium account.

6. Tax

Current tax for the six-month period is charged at 0% (six months ended 30 September 2010: 0%), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six-month period. Deferred tax is calculated based on the expected annual outturn apportioned between the interim periods based on the expected pattern of profit generation. The tax credit results from the recognition of previously unrecognised deferred tax assets (relating primarily to capital allowances) due to our expectation that taxable profits will increase as time progresses.

7. Dividends

No dividends have been paid or proposed either during the six months ended 30 September 2011 or during the comparative accounting period.

8. Earnings per share

The calculation of the basic, diluted, adjusted basic and adjusted diluted earnings per share is based on the following data:

	Six months ended 30 September	
	2011 £m	2010 £m
Earnings		
Earnings for the purposes of unadjusted earnings per share being net profit attributable to owners of the Group	14.6	7.1
Add back/(deduct):		
IPO expenses incurred	–	1.1
Unrealised losses on fuel and foreign exchange hedges	–	5.4
Effect of tax on the above adjustments	–	(1.8)
Earnings for the purposes of adjusted earnings per share	14.6	11.8

	Six months ended 30 September	
	2011 No.	2010 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	75,152,881	52,500,000
Effect of diluted potential ordinary shares:		
Share options	1,223,274	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	76,376,155	52,500,000
Earnings per ordinary share – basic and diluted	£0.19	£0.13
Adjusted earnings per share – basic and diluted	£0.19	£0.23

Number of shares in issue for September 2010 has been adjusted to reflect the bonus issue of 24 new shares for each existing share on 25 November 2010.

Notes to the condensed set of financial statements
Continued

9. Property, plant and equipment

	30 September 2011 £m	31 March 2011 £m
Opening cost as at 1 April	214.7	193.4
Additions	41.1	42.6
Disposals	(48.2)	(21.3)
Closing cost at 30 September/31 March	207.6	214.7
Accumulated depreciation	(85.5)	(78.4)
Closing net book value as at 30 September/31 March	122.1	136.3

See note 14 for capital commitments.

10. Borrowings
Additional loans of £31.4m were drawn down under new loan facilities primarily to fund the acquisition of three Q400s.

Repayments of other bank loans amounting to £50.6m were made during the period, in line with previously disclosed repayment terms and on disposal of five Q400s.

11. Share capital

	30 September 2011 £000	31 March 2011 £000
Authorised		
2,301,500,000 ordinary shares of 1p each	23,015	23,015
Issued and fully paid		
75,152,881 ordinary shares of 1p each	752	752

12. Acquisition of joint venture
The acquisition of Finnish Commuter Airlines OY ("FCA") by Flybe Nordic, a joint venture between Flybe (60%) and Finnair (40%), was completed on 18 August 2011. Flybe's share of the total acquisition price, including net cash at completion, was limited to £18.1m (€21.0m) of which, £17.2m was paid on completion. Flybe acquired 46.3% of Finnish Aircraft Maintenance Oy ("FAM") as part of the acquisition of FCA. FCA, which is now trading as Flybe Finland, is managed within Flybe Europe while FAM forms part of the businesses managed by Flybe Aviation Support – see note 3.

Both these operations are the subject of shareholder agreements giving the Group joint control of this operation; consequently they are treated as joint ventures. Flybe Group plc financed the acquisition of the shares and the repayment of debt outstanding from available liquidity.

The interests in these joint ventures has been accounted for using the equity method of accounting in accordance with IAS 31 and IAS 28. The consolidated results of the Group for the half year ended 30 September 2011 include a loss of £0.5m, being the Group's share of the post-acquisition financial results of Flybe Finland and FAM within a single line, interest in joint ventures. Where necessary, adjustments are made to the financial statements of joint ventures to bring the accounting policies used into line with those used by the Group.

In view of the acquisition date, the allocation of the purchase consideration has not been finalised. Any resulting changes in the fair values that may have an impact on the income statement from the date of acquisition will be recorded in the annual financial statements for the year ending 31 March 2012.

13. Contingencies

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

	30 September 2011 £m	31 March 2011 £m
Credit card arrangements	14.0	14.0
Bonds	9.5	8.2
Total	23.5	22.2
Cash deposited to secure the above arrangements	8.7	8.7

14. Capital commitments

The Group has contractually committed to the acquisition of 35 Embraer E-series aircraft with a total list price before escalations and discounts of £834.8m at 30 September 2011 (31 March 2011: £858.0m). It is intended that these aircraft will be financed partly though cash flow and partly through external financing and leasing arrangements. The number of aircraft covered by these arrangements is as follows:

	30 September 2011 No.	31 March 2011 No.
Bombardier Q400	–	3
Embraer E-Series	35	35
Total	35	38

15. Share-based payments

Performance Share Plan ('PSP')

On 5 August 2011, 866,579 shares were awarded under the PSP where employees of the Group may be granted awards which are exercisable at nil consideration and vest over three years. The Group recognised expenses of £0.1m in relation to this award in the period to 30 September 2011.

The likelihood of awards being made under the previous issue under the PSP was re-assessed in the period to 30 September 2011 and a credit to the income statement of £0.1m was made in respect of the earnings per share element (70% of the total award) that is no longer expected to vest. The charge for the total shareholder return element for the period was £0.1m.

Share Incentive Plan ('SIP')

The charge for the period in relation to this scheme was £0.1m.

Save As You Earn ('SAYE')

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

The calculation of the charge is based on the market value at the date of allocation of £1.76 and under the assumption that 91.2% of shares will be redeemed in three years. The Group recognised expenses of less than £0.1m in relation to this award in the period to 30 September 2011.

Summary

In total 1,864,941 options over the share capital of the Company were granted, of which 906,626 were awarded to key management personnel. The Group recognised total expenses of £0.3m in relation to share-based payments in the period to 30 September 2011.

Notes to the condensed set of financial statements
Continued

16. Employee benefits
Defined benefit scheme
The defined benefit obligation as at 30 September 2011 is calculated on a year-to-date basis, using the latest actuarial valuation as at 31 March 2010. There have not been any significant fluctuations or one-time events since that time that would require adjustment to the actuarial assumptions made at 31 March 2010.

The defined benefit plan assets have been updated to reflect their market value at 30 September 2011. Differences between the expected return on assets and the actual return on assets of a loss of £0.2m (2010: gain of £6.0m) have been recognised as an actuarial gain or loss in the statement of comprehensive income in accordance with the Group's accounting policy. No asset is recognised in respect of the net surplus of £0.8m because the Group does not have sufficient certainty that any asset will eventually be realised.

As required by the Scheme Rules, the Scheme valuation applies the statutory basis of revaluation under the prevailing revaluation order contained in legislation unless agreed otherwise between the Trustees and the Group. A change from RPI to CPI as the basis of the revaluation is currently being discussed by the Trustees and the Group; however, at the time of publishing this report, the outcome has not been determined.

17. Related parties
Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note (see also the related party transactions note in the interim management report on page 9).

At both 30 September 2011 and 31 March 2011, the Group is 48.1% owned by Rosedale Aviation Holdings Limited, incorporated in Jersey.

During the period, Group companies entered into the following transactions with related parties which are not members of the Group:

	Sales of services	
	Six months ended 30 September 2011 £m	Year ended 31 March 2011 £m
Preston Travel (CI) Limited	0.6	1.2
Flybe Nordic	0.7	–

	Amounts owed by related parties	
	30 September 2011 £m	31 March 2011 £m
Preston Travel (CI) Limited	0.6	0.1
Flybe Nordic	0.1	–

The Group provided services to Preston Travel (CI) Limited which, together with Rosedale, is a subsidiary of Rosedale (J.W.) Investments Limited.

The Group also provided services to Flybe Nordic of which a 60% holding was acquired during the period.

	Purchases of services	
	30 September 2011 £m	31 March 2011 £m
Edenfield Investments Limited	0.2	0.3
Downham Properties Limited	0.1	0.2

No amounts were owed to related parties at 30 September 2011 or 31 March 2011.

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
Compensation paid to the Directors will be disclosed in the Group's annual report for the year ending 31 March 2012. See note 15 for total share options awarded in the period.

Glossary

advanced seat assignment
a product offered by the Group allowing passengers to pre-select their seats on an aircraft for an additional charge

Air Operator's Certificate
an air operator's certificate issued by the national regulator – the Civil Aviation Authority in the UK and the Transport Safety Agency, Trafi, in Finland

ancillary yield
total ancillary revenue per passenger

CAA
the UK Civil Aviation Authority

codeshare
an arrangement whereby multiple airlines sell seats on the same flights and multiple flight designators and flight numbers are used for the same flight

domestic
passengers from one UK airport (including the Channel Islands and the Isle of Man) to another UK airport (including the Channel Islands and the Isle of Man)

effective exchange rate
the cost of currency for a period implicit through the weighted average cost of (i) currency acquired through forward contracts, and (ii) currency bought in the spot markets

ETS
Emissions Trading Scheme

European business cities market
the market for air travel from regional UK airports to Amsterdam, Barcelona, Berlin, Brussels, Copenhagen, Dusseldorf, Frankfurt, Lisbon, Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart and Vienna

FAM
Finnish Aircraft Maintenance Oy owned 46.3% by each of Flybe and Finnair Oyj with the balance owned by the management team

Flybe Finland
Flybe Finland Oy (formerly Finnish Commuter Airlines Oy) of which 60% is owned by Flybe and 40% by Finnair Oyj

Flybe Nordic
Joint venture between Flybe and Finnair Oyj incorporating Flybe Finland and Finnish Aircraft Maintenance Oy

IATA
International Air Transport Association

IPO
the admission, through an Initial Public Offering, of the Company's shares to the Official List of the London Stock Exchange on 15 December 2010

line maintenance
minor or scheduled maintenance carried out on an aircraft that is in service to ensure that the aircraft is fit for its next flight (including defect rectification, daily checks, visual inspections, minor repairs and modifications which do not require extensive disassembly)

load factor
the number of seats sold divided by seat capacity (and 'flown' load factor, the number of seats flown divided by seat capacity)

MRO
maintenance, repairs and overhaul

passenger
a person with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable)

purchase rights
the right to purchase additional aircraft under the same terms and conditions as for firm and option aircraft. Such rights to be exercised within a finite time

regional aircraft
turboprop aircraft and regional jets

regional airline
an airline that flies predominantly regional aircraft

regional UK
an airport or destination in the UK (including the Channel Islands) but excluding London

route
a scheduled service flown by an airline other than any franchise route

scheduled sectors flown
the total number of aircraft flights per annum, excluding positioning, charter, and training flights

seat capacity
the average number of seats per aircraft multiplied by the number of scheduled sectors flown

sector
a flight between an originating airport and a destination airport, typically with no intervening stops

slot
an authorisation to arrive at and/or depart from a stand at a particular airport at a specific time on a particular day

summer season
the last Saturday in March until the last Saturday in October in any particular year

ticket yield
the total ticket revenue per passenger (after the deduction of government taxes and levies)

UK domestic routes
routes where both the departure and destination airports are within the United Kingdom, the Isle of Man or the Channel Islands

wet lease
a leasing agreement whereby an aircraft (together with its operating crew), maintenance, support and insurance are provided from one party to another, otherwise known as an ACMI agreement

winter season
the first Sunday following the last Saturday in October to the Friday before the last Saturday in March in any particular year

yield
total ticket revenue per passenger (after the deduction of government taxes and levies)

Company information

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Acknowledgments
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