flybe.

Building Europe's Leading Regional Aviation Group

Half-year Report 2012/13

8 November 2012

Flybe Group plc

('Flybe' or 'the Group')

Results for the six months to 30 September 2012

Flybe, Europe's largest regional airline, today announces its half year results for the six months to 30 September 2012 ('H1 2012/13') in which it has delivered stable revenues and maintained its market leading position in the UK, grown its European business and continued to focus on capacity management and cost reduction.

Key financial headlines

	H1 2012/13 £m	H1 2011/12 £m	Change %
Total revenue under management*	**396.3**	350.2	13.2
Less: joint venture revenue	**(55.5)**	(8.6)	N/M
Group revenue	**340.8**	341.6	(0.2)
Underlying (loss)/profit before tax**	**(2.0)**	14.3	N/M
(Loss)/profit before tax	**(1.3)**	14.3	N/M
(Loss)/profit after tax	**(1.3)**	14.6	N/M

* Includes our joint venture, Flybe Finland

** See Financial review on page 7

Summary

- → Performance has continued in line with revised management expectations as set out in the Group's Interim Management statement of 10 August 2012.
- → Revenue under management (including Flybe Finland, Flybe's joint venture with Finnair) increased by 13.2% to £396.3m (H1 2011/12: £350.2m).
- → Group revenue stable at £340.8m (H1 2011/12: £341.6m).
- → Loss before tax of £1.3m (H1 2011/12: profit of £14.3m) and loss after tax £1.3m (H1 2011/12: profit of £14.6m).
- → Operating cash outflow in H1 2012/13 of £4.8m (H1 2011/12: inflow of £13.0m).
- → Net assets of £85.4m at 30 September 2012 (31 March 2012: £89.4m) and total cash of £59.1m at 30 September 2012 (31 March 2012: £67.6m).

Operational highlights

- → Flybe UK:
  - 6.2 million seats flown (H1 2011/12: 6.4 million).
  - 4.0 million passengers at a load factor of 65.0% (H1 2011/12: 4.2 million at 65.6%).
  - Passenger revenue per seat stable at £49.90 (H1 2011/12: £49.88).
  - Maintained 29% market share for the Flybe brand in UK domestic market (CAA statistics).
  - Deploying existing aircraft on six new routes from East Midlands.
  - Continuing fleet substitution programme - four new Embraer E175s delivered, and two Bombardier Q400s sold.
- → Flybe Finland:
  - Contributed 14.5% of Flybe's airline revenue under management.
  - Now Finland's largest domestic airline and is expected to move to profitability, as planned, in 2013/14.
  - Major contract to expand operations signed in October 2012, adding 12 Embraer E190 regional jets on contract flying arrangements for Finnair from 28 October 2012 – 21 aircraft now deployed on contract flying, out of total fleet of 28 aircraft.

Commenting on the results, Jim French CBE, Flybe's Chairman and Chief Executive Officer, said:

"Our performance for the six months to 30 September 2012 has been in line with the revised expectations set out in our Interim Management Statement of August 2012.

"The continuing challenges of the UK domestic aviation market further validate the importance of our decision to focus Flybe's long-term strategy on rebalancing our route network by growing our European operations.

"I am delighted to report that Flybe Finland, our joint venture with Finnair, has continued its impressive trajectory of growth, with an additional 12 E-series jets now transferred from Finnair into Flybe Finland on a contract flying basis. Finnair is delighted with this relationship which they have publicly stated has enabled them to reduce their overall costs significantly. I am encouraged by the continuing dialogue that Flybe Europe's management team are having with other parties seeking similar arrangements.

"The UK domestic aviation market continues to show little sign of recovery, with the market trending a year-on-year decline. Since this represents c75% of Flybe UK's passenger base, this decline continues to pose challenges on our UK business.

"Flybe UK maintained its market leading brand position with a 29.1% share of the UK domestic market and 52.6% of the regional UK market. Forward passenger sales revenue for winter 2012/13 at 6 November 2012 is ahead by c2.5% year-on-year and our proactive approach on capacity management means seats flown for the winter period will be about 1% to 2% down against the previous year. We are also working on a range of cost saving initiatives over the next 12 months, targeting an annual saving of £2 per seat.

"APD continues to be a burden to the industry and one that impacts disproportionately on Flybe compared to those with significant operations outside of the UK. We are actively lobbying for some changes in this area although we recognise this will be a long term project.

"While we recognise the current challenges being faced across the Group, we are addressing those challenges and believe that our long term strategy is one which will continue to rebalance our Group activities. We remain confident in Flybe's future prospects."

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Business review

Overview

Through a relentless focus on revenue growth, cost control and improved efficiency, Flybe is continuing to seek to counter the challenging market conditions across the European regional aviation sector.

Flybe retains its focus on its regional business model, offering high frequency services from convenient regional airports and 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 and matching capacity to demand, Flybe is able to operate an efficient, punctual and reliable network.

In the UK, Flybe is the largest airline brand in the regional UK domestic market with 52.6% passenger market share in the year ended September 2012, up from 51.9% in the previous year. The Flybe brand held steady at 29.1% market share of the total UK domestic market (H1 2011/12 restated: 29.4%) although the overall domestic market declined by 1.3% in aggregate for the year to date to 20.2 million. 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. Following the acquisition of Finnish Commuter Airlines in August 2011 in a 60:40 joint venture with Finnair, Flybe Finland operated 16 regional aircraft in H1 2012/13 (increasing to 28 from 28 October 2012) on a mix of commercial and contract flying. On the basis of both the number of sectors or seats, it has quickly become the largest domestic airline in Finland. There are opportunities to grow further in continental Europe by exporting Flybe’s established regional business model to targeted markets, and seeking further contract flying agreements with major carriers. The market trend supporting this growth strategy is strong, as European flag carriers increasingly focus on long-haul, premium business, and, in many cases, look to restructure non-core regional and short-haul 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

Revenues under management grew 13.2% to £396.3m compared to £350.2m in H1 2011/12. Group revenues were stable at £340.8m (H1 2011/12: £341.6m) and the Group reported a loss before tax of £1.3m (H1 2011/12: profit of £14.3m). The adverse variance in H1 2012/13 performance versus H1 2011/12 was largely due to higher fuel costs not being offset by a corresponding growth in Group revenue, as adverse macro-economic conditions continued.

In H1 2012/13 the Group reported an operating cash outflow of £4.8m from an inflow of £13.0m in H1 2011/12. This was largely driven by the reduction in operating profit (before joint venture results) in the period of £1.1m compared to a profit of £16.7m in H1 2011/12, coupled with a net increase in restricted cash in the period of £6.4m (H1 2011/12: £0.2m).

The Group’s balance sheet held total cash, including restricted funds, of £59.1m at 30 September 2012 (31 March 2012: £67.6m).

Fleet

Flybe continues to renew its fleet in order to maximise efficiency and best match capacity to demand. Four Embraer E175 regional jets were acquired by Flybe UK during H1 2012/13; two on operating lease and two financed using Flybe’s loan facility with BNDES. Two more deliveries are scheduled by 31 March 2013. Two Bombardier Q400 turboprops left the fleet in H1 2012/13, generating a small profit on disposal.

There was no change to Flybe Finland's fleet in H1 2012/13. A further 12 Embraer E190 regional jets are now held on operating leases as part of the contract flying arrangements for Finnair announced on 12 October 2012 and which successfully commenced operation on 28 October 2012.

Flybe's total fleet under management at 30 September 2012 totalled 85 aircraft with an average age of 4.7 years (31 March 2012: 84 aircraft, average age 4.6 years), as summarised below:

		Number of aircraft		
	Number of seats	At 31 March 2012	Net movements in period	At 30 September 2012
Flybe UK				
Embraer E195 regional jet	118	14	-	14
Embraer E175 regional jet	88	4	4	8
Bombardier Q400 turboprop*	78	50	(3)	47
Flybe Europe				
ATR 42 turboprop	48	3	-	3
ATR 72 turboprop	68-72	11	-	11
Embraer E170 regional jet	76	2	-	2
Total		**84**	**1**	**85**
Held on operating lease		74	1	75
Owned and debt financed*		10	-	10
Total*		**84**	**1**	**85**
Total seats in fleet		6,960		7,078
Average seats per aircraft		82.9		83.3
Average age of fleet (years)		4.6		4.7

* 31 March 2012 position restated

On 28 October with the acquisition of a further 12 Embraer E190 regional jets into Flybe Europe's operations, the total fleet under Flybe's management rose to 97 operational aircraft, of which 25 are deployed under contract flying arrangements.

Divisional review

Flybe UK

Flybe UK, the Group's UK based airline serving UK domestic and UK to European business and leisure destinations, delivered stable revenues of £328.5m (H1 2011/12: £329.1m). Operating profit at £2.0m (H1 2011/12: £14.5m) was down predominantly due to significant fuel cost increases. Although certain UK domestic markets and UK to European leisure routes have performed well in what has been a poor British summer, other markets, such as UK to European business routes, continue to reflect the impact of the difficult economic environment.

As a result of the Group's careful capacity management programme, seats flown decreased by 2.6% to 6.2 million and passengers decreased by 3.4% to 4.0 million, resulting in a 0.6ppt reduction in load factor to 65.0%. Business travellers represented circa 36% of Flybe UK's passengers (H1 2011/12: 37%).

Maximising the efficient use of the fleet while reducing risk is a key element of Flybe UK's strategy and, under contract flying arrangements for Brussels Airlines, Flybe utilised three Q400 aircraft (the third aircraft commenced flying on 2 September 2012) with a fourth that started in operation on 28 October 2012. We have planned to take a further four Q400s out of service for this winter's flying programme.

In H1 2012/13, and despite the weak economic backdrop, Flybe increased its passenger yield by 0.9% to £76.77 per passenger with passenger revenue per seat steady at £49.90 (H1 2011/12: £49.88).

The launch of Flybe UK's 'Making flying better' campaign in April 2012 has received very positive customer feedback and 'New Economy' sales as a percentage of online bookings are already trending at around 20%, well on the way to the target of 30%. However, the removal of debit card fees as directed by the Office of Fair Trading ('OFT') has presented a considerable extra financial burden to Flybe UK this year. Flybe is particularly disappointed that other airlines continue to apply additional administration charges not included in their headline fares, thus creating an unfair trading and pricing environment.

In May 2012, following the decision to close BMI Baby, we announced that Flybe UK would provide new services from East Midlands airport. We are pleased with how the six new routes from that airport, involving the redeployment of three existing aircraft, are developing as part of Flybe's commitment to the region and the businesses that operate there.

Flybe Europe

On 18 August 2011, Flybe entered into a 60:40 joint venture relationship with Finland's flag carrier, Finnair, and the JV acquired the regional flying operations of Finnish Commuter Airlines. Now branded as Flybe Finland, it has established itself as the largest domestic airline in Finland and has generated revenues of £55.5m in H1 2012/13 (H1 2011/12: £8.6m – one month of operations). Flybe Finland operated 29 routes on a mix of commercial and contract flying in the Nordic and Baltic regions.

The commencement of expanded contract flying operations for Finnair from 28 October 2012 that entailed the transfer on operating lease of 12 E190 regional jets to Flybe Finland, gives Flybe Finland significant critical mass, increasing its total fleet to 28 aircraft (21 of which are deployed in contract flying) and taking the number of routes operated to 37. Flybe Finland is expected to become profitable, on schedule, in 2013/14.

As previously set out, Flybe believes that selective acquisitions offer the fastest and most viable route to profitability in the regional airline sector in Europe while partnership with major airlines significantly reduces entry risk. Flybe continues selectively to explore further opportunities in other European regional aviation 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 regional, affordable and digestible and 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 MRO and training facilities in Exeter.

Flybe's 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. This business is directly affected by the level of flying undertaken by the regional airline sector and for this reason saw lower levels of third party activity than had been expected in Q2 2012/13 as airlines continue to restructure their fleet plans and flying programmes.

Revenues during the first half of 2012/13 were down 4.4% to £21.6m (H1 2011/12: £22.6m) with an operating loss of £0.9m (H1 2011/12: profit of £0.4m). In H1 2012/13, the MRO business produced a total of 275,000 man hours, a decrease of 10.1% on H1 2011/12, of which third party hours were 179,000, a decrease of 3.8% on H1 2011/12.

The Group's strategy is to replicate the third party work profile already achieved by the MRO business in Flybe's Training Academy. This officially opened in April 2011 with 26 classrooms, now has two flight simulators and has shown strong revenue growth to £2.5m in H1 2012/13 (H1 2011/12 £1.5m).

Board

At the time of the Group's IPO in December 2010, it was stated that "Within the next three years, the Board and executive management intend to facilitate an orderly separation of the Chairman and Chief Executive Officer roles." Accordingly, the Board has approved a timetable from the Nominations Committee to commence a search, both internally and externally, for a new CEO with a view to completing the process during the first half of 2013 and for the transition and handover to be completed as soon as practicable thereafter. Separately, the Board is pleased to announce that, at its request, Jim French will continue as non-executive Chairman for a three year term following the appointment of the new CEO.

Summary and outlook

Flybe is currently operating in possibly the most challenging conditions since its creation as a new-generation regional airline 10 years ago. The UK domestic aviation market has seen passenger numbers reduce by 20.6% since 2007, UK APD increased by 160% over the same period and fuel prices are at record annual highs.

Flybe UK's forward passenger sales revenue for winter 2012/13 is ahead, as at 6 November 2012, about 2.5% year-on-year while its capacity management programme means seats flown for the winter will be 1% to 2% down against the previous year. Flybe UK will continue to monitor trends closely and review its flying programme to ensure that capacity remains optimally matched to demand.

In Europe, the Group's Finnish joint venture is poised for a significant improvement in profitability with the arrival on 28 October 2012 of the 12 E190 aircraft that will serve Finnair's network under the new contract flying arrangement. This adds substantial scale while significantly de-risking its business. Flybe also continues selectively to explore further opportunities in other regional European markets through acquisitions or by way of alliances with flag carriers such as joint ventures, contract flying or codeshares.

Demand in Flybe Aviation Support's MRO business is weaker than at this time last year and we are undertaking measures to streamline the cost base of this business.

Through a relentless focus on revenue growth, cost control and improved efficiency, Flybe continues to seek to counter the challenging market conditions across the European regional aviation sector. The Group has a robust and flexible business model combined with clear and achievable plans to address the current challenges and to drive long term future growth.

As a result of the above actions and initiatives, and despite the current challenging trading conditions, the Board remains confident about Flybe's prospects.

Financial review

Summary

Flybe's results for the six months to 30 September 2012 demonstrate the importance of achieving increasing revenues in a time when demand is dampened by the growing burden of APD and the Group's cost burden, primarily related to fuel, increases. Flybe's passenger numbers under management plus those transported under contract flying arrangements in the Group's combined operations have grown by 12.5% to 4.8 million from 4.2 million with passengers flown by Flybe Finland now accounting for 14.8% of the total.

At 30 September 2012, Flybe had net assets of £85.4m, total cash of £59.1m, unrestricted cash of £27.9m and net debt (i.e. total borrowings less total cash) of £50.0m.

The results of Flybe Finland, our 60:40 joint venture relationship with Finnair, are equity accounted rather than included in the line-by-line consolidated figures below. In H1 2012/13, Flybe Finland is in its first full year of operations as it had only one month of trading (following the acquisition of what was then Finnish Commuter Airlines in August 2011) in the H1 2011/12 period.

	H1 2012/13 £m	H1 2011/12 £m (restated)*	Change %
Total revenue under management	**396.3**	350.2	13.2
Group revenue	**340.8**	341.6	(0.2)
EBITDAR*	**46.7**	61.4	(23.9)
Underlying (loss)/profit before tax	**(2.0)**	14.3	N/M
(Loss)/profit before tax	**(1.3)**	14.3	N/M
(Loss)/profit after tax	**(1.3)**	14.6	N/M

* H1 2011/12 restated to exclude £(0.5m) share of joint venture loss from EBITDAR.

Group revenue decreased by £0.8m (or 0.2%), EBITDAR fell by £14.7m (or 23.9%) to £46.7m, and the Group reported an underlying loss before tax of £2.0m (H1 2011/12: profit of £14.3m).

Flybe's EBITDAR in H1 2012/13 and H1 2011/12 is calculated as follows:

	H1 2012/13 £m	H1 2011/12 £m (restated)	Change %
Operating profit before joint venture results	**1.1**	16.7	(93.4)
Depreciation and amortisation*	**6.9**	5.9	16.9
Aircraft rental charges	**38.7**	38.8	(0.3)
EBITDAR	**46.7**	61.4	(23.9)

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

Set out below is a reconciliation of (loss)/profit before tax to underlying figures:

	H1 2012/13 £m	H1 2011/12 £m
(Loss)/profit before tax	**(1.3)**	14.3
Add back of revaluation gain on USD aircraft loans	**(0.7)**	-
(Loss)/profit before tax – underlying	**(2.0)**	14.3

Flybe UK

Revenue

Revenue was stable at £328.5.m in H1 2012/13, versus £329.1m reported in H1 2011/12.

Seat capacity reduced from 6.4 million in H1 2011/12 to 6.2 million with sectors flown decreasing to 72,700 from the 75,500 flown in H1 2011/12.

Passenger numbers were down by 3.6% at 4.0 million, representing a 0.6ppt reduction in load factor to 65.0%.

	H1 2012/13 £m	H1 2011/12 £m (restated)	Change %
Passenger revenue	**310.3**	318.4	(2.5)
Contract flying revenue	**4.5**	-	N/M
Revenue from other activities	**13.7**	10.7	28.0
Total revenue	**328.5**	329.1	(0.2)

Total passenger yield was up 0.9% to £76.77 from £76.06 in H1 2011/12, with overall improvements in yield being offset by the impact of the removal of debit card charging as directed by the OFT.

This improvement in yield per passenger offset the reduction in load factor, highlighted above, resulting in passenger revenue per seat remaining stable at £49.90 (H1 2011/12: £49.88), and total passenger revenues down by 2.6% at £310.3m (from £318.4m).

Contract flying revenue from the three Q400 aircraft flying for Brussels Airlines during H1 2011/12 totalled £4.5m (H1 2011/12: £nil). Four aircraft have been flying for Brussels Airlines since 28 October 2012.

Revenue from other activities, including charter and cargo revenue and income from the Loganair franchise in H1 2012/13, totalled £13.7m, an increase of 28.0% on H1 2011/12's revenues of £10.7m, due primarily to a significant increase in charter revenue.

Operating costs

	H1 2012/13		H1 2011/12		£ per seat at constant currency and fuel price*
	£m	**£ per seat**	£m	£ per seat	
Staff costs	**(46.0)**	**(7.42)**	(42.7)	(6.67)	(6.67)
Net airport costs, en route charges and ground operations	**(111.5)**	**(17.98)**	(113.9)	(17.80)	(17.53)
Aircraft ownership and maintenance costs	**(75.1)**	**(12.11)**	(75.2)	(11.76)	(11.45)
Marketing and distribution costs	**(12.7)**	**(2.05)**	(12.4)	(1.94)	(1.91)
Other operating costs	**(12.1)**	**(1.95)**	(12.6)	(1.94)	(1.94)
Operating costs excluding fuel	**(257.4)**	**(41.51)**	(256.8)	(40.11)	(39.50)
Fuel	**(68.6)**	**(11.06)**	(55.9)	(8.73)	(10.59)
Operating costs	**(326.0)**	**(52.57)**	(312.7)	(48.84)	(50.09)

* Constant currency is calculated for the H1 2011/12 period by applying the effective exchange rates that prevailed for reporting the H1 2012/13 results of $1.61 and €1.25 and constant fuel price is calculated for the H1 2011/12 period by applying the effective blended rate paid for jet fuel per tonne in H1 2012/13.

Operating costs excluding fuel increased by 0.2% from £256.8m to £257.4m. On a per seat basis, these costs increased by 3.5% from £40.11 to £41.51. Allowing for the use of aircraft and crew on contract flying operations (which reduced the number of scheduled seats flown), operating costs per seat on scheduled services, excluding fuel, increased by less than inflation.

Fuel costs increased by 22.7% from £55.9m to £68.6m and, on a per seat basis, the increase was 26.7% from £8.73 to £11.06.

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 role of speculators and funds in the futures markets, has played a part in both pushing up aviation fuel prices and making them highly volatile. During the course of H1 2012/13, the price of jet fuel has traded between $862 and $1,116 per tonne.

During H1 2012/13, Flybe UK used some 101,000 tonnes of jet fuel. The average market price during the period was $1,008 per tonne with the Group paying a blended rate (net of hedges) of $1,008 per tonne. Including 'into plane' costs, Flybe UK's fuel costs of £68.6m represent an all-in cost of $1,094 per tonne during H1 2012/13. Fuel burn was 16.2 kgs per seat (H1 2011/12: 15.9 kgs per seat).

Flybe UK operates a policy of managing fuel price volatility by entering into derivative contracts representing a portion (typically 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 6 November 2012, 84% of the division's forecast fuel burn for H2 2012/13 was hedged at an average price of $1,015 per tonne, and 59% of Flybe UK's expected fuel burn on H1 2013/14 was hedged at an average price of $980 per tonne.

Carbon

Flybe UK is required to surrender permits covering its carbon dioxide (CO_2) emissions for each calendar year. Under the European ETS, a percentage of the annual total emissions are covered by free allocations. The remaining permits must be purchased.

	Calendar year 2012	Calendar year 2013
Carbon dioxide		
Forecast CO_2 emissions ('000 tonnes)	**579**	591
Less: Free allocation ('000 tonnes)	**(275)**	(260)
Remaining requirement ('000 tonnes)	**304**	331
% of remaining requirement (i.e. after free allocation) hedged	**86%**	14%
Average hedged permit price	**€6.48**	€7.30
Total forecast requirement covered (via free allocation and hedges)	**92%**	52%

Other operating costs

Staff costs increased by 7.7% primarily due to awarding the final year of a three year pilot pay deal with effect from April 2012, the impact of annual increments as a result of low attrition and a higher proportion of regional jets to turboprops in the fleet.

Net airport costs, en route charges and ground operations decreased largely in line with the slightly reduced flying programme.

Aircraft ownership and maintenance, marketing and distribution, and other operating costs were flat year on year.

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 UK 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 6 November 2012, 87% of Flybe UK's anticipated US dollar requirements for H2 2012/13 were hedged at an average exchange rate of \$1.59, and 60% of its forecast US dollar requirements for H1 2013/14 were hedged at an average exchange rate of \$1.58.

The table below sets out for each of the periods under review Flybe UK's US dollar requirements, forward derivative instruments taken out and blended exchange rate achieved:

	H1 2012/13	H1 2011/12
US dollar		
Foreign currency requirement	**\$202m**	\$183m
Proportion hedged at beginning of period	**78%**	86%
Effective exchange rate	**\$1.61**	\$1.56

Flybe Europe

In this full six month period of operations, Flybe Finland's revenue increased to £55.5m in H1 2012/13, versus £8.6m reported in H1 2011/12 (one month of operations).

Contract flying generated £36.7m of revenue, up from the £5.8m generated in the month after acquisition in 2011. Further significant revenue growth is expected in this area with the arrival of 12 E190 jets flying under contract for Finnair from 28 October 2012. Overall, this should see Flybe Finland move to profitability from 2013/14 onwards.

Scheduled seat capacity provided by Flybe Finland increased from 0.1 million in H1 2011/12 to 0.5 million with sectors flown at 7,700 up from the 1,300 flown in the short period of ownership in H1 2011/12. Scheduled passengers totalled 0.2 million, representing a 2.8ppt increase in load factor to 42.2%.

	H1 2012/13 £m	H1 2011/12* £m
Flybe Finland joint venture		
Passenger revenue	**16.4**	2.5
Contract flying revenue	**36.7**	5.8
Revenue from other activities	**2.4**	0.3
Total revenue	**55.5**	8.6
Fuel	**(11.3)**	(1.5)
Other costs	**(48.7)**	(7.7)
Total costs	**(60.0)**	(9.2)
Loss before tax	**(4.5)**	(0.6)
Tax credit	**1.1**	-
Loss after tax	**(3.4)**	(0.6)
60% share of Flybe Finland joint venture loss	**(2.1)**	(0.5)
Other net costs including interest	**(0.3)**	(0.1)
Segment result – Flybe Europe	**(2.4)**	(0.6)

* For the period from acquisition on 18 August 2011 to 30 September 2012.

Flybe Aviation Support

	H1 2012/13 £m	H1 2011/12 £m	Change %
Maintenance, repair and overhaul ('MRO')	**19.1**	21.1	(9.5)
Training Academy	**2.5**	1.5	66.7
Total revenue	**21.6**	22.6	(4.4)
Operating costs	**(22.5)**	(22.2)	1.4
Segment result – Flybe Aviation Support	**(0.9)**	0.4	N/M

After an encouraging Q1 2012/13, Flybe's MRO operation saw lower levels of third party activity than had been expected in Q2 2012/13 due to the impact of the lower levels of aircraft utilisation across the regional aviation sector, particularly in Europe, leading to reduced requirements for maintenance.

In H1 2012/13, the MRO business produced a total of 275,000 man hours, a decrease of 10.1% on H1 2011/12, of which third party hours were 179,000, a decrease of 3.8% on H1 2011/12.

The Training Academy has seen improvements in utilisation and growth in third party revenues in the year to date. In particular the Q400 simulator is now often fully utilised with activity building in the E-series simulator.

Group costs

Group costs of £1.8m were up by 20.0% on H1 2011/12 £1.5m due to salary increases reported in the March 2012 audited accounts and the increased size of the Board.

Group – overall results

The Group made an operating profit before joint venture results of £1.1m.

After joint venture results, the Group's operating loss was £1.0m (H1 2011/12: operating profit £16.2m).

The Group incurred net finance costs of £0.6m (2011/12: £0.8m) and other gains/(losses) of £0.3m (2011/12: £(1.1)m), leaving a loss before tax for the period of £1.3m (H1 2011/12: profit of £14.3m).

After a tax credit of £nil (H1 2011/12: £0.3m), the Group reported a loss after tax for H1 2012/13 of £1.3m (H1 2011/12: profit of £14.6m).

EPS and dividends

Basic and diluted (see note 7 to the condensed financial statements) loss per share for H1 2012/13 was (1.7)p, compared with basic earnings per share of 19.4p and diluted earnings per share of 19.1p in H1 2011/12.

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

Cash flow

	H1 2012/13 £m	H1 2011/12 £m	Change £m
Net cash (outflow)/inflow from operating activities	**(4.8)**	13.0	(17.8)
Net capital expenditure after disposal proceeds	**(22.2)**	7.5	(29.7)
Net proceeds from new loans/(repayments of borrowings)	**12.9**	(19.2)	32.1
Acquisition of joint venture interest	**(0.3)**	(17.2)	16.9
Net interest paid	**(0.6)**	(1.5)	0.9
Net decrease in cash and cash equivalents	**(15.0)**	(17.4)	2.4
Cash and cash equivalents at beginning of period	**42.9**	87.7	(44.8)
Cash and cash equivalents at end of period	**27.9**	70.3	(42.4)
Restricted cash	**31.2**	18.1	13.1
Total cash	**59.1**	88.4	(29.3)

In H1 2012/13 the Group reported an operating cash outflow of £4.8m compared with an inflow of £13.0m in H1 2011/12. This was largely driven by the reduction in operating profit (before joint venture results) in the period of £1.1m compared to a profit of £16.7m in H1 2011/12, coupled with a net increase in restricted cash in the period of £6.4m (H1 2011/12: £0.2m).

The largest movements in net capital expenditure were in relation to the acquisition of two E175 aircraft, and the disposal of two Q400 aircraft during the period, with net proceeds from new loans also primarily relating to these transactions.

As at 30 September 2012, there were four aircraft pre-delivery deposits in place totalling £9.3m against two deliveries due in H2 2012/13 and two in H1 2013/14 (five such deposits were in place at 30 September 2011, totalling £13.8m).

Balance sheet

	30 Sept 2012 £m	31 Mar 2012 £m	Change £m
Airport landing slots	**8.5**	8.5	-
Aircraft	**155.5**	136.9	18.6
Other property, plant and equipment	**26.1**	25.2	0.9
Interest in joint ventures	**14.4**	16.2	(1.8)
Net debt	**(50.0)**	(29.7)	(20.3)
Derivative financial instruments	**(3.6)**	3.9	(7.5)
Other working capital – net	**(66.0)**	(71.8)	5.8
Deferred taxation	**4.9**	3.1	1.8
Other non-current assets and liabilities	**(4.4)**	(2.9)	(1.5)
Net assets	**85.4**	89.4	(4.0)

The value of airport landing slots remained unchanged with no additions, disposals or impairments. The £155.5m 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 (now renamed as Flybe Finland Oy) and also involved Flybe acquiring a 46.3% stake in Finnish Aircraft Maintenance Oy (collectively, 'Flybe Nordic'). With the acquisition of a further 13.7% interest in Finnish Aircraft Maintenance Oy in June 2012 for £0.3m, this company now operates as a part of Flybe Finland. After Flybe's share of joint venture losses of £(2.1m) in H1 2012/13, the carrying value of the interest in joint ventures at 30 September 2012 stood at £14.4m.

Net debt at 30 September 2012 of £50.0m increased from the position at 31 March 2012 of £29.7m due to the low level of UK profits and the associated operating cash flow generated in the period being outweighed by aircraft purchases. Borrowings increased by £11.8m to £109.1m as new loans associated with the acquisition of two new aircraft exceeded the borrowings repaid on existing loans and on two other aircraft that were disposed of at a small book profit.

Net debt at 30 September 2012 included restricted cash of £31.2m (£24.7m at 31 March 2012) which represents, predominantly, cash deposits held in favour of aircraft owners to secure operating lease arrangements and cash held with the Group's bankers to facilitate guarantee arrangements with card acquiring facilities and other suppliers. Net negative other working capital decreased from £71.8m to £66.0m primarily due to the seasonal fluctuations in advanced receipts from customers.

Shareholders' equity decreased by £4.0m driven by the reduction in derivatives fair value of £2.7m and the loss in the period of £1.3m. This does not include the defined benefit pension scheme surplus of £1.8m at 30 September 2012 (31 March 2012: £1.3m). 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 16 to the condensed financial statements. Other than the acquisition of a further 13.7% holding in Finnish Aircraft Maintenance Oy for £0.3m, 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 3 to 6. 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 £27.9m, 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 liabilities, including operating lease commitments and debt repayments, as they become due.

The Directors believe that the risks and uncertainties of the Flybe business as highlighted on pages 16 and 17 can be addressed, in large part, by a proactive approach on yield and capacity management, the availability of contract flying opportunities with other airlines and a range of cost saving initiatives over the next 12 months that will lead, collectively, to improvements in the profit performance of the business.

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, uncertainties and mitigations can be found on pages 27 to 31 of the Group's annual report for the year ended 31 March 2012 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 including terrorist threat, or attacks from either internal or external sources or to respond adequately to a safety or security-related event.

External risks

Macroeconomic environment

- → Flybe is exposed to sustained deterioration in general economic conditions.
- → Flybe is exposed to a reduction in UK and Finnish 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.

Environment

- → Airlines may be adversely affected by any future amendment 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.
- → Costs will be incurred in developing new routes and new routes proposed by Flybe may not be profitable.
- → Flybe's on-going joint venture arrangement is not successful.

Reputation

- → Flybe is exposed to an event damaging its fleet reputation, company 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, the ongoing development of those systems, and the internet to operate its business.
- → Flybe operates an e-commerce business and deals with a significant amount of personal and business information.

People

- → Flybe is dependent on good industrial relations, across all its regions with a workforce that is, in part, unionised.

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 the unavailability of suitable financing.
- → Flybe is reliant on the continuing performance of counter-parties.
- → The residual value of assets could be materially less than budgeted disposal costs.

Statement of directors' responsibilities

Six months ended 30 September 2012

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

Jim French CBE
Chairman and Chief Executive Officer

8 November 2012

Andrew Knuckey
Chief Financial Officer

8 November 2012

Independent review report to Flybe Group plc

Six months ended 30 September 2012

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 2012 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 16. 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 2012 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

Deloitte LLP
Chartered Accountants and Statutory Auditor
Reading, United Kingdom

8 November 2012

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 2012

	Note	Six months ended 30 September 2012 £m (Unaudited)	2011 £m (Unaudited)
Total revenue under management	3	**396.3**	350.2
Less: Joint venture revenue		**(55.5)**	(8.6)
GROUP REVENUE		**340.8**	341.6
Consisting of:			
Passenger revenue		**310.3**	318.4
Revenue from other activities		**30.5**	23.2
		340.8	341.6
Staff costs		**(63.2)**	(59.9)
Fuel		**(68.6)**	(55.9)
Net airport and en route charges		**(68.1)**	(68.2)
Ground operations		**(43.4)**	(45.7)
Maintenance		**(20.6)**	(21.0)
Depreciation and amortisation		**(6.9)**	(5.9)
Aircraft rental charges		**(38.7)**	(38.8)
Marketing and distribution costs		**(12.9)**	(12.7)
Other operating gains		**1.3**	1.7
Other operating expenses		**(18.6)**	(18.5)
Operating profit before joint venture results		**1.1**	16.7
Share of joint venture loss		**(2.1)**	(0.5)
OPERATING (LOSS)/PROFIT		**(1.0)**	16.2
Investment income		**0.5**	0.3
Finance costs		**(1.1)**	(1.1)
Other gains and losses		**0.3**	(1.1)
(LOSS)/PROFIT BEFORE TAX		**(1.3)**	14.3
Tax credit	5	**-**	0.3
(LOSS)/PROFIT FOR THE PERIOD		**(1.3)**	14.6
(Loss)/earnings per share:			
Basic	7	**(1.7)**	19.4
Diluted	7	**(1.7)**	19.1

Consolidated statement of comprehensive income

Six months ended 30 September 2012

	Six months ended 30 September 2012 £m (Unaudited)	Six months ended 30 September 2011 £m (Unaudited)
(Loss)/profit for the financial period	**(1.3)**	14.6
Items that will not be reclassified to profit or loss:		
Actuarial loss on defined benefit pension scheme	**(0.2)**	(0.2)
Items that may be reclassified subsequently to profit or loss:		
Losses arising during the period on cash flow hedges	**(3.0)**	(2.0)
Reclassification of losses on cash flow hedges included in the income statement	**(2.6)**	(11.7)
Deferred tax arising on cash flow hedges	**1.7**	3.6
Foreign exchange translation differences	**1.2**	-
	(2.7)	(10.1)
Other comprehensive loss for the period	**(2.9)**	(10.3)
Total comprehensive (loss)/income for the period	**(4.2)**	4.3

Consolidated statement of changes in equity

Six months ended 30 September 2012

	Share capital £m	**Share premium £m**	**Hedging reserve £m**	**Other reserves £m**	**Capital redemp-tion reserve £m**	**Retained (deficit) £m**	**Total equity £m**
Balance at 1 April 2012	**0.7**	**60.6**	**3.5**	**6.7**	**22.5**	**(4.6)**	**89.4**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(1.3)**	**(1.3)**
Other comprehensive expense for the period	**-**	**-**	**(2.7)**	**-**	**-**	**(0.2)**	**(2.9)**
Equity-settled share-based payment transactions	**-**	**-**	**-**	**-**	**-**	**0.2**	**0.2**
Balance at 30 September 2012 (unaudited)	**0.7**	**60.6**	**0.8**	**6.7**	**22.5**	**(5.9)**	**85.4**

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Capital redemp-tion reserve £m	Retained earnings £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 expense 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

Consolidated balance sheet

At 30 September 2012

	Note	**30 September 2012 £m (Unaudited)**	31 March 2012 £m (Audited)
NON-CURRENT ASSETS			
Intangible assets		**10.2**	10.1
Property, plant and equipment	8	**181.6**	162.1
Interests in joint ventures	11	**14.4**	16.2
Other non-current assets		**37.2**	40.0
Restricted cash		**8.3**	7.9
Deferred tax asset		**9.5**	8.6
		261.2	244.9
CURRENT ASSETS			
Inventories		**7.7**	6.6
Trade and other receivables		**89.7**	98.5
Cash and cash equivalents		**27.9**	42.9
Restricted cash		**22.9**	16.8
Derivative financial instruments		**-**	5.3
Assets held for sale		**0.3**	0.3
		148.5	170.4
TOTAL ASSETS		**409.7**	415.3
CURRENT LIABILITIES			
Trade and other payables		**(97.7)**	(89.0)
Deferred income		**(41.0)**	(63.2)
Borrowings	9	**(12.9)**	(21.3)
Provisions		**(25.0)**	(25.0)
Derivative financial instruments		**(3.5)**	(1.3)
		(180.1)	(199.8)
NON-CURRENT LIABILITIES			
Borrowings	9	**(96.2)**	(76.0)
Deferred tax liabilities		**(4.6)**	(5.5)
Provisions		**(31.8)**	(32.1)
Deferred income		**(11.5)**	(12.4)
Derivative financial instruments		**(0.1)**	(0.1)
		(144.2)	(126.1)
TOTAL LIABILITIES		**(324.3)**	(325.9)
NET ASSETS		**85.4**	89.4
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	10	**0.7**	0.7
Share premium account		**60.6**	60.6
Hedging reserve		**0.8**	3.5
Other reserves		**6.7**	6.7
Capital redemption reserve		**22.5**	22.5
Retained deficit		**(5.9)**	(4.6)
TOTAL EQUITY		**85.4**	89.4

Consolidated cash flow statement

Six months ended 30 September 2012

	Six months ended 30 September	
	2012 (Unaudited) £m	2011 (Unaudited) £m
Cash flows from operating activities		
(Loss)/profit for the period	**(1.3)**	14.6
Adjustments for:		
Depreciation, amortisation and impairment	**6.9**	7.6
Investment income	**(0.5)**	(0.3)
Finance costs	**1.1**	1.8
Other net gains	**(1.7)**	-
Gain on sale of property, plant and equipment and assets held for sale	**-**	(0.8)
Equity-settled share-based payment expenses	**0.2**	0.3
Joint venture result	**2.1**	0.5
Taxation	**-**	(0.3)
	6.8	23.4
Increase in restricted cash	**(6.4)**	(0.2)
Decrease/(increase) in trade and other receivables	**10.0**	(10.1)
Increase in inventories	**(1.2)**	(1.5)
Decrease in trade and other payables	**(13.7)**	(4.9)
Decrease in assets held for sale	**-**	0.1
(Decrease)/increase in provisions and employee benefits	**(0.3)**	6.2
	(11.6)	(10.4)
Tax paid	**-**	-
Net cash flows from operating activities	**(4.8)**	13.0
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**10.6**	48.2
Decrease in pre-delivery deposits	**4.2**	0.6
Interest received	**0.5**	0.3
Acquisition of property, plant and equipment	**(36.5)**	(41.1)
Capitalised computer software expenditure	**(0.5)**	(0.2)
Acquisition of joint venture interest	**(0.3)**	(17.2)
Net cash flows from investing activities	**(22.0)**	(9.4)
Cash flows from financing activities		
Proceeds from new loans	**27.8**	31.4
Interest paid	**(1.1)**	(1.8)
Repayment of borrowings	**(14.9)**	(50.6)
Net cash flows from financing activities	**11.8**	(21.0)
Net decrease in cash and cash equivalents	**(15.0)**	(17.4)
Cash and cash equivalents at beginning of period	**42.9**	87.7
Cash and cash equivalents at end of period	**27.9**	70.3

Notes to the condensed set of financial statements

Six months ended 30 September 2012

1. GENERAL INFORMATION

The information for the year ended 31 March 2012 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.

The presentation of revenue in the income statement has been summarised in these interim financial statements to present passenger revenue only (the sum of ticket and ancillary revenue) in order to better reflect the experience of the business after the introduction of the new ticket structure in April 2012 as part of the Making flying better programme. In addition, costs, assets and liabilities have been reallocated to reflect the new divisional structure first reported on for the year to 31 March 2012. This change in accounting policy has no impact on the balance sheet presented for 31 March 2012 nor any other published balance sheet and therefore no third balance sheet has been presented.

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 15.

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.

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:

Amendments to IAS 1	Presentation of Items of Other Comprehensive Income
Amendments to IAS 19	Employee Benefits

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

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 revenue ancillary to the provision of those services.
Flybe Europe	This business segment comprises the European airline, MRO and training 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 serving third party customers, including aircraft maintenance, overhauls and the associated rotables and consumable parts.

Segment revenues and results

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

	Six months ended 30 September	
	2012 **£m**	2011 (restated)* £m
Segment revenues:		
Flybe UK	**328.5**	329.1
Flybe Europe	**55.5**	8.6
Flybe Aviation Support	**21.6**	22.6
Inter-segment sales	**(9.3)**	(10.1)
Revenue under management	**396.3**	350.2
Less: Revenue from Flybe Europe joint venture	**(55.5)**	(8.6)
Group revenue (excluding investment income)	**340.8**	341.6
Segment results:		
Flybe UK (including net finance costs of £0.5m in 2012 and £1.9m in 2011)	**2.0**	14.5
Flybe Europe (including net finance costs of £0.2m in 2012)	**(2.4)**	(0.6)
Flybe Aviation Support	**(0.9)**	(0.4)
(Loss)/profit before tax	**(1.3)**	14.3

* See note 1

The Flybe UK segment includes group costs of £1.8m (H1 2011/12 £1.5m) and revaluation gains on USD aircraft loans of £0.7m (H1 2011/12 £nil).

Flybe Europe results include both appropriate share of joint venture results and other costs of running this division.

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 revenue earned by individual reportable segments.

	30 September 2012 £m	31 March 2012 £m
Segment assets:		
Flybe UK	**349.4**	351.5
Flybe Europe	**14.9**	16.4
Flybe Aviation Support	**35.9**	33.5
Total segment assets	**400.2**	401.4
Unallocated assets	**9.5**	13.9
Consolidated total assets	**409.7**	415.3
Segment liabilities:		
Flybe UK	**(298.3)**	(300.4)
Flybe Europe	**(0.9)**	(1.1)
Flybe Aviation Support	**(18.9)**	(17.7)
Total segment liabilities	**(318.1)**	(319.2)
Unallocated liabilities	**(6.2)**	(6.7)
Consolidated total liabilities	**(324.3)**	(325.9)

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. TAX

Current tax for the six-month period is charged at 0% (six months ended 30 September 2011: 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. There is no tax charge or credit reported in the H1 2011/12 results as no material change is expected to occur in the overall deferred tax position by the end of 2012/13.

6. DIVIDENDS

No dividends have been paid or proposed either during the six months ended 30 September 2012 or during the comparative accounting period.

7. EARNINGS PER SHARE

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

	Six months ended 30 September	
	2012 No.	2011 No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	**75,152,881**	75,152,881
Effect of dilutive potential ordinary shares:		
Share options	**-**	1,223,274
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**75,152,881**	76,376,155
(Loss)/earnings per ordinary share – basic	**(1.7)p**	19.4p
(Loss)/earnings per ordinary share – diluted	**(1.7)p**	19.1p

Diluted loss per share is the same as basic loss per share in the six months ended 30 September 2012 because the Group recorded a loss and as such none of the potentially issuable shares are dilutive.

8. PROPERTY, PLANT AND EQUIPMENT

	30 September 2012 £m	31 March 2012 £m
Opening cost as at 1 April	**246.8**	214.7
Additions	**36.5**	113.4
Disposals	**(25.5)**	(81.3)
Closing cost at 30 September / 31 March	**257.8**	246.8
Accumulated depreciation	**(76.2)**	(84.7)
Closing net book value as at 30 September / 31 March	**181.6**	162.1

See note 13 for capital commitments.

9. BORROWINGS

Additional loans of £27.8m were drawn down under new loan facilities to fund the acquisition of two E175s. A further two E175s were delivered during the period on an operating lease.

Repayments of other bank loans amounting to £14.9m were made during the period including the repayment of debt on two Q400s disposed of at their expected retirement date.

10. SHARE CAPITAL

	30 September 2012 £000	31 March 2012 £000
Issued and fully paid		
75,152,881 ordinary shares of 1p each	**752**	752

In the six months ended 30 September 2012 no shares were issued. The Company has one class of ordinary shares which carry no right to fixed income.

11. JOINT VENTURES

In June 2012, Flybe Group plc acquired for a consideration of £295,000 (€358,000) a further 13.7% holding (6.3% of which was acquired from a subsidiary of Finnair Oyj) of Finnish Aircraft Maintenance Oy, to give a total ownership of 60.0%. In order to simplify the joint venture arrangements, Finnish Aircraft Maintenance Oy was transferred, via a share-for-share exchange, into the Flybe Nordic AB group, becoming a wholly owned subsidiary within that group.

12. CONTINGENCIES

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

	30 September 2012 £m	31 March 2012 £m
Credit card arrangements	**14.0**	14.0
Bonds	**8.9**	8.8
Total	**22.9**	22.8
Cash deposited to secure the above arrangements	**22.9**	15.7

13. CAPITAL COMMITMENTS

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

	30 September 2012 £m	31 March 2012 £m
Embraer E-Series aircraft	**621.2**	720.9

It is intended that these aircraft will be financed partly though cash flow and partly through external financing and operating lease arrangements. 27 aircraft were covered by these arrangements at 30 September 2012 (31 March 2012: 31).

14. SHARE-BASED PAYMENTS

Performance Share Plan ('PSP'), Share Incentive Plan ('SIP') and Save As You Earn ('SAYE')

No shares were awarded under these plans in the six months to 30 September 2012 and the charge for the period in relation to them was £0.2m.

In the year ended 31 March 2012, the likelihood of awards being made under the previous issues under the PSP was re-assessed and it was determined that the earnings per share element (70% of the total award) is no longer expected to vest.

15. EMPLOYEE BENEFITS

Defined benefit scheme

The defined benefit obligation as at 30 September 2012 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 2012. Differences between the expected return on assets and the actual return on assets of a loss of £0.2m (2011: loss of £0.2m) 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 £1.8m 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. The current revaluation order uses the September 2010 Consumer Prices Index ('CPI').

16. RELATED PARTIES

At 30 September 2012, the Group is 48.1% (unchanged from 31 March 2012) owned by Rosedale Aviation Holdings Limited, incorporated in Jersey.

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	
	2012 £m	2011 £m
Preston Travel (CI) Limited	**0.4**	0.6
Flybe Nordic	**1.9**	0.7

	Amounts owed by related parties	
	30 September 2012 £m	31 March 2012 £m
Preston Travel (CI) Limited	**0.6**	0.3
Flybe Nordic	**2.7**	1.5

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

The Group also provided services to Flybe Nordic, a 60% holding of which was acquired in August 2011.

	Purchases of services	
	Six months ended 30 September	
	2012	2011
	£m	£m
Edenfield Investments Limited	**0.2**	0.2
Downham Properties Limited	**0.2**	0.1

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.

No amounts were owed to related parties at 30 September 2012 or 31 March 2012.

Acquisition of further stake in Finnish Aircraft Maintenance Oy

As discussed further in note 11, Flybe acquired a further 13.7% holding in Finnish Aircraft Maintenance Oy in June 2012 for £0.3m.

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 2013.

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 CAA in the UK and Trafi in Finland
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
contract flying	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
domestic	passengers from one UK (including the Channel Islands and the Isle of Man) or Finnish airport to another UK (including the Channel Islands and the Isle of Man) or Finnish airport as appropriate
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 which is wholly owned by Flybe Nordic (see note 11)
Flybe Finland	Flybe Finland Oy (formerly Finnish Commuter Airlines Oy) which is wholly owned by Flybe Nordic
Flybe Nordic	Joint venture incorporating Flybe Finland and Finnish Aircraft Maintenance Oy and of which 60% is owned by Flybe and 40% by Finnair Oyj
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 scheduled seats sold divided by seat capacity (and 'flown' load factor, the number of seats flown divided by seat capacity)
MRO	maintenance, repair and overhaul
New Economy	A type of ticket that includes advanced seat selection, a 20 kg hold bag, a changeable ticket (fare difference may apply) and SMS booking confirmation
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 and the Isle of Man) but excluding London
route	a scheduled service flown by an airline other than any franchise route
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
sector length	the distance, typically in kilometres, of a flown sector
slot	an authorisation to arrive at 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
Trafi	the Finnish Transport Safety Agency,
UK domestic routes	routes where both the departure and destination airports are within the United Kingdom, the Isle of Man or the Channel Islands
under management	Figures presented for revenue, passengers and seats flown 'under management' include both Group and joint venture activity but exclude contract flying
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)