

**Dart Group Plc**

**Restatement of Financial Information under International Financial Reporting Standards (“IFRS”) as adopted by the EU (“adopted IFRS”)**

**5 November 2007**

## CONTENTS

	Page
1. Introduction	3
2. Basis of Preparation	3
3. Summary of Impact	4
4. Explanation of Significant Adjustments under IFRS	5
5. Reconciliations to IFRS	
5.1 Date of transition under IFRS – 1 April 2006	7
5.2 31 March 2007 Balance Sheet restated under IFRS	8
5.3 31 March 2007 Income Statement restated under IFRS	9
6. Expanded presentation of 31 March 2007 Income Statement under IFRS	10
7. Provisional Accounting Policies under IFRS	11
8. Statement of changes in equity for the year ended 31 March 2007	15
Appendices	
i. 30 September 2006 Balance Sheet restated under IFRS	16
ii. 30 September 2006 Income Statement restated under IFRS	17
iii. Expanded presentation of 30 September 2006 Income Statement under IFRS	18

## **1 Introduction**

Dart Group Plc and its subsidiary companies (“Dart Group” or “the Group”) have previously prepared consolidated financial statements under UK Generally Accepted Accounting Principles (“UK GAAP”). In common with other companies listed on the Alternative Investment Market (“AIM”), the Group is required to adopt International Financial Reporting Standards (“IFRS”) as adopted by the EU (“adopted IFRS”)\* for its first consolidated financial statements for periods beginning on or after 1 January 2007.

The Group’s first consolidated financial statements prepared in accordance with adopted IFRS will be for the financial year ending 31 March 2008 and its first consolidated half-yearly results will be for the six months ended 30 September 2007. The Group’s date of transition to adopted IFRS is 1 April 2006, being the start of the previous period which will be presented as comparative information in the first set of consolidated financial statements prepared in accordance with adopted IFRS.

This document sets out the changes in accounting policy arising from the adoption of IFRS and presents restated financial information for the opening balance sheet at 1 April 2006, the six months ended 30 September 2006 and the year ended 31 March 2007, which was previously published under UK GAAP.

The financial information contained in this document does not constitute the Company’s statutory accounts for the years ended 31 March 2006 or 2007. Those accounts, which were prepared under UK GAAP, have been reported on by the Company’s auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

\* Adopted IFRS means all extant IFRS’s, International Accounting Standards (“IAS’s”) issued by the International Accounting Standards Board (“IASB”) and interpretative guidance issued by the International Financial Reporting Interpretations Committee (“IFRIC”) which have been endorsed by the European Union (“EU”).

## **2 Basis of Preparation**

### **Basis of accounting**

This financial information has been prepared on the basis of the recognition and measurement requirements of adopted IFRS as at 5 November 2007 that are effective (or available for early adoption) at 31 March 2008, the Group’s first annual reporting date at which it is required to use adopted IFRS’s. Based on these adopted IFRS’s, the directors have applied the accounting policies, as set out in section 7 below, which they expect to apply when the first annual IFRS financial statements are prepared for the year ending 31 March 2008. This included using estimates consistent with those made in the UK GAAP financial statements after adjustments to reflect differences in accounting policies.

However, the adopted IFRS’s that will be effective (or available for early adoption) in the annual financial statements for the year ending 31 March 2008 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual financial statements are prepared for the year ending 31 March 2008.

### **First time adoption of IFRS**

In preparing the Group’s IFRS balance sheet at 1 April 2006, the Group has followed the requirements of IFRS 1 *First-time Adoption of International Financial Reporting Standards*, which in general requires the full retrospective adoption of IFRS accounting policies. However, IFRS 1 contains certain mandatory exceptions and certain optional exemptions from this principle. The following optional exemptions from full retrospective adoption of IFRS have been adopted:

(a) Business combinations: The Group has chosen not to restate business combinations prior to the transition date of 1 April 2006 on an IFRS3 *Business Combinations* basis.

(b) Cumulative translation differences: One of the requirements of IAS21 *The Effects of Changes in Foreign Exchange Rates* is that exchange differences arising on the retranslation of the results and net assets of overseas operations must be held as a separate component of equity and on a subsequent disposal of an overseas operation, the cumulative amount of exchange differences previously recognised directly in equity for that operation are to be transferred to the income statement as part of the profit or loss on disposal. The Group has adopted the exemption allowing cumulative translation differences to be reset to zero at the transition date such that any profit or loss on disposal will exclude translation differences that arose before the transition date.

(c) Share-based payment transactions: The Group has adopted the exemption allowing the application of IFRS2 *Share-based Payment* only to those equity instruments granted after 7 November 2002 which had not vested at the date of transition of 1 April 2006.

### 3 Summary of Impact

		Six months to 30 September 2006		Year to 31 March 2007	
		UK GAAP (unaudited)	IFRS (unaudited)	UK GAAP (audited)	IFRS (unaudited)
<b>Operating profit</b>	£'m	23.1	19.1	18.6	1.2
<b>Profit / (loss) before taxation and profit on disposal of discontinued operations</b>	£'m	21.8	16.0	15.9	(3.6)
<b>Profit / (loss) before tax</b>	£'m	24.0	16.0	18.1	(3.6)
<b>Profit attributable to equity shareholders</b>	£'m	16.8	13.4	13.6	0.7
<b>Earnings per share</b>					
Total - basic	pence	12.07p	9.53p	9.73p	0.53p
Total - diluted	pence	11.96p	9.44p	9.66p	0.52p
<b>Net assets</b>	£'m	74.7	73.8	71.1	59.0

The changes having the most significant impact on the restated figures are as follows:

- a.) The recognition of derivative financial instruments at fair value and the disapplication of hedge accounting in the recognition of non-financial assets.

Dart Group utilises fuel swaps and forward foreign exchange contracts to hedge its exposure to movements in Jet fuel prices and the value of sterling against the US Dollar and the Euro arising from its aviation activities. Under UK GAAP, the Group hedge accounted for such contracts by deferring gains and losses until the hedged cash flow crystallised. Under IFRS, the Group is required to account for the fair value of these forward contracts in its Financial Statements.

Hedge documentation compliant with IFRS was put in place at 1 April 2007 and cash flow hedge accounting has been applied to eligible derivatives prospectively from that date. However, for the year ended 31 March 2007, IFRS compliant hedge documentation was not in place and movements in fair value of derivatives for that period have therefore been taken to the income statement in restating 2006/7 results.

In aggregate, the impact of the restatement on the year ended 31 March 2007 is to reduce profit before tax by £19.3m and decrease net assets at that date by £12.6m. This reflects the movement in fair value of derivatives in the period and an adjustment to the carrying value of aircraft & engines to reflect the use of spot rather than hedged exchange rates in establishing the £ value of these assets. Of the aggregate adjustment, £17.7m relates to instruments that would have been eligible for hedge accounting under IFRS if appropriate documentation had been in place. Accordingly this movement is shown in a separate column (the middle column) within the expanded consolidated income statement for the year ended 31 March 2007 under IFRS which is presented at section 6 below. The balance of £1.6m relates to instruments that are not eligible for hedge accounting under IFRS and this amount is included within the trading column (left hand column) within the expanded consolidated income statement.

The reduction in reported profit for the year ended 31 March 2007 reverses in future periods (via a reduction in fuel costs, depreciation and other operating costs that the business would otherwise have recorded) as the underlying derivatives mature and these movements will be separately identified and presented on a basis consistent with that adopted above.

- b.) The cessation of goodwill amortisation. The impact is to increase profit before tax by £0.5m for the year ended 31 March 2007 and to increase net assets by the same amount.

There are no changes to the Group's cash flows.

An analysis of all the changes made on moving from UK GAAP to IFRS is included in Section 5.

#### **4 Explanation of Significant Adjustments under IFRS**

##### **a) IFRS 5 Non-current Assets Held for Sale and Discontinued Operations**

The application of IFRS 5 results in presentational differences compared with UK GAAP in accounting for the disposal of Channel Express (CI) Limited which was sold on 3 July 2006.

The assets and liabilities of Channel Express (CI) Limited constitute a disposal group under IFRS 5 and are presented separately on the face of the balance sheet at the transition date of 1 April 2006. On the face of the income statement for the year ended 31 March 2007 the post-tax profit of Channel Express (CI) Limited up to the date of disposal of £0.5m and the post-tax profit on disposal of £2.0m are presented separately as a single combined post-tax figure of £2.5m in arriving at Group profit for the year. There is no overall impact for the year ended 31 March 2007 on profit for the year or equity.

##### **b) IAS16 Property, plant and equipment**

IAS 16 requires that spare parts held by an entity are classified as Property, plant and equipment if they are expected to be used over more than one period and are not held for resale. Accordingly, aircraft spare parts with a carrying value of £8.0m at 31 March 2007 (2006: £7.3m) have been reclassified from inventories to property, plant and equipment and the related depreciation expense has been reclassified from direct operating costs to depreciation and amortisation, both included within net operating expenses. There is no impact on operating profit or equity.

##### **c) IAS 39 Financial Instruments: Recognition and Measurement**

Under UK GAAP, Dart Group deferred gains and losses on hedges of future cash flows, recognising them in profit and loss or the initial carrying value of non-monetary assets when the hedged cash flow crystallised.

Under IAS39, derivative financial instruments are recorded at fair value at each balance sheet date. Changes in fair value are recorded in profit and loss unless cash flow hedge accounting criteria are met. Dart Group uses instruments such as aviation fuel swaps and forward foreign currency contracts as cash flow hedges and accordingly, where cash flow hedge accounting criteria are met, changes in fair value from the inception of the hedge relationship are posted to equity and recycled through profit and loss at the time that the hedged cash flow impacts profit and loss. Where the hedged cash flow results in the recognition of a non-monetary asset or liability, the gain or loss within equity is recycled into the initial carrying amount of the asset or liability. Application of IAS 39 has resulted in the following adjustments:

- a.) The transitional arrangements of IFRS 1.30 have been applied in relation to derivative financial instruments held at 31 March 2006. As a result of this, a cash flow hedging reserve of £4.5m was recognised at transition, comprising fair value gains of £6.4m net of deferred tax of £1.9m. Of these fair value gains, £5.2m was recycled to profit and loss or to property, plant and equipment in the year ended 31 March 2007.
- b.) Hedge documentation required by IAS 39 was put in place prospectively from 1 April 2007 and cash flow hedge accounting has been applied to eligible derivative financial instruments from that date. Between 1 April 2006 and 31 March 2007, changes in fair value have been recorded through profit and

loss together with associated movements in deferred tax. This resulted in a reduction in profit before tax of £22.9m for the year ended 31 March 2007. The disapplication of UK GAAP hedge accounting for the recognition of hedged items of property, plant and equipment for the same period resulted in a further reduction of £1.6m in profit before tax.

The aggregate impact of these adjustments is to reduce reported profit before tax for the year ended 31 March 2007 by £19.3m and to reduce equity by £12.6m at that date.

#### **d) IAS 12 Income taxes**

Under UK GAAP, deferred tax is recognised on all timing differences that have originated but not reversed at the balance sheet date, subject to various exemptions.

Under IAS 12 deferred tax is recognised in respect of all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying value for reporting purposes. Deferred tax is not recognised where the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income or accounting profit.

An adjustment of £0.1m has been made to the deferred tax provision at transition relating to differences between the tax base and carrying value of certain freehold properties acquired as part of a business combination where the initial recognition exemption does not apply.

In addition, adjustments made to the financial statements on transition to adopted IFRS result in related adjustments to deferred tax. The overall impact for the year ended 31 March 2007 is to lower the tax charge by £5.9m, primarily relating to the financial instruments adjustment, and to increase equity by £5.5m at that date. The revised presentation requirements for the disposal of Channel Express (CI) Limited described above result in the transfer of £0.4m from income taxes to a component of the discontinued operations profit for the period within the consolidated income statement.

#### **e) IFRS 3 Business combinations**

Goodwill arising on acquisition is no longer amortised under IFRS 3 but is instead subjected to annual impairment tests. The carrying value of goodwill was tested as at the transition date of 1 April 2006 and as at 31 March 2007 and no impairment was identified. The impact on the Group's income statement is to increase operating profit by £0.5m for the year ended 31 March 2007 and to increase equity by the same amount.

#### **f) Presentational changes**

Costs of £0.1m classified as exceptional operating expenses under UK GAAP in the consolidated income statement for the year ended 31 March 2007 have been reclassified as operating expenses under IFRS, with no impact on profit before tax or net assets.

## 5 Reconciliation to IFRS

### 5.1 Consolidated balance sheet at 1 April 2006, IFRS reconciliation

	UK	Adjustments (see section 4)				IFRS
	GAAP (audited)	a Held for sale	b Aircraft spare parts	c Financial instruments	d Taxation	(unaudited)
	£'m	£'m	£'m	£'m	£'m	£'m
<b>Non-current assets</b>						
Property, plant and equipment	131.5	(0.9)	7.3			137.9
Goodwill	6.8					6.8
Derivative financial instruments	-			1.3		1.3
Deferred tax assets	-			0.2		0.2
	<u>138.3</u>	<u>(0.9)</u>	<u>7.3</u>	<u>1.5</u>	<u>-</u>	<u>146.2</u>
<b>Current assets</b>						
Inventories	7.5		(7.3)			0.2
Trade and other receivables	23.8	(2.2)				21.6
Cash and cash equivalents	26.0					26.0
Derivative financial instruments	-			5.7		5.7
	<u>57.3</u>	<u>(2.2)</u>	<u>(7.3)</u>	<u>5.7</u>	<u>-</u>	<u>53.5</u>
Assets classified as held for sale	-	3.1	-	-	-	3.1
	<u>57.3</u>	<u>0.9</u>	<u>(7.3)</u>	<u>5.7</u>	<u>-</u>	<u>56.6</u>
<b>Total assets</b>	<u>195.6</u>	<u>-</u>	<u>-</u>	<u>7.2</u>	<u>-</u>	<u>202.8</u>
<b>Current liabilities</b>						
Trade and other payables	94.3	(1.7)				92.6
Derivative financial instruments	-			0.5		0.5
Borrowings	3.5					3.5
Current tax payable	0.8					0.8
	<u>98.6</u>	<u>(1.7)</u>	<u>-</u>	<u>0.5</u>	<u>-</u>	<u>97.4</u>
Liabilities directly associated with assets classified as held for sale	-	1.7				1.7
	<u>98.6</u>	<u>-</u>	<u>-</u>	<u>0.5</u>	<u>-</u>	<u>99.1</u>
<b>Non-current liabilities</b>						
Borrowings	28.0					28.0
Derivative financial instruments	-			0.1		0.1
Deferred tax	9.7			2.1	0.1	11.9
	<u>37.7</u>	<u>-</u>	<u>-</u>	<u>2.2</u>	<u>0.1</u>	<u>40.0</u>
<b>Total liabilities</b>	<u>136.3</u>	<u>-</u>	<u>-</u>	<u>2.7</u>	<u>0.1</u>	<u>139.1</u>
<b>Net assets</b>	<u>59.3</u>	<u>-</u>	<u>-</u>	<u>4.5</u>	<u>(0.1)</u>	<u>63.7</u>
<b>Capital and reserves</b>						
Share capital	1.7					1.7
Share premium	8.6					8.6
Cash flow hedging reserve	-			4.5		4.5
Retained earnings	49.0				(0.1)	48.9
<b>Total equity attributable to equity holders of the parent</b>	<u>59.3</u>	<u>-</u>	<u>-</u>	<u>4.5</u>	<u>(0.1)</u>	<u>63.7</u>

## 5.2 Consolidated balance sheet at 31 March 2007, IFRS reconciliation

	UK	Adjustments (see section 4)			IFRS
	GAAP	e	b	c	(unaudited)
	(audited)	Business combinations	Aircraft spare parts	Financial instruments	
	£'m	£'m	£'m	£'m	£'m
<b>Non-current assets</b>					
Property, plant and equipment	179.1		8.0	(1.6)	185.5
Goodwill	6.3	0.5			6.8
Derivative financial instruments				0.5	0.5
Deferred tax assets	-			5.5	5.5
	<u>185.4</u>	<u>0.5</u>	<u>8.0</u>	<u>4.4</u>	<u>198.3</u>
<b>Current assets</b>					
Inventories	8.2		(8.0)		0.2
Trade and other receivables	43.0				43.0
Tax debtor	1.0				1.0
Cash and cash equivalents	3.9				3.9
Derivative financial instruments	-			1.1	1.1
	<u>56.1</u>	<u>-</u>	<u>(8.0)</u>	<u>1.1</u>	<u>49.2</u>
<b>Total assets</b>	<u>241.5</u>	<u>0.5</u>	<u>-</u>	<u>5.5</u>	<u>247.5</u>
<b>Current liabilities</b>					
Trade and other payables	137.4				137.4
Derivative financial instruments	-			11.3	11.3
Current tax payable	0.7				0.7
	<u>138.1</u>	<u>-</u>	<u>-</u>	<u>11.3</u>	<u>149.4</u>
<b>Non-current liabilities</b>					
Borrowings	18.0				18.0
Derivative financial instruments	-			6.8	6.8
Deferred tax	14.3			-	14.3
	<u>32.3</u>	<u>-</u>	<u>-</u>	<u>6.8</u>	<u>39.1</u>
<b>Total liabilities</b>	<u>170.4</u>	<u>-</u>	<u>-</u>	<u>18.1</u>	<u>188.5</u>
<b>Net assets</b>	<u>71.1</u>	<u>0.5</u>	<u>-</u>	<u>(12.6)</u>	<u>59.0</u>
<b>Capital and reserves</b>					
Share capital	1.8				1.8
Share premium	9.2				9.2
Cash flow hedging reserve	-			0.9	0.9
Retained earnings	60.1	0.5		(13.5)	47.1
<b>Total equity attributable to equity holders of the parent</b>	<u>71.1</u>	<u>0.5</u>	<u>-</u>	<u>(12.6)</u>	<u>59.0</u>

### 5.3 Consolidated income statement reconciliation for the year ended 31 March 2007

	UK GAAP (audited)	Adjustments (see section 4)					IFRS (unaudited)
		a Discontinued operations	e Business combinations	c Financial instruments	d Taxation	f Presentational changes	
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
<b>Revenue</b>	352.0	(3.0)					349.0
Net operating expenses	(332.8)	2.8		(17.7)		(0.1)	(347.8)
Goodwill amortisation	(0.5)		0.5				-
Exceptional operating expenses	(0.1)					0.1	-
	<u>(333.4)</u>	<u>2.8</u>	<u>0.5</u>	<u>(17.7)</u>	<u>-</u>	<u>-</u>	<u>(347.8)</u>
<b>Operating profit</b>	18.6	(0.2)	0.5	(17.7)	-	-	1.2
Profit on disposal of discontinued operations	2.2	(2.2)					-
Loss on disposal of fixed assets	(0.1)						(0.1)
Finance income	1.9	(0.5)		1.0			2.4
Finance costs	(4.5)			(2.6)			(7.1)
<b>Profit/(loss) before taxation</b>	<u>18.1</u>	<u>(2.9)</u>	<u>0.5</u>	<u>(19.3)</u>	<u>-</u>	<u>-</u>	<u>(3.6)</u>
<b>Taxation</b>	(4.5)	0.4		5.8	0.1		1.8
<b>Profit/(loss) for the year from continuing operations</b>	<u>13.6</u>	<u>(2.5)</u>	<u>0.5</u>	<u>(13.5)</u>	<u>0.1</u>	<u>-</u>	<u>(1.8)</u>
<b>Discontinued operations profit for the period</b>	-	2.5	-	-	-	-	2.5
<b>Profit/(loss) for the year attributable to equity shareholders</b>	<u>13.6</u>	<u>-</u>	<u>0.5</u>	<u>(13.5)</u>	<u>0.1</u>	<u>-</u>	<u>0.7</u>
<b>Earnings per share</b>							
Basic - pence	9.73p						0.53p
Diluted - pence	9.66p						0.52p
<b>Earnings per share - continuing operations</b>							
Basic - pence	7.98p						(1.23)p
Diluted - pence	7.92p						(1.22)p

## 6. Expanded presentation: Consolidated income statement for the year ended 31 March 2007 under IFRS

	Before specific IAS 39 mark to market adjustments (unaudited) <u>£'m</u>	Specific IAS 39 mark to market adjustments (unaudited) <u>£'m</u>	IFRS  (unaudited) <u>£'m</u>
<b>Revenue</b>	349.0		349.0
<b>Net operating expenses</b>	<u>(330.1)</u>	<u>(17.7)</u>	<u>(347.8)</u>
<b>Operating profit</b>	18.9	(17.7)	1.2
Loss on disposal of fixed assets	(0.1)		(0.1)
Finance income	2.4		2.4
Finance costs	(7.1)		(7.1)
<b>Profit/(loss) before taxation</b>	<u>14.1</u>	<u>(17.7)</u>	<u>(3.6)</u>
<b>Taxation</b>	(3.5)	5.3	1.8
<b>Profit/(loss) for the year from continuing operations</b>	<u>10.6</u>	<u>(12.4)</u>	<u>(1.8)</u>
<b>Discontinued operations profit for the period</b>	2.5	-	2.5
<b>Profit/(loss) for the year attributable to equity shareholders</b>	<u>13.1</u>	<u>(12.4)</u>	<u>0.7</u>

As described in section 3 above, movements in fair value of financial instruments for which hedge accounting would have been available in 2006/7 if hedge documentation compliant with IFRS had been in place are shown separately in the middle column so as to facilitate understanding of the underlying business performance.

## **7 Provisional Accounting Policies under IFRS**

### **Basis of preparation**

The restated financial information contained in this document has been prepared on the basis of the recognition and measurement requirements of adopted IFRS expected to be in effect for the year ending 31 March 2008 and by applying the requirements of IFRS 1, as described in section 2 above.

The financial statements have been prepared under the historical cost convention except for all derivative financial instruments that have been measured at fair value.

A summary of the principal accounting policies, which have been consistently applied to all periods presented in this financial information and in preparing an opening IFRS balance sheet at 1 April 2006 for the purposes of the transition to adopted IFRS are set out below.

### **Basis of consolidation**

The Group's financial statements consolidate the financial statements of Dart Group Plc and its subsidiaries. The results of undertakings bought or sold are consolidated from the period from the date of acquisition or for the period up to the date of disposal. Acquisitions of subsidiaries are accounted for using the purchase method of accounting.

### **Significant judgements and estimates**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Although these estimates are based on historical experience and other associated factors believed to be reasonable under the circumstances, actual results may differ from these estimates. Underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised, or in the period of the revision and future periods if these are also affected.

### **Turnover**

Turnover (which excludes Value Added Tax and Air Passenger Duty) arises from passenger aircraft operations, holidays, ancillary activities, cargo aircraft operations and, warehousing and distribution conducted by the Group.

Revenue from ticket sales for scheduled passenger flights is recognised in turnover once the relevant flight has taken place. Amounts received from customers for which revenue has not yet been recognised are recorded in the balance sheet within trade and other payables. Ancillary revenue from cabin service sales, excess baggage charges and extra leg room charges are also recognised once the relevant flight has taken place. Separately identified incremental credit card charges and call centre booking fees are recognised at the date of booking and booking change fees are recognised when the change is made, in line with the costs which such charges are designed to recover. Commission earned from hire car and hotel bookings is recognised on departure and from travel insurance on booking, reflecting the time when commission can no longer be recovered on cancellation. The total revenue from holidays is recognised at the date of departure. Charter aircraft income is recognised when the flight has taken place.

Distribution revenue relating to deliveries is recognised when the delivery has been completed. Warehousing revenue is spread evenly over the period to which it relates.

### **Foreign currencies**

In the group companies' individual accounts, transactions in foreign currencies are translated into their functional currency at the rates applicable when they were completed and monetary assets and liabilities at the period end are translated at the rate at that date. Profits and losses on retranslation are dealt with in the income statement.

On consolidation, assets and liabilities of overseas subsidiaries are translated into Sterling at closing rates of exchange. Income and cash flow statements are translated at average rates of exchange. The exchange differences arising as a result of translating income statements at average rates and restating opening net assets at closing rates are taken to the translation reserve.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Interest attributable to the purchase of aircraft and other assets and progress payments on account whilst such aircraft are undergoing conversion from passenger to freighter or quick change is capitalised and added to the cost of the asset concerned. Interest is capitalised at rates equal to the rates paid on the financial instruments used to finance the purchase and conversion of aircraft.

Depreciation is calculated to write off the cost of property, plant and equipment down to their estimated residual value using the straight-line method over their estimated useful economic lives or the estimated useful economic lives of their individual major components as follows:

Leasehold property	Over the life of the lease
Freehold property	30 years
Aircraft, engines and propellers	3-10 years
Plant, vehicles and equipment	3-7 years

Freehold land is not depreciated.

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframes and is amortised over a period ranging from one to ten years from the date of acquisition. Subsequent costs incurred which lend enhancement to future periods such as long-term scheduled maintenance and major overhaul of aircraft and engines are capitalised and amortised over the length of period benefiting from the enhancements. All other maintenance costs are expensed to the income statement as incurred.

### **Aircraft maintenance costs**

#### *Leased aircraft*

Provision is made for the estimated future costs of major overhauls of leased airframes, engines and auxiliary power units by making appropriate charges to the income statement calculated by reference to the number of hours or cycles operated during the year as a consequence of aircraft rectification obligations arising from the operating lease agreements.

#### *Owned aircraft*

The accounting for maintenance expenditure on owned aircraft is as set out under *property, plant and equipment* above.

### **Goodwill and other intangible assets**

Goodwill is the excess of the fair value of the consideration paid for a business over the fair value of the identifiable assets and liabilities acquired. Goodwill is capitalised and subject to an impairment test both annually and when indications of impairment arise. Prior to 1 April 2006, goodwill was amortised over its estimated useful life, such amortisation ceased on 31 March 2006. Goodwill previously written off to reserves is not taken into account in calculating any profit or loss on disposal of a business.

### **Financial instruments**

#### *Cash and cash equivalents*

Cash equivalents are defined as including short term deposits with original maturity within three months. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts which are repayable on demand and form an integral part of the Group's cash management processes.

### *Trade and other receivables*

Trade and other receivables do not carry any interest and are stated at their nominal value as reduced by the appropriate allowance for estimated irrecoverable amounts.

### *Trade and other payables*

Trade and other payables are not interest bearing and are stated at their nominal value.

### *Interest bearing loans and borrowing*

All loans and borrowings are initially recorded at the fair value of their net proceeds. Thereafter they are measured at amortised cost using the effective interest method.

### *Derivative financial instruments*

The Group uses forward foreign currency contracts, currency option products and aviation fuel swaps to hedge exposure to foreign exchange rates and aviation fuel price volatility. Such derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss unless hedge accounting is applied.

All derivatives to which hedge accounting are applied are cash flow hedges. In relation to cash flow hedges of highly probable forecasted transactions which meet the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument from the inception of the hedging relationship which is deemed an effective hedge is recognised directly in equity and the ineffective portion is recognised within Finance costs/income in the Income statement.

When the hedged highly probable forecasted transaction results in the recognition of a non-monetary asset or liability, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of that asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged commitment affects profit and loss.

### **Leases**

Rental charges on operating leases are charged to the income statement on a straight-line basis over the life of the lease.

### **Taxation**

The charge for current taxation is based on the result for the year adjusted for income that is not taxable and expenses that are not deductible using taxation rates that are applicable to the taxable income based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Current and deferred taxation is recognised in profit and loss except where it relates to an item recognised directly in equity, in which case the related current and deferred tax is recognised in equity.

Deferred tax liabilities are recognised on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes except:

- where the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the

deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised, except;

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that apply to when the asset is realised or the liability is settled, based on tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

## **Employee expenses**

### *Pension costs*

All Group pensions are provided from the proceeds of money purchase schemes. The charge to profit and loss represents the payments due during the year.

### *Share-based payments*

The company issues equity-settled share-based payments to certain employees. The fair value of employee share option plans is measured at the date of grant of the option using the binomial valuation model. The resulting cost, as adjusted for the expected and actual level of vesting of the options, is charged to income over the period in which the options vest. At each balance sheet date before vesting the cumulative expense is calculated, based on the extent to which the vesting period has expired and management's best estimate of the achievement or otherwise of non-market vesting conditions, and hence the number of equity instruments that will ultimately vest. The movement in cumulative expense since the previous balance sheet date is recognised in profit and loss.

The company has applied the exemption available under IFRS 1 to apply this policy only to those options granted after 7 November 2002 and which were outstanding at 1 April 2006.

## **Disposal groups held for sale**

On classification as held for sale, non-current assets are recognised at the lower of carrying value and fair value less costs to sell. Profit or loss associated with these assets is classified as profit/(loss) from discontinued operations.

## 8. Statement of changes in equity for the year ended 31 March 2007 under IFRS

	Share capital	Share premium	Cash flow hedging reserve	Retained earnings	Total
	<u>£'m</u>	<u>£'m</u>	<u>£'m</u>	<u>£'m</u>	<u>£'m</u>
<b>At 1 April 2006</b>	1.7	8.6	4.5	48.9	63.7
Transferred to Income statement			(3.6)		(3.6)
Transferred to PPE			(1.6)		(1.6)
Deferred tax relating to cash flow hedges			1.6		1.6
Dividends paid				(2.7)	(2.7)
Share-based payments				0.2	0.2
Shares issued	0.1	0.6			0.7
Profit for the period				0.7	0.7
<b>31 March 2007</b>	<b>1.8</b>	<b>9.2</b>	<b>0.9</b>	<b>47.1</b>	<b>59.0</b>

**Appendix i: Consolidated balance sheet at 30 September 2006, IFRS reconciliation**

	UK GAAP  (unaudited) <u>£'m</u>	Adjustments (see section 4)				IFRS  (unaudited) <u>£'m</u>
		e Business combinations <u>£'m</u>	b Aircraft spares <u>£'m</u>	c Financial instruments <u>£'m</u>	d Taxation <u>£'m</u>	
<b>Non-current assets</b>						
Property, plant and equipment	143.6		6.3	(0.2)	149.7	
Goodwill	6.5	0.3			6.8	
Derivative financial instruments	-			0.6	0.6	
Deferred tax assets	-			2.3	2.3	
	<u>150.1</u>	<u>0.3</u>	<u>6.3</u>	<u>2.7</u>	<u>159.4</u>	
<b>Current assets</b>						
Inventories	6.5		(6.3)		0.2	
Trade and other receivables	26.1				26.1	
Cash and cash equivalents	12.7				12.7	
Derivative financial instruments	-			5.7	5.7	
	<u>45.3</u>	<u>-</u>	<u>(6.3)</u>	<u>5.7</u>	<u>44.7</u>	
<b>Total assets</b>	<u>195.4</u>	<u>0.3</u>	<u>-</u>	<u>8.4</u>	<u>204.1</u>	
<b>Current liabilities</b>						
Trade and other payables	85.4				85.4	
Derivative financial instruments	-			1.3	1.3	
Borrowings	2.1				2.1	
Current tax payable	3.9				3.9	
	<u>91.4</u>	<u>-</u>	<u>-</u>	<u>1.3</u>	<u>92.7</u>	
<b>Non-current liabilities</b>						
Borrowings	16.4				16.4	
Derivative financial instruments	-			6.5	6.5	
Deferred tax	12.9			1.7	14.7	
	<u>29.3</u>	<u>-</u>	<u>-</u>	<u>8.2</u>	<u>37.6</u>	
<b>Total liabilities</b>	<u>120.7</u>	<u>-</u>	<u>-</u>	<u>9.5</u>	<u>130.3</u>	
<b>Net assets</b>	<u>74.7</u>	<u>0.3</u>	<u>-</u>	<u>(1.1)</u>	<u>73.8</u>	
<b>Capital and reserves</b>						
Share capital	1.8				1.8	
Share premium	8.8				8.8	
Cash flow hedging reserve	-			2.6	2.6	
Retained earnings	64.1	0.3		(3.7)	60.6	
<b>Total equity attributable to equity holders of the parent</b>	<u>74.7</u>	<u>0.3</u>	<u>-</u>	<u>(1.1)</u>	<u>73.8</u>	

**Appendix ii: Consolidated income statement reconciliation for the six months ended 30 September 2006**

	UK GAAP  (unaudited) £'m	Adjustments (see section 4)			IFRS  (unaudited) £'m
		a Discontinued operations £'m	e Business combinations £'m	c Financial instruments £'m	
<b>Revenue</b>	201.8	(3.0)			198.8
Net operating expenses	(178.4)	2.8		(4.1)	(179.7)
Goodwill amortisation	(0.3)		0.3		-
	<u>(178.7)</u>	<u>2.8</u>	<u>0.3</u>	<u>(4.1)</u>	<u>(179.7)</u>
<b>Operating profit</b>	23.1	(0.2)	0.3	(4.1)	19.1
Profit on disposal of discontinued operations	2.2	(2.2)			-
Finance income	0.5	(0.5)		0.1	0.1
Finance costs	(1.8)			(1.4)	(3.2)
<b>Profit before taxation</b>	<u>24.0</u>	<u>(2.9)</u>	<u>0.3</u>	<u>(5.4)</u>	<u>16.0</u>
<b>Taxation</b>	<u>(7.2)</u>	<u>0.4</u>		<u>1.7</u>	<u>(5.1)</u>
<b>Profit for the period from continuing operations</b>	16.8	(2.5)	0.3	(3.7)	10.9
<b>Discontinued operations profit for the period</b>	-	2.5	-	-	2.5
<b>Profit for the period attributable to equity shareholders</b>	<u>16.8</u>	<u>-</u>	<u>0.3</u>	<u>(3.7)</u>	<u>13.4</u>
<b>Earnings per share - total</b>					
Basic - pence	12.07p				9.53p
Diluted - pence	11.96p				9.44p
<b>Earnings per share - continuing operations</b>					
Basic - pence	10.48p				7.77p
Diluted - pence	10.39p				7.70p

**Appendix iii: Expanded presentation: Consolidated income statement for the half year ended 30 September 2006 under IFRS**

	Before specific IAS 39 mark to market adjustments (unaudited) <u>£'m</u>	Specific IAS 39 mark to market adjustments (unaudited) <u>£'m</u>	IFRS  (unaudited) <u>£'m</u>
Revenue	198.8		198.8
Net operating expenses	<u>(175.6)</u>	<u>(4.1)</u>	<u>(179.7)</u>
Operating profit	23.2	(4.1)	19.1
Finance income	0.1		0.1
Finance costs	(3.2)		(3.2)
Profit/(loss) before taxation	<u>20.1</u>	<u>(4.1)</u>	<u>16.0</u>
Taxation	(6.3)	1.2	(5.1)
Profit/(loss) for the year from continuing operations	<u>13.8</u>	<u>(2.9)</u>	<u>10.9</u>
Discontinued operations profit for the period	2.5		2.5
Profit/(loss) for the year attributable to equity shareholders	<u>16.3</u>	<u>(2.9)</u>	<u>13.4</u>

As described in section 3 above, movements in fair value of financial instruments for which hedge accounting would have been available in 2006/7 if hedge documentation compliant with IFRS had been in place are shown separately in the middle column so as to facilitate understanding of the underlying business performance.