Flybe Group Limited
(formerly Walker Aviation Limited)

Directors' report and consolidated financial statements

Registered number 1373432

31 March 2006

Contents

Chairman's statement

1. Overview

I am pleased to report on another year of solid performance at Flybe, a period in which we continued to deliver on our long-term strategic vision. Key achievements in the 2005/06 included:

- Delivery of the second consecutive year of operating profits (before exceptional items) on the Flybe network
- Growing the passenger base on the Flybe route network by 25% to 4.75million passengers
- Growing ancillary revenues per passenger strongly during 2005/06
- Rationalising the aircraft fleet to enable us to deliver our carefully crafted two aircraft type fleet strategy giving us one of the youngest and most environmentally friendly fleets in the world
- Continuing to bear down on our costs as we further reduced our total costs (excluding fuel) as a percentage of turnover by 6.2%
- Overhaul of our management structure by recruiting four experienced non-executive directors and creating a tightly focused chief officer structure

2. Strategic Background to 2005/06

The Board recognized the progress made by Flybe in terms of its financial turnaround, however was conscious that the regional sector was entering a period of transition with more airlines entering the market and other carriers changing their business model to reflect many of the changes which Flybe had made during the previous years. It was therefore agreed that the airline would make a significant investment in new routes which would expand the scope and scale of the network and would lay the foundations of further profitability in future years.

As a result we structured a significant expansion plan for 2005/06, introducing 44 new routes to 10 destinations which was, by some margin, our highest growth rate ever. We also decided to react to a significant competitive change with two competitors entering the Birmingham-Spain and Birmingham-Domestic markets. Given the strategic importance of Birmingham to Flybe, the Board agreed we should defend our position on the domestic market, and enter the Spanish market by damp leasing two Boeing 737-300 series aircraft.

As a consequence of these decisions, we increased our seat production in 2005/06 by 32% compared to the Flybe route capacity operated in 2004/05.

Co-incidental with Flybe's ambitious growth targets and defensive strategies, consumer demand was significantly curtailed in the winter season as a result of the twin effects of rising costs (such as tax) and higher energy prices.

The surge in fuel prices added to the challenging mix for the year.

3. Results

Given the issues highlighted above, it is pleasing to report that turnover increased by 26% to £304.5m for the Flybe network with total costs (excluding fuel) increasing by 22.6%. Passenger numbers for the Flybe network grew by 25.3% to a total of 4.75m scheduled service passengers.

This was a remarkable commercial performance with a continuing tight control on cost management which under normal circumstances would have translated into an improved profit margin. However the unprecedented increase in fuel costs (up 80% from £27.3m in 2004/05 to £49.1m in 2005/06) resulted in a reduced margin compared to 2004/05 and, whilst Flybe achieved its second year of operating profits on the Flybe network (before exceptional items), the operating profit of £4.6m was lower than the 2004/05 result of £9.8m.

There was an exchange loss of £2.7m on dollar denominated loans compared to an exchange gain of £0.4 the previous year. In addition, the Air France franchise operation, which ceased in March 2005, contributed a profit of £3.4m in 2004/05.

The group incurred exceptional costs of £8.1m (£6.0m net of tax) in the year - a £6.4m impairment in the carrying value of the 7 BAe 146 aircraft owned by the group under debt or finance lease arrangements (all of which are scheduled to be retired from our fleet by March 2008), and £1.7m of costs in preparing for an IPO which has currently been deferred.

The total result for the group in 2005/06 was a loss before tax of £12.3m compared to a profit before tax of £7.8m in 2004/05.

Whilst it is obviously disappointing to report an overall loss for the group after interest and foreign exchange losses, this was still a very sound achievement given the route investments and fuel costs incurred during the year.

4. Operations

a) *Network Development*

The Board recognised the progress made by Flybe in terms of its financial turnaround. However, it was also conscious that the regional sector was entering a period of transition with more airlines entering the market, and with other carriers changing their business models to reflect many of the changes which Flybe had made during the previous years. It was therefore agreed that the airline would make a significant investment in new routes which would expand the scope and range of the network and lay the foundations of further profitability in future years. The scale of new route development was 44 routes to 10 new destinations, bringing the totals to 109 and 41. This represents an increase of 68% and 32% respectively over the previous year.

It was recognised that such an ambitious expansion would involve significant financial risk to the business, however it was agreed that such an investment was necessary and would increase the strength of the brand and produce financial strength for the future. Whilst the losses were in the order of £7.5m on these new routes, when measured as a proportion of the turnover generated on these routes, the rate was less than encountered in some previous years' route start ups.

Alongside the route expansion, Flybe faced intense competition from several carriers across its network and in particular at Birmingham and Southampton. The financial impact of this competition was significant. However, due to the dramatic cost reductions and efficiencies being generated across the business, Flybe defended its core network and grew its profitability year on year on this segment of the business.

It was also very satisfying to see the route investments made in the previous two years beginning to make positive contributions to the business.

b) Ancillary Revenues

Flybe was the first airline in the world to launch a scheme whereby passengers were charged for each piece of hold baggage carried. Ryanair, Aer Lingus and Easyjet have all followed the lead taken by Flybe in this initiative.

Other initiatives in developing ancillary revenue such as charging for advance seat selection were introduced during the year which each contributed to the growth in ancillary revenue per person from £3.12 to £3.74.

The results to date for 2006/07 indicate that the baggage charging and advance seat selection will contribute over £10m to the profit of the business in the year.

c) Fleet Development

We pressed on in 2005/06 with the planned rationalisation of the fleet, and ended the year operating 21 Q400s, 15 BAe 146s and 3 damp leased Boeing 737s. The fleet developments went through some interesting phases during the course of the year.

i) Q400

The expansion of the Bombardier Q400 fleet continued to expand with the addition of six more aircraft taking the total to 21 by the end of the year. The fleet will expand to 45 by mid-2009.

The significant cost advantages of this aircraft continued to benefit the business, and in particular its very low fuel consumption.

ii) Damp Leased 737

The company leased three Boeing 737s with flight deck crews at short notice, two of which were utilised to respond to the competitive pressures in Birmingham. One aircraft was also used to develop services from Exeter and Norwich.

The commercial performance in the market was very encouraging during the summer months although the experiment was more challenging during the winter months from regional airports.

iii) BAe 146 Fleet

The Board undertook exhaustive modelling to establish the best replacement for the BAe 146 fleet.

Many options were considered including an all Q400 fleet (which was considered to be too restrictive in terms of range and capacity), and a mixed Q400 and Boeing 737 or Airbus fleet (which were considered to be too big for our regional network).

There had been considerable interest in the new jets being introduced by both Embraer and Bombardier, however Embraer's performance projections for the EMB195 indicated that there would be significant payload restrictions with their aircraft when operating out of Southampton, and the Bombardier aircraft would not be built until 2012, which was too late.

The Board elected therefore to exchange its ageing BAe146-200 series aircraft for six BAe RJ100 aircraft, which combined with the existing BAe146-300 aircraft would produce a common fleet of fourteen 112 seat jet aircraft.

The project was well under way, with crews and engineers being trained, when the Board was approached by Embraer who advised that given their experience of operations with the EMB190 series aircraft and also after engine development programmes, they were very confident that their 118 seat EMB195 aircraft would operate with a full payload from Southampton to all of Flybe's current and planned destinations.

Notwithstanding the significant costs already incurred on the RJ100 project, the Board decided to abandon the project and to replace the BAe146 aircraft with the EMB195 aircraft.

iv) EMB195 Aircraft

After a short period of negotiation, Flybe ordered fourteen 118 seat EMB195 aircraft with an additional twelve options.

These aircraft are configured in two by two seating with a seat pitch of 30 and 31 inches. Individual customer space is further boosted by generous overhead stowage and clear foot rest space.

The board has now established a clear strategy of future fleet requirements, focussing entirely on the 78 seat Bombardier Q400 and 118 Embraer 195 aircraft, with a total fleet replacement investment of over $1.6 billion.

These aircraft are the right size for our network and can operate on a sound economic basis across the network. Our customers will be presented with a fleet which operates to a standard of 30/31 inches of seat pitch with all cabin seating being in two sets of two seats each side of the aisle. This is a unique product offering in the market.

This fleet will be one of the youngest in the world and will meet all known and future anticipated environmental legislative requirements. These aircraft are among the quietest and most fuel efficient in the world.

These aircraft orders, combined with the retirement of the BAe 146 and Boeing 737 aircraft from our fleet, provides clarity in defining Flybe as one of the largest and most innovative leading regional carriers in the UK and Europe.

d) Aviation Services

During the course of the year the second phase of the hangar development, combined with the provision of 1,850 square metres of workshops and 1,700 square metres of office accommodation, was completed.

Phases 1 and 2 now provide 6 aircraft bays with supporting facilities to the highest standards from a safety, efficiency, legislative and environmental basis and places Flybe Aviation Services in a strong position in this sector of the market. The facility now has the capability to produce over 850,000 man hours per year and our current throughput is over 600,000 hours. Of this more than 70% is sold to third party customers including SAS Commuter, British Airways Connect, Lufthansa Eurowings, Air France Cityjet and Sabena Brussels.

The 1,850 sq metres of workshop facilities will enable Flybe to undertake a significant amount of component overhaul and repair in-house, thereby reducing costs and improving efficiencies with the potential of further third party revenues being generated.

The new accommodation which is attached to the hangar now houses all of those departments and staff involved in the complete production function of the business. This has immediately improved management controls and communication across this highly complex area with the service delivery to all customers being improved.

e) Operational summary

During the year the network has grown by 44 routes and effective defensive strategies were undertaken; the fleet strategy has been defined and US$1.6 billion of orders have been committed; the second phase of the hangar; new workshop facilities and office developments have been completed.

All of these are key strategic issues and major investments by the Board which will each contribute to the future success of the business.

5 Board and Management

It has been recognised for some time that as the business grows and with future exit strategies being considered including a public listing, then the Board should be strengthened with the introduction of non-Executive Directors. Furthermore it was agreed that the operating procedure of the Board would follow the broad principles of the Higgs Review in terms of independent Review Committees.

I am pleased to report that we have been successful in recruiting four very high calibre, non-Executive Directors who will undoubtedly bring benefits to the business through their depth of experience. Indeed, I am delighted to report that I personally and my fellow Chief Officers have already benefited greatly from their counsel.

- Senior Independent Non-Executive Director and Chairman of the Audit Committee – Charlie Scott is currently Chairman of William Hill plc and former Independent Director of the airport group, TBI.

- Non-Executive Director and Chairman of the Remuneration Committee – David Longbottom, formerly a Director of DSG plc and currently a Non-Executive Director of Luminar Leisure plc;

- Non-Executive Director and Chairman of the Safety Committee – Peter Smith, formerly CEO of Menzies Aviation and Commercial Director of British Caledonian Airways;

- Non Executive Director – Alan Smith currently Chairman of Robert Dyas, and formerly Chief Executive of groups such as B&Q, Boddingtons, Evans Halshaw and Somerfield.

Mike Wood (former Flight Operations Director), David Quick (former Group Finance Director) and Simon Chance (former Managing Director of JEA Engineering) each retired from the Board after many years of service. I would like to take this opportunity of thanking Mike, David and Simon for their considerable support and dedication over the years.

6 Staff Share Scheme

Our Founder, the late Jack Walker, created a Trust holding shares in the company. It was Mr Walker's wish that, at the appropriate time, shares would be distributed to the staff who had contributed to the success and growth of the business.

I am delighted to report that the directors have been able to fulfil Mr Walker's wish during the year with a comprehensive share distribution scheme introduced, whereby staff were awarded shares in Flybe on the basis of two considerations, namely the role in which they are currently employed and the length of service given. In June 2005 Share Scheme shares were distributed to almost 60% of all staff.

A total of 10% of shares are allocated to this scheme.

7 Future Outlook

I am delighted to report that in 2006/07 we are seeing very significant benefits in financial terms from the considerable investments made across the business during 2005/06:

- Our commercial performance remains very strong with the passenger yields recovering as the new route network matures;

- After becoming the first airline to introduce baggage charging, we are achieving very strong ancillary revenue growth;

- We will become the World's largest operator of the Bombardier Q400 fleet with the introduction of ten additional Q400's this year (bringing the fleet to 31) which, combined with the reduction of the BAe 146 fleet, are making a significant reduction in our fuel consumption and therefore a corresponding benefit in terms of cost reduction.

- We became the World's first operator of the EMB195 aircraft this month (one week ahead of schedule) which will bring further benefits in the months and years ahead.

The Board now looks forward to the further development of Flybe with confidence and enthusiasm.

Jim French
Chairman and Chief Executive Officer

2 November 2006

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2006.

Principal activities

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

On 1 December 2005, the company changed its name from Walker Aviation Limited to Flybe Group Limited.

Business review

The group results for the year are shown in the profit and loss account on page 9 of these financial statements.

The information that fulfils the requirements of the Business Review can be found on the Chairman's Statement on pages 1 to 4 which is incorporated in this report by reference.

Directors and directors' interests

The directors who held office during the year were as follows:

J French (Chairman)	
MJH Chown	
DM Brown	
CE Simpson	
A Strong	
SJ Newton-Chance	(resigned 3 March 2006)
ED Quick	(resigned 3 March 2006)
ME Wood	(resigned 28 September 2005)

The following non-executive directors were all appointed on 1 April 2006:

D Longbottom
C T Scott
A Smith
P Smith

The directors who held office at the end of the financial year had the following interests in the ordinary share capital of the company:

	Class of share	Interest as at 31 March 2006 No.	Interest as at 31 March 2005 No.
J French	Ordinary	160,650	142,800
DM Brown	Ordinary	-	-
A Strong	Ordinary	8,925	-
CE Simpson	Ordinary	8,925	-
MJH Chown	Ordinary	-	-

Directors' report *(continued)*

Employee share scheme

In 1997, the company's principal shareholder placed 8% of the equity of the company into the Walker Aviation Employees' Share Trust ('the Employees' Trust') for the benefit of employees. In June 2005 the principal shareholder transferred shares from its equity holding, equivalent to 2% of the equity of Flybe Group Limited, into the Employees' Trust.

Also in June 2005, the company established an unapproved share scheme, the Flybe Employees' Share Scheme ('the Scheme'). Under the Scheme, the Trustees of the Scheme may from time to time invite qualifying employees to acquire beneficial interests in a given number of shares in the company held in the Employees Trust so that, if the employees remain employed by Flybe, there will be an opportunity to sell their shares if there is a flotation or trade sale. Qualifying employees include those who have been continuously employed for a minimum of three years, and more senior or technically skilled employees who qualify by reason of their grade and a minimum period of continuous service.

In June 2005, the trustees of the Employees' Trust approved a scheme of distribution of interests in shares to qualifying employees. 982 employees were awarded interests in shares at that time.

Employees

It is the policy of the group to ensure that employees are aware of their individual roles and responsibilities and are informed about the trading performance and progress of the group. The group ensures that the disabled continue to receive consideration for employment which is equal to that given to the able-bodied, taking account of their particular abilities and job requirement. All possible efforts are made to maintain continuity of employment for existing employees who become disabled.

Political and charitable contributions

The group made no political or charitable contributions during the year.

Derivatives and other financial instruments

The group's principal financial instruments, other than derivatives, comprise aircraft mortgages, finance leases, cash and other short term deposits. The main purpose of these financial instruments is to provide finance for the group's operations. The group also has various other financial instruments, such as trade debtors and trade creditors that arise directly from its operations.

Outstanding derivative transactions at the year end relate to foreign currency and aviation fuel hedging instruments. The purpose of these is to manage the currency risks and fuel price arising from the group's operations and sources of finance. The group's treasury policy permits the use of such instruments to manage these risks. It is the group's policy that no trading in financial instruments shall be undertaken.

Auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

CE Simpson
Company Secretary

Jack Walker House
Exeter International Airport
Exeter, Devon
EX5 2HL
2 November 2006

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards.

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit and loss of the group for that period.

In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

KPMG LLP
Plym House
3 Longbridge Road
Plymouth
PL6 8LT
United Kingdom

Independent auditors' report to the members of Flybe Group Limited (formerly Walker Aviation Limited)

We have audited the group and parent company financial statements (the "financial statements") of Flybe Group Limited (formerly Walker Aviation Limited) for the year ended 31 March 2006 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 7.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2006 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Director's Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

2 November 2006

Consolidated profit and loss account

for the year ended 31 March 2006

	Note	Ordinary activities 2006 £000	Exceptional items (Note 4) 2006 £000	Total 2006 £000	Total 2005 £000
Turnover	*1*	304,460	-	304,460	267,333
Cost of sales	*3*	(267,122)	(6,434)	(273,556)	(218,967)
Gross profit/(loss)		37,338	(6,434)	30,904	48,366
Administrative expenses	*3*	(32,772)	(1,660)	(34,432)	(35,157)
Operating profit/(loss)		4,566	(8,094)	(3,528)	13,209
Net surplus on exchange of landing slots	*2*	257	-	257	347
Profit/(loss) on ordinary activities before interest	*3*	4,823	(8,094)	(3,271)	13,556
Interest receivable and similar income	*7*	1,080	-	1,080	703
Interest payable and similar charges	*8*	(10,093)	-	(10,093)	(6,453)
(Loss)/profit on ordinary activities before taxation	*2*	(4,190)	(8,094)	(12,284)	7,806
Tax credit on (loss)/profit on ordinary activities	*9*	2,280	2,068	4,348	4,614
Retained (loss)/profit for the financial year		(1,910)	(6,026)	(7,936)	12,420

No note of historical cost profits and losses has been included as the historical cost result is not materially different from the reported result.

Consolidated statement of total recognised gains and losses

for the year ended 31 March 2006

	Note	2006 £000	2005 £000
(Loss)/profit for the financial year		(7,936)	12,420
Foreign currency translation differences		589	(227)
Actuarial (loss)/gain recognised in the pension scheme	*19*	(74)	17
Total recognised gains and losses for the year		(7,421)	12,210

Consolidated balance sheet
As at 31 March 2006

	Note	2006		2005	
				Restated	
		£000	**£000**	*£000*	*£000*
Fixed assets					
Intangible assets	*10*		**-**		-
Tangible assets	*11*		**97,583**		110,004
			97,583		110,004
Current assets					
Stocks	*13*	**5,912**		6,223	
Aircraft held for re-sale	*14*	**-**		30,037	
Debtors	*15*	**56,094**		38,499	
Cash at bank and in hand		**32,770**		36,968	
		94,776		111,727	
Creditors: amounts falling due within one year	*16*	**(127,124)**		(145,395)	
Net current liabilities comprising:					
Net current liabilities		**(42,192)**		(47,392)	
Debtors due after more than one year	*15*	**9,844**		2,546	
			(32,348)		(33,668)
Total assets less current liabilities			**65,235**		76,336
Creditors: amounts falling due after more than one year	*17*		**(69,126)**		(67,704)
Provisions for liabilities and charges	*18*		**(8,504)**		(13,713)
Net liabilities excluding pension liabilities			**(12,395)**		(5,081)
Pension liabilities					
Total of defined benefit schemes with net liabilities	*19*		**(982)**		(875)
Net liabilities including pension liabilities			**(13,377)**		(5,956)
Capital and reserves					
Called up share capital	*21*		**18**		18
Share premium account	*22*		**992**		992
Profit and loss account	*22*		**(14,387)**		(6,966)
Shareholders' deficit	*23*		**(13,377)**		(5,956)

These financial statements were approved by the board of directors on 2 November 2006 and were signed on its behalf by:

C E Simpson
Director

J French
Director

Company balance sheet
As at 31 March 2006

	Note	2006		2005	
				Restated	
		£000	£000	£000	£000
Fixed assets					
Investments	12		23,557		23,557
Current assets					
Debtors	15	4,240		4,240	
Cash at bank and in hand		-		-	
		4,240		4,240	
Creditors: amounts falling due within one year	16	(22,530)		(22,529)	
Net current liabilities			(18,290)		(18,289)
Net assets			5,267		5,268
Capital and reserves					
Called up share capital	21		18		18
Share premium account	22		992		992
Profit and loss account	22		4,257		4,258
Shareholders' funds	23		5,267		5,268

These financial statements were approved by the board of directors on 2 November 2006 and were signed on its behalf by:

CE Simpson
Director

J French
Director

Consolidated cash flow statement

for the year ended 31 March 2006

	Note	2006	2005 Restated
		£000	£000
Cash flow from operating activities	*26*	**31,002**	12,071
Returns on investments and servicing of finance	*27*	**(6,310)**	(6,012)
Taxation	*28*	**218**	(67)
Capital expenditure	*29*	**(5,569)**	(12,925)
Cash inflow/(outflow) before financing		**19,341**	(6,933)
Financing	*30*	**(23,270)**	26,515
(Decrease)/increase in cash in the year	*31*	**(3,929)**	19,582

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements, except as noted below.

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- the presentation requirements of FRS 25 'Financial instruments: presentation and disclosure'; and
- FRS 28 'Corresponding amounts'.

The accounting policies under FRS 25 are set out below together with an indication of the effects of its adoption. FRS 21 'Events after the balance sheet date' and FRS 28 'Corresponding amounts' have had no material effect as they impose the same requirements as hitherto required by the Companies Act 1985.

The corresponding amounts in these financial statements are restated in accordance with the new policies. In addition, the directors have reclassified some working capital movements and exchange rate adjustments in the corresponding figures of the cash flow statement in respect of aircraft held for resale. The directors believe that this more appropriately discloses the nature of the transactions.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

The company has taken advantage of the exemption conferred by Financial Reporting Standard No. 8 not to disclose transactions with its wholly owned subsidiaries.

In accordance with section 230(4) of the Companies Act 1985, Flybe Group Limited (formerly Walker Aviation Limited) is exempt from the requirement to present its own profit and loss account.

Basis of consolidation

The group accounts consolidate the accounts of Flybe Group Limited and all its subsidiary undertakings.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation prior to 31 March 1998 (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is written off against reserves on acquisition.

On the subsequent disposal or termination of a previously acquired business, the profit or loss on disposal or termination is calculated after charging the gross amount for any related goodwill previously taken to reserves.

In the company's accounts, investments in subsidiary undertakings are stated at cost less amounts written off. Dividends received and receivable are credited to the company's profit and loss account to the extent that they represent a realised profit for the company.

Tangible fixed assets and depreciation

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

Freehold land	-	nil
Freehold and short leasehold buildings	-	10% per annum
Plant and equipment	-	10% - 50% per annum
Motor vehicles	-	20% - 25% per annum
Aircraft	-	7% - 20% per annum
Rotable aircraft parts *(included within aircraft caption)*	-	10% - 15% per annum

Notes *(continued)*

1 Accounting policies *(continued)*

An element of the cost of new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframe and is amortised over a period ranging from one to five years from the date of purchase. Subsequent costs incurred which lend enhancement to future periods such as long-term scheduled maintenance and major overhaul of aircraft are capitalised and amortised over the length of the period benefiting from those enhancements. All other costs relating to maintenance are charged to the profit and loss account as incurred.

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

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Where assets and any associated financing are held in a foreign currency and the assets generate income in the same currency, any exchange gain and loss arising from movements in foreign currency rates for such assets and associated financing are taken to reserves.

Leases

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

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

Stocks

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

Aircraft rotables

These comprise aircraft parts that have a renewable time/usage life, which upon expiry are required by the Civil Aviation Authority to be serviced by approved engineers. Such parts are stated at the lower of cost or net realisable value.

Aircraft consumables

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

Work in progress

Engine overhaul and maintenance work in progress valuation is based upon direct cost together with attributable overheads and profit is based on the stage of completion of the contract. Materials issued from stores are valued as detailed above. Other direct materials are valued at actual cost. Labour and attributable overhead rates are based upon normal levels of activity.

Financial instruments

Gains and losses on derivative financial instruments are recognised in the profit and loss account when realised as an offset to the related income or expense, as the Group does not enter into any such transactions for speculative purposes. Costs of procuring financial instruments are held in debtors and matched against the period to which they relate.

Notes *(continued)*

1 Accounting policies *(continued)*

Leased aircraft maintenance costs

Provision is made for costs of overhaul and major checks on aircraft held under operating leases on the basis of hours flown or cycles and sectors operated during the year and is designed to provide for the likely cost of bringing all life limited parts on aircraft back to the condition existing when the aircraft was leased. Hand back conditions on certain operating leases are projected to the end of the underlying lease period, and the financial impact recognised over the term of the operating lease.

These provisions are a consequence of aircraft rectification obligations placed on the Group by the operating lease agreements.

Taxation

The charge for taxation is based on the profit for the year. Deferred tax is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Turnover

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

Airline operations

Scheduled and charter passenger ticket sales, net of passenger taxes and discounts, are recorded as current liabilities in a 'forward sales' account and are included in creditors, within deferred income, until recognised as revenue when transportation occurs. Unused tickets are recognised as revenue when the right to travel expires which is determined by both the terms and conditions of these tickets and historic trends.

Ancillary revenues (comprising principally baggage carriage, advanced seat assignment, commissions, change fees and credit card fees) are recognised as revenue on the date the right to receive consideration occurs.

Cargo revenues are recognised in the period when the services are provided.

Technical support services

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

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

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

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

Notes *(continued)*

1 Accounting policies *(continued)*

Post retirement benefits

The group operates four defined contribution pension schemes. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

In addition there is an FRS 17 liability in respect of a closed defined benefit scheme (see note 19). Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on gilts of equivalent term and currency to the liability.

The pension scheme deficit is recognised in full. The movement in the scheme deficit is split between operating charges, finance items and, in the statement on total recognised gains and losses, actuarial gains and losses.

Segmental analysis

The segmental analysis by activity and geographical market, as required by Statement of Standard Accounting Practice No. 25, has not been disclosed as in the opinion of the directors it would be seriously prejudicial to the interests of the group.

Classification of financial instruments issued by the Group

Following the adoption of FRS 25, financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the Company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company (or Group); and

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

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds, are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Notes *(continued)*

2 (Loss)/profit on ordinary activities before taxation

	2006 £000	2005 £000
(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):		
Auditors' remuneration:		
Group – audit	**110**	118
- fees paid to the auditors and its associates in respect of other services	**369**	96
Depreciation and other amounts written off tangible fixed assets:		
Owned	**13,520**	11,510
Leased	**3,962**	1,969
Loss/(gain) on the disposal of fixed assets	**511**	(554)
Operating leases:		
- Land and buildings	**2,229**	1,439
- Plant and machinery	**92**	200
- Aircraft	**16,053**	13,818
Exchange losses / (gains)	**641**	(1,189)
Income relating to disposal of aircraft on operating lease	**-**	(360)
Contribution towards marketing cost received from aircraft manufacturer	**(1,000)**	-
Impairment recognised in respect of seven owned aircraft	**6,434**	-
Professional fees incurred in preparing for an IPO, which has currently been deferred (these costs include fees to the auditors of £270,000)	**1,660**	-
Net surplus on the exchange of landing slots	**(257)**	(347)

The audit fee charged in respect of the holding company was £15,000 *(2005: £15,000)*.

3 Discontinued operations

	2006 Total £000	2005 Continuing £000	2005 Discontinued £000	2005 Total £000
Turnover	**304,460**	241,741	25,592	267,333
Cost of sales	**(273,556)**	(196,809)	(22,158)	(218,967)
Gross profit	**30,904**	44,932	3,434	48,366
Administrative expenses	**(34,432)**	(35,157)	-	(35,157)
Operating (loss)/profit	**(3,528)**	9,775	3,434	13,209
Net surplus on exchange of landing slots	**257**	347	-	347
(Loss)/profit on ordinary activities before interest	**(3,271)**	10,122	3,434	13,556

The 2006 activity relates to continuing operations, and includes exceptional items (see note 4). In 2005 discontinued operations (including redundancy costs, see note 18) relate to the Air France franchise, which was terminated in March 2005.

Notes *(continued)*

4 Exceptional items

During the year to 31 March 2006, an impairment of £6,434,000 was recognised against the carrying value of seven owned aircraft due to be taken out of service within the next two years. This impairment has resulted from the significant increase in fuel prices experienced during the year which in turn has led to a reduction in the recoverable amounts achievable on the open market at their expected out of service dates.

Also during the year, £1,660,000 of professional services and advisory fees were included within administrative expenses. These costs were incurred in preparing for an IPO which has currently been deferred.

There was a tax credit of £2,068,000 arising on the above two adjustments, leaving the net cost of exceptional items in the year at £6,026,000.

5 Remuneration of directors

	2006	2005
	£000	£000
Directors' emoluments	**909**	1,181
Company contributions to personal pension schemes	**55**	40

The aggregate emoluments of the highest paid director were £315,000 *(2005: £448,000)* and company pension contributions of £32,000 *(2005: £10,000)* were made to a personal pension scheme on his behalf.

In 2006 and 2005 all pension contributions to the four *(2005: four)* directors receiving emoluments were made to defined contribution personal pension schemes on their behalf.

Notes *(continued)*

6 Staff numbers and costs

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

	Number of employees	
	2006	2005
Technical support services	**530**	495
Administration	**447**	448
Flight and maintenance	**712**	658
	1,689	1,601

The aggregate payroll costs in respect of those persons were as follows:

	2006	2005
	£000	£000
Wages and salaries	**44,252**	39,958
Social security costs	**4,737**	4,414
Other pension costs (see note 19)	**2,151**	1,911
	51,140	46,283

7 *Interest receivable and similar income*

	2006	2005
	£000	£000
Bank interest	**1,080**	703

8 Interest payable and similar charges

	2006	2005
	£000	£000
On bank loans and overdrafts	**5,778**	4,716
Less interest capitalised	**(103)**	-
Finance charges on shares classified as liabilities	**1**	1
Finance charges payable in respect of finance leases	**1,714**	2,074
Gains and losses arising on retranslation of loans and deposits used to fund aircraft purchases	**2,670**	(370)
Interest on pension scheme liabilities	**33**	32
	10,093	6,453

Notes *(continued)*

9 Taxation

Analysis of credit in year	**2006**	2005
	£000	*£000*
UK corporation tax		
Current tax on income for the year	-	-
Adjustment in respect of prior years	-	(1)
Total current tax	-	(1)
Deferred tax (see note 20)		
Reversal of timing differences	**(3,699)**	136
Asset in respect of trading losses	-	(4,390)
Adjustment in respect of prior years	**(649)**	(359)
Tax on profit on ordinary activities	**(4,348)**	(4,614)

There is no corporation tax charge due to the availability of losses brought forward.

Factors affecting the tax credit for the current year

The current tax credit for the year is lower *(2005: lower)* than the standard rate of corporation tax in the UK of 30% *(2005:30%)*. The differences are explained below.

	2006	2005
	£000	£000
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	**(12,284)**	7,806
Current tax at 30% *(2005: 30%)*	**(3,685)**	2,342
Effects of:		
Expenses not deductible for tax purposes	**706**	149
Capital allowances for period in excess of depreciation	**3,807**	(10,497)
Unrelieved tax losses	-	-
Group relief	**(720)**	*(1,620)*
Adjustments to tax charge in respect of previous periods	-	(1)
Origination and reversal of timing differences	**(108)**	9,626
Total current tax credit (see above)	-	(1)

Notes *(continued)*

10 Intangible fixed assets

	Landing slots
Group	**£000**
Cost	
At beginning and end of year	500
Amortisation	
At beginning and end of year	500
Net book value	
At beginning and end of year	-

11 Tangible fixed assets

	Payments on account	Freehold land and buildings	Short leasehold buildings	Plant, equipment and motor vehicles	Aircraft	Total
	£000	£000	£000	£000	£000	£000
Group						
Cost						
At beginning of year	-	638	3,625	13,664	141,195	159,122
Additions	103	-	943	2,849	1,980	5,875
Disposals	-	(278)	(1,668)	(5,356)	(748)	(8,050)
At end of year	103	360	2,900	11,157	142,427	156,947
Depreciation						
At beginning of year	-	369	2,689	10,276	35,784	49,118
Charge for year	-	27	246	1,220	9,555	11,048
Impairment	-	-	-	-	6,434	6,434
On disposals	-	(200)	(1,390)	(5,315)	(331)	(7,236)
At end of year	-	196	1,545	6,181	51,442	59,364
Net book value						
At 31 March 2006	**103**	**164**	**1,355**	**4,976**	**90,985**	**97,583**
At 31 March 2005	-	269	936	3,388	105,411	110,004

Included in the total net book value of aircraft is £15,183,000 *(2005: £16,524,000)* in respect of assets held under finance leases. Depreciation for the year on these assets was £3,962,000 *(2005: £1,969,000)*. Included in the total cost of aircraft and payments on account is £2,553,000 in respect of capitalised interest, of which £103,000 was capitalised in the year.

Notes *(continued)*

12 Fixed asset investments

Company	**Shares in group undertakings £000**
Cost	
At beginning and end of year	23,557
Net book value	
At 31 March 2006	**23,557**
At 31 March 2005	23,557

Subsidiary undertakings (all wholly owned)

	Principal activities	**Country of incorporation**	**Class of share capital held**
Flybe Limited (formerly Jersey European Airways (UK) Limited)	Airline operator/aircraft technical support	Great Britain	Ordinary and preference
ISCAVIA Limited	Light aircraft maintenance	Great Britain	Ordinary
Walker Aviation Leasing (UK) Limited	Aircraft leasing	Great Britain	Ordinary
Jersey European Airways Limited	Dormant	Jersey	Ordinary
JEA Engineering (UK) Limited	Dormant	Great Britain	Ordinary
Guide Leasing Limited	Dormant	Great Britain	Ordinary
Westcountry Aircraft Servicing Limited	Dormant	Great Britain	Ordinary
Deutsche European Limited	Dormant	Great Britain	Ordinary
BEA.com Limited	Dormant	Great Britain	Ordinary
British European Air Limited	Dormant	Great Britain	Ordinary

Notes *(continued)*

12 Fixed asset investments *(continued)*

Subsidiary undertakings (all wholly owned)	Principal activities	Country of incorporation	Class of share capital held
British European Limited	Dormant	Great Britain	Ordinary
Irish European Limited	Dormant	Great Britain	Ordinary
British European Airlines Limited	Dormant	Great Britain	Ordinary
British European.com Limited	Dormant	Great Britain	Ordinary
Flybe.com Limited	Dormant	Great Britain	Ordinary
Jersey European Airways (UK) Limited	Dormant	Great Britain	Ordinary
Flybe Holdings Limited	Dormant	Great Britain	Ordinary
Walker Aviation Limited	Dormant	Great Britain	Ordinary

All of the above subsidiary undertakings are included in the consolidation.

13 Stocks

	2006	2005
	£000	£000
Group		
Work in progress	**2,064**	2,420
Aircraft rotables	**331**	963
Aircraft consumables	**3,517**	2,840
	5,912	6,223

14 Aircraft held for re-sale

	2006	2005
	£000	£000
Aircraft held for re-sale	**-**	30,037

In January 2005 the company entered into an arrangement with Wachovia Securities Inc, USA, for five aircraft to be funded under operating leases through the Regional Aircraft Securitisation Program (RASPRO).

The arrangement was for the sale and lease back of these aircraft, and it was completed on 23 September 2005. The term of the lease is 12 years.

Notes *(continued)*

15 Debtors

	2006		2005	
	£000	£000	£000	£000
Group – due within one year				
Trade debtors	15,254		18,841	
Other taxation and social security	5,487		4,250	
Corporation tax	3		216	
Aircraft maintenance deposits	-		510	
Aircraft lease deposits	15,100		4,247	
Other debtors	5,014		4,280	
Prepayments and accrued income	5,392		3,609	
		46,250		35,953
Group – due after more than one year				
Aircraft lease deposits	2,202		1,420	
Aircraft maintenance deposits	-		467	
Other debtors	7,642		659	
		9,844		2,546
Total group debtors		56,094		38,499
Company				
Amounts owed by group undertakings		4,240		4,240

16 Creditors: amounts falling due within one year

	Group		Company	
	2006	2005 Restated	2006	2005 Restated
	£000	£000	£000	£000
Preference shares classified as liabilities (see note 21)	22,490	22,490	22,490	22,490
Bank loans and overdrafts	11,145	30,530	-	-
Obligations under finance leases (see note 17)	4,124	3,126	-	-
Trade creditors	10,680	16,731	-	-
Amounts owed to group undertakings	-	-	13	13
Other creditors including taxation and social security:				
Other taxation and social security	10,208	18,675	-	-
Corporation tax	-	-	-	-
Other creditors	1,421	3,963	15	10
Accruals	21,450	17,797	12	16
Deferred income	45,606	32,083	-	-
	127,124	145,395	22,530	22,529

Bank loans are secured on the assets to which they relate. The overdraft of £74,000 *(2005: £343,000)* is secured by way of a Composite Accounting Agreement and is guaranteed by other companies within the group.

Notes *(continued)*

17 Creditors: amounts falling due after more than one year

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Secured bank loans	**58,467**	53,982	-	-
Obligations under finance leases	**7,129**	11,252	-	-
Deferred income	**3,530**	2,470	-	-
	69,126	67,704	-	-

The bank loans are repayable by instalments with £36,322,000 *(2005: £37,789,000)* falling due after five years. Rates of interest charged on bank loans vary between 3.98% (2005: 4.85%) and 8.32% (2005: 8.25%.) The bank loans are secured on the assets to which they relate.

The maturity of shares classified as liabilities falls due within one year from the balance sheet date.

The maturity of bank loans is as follows:

	2006	2005
	£000	£000
In one year or less, or on demand	**11,145**	30,530
Between one and two years	**11,914**	6,094
Between two to five years	**10,231**	10,099
In five years or more	**36,322**	37,789
	69,612	84,512

The maturity of obligations under finance leases is as follows:

	2006	2005
	£000	£000
Within one year	**4,124**	3,126
In the second to fifth years	**7,129**	11,252
	11,253	14,378

The obligations under finance leases are secured on the assets to which they relate.

Notes *(continued)*

18 Provisions for liabilities and charges

	Redundancy and base closure costs	Leased aircraft maintenance costs	Deferred tax	**Total**
	£000	£000	£000	**£000**
Group				
At beginning of year	2,079	3,181	8,453	**13,713**
Charge/(credit) for the year in the profit and loss account	70	6,573	(4,348)	**2,295**
Utilised during year	(1,690)	(5,813)	(1)	**(7,504)**
Movement in year	(1,620)	760	(4,349)	**(5,209)**
At end of year	459	3,941	4,104	**8,504**

Provisions for redundancy and base closure costs have been substantially utilised by September 2006.

Provisions are made in respect of contractual obligations to maintain aircraft under operating lease contracts. The amount and timing of the maintenance costs are dependent on future usage of the relevant aircraft.

19 Pension liabilities

Pension liabilities regarding the equalisation of pensions contributions and benefits between men and women in a defined benefits pension scheme closed in 1993 has been quantified and provided for. There are no current service costs. As there are no assets in the scheme, no disclosure of assets has been made. Gilt rather than bond discount assumptions have been adopted as it is considered that these lead to the best estimate of future cash flows in settling the liabilities, ie a buy–out cost.

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

Year ended 31 March	2004	2005	**2006**
Discount rate	3.75%	3.75%	**3.25%**
Inflation	3.00%	2.75%	**2.75%**
Pension increases in payment	3%	3%	**3%**

	2005	**2006**
	£000	**£000**
Total of defined benefit schemes with net liabilities	875	**982**
Assets	-	-
Net liability	875	**982**

Notes *(continued)*

19 Pension liabilities *(continued)*

Movements in the pension liability are set out below.

Year ended 31 March	2005 £000	**2006 £000**
Liability at beginning of year	860	**875**
Interest on liabilities charged to other finance income	32	**33**
Actuarial (gains)/losses recognised in the Statement of Total Recognised Gains and Losses	(17)	**74**
Liability at end of year	875	**982**

The history of (gains)/ losses recognised in the Statement of Total Recognised Gains and Losses is as follows:

Year ended 31 March	2004 £000	2005 £000	**2006 £000**
(Gains)/loss changes in assumptions taken to reserves	25	(17)	**74**
Effect as a percentage of total liability value at year end	(2.8%)	(1.9%)	**(7.5%)**

The group operates defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the group to the schemes and amounted to £2,151,000 *(2005:£1,911,000)*.

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

20 Deferred taxation

The elements of deferred taxation are as follows:

	Provided		Un-provided	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Differences between accumulated depreciation and amortisation and capital allowances	**8,976**	13,414	**-**	-
Other timing differences	**(67)**	(156)	**-**	-
Tax losses	**(4,805)**	(4,805)	**(1,405)**	(1,405)
Undiscounted deferred tax	**4,104**	8,453	**(1,405)**	(1,405)

No deferred taxation has been recognised on the FRS 17 liability due to losses available in the prior year.

Notes *(continued)*

21 Share capital

	2006 £000	2005 £000
Authorised, allotted, called up and fully paid		
339,150 ordinary shares of 1 pence each (2005: 285,600 shares)	**3**	3
1,445,850 'A' ordinary shares of 1 pence each (2005: 1,499,400 shares)	**15**	15
99,000,000 cumulative redeemable preference shares of 1 pence each	**990**	990
2,150,000,000 redeemable preference shares of 1 pence each	**21,500**	21,500
	22,508	22,508
Shares classified as liabilities	**22,490**	22,490
Shares classified as shareholders' funds	**18**	18
	22,508	22,508

The redeemable preference shares are redeemable prior to a sale or listing, or if not, the latest date for redemption is 31 July 2007. The company may, with written consent of the 'A' ordinary shareholders, redeem the preference shares at any time. No premium will be payable on redemption. The redeemable preference shares have no dividend rights.

Attached to the cumulative redeemable preference shares is a fixed cumulative preferential dividend at a rate of 0.1% per annum, payable annually on 1 June each year. The cumulative redeemable preference shares are redeemable prior to a sale or listing, or if not, the latest date for redemption is 31 July 2007. The company may, with written consent of the 'A' ordinary shareholders, redeem the preference shares at any time. No premium will be payable on redemption.

Of the 2,150,000,000 redeemable preference shares 400,000,000 are redeemable, subject to certain performance conditions, commencing 1 April 2004, at the rate of £1,000,000 per annum, or earlier if circumstances permit. If redemptions are made at or before the dates above certain directors are eligible for bonus payments. Before this redemption can take place, the 99,000,000 cumulative redeemable preference shares must be redeemed in full.

Voting rights are applied on a one vote per share basis, except in relation to the removal of a director, when the 'A' ordinary shares shall in aggregate carry three times the votes carried by all other shares.

In the event of liquidation of the company, the assets of the company available for distribution shall be applied in the following order to holders of: redeemable preference shares; cumulative redeemable preference shares; 'A' ordinary shares and finally to ordinary shares.

22 Reserves

	Group		**Company**	
	Share premium ***£000***	**Profit and loss account** ***£000***	**Share premium** ***£000***	**Profit and loss account** ***£000***
Group				
At beginning of year	992	(6,966)	992	4,258
Loss for the financial year	-	(7,936)	-	(1)
Currency translation differences	-	589	-	-
Actuarial loss on defined benefit obligation	-	(74)	-	-
At end of year	**992**	**(14,387)**	**992**	**4,257**

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off is £2,030,000 *(2005: £2,030,000)*. This amount is net of goodwill attributable to businesses disposed of prior to the balance sheet date.

Notes *(continued)*

23 Reconciliation of movements in equity shareholders' funds

	2006	2005
	£000	£000
Group		
Retained (loss)/profit	**(7,936)**	12,420
Currency translation differences	**589**	(227)
Actuarial (loss)/gain recognised in the pension scheme	**(74)**	17
Opening shareholders' deficit	**(5,956)**	(18,166)
Closing shareholders' deficit	**(13,377)**	(5,956)

	2006	2005
	£000	£000
Company		
Retained (loss)/profit	**(1)**	4,047
Opening shareholders' funds	**5,268**	1,221
Closing shareholders' funds	**5,267**	5,268

24 Contingent liabilities

The group has given a guarantee in favour of Natwest Streamline the company's credit card acquirer for £9,250,000. In 2005 the group placed bonds to the value of £5,500,000 which was included in cash at bank and in hand.

The group has also placed bonds in favour of various handling agents, fuel suppliers and customs offices totalling £1,336,000 *(2005: £1,290,000)*.

25 Commitments

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

	2006		2005	
	Land and buildings	**Other**	Land and buildings	Other Restated
	£000	**£000**	£000	£000
Group				
Operating leases which expire:				
Within one year	**465**	**2,136**	757	4,902
In the second to fifth years inclusive	**274**	**1,212**	575	2,119
Over five years	**1,090**	**20,135**	389	7,494
	1,829	**23,483**	1,721	14,515

Capital expenditure authorised and contracted for but not provided in the accounts amounts to US\$903m (£521m). This is in respect of 21 Bombardier Dash 8 Q400 aircraft and 14 Embraer 195 Aircraft. This amount is based on the gross cost of the aircraft. The company has negotiated discounts which will reduce the total cost. The aircraft are scheduled for delivery over the next 4 years. It is intended that these aircraft will be financed partly though cash flow and partly through external financing and leasing arrangements.

Capital expenditure which is authorised but not contracted for amounts to US\$724m (£418m). This is in respect of options entered into for 16 Bombardier Q400 aircraft and 12 Embraer 195 aircraft on the same valuation basis as above.

Notes *(continued)*

26 Reconciliation of operating profit to operating cash flows

	2006 £000	2005 Restated £000
Operating (loss)/profit	(3,528)	13,209
Depreciation, amortisation and impairment charges	17,481	13,479
Loss/(profit) on disposal of fixed assets	509	(554)
Decrease/(increase)/decrease in stocks	312	(533)
Payments to acquire new aircraft held for resale	(21,654)	(31,765)
Proceeds from the sale of aircraft held for resale	54,154	-
Release of marketing credits on aircraft held for resale	516	774
Write-down in value of aircraft held for resale	89	98
Loss on sale of aircraft held for resale	54	-
(Increase)/decrease in debtors	(17,492)	14,826
Increase in creditors	1,165	3,128
Decrease in provisions	(861)	(1,308)
Net cash inflow from operating activities	30,745	11,354
Exceptional net surplus on the exchange of landing slots	257	347
Foreign exchange gains/(losses)	-	370
	31,002	12,071

27 Returns on investment and servicing of finance

	2006 £000	2005 Restated £000
Interest received	1,080	703
Interest paid	(5,676)	(4,641)
Interest element of finance lease rental payments	(1,714)	(2,074)
Net cash outflow from returns on investment and servicing of finance	(6,310)	(6,012)

28 Taxation

	2006 £000	2005 £000
Corporation tax received/(paid)	218	(67)

29 Capital expenditure

	2006 £000	2005 £000
Payments to acquire tangible fixed assets	(5,875)	(15,735)
Receipts from sale of tangible fixed assets	306	2,810
	(5,569)	(12,925)

Notes *(continued)*

30 Financing

	2006	2005
	£000	£000
New secured loans	**34,072**	35,031
Repayment of loans	**(54,216)**	(5,737)
Capital element of finance lease rental payments	**(3,126)**	(2,779)
	(23,270)	26,515

31 Reconciliation of net cash flow to movement in net debt

	2006	2005 Restated
	£000	£000
(Decrease)/increase in cash in the year	**(3,929)**	19,582
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	**23,270**	(26,515)
Movement in net debt resulting from cash flows	**19,341**	(6,933)
Net debt at the beginning of the year	**(84,411)**	(78,107)
Exchange rate adjustments	**(5,515)**	629
Net debt at the end of the year	**(70,585)**	(84,411)

32 Analysis of net debt

	At beginning of year Restated	Cash flows	Other non cash changes	**At end of year**
	£000	£000	£000	**£000**
Cash at bank and in hand	36,968	(4,198)	-	**32,770**
Overdrafts	(343)	269	-	**(74)**
	36,625	(3,929)	-	**32,696**
Debt due after one year	(53,982)	-	(4,485)	**(58,467)**
Debt due within one year	(52,676)	20,144	(1,029)	**(33,561)**
Finance leases	(14,378)	3,125	-	**(11,253)**
	(121,036)	23,269	(5,514)	**(103,281)**
Total	(84,411)	19,340	(5,514)	**(70,585)**

Included within cash at bank and in hand is £5,782,000 (*2005: £9,279,000*) held in restricted accounts.

Notes *(continued)*

33 Related party transactions

During the year the group continued with a lease with Walker Aviation Finance Limited, a subsidiary of Rosedale (JW) Investments Limited, for three *(2005: three)* BAe 146-300 aircraft at an arm's length market rate. The amount paid under the lease was £3,816,000 *(2005:£ 3,816,000)*. With effect from November 2003, the lease contains a put and call option with an option period of three months beginning 28 September 2007 and, as a result, has been classified as a finance lease.

During the year the group provided services to Preston Travel (CI) Limited, a subsidiary of Rosedale (JW) Investments Limited, at an arm's length market rate. The amount paid was £2,276,000 *(2005:£1,567,000)* and the outstanding amount at the year end was £191,000 *(2005: £40,100)*.

The following transactions with Edenfield Investments Limited and Wisbech Retail Limited are disclosed although there is no holding/ subsidiary company relationship between these two companies and Rosedale (JW) Investments Limited. These two companies are owned and controlled by the Trustees of the E J Walker 1964 settlement, established by the former wife of the late Mr Jack Walker: this trust is separate for tax purposes from the Trustees of the J Walker 1987 Settlement who control Rosedale (JW) Investments Limited.

During the period the group purchased property services from Edenfield Investments Limited and from Wisbech Retail Limited at an arm's length market rate. The amount paid was £369,000 *(2005: £121,000)* and £227,000 *(2005:£135,000)* respectively. The group holds a deferred income balance of £57,500 at the balance sheet date regarding a rent–free period on a property leased from Wisbech Retail Limited *(2005: £Nil)*. The group also made a payment of £340,000 to Edenfield Investments Limited who constructed new hangar accommodation which is occupied by the group and the contribution represents the cost of qualifying plant and machinery.

34 Ultimate parent company and parent undertaking of larger group of which the company is a member.

The directors regard Rosedale (JW) Investments Limited, incorporated in Jersey, as the ultimate parent company and ultimate controlling party.

The results of the group are not consolidated into any other group.