Flybe Group Limited

Annual report and consolidated financial statements

Registered number 1373432

31 March 2007

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Chairman's statement

1. Overview

I am delighted to report on a year of outstanding achievement at Flybe - a year in which the core business delivered an exceptionally strong trading performance and, as a result of the acquisition of BA Connect, became one of Europe's largest regional airlines Highlights in the year included

- Profit before tax and exceptional items of £15 6 million for the existing Flybe operation
- Growing the passenger volume on the existing Flybe route network by 4 9% to 5 0 million passengers
- Continuing strong growth in ancillary revenues per passenger during the year, becoming the first airline to introduce baggage charging
- Further rationalisation of our fleet, to enable us to deliver our two aircraft type fleet strategy by the end of 2009 This fleet will be one of the youngest and most environmentally sensitive fleets in the world In September 2006, Flybe became the world launch operator of the Embraer 195
- Completing the acquisition of BA Connect in March 2007
- Strengthening the group's corporate governance and management structure by appointing four experienced independent non-executive directors to the Board

2 Acquisition of BA Connect

In June 2006, Flybe entered into discussions with British Airways over the possible acquisition of BA Connect After detailed negotiations, heads of terms for the acquisition were signed and announced in early November 2006 Following a further five months of due diligence, legal and transitional services documentation, the acquisition was completed on 5 March 2007 The acquired airline continued to operate as BA Connect until 25 March, when it was fully merged with our existing business, and became part of a greatly enlarged Flybe

The headlines of the acquisition were

- British Airways funded a £32 7 million payment into the BA Connect defined benefit pension scheme to clear the 31 March 2006 FRS 17 scheme deficit
- British Airways provided funding for the following amounts
    - £34 million to provide protection against residual values of Connect's 16 owned Embraer 145 aircraft I am delighted to advise that, in June and July 2007, we completed a sale and leaseback of all 16 aircraft, and utilised the £34m to help fund the transaction This has provided us with certainty on a key element of our fleet transition plans for the acquired Connect business
    - £12 million to cover various restructuring costs
    - £50 million compensation in recognition of the estimated financial penalties of £15 per seat of the continued operation of the 49 seat Embraer 145 regional jets until these are replaced with 78 seat Bombardier Q400 turboprop aircraft
    - In addition, British Airways provided £14 million of working capital funding in respect of advanced sales made by Connect
- Aside from the £34 million for the equity de-risking of the 16 Embraer 145 aircraft, the remaining £76m will be used in addressing the cost of restructuring and running the legacy BA Connect fleet
- As consideration for the acquisition, British Airways was given a 15% equity shareholding in Flybe Group Limited

3. Financial performance 2006/07

Continuing operations - existing Flybe

During the year, the continuing operations of Flybe (excluding BA Connect) delivered a remarkable turnaround in its financial performance, producing a profit before tax and exceptional items of £15 6 million, compared to a loss of £4 4 million for the year ended 31 March 2006, a turnaround of £20 0 million Passenger volumes increased by 4 9% to 5 0 million Turnover increased by 16 6% to £355 0 million The increase in cost of sales was 9 6% (£273 6 million to £299 9 million), leaving an increase in gross profit of £24 2 million to £55 1 million (representing a gross margin of 15 5%, compared with 10 2% in 2005/06)

After deducting administrative expenses, operating profit for the year before impairment of tangible fixed assets rose from £4 6 million to £17 7 million

For the second consecutive year, the value of the ageing BAe 146 fleet (which is currently being replaced with Bombardier Q400 and Embraer 195 aircraft) was reviewed, and it was agreed that there would be a further exceptional write down of these aircraft values of £10 9 million (2005/06 £6 4m)

Net interest paid in the year on existing Flybe operations was £2 0 million (2005/6 £9 0m), leaving a profit before tax, exceptional items and restructuring charges of £15 6 million, compared with a loss of £4 4 million in the previous year

Profit of the existing Flybe operations for the year before tax and after exceptional charges and restructuring costs was £4 7 million, compared to a loss of £12 3 million in the year ended 31 March 2006

This represents an extremely strong trading performance for the year

BA Connect acquisition and restructuring

BA Connect was a heavily loss making business which required the urgent application of significant re-organisation and restructuring to ensure that the acquisition did not jeopardise the continued medium and long term profitability of Flybe

By 31 March 2007, Flybe had committed itself to incurring significant restructuring costs on BA Connect, and these are shown separately in the consolidated profit and loss account (at £19 0 million), along with certain acquisition costs (totalling £1 6 million) not included in the amount of total consideration paid for Connect

Flybe has taken responsibility for the BA Connect defined benefit pension scheme which shows a liability of £3 3 million at 31 March 2007

The loss incurred by BA Connect including its restructuring and acquisition costs totalled £(20 9) million

Group

The loss after tax for the year was £19 9 million, reflecting the substantial restructuring costs recorded in respect of BA Connect The impact of the acquisition is also reflected in the significant increase in tangible assets, cash at bank, related debt and working capital

Cash reserves

The airline industry is a competitive industry, where the strength of a business is dependent upon a number of factors, including its brand, its network, the efficiency of its fleet, the skills and commitment of its staff and the level of cash reserves held

Our cash reserves at the end of the year stood at £136 2 million, compared with £32 8 million at 31 March 2006, an increase of £103 4 million The major component of this increase was as a result of the funding provided by British Airways on the acquisition of BA Connect Flybe generated net cash inflow from operating activities of £30 4 million (2005/06 £31 0 million)

4. Flybe – post BA Connect acquisition

The acquisition of BA Connect is an ambitious and significant strategic step for Flybe and it is therefore important that I present

- Strategic rationale behind the acquisition
- The three phases to the acquisition and integration of Connect
  - Phase 1 - negotiation of the acquisition and funding the integration,
  - Phase 2 - integration plan for 2007/08, and
  - Phase 3 - aircraft substitution in 2008/09 and 2009/10
- Phase 4 - our growth plan beyond the integration

Strategic rationale

By way of background, Flybe has completed 5 years of transition since re-launching itself as the first Low Cost Regional Airline During this period, Flybe has

- grown turnover by 20% per annum to £367 million,
- increased its passenger volume from 1 9 million in 2001/02 to 5 0 million in 2006/07,
- developed a nationally recognised brand,
- grown its network from 41 to 125 routes,
- committed to over $1 9 billion of firm aircraft orders (60 Bombardier Q400s and 16 Embraer 195s), all of which will have been delivered by the end of 2009,
- developed a new, state of the art 700,000 hour maintenance facility

Throughout this transition, Flybe has demonstrated its ability to compete in the market by developing a leading edge internet web site, innovating in the development of ancillary revenues to industry leading unit profitability, and selecting the most efficient and environmentally sensitive aircraft for the regional market It has also demonstrated its capability to undertake these tasks in a progressive manner with clear financial benefits to the profitability of the business

Of the total planned aircraft fleet of 76, as at 31 March 2007, 43 aircraft were still to be delivered within the next three years The majority of these aircraft were earmarked for growth, and would have been deployed either in developing new markets or taking share from existing carriers, both options carrying associated commercial risks The airline was conscious that its route network had become biased towards the leisure sector and had stated its clear strategy to rebalance this with business services to European capital cities, which was a significant challenge given the lack of availability of peak time airport slot availability The future profitable deployment of these additional aircraft was probably the major challenge facing Flybe over the next few years

BA Connect had been handicapped in its development of ancillary revenues due to corporate constraints from the BA master brand It was operating a fleet of aircraft which were introduced under the franchise model, but which were now very inefficient and uncompetitive in today's highly price sensitive point to point market in which it operated The combination of these factors prevented the airline from maximising its revenue potential and also from driving its operating costs down to an acceptable level As a consequence, BA Connect was unable to climb from its history of deep financial losses, and found the situation worsening

However, BA Connect had access to a good number of the major European capital city airports, had a significant customer base of business travellers and a very professional workforce

Our analysis of BA Connect identified that there was significant turnaround potential in its operation by applying the principles of the Flybe business model There were also very significant synergy benefits through cost reduction in several key areas of operational, systems and overhead duplication between the two businesses Furthermore, the substitution of the inefficient Connect aircraft with the new Flybe aircraft still to be delivered, would enhance the profitability of the enlarged operation significantly, whilst at the same time de-risking Flybe's own plans for organic growth

Under these circumstances, the Board decided that the successful acquisition, integration and restructuring of BA Connect would produce a much stronger and better balanced Flybe However, in order to ensure the success of the acquisition, it was clear that the transition would need to be fully funded by BA and also there needed to be a simple and clearly defined plan This plan is broken down into three distinct phases, with clear objectives for each

Phase 1 - the key terms of the deal

I have already set out the headline funding provided by British Airways This funding resulted from a clear understanding between both parties at an early stage in the negotiation process that, in order for the acquisition to proceed, British Airways would have to provide funding to cover the following issues

- the FRS 17 deficit in the BA Connect defined benefit pension scheme as at 31 March 2006,
- restructuring costs (such as staff redundancy and property costs),
- protection against the risk to asset values of the Embraer 145 fleet, and
- compensation for the transition stage during which the inefficient Embraer 145 fleet would continue to operate before being replaced by Bombardier Q400s

A further critical element of the deal negotiation was that all staff must be employed on one common set of terms and conditions

Phase 2 - integration plan for 2007/08

We have a clear integration plan for 2007/08 for the enlarged airline, and the key elements can be summarised as follows

- integrate all staff into one team with the overriding common objective of making Flybe the most successful and profitable airline in Europe, all staff being employed on one set of terms and conditions and operating to one set of procedures,
- review and refine the Flybe product as required to meet the needs of the more business orientated market, following the acquisition of Connect,
- secure significant cost savings, synergy benefits and additional revenues in 2007/08 by
  - closing duplicate resource functions, eg Isle of Man base maintenance function, Manchester head office and Birmingham operational centre,
  - cessation of the heavily loss making Bristol route network,
  - removal of other loss making routes and excess capacity We have removed over 14% of combined seat capacity when compared with the two operations prior to the merger;
  - using our increased purchasing power to secure improved terms from our major suppliers, and
  - rolling out the Flybe distribution platform and ancillary revenue model across the former Connect routes
- obtain certainty on the fleet replacement programme by securing firm delivery dates from Bombardier for the additional Q400 aircraft, and disposing of the owned Embraer 145 and BAe 146 fleets

I am pleased to report we are making good progress in all areas of the integration plan

Phase 3 - aircraft substitution in 2008/09 and 2009/10

Based on firm orders and agreed delivery dates, by September 2009 we will have completed our aircraft substitution programme on the Connect fleet All 39 Connect aircraft in operation at the time of the acquisition will, by that date, be out of service Our planned operational fleet will then consist of 60 Bombardier Q400s and 16 Embraer 195s The average fleet age will be less than three years, and we expect the fleet will be one of the most efficient and environmentally sensitive in the world We expect to improve our profitability on routes each time a 49 seat Embraer 145 jet is replaced by a 78 seat Bombardier Q400 turboprop

This will be the right sized fleet for our low cost regional airline business model

Phase 4 - growth plan

Once the above three phases have been achieved or are nearing completion, the airline will then enter Phase 4, of the growth plan I summarise below our current thoughts on this growth plan

- whilst no final route development plans for Phase 4 have been determined, Flybe has an additional five Bombardier Q400 aircraft as confirmed orders over and above the aircraft substitution plan These additional aircraft will be deployed on route growth,

- in addition, Flybe has options for an additional 15 Bombardier Q400 and 12 Embraer 195 aircraft at agreed prices This ensures that the airline has ample capacity for continued growth in the future, and is well placed to take advantage of any opportunities as they may present themselves

5. Board and management

In April 2006, the Group Board was strengthened by the appointment of four experienced independent non-executive directors This was in recognition of the fact that, as the business grows and with longer term exit strategies being considered, the Board would benefit greatly from a strong independent non-executive director representation Furthermore, various corporate governance requirements have been met by establishing independent review Committees for Audit, Safety, Remuneration and Nominations

I am delighted to report that my fellow Chief Officers and I have benefited greatly from the new directors' counsel The independent non-executive directors are

- Senior independent non-executive director and Chairman of the Audit Committee – Charlie Scott, 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, currently Pro-Chancellor and Chairman of the Board of Governors of London South Bank University, formerly a director of DSG International plc

- Non-executive director and Chairman of the Safety Committee – Peter Smith, formerly CEO of Menzies Aviation Group following senior appointments in UK and foreign airlines,

- Non-executive director – Alan Smith, Chairman of Fisher Leisure Holdings Limited and Empire World Trade Limited and formerly chief executive of groups such as B&Q, Boddingtons, Evans Halshaw and Somerfield

In April 2007, I announced further changes to the Group Board, and two additional appointments to the Operating Board

- Chris Simpson stood down as Chief Financial Officer and deputy Chief Executive Officer from the Group Board Chris had indicated to the Board that it was his intention to step down once the BA Connect deal had been completed and a new CFO had been found Chris joined Flybe four years ago, initially to assist us on a major project and soon afterwards as CFO and Deputy CEO He brought with him many years of experience in the airline industry and Flybe has benefited greatly from that raft of experience I wish Chris and his family all the very best for the future

- After an external recruitment process, Andrew Knuckey, formerly Group Finance Director, was promoted to Chief Financial Officer and to the Group and Operating Boards Andrew joined us in 2005 after many years with KPMG and, latterly, with Rok plc as Finance Director of that group's largest division In addition to working closely with Chris over the past two years in leading the finance team, Andrew also played a key role in the successful completion of the BA Connect acquisition

- I am also delighted to announce that Mike Rutter, our Chief Commercial Officer, was appointed to the Group Board Mike has been with the business for five years and, in that time, has played a leading role in the growth and transformation of the Flybe brand and the resulting commercial benefits

Finally, Simon Charles, our new Director of Human Resources, and Ian Johnson, Director of Information Systems and Technology, were appointed to the Operating Board, and have already made a very positive contribution

6. Summary

In 2006/07, management and the whole Flybe team faced very considerable challenges in the acquisition of BA Connect in a very short timescale, whilst continuing the successful growth in Flybe The profit of £15 6 million before taxation and exceptional charges for the existing business was the highest profit ever reported by Flybe, and is a remarkable achievement

As a result of the acquisition of BA Connect, Flybe is now a much stronger business with good cash reserves, a more balanced network and a significantly reduced risk profile

Flybe is now one of the largest regional airlines in Europe, employing over 3,000 staff, carrying 7 million passengers this year and operating over 400 flights each weekday

The Board, the senior management and all staff are dedicated to the successful integration of these two airlines and to make Flybe the best regional airline in Europe

Jim French
Chairman

5 October 2007

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2007

Principal activities

The principal activities of the group throughout the year were those of airline operator and the provision of aircraft technical support services The principal activity of the company was investment holding

Business review

The group results for the year are shown in the profit and loss account on page 12 of these financial statements

The information that fulfils all the requirements of the Enhanced Business Review, together with the information given below, can be found on the Chairman's Statement on pages 1 to 6 which is incorporated in this report by reference

Directors

The directors who held office during the year were as follows

J French	(Chairman)
MJH Chown	(Deputy Chairman)
DM Brown	
D Longbottom	(appointed 1 April 2006)
CT Scott	(appointed 1 April 2006)
CE Simpson	(resigned 4 April 2007)
A Smith	(appointed 1 April 2006)
P Smith	(appointed 1 April 2006)
A Strong	

The following directors were both appointed on 4 April 2007

RA Knuckey
MD Rutter

Dividends

The directors do not recommend the payment of a final dividend (2006 - £nil)

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 In November 2006, a further distribution was approved by the Employees' Trust and as a result 445 employees were awarded shares

Directors' report *(continued)*

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 requirements 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 *(2006 nil)*

Financial risk

The group is exposed to financial risks in respect of foreign exchange, interest rates, liquidity and fuel price A description of each risk, together with our policy for managing that risk is given below

Foreign exchange the group purchases aircraft, spare parts and fuel in US dollars To mitigate this risk, the group enters into a series of forward contracts in order to gain certainty over a significant proportion of its future dollar payments

Interest rates the group has borrowings in order to finance the purchase of aircraft and engines To mitigate interest rate risk the group enters into a series of contracts to gain certainty over a significant proportion of its future interest payments

Liquidity the group has adequate cash holdings to meet its short term creditors as they fall due The group also arranges to borrow funds in order to finance purchases of aircraft and engines

Fuel prices the group purchases fuel on the open market from recognised fuel suppliers in order to operate its fleet of aircraft To mitigate fuel price risk the group enters into forward contracts to gain certainty over a significant proportion of its future short term fuel payments

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

As described in note 35, the fair value of the group's derivatives at 31 March 2007 was a liability of £3,126,000 *(2006 £4,171,000 asset)*

Directors' report *(continued)*

Auditors

Each of the persons who is a director at the date of approval of this report confirms that

(1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(2) the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985

KPMG LLP resigned as auditors on 8 May 2007 and the directors thereupon appointed Deloitte & Touche LLP to fill the vacancy arising In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Deloitte & Touche LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

RA Knuckey
Company Secretary

Jack Walker House
Exeter International Airport
Exeter, Devon
EX5 2HL
5 October 2007

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 the directors have elected to prepare the group and parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the group and of the profit or 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 company and enable them to ensure that its financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report to the members of Flybe Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Flybe Group Limited for the year ended 31 March 2007 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes 1 to 38 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 Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

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 other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any further information outside the Annual Report, as described in the contents section

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 United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2007 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 Directors' Report is consistent with the financial statements

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Bristol, United Kingdom

9 October 2007

Consolidated profit and loss account

for the year ended 31 March 2007

	Note	Existing Flybe 2007 £000	Acquisition & restructuring 2007 £000	Total 2007 £000	Total 2006 £000
Turnover - continuing operations	1	355,008	12,466	367,474	304,460
Cost of sales		(299,887)	(13,921)	(313,808)	(273,556)
Gross profit/(loss)		55,121	(1,455)	53,666	30,904
Administrative expenses		(48,373)	(197)	(48,570)	(34,432)
Operating profit/(loss) before exceptional items		*17,651*	*(50)*	*17,601*	*4,566*
Exceptional items					
Costs of preparing for a deferred IPO	3	-	-	-	*(1,660)*
Costs associated with acquisition	3	-	*(1,602)*	*(1,602)*	-
Impairment of tangible fixed assets	3	*(10,903)*	-	*(10,903)*	*(6,434)*
Operating profit/(loss) – continuing operations		6,748	(1,652)	5,096	(3,528)
Restructuring charges	4	-	(18,977)	(18,977)	-
Net surplus on exchange of landing slots	2	-	-	-	257
Profit/(loss) on ordinary activities before interest		6,748	(20,629)	(13,881)	(3,271)
Interest receivable and similar income	7	930	121	1,051	1,080
Interest payable and similar charges	8	(2,942)	(425)	(3,367)	(10,093)
Profit/(loss) on ordinary activities before taxation and exceptional items		*15,639*	*(354)*	*15,285*	*(4,447)*
Exceptional items					
Costs of preparing for a deferred IPO	3	-	-	-	*(1,660)*
Costs associated with acquisition	3	-	*(1,602)*	*(1,602)*	-
Impairment of tangible fixed assets	3	*(10,903)*	-	*(10,903)*	*(6,434)*
Restructuring charges	4	-	*(18,977)*	*(18,977)*	-
Net surplus on exchange of landing slots	2	-	-	-	*257*
Profit/(loss) on ordinary activities before taxation	2	4,736	(20,933)	(16,197)	(12,284)
Tax (charge)/credit on profit/(loss) on ordinary activities	9			(3,694)	4,348
Loss for the financial year	23			(19,891)	(7,936)

Consolidated statement of total recognised gains and losses

for the year ended 31 March 2007

	Note	2007 £000	2006 £000
Loss for the financial year		(19,891)	(7,936)
Foreign currency translation differences		-	589
Actuarial gain/(loss) recognised in the pension schemes	19	1,419	(74)
Share based payments charge	20	173	-
Total recognised gains and losses for the year		(18,299)	(7,421)

Consolidated balance sheet
As at 31 March 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Negative goodwill	*10*		**(42,092)**		-
Tangible assets	*11*		**180,790**		97,583
			138,698		97,583
Current assets					
Stocks	*13*	**7,020**		4,656	
Debtors	*14*	**100,750**		57,350	
Cash at bank and in hand		**136,212**		32,770	
		243,982		94,776	
Creditors amounts falling due within one year	*15*	**(200,278)**		(127,124)	
Net current assets/(liabilities) comprising.					
Net current assets/(liabilities)		**28,119**		(42,192)	
Debtors due after more than one year	*14*	**15,585**		9,844	
			43,704		(32,348)
Total assets less current liabilities			**182,402**		65,235
Creditors: amounts falling due after more than one year	*16*		**(153,516)**		(69,126)
Provisions for liabilities	*17*		**(50,531)**		(8,504)
Net liabilities excluding pension liabilities			**(21,645)**		(12,395)
Pension liabilities					
Total of defined benefit schemes with net liabilities	*19*		**(3,336)**		(982)
Net liabilities including pension liabilities			**(24,981)**		(13,377)
Capital and reserves					
Called up share capital	*22*		**22**		18
Share premium account	*23*		**992**		992
Merger reserve	*23*		**6,691**		-
Profit and loss account	*23*		**(32,686)**		(14,387)
Shareholders' deficit	*24*		**(24,981)**		(13,377)

These financial statements were approved by the board of directors on 5 October 2007 and were signed on its behalf by

J French
Director

RA Knuckey
Director

Company balance sheet
As at 31 March 2007

	Note	2007		2006	
		£000	£000	£000	£000
Fixed assets					
Investments	12		33,191		23,557
Current assets					
Debtors	14	39		4,240	
Cash at bank and in hand		3,953		-	
		3,992		4,240	
Creditors: amounts falling due within one year	15	(25,048)		(22,529)	
Net current liabilities			(21,056)		(18,289)
Net assets			12,135		5,268
Capital and reserves					
Called up share capital	22		22		18
Share premium account	23		992		992
Merger reserve	23		6,691		-
Profit and loss account	23		4,430		4,258
Shareholders' funds	24		12,135		5,268

These financial statements were approved by the board of directors on 5 October 2007 and were signed on its behalf by

J French
Director

RA Knuckey
Director

Consolidated cash flow statement
for the year ended 31 March 2007

	Note	2007	2006
		£000	£000
Cash inflow from operating activities	27	**30,417**	31,002
Returns on investments and servicing of finance	28	**(5,368)**	(6,310)
Taxation	29	**-**	218
Capital expenditure	30	**(41,255)**	(5,569)
Acquisitions	31	**93,580**	-
Cash inflow before financing		**77,374**	19,341
Financing	32	**26,141**	(23,270)
Increase/(decrease) in cash in the year	33	**103,515**	(3,929)

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently throughout the current and preceding years 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 standard has been adopted for the first time

- FRS 20 'Share based payments'

The accounting policy under this new standard is set out in this note An indication of the effect of its adoption is set out in note 20 to these accounts

Basis of preparation

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

The company has taken advantage of the exemption conferred by FRS8 'Related party disclosures' not to disclose transactions with its wholly owned subsidiaries

In accordance with section 230(4) of the Companies Act 1985, Flybe Group Limited is exempt from the requirement to present its own profit and loss account The parent company made a loss for the year of £1,000 *(2006 £nil)*

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

Negative goodwill

Negative goodwill arising on consolidation in respect of acquisitions, representing any excess of the fair value of the identifiable assets and liabilities acquired over the consideration given, is included within fixed assets and released to the profit and loss account in the periods over which the assets associated with the negative goodwill are utilised in the business, currently estimated to be three years

Investments

In the Company's financial statements, investments in subsidiary undertakings, associates and joint ventures are stated at cost less provision for impairment

Notes *(continued)*

1 Accounting policies *(continued)*

Tangible fixed assets and depreciation

Depreciation is provided by the group to write off the cost 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/lease term
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

Estimated residual values are set at the acquisition of the asset and are reviewed annually, with reference to external valuations, to ensure that they are achievable If estimated residual values are found to have diminished then this change is allowed for in the depreciation charged over the remaining useful economic life of the asset

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 provide enhancement to future periods such as long-term scheduled maintenance and major overhauls 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, principally aircraft, are capitalised up to the date of completion and included as part of the asset

Impairment

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

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

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

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 which are not hedged, 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

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

Notes *(continued)*

1 Accounting policies *(continued)*

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

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

Current UK corporation tax is provided at amounts expected to be paid (or recovered) using tax rates and laws that have been enacted or substantively enacted by the balance sheet date

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 'Deferred tax'

A net deferred tax asset is regarded as recoverable and therefore recognised only to the extent that, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of underlying timing differences can be deducted

Notes *(continued)*

1 Accounting policies *(continued)*

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 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 and the group's obligation to refund ceases, which is determined by the terms and conditions of these tickets

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

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

The amount of profit attributable to the stage of completion of an engine and maintenance overhaul contract is recognised when the outcome of the contract can be foreseen with reasonable certainty 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

Share based payments

The group has applied the requirements of FRS 20 'Share-based payments' The fair value of shares issued for the benefit of employees and held in the Employees' Trust is expensed to the Profit and Loss Account evenly over the vesting period ie between the grant date and the expected date of full transfer to the employee Fair value is determined at the grant date and takes into account the estimate of shares that will eventually vest and other factors such as non-transferability, exercise restrictions and behavioural considerations

Exceptional items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the Group and which individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or incidence if the financial statements are to give a true and fair view Items which relate to ongoing operations are recorded within the operating result for the year Those items which relate to a fundamental restructuring of the business are recorded as a separate item after operating profit

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

The group operates two defined benefit schemes Amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments, these are included as part of staff costs Past service costs are recognised immediately in the profit and loss account if the benefits have vested If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities The actuarial valuations are obtained at least triennially and are updated at each balance sheet date The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet

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

Government grants

Government grants related to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned

Notes *(continued)*

2 Profit/(loss) on ordinary activities before taxation

	2007 £000	2006 £000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
Owned	**6,890**	7,086
Leased	**4,695**	3,962
Impairment recognised in respect of seven owned aircraft	**10,903**	6,434
(Profit)/loss on the disposal of fixed assets	**(66)**	511
Amortisation of negative goodwill – existing Flybe business	**(463)**	-
Amortisation of negative goodwill – acquired business	**(1,542)**	-
Operating leases		
- Land and buildings	**2,353**	2,229
- Plant and machinery	**126**	92
- Aircraft	**25,409**	16,053
Exchange losses	**516**	641
Contribution towards marketing cost received from aircraft manufacturer	**-**	(1,000)
Professional fees incurred in preparing for an IPO (these costs include fees to the previous auditors of £270,000)	**-**	1,660
Net surplus on the exchange of landing slots	**-**	(257)

Auditors' remuneration

	2007 £000	2006 £000
Fees payable to the company's auditors and their associates for the audit of the company's annual accounts	**5**	5
Audit of financial statements of subsidiaries pursuant to legislation	**145**	105
Total audit fees	**150**	110
Amounts receivable by auditors and their associates in respect of		
Tax services	**120**	89
Recruitment and remuneration services	**10**	10
All other services	**647**	270
Total non-audit fees	**777**	369

Fees relating to 2006 and 2007 fees for recruitment and remuneration services above were amounts payable to the previous auditors, KPMG LLP, up to their resignation on 8 May 2007 All other 2007 fees relate to amounts payable to Deloitte and Touche LLP

Other services relate to advice given regarding the acquisition of British Regional Airlines Group Limited (2006 fees charged in respect of a deferred IPO)

Notes *(continued)*

3 Exceptional items within operating profit

Group	2007 £000	2006 £000
Impairment of aircraft	10,903	6,434
Costs associated with acquisition	1,602	-
Costs of preparing for a deferred IPO	-	1,660
Tax credit on above adjustments	(3,271)	(2,068)
Net charge for the year	**9,234**	6,026

During the year to 31 March 2007, an impairment of £10,903,000 *(2006 £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 primarily resulted from the significant increase in fuel prices experienced, which in turn has led to a reduction in the recoverable amounts achievable on the open market on these fuel-inefficient aircraft at their expected out of service dates

Also during the year to 31 March 2007, costs of £1,602,000 *(2006 £nil)* were incurred which related to the acquisition of BA Connect and were not capitalised.

During 2006, £1,660,000 of professional services and advisory fees were incurred relating to preparation for an IPO which was deferred

There was a tax credit of £3,271,000 *(2006 £2,068,000)* arising on the above adjustments, leaving the net cost of exceptional items in the year at £9,234,000 *(2006 £6,026,000)*

4 Restructuring charges

Group	Staff costs £000	Onerous leases £000	Property costs £000	Other £000	Total £000
Acquired operations					
Redundancy and similar costs	7,649	-	-	-	7,649
Vacant property provision	-	-	2,031	-	2,031
Onerous training contract	-	1,734	-	-	1,734
Aircraft leases exceeding operational requirements	-	5,987	-	-	5,987
Other	-	-	-	450	450
Media costs associated with restructuring	-	-	-	1,126	1,126
Tax credit on above adjustments	-	-	-	-	-
Net charge for group for the year	7,649	7,721	2,031	1,576	18,977

Notes *(contınued)*

4 Restructuring charges *(contınued)*

Durıng the year to 31 March 2007, the followıng restructurıng charges were ıncurred as part of a fundamental reorganısatıon of the busıness followıng the acquısıtıon of BA Connect on 5 March 2007

- Redundancy, payment ın lıeu and sımılar costs of £7,649,000 were provıded ın respect of engıneers, ground servıces, cabın crew, flıght deck and admınıstratıve staff at several sıtes across the UK
- Property related costs of £2,031,000 were ıncluded ın respect of provıdıng for future rentals and dılapıdatıons expenses for hangars and admınıstratıve buıldıngs at varıous UK sıtes whıch have been vacated, or wıll be vacated, followıng the reorganısatıon These costs represent management's current expectatıons of the dıscounted future costs requıred to exıt property lease oblıgatıons taken on as part of the acquısıtıon
- Management's expectatıons of future costs ın respect of a pılot traınıng contract wıth a thırd party, beyond operatıonal needs of the busıness ıs £1,734,000 after dıscountıng
- As part of the reorganısatıon, a number of leased aırcraft wıll be wıthdrawn from servıce prıor to the end of theır current operatıng lease These aırcraft wıll be replaced by new aırcraft currently on order whıch the management consıder to more approprıate to the busıness operatıng model These dıscounted future costs total £5,987,000
- Other costs assocıated wıth restructurıng of £450,000 ınclude replacıng unıforms, costs for re-lıvery of acquıred aırcraft and other charges ın admınısterıng the restructure
- Medıa costs, natıonal and regıonal press advertısıng, outdoor bıllboards and dıgıtal medıa are £1,126,000 These represent necessary medıa costs assocıated wıth communıcatıon wıth customers, staff and the publıc durıng the restructurıng phase

There were no such costs ın the year 2005/06

5 Remuneratıon of dırectors

	2007	2006
	£000	£000
Dırectors' emoluments	**1,472**	909
Company contrıbutıons to personal pensıon schemes	**49**	55

The aggregate emoluments of the hıghest paıd dırector were £572,000 *(2006 £315,000)* and company pensıon contrıbutıons of £32,000 *(2006 £32,000)* were made to a personal pensıon scheme on hıs behalf

In 2007 pensıon contrıbutıons for two *(2006 four)* dırectors were made to defıned contrıbutıon personal pensıon schemes on theır 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	
	2007	2006
Technical support services	**616**	530
Administration	**475**	447
Flight and maintenance	**840**	712
	1,931	1,689

The group's aggregate payroll costs (excluding redundancy restructuring charges) in respect of those persons were as follows

	2007	2006
	£000	£000
Wages and salaries	**52,379**	44,252
Social security costs	**5,409**	4,737
Other pension costs (see note 19)	**2,594**	2,151
	60,382	51,140

In addition to the above, actuarial gains of £1,419,000 *(2006 £74,000 losses)* were recognised in the Consolidated Statement of Total Recognised Gains and Losses in respect of defined benefit pension schemes

The company has no employees in either financial year

7 Interest receivable and similar income

	2007	2006
	£000	£000
Bank interest	**1,051**	1,080

8 Interest payable and similar charges

	2007	2006
	£000	£000
On bank loans and overdrafts	**6,383**	5,778
Less interest capitalised	**(1,295)**	(103)
Finance charges on shares classified as liabilities	**-**	1
Finance charges payable in respect of finance leases	**1,425**	1,714
(Gains)/losses arising on retranslation of loans and deposits used to fund aircraft purchases	**(3,052)**	2,670
Interest on pension scheme liabilities	**(94)**	33
	3,367	10,093

Notes *(continued)*

9 Taxation

Analysis of credit in year	2007 £000	2006 £000
UK corporation tax		
Current tax on income for the year	-	-
Deferred tax (see note 21)		
Reversal of timing differences	4,590	(3,699)
Adjustment in respect of prior years	(896)	(649)
Tax charge/(credit) on profit on ordinary activities	3,694	(4,348)

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

Factors affecting the tax charge/(credit) for the year

The current tax charge for the year is lower *(2006 lower)* than the standard rate of corporation tax in the UK of 30% *(2006 30%)* The differences are explained below

	2007 £000	2006 £000
Current tax reconciliation		
Loss on ordinary activities before tax	(16,197)	(12,284)
Current tax at 30% *(2006 30%)*	(4,859)	(3,685)
Effects of:		
Expenses not deductible for tax purposes	5,400	706
Capital allowances (in excess of depreciation)/ disclaimed	(2,919)	3,807
Amortisation of non deductible goodwill	(601)	-
Unrelieved tax losses	3,366	-
Group relief		(720)
Origination and reversal of timing differences	(387)	(108)
Total current tax charge/(credit) (see above)	-	-

Notes *(continued)*

10 Intangible fixed assets

	Note	**Negative goodwill**
Group		**£000**
Cost		
At beginning of year		-
Additions	*18*	44,097
At end of year		44,097
Amortisation		
At beginning of year		-
Release in period		2,005
At end of year		2,005
Net book value		
At 31 March 2007		42,092
At 31 March 2006		-

Negative goodwill arises on the acquisition of British Regional Air Lines Group Limited and its subsidiary companies (together BA Connect) on 5 March 2007 as the fair value of the net assets acquired was in excess of the consideration provided The negative goodwill reflects the additional funds provided to BA Connect by British Airways plc prior to the acquisition to finance the cost of operating the acquired aircraft fleet over and above the realistic commercial return of those aircraft Accordingly, negative goodwill is being released to the profit and loss account over the 3 year period ending 31 March 2010, being the period over which those aircraft are expected to be utilised before being replaced The release to the profit and loss account is on a reducing balance basis which is consistent with the pattern of aircraft usage

Notes *(continued)*

11 Tangible fixed assets

	Freehold land and buildings	Short leasehold buildings	Plant, equipment and motor vehicles	Aircraft	Total
	£000	£000	£000	£000	£000
Group					
Cost					
At beginning of year	360	2,900	11,157	142,530	156,947
Acquired on acquisition	1,936	36	622	61,781	64,375
Additions	-	3,358	3,070	36,273	42,701
Disposals	(1)	-	(56)	(2,896)	(2,953)
Transfers	(21)	56	(180)	-	(145)
At end of year	2,274	6,350	14,613	237,688	260,925
Depreciation					
At beginning of year	196	1,545	6,181	51,442	59,364
Charge for year	28	347	1,665	9,545	11,585
Impairment	-	-	-	10,903	10,903
On disposals	(1)	-	(25)	(1,547)	(1,573)
Transfers	(9)	(36)	(99)	-	(144)
At end of year	214	1,856	7,722	70,343	80,135
Net book value					
At 31 March 2007	**2,060**	**4,494**	**6,891**	**167,345**	**180,790**
At 31 March 2006	164	1,355	4,976	91,088	97,583

Included in the total net book value of aircraft is £26,827,000 *(2006 £12,563,000)* in respect of assets held under finance leases Depreciation for the year on these assets was £4,695,000 *(2006 £3,962,000)* Included in the total cost of aircraft is £1,042,000 in respect of capitalised interest, of which £1,295,000 was capitalised in the year.

Notes *(continued)*

12 Fixed asset investments

Company

	Shares in group undertakings £000
Cost and net book value	
At beginning of year	23,557
Additions	9,634
At end of year	33,191

Subsidiary undertakings (all wholly owned)

	Principal activities	Country of incorporation	Class of share capital held
Flybe 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
British Regional Air Lines Group Limited	Investment holding	Great Britain	Ordinary
British Regional Airlines Limited	Aircraft leasing	Great Britain	Ordinary
Flybe Leasing Limited	Airline operator	Great Britain	Ordinary and preference
BA Connect (IOM) Limited	Airline operator	Isle of Man	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
British European Limited	Dormant	Great Britain	Ordinary
Irish European Limited	Dormant	Great Britain	Ordinary

Notes *(contınued)*

12 Fıxed asset ınvestments *(contınued)*

Subsıdıary undertakıngs (all wholly owned)	**Prıncıpal actıvıtıes**	**Country of ıncorporatıon**	**Class of share capıtal held**
Brıtısh European Aırlınes Lımıted	Dormant	Great Brıtaın	Ordınary
Brıtısh European com Lımıted	Dormant	Great Brıtaın	Ordınary
Flybe com Lımıted	Dormant	Great Brıtaın	Ordınary
Jersey European Aırways (UK) Lımıted	Dormant	Great Brıtaın	Ordınary
Flybe Holdıngs Lımıted	Dormant	Great Brıtaın	Ordınary
Walker Avıatıon Lımıted	Dormant	Great Brıtaın	Ordınary

All of the above subsıdıary undertakıngs are ıncluded ın the consolıdated accounts

13 Stocks

	2007 £000	2006 £000
Group		
Work ın progress	**789**	419
Goods for resale	**938**	389
Aırcraft rotables	**23**	331
Aırcraft consumables	**5,270**	3,517
	7,020	4,656

Certaın 2006 comparatıves have been restated to agree wıth the 2007 classıficatıon Work ın progress of £1,256,000 whıch was recorded ın stock ın 2006 has been ıdentıfied as amounts recoverable on contracts wıthın debtors

14 Debtors

	2007		2006	
	£000	**£000**	£000	£000
Group – due wıthın one year				
Trade debtors	**41,369**		15,254	
Amounts recoverable on contracts	**2,362**		1,256	
Other taxatıon and socıal securıty	**1,443**		5,487	
Corporatıon tax	**2**		3	
Aırcraft deposıts	**23,419**		15,100	
Other debtors	**6,034**		5,014	
Prepayments and accrued ıncome	**10,536**		5,392	
		85,165		47,506
Group – due after more than one year				
Aırcraft deposıts	**2,310**		2,202	
Other debtors	**409**		471	
Prepayments and accrued ıncome	**12,866**		7,171	
		15,585		9,844
Total group debtors		**100,750**		57,350
Company				
Amounts owed by group undertakıngs		**39**		4,240

Notes *(continued)*

15 Creditors: amounts falling due within one year

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Preference shares classified as liabilities (see note 22)	**22,490**	22,490	**22,490**	22,490
Bank loans and overdrafts	**28,834**	11,145	**-**	-
Obligations under finance leases (see note 16)	**11,853**	4,124	**-**	-
Trade creditors	**25,131**	10,680	**-**	-
Amounts owed to group undertakings	**-**	-	**108**	13
Other creditors including taxation and social security				
Other taxation and social security	**12,857**	10,208	**-**	-
Corporation tax	**-**	-	**-**	-
Other creditors	**769**	1,421	**15**	10
Accruals	**38,200**	21,450	**2,435**	16
Deferred income	**60,144**	45,606	**-**	-
	200,278	127,124	**25,048**	22,529

Bank loans are secured on the assets to which they relate For further details of these loans see note 16 The overdraft of £nil *(2006 £74,000)* is secured by way of a Composite Accounting Agreement and is guaranteed by other companies within the group

Notes *(continued)*

16 Creditors: amounts falling due after more than one year

	Group		Company	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
Secured bank loans	**122,135**	58,467	**-**	-
Obligations under finance leases	**23,677**	7,129	**-**	-
Deferred income	**7,704**	3,530	**-**	-
	153,516	69,126	**-**	-

The bank loans are repayable by instalments with £50,831,000 *(2006 £36,322,000)* falling due after five years Rates of fixed and variable interest charged on bank loans vary between 3 98% *(2006 3 98%)* and 8 36% *(2006 8 36%)* 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

	2007	2006
	£000	£000
In one year or less, or on demand	**28,834**	11,145
Between one and two years	**16,835**	11,914
Between two to five years	**54,470**	10,231
In five years or more	**50,830**	36,322
	150,969	69,612

The maturity of obligations under finance leases is as follows

	2007	2006
	£000	£000
Within one year	**11,853**	4,124
In the second to fifth years	**23,677**	7,129
	35,530	11,253

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

Notes *(continued)*

17 Provisions for liabilities

	Staff costs	Onerous leases	Other	Leased aircraft maintenance costs	Property costs	Deferred tax	**Total**
	£000	£000	£000	£000	£000	£000	**£000**
Group							
At beginning of year	459	-	-	3,941	-	4,104	**8,504**
Arising on acquisition	-	10,502	-	7,413	570	1,874	**20,359**
Charge for the year in the profit and loss account	7,649	7,721	1,576	9,517	2,031	3,694	**32,188**
Utilised during year	(459)	-	(1,126)	(8,935)	-	-	**(10,520)**
At end of year	7,649	18,223	450	11,936	2,601	9,672	**50,531**

Provisions for staff and other costs will be substantially utilised by September 2007

Onerous leases and property costs provisions will be substantially utilised within 2 years, however, the final element of the onerous lease provisions will not be utilised until 2013

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

For details of the deferred tax provisions see note 21

Notes *(continued)*

18 Acquisition

On 5 March 2007 the company acquired all of the ordinary shares of British Regional Airlines Group Limited The resulting negative goodwill of £44,097,000 was capitalised As the negative goodwill reflects the additional funds provided by British Airways plc prior to the acquisition to finance the cost of operating the acquired aircraft fleet over and above the realistic commercial return of those aircraft, it is being released to the profit and loss account over the 3 year period ended 31 March 2010, being the period over which those aircraft will be utilised The release to the profit and loss account is on a reducing balance basis which is consistent with the pattern of aircraft usage

	Book value	Fair value adjustments	Accounting policy alignment	Fair value
	£000	£000	£000	£000
Fixed assets				
Tangible	64,375	-	-	64,375
Current assets				
Stock	1,180	-	-	1,180
Debtors	32,492	(1,336)	-	31,156
Cash	96,520	-	-	96,520
Total assets	194,567	(1,336)	-	193,231
Liabilities				
Creditors	41,797	(14,298)	-	27,499
Debt	86,642	-	-	86,642
Provisions	7,519	11,072	1,768	20,359
Pension liability	-	5,000	-	5,000
Total liabilities	135,958	1,774	1,768	139,500
Net assets	58,609	(3,110)	(1,768)	53,731
Negative goodwill				(44,097)
Purchase consideration				9,634
Shares issued in consideration				6,694
Costs of acquisition				2,940
Purchase consideration and costs of acquisition				9,634

Fair value adjustments have been made in respect of

- Reassessment of the recoverability of sundry debtor balances including VAT of £1,336,000,
- Release of deferred income from marketing contributions where no benefit accrues to Flybe, £11,435,000, and release of various accruals no longer required £2,863,000,
- Provision for onerous property leases, £570,000, and onerous aircraft leases where rentals are above market rate, £10,502,000, and
- Increase in pension liability to reflect latest assumptions, £5,000,000

The accounting policy alignment adjustment brings the treatment of maintenance costs on leased aircraft into line with Flybe Group Limited's accounting policy

Notes *(contınued)*

18 Acquisıtıon *(contınued)*

The acquıred undertakıng made a loss of £45 9m from the begınnıng of ıts financıal year to the date of acquısıtıon In ıts prevıous financıal year the loss was £108 9m whıch ıncluded ımpaırments of £74m prevıously recognısed on the aırcraft wıthın tangıble fixed assets above

On 25 March 2007, the trade and certaın assets and lıabılıtıes from one of the acquıred companıes, BA Connect Lımıted, were hıved across ınto Flybe Lımıted As a result, the tradıng performance of BA Connect Lımıted has been ıncluded wıthın acquıred results from the date of acquısıtıon, 5 March 2007, to 24 March 2007 and wıthın contınuıng results from 25 to 31 March 2007 Management estımate that the loss for the post hıve-up perıod before negatıve goodwıll release ıs ın the regıon of £0 6m Negatıve goodwıll of £463,000 was released durıng thıs perıod

Part of the consıderatıon was ın the form of shares ıssued (see note 22)

19 Pension lıabılıtıes

The company operated two defined benefit pensıon schemes durıng the year

Flybe Scheme

Thıs defined benefits scheme was closed ın 1993 and was bought-out durıng the year ended 31 March 2007 Prıor to buy-out, there was a lıabılıty relatıng to the equalısatıon of pensıons contrıbutıons and benefits between men and women whıch was quantıfied and provıded for There were no current servıce costs As there were no assets ın the scheme, no dısclosure of assets has been made Gılt rather than bond dıscount assumptıons have been adopted as ıt ıs consıdered that these lead to the best estımate of future cash flows ın settlıng the lıabılıtıes, ıe a buy–out cost

No contrıbutıons were prepaıd or payable to the fund at year-end (*5 March 2006 £nıl*)

The followıng assumptıons have been adopted ın determınıng the pensıon lıabılıty

Year ended 31 March	**2007**	2006	2005
Dıscount rate	**n/a**	3 75%	3 75%
Inflatıon	**n/a**	2 75%	2 75%
Pensıon ıncreases ın payment	**n/a**	3%	3%

	2007 **£000**	2006 £000
Total of defined benefit schemes wıth net lıabılıtıes	-	(982)
Assets	-	-
Net lıabılıty	-	(982)

Movements ın the pensıon lıabılıty durıng the year:

	2007 **£000**	2006 £000
Lıabılıty at begınnıng of year	**(982)**	(875)
Interest on lıabılıtıes charged to other finance costs	-	(33)
Settlement	**820**	-
Gaıns on settlement	**162**	-
Actuarıal losses recognısed ın the Consolıdated Statement of Total Recognısed Gaıns	-	(74)
Lıabılıty at end of year	-	(982)

Notes *(contınued)*

19 Pensıon lıabılıtıes *(contınued)*

Analysis of other pensıon costs charged ın arriving at operatıng loss:

	2007 £000	2006 £000
Gaıns on settlement	**162**	-

The hıstory of experıence gaıns/ (losses) recognısed ın the Consolıdated Statement of Total Recognısed Gaıns and Losses:

Year ended 31 March	2007 £000	2006 £000	2005 £000	2004 £000
(Loss)/gaın due to changes ın assumptıons taken to reserves	-	(74)	17	(25)
Effect as a percentage of total lıabılıty value at year end	n/a	(7 5%)	(1 9%)	(2 8%)

Brıtısh Regıonal Aır Lınes Group Pensıon Scheme

Composıtıon of the scheme

Thıs scheme was acquıred on 5 March 2007 followıng the acquısıtıon of Brıtısh Regıonal Aır Lınes Group Lımıted

A formal actuarıal valuatıon was carrıed out as at 1 Aprıl 2005 The results of thıs have been updated on an FRS 17 'Retırement Benefits' basıs at 5 March 2007 (acquısıtıon date) and 31 March 2007 by an ındependent qualıfied actuary The servıce costs have been calculated usıng the Projected Unıt method

Contrıbutıons of £367,000 were payable to the fund at year-end (*5 March 2007 £575,000)*

The followıng assumptıons have been adopted ın determınıng the pensıon lıabılıty

	31 March 2007	5 March 2007
Dıscount rate	**5.2%**	5 2%
Expected return on scheme assets at start of perıod	**6.6%**	6 6%
Rate of ıncrease ın salarıes	**4.5%**	4 5%
Rate of ıncrease ın pensıons ın payment accrued before 1 October 2006	**2.5%**	3 0%
Rate of ıncrease ın pensıons ın payment accrued after 1 October 2006	**2.5%**	3 0%
Inflatıon assumptıon	**3%**	3%

The group expects to contrıbute between 9 4% and 12 9% of pensıonable salarıes to the scheme ın 2007/08

Notes *(continued)*

19 Pension liabilities *(continued)*

Scheme assets

The assets in the scheme and the expected rates of return were

	Long term rate of return 31 March 2007	Value at 31 March 2007 £000	Long term rate of return 5 March 2007	Value at 5 March 2007 £000
Equities	7.5%	68,106	7 5%	65,200
Bonds	5 2%	38,019	5 2%	38,654
Cash	3 0%	366	3 0%	409
Total market value of assets		106,491		104,263
Actuarial value of liability		(109,827)		(109,263)
Deficit in the scheme		(3,336)		(5,000)
Related deferred tax asset		-		-
Net pension liability		(3,336)		(5,000)

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

Movements in the scheme liabilities during the period:

	2007 £000
Liability at 5 March 2007	(109,263)
Current service cost	(144)
Member contributions paid	(117)
Interest cost	(463)
Benefits paid	154
Actuarial gain recognised in the Consolidated Statement of Total Recognised Gains and Losses	6
Liability at end of year	(109,827)

Movements in the scheme assets during the period:

	2007 £000
Assets at 5 March 2007	104,263
Expected return on scheme assets	557
Employer contributions	295
Member contributions	117
Benefits paid	(154)
Actuarial gain recognised in the Consolidated Statement of Total Recognised Gains and Losses	1,413
Assets at end of year	106,491

Notes *(contınued)*

19 Pensıon lıabılıtıes *(contınued)*

Analysıs of amount charged to operatıng profit:

	2007 £000
Current servıce cost	144
Total charged to operatıng profit	**144**

Analysıs of amounts credıted to net finance charges:

	2007 £000
Expected return on pensıon scheme assets	(557)
Interest on pensıon scheme lıabılıtıes	463
Net return	**(94)**

Analysıs of amount recognısed ın Consolidated Statement of Total Recognısed Gaıns and Losses:

	2007 £000
Actual return less expected return on pensıon scheme assets	1,413
Experıence gaın arısıng on scheme lıabılıtıes	6
Net gaın recognısed	**1,419**

Hıstory of experıence gaıns and losses:

	2007 £000
Actual return less expected return on scheme assets £000	1,413
Percentage of year end scheme assets %	*1*
Experıence gaıns and losses arısıng on scheme lıabılıtıes £000	6
Percentage of present value of year end scheme lıabılıtıes %	-
Actuarıal gaın recognısed ın consolıdated statement of total recognısed gaıns and losses £000	1,419
Percentage of present value of year end scheme lıabılıtıes %	*1*

The group also operates defined contrıbutıon pensıon schemes The pensıon cost charge for the perıod represents contrıbutıons payable by the group to the schemes and amounted to £2,612,000 *(2006 £2,151,000)*

There are no outstandıng or prepaıd contrıbutıons at eıther the begınnıng or end of the financıal year

As part of the acquısıtıon of Brıtısh Regıonal Aır Lınes Group Lımıted, Flybe took over the lıabılıtıes relatıng to two further defined benefit schemes, the New Aırways Pensıon Scheme and the Aırways Pensıon Scheme Under the terms of the purchase agreement, these lıabılıtıes wıll be settled by payıng the sum of £1,266,100 Thıs ıs ıncluded ın accruals ın note 15

Notes *(contınued)*

20 Equity-settled share scheme

The Employees' Trust has a share dıstrıbutıon scheme for all employees whereby qualıfyıng employees acquıre beneficıal ınterests ın a gıven number of shares ın the company whıch are held ın the Employees' trust The employees wıll have an optıon to sell theır shares ıf there ıs a flotatıon or trade sale Shares are forfeıted ıf the employee leaves the group before a flotatıon or trade sale

Detaıls of the shares ın ıssue are as follows

	2007 Number of shares	2007 Weıghted average share price	2006 Number of shares	2006 Weıghted average share prıce
Outstandıng at the begınnıng of the perıod	**80,325**	**£4 00**	-	-
Granted durıng the perıod	**17,502**	**£13 00**	86,347	£4 00
Forfeıted durıng the perıod	**(6,963)**	**£4 00**	(6,022)	£4 00
Exercısed durıng the perıod	-	-	-	-
Expıred durıng the perıod	-	-	-	-
Outstandıng at the end of the perıod	**90,864**	**£5 73**	80,325	£4 00
Exercısable at the end of the perıod	-	-	-	-

Under FRS20, Share Based Payments, a charge of £173,000 (*2006 £nıl*) has been recognısed ın the Profit and Loss Account of the group to reflect the faır value of the awards gıven The 2006 financıal statements have not been revısed for the change ın accountıng polıcy on grounds of materıalıty

21 Deferred taxatıon

The elements of deferred taxatıon lıabılıty/(asset) are as follows

	Provıded		Unprovıded	
	2007 £000	2006 £000	**2007 £000**	2006 £000
Dıfferences between accumulated depreciatıon and amortısatıon and capıtal allowances	**11,375**	8,976	**(1,611)**	-
Other tımıng dıfferences	**321**	(67)	**(6,445)**	-
Tax losses	**(2,024)**	(4,805)	**(3,500)**	(1,405)
Undıscounted deferred tax	**9,672**	4,104	**(11,556)**	(1,405)

No deferred tax asset has been recognısed on the pensıon lıabılıty or tax losses above due to uncertaınty as to when these assets wıll be realısed

Notes *(continued)*

22 Share capital

	2007 £000	2006 £000
Authorised, allotted, called up and fully paid		
654,150 ordinary shares of 1 pence each (2006 339,150 shares)	**7**	3
1,445,850 'A' ordinary shares of 1 pence each (2006 1,445,850 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
	22,512	22,508
Shares classified as liabilities	**22,490**	22,490
Shares classified as equity	**22**	18
	22,512	22,508

During the year the company issued 315,000 ordinary shares of 1p each to a subsidiary of British Airways plc at a fair value of £6,695,000 as consideration for the acquisition of British Regional Air Lines Group Limited (see note 18) The premium on these shares has been credited to a merger reserve (see note 23)

The redeemable preference shares are redeemable prior to a sale or listing 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 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

In January and July of each year, both the redeemable preference shares and the cumulative redeemable preference shares are available for redemption (either in full or in part) subject to there being sufficient distributable reserves available The redeemable preference shares will be redeemed in priority to the cumulative redeemable preference shares

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

23 Reserves

	Group			Company		
	Merger reserve £000	Share premium £000	Profit and loss account £000	Merger reserve £000	Share premium £000	Profit and loss account £000
At beginning of year	-	992	(14,387)	-	992	4,258
Loss for the financial year	-	-	(19,891)	-	-	(1)
Share based payments	-	-	173	-	-	173
Actuarial gain on defined benefit obligation	-	-	1,419	-	-	-
Shares issued during year	6,691	-	-	6,691	-	-
At end of year	**6,691**	**992**	**(32,686)**	**6,691**	**992**	**4,430**

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off is £2,030,000 *(2006 £2,030,000)* This amount is net of goodwill attributable to businesses disposed of prior to the balance sheet date

Notes *(continued)*

24 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Group		
Retained loss	**(19,891)**	(7,936)
Currency translation differences	**-**	589
Share based payments credit	**173**	-
Actuarial gain/(loss) recognised on the pension scheme	**1,419**	(74)
Share capital issued during year	**4**	-
Share premium issued during year	**6,691**	-
Opening shareholders' deficit	**(13,377)**	(5,956)
Closing shareholders' deficit	**(24,981)**	(13,377)

	2007 £000	2006 £000
Company		
Retained loss	**(1)**	-
Share based payments credit	**173**	-
Share capital issued during year	**4**	-
Share premium issued during year	**6,691**	-
Opening shareholders' funds	**5,268**	5,268
Closing shareholders' funds	**12,135**	5,268

25 Contingent liabilities

The group has given guarantees in favour of Natwest Streamline and Lloyds TSB Cardnet, the company's credit card acquirers, for £200,000 and £12,000,000 respectively *(2006 £9,250,000 and £nil)*

The group has also placed bonds in favour of various handling agents, fuel suppliers and customs offices totalling £3,218,942 *(2006 £1,336,000)*

At 31 March 2007, the group had given a charge in favour of British Airways plc over £34m of cash held in a bank account This charge was in respect of 16 owned aircraft, to be released when loans, originally used to fund these aircraft, are repaid by the group The 16 aircraft were all sold (and leased back under operating lease) in July 2007, and the related loans repaid The charge has therefore been released subsequent to the year -end

Notes *(continued)*

26 Commitments

Annual commitments under non-cancellable operating leases are as follows

	2007		2006	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Group				
Operating leases which expire				
Within one year	**284**	**2,113**	465	2,136
In the second to fifth years inclusive	**365**	**12,550**	274	1,212
Over five years	**1,429**	**27,229**	1,090	20,135
	2,078	**41,892**	1,829	23,483

Capital expenditure authorised and contracted for but not provided in the accounts as at 31 March 2007 amounts to US$593m (£302m) *(2006 US$903m, £521m)* This is in respect of 14 *(2006 21)* Bombardier Dash 8 Q400 aircraft and 9 *(2006 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 3 years It is intended that these aircraft will be financed partly though cash flow and partly through external financing and leasing arrangements

Capital expenditure authorised but not contracted for as at 31 March 2007 amounts to US$675m (£344m) *(2006 US$724m, £418m)* This is in respect of options entered into for 14 *(2006 16)* Bombardier Q400 aircraft and 12 *(2006 12)* Embraer 195 aircraft on the same valuation basis as above

See note 38 for details of the changes to capital commitments as a result of negotiations post year-end

27 Reconciliation of operating profit/(loss) to operating cash inflow

	2007	2006
	£000	£000
Loss before interest	**(13,881)**	(3,271)
Depreciation, amortisation and impairment charges	**20,483**	17,481
(Profit)/loss on disposal of fixed assets	**(66)**	509
(Increase)/decrease in stocks	**(1,184)**	312
Payments to acquire new aircraft held for resale	-	(21,654)
Proceeds from the sale of aircraft held for resale	-	54,154
Release of marketing credits on aircraft held for resale	-	516
Write-down in value of aircraft held for resale	-	89
Loss on sale of aircraft held for resale	-	54
(Increase) in debtors	**(14,419)**	(17,492)
Increase in creditors	**22,737**	1,165
Increase/(decrease) in provisions	**16,747**	(861)
Net cash inflow from operating activities	**30,417**	31,002

Notes *(continued)*

28 Returns on investment and servicing of finance

	2007 £000	2006 £000
Interest received	1,051	1,080
Interest paid	(4,994)	(5,676)
Interest element of finance lease rental payments	(1,425)	(1,714)
Net cash outflow from returns on investment and servicing of finance	(5,368)	(6,310)

29 Taxation

	2007 £000	2006 £000
Corporation tax received	-	218

30 Capital expenditure

	2007 £000	2006 £000
Payments to acquire tangible fixed assets	(42,701)	(5,875)
Receipts from sale of tangible fixed assets	1,446	306
	(41,255)	(5,569)

31 Acquisitions

	2007 £000	2006 £000
Cost of investment in undertaking	(2,940)	-
Net cash balances acquired with undertaking	96,520	-
Net cash inflow from acquisitions	93,580	-

Notes *(continued)*

32 Financing

	2007 £000	2006 £000
New secured loans	**63,561**	34,072
Repayment of loans	**(33,296)**	(54,216)
Capital element of finance lease rental payments	**(4,124)**	(3,126)
	26,141	(23,270)

33 Reconciliation of net cash flow to movement in net debt

	2007 £000	2006 £000
Increase/(decrease) in cash in the year	**103,515**	(3,929)
Cash (outflow)/inflow from decrease in debt and lease financing	**(26,141)**	23,270
Movement in net debt resulting from cash flows	**77,374**	19,341
Loans acquired with undertaking	**(84,789)**	-
Net debt at the beginning of the year	**(70,585)**	(84,411)
Exchange rate adjustments	**5,223**	(5,515)
Net debt at the end of the year	**(72,777)**	(70,585)

34 Analysis of net debt

	At beginning of year £000	Acquisition £000	Cash flows £000	Other non cash changes £000	**At end of year £000**
Cash at bank and in hand	32,770	-	103,441	1	**136,212**
Overdrafts	(74)	-	74	-	-
	32,696	-	103,515	1	**136,212**
Debt due after one year	(58,467)	(49,136)	-	(14,532)	**(122,135)**
Debt due within one year	(33,561)	(7,252)	(30,265)	19,754	**(51,324)**
Finance leases	(11,253)	(28,401)	4,124	-	**(35,530)**
	(103,281)	(84,789)	(26,141)	5,222	**(208,989)**
Total	(70,585)	(84,789)	77,374	5,223	**(72,777)**

Included within cash at bank and in hand is £37,603,000 (*2006 £5,782,000*) held in restricted accounts

Notes *(continued)*

35 Fair value of assets and liabilities

The Group has derivative financial instruments that it has not recognised at fair value as follows

- Foreign currency derivatives with a mark-to-market net liability totalling £1,987,000 (*2006 £7,034,000 net asset*)
- Aircraft fuel derivatives mark-to-market with a net liability totalling £1,139,000 (*2006 £2,863,000*)

The foreign currency derivative instruments represent 84 open contracts comprising swaps, forwards and options with maturity dates ranging from April 2007 to November 2009 and are to purchase either US dollars or euros to meet business requirements

The fuel derivative instruments represent 37 open contracts comprising swaps, collars and options with maturity dates ranging from April 2007 to February 2009 and are to purchase aviation fuel

Both the foreign currency and the fuel derivatives are to meet demands stemming from the normal course of business and are utilised to manage and limit the risk of future fluctuations in currency values and fuel prices They are not used to generate speculative returns All open contracts are entered into with UK offices of recognised banks and financial institutions and are conducted on an open market basis

36 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 *(2006 three)* BAe 146-300 aircraft at an arm's length market rate The amount paid under the lease was £3,816,000 *(2006 £ 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 £1,624,000 *(2006 £2,276,000)* and the outstanding amount at the year end was £71,000 *(2006 £191,000)*

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 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 J Walker 1987 Settlement which controls 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 £624,000 *(2006 £369,000)* and £227,000 *(2006 £227,000)* respectively The group holds a deferred income balance of £53,400 at the balance sheet date regarding a rent–free period on a property leased from Wisbech Retail Limited *(2006 £57,500)*
- The group also made a payment of £2,850,000 to Edenfield Investments Limited who constructed new hangar accommodation which is occupied by the group and the contribution represents a capital contribution *(2006 £340,000 towards the cost of qualifying plant and machinery)*

37 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

Notes *(continued)*

38 Post balance sheet events

The impact of the corporation tax rate change (from 30% used in financial statements to 28% in latest budget) on the unrecognised deferred tax asset is a reduction in the deferred tax liability of £645,000 The change in the corporation tax rate was not substantially enacted at the balance sheet date, in accordance with FRS 19 'Deferred tax', and consequently has not been recognised in the financial statements The change was substantially enacted on 28 June 2007

In May 2007, the 14 options for Bombardier Dash 8 Q400 aircraft were cancelled and replaced with an order for 15 aircraft and options for 15 further aircraft The cancelled options led to a replacement of capital expenditure which is authorised but not contracted for of US$348m (£177m) by new options amounting to US$373m (£190m) The order has led to an increase in capital expenditure authorised and contracted for but not provided of US$373m (£190m)

In July 2007, the group sold and leased back 16 Embraer 145 aircraft Sale proceeds were £46m and profit on sale of approximately £nil was recognised at the date of the sale and leaseback The sale proceeds and associated future lease rental are considered by the management to be at open market values