Flybe Group Limited

Annual report and consolidated financial statements

Registered number 1373432

31 March 2009

Contents

Chairman's statement

1. Overview

I am pleased to report on another encouraging trading performance from Flybe against the backdrop of extreme challenges in the airline sector.

Headlines from the accounts for the year to 31 March 2009 were as follows:

- Profit before tax, integration and restructuring charges ('adjusted profit before tax') of £12.8 million *(2008/09: £35.4 million)*. Profit before tax, after integration and restructuring charges, of £0.1m (2008/09 £30.4 million).
- Growth in turnover of 6.8% to £572.4 million (*2007/08 £535.9 million*).
- Growing the passenger volume to 7.3 million passengers (*2007/08 7.0 million*).
- Growing ancillary revenues per passenger by 30% to £10.37 (*2007/08 £7.97*).
- Continued rationalisation of our fleet, resulting in our two-fleet strategy being achieved by May 2009.

Having successfully integrated BA Connect in the previous year, the Board looked forward to a period of stability in 2008/09 with the focus on profitable growth, continued cost efficiencies as the fleet modernisation neared completion, and a relatively small and targeted route growth planned for the year.

However, the year proved to be very challenging with various external factors having a major impact on the financial performance of the business (and all other major airlines). These factors included:

- Crude oil doubling in price to $147 per barrel in the six months to July 2008, with a corresponding increase in jet fuel prices. Our fuel costs for the year to 31 March 2009 rose by 35.5% to £115.4m. This unprecedented rise in fuel prices also increased costs across the broader economy, helping trigger a slowdown in consumer spending and air travel. Domestic air travel in the UK (by number of passengers) declined by 7.2% in the 12 months to March 2009.
- Sterling collapsing against the US Dollar by over 30% in the last four months of 2008, and remaining at c$1.40 through the remainder of 2008/09. A significant proportion of our trading costs are denominated in US Dollars on items such as fuel, maintenance and aircraft leases.
- The collapse of Lehman Brothers in October 2008 which signalled the start of the crisis in the global banking sector, and represented the moment when the credit crunch (which began in August 2007) started impacting the wider business community. Domestic traffic on key business routes into and out of Edinburgh from Manchester, Birmingham and Southampton experienced significant declines.
- In January 2009, the recession took an even firmer hold with business travel virtually being stopped as corporations and business wrestled with the scale of the recession.

The combination of these factors resulted in the Board having to focus on short-term cost reduction programmes and, in particular, to reduce the capacity offered to meet the reduced demand. Despite these efforts, the level of losses incurred in the quarter from January to March 2009 were unprecedented in Flybe's recent history.

This loss in the final quarter of 2008/09 clearly had a serious impact on the financial performance for the year, as did the impact of the increased fuel prices in the first half of the year. Given the scale, severity and short timescales of these external factors and the impact they had on the wider aviation sector, the headline figures highlighted above demonstrate (a) the resilience of the Flybe business model and (b) the determination of the management team and staff within Flybe to deal with critical challenges on a timely basis. The combination of these two key ingredients will ensure Flybe is one of the survivors of the recession.

Chairman's statement *(continued)*

2. Financial performance 2008/09

Profit and loss account

Despite the many and considerable challenges referred to above, Flybe delivered results which we believe belied the underlying trends in the aviation sector:

- Increased passenger volumes from 7.0 million to 7.3 million.
- Turnover increased by 6.8%, from £535.9 million to £572.4 million.
- Cost of sales, excluding net exceptional, integration and restructuring charges of £9.9 million *(2007/08 £5.5 million)*, increased by £59.1 million *(13.3%)* from £444.5 million to £503.6 million. Fuel costs accounted for £30.2 million of this increase *(2007/08 £85.2 million, 2008/09 £115.4 million)*.
- Gross profit, excluding net exceptional, integration and restructuring charges of £14.1 million *(2007/08 £5.5 million)*, was £73.0 million *(2007/08 £91.4 million)*, giving a gross margin of 12.7% *(2007/08 17.1%)*.
- Operating profit for the year, excluding net exceptional, integration and restructuring charges of £14.3 million *(2007/08 £7.4 million)*, fell from £38.2 million to £20.4 million, giving an operating margin of 3.5% *(2007/08 7.1%)*.
- After net exceptional, integration and restructuring charges, operating profit was £6.1 million *(2007/08 £30.8 million)*.
- Net interest payable and similar charges in the year totalled £7.8 million *(2007/08 £2.9 million)*.
- Adjusted profit before tax for the year was £12.8 million, compared with an adjusted profit of £35.4 million in the previous year.
- After deducting net exceptional, integration and restructuring charges of £12.7 million, profit before tax was £0.1 million *(2007/08 exceptional and restructuring costs £5.0 million, leaving a profit before tax of £30.4 million)*.
- There was a deferred tax credit of £4.0 million for the year *(2007/08 credit £4.5 million)*, leaving a profit after tax for 2008/09 of £4.1 million *(2007/08 profit after tax £34.9 million)*.

Cash

Our cash reserves at the end of the year stood at £56.6 million, a decrease of £10.8 million on the 31 March 2008 balance of £67.4 million.

However, it should be noted that the opening cash balance of £67.4 million included cash earmarked for certain planned items incurred in 2008/09, as follows:

- the continued utilisation of funding provided by British Airways on the BA Connect acquisition to cover the cost inefficiencies of operating the 50-seat Embraer E145 jets acquired as part of the transaction until they could be replaced as part of the new fleet strategy (represented by negative goodwill amortisation of £17.2 million in 2008/09);
- payment of £9.2 million of restructuring and integration liabilities relating to the BA Connect acquisition; and
- redemption of the outstanding preference shares of £14.1 million.

Having deducted the above items from the opening cash balance of £67.4 million, our 'remaining' opening cash was £26.9 million. During the year, we generated operating cash inflow before restructuring and integration of £31.4 million, and year-end cash was £56.6 million.

Chairman's statement *(continued)*

3. Operational review

i) Safety

Safety is our prime concern and the responsibility for this rests with each and every employee irrespective of their role or position.

The overview of safety is managed through the Safety Committee which is chaired by Peter Smith, one of our independent non-executive directors who has considerable aviation experience. Peter is supported on the Safety Committee by another independent non-executive director, Alan Smith.

The Safety Management System operated across all operational activities is now well established and ensures that those responsible for safety have an effective reporting procedure. We encourage all personnel to report any safety issue, irrespective of the cause, in the knowledge that the company operates a "no blame" culture with all incidents investigated objectively and thoroughly.

Currently, with over 500 daily departures at peak times, there are various issues, of differing degrees of severity, which need to be dealt with on a daily basis. The various departments, management teams and supervisory committees have managed the process in a highly professional manner and have minimised the inconvenience to our customers as much as possible.

ii) Fleet substitution

BA Connect fleet

I am delighted to report that in May 2009 we completed our two-year fleet substitution programme (following the acquisition of BA Connect in March 2007) resulting in a two-type fleet of Bombardier Q400 78-seat turboprops ('Q400') and Embraer E195 118-seat regional jets ('E195'). During the 26-month period to May 2009, this substitution programme entailed:

- the retirement from operation of 39 BA Connect aircraft (28 Embraer E145s, 7 Bombardier Q300s, 4 BAe 146s); and
- the introduction of 26 Q400s and 11 E195s.

This fleet substitution programme, which totalled 76 aircraft being either retired from or introduced to the fleet in this 26-month period, was a tremendous achievement by all areas of the business – finance, operations and commercial.

Overall fleet

The overall fleet transition project over the last seven years since the launch of Flybe has involved the introduction of 66 new aircraft and the disposal or handback of 66 aircraft (including those acquired on the BA Connect acquisition). This represents a major financial cash investment made by the business during the last few years. It has also been a major challenge for the team to finance more than 30 aircraft since the start of the credit crunch in summer 2008 and I must congratulate them on their success.

Our current fleet as at January 2010 totals 68 aircraft, comprising 54 Q400s and 14 E195s, with an average age of three years. Of the 68 aircraft, 57 are held on operating lease and 11 are owned and debt financed.

I am pleased to advise that Flybe has no aircraft deliveries to be financed until 2011. The fuel efficient fleet, with an average age of three years and no financing requirements until 2011, places Flybe in an excellent position compared to many other airlines who still have to modernise their fleets.

Chairman's statement *(continued)*

iii) Fuel prices

Clearly the high price of jet fuel experienced in 2008/09, and the continuing price volatility, has placed enormous pressure across the industry, including Flybe. I am pleased to report that the significant investment in new aircraft combined with a clear hedging strategy for fuel and US Dollars has reduced the impact on Flybe of this industry-wide challenge.

The decision to invest in the new fleet of 78-seat Bombardier Q400 and 118-seat Embraer 195 aircraft has provided significant benefits in terms of reduction in fuel burn. This improved efficiency will continue through the fleet substitution programme, which was completed in early 2009/10. If, in 2008/09, we had operated the same fleet as we had in 2002, our fuel burn would have been 28% higher, with an increased fuel cost of circa £32 million.

With regard to our hedging policy, our objective is to smooth the cost of fuel and to de-risk cost escalation and volatility as far as possible, thereby enabling the Commercial team to price our product before the selling season commences. The Fuel Committee will continue to monitor the effectiveness of its policies and to benchmark these against our competitors.

iv) Loganair franchise

In January 2008, we announced an agreement for Loganair to become our first franchise partner.

Loganair was founded in 1962 and has become the quintessential Scottish airline brand. With 340 employees, headquartered in Glasgow and serving Scotland's Highlands and Islands as well as Northern Ireland and Dublin, Loganair previously operated under a BA franchise from 1994 with c0.5 million passengers carried on 26 routes from 16 airports with 15 aircraft.

Tickets under the new franchise agreement went on sale from July 2008 and Loganair began flying in Flybe colours from the start of the 2008 Winter Season on 26 October 2008.

The franchise means that, in Scotland, the Flybe brand has over 50 routes and carries more than 2.5 million passengers.

v) Customer service

Flybe continues to develop its product and pricing portfolio to meet latest customer demands.

The airline has operated a comprehensive on-board research programme twice yearly for over ten years. In addition, we operate a trend analysis of all correspondence between our customers and the airline. The customer correspondence analysis is reported monthly to the Board. These forms of research and data collection enable us to monitor trends of customer demand and also to monitor our customers' view of the various aspects of service which we offer.

The standardisation of our fleet to two types has enabled us to offer a consistent product in the air and we have invested heavily in our executive lounge facilities across the network.

The Frequent Flyer Programme "Rewards4All" has been comprehensively updated and automated and now has over 1 million members.

It is our constant goal to offer a product which offers a consistently high standard of service whilst still maintaining competitive air fares.

Our product positioning is proving its appeal to both the business travel and leisure travel sectors, and is helping us deliver continuing strong market share performances.

Chairman's statement *(continued)*

4. The Board and Management organisation

There have been no changes to the Group Board or Operating Board structures during the year. This stability has certainly contributed to the resilience of the business.

The Executive Management team, comprising the second tier of management reporting to the Operating Board, has provided tremendous support to the Operating and Group Boards during the year, and the team continues to be developed and strengthened.

5. Corporate and social responsibility

i) Staff training and development

Flybe's plans to build a Training Academy at Exeter continue with all funding now in place. The project should be completed by the end of 2010.

Phase 1 of this facility will incorporate 26 classrooms, workshop training facilities, cabin crew emergency training facilities and a flight simulator hall which can accommodate up to four flight simulators.

The Board is very grateful for the financial support given to this project by the South West Regional Development Agency and the Learning and Skills Council and the mortgage facilities extended by Lloyds Banking Group. In addition we have received substantial support for this project by various Government Departments and Ministers, Exeter College and University and the various local Authorities and sub-committees. Without such support, we would not have been able to proceed with this project.

With 3,000 staff, many of whom fulfil highly technical and safety related roles, it is essential that Flybe operates a very high standard of skills training. The training function has been developed over many years by individual departments and we now plan to bring this together into a new Training Academy to be located at Exeter. This will ensure substantial benefits in terms of quality of training and overall costs of delivery.

It is planned that this facility will operate alongside our aircraft maintenance, repair and overhaul ('MRO') business, Flybe Aviation Services, where circa 70% of the man hours produced are sold to third party customers.

ii) Environmental responsibilities

Flybe acknowledges that it has a responsibility to minimise the impact our aircraft have on the environment. We recognise the concerns of local communities who live adjacent to regional airports in terms of noise generated from aircraft movements and also the impact on the environment through the amounts of carbon emitted during flight.

Flybe has minimised its impact by investing in a new fleet of aircraft with a list price of $1.9 billion. These aircraft offer the combination of low noise emissions and low fuel consumption. The fleet modernisation programme was completed in May 2009, providing Flybe with one of the youngest fleets in the industry with the average age of aircraft at three years.

In 2007, Flybe introduced an 'Ecolabel' rating for its aircraft which has been designed to provide customers with a range of information regarding the noise and carbon emissions for each flight. The label identifies the noise rating and also the emissions made during the normal take-off and landing cycle of a flight and also the carbon emissions for the total flight based on a range of distances. The procedure adopted has been subject to an independent assurance process by Deloitte LLP.

In February 2008, the House of Commons Treasury Select Committee urging other airlines to follow Flybe's lead in this field of providing information to consumers regarding the environmental impact of their flight.

Flybe continues to pursue other environmental issues in addition to minimising its aircraft emissions through good practices in our aircraft maintenance and general facilities.

Chairman's statement *(continued)*

6. Other strategic developments

As a result of the extended awareness and excellent reputation of the Flybe brand, Flybe has been approached by various overseas companies to use its recognised expertise in the regional aviation sector to (a) support existing operations, (b) to manage the introduction of regional aircraft operations for others and (c) to participate in new joint ventures. Such approaches vary from project to project but incorporate the various key skills which we have developed – flight operations, engineering, training and commercial.

Such activities can prove critical during an economic recession by enabling the airline to utilise its surplus resources in other markets in order to offset fixed costs and avoid staff redundancies.

The Board has taken a very cautious view of such approaches, being very conscious of the risks involved both from an operational and a financial perspective.

We have worked on two major projects since January 2009, one in Greece and another outside Europe. The Board supported the Greek project which has proved to be very beneficial during the financial year 2009/10, something which is expected to continue in 2010/11. It was decided to abort the project outside Europe since the financial risk profile was not acceptable.

Given the considerable restructuring and consolidation currently being undertaken within the aviation industry in Europe, it is the Board's belief that there will be further opportunities for Flybe as this process of consolidation matures and stabilises. The Board has therefore been very active in ensuring that Flybe is well positioned across Europe to capitalise on any future opportunities which may arise.

There has been some internal re-organisation made in order to ensure that the day-to-day operation of Flybe is not undermined whilst such opportunities are being investigated.

7. Summary

The latter part of the financial year 2008/09 witnessed the beginning of one of the deepest and most prolonged recessions in aviation in history. Many have stated that the impact of the economic crisis around the world was much greater and more prolonged than anything the industry has previously experienced.

The challenges have extended through to the current 2009/10 financial year. However, much of the early corrective action, which began in earnest in the January to March 2009 period, established the basis on which the business has managed its way through the recession.

Chairman's statement *(continued)*

The management team and staff have worked very hard for a very long period to overcome these considerable challenges without the motivational adrenalin which would have been released if that same devotion, commitment and energy had been working on a significant new development. I want to take this opportunity of thanking everyone for their very significant efforts during this time.

Since its launch in 2002, Flybe has grown to become one of the largest regional aviation groups in Europe, comprising:

- one of Europe's largest regional airlines (recognised as 2009 Regional Airline of the Year by Air Transport World);
- one of Europe's largest specialist regional aircraft MRO business (recognised as 2009 European Airline MRO of the Year by Aviation Week); and
- the development of a Training Academy dedicated to regional aviation.

In the eight years since 2002, Flybe has reviewed and modernised every aspect of its business. This has required a major investment across many areas, including:

- New business model;
- New brand;
- New fleet;
- New hangars and workshop facilities;
- Expanded network;
- Acquisition and successful integration of BA Connect;
- Strengthened management resources; and
- Plans for the new Training Academy.

Although these investments have required a very significant cash output in the past few years, they have resulted in the Flybe Aviation Group being in excellent shape to take advantage of the economic upturn when it comes and without the burden of any planned major capital investment.

The Group is therefore well-positioned as the UK and European economies emerge from recession.

Jim French CBE
Chairman and Chief Executive Officer — 29th January 2010

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2009.

Principal activities

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

Business review

The Group results for the year are shown in the profit and loss account on page 16 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 in the Chairman's Statement on pages 3 to 9 which is incorporated in this report by reference.

Directors

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

J French	(Chairman and Chief Executive Officer)
MJH Chown	(Deputy Chairman)
CT Scott	(Senior Independent Non-executive Director)
DM Brown	(Non-executive Director)
D Longbottom	(Independent Non-executive Director)
A Smith	(Independent Non-executive Director)
P Smith	(Independent Non-executive Director)
RA Knuckey	(Chief Financial Officer)
AJ Strong	(Chief Commercial Officer)
MD Rutter	(Chief Operating Officer)

Dividends

The directors do not recommend the payment of a final dividend (*2008: £nil*).

Employee share scheme

In 2005, the company established an unapproved share scheme, the Flybe Employees' Share Scheme ('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.

Distributions of interests in shares to qualifying employees were approved and made in June 2005, November 2006 and April 2007. There are no plans to make further distributions.

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 *(2008: £nil).*

Principal risks and uncertainties

The principal operational and financial risks are set out below. These are discussed in more detail in the Chairman's Statement.

Operational risk

The Group's main operational risks are as follows:

- Safety - the Group's primary concern is safety and every employee and department in the company has responsibility for safety. At board level, safety is monitored by the Safety Committee, details of which are set out in the Chairman's Statement.
- Revenues - the Group optimises its revenues through active management of load factor (number of passengers per flight) and yield (revenue per passenger), a range of ancillary revenue streams, and a number of other initiatives such as promotions and an innovative frequent flyer program. Maintaining high frequencies on key routes helps ensure the loyalty of business customers.
- Route selection - the network is continually reviewed to ensure it is consistent with Flybe's business model and strategy, meets the needs of the customer and optimises operational profitability. New routes are added when opportunities arise, following rigorous market assessment.
- Investment in new aircraft – the Group has completed its transition to a modern, fuel efficient fleet, operating 54 Q400 and 14 Embraer 195 aircraft with an average age of under 3 years. The Group has options for further aircraft, and strong relationships with the manufacturers which will help secure future development.
- Maintenance of the brand – the brand continues to strengthen and to be recognised as a market leader. The Group makes continual investment to protect the brand through channels such as its operations, marketing and the development of the web site.

Directors' report *(continued)*

Financial risk

The Group is exposed to financial risks in respect of foreign exchange, interest rates, liquidity and fuel prices, which are also addressed in the Chairman's Statement. A more detailed 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 mix of fixed and floating borrowing arrangements to gain certainty over a significant proportion of its future interest payments.
- Liquidity: the Group maintains adequate cash holdings to meet its short-term creditors as they fall due. The Group also arranges operating leases or secured loans 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.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement on pages 3 to 9. The financial position of the company, its cash flows and liquidity position are described in the financial performance section of that statement on page 4. In addition, pages 11 and 12 of this Directors' report cover the Group's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The directors have considered the uncertainties presented by current economic conditions in relation to passenger volumes and yields, fuel process, foreign exchange, route selection and investment in new aircraft.

The Group has continued to trade profitably and generate operating cash inflow in challenging trading conditions and has met all of its operating lease commitments and debt repayment obligations as they have fallen due.

The Group has prepared a detailed trading budget and cash flow forecast which indicates that the Group will be able to trade using operating cash flows for at least 12 months from the date of signing these accounts and will be able to meet its operating lease commitments and debt repayments as they become due.

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

Directors' report *(continued)*

Derivatives and other financial instruments

The group's principal financial instruments, other than the derivatives described above, 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 34, the fair value of the group's derivatives at 31 March 2009 was a net liability of £26,035,000 *(2008: £4,988,000 asset).*

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 (as defined in the Companies Act 1985) of which the company's auditors are unaware; and

(2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information (as defined) 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.

On 1 December 2008 Deloitte & Touche LLP changed its name to Deloitte LLP. Deloitte LLP have indicated their willingness to continue as the company's auditors and a resolution for their reappointment 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
29th January 2010

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the annual 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 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 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 UK Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 the Group and enable them to ensure that the 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 2009 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 35. 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 auditors' 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 as described in the contents section 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.

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 judgements 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 2009 and of the group's profit 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 LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Bristol, United Kingdom

29 January 2010

Consolidated profit and loss account
For the year ended 31 March 2009

	Note	Before integration & restructuring 2009 £000	Integration & restructuring (see notes 3 & 4) 2009 £000	**Total 2009 £000**	2008 £000
Turnover – *continuing operations*	*1*	576,615	(4,217)	**572,398**	535,864
Amortisation of negative goodwill	*2*	*17,229*	-	***17,229***	*25,205*
Other cost of sales	*4*	*(520,864)*	*(8,182)*	***(529,046)***	*(474,620)*
Exceptional cost of sales	*3*	-	*(1,736)*	***(1,736)***	*(537)*
Cost of sales		(503,635)	(9,918)	**(513,553)**	(449,952)
Gross profit		72,980	(14,135)	**58,845**	85,912
Administrative expenses	*4*	(52,566)	(179)	**(52,745)**	(55,147)
Operating profit before exceptional items		*20,414*	*(12,578)*	***7,836***	*31,302*
Exceptional items	*3*	-	*(1,736)*	***(1,736)***	*(537)*
Operating profit – *continuing operations*		20,414	(14,314)	**6,100**	30,765
Loss on sale of subsidiary		-	-	**-**	(134)
Profit on sale of fixed assets		197	-	**197**	174
Restructuring credit	*3*	-	1,609	**1,609**	2,418
Profit on ordinary activities before interest		20,611	(12,705)	**7,906**	33,223
Interest receivable and similar income	*7*	1,758	-	**1,758**	5,921
Interest payable and similar charges	*8*	(9,591)	-	**(9,591)**	(8,772)
Profit on ordinary activities before taxation	*2*	12,778	(12,705)	**73**	30,372
Tax credit on profit on ordinary activities	*9*			**4,076**	4,482
Profit for the financial year	*22*			**4,149**	34,854

Consolidated statement of total recognised gains and losses
For the year ended 31 March 2009

	Note	**2009 £000**	2008 £000
Profit for the financial year		**4,149**	34,854
Actuarial gain recognised in the pension schemes	*18*	-	1,841
Total recognised gains since last annual report and financial statements		**4,149**	36,695

1373432

Consolidated balance sheet
As at 31 March 2009

	Note	2009 £000	2008 £000
Fixed assets			
Intangible assets:			
Airport slots	*10*	**8,451**	7,618
Negative goodwill	*10*	**(408)**	(17,637)
Tangible assets	*11*	**137,960**	153,743
		146,003	143,724
Current assets			
Stocks	*13*	**7,470**	7,330
Debtors – due within one year	*14*	**92,493**	77,015
Debtors – due after more than one year	*14*	**26,013**	21,536
Cash at bank and in hand		**56,648**	67,449
		182,624	173,330
Creditors: amounts falling due within one year	*15*	**(180,619)**	(173,139)
Net current assets		**2,005**	191
Total assets less current liabilities		**148,008**	143,915
Creditors: amounts falling due after more than one year	*16*	**(89,681)**	(103,814)
Provisions for liabilities	*17*	**(41,785)**	(28,056)
Net assets		**16,542**	12,045
Capital and reserves			
Called up share capital	*21*	**22**	22
Share premium account	*22*	**992**	992
Merger reserve	*22*	**6,691**	6,691
Capital redemption reserve	*22*	**22,490**	8,400
Profit and loss account	*22*	**(13,653)**	(4,060)
Shareholders' funds	*23*	**16,542**	12,045

These financial statements were approved by the board of directors on 29th January 2010 and were signed on its behalf by:

J French
Director

RA Knuckey
Director

1373432

Company balance sheet
As at 31 March 2009

	Note	2009 £000	2008 £000
Fixed assets			
Investments	*12*	**33,191**	33,191
Current assets			
Debtors – due within one year	*14*	**61**	89
Debtors – due after more than one year	*14*	**50**	100
Cash at bank and in hand		**3**	36
		114	225
Creditors: amounts falling due within one year	*15*	**(1,350)**	(16,809)
Net current liabilities		**(1,236)**	(16,584)
Net assets		**31,955**	16,607
Capital and reserves			
Called up share capital	*21*	**22**	22
Share premium account	*22*	**992**	992
Merger reserve	*22*	**6,691**	6,691
Capital redemption reserve	*22*	**22,490**	8,400
Profit and loss account	*22*	**1,760**	502
Shareholders' funds	*23*	**31,955**	16,607

These financial statements were approved by the board of directors on 29th January 2010 and were signed on its behalf by:

J French
Director

RA Knuckey
Director

Consolidated cash flow statement
For the year ended 31 March 2009

	Note	**2009**	2008
		£000	£000
Cash inflow from operating activities before integration and restructuring	*26*	**31,448**	21,886
Cash outflow from integration and restructuring	*26*	**(9,190)**	(22,316)
Cash inflow/(outflow) from operating activities	*26*	**22,258**	(430)
Returns on investments and servicing of finance	*27*	**(7,389)**	(2,759)
Taxation		**-**	-
Capital expenditure	*28*	**11,928**	4,019
Acquisitions and disposals	*29*	**-**	735
Cash inflow before financing		**26,797**	1,565
Financing	*30*	**(37,598)**	(70,328)
Decrease in cash in the year	*31*	**(10,801)**	(68,763)

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently throughout the current and preceding year in dealing with items which are considered material in relation to the Group's financial statements.

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 profit for the year of £15,000,000 *(2008: profit of £4,141,000).*

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.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chairman's statement on pages 3 to 9. The financial position of the company, its cash flows and liquidity position are described in the financial performance section of that statement on page 4. In addition, pages 11 and 12 of the Directors' report cover the Group's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

The directors have considered the uncertainties presented by current economic conditions in relation to passenger volumes and yields, fuel prices, foreign exchange, route selection and investment in new aircraft.

The Group, after allowing for integration and restructuring costs, has continued to trade profitably in challenging trading conditions and has met all of its operating lease commitments and debt repayment obligations as they have fallen due.

The Group has prepared a detailed trading budget and cash flow forecast which indicates that the Group will be able to trade using operating cash flows for al least 12 months form the date of signing these accounts and will be able to meet its operating lease commitments and debt repayments as they become due.

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

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.

Intangible fixed assets

Airport landing and take-off slots are valued at cost or initially at fair value if acquired as part of a business. Slots have a value where the airport is constrained by the number of aircraft that can land and demand exceeds supply. In the directors' opinion, this condition is likely to persist in the long term for major UK airports, such as Heathrow and Gatwick, and residual values for slots will not decrease. Accordingly, airport slots are considered to have an indefinite life and are not amortised. Instead, they are subject to an annual impairment review and a provision is booked for any identified impairment.

Notes *(continued)*

1 Accounting policies *(continued)*

Investments

In the company's financial statements investments in subsidiary undertakings, associates and joint ventures are stated at cost less provision for impairment. Income from investments relates to dividends received which are recognised at the date the dividend distribution is formally approved.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. 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 year from the date of purchase to the end of its estimated economic life. 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.

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, reflecting 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

The Group incurs liabilities for maintenance costs in respect of aircraft leased under operating leases during the term of the lease. These arise from the legal and constructive contractual obligations relating to the condition of the aircraft when it is returned to the lessor. To discharge these obligations, the Group will either need to compensate the lessor for the element of the life of the component or maintenance interval used, or carry out the maintenance check before return of the aircraft to the lessor.

The provisions recorded and charged to the income statement are dependent on the life of the component or maintenance interval used and the individual terms of the lease, split into three categories:

- No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back;
- After a component or maintenance interval passes half life (or another measure depending on the individual lease) and compensation would be due to the lessor, a provision and matching income statement charge is recorded equal to the amount of compensation that would be required based on the hours or cycles flown at the balance sheet date; and
- Once the component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the related work, a full provision for the work is recorded. To the extent that this provision represents an increase to the half-life compensation provision already recorded, a maintenance asset is established within property, plant and equipment. The asset is depreciated over the expected period to the next half life compensation point, or the end of the lease, whichever is sooner.

Where maintenance is provided under 'power by the hour' contracts, and non-refundable maintenance deposits are paid to maintenance providers to cover the cost of the work, these payments are expensed as incurred and maintenance provisions are reduced to reflect the fact that the Group has already paid for the related maintenance work. Other maintenance deposits which are refundable are recorded as other debtors.

Estimates are required for the likely utilisation of the aircraft, the expected cost of the maintenance check at the time it is expected to occur, the condition of the aircraft and the lifespan of the life limited parts. The bases of all estimates are reviewed once each year and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services.

Estimates of the maintenance liabilities and related fixed assets and other debtors have been prepared using the above methodology for the first time in the year ended 31 March 2009. The net impact of the change in estimates has been recorded in the profit and loss account for 2009 and more detail is provided in note 2.

Notes *(continued)*

1 Accounting policies *(continued)*

Taxation

Current 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 taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

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. For flights purchased by members of the 'Frequent Flyer Program', an element of revenue representing the sales value of flights which these customers may take in future at no cost is deferred and recognised when the related free flights have been taken. The amount of deferral is based on the value of an equivalent flight. 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. In respect of credit card fees, this occurs when each flight is booked and paid for. For the remaining ancillary revenue, this occurs on the date of transportation, as this is when the service is generally provided.

Commission received from the issue of Flybe branded credit cards by a third party provider is allocated between the sales value of free flights and revenue. Revenue associated with free flights is recognised when the related flights are taken and remaining revenue is recognised on receipt, provided that it is not refundable and there are no further obligations on the Group.

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 a 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 the 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 Group issues equity-settled share-based payments to certain employees. Equity-settled share based payments are measured at fair value, excluding the effect of non market-based vesting conditions, at the date of the grant. The fair value determined at the grant date is expensed to the profit and loss account evenly over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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. This balance includes 'restricted cash' which represents funds held by the Group in bank accounts; however, funds cannot be withdrawn until certain conditions have been fulfilled. The aggregate 'restricted funds' balance is disclosed by way of note within the cash flow notes to these financial statements.

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.

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 a defined benefit scheme. Amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments, which 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.

Provisions

Provisions are recognised when the Group has a present obligation and, as a result of a past event, it is probable that the Group will have to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using future cash flows estimated to settle the present obligation, the carrying amount is the present value of those cash flows, discounted at a rate representing the risk inherent in the liability.

Derivative financial instruments

The Group uses derivative contracts to reduce exposure to foreign exchange and fuel price risk. The company does not hold or issue derivative financial instruments for speculative purposes.

Fuel

The company has not adopted the fair value accounting rules of FRS 25 and FRS 26 and recognises gains and losses of fuel derivative contracts as they mature.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

***Derivative financial instruments** (continued)*

Where derivative financial instruments are terminated before their contractual maturity date, but the underlying transactions which they were intended to hedge are still expected to occur, the gain or loss on termination of the instrument is deferred and recognised in line with the underlying hedged transactions

2 Profit on ordinary activities before taxation

	2009	2008
	£000	£000
Profit on ordinary activities before taxation is stated after charging/(crediting)		
Depreciation of tangible fixed assets:		
Owned	**20,396**	14,930
Leased	**-**	1,296
Impairment recognised in respect of owned aircraft	**2,793**	2,321
Profit on the disposal of fixed assets	**(197)**	(174)
Amortisation of negative goodwill	**(17,229)**	(25,205)
Operating leases:		
Land and buildings	**3,796**	3,028
Plant and machinery	**210**	148
Aircraft	**57,570**	44,758
Exchange losses /(gains)	**6,185**	(1,108)
Net impact of change in maintenance estimates	**(3,614)**	-

The methodology for calculating obligations for maintenance on operating leases has been updated, as set out in the accounting policies in Note 1. Under this method, the Group has recognised additional fixed assets with a net book value of £10,999,000 (note 11), other debtors of £13,114,000 (note 14) and additional maintenance provisions of £20,499,000 (note 17). The net impact of this change in estimate of £3,614,000 has been recognised in the profit and loss account in the year to 31 March 2009.

Auditors' remuneration:

	2009	2008
	£000	£000
Fees payable to the company's auditors and their associates for the audit of the company's annual financial statements	**5**	5
Audit of financial statements of subsidiaries pursuant to legislation	**170**	145
Non-statutory audit of interim financial statements	**-**	180
Total audit fees	**175**	330
Amounts receivable by auditors and their associates in respect of:		
Tax services	**90**	85
All other services	**38**	140
Total non-audit fees	**128**	225

Notes *(continued)*

3 Exceptional items

	2009 £000	2008 £000
Exceptional items reported in operating profit		
Impairment of aircraft	**(2,793)**	(2,321)
Reversal of a fair value provision for lease rentals	**1,057**	1,784
	(1,736)	(537)

	2009 £000	2008 £000
Restructuring credit reported below operating profit		
Vacant property provision	**-**	876
Onerous training contract	**850**	-
Onerous aircraft leases which exceed operational requirements	**759**	1,542
	1,609	2,418

On 5 March 2007, the Group acquired the business of British Regional Air Lines Group Limited. As part of that acquisition, a significant restructuring programme commenced with the objective of harmonising the Group's fleet of aircraft, employment terms and operational facilities. Provision was made for the estimated costs of this restructuring in the financial statements for the year ended 31 March 2007 and adjustments to those estimates are included in the results for the current and prior accounting years:

- A provision for the onerous element of an agreement for future use of a training simulator has been reduced by £850,000 following agreement with the supplier to end the agreement earlier than previously anticipated.
- During both 2008 and 2009, the company was able to secure the early return of several aircraft so that part of the original provision is no longer required. A credit to the profit and loss account of £1,816,000 *(2008: £3,326,000)* has been made of which £1,057,000 *(2008: £1,784,000)* relates to the reversal of a provision for lease rentals in excess of market value made as part of the acquisition and is recorded in operating profit. £759,000 *(2008: £1,542,000)* relates to the reversal of the provisions for onerous lease costs in excess of operational requirements and is recorded as a restructuring credit.

Also as part of the same restructuring programme, 8 owned BAe 146 aircraft were withdrawn from service during the year ended 31 March 2008. An impairment of £2,793,000 *(2008: £2,321,000)* was recognised against the carrying value of 6 owned aircraft plus several spare engines *(2008: 5 aircraft)* due to be disposed of by March 2010. This impairment primarily results 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 for these fuel-inefficient aircraft at their expected disposal dates.

The impact on tax of these items is a credit of £36,000 *(2008: credit of £650,000)*.

Notes *(continued)*

4 Integration charges

The 2008/09 profit and loss account highlights further additional charges associated with integrating the operating practices of the BA Connect business acquired in March 2007. These have been highlighted separately rather than as exceptional charges, as they are operating charges that are not expected to occur on the same scale once the integration is complete.

A reduction in turnover of £4,217,000 (*2008: £nil*) represents a revision to an estimate of revenue receivable from other airlines as a result of the significant increase in interline and codeshare activity which occurred as part of the acquisition and integration of the new business.

Included within cost of sales are £8,182,000 (*2008: £4,955,000*) of integration costs comprising:

- £1,624,000 (*2008: £1,972,000*) of costs associated with training pilots, cabin crew and engineering staff to operate new aircraft types following the acquisition;
- £2,275,000 (*2008: £2,459,000*) of aircraft hire costs to cover normal flying schedules whilst the pilots are receiving the above conversion training; and
- £4,283,000 (*2008: £nil*) of additional maintenance costs for Embraer 145 aircraft charged to profit and loss during the year which related to the condition of these aircraft which existed at the time of acquisition.
- £Nil other costs have been recognised in the year (*2008: £524,000 of other costs including payments to buy-out existing terms and conditions for certain incoming staff*).

Included within administrative costs are £179,000 (*2008: £1,941,000*) of legal and professional fees relating to the integration of the businesses.

5 Remuneration of directors

	2009 **£000**	2008 £000
Directors' emoluments	**1,373**	1,601
Company contributions to personal pension schemes	**93**	80

The aggregate emoluments of the highest paid director were £452,000 *(2008: £571,000)* and company pension contributions of £37,000 *(2008: £32,000)* were made to a personal pension scheme on his behalf.

In 2009 pension contributions for four *(2008: four)* directors were made to defined contribution personal pension schemes on their behalf.

Notes *(continued)*

6 Staff numbers and costs

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

	Number of employees	
	2009	2008
Technical support services	**823**	829
Administration	**572**	606
Flight and maintenance	**1,465**	1,462
	2,860	2,897

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

	2009	2008
	£000	£000
Wages and salaries	**93,356**	88,549
Social security costs	**10,155**	9,331
Other pension costs (see note 18)	**5,175**	4,923
Share-based payments (see note 19)	**347**	331
	109,033	103,134

In addition to the above, actuarial gains of £nil *(2008: £1,841,000 gains)* were recognised in the consolidated statement of total recognised gains and losses in respect of defined benefit pension schemes.

The company had no employees in either financial year.

7 Interest receivable and similar income

	2009	2008
	£000	£000
Bank interest	**1,758**	4,547
Net return on pension scheme liabilities	**-**	1,374
	1,758	5,921

8 Interest payable and similar charges

	2009	2008
	£000	£000
On bank loans and overdrafts	**7,180**	9,695
Less interest capitalised	**(740)**	(1,416)
Finance charges payable in respect of finance leases	**-**	400
Losses/(gains) arising on retranslation of foreign currency loans and deposits used to fund aircraft purchases	**3,151**	(519)
Unwinding of discount on provisions	**-**	612
	9,591	8,772

Notes *(continued)*

9 Taxation

Analysis of credit in year	**2009**	2008
	£000	£000
UK corporation tax		
Current tax on income for the year	**-**	-
Deferred tax (see note 20)		
Timing differences	**(549)**	366
Recognition of prior year tax losses	**(3,527)**	(4,848)
Tax credit on profit on ordinary activities	**(4,076)**	(4,482)

There is no corporation tax charge for the current financial year due to the availability of losses brought forward.

Factors affecting the tax credit for the year

The current tax charge for the year is lower *(2008: lower)* than the standard rate of corporation tax in the UK of 28% *(2008: 30%)*. The differences are explained below.

	2009	2008
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**73**	30,372
Current tax at 28% *(2008: 30%)*	**20**	9,112
Effects of:		
Expenses not deductible for tax purposes	**102**	120
Capital allowances less than/(in excess of) depreciation	**3,879**	(360)
Income not taxable	**(5,772)**	(7,019)
Unrelieved tax losses	**-**	(1,041)
Origination and reversal of timing differences	**680**	(1,292)
Timing differences on pension deductions	**1,677**	480
Utilisation of brought-forward losses	**(586)**	-
Total current tax (see above)	**-**	-

Notes *(continued)*

10 Intangible fixed assets

Group	**Airport slots**	**Negative goodwill**
	£000	**£000**
Cost		
At beginning of year	7,618	(44,847)
Additions	833	-
At end of year	8,451	(44,847)
Amortisation		
At beginning of year	-	27,210
Release in year	-	17,229
At end of year	-	44,439
Net book value		
At 31 March 2009	**8,451**	**(408)**
At 31 March 2008	7,618	(17,637)

Airport slots represent amounts paid to third parties to secure permission to operate aircraft at UK and overseas airports at a designated time. As explained in the accounting policy in note 1, airport slots are subject to an impairment review rather than amortisation.

Negative goodwill arose on the acquisition of British Regional Air Lines Group Limited and its subsidiary companies on 5 March 2007.

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	11,165	275	17,161	216,540	245,141
Additions	156	2	2,715	6,612	9,485
Maintenance accounting adjustment	-	-	-	19,973	19,973
Disposals	-	-	(419)	(53,611)	(54,030)
At end of year	11,321	277	19,457	189,514	220,569
Depreciation					
At beginning of year	2,336	83	9,105	79,874	91,398
Charge for year	519	20	2,590	8,293	11,422
Impairment	-	-	-	2,793	2,793
Maintenance accounting adjustment	-	-	-	8,974	8,974
On disposals	-	-	(186)	(31,792)	(31,978)
At end of year	2,855	103	11,509	68,142	82,609
Net book value					
At 31 March 2009	**8,466**	**174**	**7,948**	**121,372**	**137,960**
At 31 March 2008	8,829	192	8,056	136,666	153,743

As set out in the accounting policies note and in note 2, the methodology for accounting for obligations for maintenance on operating leases has been updated and the Group now recognises additional fixed assets with a net book value of £10,999,000

Included in the total net book value of aircraft is £nil *(2008: £nil)* in respect of assets held under finance leases. Depreciation for the year on these assets was £nil *(2008: £1,296,000)*. Included in the total cost of aircraft is £991,000 *(2008: £750,000)* in respect of capitalised interest. During the year, £740,000 was capitalised using interest rates between 6.4% and 7.2%. The value of the land component of the freehold land and buildings is not available.

Notes *(continued)*

12 Fixed asset investments

Company	**Shares in group undertakings £000**
Cost and net book value	
At beginning and 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
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	Aircraft leasing	Great Britain	Ordinary
Flybe (IoM) Limited	Non-trading	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 *(continued)*

12 Fixed asset investments *(continued)*

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

All of the above subsidiary undertakings are included in the consolidated financial statements.

13 Stocks

	2009 £000	2008 £000
Group		
Work in progress	**1,071**	1,480
Goods for resale	**964**	671
Aircraft consumables	**5,435**	5,179
	7,470	7,330

14 Debtors

	2009 £000	2009 £000	2008 £000	2008 £000
Group – due within one year				
Trade debtors	**33,057**		33,485	
Amounts recoverable on contracts	**1,400**		1,398	
Other taxation and social security	**1,711**		3,774	
Aircraft deposits	**25,914**		22,776	
Other debtors	**13,110**		1,974	
Prepayments and accrued income	**17,301**		13,608	
		92,493		77,015
Group – due after more than one year				
Aircraft deposits	**5,295**		4,796	
Other debtors	**2,384**		2,942	
Prepayments and accrued income	**18,334**		13,798	
		26,013		21,536
Company				
Amounts owed by group undertakings		**11**		39
Other debtors – due within one year		**50**		50
Other debtors – due after more than one year		**50**		100
		111		189

Notes *(continued)*

15 Creditors: amounts falling due within one year

	Group		Company	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Preference shares classified as liabilities (see note 21)	**-**	14,090	**-**	14,090
Bank loans (see note 16)	**28,631**	29,140	**-**	-
Trade creditors	**28,371**	23,895	**-**	-
Amounts owed to group undertakings	**-**	-	**1,270**	2,625
Other creditors including taxation and social security:				
Other taxation and social security	**18,270**	21,224	**-**	-
Other creditors	**7,663**	4,114	**9**	10
Accruals	**24,197**	33,136	**71**	84
Deferred income	**73,487**	47,540	**-**	-
	180,619	173,139	**1,350**	16,809

Bank loans are secured on the assets to which they relate. For further details of these loans, see note 16.

16 Creditors: amounts falling due after more than one year

	Group	
	2009	2008
	£000	£000
Secured bank loans	**77,823**	94,910
Deferred income	**11,858**	8,904
	89,681	103,814

The bank loans are repayable by instalments with £39,018,000 *(2008: £54,389,000)* falling due after five years. Rates of fixed and variable interest charged on bank loans vary between 3.8% *(2008: 6.4%)* and 8.8% *(2008: 7.2%)*. The bank loans are secured on the assets to which they relate.

The maturity of the bank loans is as follows:

	2009	2008
	£000	£000
In one year or less, or on demand	**28,631**	29,140
Between one and two years	**7,235**	7,545
Between two and five years	**30,206**	32,976
In five years or more	**40,382**	54,389
	106,454	124,050

Notes *(continued)*

17 Provisions for liabilities

	Staff costs	Onerous leases	Property costs	Leased aircraft maintenance costs	Other	Deferred tax	**Total**
	£000	£000	£000	£000	£000	£000	**£000**
Group							
At beginning of year	64	9,265	216	13,237	84	5,190	**28,056**
Reclassify from accruals	-	-	-	2,800	-	-	**2,800**
Contractual maintenance provision	-	-	-	20,499	-	-	**20,499**
Release of excess restructuring provisions	-	(1,609)	-	-	-	-	**(1,609)**
(Credit)/charge for the year in the profit and loss account	-	(1,057)	-	14,966	-	(4,076)	**9,833**
Utilised during year	(43)	(4,834)	(151)	(12,682)	(84)	-	**(17,794)**
At end of year	**21**	**1,765**	**65**	**38,820**	-	**1,114**	**41,785**

Provisions for staff and property costs have been substantially utilised.

Onerous lease provisions will be fully utilised by April 2010.

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. As set out in the accounting policies note and note 2, the calculation methodology for maintenance provisions has been modified during the year to account for more accurately for maintenance obligations due to lessors.

For details of the deferred tax provisions, see note 20.

Notes *(continued)*

18 Pension liabilities

British Regional Air Lines Group Pension Scheme

Composition of the scheme

This scheme was acquired on 5 March 2007 as part of the acquisition of British Regional Air Lines Group Limited. The scheme was closed to new contributions and future benefit accruals during the year ended 31 March 2008 and its members now contribute to the Group's defined contribution scheme.

A formal actuarial valuation was carried out as at 1 April 2005. The results of this have been updated on an FRS 17 'Retirement Benefits' basis at 31 March 2008 and 31 March 2009 by an independent qualified actuary. The service costs have been calculated using the Projected Unit method.

No contributions were payable to the fund at year-end *(2008: £nil)*.

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

	2009	2008
Discount rate	**6.4%**	6.0%
Expected return on scheme assets at start of period	**6.6%**	6.7%
Rate of increase in salaries	**n/a**	n/a
Rate of increase in pensions in payment accrued before 1 October 2006	**3.25%**	3.5%
Rate of increase in pensions in payment accrued after 1 October 2006	**2.5%**	2.5%
Inflation assumption	**3.25%**	3.5%
Mortality table	**PA92lc**	PA92lc

The Group expects to contribute nil % of pensionable salaries to the scheme in 2009/10.

Scheme assets

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

	Long-term rate of return 31 March 2009	**Value at 31 March 2009 £000**	Long-term rate of return 31 March 2008	Value at 31 March 2008 £000
Equities	**8.5%**	**26,874**	8.0%	57,514
Bonds	**5.9%**	**67,997**	5.2%	47,365
Cash	**3.0%**	**154**	3.0%	307
Total market value of assets		**95,025**		105,186
Actuarial value of liability		**(91,688)**		(101,240)
Surplus in the scheme		**3,337**		3,946
Amount of surplus not recognised		**(3,337)**		(3,946)
Net pension liability		**-**		-

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

Notes *(continued)*

18 Pension liabilities *(continued)*

Movements in the scheme liabilities during the period

	2009 £000	2008 £000
Opening liabilities	(101,240)	(109,827)
Current service cost	-	(1,582)
Member contributions paid	-	(574)
Interest cost	(5,993)	(5,738)
Curtailment	-	963
Benefits paid	2,705	2,075
Actuarial gain	12,840	13,443
Closing liabilities	(91,688)	(101,240)

Movements in the scheme assets during the period

	2009 £000	2008 £000
Opening assets	105,186	106,491
Expected return on scheme assets	5,993	7,112
Employer contributions	-	740
Member contributions	-	574
Benefits paid	(2,705)	(2,075)
Actuarial loss	(13,449)	(7,656)
Closing assets	95,025	105,186

Analysis of amount charged to operating profit

	2009 £000	2008 £000
Current service cost	-	1,582
Curtailment	-	(963)
Total charged to operating profit	-	619

Notes *(continued)*

18 Pension liabilities *(continued)*

Analysis of amounts credited to net finance charges

	2009	2008
	£000	£000
Expected return on pension scheme assets	**(5,993)**	(7,112)
Interest on pension scheme liabilities	**5,993**	5,738
Net return	**-**	(1,374)

Analysis of amount recognised in consolidated statement of total recognised gains and losses

	2009	2008
	£000	£000
Actual return less expected return on pension scheme assets	**(13,449)**	(7,656)
Experience gain arising on scheme liabilities	**12,840**	13,443
Adjustment to amount not recognised as an asset	**609**	(3,946)
Net gain recognised	**-**	1,841

History of experience gains and losses

	2009	2008
	£000	£000
Actual return less expected return on scheme assets	**(13,449)**	(7,656)
Percentage of year-end scheme assets	***14%***	*7%*
Experience gains and losses arising on scheme liabilities	**12,840**	13,443
Percentage of present value of year-end scheme liabilities	***13%***	*14%*
Amount not recognised as an asset	**609**	(3,946)
Actuarial gain recognised in consolidated statement of total recognised gains and losses	**-**	1,841
Percentage of present value of year-end scheme liabilities	***n/a***	*2%*

Other schemes

The Group also operates defined contribution pension schemes. The pension charge for the year represents contributions payable by the Group to the schemes and amounted to £5,175,000 *(2008: £4,304,000)*.

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

Notes *(continued)*

19 Equity-settled share scheme

The Employees' Trust has a share distribution scheme for employees whereby qualifying employees acquire beneficial interests at nil cost in a given number of shares in the company which are held in the Employees' Trust. The employees will have an option to sell their shares if there is a flotation or trade sale. The interests in the shares do not expire except that shares are forfeited if the employee leaves the Group before a flotation or trade sale.

Details of the shares in issue are as follows:

	2009 Number of shares	2008 Number of shares
Outstanding at the beginning of the year	**104,476**	90,864
Granted during the year	**-**	20,229
Forfeited during the year	**(6,184)**	(6,617)
Exercised during the year	**-**	-
Expired during the year	**-**	-
Outstanding at the end of the year	**98,292**	104,476
Exercisable at the end of the year	**-**	-

The fair value of the share awards granted is determined with reference to the fair value of the shares at the date of grant. No shares were awarded in 2009 (*2008: shares were awarded at a fair value of £45.54 per share*).

Under FRS 20, Share-based payments, a charge of £347,000 (*2008: £331,000*) has been recognised in the profit and loss account of the Group to reflect the fair value of the awards given. During the year, management have revisited prior estimates for the fair value of share awards made (which resulted in an increased charge for the year) and also reviewed the potential timings of a float or trade sale (which resulted in a reduction to the charge for the year). Overall the net charge for the year under the revised basis, shown above, is not materially different than that under the original assumptions.

20 Deferred taxation

The elements of deferred taxation liability/(asset) are as follows:

	Provided		Unprovided	
	2009 £000	2008 £000	**2009 £000**	2008 £000
Differences between accumulated depreciation and amortisation and capital allowances	**9,272**	7,307	**(21,345)**	-
Other timing differences	**-**	-	**(2,129)**	(6,388)
Tax losses	**(8,158)**	(2,117)	**(2,572)**	(14,431)
Undiscounted deferred tax liability/(asset)	**1,114**	5,190	**(26,046)**	(20,819)

For Group companies where capital allowances have been claimed in excess of depreciation, deferred tax liabilities have been recognised in full. Where carried forward losses or unclaimed capital allowances are available, they are recognised to the extent that taxable profits are forecast to arise in the next twelve months or they offset deferred tax liabilities in the same company. No deferred tax assets have been recognised in respect of the pension liability or tax losses in excess of one year's forecast taxable profits due to uncertainty as to when these assets will be realised.

Notes *(continued)*

21 Share capital

	2009 £000	2008 £000
Authorised, allotted, called up and fully paid		
654,150 ordinary shares of 1 pence each	**7**	7
1,445,850 'A' ordinary shares of 1 pence each	**15**	15
Nil (*2008: 99,000,000*) cumulative redeemable preference shares of 1 pence each	**-**	990
Nil (*2008: 1,310,000,000*) redeemable preference shares of 1 pence each	**-**	13,100
	22	14,112
Shares classified as liabilities	**-**	14,090
Shares classified as equity	**22**	22
	22	14,112

During the year, the company redeemed 1,310,000,000 redeemable preference shares of 1p each at par at a cash cost of £13,100,000 and 99,000,000 cumulative redeemable preference shares of 1p each at par at a cash cost of £990,000.

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 to the holders of 'A' ordinary shares in preference to ordinary shares.

22 Reserves

	Group				Company			
	Merger reserve £000	Capital redem'n reserve £000	Share premium £000	Profit and loss account £000	Merger reserve £000	Capital redem'n reserve £000	Share premium £000	Profit and loss account £000
At beginning of year	6,691	8,400	992	(4,060)	6,691	8,400	992	502
Profit for the year	-	-	-	4,149	-	-	-	15,000
Share-based payments	-	-	-	348	-	-	-	348
Redemption of preference shares	-	14,090	-	(14,090)	-	14,090	-	(14,090)
At end of year	**6,691**	**22,490**	**992**	**(13,653)**	**6,691**	**22,490**	**992**	**1,760**

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off is £2,030,000 *(2008: £2,030,000)*. This amount is net of goodwill attributable to businesses disposed of prior to the balance sheet date.

Notes *(continued)*

23 Reconciliation of movements in shareholders' funds

	2009	2008
	£000	£000
Group		
Profit for the year	**4,149**	34,854
Credit to equity for equity-settled share-based payments	**348**	331
Actuarial gain recognised on the pension scheme	**-**	1,841
Opening shareholders' funds/(deficit)	**12,045**	(24,981)
Closing shareholders' funds	**16,542**	12,045

	2009	2008
	£000	£000
Company		
Profit for the year	**15,000**	4,141
Credit to equity for equity-settled share-based payments	**348**	331
Opening shareholders' funds	**16,607**	12,135
Closing shareholders' funds	**31,955**	16,607

24 Contingent liabilities and guarantees

The Group has given guarantees in favour of Lloyds TSB Cardnet, the company's credit card acquirers, for £14,000,000 *(2008: £14,000,000)*.

The Group has also placed bonds in favour of various handling agents, aircraft lessors, fuel suppliers and customs offices totalling £10,030,000 *(2008: £5,101,000)*.

Notes *(continued)*

25 Commitments

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

	2009		2008	
	Land and buildings	**Other**	Land and buildings	Other
	£000	**£000**	£000	£000
Group				
Operating leases which expire:				
Within one year	**1,331**	**1,058**	1,296	5,992
In the second to fifth years inclusive	**1,404**	**6,813**	1,277	8,073
Over five years	**754**	**53,884**	512	39,126
	3,489	**61,755**	3,085	53,191

Capital expenditure authorised and contracted for but not provided in the accounts as at 31 March 2009 amounts to US$275m (£192m) *(2008: US$665m, £334m)*. This is in respect of 11 *(2008: 23)* Bombardier Dash 8 Q400 aircraft and nil *(2008: 3)* 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 two 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 2009 amounts to US$735m (£514m) *(2008: US$735m, £369m)*. This is in respect of options entered into for 15 *(2008: 15)* Bombardier Q400 aircraft and 12 *(2008: 12)* Embraer 195 aircraft on the same valuation basis as above.

26 Reconciliation of operating profit to operating cash inflow/(outflow)

	2009	2008
	£000	£000
Profit before interest	**7,906**	33,223
Depreciation and impairment charges	**23,190**	18,547
Amortisation of negative goodwill	**(17,229)**	(25,205)
Profit on disposal of fixed assets	**(197)**	(174)
Increase in stocks	**(140)**	(408)
Loss on sale of subsidiary	**-**	134
(Increase)/decrease in debtors	**(14,487)**	2,122
Increase/(decrease) in creditors	**25,384**	(5,420)
Decrease in provisions	**(2,169)**	(23,249)
Cash inflow/(outflow) from operating activities	**22,258**	(430)
Analysed as:		
Net cash inflow from operating activities before integration and restructuring	**31,448**	21,886
Net cash outflow from integration and restructuring	**(9,190)**	(22,316)
	22,258	(430)

Notes *(continued)*

27 Returns on investments and servicing of finance

	2009 £000	2008 £000
Interest received	**1,758**	5,920
Interest paid	**(9,147)**	(8,279)
Interest element of finance lease rental payments	**-**	(400)
Net cash outflow from returns on investments and servicing of finance	**(7,389)**	(2,759)

28 Capital expenditure

	2009 £000	2008 £000
Payments to acquire intangible fixed assets	**(833)**	(3,218)
Payments to acquire tangible fixed assets	**(9,486)**	(51,593)
Receipts from sale of tangible fixed assets	**22,247**	58,830
	11,928	4,019

29 Acquisitions and disposals

	2009 £000	2008 £000
Net cash balances acquired with undertaking	**-**	749
Net cash disposed of with undertaking	**-**	(14)
Net cash inflow from acquisitions and disposals	**-**	735

Notes *(continued)*

30 Financing

	2009 £000	2008 £000
Redemption of preference shares	**(14,090)**	(8,400)
New secured loans	**7,839**	44,066
Repayment of loans	**(31,347)**	(70,464)
Capital element of finance lease rental payments	**-**	(35,530)
	(37,598)	(70,328)

31 Reconciliation of net cash flow to movement in net debt

	2009 £000	2008 £000
Decrease in cash in the year	**(10,801)**	(68,763)
Cash outflow from decrease in debt and lease financing	**37,598**	70,328
Movement in net debt resulting from cash flows	**26,797**	1,565
Loans acquired with undertaking	**-**	-
Net debt at the beginning of the year	**(70,692)**	(72,777)
Exchange rate adjustments	**(5,911)**	520
Net debt at the end of the year	**(49,806)**	(70,692)

32 Analysis of net debt

	At beginning of year £000	Cash flows £000	Other non-cash changes £000	Foreign exchange £000	**At end of year £000**
Cash at bank and in hand	67,449	(10,801)	-	-	**56,648**
Debt due within one year	(43,231)	37,598	(17,087)	(5,911)	**(28,631)**
Debt due after one year	(94,910)	-	17,087	-	**(77,823)**
	(138,141)	37,598	-	(5,911)	**(106,454)**
Total	(70,692)	26,797	-	(5,911)	**(49,806)**

Included within cash at bank and in hand is £11,970,000 (*2008: £8,130,000*) held in restricted accounts.

Notes *(continued)*

33 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 asset at 31 March 2009 totalling £25,416,000 (*2008: £1,830,000 net asset*).
- Aircraft fuel derivatives with a mark-to-market net liability at 31 March 2009 totalling £51,451,000 (*2008: £3,158,000 net asset*).

The foreign currency derivative instruments represent 94 open contracts comprising swaps, forwards and options with maturity dates ranging from April 2009 to November 2010 which are to purchase either US dollars or euros to meet business requirements.

The fuel derivative instruments represent 41 open contracts comprising swaps, collars and options with maturity dates ranging from April 2009 to August 2010 which are to purchase aviation fuel and Brent Crude Oil.

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.

34 Related party transactions

During the year the Group provided services to Preston Travel (C.I.) Limited, a subsidiary of Rosedale (J.W.) Investments Limited, the ultimate parent company, at an arm's length market rate. The amount charged was £1,460,000 *(2008: £1,381,000)* and the outstanding amount at the year-end was £94,000 *(2008: £91,000).*

The following transactions with Edenfield Investments Limited and Downham Properties Limited are disclosed although there is no holding/subsidiary company relationship between these two companies and Rosedale (J.W.) Investments Limited. These two companies are owned and controlled by the Eleanor J Walker 1964 settlement, established by the former wife of the late Mr Jack Walker; this trust is separate for tax purposes from the Jack Walker Settlement which controls Rosedale (J.W.) Investments Limited:

- During the period the Group purchased property services from Edenfield Investments Limited and from Downham Properties Limited at an arm's length market rate. The amount paid was £242,000 *(2008: £527,000)* and £235,000 *(2008: £227,000)* respectively. The Group holds a deferred income balance of £45,000 at the balance sheet date regarding a rent–free period on a property leased from Downham Properties Limited *(2008: £50,500).*
- The Group made no further payments to Edenfield Investments Limited *(2008: the Group made a payment of £4,200,000 to Edenfield Investments Limited to purchase hangar accommodation which is occupied by the group).*

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

The directors regard Rosedale (J.W.) Investments Limited, incorporated in Jersey, as the ultimate parent company. The ultimate controlling party is the Jack Walker Settlement.

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