

Flybe Group Limited

Annual report and consolidated
financial statements

Registered number 1373432

31 March 2010

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Chairman's statement

1. Overview

I am pleased to report that, against the backdrop of extreme challenges in the airline sector, Flybe delivered another strong trading performance in the year to 31 March 2010, a period during which it became the UK's largest domestic airline brand.

Headlines from the accounts for the year to 31 March 2010 were as follows:

- Profit before tax and exceptional, integration and restructuring items ('adjusted profit before tax') of £6.8 million (2008/09: £12.8 million). Profit before tax, after exceptional, integration and restructuring items, of £5.7 million (2008/09 £0.1 million).
- Turnover of £570.5 million (2008/09 £572.4 million).
- Maintaining passenger volume during the recession, with 7.2 million passengers in 2009/10 (2008/09 7.3 million).
- Growing ancillary revenues per passenger by 16% to £11.98 (2008/09 £10.34).
- Continued rationalisation of the fleet, resulting in our two aircraft type strategy being achieved in May 2009.

2009/10 was another very challenging year for the airline industry, as the economic recession which started in October 2008 continued into the fourth quarter of 2009/10.

- The market environment continued to be very tough with Flybe's gross ticket revenues in the first quarter of 2009/10 more than 10% below the previous year's levels, due to a combination of a reduction in passenger volumes and ticket yields. However, I am pleased to report that we returned to year-on-year growth in both volumes and yield in the final quarter of 2009/10. Ancillary revenues and third party income in Aviation Services remained strong throughout the year, ensuring that overall group revenues were only £1.9 million less than the prior year.
- Overall, Flybe's UK domestic market shares continued to grow. In May 2009, we carried more passengers on UK domestic air travel than any other airline, and we ended 2009/10 as the UK's largest domestic airline brand.
- The recession took hold during the winter of 2008/09. The Board took the decision in December 2008 to reduce Flybe's growth plans from nine to three aircraft for 2009/10. In addition, due to the downturn in the aviation market, we reduced our 2009/10 winter flying programme by a further three aircraft. We were therefore facing surplus capacity of up to nine aircraft and a large number of crew - a potentially major cost and cash drain on the business and a significant threat to job security for many staff. An incredible amount of work, effort and energy went into finding alternative uses for these aircraft and crew and, in August 2009, we were able to conclude a deal with the new Olympic Air in Greece, whereby Olympic Air:
 - took three of our scheduled Q400 aircraft deliveries in 2009 (in total, we have agreed with Bombardier the deferral of four Q400 deliveries from 2009 to 2011);
 - bought two used Q400 aircraft from us; and
 - wet leased (i.e. aircraft, crew and maintenance support) from us four Q400s from Summer 2009 for a period of just over a year.

Chairman's statement *(continued)*

The Olympic Air deal removed all of Flybe's surplus aircraft and crew costs for 2009/10 (and into 2010/11) without the requirement for any significant redundancies. Just as important, seven out of the nine aircraft (i.e. three deferred deliveries and four wet leases) will return to Flybe's business as the UK and European economies emerge from recession – this deal was very much Flybe's "Bridge over the recession".

- The adverse weather conditions experienced in December 2009 and January 2010 had a significant impact on the network with considerable disruption to services and customer travel plans. In addition, we incurred substantial additional cost for aircraft de-icing during the period.

Flybe's continued profitability through the deepest economic recession since the 1930s has demonstrated both the resilience of the Flybe business model and the determination of the management team and staff within Flybe to deal with critical challenges on a timely basis.

Since 31 March 2010, the volcanic eruptions in Iceland have had a significant impact on the operations during April and May 2010 with substantial numbers of flights cancelled and passenger disruption. While the eruptions have abated, Flybe continues to work with the various regulatory authorities, and engine and airframe manufacturers in order to alleviate the restrictions which were initially implemented. The key objectives are to maintain safety standards at all times as the first priority, while minimising the impact of future eruptions both in terms of customer disruption and financial impact. We estimate that the financial impact to date is of the order of £10 million to £12 million of lost profit before tax for the 2010/11 financial year. The management team are working on profit recovery plans to offset this financial impact.

2. Financial performance

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:

- Passenger volumes and turnover relatively stable at 7.2 million and £570.5 million respectively (2008/09 7.3 million and £572.4 million respectively).
- Cost of sales, excluding net exceptional, integration and restructuring costs of £nil (2008/09 £9.9 million), increased by £3.5 million (0.7%) from £503.7 million to £507.2 million.
- Operating profit for the year, excluding net exceptional, integration and restructuring costs of £1.1 million (2008/09 £14.3 million), decreased from £20.4 million to £9.3 million, giving an operating margin of 1.6% (2008/09 3.6%).
- After net exceptional, integration and restructuring costs, operating profit was £8.2 million (2008/09 £6.1 million).
- Net interest payable and similar charges in the year totalled £3.0 million (2008/09 £7.8 million) largely due to lower interest rates and a lower level of adverse movements in the exchange rate between UK Sterling and the US Dollar.
- Adjusted profit before tax for the year was £6.8 million, compared with £12.8 million in the previous year.
- Profit before tax was £5.7 million (2008/09 £0.1 million).
- There was a deferred tax credit of £1.0 million for the year (2008/09 credit £4.0 million), leaving a profit after tax for 2009/10 of £6.7 million (2008/09 profit after tax £4.1 million).

Chairman's statement *(continued)*

Cash

Our cash reserves at the end of the year stood at £62.1 million, an increase of £5.5 million on the 31 March 2009 balance of £56.6 million.

During the year, we generated operating cash inflow before restructuring and integration of £50.9 million, compared to £31.4 million in the previous year.

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 operates across all operational activities and 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.

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 Flybe now having a two-type fleet of Bombardier Q400 78-seat turboprops ('Q400') and Embraer E-series regional jets, the 118-seat 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, seven Bombardier Q300s and four BAe 146s); and
- the introduction of 37 new aircraft (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

Our total fleet as at March 2010 comprised 54 Q400s and 14 E195s with an average age of 3.3 years. 58 of the aircraft were held on operating lease, while 10 were owned and debt financed.

I am pleased to advise that Flybe has no aircraft deliveries to be financed until 2011 and is currently only committed to purchase four more Q400s. In addition, we have options in place to acquire up to a further 15 Q400s and 12 E195s.

Our fuel efficient fleet, with its low average age and no financing requirements until 2011, places Flybe in an excellent position compared to many other airlines that still have to modernise their fleets.

Chairman's statement *(continued)*

iii) Fuel prices

2009/10 was another year of considerable fuel price volatility, although somewhat less so than the extremes of 2008/09. These periods of price volatility have 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 Dollar has reduced the impact on Flybe of this industry-wide challenge.

The decision to invest in the new fleet of 78-seat Q400 and 118-seat E195 aircraft has provided significant benefits in terms of reduction in fuel burn. With our new two-type fleet in place, we reduced fuel burn per seat flown from 19.1 kg in 2007/08 to 16.1 kg in 2009/10 – an improvement of 15.7% over the two year period.

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 relevant selling season commencing. We will continue to monitor the effectiveness of Flybe's policies and to benchmark these against our competitors.

iv) Loganair franchise

2009/10 was the first full year of Loganair flying in Flybe colours, after the franchise operation commenced in October 2008. This arrangement has been enormously beneficial to us in extending our UK domestic footprint and demonstrating that Flybe is an essential service for a key component of our customer base.

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 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" continues to grow and, from its starting point in 2007, now has over 1.3 million members.

It is our constant goal to offer a product which offers a consistently high standard of service while 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.

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, and the wise counsel from our independent non-executive directors has never been more important than during the challenges of the recession.

We have formalised the role of Company Secretary, and I am delighted to welcome back Chris Simpson into that position; Chris was Flybe's Chief Financial Officer from 2003 to 2007.

Chairman's statement *(continued)*

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 is currently building its new Training Academy at Exeter and the project should be completed by the end of 2010. The 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 support given to this project by the South West Regional Development Agency and the Learning and Skills Council. In addition we have received substantial support for the 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 just under 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 are bringing this together into the new Training Academy. 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 (and, indeed, replicate the business model of) our aircraft maintenance, repair and overhaul ('MRO') business, Flybe Aviation Services, where well over half 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 of 3.3 years at March 2010.

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.

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

6. Other strategic developments

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.

Chairman's statement *(continued)*

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:

- support existing operations,
- manage the introduction of regional aircraft operations for others; and
- 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.

7. Summary

Although the year to March 2010 has seen a reduction in the frantic pace of change that resulted from integrating BA Connect and completing the fleet replacement programme, the management team and staff have worked very hard for a very long period to overcome some considerable challenges resulting from the recession and specific industry issues. As always, they have displayed a considerable degree of devotion, commitment and energy to Flybe., and 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:

- the UK's largest domestic airline brand and 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
- a developing 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 maintenance facilities, and developing a new Training Academy ;
- Expanded network;
- Acquisition and successful integration of BA Connect; and
- Strengthened management resources.

Although these investments have required a very significant cash output in the past few years, they have resulted in Flybe being in excellent shape to harvest these investments as the UK and European economies continue to emerge from recession.

Jim French CBE
Chairman and Chief Executive Officer

8 July 2010

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2010.

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 14 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 8 which is incorporated in this report by reference.

Directors

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

Jim French CBE	(Chairman and Chief Executive Officer)
Mark Chown	(Deputy Chairman)
Charlie Scott	(Senior Independent Non-executive Director)
David Brown	(Non-executive Director)
David Longbottom	(Independent Non-executive Director)
Alan Smith	(Independent Non-executive Director)
Peter Smith	(Independent Non-executive Director)
Andrew Knuckey	(Chief Financial Officer)
Mike Rutter	(Chief Commercial Officer)
Andrew Strong	(Chief Operating Officer)

On 8 July 2010, David Brown retired as a director of the Company and Anita Lovell was appointed as a non-executive director.

Dividends

The directors do not recommend the payment of a final dividend (2009: *£nil*).

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 (2009: *£nil*).

Directors' report *(continued)*

Principal risks and uncertainties

The principal operational and financial risks are set out below.

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 group 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 airline 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 just 3.3 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.

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 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.

Directors' report *(continued)*

Going concern

The Group'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 8. The financial position of the Group, its cash flows and liquidity position, and events since the balance sheet date are described in the financial performance section of that statement on pages 4 and 5. In addition, page 10 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 prices, foreign exchange, route selection and investment in new aircraft.

The Group has met all of its operating lease commitments and debt repayment obligations as they have fallen due.

The directors have 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.

Derivatives and other financial instruments

The Group's principal financial instruments, other than the derivatives described above, comprise aircraft mortgages, operating 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 33, the fair value of the Group's derivatives at 31 March 2010 was a net asset of £7.3m (2009: £26.0m net liability).

Auditors

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

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

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

Chris Simpson
Company Secretary

Jack Walker House
Exeter International Airport
Exeter, Devon
EX5 2HL
8 July 2010

Directors' responsibilities statement 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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company 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 accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company 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 financial statements of Flybe Group Limited for the year ended 31 March 2010 which comprise the group profit and loss account, the group statement of total recognised gains and losses, the group and parent company balance sheets, the group cash flow statement and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Stuart Woodward (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
Bristol, United Kingdom

8 July 2010

Consolidated profit and loss account
For the year ended 31 March 2010

	<i>Note</i>	2010 £m	2009 £m
<i>Turnover – before integration and restructuring</i>		570.5	576.6
<i>Integration and restructuring</i>	4	-	(4.2)
Turnover - continuing operations	1	570.5	572.4
<i>Amortisation of negative goodwill</i>	2	0.4	17.2
<i>Other cost of sales</i>		(507.6)	(520.9)
<i>Exceptional cost of sales, and integration and restructuring costs</i>	3 and 4	-	(9.9)
Cost of sales - total		(507.2)	(513.6)
Gross profit		63.3	58.8
<i>Other administrative expenses</i>		(54.0)	(52.5)
<i>Exceptional administrative expenses, and integration and restructuring costs</i>	3 and 4	(1.1)	(0.2)
Administrative expenses - total		(55.1)	(52.7)
<i>Operating profit before exceptional items, and integration and restructuring costs</i>		9.3	20.4
<i>Exceptional items, and integration and restructuring costs</i>	3 and 4	(1.1)	(14.3)
Operating profit – continuing operations		8.2	6.1
Profit on sale of fixed assets		0.5	0.2
Restructuring credit	3	-	1.6
Profit on ordinary activities before interest		8.7	7.9
Interest receivable and similar income	8	0.2	1.8
Interest payable and similar charges	9	(3.2)	(9.6)
<i>Adjusted profit before exceptional items and integration and restructuring costs</i>		6.8	12.8
<i>Exceptional items, and integration and restructuring costs</i>	3 and 4	(1.1)	(12.7)
Profit on ordinary activities before taxation	2	5.7	0.1
Tax credit on profit on ordinary activities	10	1.0	4.0
Profit for the financial year	23	6.7	4.1

Consolidated statement of total recognised gains and losses
For the year ended 31 March 2010

	<i>Note</i>	2010 £m	2009 £m
Profit for the financial year		6.7	4.1
Gains and losses related to the pension schemes	19	(4.7)	-
Total recognised gains since last annual report and financial statements		2.0	4.1

Consolidated balance sheet
As at 31 March 2010

Registered number 1373432

	<i>Note</i>	2010 £m	2009 £m
Fixed assets			
Intangible assets:			
Airport slots	<i>11</i>	8.5	8.5
Negative goodwill	<i>11</i>	-	(0.4)
Tangible assets	<i>12</i>	132.1	138.0
		<hr/> 140.6	<hr/> 146.1
Current assets			
Stocks	<i>14</i>	6.1	7.5
Debtors – due within one year	<i>15</i>	71.7	92.5
Debtors – due after more than one year	<i>15</i>	32.2	26.0
Cash at bank and in hand	<i>32</i>	62.1	56.6
		<hr/> 172.1	<hr/> 182.6
Creditors: amounts falling due within one year	<i>16</i>	(163.2)	(180.7)
		<hr/> 8.9	<hr/> 1.9
Net current assets			
		<hr/> 149.5	<hr/> 148.0
Total assets less current liabilities			
Creditors: amounts falling due after more than one year	<i>17</i>	(83.4)	(89.7)
Provisions for liabilities	<i>18</i>	(42.4)	(41.8)
		<hr/> 23.7	<hr/> 16.5
Net assets excluding pension liabilities			
Pension liabilities			
Defined benefit scheme net liability	<i>19</i>	(4.8)	-
		<hr/> 18.9	<hr/> 16.5
Net assets		<hr/> 18.9	<hr/> 16.5
		<hr/> <hr/> 18.9	<hr/> <hr/> 16.5
Capital and reserves			
Called up share capital	<i>22</i>	-	-
Share premium account	<i>23</i>	1.0	1.0
Merger reserve	<i>23</i>	6.7	6.7
Capital redemption reserve	<i>23</i>	22.5	22.5
Profit and loss account	<i>23</i>	(11.3)	(13.7)
		<hr/> 18.9	<hr/> 16.5
Shareholders' funds	<i>24</i>	18.9	16.5
		<hr/> <hr/> 18.9	<hr/> <hr/> 16.5

The financial statements of Flybe Group Limited were approved by the Board of Directors and authorised for issue on 8 July 2010.

Signed on behalf of the Board of Directors

Jim French CBE
Director

Andrew Knuckey
Director

Company balance sheet
As at 31 March 2010

Registered number 1373432

	<i>Note</i>	2010 £m	2009 £m
Fixed assets			
Investments	<i>13</i>	33.2	33.2
Current assets			
Debtors – due within one year	<i>15</i>	-	0.1
		<hr/>	<hr/>
Creditors: amounts falling due within one year	<i>16</i>	(0.9)	0.1 (1.4)
		<hr/>	<hr/>
Net current liabilities		(0.9)	(1.3)
		<hr/>	<hr/>
Net assets		32.3	31.9
		<hr/> <hr/>	<hr/> <hr/>
Capital and reserves			
Called up share capital	<i>22</i>	-	-
Share premium account	<i>23</i>	1.0	1.0
Merger reserve	<i>23</i>	6.7	6.7
Capital redemption reserve	<i>23</i>	22.5	22.5
Profit and loss account	<i>23</i>	2.1	1.7
		<hr/>	<hr/>
Shareholders' funds	<i>24</i>	32.3	31.9
		<hr/> <hr/>	<hr/> <hr/>

The financial statements of Flybe Group Limited were approved by the Board of Directors and authorised for issue on 8 July 2010.

Signed on behalf of the Board of Directors

Jim French CBE
Director

Andrew Knuckey
Director

Consolidated cash flow statement
For the year ended 31 March 2010

	<i>Note</i>	2010 £m	2009 £m
Cash inflow from operating activities before integration and restructuring	27	50.9	31.4
Cash outflow from integration and restructuring	27	(8.2)	(9.2)
Cash inflow from operating activities	27	42.7	22.2
Returns on investments and servicing of finance	28	(2.0)	(7.3)
Net cash (outflow) / inflow from capital expenditure	29	(10.8)	11.9
Cash inflow before financing		29.9	26.8
Financing	30	(24.4)	(37.6)
Increase / (decrease) in cash in the year	31	5.5	(10.8)

Notes

(forming part of the financial statements)

1 Accounting policies

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

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 408 of the Companies Act 2006, Flybe Group Limited is exempt from the requirement to present its own profit and loss account. The parent company made neither a profit nor a loss for the year (2009: profit of £15.0m).

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 Group'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 8. The financial position of the Group, its cash flows and liquidity position, and events since the balance sheet date are described in the financial performance section of that statement on pages 4 and 5. In addition, page 10 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 has met all of its operating lease commitments and debt repayment obligations as they have fallen due.

The directors have 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.

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. This release was completed in the year to 31 March 2010.

Intangible fixed assets

Airport landing and take-off slots are stated 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

No depreciation is provided on assets in the course of construction.

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 their 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 than 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

The carrying value of engine overhaul and maintenance work in progress 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 profit and loss account 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 profit and loss account 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 when 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 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.

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 and hotel and insurance commission, 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 rotatable 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 FRS20 '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, which was closed to new contributions and future benefit accruals during the year ended 31 March 2008. 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.

The defined benefit scheme is 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.

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 FRS25 and FRS26 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

	2010 £m	2009 £m
<i>Profit on ordinary activities before taxation is stated after charging / (crediting)</i>		
Depreciation of tangible fixed assets	17.1	11.4
Impairment recognised in respect of owned aircraft	-	2.8
Profit on the disposal of fixed assets	(0.5)	(0.2)
Amortisation of negative goodwill	(0.4)	(17.2)
Operating leases:		
Land and buildings	3.4	3.8
Plant and machinery	0.2	0.2
Aircraft	66.9	57.6
Exchange (gains) / losses	(1.9)	6.2
Net impact of change in maintenance estimates	-	(3.6)
	<u> </u>	<u> </u>

The methodology for calculating obligations for maintenance on operating leases was revised from 31 March 2009, as set out in the accounting policies in Note 1. Under this method, on 31 March 2009 the Group recognised additional fixed assets with a net book value of £11.0m (note 12), other debtors of £13.1m (note 15) and additional maintenance provisions of £20.5m (note 18). The net impact of this change in estimate of £3.6m was recognised in the profit and loss account in the year to 31 March 2009.

Auditors' remuneration:

	2010 £m	2009 £m
Fees payable to the company's auditors and their associates for the audit of the company's annual financial statements	-	-
Audit of financial statements of subsidiaries pursuant to legislation	0.2	0.2
Non-statutory audit of interim financial statements	0.2	-
	<u> </u>	<u> </u>
Total audit fees	0.4	0.2
	<u> </u>	<u> </u>

Fees payable to the company's auditors and their associates in respect of:

Tax services	0.1	0.1
Expenses in connection with strategic projects	0.4	-
All other services	0.1	-
	<u> </u>	<u> </u>
Total non-audit fees	0.6	0.1
	<u> </u>	<u> </u>

Notes *(continued)*

3 Exceptional items

	2010	2009
	£m	£m
<i>Exceptional (costs) / income reported in operating profit</i>		
Legal and professional fees in connection with strategic projects	(1.1)	-
Impairment of aircraft	-	(2.8)
Reversal of a fair value provision for lease rentals	-	1.1
	<hr/>	<hr/>
	(1.1)	(1.7)
	<hr/> <hr/>	<hr/> <hr/>
	2010	2009
	£m	£m
<i>Restructuring credit reported below operating profit</i>		
Onerous training contract	-	0.8
Onerous aircraft leases which exceed operational requirements	-	0.8
	<hr/>	<hr/>
	-	1.6
	<hr/> <hr/>	<hr/> <hr/>

In the year to 31 March 2010, the Group incurred legal and professional fees in connection with strategic projects of £1.1m (2009: £nil).

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 were included in the results for the year ended 31 March 2009:

- A provision for the onerous element of an agreement for future use of a training simulator was reduced by £0.8m following agreement with the supplier to end the agreement earlier than previously anticipated.
- The group was able to secure the early return of several aircraft so that part of the original provision was no longer required. A credit to the profit and loss account of £1.9m arose of which £1.1m related to the reversal of a provision for lease rentals in excess of market value made as part of the acquisition and was recorded in operating profit. £0.8m related to the reversal of the provisions for onerous lease costs in excess of operational requirements and was recorded as a restructuring credit below operating profit.

Also as part of the same restructuring programme, eight owned BAe 146 aircraft were withdrawn from service during the year ended 31 March 2008. An impairment of £nil (2009: £2.8m) was recognised against the carrying value of six owned aircraft plus several spare engines ultimately disposed of in March 2010. This impairment primarily resulted from the significant increase in fuel prices experienced, which in turn 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 £0.3m (2009: credit of £0.1m).

Notes (continued)

4 Integration charges

The profit and loss account for the year ended 31 March 2009 highlighted further additional charges associated with integrating the operating practices of the BA Connect business acquired in March 2007. These were highlighted separately rather than as exceptional charges, as they were operating charges that were not expected to occur on the same scale once the integration was complete.

The following comments relate to expenses incurred in the year ended 31 March 2009; no such charges were incurred during the year to 31 March 2010.

- A reduction in turnover of £4.2m represented 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 were £8.2m of integration costs comprising:
 - £1.6m of costs associated with training pilots, cabin crew and engineering staff to operate new aircraft types following the acquisition;
 - £2.3m of aircraft hire costs to cover normal flying schedules while the pilots were receiving the above conversion training; and
 - £4.3m 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
- Included within administrative costs were £0.2m of legal and professional fees relating to the integration of the businesses.

5 Segmental information

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.

6 Remuneration of directors

	2010 £m	2009 £m
Directors' emoluments	1.8	1.4
Company contributions to personal pension schemes	0.1	0.1

The aggregate emoluments of the highest paid director were £0.6m (2009: £0.5m) and company pension contributions of £0.1m (2009: £0.1m) were made to a personal pension scheme on his behalf.

In 2010 pension contributions for four (2009: four) directors were made to defined contribution personal pension schemes on their behalf.

Notes (continued)

7 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	
	2010	2009
Technical support services	828	823
Administration	539	572
Flight and maintenance	1,431	1,465
	<u>2,798</u>	<u>2,860</u>

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

	2010	2009
	£m	£m
Wages and salaries	91.7	93.4
Social security costs	10.1	10.2
Other pension costs (see note 19)	5.5	5.2
Share-based payments (see note 20)	0.4	0.3
	<u>107.7</u>	<u>109.1</u>

In addition to the above, actuarial losses of £4.7m (2009: £nil) 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.

8 Interest receivable and similar income

	2010	2009
	£m	£m
Bank interest	0.2	1.8
	<u>0.2</u>	<u>1.8</u>

9 Interest payable and similar charges

	2010	2009
	£m	£m
On bank loans and overdrafts	4.2	7.2
Less interest capitalised	(0.1)	(0.7)
Net finance charge in respect of pension scheme liabilities	0.1	-
(Gains) / losses arising on retranslation of foreign currency loans used to fund aircraft purchases	(1.0)	3.1
	<u>3.2</u>	<u>9.6</u>

Notes (continued)

10 Taxation

<i>Analysis of charge / (credit) in year</i>	2010	2009
	£m	£m
<i>UK corporation tax</i>		
Current tax on income for the year	-	-
<i>Deferred tax (see note 21)</i>		
Timing differences	(8.8)	(0.6)
Recognition of prior year tax losses	7.8	(3.4)
	<hr/>	<hr/>
Tax credit on profit on ordinary activities	(1.0)	(4.0)
	<hr/> <hr/>	<hr/> <hr/>

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 (2009: lower) than the standard rate of corporation tax in the UK of 28% (2009: 28%). The differences are explained below:

	2010	2009
	£m	£m
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	5.7	0.1
	<hr/>	<hr/>
Current tax at 28% (2009: 28%)	1.6	-
<i>Effects of:</i>		
Expenses not deductible for tax purposes	0.1	0.1
Capital allowances less than depreciation	6.5	3.9
Income not taxable	-	(5.8)
Origination and reversal of timing differences	-	0.7
Timing differences on pension deductions	-	1.7
Utilisation of brought-forward losses	(8.2)	(0.6)
	<hr/>	<hr/>
Total current tax (see above)	-	-
	<hr/> <hr/>	<hr/> <hr/>

A deferred tax asset for losses brought forward and unclaimed capital allowances of £0.1m has been recognised as set out in note 21. This asset represents deferred tax assets which are expected to be realised within the next twelve months.

A deferred tax asset for losses brought forward and unclaimed capital allowances of £16.4m has not been recognised as a deferred tax asset as the timing of their reversal is not sufficiently certain.

Notes *(continued)*

11 Intangible fixed assets

Group	Airport slots	Negati ve goodwill
	£m	£m
<i>Cost</i>		
At beginning of year and end of year	8.5	(44.8)
	<hr/>	<hr/>
<i>Amortisation</i>		
At beginning of year	-	44.4
Release in year	-	0.4
	<hr/>	<hr/>
At end of year	-	44.8
	<hr/>	<hr/>
<i>Net book value</i>		
At 31 March 2010	8.5	-
	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2009	8.5	(0.4)
	<hr/> <hr/>	<hr/> <hr/>

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)*

12 Tangible fixed assets

	Freehold land and buildings	Short leasehold buildings	Plant, equipment and motor vehicles	Aircraft	Assets under construction	Total
	£m	£m	£m	£m	£m	£m
Group						
Cost						
At beginning of year	11.3	0.3	19.5	189.5	-	220.6
Additions	-	-	1.6	86.0	3.2	90.8
Disposals	(0.1)	-	(1.3)	(108.0)	-	(109.4)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	11.2	0.3	19.8	167.5	3.2	202.0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation						
At beginning of year	2.9	0.1	11.5	68.1	-	82.6
Charge for year	0.5	-	2.6	14.0	-	17.1
On disposals	(0.2)	-	(1.3)	(28.3)	-	(29.8)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	3.2	0.1	12.8	53.8	-	69.9
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value						
At 31 March 2010	8.0	0.2	7.0	113.7	3.2	132.1
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2009	8.4	0.2	8.0	121.4	-	138.0
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Included in the total cost of aircraft is £nil (2009: £1.0m) in respect of capitalised interest. During the year, £0.1m was capitalised using interest rates between 4.3% and 4.9%. The reduction in capitalised interest is due to aircraft pre-delivery deposits being repaid during the year and, on delivery, the capitalised interest is transferred from fixed assets to a prepayment account.

The value of the land component of the freehold land and buildings is not available.

Notes *(continued)*

13 Fixed asset investments

Company	Shares in group undertakings £m
<i>Cost and net book value</i>	
At beginning and end of year	33.2

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
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.

Notes (continued)

14 Stocks

	2010 £m	2009 £m
Group		
Work in progress	1.1	1.1
Goods for resale	0.7	1.0
Aircraft consumables	4.3	5.4
	<u>6.1</u>	<u>7.5</u>

15 Debtors

	2010 £m	2009 £m
Group – due within one year		
Trade debtors	29.5	33.1
Amounts recoverable on contracts	1.3	1.4
Other taxation and social security	2.3	1.7
Aircraft deposits	0.7	25.9
Other debtors	19.8	13.1
Prepayments and accrued income	18.1	17.3
	<u>71.7</u>	<u>92.5</u>
Group – due after more than one year		
Aircraft deposits	7.5	5.3
Other debtors	8.2	2.4
Prepayments and accrued income	16.5	18.3
	<u>32.2</u>	<u>26.0</u>
Company		
Other debtors – due within one year	-	0.1

16 Creditors: amounts falling due within one year

	Group		Company	
	2010 £m	2009 £m	2010 £m	2009 £m
Bank loans (see note 17)	9.3	28.6	-	-
Trade creditors	26.9	28.4	-	-
Amounts owed to group undertakings	-	-	0.8	1.2
Taxation and social security	18.7	18.3	-	-
Other creditors	9.5	7.7	-	-
Accruals	34.4	24.2	0.1	0.2
Deferred income	64.4	73.5	-	-
	<u>163.2</u>	<u>180.7</u>	<u>0.9</u>	<u>1.4</u>

Bank loans are secured on the assets to which they relate. For further details of these loans, see note 17.

Notes (continued)

17 Creditors: amounts falling due after more than one year

	2010	Group
	£m	2009
		£m
Secured bank loans	73.8	77.8
Deferred income	9.6	11.9
	<hr/>	<hr/>
	83.4	89.7
	<hr/> <hr/>	<hr/> <hr/>

The bank loans are repayable by instalments with £31.6m (2009: £40.4m) falling due after five years. Rates of fixed and variable interest charged on bank loans vary between 1.7% (2009: 3.8%) and 7.0% (2009: 8.8%). The bank loans are secured on the assets to which they relate.

The maturity of the bank loans is as follows:

	2010	2009
	£m	£m
In one year or less, or on demand	9.3	28.6
Between one and two years	11.8	7.2
Between two and five years	30.4	30.2
In five years or more	31.6	40.4
	<hr/>	<hr/>
	83.1	106.4
	<hr/> <hr/>	<hr/> <hr/>

18 Provisions for liabilities

	Onerous leases	Property costs	Leased aircraft maintenance costs	Deferred tax	Total
	£m	£m	£m	£m	£m
Group					
At beginning of year	1.8	0.1	38.8	1.1	41.8
(Credit) / charge for the year in the profit and loss account	-	-	22.9	(1.0)	21.9
Utilised during year	(1.7)	(0.1)	(19.5)	-	(21.3)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	0.1	-	42.2	0.1	42.4
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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 expense is dependent on usage of the relevant aircraft.

For details of the deferred tax provisions, see note 21.

Notes (continued)

19 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 2007. The results of this have been updated on an FRS17 'Retirement Benefits' basis at 31 March 2009 and 31 March 2010 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 (2009: £nil).

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

	2010	2009
Discount rate	5.7%	6.4%
Expected return on scheme assets at start of period	6.3%	6.6%
Rate of increase in pensions in payment accrued before 1 October 2006	3.6%	3.25%
Rate of increase in pensions in payment accrued after 1 October 2006	2.5%	2.5%
Inflation assumption	3.6%	3.25%
Mortality table	PA92lc	PA92lc

A formal actuarial valuation is under way and will be completed later in 2010/11. There is no certainty at the date of approval of these financial statements as to the level of contribution, if any, that may be required to address any deficit that may be determined by the Scheme's actuary.

Scheme assets

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

	Long-term rate of return 31 March 2010	Value at 31 March 2010 £m	Long-term rate of return 31 March 2009	Value at 31 March 2009 £m
Equities	8.0%	42.9	8.5%	26.9
Bonds	5.25%	68.5	5.9%	68.0
Cash	3.0%	0.5	3.0%	0.1
Total market value of assets		111.9		95.0
Actuarial value of liability		(116.7)		(91.7)
(Deficit) / surplus in the scheme		(4.8)		3.3
Amount of deficit not recognised		-		(3.3)
Net pension liability		(4.8)		-

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

Notes *(continued)*

19 Pension liabilities *(continued)*

Movements in the scheme liabilities during the year

	2010	2009
	£m	£m
Opening liabilities	(91.7)	(101.2)
Interest cost	(5.8)	(6.0)
Benefits paid	3.3	2.7
Actuarial (loss) / gain	(22.5)	12.8
Closing liabilities	(116.7)	(91.7)

Movements in the scheme assets during the year

	2010	2009
	£m	£m
Opening assets	95.0	105.2
Expected return on scheme assets	5.7	6.0
Benefits paid	(3.3)	(2.7)
Actuarial gain / (loss)	14.5	(13.5)
Closing assets	111.9	95.0

Analysis of amount charged to net finance charges

	2010	2009
	£m	£m
Interest cost	5.8	6.0
Expected return on assets	(5.7)	(6.0)
Net charged to other financial income	0.1	-

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

	2010	2009
	£m	£m
Actuarial gain / (loss) on scheme assets	14.5	(13.5)
Actuarial (loss) / gain arising on scheme liabilities	(22.5)	12.8
Adjustment to amount not recognised as an asset	3.3	0.7
Net loss recognised	(4.7)	-

Notes (continued)

19 Pension liabilities (continued)

History of experience gains and losses

	2010 £m	2009 £m	2008 £m
Actuarial gain / (loss) on scheme assets	14.5	(13.5)	(7.7)
<i>Percentage of year-end scheme assets</i>	13%	14%	7%
Actuarial gains and losses arising on scheme liabilities	(22.5)	12.8	13.4
<i>Percentage of present value of year-end scheme liabilities</i>	19%	13%	14%
Adjustments to reflect unrecognised asset	3.3	0.7	(3.9)
Actuarial loss recognised in consolidated statement of total recognised gains and losses	(4.7)	-	1.8
<i>Percentage of present value of year-end scheme liabilities</i>	4%	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 £5.5m (2009: £5.2m).

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

20 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:

	2010 Number of shares	2009 Number of shares
Outstanding at the beginning of the year	98,292	104,476
Granted during the year	-	-
Forfeited during the year	(3,432)	(6,184)
Exercised during the year	-	-
Expired during the year	-	-
Outstanding at the end of the year	94,860	98,292
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 2010 (2009: nil).

Under FRS20, Share-based payments, a charge of £0.4m (2009: £0.3m) has been recognised in the profit and loss account of the Group to reflect the fair value of the awards given.

Notes (continued)

21 Deferred taxation

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

	Provided		Unprovided	
	2010 £m	2009 £m	2010 £m	2009 £m
Differences between accumulated depreciation and amortisation and capital allowances	0.5	9.3	(15.0)	(21.3)
Other timing differences	-	-	-	(2.1)
Tax losses	(0.4)	(8.2)	(1.4)	(2.6)
Undiscounted deferred tax liability / (asset)	<u>0.1</u>	<u>1.1</u>	<u>(16.4)</u>	<u>(26.0)</u>

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 12 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.

22 Share capital

	2010 £000s	2009 £000s
<i>Authorised, allotted, called up and fully paid</i>		
654,150 ordinary shares of 1 pence each	7	7
1,445,850 'A' ordinary shares of 1 pence each	14	14
	<u>21</u>	<u>21</u>

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 a 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.

23 Reserves

	Group				Company			
	Share premium £m	Merger reserve £m	Capital redem'n reserve £m	Profit and loss account £m	Share premium £m	Merger reserve £m	Capital redem'n reserve £m	Profit and loss account £m
At beginning of year	1.0	6.7	22.5	(13.7)	1.0	6.7	22.5	1.7
Profit for the year	-	-	-	6.7	-	-	-	-
Share-based payments	-	-	-	0.4	-	-	-	0.4
Actuarial loss recognised on pension scheme	-	-	-	(4.7)	-	-	-	-
At end of year	<u>1.0</u>	<u>6.7</u>	<u>22.5</u>	<u>(11.3)</u>	<u>1.0</u>	<u>6.7</u>	<u>22.5</u>	<u>2.1</u>

The cumulative amount of goodwill resulting from acquisitions in earlier financial years which has been written off is £2.0m (2009: £2.0m). This amount is net of goodwill attributable to businesses disposed of prior to the balance sheet date.

Notes (continued)

24 Reconciliation of movements in shareholders' funds

	2010 £m	2009 £m
Group		
Profit for the year	6.7	4.1
Credit to equity for equity-settled share-based payments	0.4	0.3
Actuarial loss recognised on the pension scheme	(4.7)	-
Opening shareholders' funds	16.5	12.1
	<hr/>	<hr/>
Closing shareholders' funds	18.9	16.5
	<hr/> <hr/>	<hr/> <hr/>
	2010 £m	2009 £m
Company		
Profit for the year	-	15.0
Credit to equity for equity-settled share-based payments	0.4	0.3
Opening shareholders' funds	31.9	16.6
	<hr/>	<hr/>
Closing shareholders' funds	32.3	31.9
	<hr/> <hr/>	<hr/> <hr/>

25 Contingent liabilities and guarantees

The Group has given guarantees in favour of Lloyds TSB Cardnet, the company's credit card acquirers, for £14m (2009: £14m).

The Group has also placed bonds in favour of various handling agents, aircraft lessors, fuel suppliers and customs offices totalling £7.8m (2009: £10.0m).

26 Commitments

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

	2010		2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Group				
Operating leases which expire:				
Within one year	2.0	0.8	1.3	1.1
In the second to fifth years inclusive	1.3	10.5	1.4	6.8
Over five years	0.6	60.0	0.8	53.9
	<hr/>	<hr/>	<hr/>	<hr/>
	3.9	71.3	3.5	61.8
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Capital expenditure on aircraft authorised and contracted for but not provided in the accounts as at 31 March 2010 amounts to US\$100m (£66m) (2009: US\$275m, £192m). This is in respect of four (2009: 11) Bombardier Dash 8 Q400 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 through cash flow and partly through external financing and leasing arrangements.

Capital expenditure authorised but not contracted for as at 31 March 2010 amounts to US\$699m (£461m) (2009: US\$735m, £514m). This is in respect of options entered into for 15 (2009: 15) Bombardier Q400 aircraft and 12 (2009: 12) Embraer 195 aircraft on the same valuation basis as above.

The Group is also contractually committed to spend £7.7m as at 31 March 2010 on the construction of a new building for the Group's Training Academy. Work commenced on this building in January 2010 and is expected to be completed by January 2011.

Notes *(continued)*

27 Reconciliation of operating profit to net cash inflow from operating activities

	2010	2009
	£m	£m
Profit before interest	8.7	7.9
Depreciation and impairment charges	17.1	23.2
Amortisation of negative goodwill	(0.4)	(17.2)
Profit on disposal of fixed assets	(0.5)	(0.2)
Decrease / (increase) in stocks	1.4	(0.2)
Decrease / (increase) in debtors	14.7	(14.5)
(Decrease) / increase in creditors	(0.1)	25.4
Increase / (decrease) in provisions	1.8	(2.2)
	<hr/>	<hr/>
Cash inflow from operating activities	42.7	22.2
	<hr/> <hr/>	<hr/> <hr/>
Analysed as:		
Net cash inflow from operating activities before integration and restructuring	50.9	31.4
Net cash outflow from integration and restructuring	(8.2)	(9.2)
	<hr/>	<hr/>
	42.7	22.2
	<hr/> <hr/>	<hr/> <hr/>

28 Returns on investments and servicing of finance

	2010	2009
	£m	£m
Interest received	0.2	1.8
Interest paid	(2.2)	(9.1)
	<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance	(2.0)	(7.3)
	<hr/> <hr/>	<hr/> <hr/>

29 Capital expenditure

	2010	2009
	£m	£m
Payments to acquire intangible fixed assets	-	(0.8)
Payments to acquire tangible fixed assets	(90.9)	(9.5)
Receipts from sale of tangible fixed assets	80.1	22.2
	<hr/>	<hr/>
	(10.8)	11.9
	<hr/> <hr/>	<hr/> <hr/>

30 Financing

	2010	2009
	£m	£m
Redemption of preference shares	-	(14.1)
New secured loans	62.2	7.8
Repayment of loans	(86.6)	(31.3)
	<hr/>	<hr/>
	(24.4)	(37.6)
	<hr/> <hr/>	<hr/> <hr/>

Notes *(continued)*

31 Reconciliation of net cash flow to movement in net debt

	2010	2009
	£m	£m
Increase / (decrease) in cash in the year	5.5	(10.8)
Cash outflow from decrease in debt and lease financing	24.4	37.6
	<hr/>	<hr/>
Movement in net debt resulting from cash flows	29.9	26.8
Net debt at the beginning of the year	(49.8)	(70.7)
Exchange rate adjustments	(1.1)	(5.9)
	<hr/>	<hr/>
Net debt at the end of the year	(21.0)	(49.8)
	<hr/> <hr/>	<hr/> <hr/>

32 Analysis of net debt

	At beginning of year £m	Cash flows £m	Other non- cash changes £m	Foreign exchange £m	At end of year £m
Cash at bank and in hand	56.6	5.5	-	-	62.1
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Debt due within one year	(28.6)	24.4	(4.0)	(1.1)	(9.3)
Debt due after one year	(77.8)	-	4.0	-	(73.8)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	(106.4)	24.4	-	(1.1)	(83.1)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	(49.8)	29.9	-	(1.1)	(21.0)
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Included within cash at bank and in hand is £16.0m (2009: £12.0m) held in restricted accounts.

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 2010 totalling £7.6m (2009: £25.4m net asset).
- Aircraft fuel derivatives with a mark-to-market net liability at 31 March 2010 totalling £0.3m (2009: £51.4m net liability).

The foreign currency derivative instruments represent 45 open contracts comprising swaps, forwards and options with maturity dates ranging from April 2010 to March 2011 which are to purchase either US dollars to meet business requirements.

The fuel derivative instruments represent 24 open contracts comprising swaps, collars and options with maturity dates ranging from April 2010 to March 2011 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.

Notes (continued)

34 Related party transactions

Group companies entered into the following transactions with related parties who are not members of the Group:

	Sales of services		Amounts owed by related parties	
	2010 £m	2009 £m	2010 £m	2009 £m
Preston Travel (CI) Limited	1.4	1.5	0.1	0.1
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Purchases of services		Amounts owed by related parties	
	2010 £m	2009 £m	2010 £m	2009 £m
Edenfield Investments Limited	0.2	0.2	-	-
Downham Properties Limited	0.2	0.2	-	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The Group provided services to Preston Travel (CI) Limited, a subsidiary of Rosedale (JW) Investments Limited.

The 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 (JW) 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 (JW) Investments Limited. The Group purchased property services from Edenfield Investments Limited and from Downham Properties Limited.

At 31 March 2010, one of the Group's subsidiaries had made the following loans to directors, prior to their appointment as directors, to enable them to acquire a beneficial interest in shares in Flybe Group Limited:

	2010 £000s	2009 £000s
Mike Rutter	63	63
Andrew Knuckey	20	20
	<u> </u>	<u> </u>

In addition, the following directors had received loans from the Group's immediate parent company, Rosedale Aviation Holdings Limited, to enable them to acquire an interest in shares in Flybe Group Limited:

	2010 £000s	2009 £000s
David Longbottom	9	-
Charlie Scott	9	-
Alan Smith	9	-
Peter Smith	9	-
Andrew Knuckey	134	134
Andrew Strong	36	36
	<u> </u>	<u> </u>

The loans made by the Group and Rosedale Aviation Holdings Limited total £289,000 (2009: £253,000), bear no interest and are repayable in the event of a floatation or trade sale of the Group and at the discretion of Rosedale Aviation Holdings Limited. New loans made in the year to 31 March 2010 by Rosedale Aviation Holdings Limited amounted to £36,000 (2009: £nil).

Notes *(continued)*

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

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

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