This document, which comprises a prospectus relating to Flybe Group plc (the "Company") prepared in accordance with the Prospectus Rules of the Financial Services Authority (the "FSA") made under section 73A of the Financial Services and Markets Act 2000 (the "FSMA"), has been approved by the FSA in accordance with section 87A of FSMA and filed with the FSA and made available to the public in accordance with the Prospectus Rules.

Application has been made to: (i) the FSA, and (ii) the London Stock Exchange, for the entire issued and to be issued ordinary share capital of the Company to be admitted to listing on the premium listing segment of the Official List, and to be admitted to trading on the London Stock Exchange's main market for listed securities respectively (together, "Admission"). Conditional dealings in the Ordinary Shares are expected to commence on the London Stock Exchange on 10 December 2010. It is expected that Admission will become effective, and that unconditional dealings in the Ordinary Shares on the London Stock Exchange will commence, at 8.00 a.m. (London time) on 15 December 2010. **All dealings before the commencement of unconditional dealings will be of no effect if Admission does not take place and such dealings will be at the sole risk of the parties concerned.**

The Company and the Directors (whose names appear on page 22 of this document) accept responsibility for the information contained in this document. To the best of the knowledge of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect the import of such information.

Prospective investors should read the entirety of this document and, in particular, the section of this document entitled "Risk Factors" on pages 9 to 19 (inclusive) for a discussion of certain risks and other factors that should be considered in connection with an investment in the Ordinary Shares.

FLYBE GROUP PLC

(incorporated and registered in England and Wales with registered number 1373432)

Global Offer of 20,338,983 Ordinary Shares
at an Offer Price of 295 pence per Ordinary Share
Admission of the Ordinary Shares to listing on the Official List
and to trading on the main market of the London Stock Exchange
Sponsor, Global Co-ordinator and Bookrunner

BofA Merrill Lynch

Joint Lead Manager

Investec

Co-Lead Manager

Execution Noble

This document does not constitute an offer to sell, or the solicitation of an offer to purchase, any Ordinary Shares to any person in any jurisdiction to whom or in which it is unlawful to make such an offer or solicitation. The distribution of this document and the making of the Global Offer into a jurisdiction other than the United Kingdom may be restricted by law and persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with any such restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, this document and any other offering and publicity material relating to the Global Offer or Admission should not be distributed, forwarded or transmitted in or into the United States, Australia, Canada or Japan or any other territory where to do so would breach any applicable law.

The Ordinary Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the "US Securities Act") or under the applicable securities legislation of any State of the United States. The Ordinary Shares are being, and may only be, offered or sold in the United States to "qualified institutional buyers" in reliance on Rule 144A under the US Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. The Ordinary Shares are being offered and sold in transactions outside the United States pursuant to Regulation S under the US Securities Act. Prospective purchasers in the United States are hereby notified that sellers of the Ordinary Shares may be relying on an exemption from the provisions of Section 5 of the US Securities Act provided by Rule 144A thereunder. The Ordinary Shares have not been and will not be registered under the applicable securities laws of Australia, Canada or Japan and subject to certain exceptions, Ordinary Shares may not be offered or sold in Australia, Canada, Japan or to, or for the account or benefit of, any national, resident or citizen of Australia, Canada or Japan. For a description of these and certain further restrictions on offers, sales and transfers of the Ordinary Shares and the distribution of this document, see Part 6 "Information on the Global Offer and Admission" of this document.

Merrill Lynch International, Investec Bank plc and Execution Noble Limited, each of which is authorised and regulated in the United Kingdom by the FSA, are acting exclusively for the Company and for no one else in connection with the Global Offer and Admission and will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Global Offer or Admission. They will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients or for the giving of advice in relation to the Global Offer, Admission or any other matter referred to in this document.

Apart from the responsibilities and liabilities, if any, which may be imposed on the Managers (including, in the case of Merrill Lynch International, as Sponsor) by the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, none of the Managers accepts any responsibility whatsoever for, or makes any representation or warranty, express or implied as to, the contents of this document or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the Ordinary Shares or the Global Offer and nothing in this document will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of the Managers accordingly disclaims all and any responsibility or liability whatsoever, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this document or any such statement.

The Ordinary Shares have not been approved or disapproved by the US Securities and Exchange Commission (the "SEC"), any other federal or state securities commission in the United States or any other regulatory authority in the United States, nor has any such authority passed on or endorsed the merits of the Global Offer or confirmed the accuracy or determined the adequacy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

NOTICE TO NEW HAMPSHIRE RESIDENTS ONLY

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CONTENTS

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SUMMARY

This summary must be read as an introduction to this document only. Any decision to invest in the Ordinary Shares should be based on consideration of this document as a whole by the investor and not just this summary. Under the Prospectus Directive (2003/71/EC), in each member state of the European Economic Area (the "EEA"), civil liability will attach to those persons responsible for this summary in any such member state, including any translations of this summary, if it is misleading, inaccurate or inconsistent when read together with the other parts of this document. Where a claim relating to the information contained in this document is brought before a court in a member state of the EEA, the plaintiff may, under the national legislation of the member state where the claim is being brought, be required to bear the costs of translating this document before legal proceedings are initiated.

Overview

Headquartered in Exeter, United Kingdom, Flybe is Europe's largest regional airline[(1)] and the UK's largest domestic airline[(2)], supported by one of Europe's leading regional aircraft maintenance, repair and overhaul ("MRO") businesses, trading as Flybe Aviation Services and a developing training business, trading as the Flybe Training Academy.

The Group currently operates 68 aircraft from 14 UK domestic airport bases and operates its airline business across 13 countries. Flybe's network comprises 215 routes[(3)] between 39 UK[(4)] and 34 other European airports.

Business model

Flybe's business model comprises the following key characteristics:

- a convenient regional network throughout the UK and continental Europe;
- cost effective sector lengths;
- an attractive high frequency schedule and route density;
- full commitment to a modern regional aircraft fleet, which helps to deliver a low break-even load factor;
- an attractive passenger profile; and
- complementary MRO and developing training businesses.

Key strengths

Flybe considers that its principal strengths are:

- a strong competitive position in the UK domestic and UK to Europe regional airline markets built on an extensive regional route network and appealing high frequency flight schedules;
- a modern fuel efficient fleet of 68 regional aircraft chosen specifically to suit Flybe's business model;
- an aircraft order profile which provides flexible fleet growth options;
- strong commercial and codeshare relationships with other major airlines coupled with a firm platform to further develop such relationships;
- an attractive passenger mix supported by an enhanced service offering and comprehensive sales distribution channels;
- a track record of ancillary revenue generation and growth based on an unbundled product offering;
- a widely recognised brand;
- complementary MRO and training businesses; and
- a strong and experienced management team.

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(1) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

(2) By passengers carried within the UK (including the Channel Islands and the Isle of Man) in the 2010/11 First Half Year (Source: CAA).

(3) Includes routes flown by Loganair under the Flybe brand.

(4) Includes airports served by Loganair under the Flybe brand.

Strategy

Flybe's strategy is focused on becoming Europe's largest and most profitable regional aviation group. The key elements underpinning this strategy are to:

- leverage the Group's historical investments and market position to:
  - capitalise on sector recovery in its existing UK domestic and regional UK to European city and leisure markets; and
  - drive European expansion, through organic growth, relationships with other major carriers (such as codeshare, contract flying and joint ventures), and selected acquisitions;
- build on the Group's track record of passenger revenue growth;
- deliver the lowest cost base for the European regional airline sector; and
- expand Flybe Aviation Services and develop the Flybe Training Academy.

Summary financial and operating information

The Group's consolidated income statement set out below has been extracted without material adjustment from the Historical Financial Information set out in section B of Part 5 "Financial Information relating to the Group" of this document and discussed in Part 4 "Operating and Financial Review" of this document:

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
	£m	£m	£m	£m	£m
Total revenue	535.9	573.1	570.5	302.8	321.0
Operating costs before integration and IPO costs and unrealised gains and (losses) on fuel and foreign exchange hedges	(522.9)	(573.9)	(560.1)	(290.8)	(309.7)
Operating profit / (loss) before integration and IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	13.0	(0.8)	10.4	12.0	11.3
Integration and IPO costs and unrealised gains and (losses) on fuel and foreign exchange hedges	3.2	(25.0)	17.2	14.6	(6.5)
Operating profit / (loss)	16.2	(25.8)	27.6	26.6	4.8
Net finance costs	(2.9)	(7.9)	(3.0)	(0.6)	(3.1)
Profit / (loss) before tax	13.3	(33.7)	24.6	26.0	1.7
Tax credit / (charge)	2.2	5.7	(2.4)	(1.7)	5.4
Profit / (loss) for the year / period	15.5	(28.0)	22.2	24.3	7.1

Source: Section B of Part 5 "Financial Information relating to the Group" of this document.

The operating results shown above for the 2010/11 First Half Year reflect the negative impact on results of the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland during April and May 2010. The Directors estimate that the net negative impact on profits amounted to £(11.6) million, corresponding to 2.0 per cent. of total revenue in the 2009/10 Financial Year, which the Directors believe is broadly in line with the experiences of its industry peer group.

The following table shows the Group's EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted EBITDAR margin for the period covered by the Historical Financial Information:

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
EBITDA[(5)]	£29.0m	£11.2m	£27.2m	£22.6m	£21.8m
Adjusted EBITDA[(6)]	£54.2m	£28.4m	£27.6m	£23.0m	£21.8m
EBITDAR[(7)],	£79.4m	£72.2m	£90.9m	£52.2m	£60.7m
Adjusted EBITDAR[(8)]	£104.6m	£89.4m	£91.3m	£52.6m	£60.7m
Adjusted EBITDAR margin[(9)]	19.5%	15.6%	16.0%	17.4%	18.9%

Source: Unaudited Management Information.

(5) EBITDA is generally defined as the profit (or loss) before tax charge (or credit), interest (investment income, finance costs and other gains and losses), depreciation and amortisation. The Group's definition of EBITDA further adjusts for unrealised gains and losses on fuel and foreign exchange hedges, integration costs (including any asset impairments), and initial public offering ("IPO") expenses. The Group calculates Adjusted EBITDA as EBITDA adjusted for the impact of seat compensation. These are not measures defined by, or presented in accordance with, IFRS and should not be considered as an alternative to profit, or other measures, determined in accordance with IFRS.

(6) See footnote 5 above.

(7) EBITDAR is generally defined as the profit (or loss) before tax charge (or credit), interest (investment income, finance costs and other gains and losses), depreciation, amortisation and aircraft rental charges. The Group's definition of EBITDAR further adjusts for unrealised gains and losses on fuel and foreign exchange hedges, integration costs (including any asset impairments), and IPO expenses. The Group calculates Adjusted EBITDAR as EBITDAR adjusted for the impact of seat compensation. The Group calculates EBITDAR margin and Adjusted EBITDAR margin, respectively, as EBITDAR and Adjusted EBITDAR for the relevant period divided by the Group's revenue for the same period. These are not measures defined by, or presented in accordance with, IFRS and should not be considered as an alternative to profit, or other measures, determined in accordance with IFRS.

(8) See footnote 7 above.

(9) See footnote 7 above.

The results shown above for the 2010/11 First Half Year reflect the negative impact on results of the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland during April and May 2010. The Directors estimate that the net negative impact on profits amounted to £(11.6) million.

The following table shows the Group's key operating measures for the period covered by the Historical Financial Information:

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2009	2010
Seats flown (millions)	10.7	11.1	11.3	6.1	6.2
Seats sold (millions)	7.0	7.3	7.2	4.0	4.0
Load factor (%)	64.9	65.4	63.5	65.5	64.0
Average number of aircraft operated during the year / period	73	68	68	67	68
Number of routes operated during the year / period	150	165	159	158	181
Aviation Services man-hours (thousands)	672	764	680	334	299

Source: Unaudited Management Information.

Directors and senior management

The Company has a Board of ten Directors comprising:

- five Executive Directors (one of whom has been nominated by Rosedale, one of the Group's major shareholders);
- four Non-Executive Directors who are independent of the Company and its major shareholders; and
- one Non-Executive Director who has been nominated by Rosedale.

The Board is supported in its day to day running of the Company by the Director of Human Resources, the Director of Information Technology and the Company Secretary.

Dividend policy

The declaration and payment by the Company of any future dividends and the amount of any such dividends will depend upon the Group's results, financial condition, future prospects, profits being available for distribution and any other factors deemed by the Directors to be relevant at the time, subject always to the requirements of applicable laws.

Summary of the Global Offer

The Global Offer is an offer of 20,338,983 new Ordinary Shares to be issued by the Company on the date of Admission. The Global Offer will be made to certain qualified investors, including to qualified investors outside the United States and to QIBs in the United States. Members of the general public will not be able to apply for Ordinary Shares in the Global Offer. No existing Ordinary Shares will be sold or offered by the Existing Shareholders as part of the Global Offer.

The Global Offer is fully underwritten by the Managers, and is subject to satisfaction of conditions set out in the Underwriting Agreement, including Admission occurring and becoming effective by no later than 8.00am (London time) on 15 December 2010 or such later time and / or date as the Company and the Global Coordinator may agree, and to the Underwriting Agreement not having been terminated in accordance with its terms.

The New Shares being issued by the Company pursuant to the Global Offer will, on Admission, rank pari passu in all respects with the existing Ordinary Shares in issue and will rank in full for all dividends and other distributions thereafter declared, made or paid on the Ordinary Share capital of the Company.

Reasons for the Global Offer and use of proceeds

The Directors believe that the Global Offer and Admission will:

- provide the Company with capital to assist in the expansion of its operations within continental Europe;
- provide the Company with a platform for future growth through acquisitions using the Company's listed securities as consideration;
- assist the Group in recruiting, retaining and incentivising key management and employees; and
- improve the Group's profile, brand recognition and credibility with its customers and employees.

The gross proceeds of the Global Offer receivable by the Company are expected to be £60 million, out of which it will pay underwriting commissions and other estimated fees and expenses of the Global Offer of approximately £3.1 million. Consequently, it is expected that the Company will receive net proceeds of approximately £56.9 million.

The Company intends to use:

- approximately 50 per cent. of the net proceeds from the Global Offer to provide it with capital to assist in funding its aircraft fleet expansion programme; and
- approximately 50 per cent. of the net proceeds from the Global Offer to further strengthen its cash position, providing strategic flexibility to pursue additional growth opportunities (such as the expansion of codeshare arrangements, strategic arrangements with other European airlines and targeted acquisitions) should such opportunities present themselves.

FTSE eligibility

Upon Admission, the Directors expect the Company to be eligible to be considered for inclusion in the UK FTSE All-Share Index.

Current trading and prospects

Winter 2010/11 seat capacity and forward bookings

Seat Capacity: Flybe's current flying programme for the 2010/11 winter season shows an increase in seat capacity of more than 6.0 per cent. over the 2009/10 winter season.

Passengers: As at 22 November 2010, passenger bookings were 3.4 per cent. higher than at 22 November 2009.

Ticket yield: As at 22 November 2010, average ticket yield for forward passenger bookings was 4.7 per cent. higher than at 22 November 2009.

Ancillary revenue: The Directors believe that there is significantly less forward booking visibility on ancillary revenues. October 2010 ancillary revenues were 18.3 per cent. higher than October 2009.

Risk factors

The business, results of operations, growth prospects and / or financial condition of the Company could be materially adversely affected by any of the following:

Risks relating to the airline industry:

- The Group operates in a highly competitive market;
- The Group is exposed to risks associated with fluctuations in fuel prices;
- Due to relatively high fixed costs, the Group's profitability is vulnerable to relatively small changes in the numbers of passengers or in pricing, particularly during the summer season;
- The Group is exposed to a sustained deterioration in general economic conditions;
- The Group is exposed to an increase in airport charges and taxes;
- The Group is exposed to negative environmental perception of the airline industry;
- Regulatory changes in the airline industry may have an adverse impact on an airline's costs, operational flexibility, marketing strategy, business model and ability to expand;
- Airlines may be adversely affected by any future application of restrictions with regard to regulation of emissions trading and other environmental laws and regulations;
- The Group is exposed to the effects of extraneous events, such as epidemics, natural occurrences or disasters and terrorist attacks;
- The Group is exposed to the risk of a significant increase in the cost of, or the loss of, insurance as a result of accidents, terrorist incidents or other disasters;
- The elimination of current tax exemptions for aviation fuel would lead to a substantial increase in the Group's aviation fuel costs; and
- The Group is exposed to risks from regulatory proceedings.

Risks relating to the Group's business:

- The Group is exposed to a reduction in UK domestic air travel and business travel;
- The Group is exposed to fluctuations in foreign exchange rates;
- The Group is heavily dependent on its information technology systems and the internet to operate its business;
- The Group is exposed to an event damaging its reputation or brand;
- Any real or perceived problem with the E195 or Q400 aircraft types could adversely affect the Group's operations;
- Flight cancellations or significant delays in departures or turn-around times can have an impact on the Group's operations;
- The Group is exposed to fluctuations in interest rates;

- Costs will be incurred in developing new routes, and new routes proposed by the Group may not be profitable;
- The Group is dependent on good industrial relations;
- The Group is exposed to shortages of key personnel;
- The Group may not be successful in implementing its growth strategy;
- The Group is exposed to the failure or non-performance of commercial and financial counterparties;
- The Group is reliant on the efficient operation of UK and European air traffic control systems; and
- The Group is exposed to risks relating to the British Regional Airlines Group Pension Scheme.

Risks relating to the Global Offer:

- There has been no public market for the Ordinary Shares and an active trading market for them may not develop and continue;
- US investors will be significantly restricted in their ability to transfer the Ordinary Shares or participate in future equity offerings;
- The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, many of which will be outside the Group's control;
- The Company may choose not to pay dividends and it cannot assure investors that it will make dividend payments in the future;
- Subject to the terms of the Relationship Agreement, Rosedale may exercise significant influence over the Group following the Global Offer and Rosedale's interests may differ from those of the majority of other shareholders;
- Sales of a substantial number of the Ordinary Shares into the public market after the Global Offer could adversely affect the price of Ordinary Shares;
- If the Company was classified as a passive foreign investment company for US federal income tax purposes, US holders of the Ordinary Shares could be subject to adverse US federal income tax consequences; and
- Shareholders may be restricted in transferring their Ordinary Shares due to EEA and UK rules relating to the majority ownership and effective control of EU airlines.

RISK FACTORS

An investment in the Ordinary Shares is subject to a number of risks. Prior to making a decision to invest in the Ordinary Shares, prospective investors should consider carefully all of the information set out in this document, including the risks described below, and consult with their professional advisers.

The following risk factors address risks that the Directors have identified as material to the Group and/or the value of the Ordinary Shares. Additional risks and uncertainties relating to the Group that are not currently known to the Directors, or that the Directors currently deem immaterial, could also adversely affect the Group and/or the value of the Ordinary Shares. If any or a combination of these risks and uncertainties actually occurs, the Group's business, results of operations, growth prospects and/or financial condition could be adversely affected. The trading price of the Ordinary Shares could decline due to any of these risks and investors may lose all or part of their investment in the Company.

Various statements in this document, including the following risk factors, may constitute forward-looking statements as described in the "Important Information" section of this document.

RISKS RELATING TO THE INDUSTRY

The Group operates in a highly competitive market

The level of competition in the European airline industry is high. Airlines compete primarily on fare levels, frequency, reliability of service, convenience, safety record, brand recognition and passenger amenities. The Group's competitors include low-cost carriers, legacy airlines, other established commercial and charter airlines and travel conglomerates with integrated airlines (some of which are larger and have greater financial resources than the Group), as well as alternative means of transport, such as high speed rail and road. The Group's competitors may seek to protect or gain market share through fare-matching or price discounting (something the airline industry has been historically susceptible to), by offering more attractive flight schedules or services, by introducing new routes, or by placing large orders for new aircraft and transferring excess capacity to markets and routes already served by the Group or which Flybe is contemplating serving. Some competitors may also be able to offer lower fares than Flybe as a consequence of, for example, providing passengers with fewer on-board services, having lower fixed and/or variable costs, or drawing upon sources of financial support unavailable to Flybe, such as intra-group financial support, which could prevent Flybe from obtaining the passenger volumes required to sustain profitable operations on a new or existing route. In particular, some of these airlines are state-owned, state-controlled or state protected national flag carriers that have received or may receive in the future significant amounts of subsidies and state assistance from their respective governments. In addition, as an operator of primarily short-haul services, Flybe is more exposed to competition from alternative modes of transport, such as high-speed rail and road, than an airline operating long-haul, intercontinental services. There can be no assurance that the Group will be able to continue to compete effectively with other airlines, any new entrants to the industry or other forms of transport. The sustained loss of a significant number of passengers to competing airlines or to alternative forms of transport, or a reduction in the Group's revenues as a result of increased competition in the industry, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to risks associated with fluctuations in fuel prices

Fuel costs represent one of the largest components of the Group's operating costs, accounting for 16.0 per cent. of total operating costs for the 2009/10 Financial Year and 16.1 per cent. of the Group's operating costs for the 2010/11 First Half Year. Due to the large proportion of fuel costs in the Group's total operating cost base, even a relatively small increase in the price of aviation fuel, which increased significantly during the 2007/08 and 2008/09 Financial Years, can have a significant negative impact on the Group's operating costs. The Directors expect this volatility to continue in at least the short to medium term. A significant continuing upward trend in fuel costs, which may not be immediately recoverable from customers, could lead to material increases in the Group's operating costs, which could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group currently operates a policy of hedging a portion (between 60 per cent. and 90 per cent.) of its aviation fuel requirements up to 12 months in advance. However, such arrangements do not completely protect the Group against price volatility, are limited in volume and duration, can be less effective during volatile market conditions and may carry counterparty risk. In addition, under the fuel hedge contracts the Group may enter into from time to time, counterparties to those contracts may require the Group to fund the margin associated with any loss position on the contracts if the price of crude oil falls below specified benchmarks. Substantial fuel price increases (whether covered by hedges or not), or meeting the Group's obligations to fund margin calls under fuel hedge contracts, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

Due to relatively high fixed costs, the Group's profitability is vulnerable to relatively small changes in the numbers of passengers or in pricing, particularly during the summer season

As is typical for the airline industry, the Group is characterised by relatively high fixed costs (including costs in respect of aircraft financing and ownership, lease and fuel costs, depreciation expenses and general labour costs). The revenues generated by flights are generally substantially more variable than costs as they are directly related to the number of passengers carried and the fare structure of the flight. Therefore, a relatively small reduction in the number of passengers flown and/or a detrimental change in the pricing structure for the Group's tickets could have a disproportionate effect on the Group's profit margins, and thereby on its business, results of operations, growth prospects and/or financial condition.

Demand for the Group's services fluctuates over the course of the year, and has historically been higher in the summer season and lower in the winter season. As the majority of the Group's profits are generated in the summer season, lower demand for air travel, flight cancellations or other factors that adversely affect aircraft utilisation during this period may have a disproportionately adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to a sustained deterioration in general economic conditions

The airline industry tends to experience comparatively adverse financial results during general economic downturns. The credit crisis beginning in late 2007 caused higher unemployment rates, constrained credit markets, housing related pressures and increased business operating costs. This in turn has caused a material decrease in the amount spent on discretionary items, such as air travel, which are often scaled back during economic downturns. A renewed deterioration in the global economy (and the UK and European economy in particular (being the markets served by the Group)) could result in a decrease in demand for air travel, as passengers may be inclined either not to travel at all or to opt for alternative (and perceived or actual cheaper) methods of transportation, such as road and rail. In such downturns, Flybe may also be required to take delivery of new aircraft it has agreed to purchase or lease whether or not it requires additional capacity, or may be unable to dispose of surplus aircraft on financially acceptable terms. Prolonged economic uncertainty in certain markets may also lead other airlines to shift their capacity to markets and routes served by the Group, increasing competition in these markets and putting further downward pressure on Flybe's fares. Any of the foregoing events could cause a fall in passenger numbers or fares, which could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to an increase in airport charges and taxes

Airport charges represent a significant proportion (approximately 15 per cent. in the 2009/10 Financial Year and the 2010/11 First Half Year) of the total operating costs of the Group. Certain airports which the Group serves in the UK are specifically regulated such that all users of the airport are required to be treated in a non-discriminatory manner, and the Group has very limited ability to negotiate preferential or improved commercial terms for the charges imposed at these airports. To the extent possible within the regulatory constraints, the Group has entered into commercial agreements with the airports from which it operates (some of which are on a short term or informal basis) whereby it has sought to negotiate the best possible commercial arrangements. However, there can be no assurance that these arrangements can be renewed on commercially similar terms and that the various airport charges covered by such arrangements, such as in relation to airport transit, landing fees and security charges, will not increase substantially. There can also be no assurance that airports at which the Group operates, which are not currently regulated as described above, will remain so.

In addition, taxes are levied on the sale of airline seats in many of the countries in which the Group operates. The UK currently levies one of the highest taxes in Europe, airport passenger duty ("APD").

Any increase in airport charges or taxes, such as APD, which cannot be passed on to the customer will result in an increase in operating costs for the Group. In addition, any increase in such costs which can be passed on to the customer may result in increased levels of competition from alternative forms of transport. Any significant increase in airport charges or taxes, whether through changes in regulation or otherwise, could therefore have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to negative environmental perception of the airline industry

There has been increased focus in recent years amongst the media, governments and the public on environmental issues relating to the airline industry, and specifically the environmental impact of air travel. There can be no assurance that there will not be an increasingly negative perception of the airline industry in connection with environmental issues in the future which could have an adverse impact on the Group. Members of the public may seek to reduce their use of air travel in favour of alternative forms of transport with a perceived cleaner environmental record. Any negative change in public sentiment towards air travel could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

Regulatory changes in the airline industry may have an adverse impact on an airline's costs, operational flexibility, marketing strategy, business model and ability to expand

The airline industry is highly regulated (please see Part 2 "Regulatory and Market Overview" of this document). Flybe is authorised to operate its airline business through an Operating Licence issued by the CAA and Flybe Aviation Services through an EASA approval from the CAA (pursuant to Article 4 of EU Regulation 2042/2003). These authorisations are subject to Flybe's ongoing compliance with applicable legislation, rules and regulations, including any new rules or regulations that may be adopted in the future. Changes to these rules and regulations in the future could require the Group to make changes to its operational practices and/or business strategy in order to retain its Operating Licences and Route Licences, which could in turn have an adverse impact on the Group's financial condition and/or growth prospects.

Regulatory changes affecting the airline industry could also have an adverse impact on the Group's costs, flexibility, marketing strategy, business model and ability to expand. It may not be feasible to pass regulatory and compliance costs on to customers and regulatory changes may affect how the Group markets its services. Regulatory authorities may for example, impose operating restrictions at airports served by the Group, such as take-off curfews, noise restrictions, mandatory flight paths, runway restrictions, limits on the average number of daily departures and restrictions on maximum total duty time for crew members. There can be no assurance that airports at which there are currently no restrictions may not implement restrictions in the future or that, where such restrictions already exist, they will not become more onerous. Any increase in the restrictions imposed by regulatory authorities, or the introduction of more onerous restrictions or other regulatory action may have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

Airlines may be adversely affected by any future application of restrictions with regard to the regulation of emissions trading and other environmental laws and regulations

In February 2009 EU Directive 2008/101/EC came into force, bringing the aviation industry within the EU Emissions Trading Scheme ("EU ETS"). As a result, all flights departing from, and arriving at, EU airports will be included within the EU ETS from 2012. The EU ETS delivers a market price for carbon, capping total emissions to a fixed limit with operators required to surrender allowances for each reporting year to cover their total emissions. For the period 1 January 2012 to 31 December 2012, 15 per cent. of allowances will be sold to operators via an auction process. The remaining allowances will be allocated free of charge according to a formula which has been designed to ensure fair allocation between operators.

The cost and amount of allowances which the Group will have to purchase in 2012 is not currently known. Should the Group not be able to obtain sufficient allowances under the auction/free allocation processes, it will have to purchase additional allowances within the open market. If such additional purchases are required, this would increase the Group's total costs, which could have a material adverse effect on the Group's business, results or operations, growth prospects and/or financial condition.

The UK and/or other European governments may also choose to impose a more penal tax regime on air travel designed to reduce airline emissions by making air travel more expensive and therefore less attractive to customers. Any increase in cost to passengers brought about by a tougher taxation or other regulatory regime could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to the effects of extraneous events, such as epidemics, natural occurrences or disasters and terrorist attacks

The outbreak of a contagious disease, such as Severe Acute Respiratory Syndrome (SARS), the Influenza A H1N1 virus, avian flu, or another contagious disease with the potential to become a pandemic, whether on a regional or global scale, or the occurrence of a natural disaster, such as the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland in April and May 2010, may result in travel restrictions being imposed by one or more governments or regulatory authorities and substantial reductions in, and cancellations of, bookings not only to the affected region but also more generally, thereby reducing overall demand for the Group's services or causing disruption or suspension of those services.

Terrorist attacks, particularly those involving aircraft such as the 11 September 2001 attacks, had a negative effect on the airline industry. Furthermore, actual, attempted or suspected terrorist attacks, acts of sabotage, new military conflicts or the expansion of existing conflicts and similar events, whether or not involving the airline industry, could result in decreased demand for or the disruption or suspension of, air travel, and increased insurance, security and other costs, especially if they are directed against air traffic or tourist destinations.

Furthermore, any accident, terrorist incident or other disaster directly affecting Flybe, even if fully insured against, could result in substantial losses to the Group. In addition, such an incident could increase the risk of litigation or regulatory action and could damage the Flybe brand, including through a perception that Flybe is less safe or reliable than other airlines, which could cause passengers to lose confidence in Flybe and switch to other airlines or other means of transport. Passengers could also lose confidence in Flybe even if an airline other than Flybe were to suffer such loss or damage, particularly if the airline is a UK or European carrier perceived by air travellers to be similar to Flybe.

Restrictions imposed by one or more governments or regulatory authorities as a result of the outbreak of a major epidemic, a natural occurrence or disaster, or as a result of a terrorist attack, or indeed the perception that an epidemic, natural disaster, terrorist attack or similar event may occur, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to the risk of a significant increase in the cost of, or the loss of, insurance as a result of accidents, terrorist incidents or other disasters

The airline industry is exposed to potentially catastrophic losses that may be incurred in the event of an accident, terrorist incident or other catastrophe. Although the Group considers its insurance coverage to be appropriate, there can be no assurance that the level of such coverage will be sufficient to cover all losses arising from a catastrophic event. Even if the level of the Group's insurance coverage was adequate to cover all such losses in full, Flybe would be forced to bear substantial losses if its insurers were unwilling or unable to pay the agreed insurance benefits. Further, insurance premiums charged to the Group following any accident, terrorist incident or other catastrophe could increase significantly, as they did following the terrorist attacks of 11 September 2001. In addition, the Group has taken a deliberate decision not to insure against the risk of a attack on its IT systems on the basis that the Group considers the cost of obtaining such insurance to be disproportionate to the risk of an attack. Any losses incurred by the Group as a result of an accident, terrorist incident or other disaster for which the Group is not insured, which exceed the amount insured or which the insurer can not or will not pay (or any increased premiums charged to the Group as a result of an accident, terrorist incident or other disaster) could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The elimination of current tax exemptions for aviation fuel would lead to a substantial increase in the Group's aviation fuel costs

Over the past few years, there has been discussion at EU level and within EU member states regarding the existing tax exemptions for aviation fuel. While such exemptions are the subject of an international treaty and therefore not within the European Union's control, there can be no assurance that the current tax exemptions for aviation fuel will be maintained and any change to these exemptions could lead to a substantial increase in the Group's aviation fuel costs, which could have a material adverse effect on its business, results of operations, growth prospects, and/or financial condition.

The Group is exposed to risks from regulatory proceedings

Airlines often operate on routes on which there are only a small number of operators, and there have been a number of recent (and ongoing) investigations into alleged anti-competitive behaviour in the airline industry.

If a competition authority was to conclude that the Group had infringed the competition law rules, it could lead to the imposition of a fine, possible damages claims, or the Group being forced to withdraw from a particular route, which could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

RISKS RELATING TO THE GROUP'S BUSINESS

The Group is exposed to a reduction in UK domestic air travel and business travel

Approximately 75 per cent. of passengers who flew with the Group in the 2009/10 Financial Year did so on UK domestic routes (73 per cent. for the 2010/11 First Half Year). In addition, approximately 40 per cent. of passengers who flew with the Group during the same periods[10] did so for business rather than personal reasons. Any sudden decreases in UK domestic air travel, in particular which the Group is unable to compensate for by increasing its services on new or other existing routes, or a significant and sustained decline in demand for UK domestic air travel or business travel generally, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to fluctuations in foreign exchange rates

A significant amount of the Group's expenditure is incurred in US dollars, in areas such as aircraft fuel purchases, operating lease financing and engine and other maintenance costs, and in Euro, in areas such as airport charges and European air traffic control charges. In addition, as a result of the various locations to and from which the Group flies, approximately 15 per cent. of the Group's revenue in the 2009/10 Financial Year (and approximately 16 per cent. of the Group's revenue for the 2010/11 First Half Year) was generated in Euro. The proportion of the Group's revenue generated in Euro is likely to increase upon the implementation of the Group's strategy to further expand its operations into continental Europe. The Group generates a significant amount of its revenues (primarily through ticket sales) in sterling. The Group also reports its financial results in sterling. The Group is exposed to changes in exchange rates between the Euro and, particularly, the US dollar, against sterling. Consequently, any significant fluctuations in the US dollar and Euro against sterling could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

To manage this exposure to the variability of cash flows as a result of movements in these currencies, the Group operates a foreign exchange hedging policy. Foreign exchange forward contracts are used in conjunction with fuel derivatives to mitigate procurement price risk and, further, the foreign exchange forward contracts are matched to planned purchases of aircraft, spare parts and lease costs to cover the majority of the Group's exposure. There can be no assurance that these hedging activities will be sufficient to protect the Group from adverse effects of currency fluctuations. Hedging limits the potential benefit to the Group of any exchange rate developments. The Group's assumptions and estimates regarding the future development of currency exchange rates and its chosen risk avoidance or risk tolerance strategies have a substantial impact on the success of its hedging policy. If these assumptions and estimates prove to be incorrect or if the Group's hedging policy were to fail, this could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is heavily dependent on its information technology systems and the internet to operate its business

The Group's ability to manage its operations (including its ability to receive and process ticket sales, and to manage reservations and its website), and to engage in other business critical tasks is dependent on the efficient and uninterrupted operation of its computer and communication systems and on the systems used by third parties in the course of their interaction with the Group. The Group experienced a denial of service attack on its website in January 2010 which prevented potential customers from accessing and using its website for 11 hours and its online booking engine for 43 hours (approximately 20 hours of which was during the hours of 1am to 7am). Although the Group was able to ensure that its website was made accessible to customers again quickly and believes that it has put in place appropriate disaster recovery

(10) By reference to passenger surveys undertaken by Flybe in the first financial quarter and in July 2010 of the 2010/11 First Half Year.

procedures and adequate systems to protect against future attacks of the same type, it cannot guarantee the efficient and uninterrupted operation of systems used by the Group, particularly where the Group is affected by events beyond its control. Further, the Group cannot guarantee that third parties who supply information technology services to the Group or whose systems interact with the Group's in the operation of its business have or will be able to provide adequate support for service disruptions or will continue to maintain adequate disaster recovery procedures. Moreover, the Group has identified the need, as a result of its historic growth and planned future growth, to strengthen its IT function in certain areas and is in the initial stages of implementing a plan to address these issues. Any significant disruption to the Group's systems (and in particular any sustained period during which the Group's website is rendered inoperative, including as a result of a cyber attack), any failure of the back-up systems (through power shortages, acts of terrorism or sabotage, computer viruses, fires or other events) or any inability of third party providers to supply necessary systems and services to the Group could significantly impair the Group's ability to operate its business efficiently and could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

In the 2009/10 Financial Year the Group generated 70 per cent. of its revenues through the internet (76 per cent. for the 2010/11 First Half Year). Any compromise of internet security could deter people from using the internet or from using it to conduct transactions that involve transmitting confidential information, which could have a negative impact on the Group's internet sales. The Group may also incur significant costs to protect against the threat of security breaches, particularly if the perceived risks of terrorist activity and/or third party misappropriation of information lead to government-imposed increases in internet security and greater restrictions on ticket purchases made remotely. Costs may also be incurred in dealing with problems caused by internet security breaches. In addition, alleviating these problems may cause interruptions, delays or cessations in service to the Group's customers, which could lead them to stop using the Group's services or to make claims against the Group.

The Group retains personal information received from customers and has put in place security measures to protect against unauthorised access to such information. Personal information held both offline and online is highly sensitive and, if third parties were to access such information without the customer's prior consent or if third parties were to misappropriate that information, customers may seek to bring legal claims against the Group which, if successful, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to an event damaging its reputation or brand

As part of its overall business model, the Group relies on its reputation and positive brand recognition, amongst other things, to attract customers. Damage to the Group's reputation or brand through either a single event, a series of events or an event affecting one of the Group's partners, could adversely impact the Group's ability to market its services and attract and retain customers, and could ultimately have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

Any real or perceived problem with the E195 or Q400 aircraft types could adversely affect the Group's operations

The Group currently operates the Embraer E195 aircraft and the Bombardier Q400 aircraft, and these aircraft only utilise General Electric and Pratt & Whitney engines respectively. Although the Group's choice of aircraft provides the Group with what it believes are many advantages, this commonality of aircraft and associated engine type increases the Group's exposure to risks flowing from the design of, systemic manufacturing defects relating to, or contractual non-performance by the manufacturers of, the E195 and Q400 aircraft or the engines which are used in them. The Group is also exposed to the risk of any real or perceived adverse perception by the public that results in consumer avoidance of, or regulatory action in respect of, these aircraft. Further, there are also relatively few E195 and Q400 aircraft in worldwide service compared with, for example, the Boeing 737 and Airbus 319/320 aircraft typically used by European LCCs. This means that technical issues affecting the aircraft may take longer to resolve as there are fewer third party component maintenance and spare parts providers. Any defect or fault in the E195 or Q400 aircraft or their respective engines could therefore have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

Flight cancellations or significant delays in departures or turn-around times can have an impact on the Group's operations

The Group seeks to maximise its aircraft utilisation rate by reducing turn-around times at the airports from which it operates, thereby increasing the number of sectors that may be flown by its aircraft each day. As a result of the Group's comparatively short average sector length and high number of sectors flown per day, the Group may be disproportionately affected by delays, including those resulting from factors such as air traffic control, ground handling, air traffic or airport congestion, adverse weather (such as in the first two weeks of the 2010 calendar year), unexpected events (such as the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland in April and May 2010), acts of third parties on whom Flybe relies, maintenance or technical issues and the imposition of more onerous safety or security requirements. Flight cancellations or significant delays in departures or turn-around times, especially if repeated on multiple occasions, could damage the Group's reputation or brand and have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to fluctuations in interest rates

The Group is exposed to movements in interest rates on operating lease payments made by the Group on its aircraft finance arrangements and its external borrowings. The Group hedges a significant proportion of its exposure to such movements in interest rates through the use of fixed rate interest agreements. There can be no assurance that these fixed rate agreements will be sufficient to protect the Group from adverse effects of interest rate movements. Hedging also limits the potential benefit to the Group of any positive interest rate movements. The Group's assumptions and estimates regarding the future development of interest rates and its chosen risk avoidance or risk tolerance strategies could have a substantial impact on the success of its hedging policy. If these assumptions and estimates prove to be incorrect or if the Group's hedging policy were to fail, this could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

Costs will be incurred in developing new routes, and new routes proposed by the Group may not be profitable

The Group's growth strategy involves increasing the frequency of flights to destinations it currently serves, expanding the number of destinations served and increasing flight connection opportunities between existing destinations in the future. When an airline begins service on a new route, its passenger load factors and yields initially tend to be lower than those on its established routes, and its advertising and other promotional costs tend to be higher. Customers may make less use of new routes or additional capacity on existing routes than the Group may have expected. New routes may also experience more competition than current ones, or competition may otherwise exceed the Group's expectations. As a result, the establishment of new routes usually generates initial losses. If the Group is unable to manage or implement its planned growth adequately by correctly assessing demand, capacity and fares, or if the Group is forced to terminate any unprofitable routes, this could have a material and adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is dependent on good industrial relations

Many of the Group's employees are represented by trade unions and the Group has voluntary recognition agreements in place with BALPA in respect of its pilots, UNITE in respect of its cabin crew and Prospect in respect of its engineers. The Group undertakes collective bargaining with such unions on a financial yearly basis. While agreements have been reached with UNITE and Prospect in respect of the 2010/11 Financial Year, the Group is currently in discussion with BALPA (under the dispute resolution process agreed in Flybe's voluntary recognition agreement with BALPA) in relation to the 2010/11 Financial Year pay settlement and certain scheduling issues. Any breakdown in the bargaining process with BALPA (or with UNITE or Prospect generally) could result in the Group being unable to continue to negotiate wages and salaries on terms that support it offering services at competitive prices, or could lead to strikes or other industrial action (or the threat of strikes or industrial action) which could damage the Group's reputation or cause passengers to book with the Group's competitors. A breakdown in the relationship with employee representative bodies, or the employees themselves, could lead to industrial action being taken which could in turn have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to shortages of key personnel

The Group's success depends significantly on the continued service of its key senior executives. While the Group has taken out "key-man" insurance in relation to the loss of each of its Chief Officers, the loss of services of any key personnel without adequate replacement could nevertheless disrupt the Group's operations and have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

In addition, pilots are from time to time in short supply in the European airline industry and the Group may have to expend significant amounts of time in recruiting and training them. There has historically been a trend in the industry for senior pilots in short haul airlines (such as the Group) to leave in order to join airlines with longer haul routes, particularly when the global economy is strong and there is high demand for experienced pilots to fly on international routes. Although in the last few years the Group has maintained a relatively high retention rate in respect of pilots, this may change when the economy improves. Similar recruitment and training issues exist for licensed engineers employed by Flybe Aviation Services. Any significant shortage of highly trained or specialised employees could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group may not be successful in implementing its growth strategy

The Group's growth strategy involves strengthening its market position through organic growth, relationships with other major carriers (such as codeshare, contract flying and joint ventures), selected acquisitions, the introduction of new flights to airports not currently served by the Group and the replication of the Group's business model within other European regional marketplaces, including through the establishment of new airport bases.

The Group's success in implementing its growth strategy is affected by matters such as the general condition of the global economy (particularly the UK and European economies) and the continued growth in demand for regional air transportation, the Group's ability to acquire additional licences, traffic rights and the Group's ability to identify and attract suitable acquisition opportunities and joint venture, franchise, codeshare and interline partners to facilitate its expansion into its targeted marketplaces.

The Group's growth prospects are also affected by the availability of landing and takeoff slots at the airports from which it currently operates and other airports from which it may wish to operate in the future. Operational access to certain UK and European airports is regulated by a system of slot allocation. There is competition amongst airlines for the allocation of slots at such airports. Where new slots are not available (such as when an airport reaches full capacity) or their availability is restricted, either at airports from which Flybe currently operates or at airports from which it may wish to operate from in the future, the Group may have to amend its schedules, reduce aircraft utilisation or amend its growth plans.

The Group's success in implementing its growth strategy is also affected by the Group's ability to finance new aircraft on acceptable terms (whether through operating lease structures or borrowing). The Group has successfully financed 23 aircraft since 1 April 2008, during a period of global economic downturn.

Further, growth through acquisitions or joint ventures involves the successful integration of other existing businesses which may pose risks not foreseeable at the time of agreement. While the Directors believe that the BA Connect acquisition and the Loganair franchise demonstrate respectively the Group's ability to successfully execute and integrate a major acquisition and introduce a franchise partner, there can be no assurance that the Group will be able to implement any future integration within the time frame or cost profile expected at the time of agreement.

Many of these factors are beyond the Group's control. While the Group's strategy is to replicate its business model within other European regional marketplaces, the implementation of this strategy may result in the Group operating in countries where it has no or limited operating experience, and where the operating, financial and legal challenges presented could be significantly different from those faced by the Group in its existing markets. As such, there can be no assurance that the Group will be successful in implementing its strategy of replicating its business model within other European marketplaces, or that the costs associated with an unsuccessful implementation of this strategy will not have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to the failure or non-performance of commercial and financial counterparties

The Group is dependent on numerous third parties with whom it has commercial agreements for certain business critical services, such as aircraft manufacturers (specifically Embraer and Bombardier), engine manufacturers (specifically General Electric and Pratt & Whitney), aircraft component manufacturers, airport operators, fuel providers, ground handlers and caterers. The efficiency, timeliness and quality of contract performance by third party providers is largely beyond the Group's direct control. For example, any delay in the prompt delivery of aircraft or critical aircraft components in the future may have an adverse result on the Group's operations. In addition, the Group is subject to the risk of failure by counterparties to its financial arrangements, such as money market deposits, fuel hedging contracts, foreign currency transactions and insurance policies. If one or more of these third parties failed to meet its contractual obligations to the Group, or if such services were temporarily (for example, as a result of technical problems or industrial action) or permanently unavailable, or not available on commercially acceptable terms, this could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is reliant on the efficient operation of UK and European air traffic control systems

Air traffic in Europe has become increasingly congested in recent years, particularly in the air space around UK regional airports, through which a significant portion of Flybe's flights operate. The expected continuing growth of UK and European air traffic is likely to increase the pressure upon UK and European air traffic control systems. While the Directors have no expectation that the air traffic control systems will not be able to cope with the pressure from increased utilisation, any significant disruption in, or a complete breakdown of, these systems could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group is exposed to risks relating to the British Regional Airlines Group Pension Scheme

As part of its acquisition of BA Connect in 2007, Flybe became the principal employer for the British Regional Airlines Group Pension Scheme, a defined benefit pension scheme. This scheme is closed to new members and was, with effect from 31 October 2007, closed to future benefit accrual for existing members.

A triennial valuation of the scheme (formally assessing the position as at 31 March 2010) has been finalised and agreed by the trustees of the scheme. This triennial valuation of the scheme shows an actuarial surplus of £2.5 million as at 31 March 2010. In addition, the scheme had an IAS 19 surplus of £1.5 million as at 30 September 2010.

While the IAS 19 accounting valuation as at 30 September 2010 is the most recent assessment of the scheme's deficit, it was not conducted on the same basis as the triennial valuation.

Depending on the results of future triennial valuations, Flybe may be required (should the scheme fall into deficit in the future) to make top-up payments to the scheme under an agreed recovery plan.

Any requirement by the trustees of the scheme for top-up payments to be made (should the scheme fall into deficit in the future), could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

RISKS RELATING TO THE ORDINARY SHARES

There has been no public market for the Ordinary Shares and an active trading market for them may not develop and continue

Prior to Admission, there has been no public market for the Ordinary Shares. The Group cannot predict the extent to which an active market for the Ordinary Shares will develop or be sustained after Admission, or how the development of such a market might affect the market price of the Ordinary Shares, nor can it give any assurances that an active trading market for the Ordinary Shares will develop or, if developed, will be sustained. An illiquid market for the Ordinary Shares may result in lower trading prices and increased volatility, which may materially and adversely affect the value of an investment in the Ordinary Shares.

US investors will be significantly restricted in their ability to transfer the Ordinary Shares or participate in future equity offerings

The Ordinary Shares have not been, and will not be, registered under the US Securities Act or the laws of any state of the United States and cannot be sold in or into the United States unless they are subsequently registered under the US Securities Act and any applicable state securities laws, or unless an exemption from registration is available.

Any future equity offerings for cash undertaken by the Company must be undertaken on a pre-emptive basis unless the Shareholders resolve otherwise. US Shareholders may not be entitled to exercise their pre-emptive rights unless either the rights and the Ordinary Shares are registered under the US Securities Act, (and any applicable state securities laws), or the Company has available to it, and uses, an exemption from the registration requirements of the US Securities Act.

The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, many of which will be outside the Group's control

The share price of publicly traded companies can be highly volatile. The price at which the Ordinary Shares may be quoted and the price which Shareholders may realise for their Ordinary Shares will be influenced by a large number of factors (many of which are outside the control of the Group). These factors include those referred to within this "Risk Factors" section, as well as others specific to the Group, its financial performance and operations, and some which may affect the airline industry as a whole or indeed quoted companies generally, such as stock market fluctuations and general economic conditions.

In addition, in recent years, stock markets have experienced substantial price and trading volume fluctuations. This volatility has had a significant impact on the market price of securities issued by many companies, including companies in the airline industry. The changes often occur without regard to the operating or financial performance of those companies. The price of the Ordinary Shares could therefore decrease based upon factors that have little or nothing to do with Flybe.

The Company may choose not to pay dividends and it cannot assure investors that it will make dividend payments in the future

The Company may not be able to or may choose not to pay dividends in the future. The payment of future dividends will depend on, among other things, the Group's future profit, financial position, distributable reserves, working capital requirements, general economic conditions and other factors that the Directors deem significant from time to time. The Company might not pay dividends if the Directors believe this could cause any Group member to be less than adequately capitalised or if for any other reason the Directors conclude it will not be in the best interests of the Company. There can be no assurance that the Company will pay dividends or, if it does pay dividends, as to the amount of such dividends.

Subject to the terms of the Relationship Agreement, Rosedale may exercise significant influence over the Group following the Global Offer and Rosedale's interests may differ from those of the majority of other shareholders

Immediately following Admission, Rosedale will hold approximately 49.62 per cent. of the Ordinary Shares (assuming no exercise of the Over-allotment Option). Subject to the Relationship Agreement, which seeks to regulate certain aspects of the continuing relationship between the Group and Rosedale to ensure that the Group is capable at all times of carrying on its business independently of Rosedale and that all transactions and relationships in the future between members of the Group and Rosedale are at arm's length and on a normal commercial basis (please see paragraph 9.3 of Part 7 "Additional Information" of this document for a summary of the Relationship Agreement), Rosedale will be in a position to exercise material influence over the Group's operations and business strategy and the ability to block certain corporate activities which require shareholder approval. The Relationship Agreement permits Rosedale to appoint one person to the Board if Rosedale holds in excess of 15 per cent. of the Ordinary Shares, and two people to the Board if Rosedale holds in excess of 30 per cent. of the Ordinary Shares. Rosedale's interests may differ from the majority of other Shareholders and thus an investor may disagree as to whether the action opposed or supported by Rosedale is in the best interests of Shareholders generally.

Sales of a substantial number of the Ordinary Shares into the public market after the Global Offer could adversely affect the price of Ordinary Shares

Sales of a substantial number of the Ordinary Shares into the public market after the Global Offer, or the perception that such sales could occur, could materially and adversely affect the price of the Ordinary Shares and impair the ability of the Group to obtain capital through future issues of equity securities. These sales could be made either by existing Shareholders (subject to the terms of any lock-up agreements relating to those shares) or by a capital increase undertaken by the Group to raise additional capital.

If the Company was classified as a passive foreign investment company for US federal income tax purposes, US holders of the Ordinary Shares could be subject to adverse US federal income tax consequences

Based on the Company's current estimates of, and its current plans, expectations and projections of, the value and nature of its assets, the sources and nature of its income and its use of the net proceeds of the Global Offer, the Directors believe that the Company will not be classified as a passive foreign investment company ("PFIC") for US federal income tax purposes for its current taxable year, and the Directors do not expect that the Company will be classified as a PFIC in the future. However, the determination of whether the Company is a PFIC in any taxable year is fact specific and depends on some factors (e.g., the market price of the Company's shares) which are or may be beyond its control. In addition, the composition of the Company's income and assets will be affected by how, and how quickly, the Company uses the cash generated by its business operations, the Global Offer and any future financing transactions. Accordingly, there can be no assurance that the Company will not be a PFIC for its current taxable year or any future taxable year. If the Company were to be a PFIC for any taxable year during which a US Holder (as defined in the "Certain US federal income tax considerations" paragraph of Part 7 "Additional Information" of this document) holds shares, various adverse US federal income tax consequences could apply to such US Holder. For further information, please see paragraph 11.6 of Part 7 "Additional Information" of this document.

Shareholders may be restricted in transferring their Ordinary Shares due to the EEA and UK rules relating to the majority ownership and effective control of EU airlines

As an EU air carrier based in the UK, the Group needs (in order to carry passengers or cargo by air for remuneration or hire) an Operating License granted by the CAA (Article 3(1) EC Regulation 1008/2008). In order to obtain and continue to be eligible to hold an Operating License, Flybe must, among other things, be majority owned and effectively controlled by EEA member states and / or their nationals (Articles 4 and 8 EC Regulation 1008/2008). As such, the Company must be able to provide evidence of its ownership and control at all times. To ensure that this is possible, the Company's articles of association contain provisions allowing, among other things, the Company to obtain information from Shareholders, to refuse to register transfers of Ordinary Shares and to force the sale of Ordinary Shares by non-EEA persons should the Group's operating rights be threatened or jeopardised. For further details, please see Part 2 "Regulatory and Market Overview" of this document and section 5 of Part 7 "Additional Information" of this document.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication date of this document	10 December 2010
Conditional dealings in the Ordinary Shares to commence	8.00 a.m. on 10 December 2010
Admission of the Ordinary Shares to trading becoming effective, issue of the New Shares and unconditional dealings in the Ordinary Shares to commence[11]	8.00 a.m. on 15 December 2010
CREST stock accounts credited with Offer Shares in uncertificated form	15 December 2010
Despatch of definitive share certificates for Offer Shares in certificated form[12]	by 5 January 2011

(11) Or as soon as practicable thereafter. No temporary documents of title will be issued.

(12) Or as soon as practicable thereafter.

It should be noted that, if Admission does not occur, all conditional dealings will be of no effect and any such dealings will be at the sole risk of the parties concerned.

Each of the times and dates in the above timetable is subject to change. All times are London times unless stated otherwise.

GLOBAL OFFER STATISTICS

Offer Price	295p
Number of New Shares being placed on behalf of the Company[13]	20,338,983
Number of Ordinary Shares in issue immediately following Admission[14]	72,838,983
Percentage of the issued share capital of the Company immediately following Admission which is the subject of the Global Offer[15]	27.92 per cent.
Market capitalisation of the Company at the Offer Price[16]	£220,875,000
Gross proceeds of the Global Offer	£60 million
Estimated net proceeds of the Global Offer receivable by the Company[17]	£56.9 million
ISIN of the Ordinary Shares	GB00B4QMVR10
SEDOL number of the Ordinary Shares	B4QMVR1

(13) Before any exercise of the Over-allotment Option.

(14) For these purposes, the number of Ordinary Shares in issue immediately following Admission (i) includes the issue of the New Shares and (ii) assumes no exercise of the Over-allotment Option.

(15) In relation to the issued share capital of the Company immediately following Admission, see footnote 14 above.

(16) Assumes that the Over-allotment Option has been exercised in full.

(17) After underwriting commissions, estimated fees and expenses of approximately £3,100,000 (and assuming no exercise of the Over-allotment Option). Estimated fees and expenses will be approximately £3,359,000 if the Over-allotment Option is exercised in full.

DIRECTORS, COMPANY SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

Directors

Executive Directors:	
Chairman and Chief Executive Officer	Jim French CBE
Deputy Chairman	Mark Chown
Chief Financial Officer	Andrew Knuckey
Chief Commercial Officer	Mike Rutter
Chief Operating Officer	Andrew Strong
Non-Executive Directors:	
Senior Independent Non-Executive Director	Charlie Scott
Independent Non-Executive Director	Alan Smith
Independent Non-Executive Director	David Longbottom
Independent Non-Executive Director	Peter Smith
Non-Executive Director	Anita Lovell
Company Secretary	Chris Simpson
Registered and head office	Jack Walker House Exeter International Airport Exeter EX5 2HL
Sponsor, Global Co-ordinator and Bookrunner	Merrill Lynch International 2 King Edward Street London EC1A 1HQ
Joint Lead Manager	Investec Bank plc 2 Gresham Street London EC2V 7QP
Co-Lead Manager	Execution Noble Limited 10 Paternoster Square London EC4M 7AL
Legal advisers to the Company as to English law	Eversheds LLP Eversheds House 70 Great Bridgewater Street Manchester M1 5ES
Legal advisers to the Company as to US law	Fried, Frank, Harris, Shriver & Jacobson (London) LLP 99 City Road London EC1Y 1AX
Legal advisers to the Managers as to English law and US law	Hogan Lovells International LLP Atlantic House Holborn Viaduct London EC1A 2FG
Reporting accountants to the Company	Deloitte LLP 2 Hardman Street Manchester M60 2AT
Auditors to the Company	Deloitte LLP 3 Rivergate, Temple Quay Bristol BS1 6GD

Financial advisor to the Company	Rickitt Mitchell & Partners Limited Clarence House, Clarence Street Manchester M2 4DW
Registrars	Capita Registrars Limited The Registry 34 Beckenham Road Beckenham Kent BR3 4TU

IMPORTANT INFORMATION

Available information

The Company has agreed that, for so long as any Ordinary Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the US Exchange Act nor exempt from reporting under the US Exchange Act pursuant to Rule 12g3-2(b) thereunder, provide, upon request, to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, on the request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the US Securities Act. In such cases the Company will also furnish to each holder or beneficial owner notices of all shareholders' meetings and other reports and communications that the Group generally makes available to its Shareholders.

Presentation of financial information

Presentation of financial information and non-financial operating data

The Historical Financial Information set out in section B of Part 5 "Financial Information relating to the Group" of this document has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB, as set out in note 2 of the Historical Financial Information.

The Historical Financial Information presented in this prospectus consists of:

- consolidated financial information with respect to the Group as at and for the years ended 31 March 2008 (the "2007/08 Financial Year"), 31 March 2009 (the "2008/09 Financial Year") and 31 March 2010 (the "2009/10 Financial Year"); and
- consolidated financial information with respect of the Group as at and for the six month period to 30 September 2009 (the "2009/10 First Half Year") and for the six month period to 30 September 2010 (the 2010/11 First Half Year").

The Group has historically reported under UK Generally Accepted Accounting Practices ("UK GAAP") and financial information has been prepared under IFRS for the first time for the purpose of presentation in this document. An explanation of the changes to the Group's financial information on transition from UK GAAP to IFRS is presented in note 30 of the Historical Financial Information.

The Group does not allocate to its segment results certain items that are either managed at a Group level or it does not believe are indicative of operational performance. These primarily include the integration costs of BA Connect, the costs associated with the initial public offering of Flybe's shares and the unrealised gains or losses on open fuel and exchange rate derivatives at each year end. In addition, the Group's segment results include "seat compensation" (as allowed, as negative goodwill amortisation, under UK GAAP), which is the primary difference between the segment results and those reflected on an IFRS consolidated basis (for further details, please see note 5 of the Historical Financial Information on page 152 of this document).

Non-IFRS Financial Measures

In this prospectus, certain financial measures are presented that are not recognised by IFRS. These include "EBITDA", "Adjusted EBITDA", "EBITDAR", "Adjusted EBITDAR", "EBITDAR margin", "Adjusted EBITDAR margin", "Adjusted EBIT" and "Adjusted EBIT margin".

EBITDA is generally defined as the profit (or loss) before tax charge (or credit), interest (investment income, finance costs and other gains and losses), depreciation and amortisation. The Group's definition of EBITDA further adjusts for unrealised gains and losses on fuel and foreign exchange hedges, integration costs (including any asset impairments), and initial public offering ("IPO") expenses. The Group calculates Adjusted EBITDA as EBITDA adjusted for the impact of seat compensation.

EBITDAR is generally defined as the profit (or loss) before tax charge (or credit), interest (investment income, finance costs and other gains and losses), depreciation, amortisation and aircraft rental charges. The Group's definition of EBITDAR further adjusts for unrealised gains and losses on fuel and foreign exchange hedges, integration costs (including any asset impairments), and IPO expenses. The Group calculates Adjusted EBITDAR as EBITDAR adjusted for the impact of seat compensation. The Group calculates EBITDAR margin and Adjusted EBITDAR margin as, respectively, EBITDAR and Adjusted EBITDAR for the relevant period divided by the Group's revenue for the same period.

EBIT is generally defined as profit (or loss) before interest and taxes. The Group presents Adjusted EBIT which is profit/(loss) before interest and taxes adjusted to exclude the impact of unrealised gains and losses on fuel and foreign exchange hedges, integration costs (including any asset impairments), and IPO expenses and adds in the impact of seat compensation. The Group calculates Adjusted EBIT margin as Adjusted EBIT for the relevant period divided by the Group's revenue for the same period.

EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, EBITDAR margin, Adjusted EBITDAR margin, Adjusted EBIT and Adjusted EBIT margin are not defined by or presented in accordance with IFRS, and should not be considered as alternatives to:

- profit after tax from continuing operations (as determined in accordance with IFRS);
- cash flows from operating, investing or financing activities (as determined in accordance with IFRS) or as a measure of the Group's ability to meet its cash needs; or
- any other measures of performance under IFRS.

EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, EBITDAR margin, Adjusted EBITDAR margin, Adjusted EBIT and Adjusted EBIT margin are calculated on a consolidated basis. These calculations differ from the Group's segment results. EBITDAR, Adjusted EBITDAR, EBITDAR margin, Adjusted EBITDAR margin, Adjusted EBIT and Adjusted EBIT margin have limitations as analytical tools, and an investor should not consider these measures in isolation from, or as a substitute for, analysis of the Group's results of operations. Some limitations of these measures are that:

- these measures do not reflect the Group's cash expenditures or future requirements for capital expenditure or contractual commitments;
- these measures do not reflect changes in, or cash requirements for, the Group's working capital needs;
- these measures do not reflect interest expense, or the cash requirements necessary to service interest or principal payments in respect of any borrowings;
- although depreciation and amortisation are non-cash charges, the assets being depreciated and amortised will often have to be replaced in the future, and these measures do not reflect any cash requirements for such replacements; and
- other companies in the Group's industry may calculate these measures differently from how the Group does, limiting their usefulness as a comparative measure.

EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, EBITDAR margin, Adjusted EBITDAR margin, Adjusted EBIT and Adjusted EBIT margin may not be indicative of the Group's historical operating results, nor are they meant to be a projection or forecast of future results.

The Directors believe that EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, EBITDAR margin, Adjusted EBITDAR margin, Adjusted EBIT and Adjusted EBIT margin provide useful information to investors because these measures are used by management in determining the Group's core performance as they exclude the results of certain decisions that are outside the control of operating management and can differ significantly from company to company. In addition, the Directors believe EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, EBITDAR margin, Adjusted EBITDAR margin, Adjusted EBIT and Adjusted EBIT margin are measures commonly used by investors, analysts and other interested parties in the Group's industry. EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, EBITDAR margin, Adjusted EBITDAR margin, Adjusted EBIT and Adjusted EBIT margin are not subject to audit or review by any independent auditors.

A reconciliation of profit/(loss) for the year to EBITDA, EBITDAR and Adjusted EBITDAR is as follows:

	Year ended 31 March			Six months ended 30 September	
	2008	**2009**	**2010**	**2009**	**2010**
	£m	**£m**	**£m**	**£m**	**£m**
Profit / (loss) for the year / period	15.5	(28.0)	22.2	24.3	7.1
Tax (credit) / charge	(2.2)	(5.7)	2.4	1.7	(5.4)
Investment income	(4.5)	(1.8)	(0.2)	(0.2)	(0.1)
Finance costs	8.7	6.5	4.1	2.5	1.3
Other gains and losses	(1.3)	3.2	(0.9)	(1.7)	1.9
Depreciation and amortisation	16.0	12.0	16.8	10.6	10.5
Adjustments:					
Unrealised (gains) and losses on fuel and foreign exchange contracts	(8.1)	16.5	(18.3)	(14.6)	5.4
Integration costs	4.9	8.5	–	–	–
IPO expenses incurred	–	–	1.1	–	1.1
EBITDA	29.0	11.2	27.2	22.6	21.8
Aircraft rental charges	50.4	61.0	63.7	29.6	38.9
EBITDAR	79.4	72.2	90.9	52.2	60.7
Seat compensation	25.2	17.2	0.4	0.4	–
Adjusted EBITDAR	104.6	89.4	91.3	52.6	60.7

The results shown above for the 2010/11 First Half Year reflect the negative impact on results of the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland during April and May 2010. The Directors estimate that the net negative impact on profits amounted to £(11.6) million.

For further information in relation to "seat compensation," please see note 5 of the Historical Financial Information on page 152 of this document, where "seat compensation" is referred to as "Reversal of negative goodwill amortisation".

A reconciliation of operating profit before integration costs, IPO costs and unrealised gains and losses on fuel and foreign exchange hedges for the year to Adjusted EBIT is as follows:

	Year ended 31 March			Six months ended 30 September	
	2008	**2009**	**2010**	**2009**	**2010**
	£m	**£m**	**£m**	**£m**	**£m**
Operating profit / (loss) before integration costs, IPO expense and unrealised gains and losses on fuel and foreign exchange hedges	13.0	(0.8)	10.4	12.0	11.3
Seat compensation	25.2	17.2	0.4	0.4	–
Adjusted EBIT	38.2	16.4	10.8	12.4	11.3

The results shown above for the 2010/11 First Half Year reflect the negative impact on results of the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland during April and May 2010. The Directors estimate that the net negative impact on profits amounted to £(11.6) million.

In addition, the Group has presented certain amounts denominated in US dollars and Euro using a constant currency translation due to the fact that, in its international operations, the Group generates revenues and incurs expenses in Euros and the Group also incurs a significant amount of expenses in US dollars as a result of fuel purchases, maintenance costs and operating lease commitments. Amounts in constant currency are based on the exchange rates for the 2010/11 First Half Year of US$1.64 and €1.19, respectively, per £1.00. These rates differ from the actual rates used in the preparation of the Group's Historical Financial Information and the other financial information appearing in this document. The Group's inclusion of amounts using a constant currency translation is not meant to suggest that such amounts could have been converted at any particular rate, if at all.

These constant currency amounts presented are non-IFRS financial measures as they are not recognised by IFRS.

The basis of translation of foreign currency for the purpose of inclusion of the financial information set out in section B of Part 5 "Financial Information relating to the Group" of this document is described in that Part. Information derived from this financial information set out elsewhere in this document, unless otherwise indicated, has been translated on the same basis.

Non-financial operating data

The non-financial operating data included in this document has been extracted without material adjustment from the management records of the Group and is unaudited. The information sourced from:

- the "CAA" and set out in the Summary section, sections 1, 2, 4 and 6 of Part 1 "Information relating to the Group", and sections 1, 2 and 4 of Part 4 "Operating and Financial Review" of this document;
- Right Angle Research & Design and set out in section 6 of Part 1 "Information relating to the Group" of this document;
- "Google Analytics" and set out in section 6 of Part 1 "Information relating to the Group" of this document;
- "ATI" and set out in the Summary section, sections 1, 2, 4 and 5 of Part 1 "Information relating to the Group" and sections 1 and 2 of Part 3 "Directors, Senior Management and Corporate Governance" and section 1 of Part 4 "Operating and Financial Review" of this document;
- "Datamonitor" and set out in section B of Part 2 "Regulatory and Market Overview" of this document;
- "UBS" and set out in section 5 of Part 1 "Information relating to the Group" and section B of Part 2 "Regulatory and Market Overview" of this document;
- "HSBC" and set out in section B of Part 2 "Regulatory and Market Overview" of this document;
- "Citi" and set out in section B of Part 2 "Regulatory and Market Overview" of this document;
- "Barclays" and set out in section B of Part 2 "Regulatory and Market Overview" of this document; and
- "IATA" and set out in section B of Part 2 "Regulatory and Market Overview" of this document.

has been accurately reproduced and so far as the Company is aware and is able to ascertain from information published by the CAA, Right Angle Research & Design, Google Analytics, ATI, Datamonitor, UBS, HSBC, Citi, Barclays and IATA respectively, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Rounding

The financial information presented in a number of tables in this document has been rounded to the nearest whole number or the nearest decimal place. Therefore, the sum of the numbers in a column may not conform exactly to the total figure given for that column. In addition, certain percentages presented in the tables in this document reflect calculations based upon the underlying information prior to rounding, and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Currency presentation

Unless otherwise indicated, all references in this document to "pounds", "pounds sterling", "sterling", "£", "pence" or "p" are to the lawful currency of the United Kingdom, all references to "US$", "USD" or "US dollars" are to the lawful currency of the United States of America and all references to "€" or "Euro" are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community.

The Group reports its financial results in pounds sterling.

References to defined terms

Certain terms used in this document, including certain capitalised terms and certain technical and other terms, are defined in Part 8 "Definitions" and Part 9 "Glossary" of this document.

Forward-looking statements

This document contains or incorporates by reference "forward-looking statements" which reflect the Directors' current views with respect to financial performance, business strategy, plans and objectives of management for future operations (including development plans relating to the Company's or the Group's products and services). These statements include forward-looking statements both with respect to the Company and/or the Group and the sectors and industries in which the Company and/or the Group operates. Statements that include the words "expects", "intends", "plans", "believes", "projects", "anticipates", "will", "targets", "aims", "may", "would", "could", "continue" or, in each case, their negative, and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the US federal securities laws or otherwise.

By their nature, forward-looking statements address matters that involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. Accordingly, there are or will be important factors that could cause the Company's and/or the Group's actual results to differ materially from those indicated in these statements. These factors include but are not limited to those risk factors described in the section of this document entitled "Risk Factors" on pages 9 to 19 of this document.

Any forward-looking statements contained in this document or incorporated by reference reflect the Directors' current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the Company's and/or the Group's business, results of operations, financial condition and growth strategy.

These forward-looking statements speak only as of the date of this document. Subject to any obligations under the Prospectus Rules, the Disclosure and Transparency Rules or the Listing Rules and save as required by the FSA, the London Stock Exchange, the City Code or applicable law and regulations, the Company and the Directors undertake no obligation publicly to update or review any forward-looking statement, whether as a result of new information, future developments or otherwise. All subsequent written and oral forward-looking statements attributable to the Company or individuals acting on behalf of the Company (including the Directors) are expressly qualified in their entirety by this paragraph.

These qualifications of forward-looking statements in no way seek to qualify or negate the statement relating to working capital set out at section 14 of Part 7 "Additional Information" of this document.

Notice to investors in the United States

Subject to certain exceptions, the Global Offer is not being made to investors or prospective investors in the United States. The Ordinary Shares may be offered and sold to QIBs in reliance on Rule 144A or another exemption from, or in transactions not subject to, the registration requirements of the US Securities Act, and in offshore transactions pursuant to Regulation S.

The Ordinary Shares have not been, and will not be, registered under the US Securities Act or under the applicable securities laws of any state of the United States. Accordingly, the Ordinary Shares may not be offered, sold, taken up, exercised, resold, transferred, delivered, directly or indirectly, through CREST or otherwise, within, into or from the United States absent registration except in reliance on an exemption from, or in a transaction not subject to, the applicable registration requirements and in compliance with applicable laws. This document does not constitute, or form part of, an offer to sell or issue or the solicitation of an offer to buy or subscribe for or the invitation to apply for an offer or an invitation to subscribe for the Ordinary Shares in the United States.

The Ordinary Shares have not been approved or disapproved by the SEC, any other federal or state securities commission in the United States or any other regulatory authority in the United States, nor has any such authority passed on or endorsed the merits of the Global Offer or confirmed the accuracy or determined the adequacy of the information contained in this document. Any representation to the contrary is a criminal offence in the United States.

Notice to European Economic Area investors

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "relevant member state"), with effect from and including the date on which the Prospectus Directive was implemented in that member state (the "relevant implementation date"), no Ordinary Shares have been offered or will be offered pursuant to the Global Offer to the public in that relevant member state prior to the publication of a prospectus in relation to the Ordinary Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, offers of Ordinary Shares may be made to the public in that relevant member state at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity that has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000 (as shown in its last annual or consolidated accounts);

(c) to fewer than 100 natural or legal persons (other than "qualified investors" as defined in the Prospectus Directive) subject to obtaining the prior consent of the Global Coordinator; or

(d) in any circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive in any relevant member state and each person who acquires any Ordinary Shares or to whom any offer is made under the Global Offer will be deemed to have represented and acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For this purpose, the expression "offer of any Ordinary Shares to the public" (or similar expression) in relation to any Ordinary Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Global Offer and any Ordinary Shares to be offered so as to enable an investor to decide to acquire any Ordinary Shares, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

In the case of any Ordinary Shares being offered to a "financial intermediary" as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Ordinary Shares acquired by it in the Global Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to, persons in circumstances which may give rise to an offer of any Ordinary Shares to the public other than their offer or resale in a relevant member state to qualified investors as so defined or in circumstances in which the prior consent of the Global Coordinator has been obtained to each such proposed offer or resale. Each of the Company, the Managers and their respective affiliates and others will rely on the truth and accuracy of the foregoing representation, acknowledgement and agreement.

Notice to all investors

Any reproduction or distribution of this document, in whole or in part, and any disclosure of its contents or use of information in this document for any purpose other than considering an investment in the Ordinary Shares is prohibited. By accepting delivery of this document, you agree with the foregoing.

The distribution of this document and/or the offer of the Ordinary Shares into certain jurisdictions may be restricted by law. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, neither this document nor any advertisement or other offering material should be distributed, forwarded to or transmitted in or into the United States, Australia, Canada or Japan or into any other jurisdiction where the extension or availability of the Global Offer would breach any applicable law. For further information on the manner of distribution of the Ordinary Shares, and the transfer restrictions to which they are subject, please see section 11 of Part 6 "Information on the Global Offer and Admission" of this document.

No action has been taken by the Company or the Managers that would permit an offer of the Ordinary Shares or possession or distribution of this document or any other offering or publicity material in any jurisdiction where action for that purpose is required, other than in the United Kingdom.

Subject to the terms of the Underwriting Agreement, each of the Managers and their respective affiliates may take up Ordinary Shares under the Global Offer and in that capacity may retain, purchase or sell for its own account any Offer Shares or related investments and may offer or sell such Ordinary Shares or other investments otherwise than in connection with the Global Offer. Accordingly, references in this document to Ordinary Shares being placed or offered should be read as including any placement or offering of Ordinary Shares to each of the Managers or to any of their respective affiliates acting in such capacity. None of the Managers, nor their respective affiliates, intend to disclose the extent of any such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company, the Directors, or the Managers. No representation or warranty, express or implied, is made by any Manager as to the accuracy, completeness or verification of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by any Manager as to the past, present or future. Without prejudice to any obligation of the Company to publish a supplementary prospectus pursuant to Section 87G of FSMA and paragraph 3.4.1 of the Prospectus Rules, neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company or the Group since the date of this document or that the information in this document is correct at any time subsequent to its date. Prior to making any decision as to whether to invest in the Ordinary Shares, prospective investors should read this document in its entirety. In making an investment decision, each investor must rely on its own examination, analysis and enquiry of the Company, the Group and the terms of the Global Offer, including the merits and risks involved.

Recipients of this document acknowledge that: (i) they have not relied on any of the Managers or any person affiliated with any of them in connection with any investigation of the accuracy of any information contained in, or incorporated by reference into, this document or their investment decision; and (ii) they have relied only on the information contained in, or incorporated by reference into, this document.

The Ordinary Shares are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time.

Neither of the Company, the Directors nor the Managers are making any representation to any offeree, subscriber or purchaser of the Ordinary Shares regarding the legality of an investment by such offeree or purchaser.

The contents of this document should not be construed as investment, legal, tax, accounting or other professional advice. Each prospective investor should consult his, her or its legal adviser, financial adviser or tax adviser for advice.

PART 1

INFORMATION RELATING TO THE GROUP

1. INTRODUCTION

Headquartered in Exeter, United Kingdom, Flybe is Europe's largest regional airline[18] and the UK's largest domestic airline[19] supported by one of Europe's leading regional aircraft maintenance, repair and overhaul ("MRO") businesses, trading as Flybe Aviation Services and a developing training business, trading as the Flybe Training Academy.

As a regional airline, the Group operates 14 118-seat Embraer E-Series regional jets and 54 78-seat Bombardier Q400 turboprops. These modern regional aircraft are deployed on 215 UK and European routes[20] from 73[21] airports across 13 countries. Additionally, the Group has firm delivery orders for a further 35 88-seat E-Series regional jets and four 78-seat Q400 turboprops, and options or purchase rights over a further 117 E-Series regional jets and 12 Q400 turboprops. For further details on regional airlines, see the "Regional airlines" paragraph of section B of Part 2 "Regulatory and Market Overview" of this document.

Employing more than 2,900 people, in 2009 Flybe was awarded the titles of "Global Regional Airline of the Year" by Air Transport World and "European Airline MRO of the Year" by Aviation Week MRO Europe. In addition, Flybe was awarded the titles of "Best Short-Haul Airline" and "Most Environmentally Responsible Budget Airline" at the 2010 British Travel Awards and the "Management Team of the Year" award by Flight International at the Paris air show flight awards in 2007.

Since its re-launch in 2002, Flybe has become a widely recognised brand within the UK and has grown its passenger numbers and total revenue by compound annual rates of approximately 17 per cent. and 20 per cent. respectively from the 2002/03 Financial Year to the 2009/10 Financial Year, when Flybe flew approximately 7.2 million passengers[22] and generated revenue of £570.5 million. For the 2010/11 First Half Year, and despite the disruption caused by the ash cloud from the eruption of the Eyjafjallajökull volcano which prevented flying within the UK and Northern Europe for approximately 5 per cent. of the period, Flybe grew its passenger numbers by 0.6 per cent., its total revenues by 6.0 per cent. and its EBITDAR by 16.3 per cent., against 2009/10 First Half Year numbers.

Flybe has established a business model which the Directors believe adopts the best elements of both the legacy airline and European LCC models, creating a market niche which distinguishes it from both. Flybe's flights are typically offered at lower prices than those of legacy airlines, and the Group has created a conveniently timed, high frequency flight schedule from accessible regional airports which, in combination with the relatively high level of service offered by Flybe, is intended to appeal to a core customer base of business and other repeat passengers.

(18) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

(19) By passengers carried within the UK (including the Channel Islands and the Isle of Man) in the 2010/11 First Half Year (Source: CAA).

(20) Includes routes flown by Loganair under the Flybe brand.

(21) Includes airports served by Loganair under the Flybe brand.

(22) 7.7 million passengers flown including passengers flown by Loganair under the Flybe brand.

The following tables set out headline financial and operating information for Flybe for the 2009/10 Financial Year and the 2010/11 First Half Year:

	Airline	Aviation Services	Other[23]	Group
2009/10 Financial Year				
Revenue (£m)	542.3	45.2	(17.0)	570.5
Segment result (£m)	6.2	1.6	–	7.8
Employees (FTEs)	1,960	818	n/a	2,778
Seat capacity (million)	11.3	–	–	11.3
Seats sold (million)	7.2	–	–	7.2
Load Factor (%)	63.5	–	–	63.5
Man hours (000s)	–	680	–	680
2010/11 First Half Year				
Revenue (£m)	308.1	20.0	(7.1)	321.0
Segment result (£m)	8.5	(0.3)	–	8.2
Employees (FTEs)	1,962	807	–	2,769
Seat capacity (million)	6.2	–	–	6.1
Seats sold (million)	4.0	–	–	4.0
Load Factor (%)	64.0	–	–	64.0
Man hours (000s)	–	299	–	299

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Segment revenue and profit and all of the Group figures have been derived from the Historical Financial Information. Segment costs and non-IFRS financial measures are unaudited.

(23) Intra-segment eliminations represent the trading between segments that is eliminated in order to present the overall trading of the Group with third parties. For further details, see section 4 of Part 4 "Operating and Financial Review" of this document.

Airline

Flybe is both Europe's largest regional airline[24] and the UK's largest domestic airline[25]. The airline operates a young fleet (average age 3.8 years at 30 September 2010) of 14 118-seat Embraer E-Series regional jets and 54 78-seat Q400 turboprop aircraft. These modern regional aircraft are based at 14 domestic airports and operate across 13 countries. The Group's network comprises 215 routes[26] between 39 UK[27] and 34 other European airports.

Flybe has a flexible fleet expansion strategy, with firm delivery orders for a further 35 E-Series regional jets and four Q400 turboprops, due for delivery between March 2011 and October 2016. The Group's 35 firm delivery orders in respect of E-Series regional jets are for the 88-seat E175 variant of the E-Series family. In addition, the Group has options or purchase rights over a further 117 E-Series regional jets and 12 Q400 turboprops, exercisable at Flybe's discretion for delivery between February 2012 and December 2020.

The split of passengers travelling with Flybe[28] was approximately:

- 43 per cent. in the 2009/10 Financial Year (and 38 per cent. in the 2010/2011 First Half Year) travelling for business;
- 28 per cent. in the 2009/10 Financial Year (and 27 per cent. in the 2010/2011 First Half Year) travelling to visit friends and relatives ("VFR passengers");

(24) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

(25) By passengers carried within the UK (including the Channel Islands and the Isle of Man) in the 2010/11 First Half Year (Source: CAA).

(26) Includes routes flown by Loganair under the Flybe brand.

(27) Includes airports served by Loganair under the Flybe brand.

(28) In respect of the 2009/10 Financial Year, by reference to passenger surveys undertaken by Flybe in each financial quarter of the 2009/10 Financial Year, and in respect of the 2010/11 First Half Year, by reference to passenger surveys undertaken by Flybe in the first financial quarter and in July 2010 of the 2010/11 First Half Year.

- 24 per cent. in the 2009/10 Financial Year (and 29 per cent. in the 2010/2011 First Half Year) travelling for leisure or hobby activities; and
- 5 per cent. in the 2009/10 Financial Year (and 6 per cent. in the 2010/2011 First Half Year) travelling for other reasons.

The relatively high proportion of business and VFR passengers generates a significant amount of repeat business for Flybe, with passengers flying with Flybe on average 5.5 times per annum[(29)], and approximately 10 per cent. of customers making over 20 trips with Flybe in each year.

Flybe has entered into codeshare agreements with major legacy carriers such as British Airways (in 2007) and Air France (in 2010). These agreements give Flybe access to the product, brand and network and also the marketing and sales organisations of its codeshare partners on a cost effective basis. In addition, Flybe's customers have access to a wider range of routes and eventual destinations through such codeshare arrangements. Similarly, the customers of Flybe's codeshare partners have access to Flybe's product, brand and network. Such relationships also assist in the facilitation of runway slots at primary hub airports by the codeshare partner in order to maximise the connectivity of flights.

Since October 2008 Flybe has also operated a franchise arrangement with the Scottish airline Loganair, under which 16 Loganair aircraft fly using the Flybe brand across 28 franchise routes between 18 airports throughout England, the Isle of Man, Scotland and Northern Ireland. Flybe generates revenue from this franchise arrangement by way of a franchise fee and a share of ancillary revenues generated on the franchise routes.

Flybe Aviation Services

The Flybe Aviation Services business generates its revenues principally from aircraft MRO of both third party and Flybe's own regional aircraft, with additional revenues being generated from training for third parties and Flybe. The division has grown to become a successful business in its own right, generating revenue from third party customers of £28.2 million in the 2009/10 Financial Year and £12.9 million in the 2010/11 First Half Year, and producing approximately 680,000 man-hours of base maintenance in the 2009/10 Financial Year and 299,000 in the 2010/11 First Half Year.

The MRO services are provided at Flybe's Exeter facility, which is one of Europe's leading regional aircraft MRO businesses, and from a number of other domestic airport bases from which the Group operates.

Recognised by Bombardier as a "Recognised Service Facility" and by Embraer as an "Approved Service Centre", the strategy behind the MRO business is to provide safe, timely and cost effective maintenance to the airline business, while at the same time maximising revenue earning opportunities from third parties.

The Flybe Training Academy

Flybe has made a substantial investment in training its pilots and other staff, and is in the process of constructing the Flybe Training Academy at a cost of approximately £12 million. The Flybe Training Academy is scheduled for completion in the first calendar quarter of 2011. On completion, the Flybe Training Academy (which the Directors anticipate will have a significant customer base overlap with Flybe Aviation Services) will comprise an approximate 5,500 square metre facility, with approximately 25 classrooms, up to four flight simulators, cabin simulator hulls for cabin crew safety training and an engineering apprentice workshop. The Directors intend to follow the Flybe Aviation Services' business model and increasingly provide training services to third parties in the future.

2. HISTORY OF THE GROUP

Flybe started operations in 1979 as Jersey European Airways. It was acquired in 1983 by C. Walker & Sons Limited, the parent company of a Blackpool based charter airline named Spacegrand Aviation. The two airlines were run separately, with partially shared management, until their amalgamation in 1985 under the "Jersey European" name. The airline was renamed British European Airways in 2000 and was then re-launched as Flybe in 2002.

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(29) By reference to passenger surveys undertaken by Flybe in the first financial quarter and in July 2010 of the 2010/11 First Half Year.

In 2000, British European Airways, which operated with the cost structure of a traditional full service airline, made a minimal operating profit as competition from European LCCs operating a more cost-driven business model eroded its yields. The next two years saw British European's financial position deteriorate further, with the Group's operating losses increasing in each of those years. In 2002, the Group was faced with the choice of continuing to operate at a loss, closing its operations or developing a new strategic direction. It was decided that the Group should be re-focused as a European regional airline which retained certain elements of its existing legacy airline business model and adopted other elements of the European LCC model to take advantage of what the Directors saw as an opportunity to create a distinct market niche. In July 2002, the airline was re-launched with this new "hybrid" business model as Flybe.

The foundation of the Group's growth since 2002 has been the successful execution of a strategy based on a five point plan adopted at the re-launch of Flybe, which comprised: (i) the development of a clear understanding of the Group's target markets and the creation of a high profile retail airline brand; (ii) the re-alignment of the pricing, product and terms and conditions to reduce cost and increase ancillary revenues; (iii) the re-focusing and then growth of the route network to maximise profitable routes and to develop a concentration of scheduled service offerings from key regional airports within the UK; (iv) the rationalisation of the Group's fleet to a more cost effective, sustainable two aircraft type; and (v) realisation of long-term value for the Shareholders through broader based ownership models.

In March 2007, Flybe acquired BA Connect, a subsidiary of British Airways and a business of similar size to the Group as it was then. Prior to the transaction, BA Connect had recorded substantial losses due, amongst other things, to its legacy airline business model, its older more inefficient fleet and historical working and commercial practices. Flybe moved to quickly integrate BA Connect into the Group and its business model and in the 12 months following the completion of the acquisition the Group achieved significant savings and synergies across the former BA Connect business. The acquisition provided the Group with an additional established route network, a well-trained workforce, an increase in its overall fleet size, and access to established, slot constrained, business destinations in Europe as well as to certain medium route density destinations in the UK. Through the BA Connect acquisition, Flybe acquired 19 landing slots at Paris-Charles De Gaulle Airport, 9 at Düsseldorf International Airport and 8 at Frankfurt am Main Airport.

Since 2007, Flybe has taken certain steps both to leverage the success of the acquisition and subsequent integration of the BA Connect business, and to respond to challenging market conditions, including:

- completing its fleet substitution programme, so that since May 2009 Flybe has operated a fleet of two types of aircraft, the E-Series and the Q400, both appropriate for its business model;
- developing a flexible fleet expansion programme with these two aircraft types;
- building market share, becoming Europe's largest regional airline[30] and the UK's largest domestic airline[31];
- developing commercial relationships with other major airlines such as British Airways and Air France;
- continuing to develop its ancillary revenues;
- continuing to manage and reduce its cost base resulting in Flybe being, in the Directors' belief, one of only a few major European airlines[32] to consistently report profits before tax in the period since the onset of the economic downturn in late 2008[33]; and
- began construction of the "Flybe Training Academy" to cater for both its own and third party training requirements.

The Directors believe the Group has succeeded in delivering on all the operational elements of the five point plan, through (i) the initial re-focusing of the Group in 2002, (ii) the acquisition and subsequent

(30) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

(31) By passengers carried within the UK (including the Channel Islands and the Isle of Man) in the 2010/11 First Half Year (Source: CAA).

(32) "Major airlines" characterised as airlines flying greater than 10,000 flights per month.

(33) Flybe's airline division results on a segment basis for profit before tax were £5.1 million in the 2008/09 Financial Year, £6.2 million in the 2009/10 Financial Year and £8.5 million in the 2010/11 First Half Year.

integration of the BA Connect business and (iii) the focus following 2007 on increasing market share, broadening the Group's operations and responding to challenging market conditions.

3. THE FLYBE BUSINESS MODEL

On the re-launch of the airline as Flybe in 2002, the Directors set out to establish a business model that they believed would create a new generation of regional airline in Europe. The new model, which retained certain elements of the Group's historical legacy airline model and adopted certain other aspects of the newer 'low cost carrier' model, was designed to create a distinct market niche for Flybe as a regional airline with the following key characteristics:

- a convenient regional network throughout the UK and continental Europe;
- cost effective sector lengths;
- an attractive high frequency schedule and route density;
- full commitment to a modern regional aircraft fleet, which helps to deliver a low break-even load factor;
- an attractive passenger profile; and
- complementary MRO and developing training businesses.

These key elements of Flybe's business model are outlined in greater detail below:

(i) Convenient regional network throughout the UK and continental Europe

Flybe has established a regional network of 215 routes[34] across 73 UK and European airports. This wide route network and spread of airports is intended to offer customers a convenient point-to-point network operating from regional airports which the Directors believe are a preferable alternative to having to travel to more distant major hub airports.

In addition, the domestic route network is structured with the aim of minimising the competitive threat from alternative forms of surface transport (with the Group seeking to avoid route development in situations where alternative road or rail options give a journey time of four hours or less). Not only is the average flight time of a Flybe flight less than one hour (with no routes having a drive time of less than four hours), but 82 per cent. of the Group's routes[35] cross open water, which in the majority of cases eliminates the possibility of customers being able to find a faster road, rail or sea alternative. The Group's route selection is also intended to appeal to passengers in locations which are more dependent on air transport (such as Northern Ireland, the Channel Islands and the Isle of Man) and other locations where surface transport may be a less attractive option, such as Inverness and Aberdeen.

The recent codeshare arrangements with Air France have increased the Group's profile and extended its route network, which the Directors believe will assist the Group in exporting its business model into continental Europe (as outlined in section 5 of this Part 1 of this document).

(ii) Cost effective sector lengths

The Group's network has an average flight time of 58 minutes. The Directors believe that, at this flight time and taking into account Flybe's average passenger density, the Group's fleet of E-Series and Q400 aircraft, services Flybe's route network and customers more cost effectively than if the Group were using 150+ seat alternative short-haul aircraft such as the Boeing 737 or Airbus 319/320, which are typically operated by European LCCs.

(34) Includes routes flown by Loganair under the Flybe brand.

(35) Includes routes flown by Loganair under the Flybe brand.

The Group's average sector lengths, flight times, seat capacity and number of routes broken down across each of its three key route types in the 2010/11 First Half Year, was as follows:

	Average flight time and sector length		Seat capacity deployed	Number of routes[36]
	Minutes	Kilometres	%	
Route type				
UK domestic	49	377	75	110
European business	67	541	7	25
European leisure	88	807	18	54
	57[37]	**464**	**100.0**	**189**

Source: Unaudited management information.

(36) Excludes routes flown by Loganair under the Flybe brand.

(37) Excludes sector movements not relating to UK domestic, European business or European leisure rate types (e.g. charter sectors).

(iii) An attractive high frequency flight schedule and route density

Flybe offers a high frequency flight schedule designed to:

- correspond to the level of passenger volumes on its routes;
- appeal to the demand for high frequency departures from the Group's target customers; and
- maximise aircraft utilisation.

Approximately 78 per cent. of the Group's seat capacity in the 2010 summer season was deployed on routes with two or more services a day, with approximately 49 per cent. of seat capacity deployed on routes with four or more services a day. Flybe believes that this high frequency flight schedule, operating between accessible regional airports and with departures timed to be convenient, appeals particularly to its target passengers (especially business customers who typically travel more frequently), thereby increasing demand for Flybe's offerings and the Group's overall yield. The higher frequency routes have typically also proved to be more profitable for the Group, as they achieve a greater cost efficiency by virtue of higher aircraft utilisation (allowing the Group to compete effectively against both European LCCs and traditional legacy carriers).

Flybe focuses its route selection on higher passenger volume regional routes that require high frequency services. However, it also operates regional routes with low-to-medium passenger volumes (typically, those with passenger volumes of less than 50,000 per annum), including a number of single daily rotations (or less), typically at non-peak times, that are either in their development phase or where the Group can make a positive financial contribution to its fixed operating costs and attempt to maximise its aircraft utilisation. Flybe aims to stimulate demand on such lower passenger volume and rotation routes through a combination of convenient scheduling, high profile regional marketing and competitive pricing.

(iv) Full commitment to a modern regional aircraft fleet which helps to deliver a low break-even load factor

The Group's E-Series and Q400 aircraft have been specifically selected for their seat capacity and operational efficiency in respect of the Flybe business model and route network. These aircraft allow the Group to operate a route profitably at a relatively low load factor. Flybe's break-even load factor was less than 64 per cent. in each of the periods under review.

On the Group's higher passenger volume routes, the use of E-Series and Q400 aircraft enables Flybe to operate high frequency schedules typically preferred by target customers at a load factor which is profitable for the Group, but which the Directors believe may be unprofitable for airlines operating larger aircraft. On lower passenger volume routes, the use of these aircraft means that the Group can operate a lower frequency service to target a profitable load factor while still offering departure times that the Directors believe are convenient for its customers.

(v) Attractive Passenger profile

Flybe targets three distinct passenger groups:

- customers travelling on business (representing 43 per cent. of Flybe's total passengers in the 2009/10 Financial Year and 38 per cent. for the 2010/11 First Half Year);
- customers travelling to visit friends and relatives ("VFR travellers") (representing 28 per cent. in the 2009/10 Financial Year and 27 per cent. for the 2010/11 First Half Year); and
- customers travelling in connection with leisure or hobby activities (representing 24 per cent. in the 2009/10 Financial Year and 29 per cent. for the 2010/11 First Half Year)[38].

The Directors believe that customers travelling on business typically have a higher level of repeat travel and generate higher yields, thereby generating higher revenue per customer. The Group's focus on business travellers, who may plan their travel arrangements on shorter notice than VFR or leisure travellers, allows the Group to maximise ticket yields through increased pricing as the departure date for a particular flight approaches (please see the "Revenue management" paragraph of section 6 of this Part 1 of this document). In the 2010/11 First Half Year approximately 48 per cent. of the Group's ticket revenues were generated from the approximately 35 per cent. of passengers who booked their tickets within 14 days of the flight departure date.

Flybe aims to attract these passengers through targeted marketing and advertising, and through a flexible service offering which rewards repeat business.

The Group's routes are also aimed at passengers in airline dependent locations (such as Northern Ireland, the Channel Islands and the Isle of Man) and other locations where surface transportation may be a less attractive option, such as Inverness, Aberdeen and other regional communities within the UK mainland where there are limited or no direct rail services, thereby minimising the competitive impact of surface modes of transport.

(vi) Complementary MRO and developing training businesses

In support of the airline business, and to further differentiate Flybe from competitor airlines (particularly European LCCs) and strengthen its market niche, Flybe has established Flybe Aviation Services, its complementary MRO business, and is in the process of establishing the Flybe Training Academy as a complementary training facility. The strategy behind these business divisions is to provide safe, timely and cost effective maintenance and training support to the airline business, while at the same time maximising revenue earning opportunities from third parties.

4. KEY STRENGTHS

As a consequence of the implementation of the Group's business model since 2002, the Group's principal strengths are:

- a strong competitive position in the UK domestic and UK to Europe regional airline markets built on an extensive regional route network and appealing high frequency flight schedules;
- a modern fuel efficient fleet of 68 regional aircraft chosen specifically to suit Flybe's business model;
- an aircraft order profile which provides flexible fleet growth options:
  - firm orders for delivery of 35 Embraer E175 aircraft between June 2011 and October 2016;
  - firm orders for delivery of 4 Bombardier Q400 aircraft between March and June 2011; and
  - options or purchase rights exercisable at Flybe's discretion for a further 117 Embraer E-series aircraft and 12 Bombardier Q400 aircraft;
- strong commercial and codeshare relationships with other major airlines coupled with a firm platform to further develop such relationships;
- an attractive passenger mix supported by an enhanced service offering and comprehensive sales distribution channels;

(38) See footnote 28 above.

- a track record of ancillary revenue generation and growth based on an unbundled product offering;
- a widely recognised brand;
- complementary MRO and training businesses; and
- a strong and experienced management team.

A strong competitive position in the UK domestic and UK to Europe regional airline markets built on an extensive regional route network and appealing high frequency flight schedules

Flybe is both Europe's largest regional airline(39) and the UK's largest domestic airline(40), with four times more domestic UK routes than any other carrier(41). In addition, the Group has a significant presence in the regional UK to European business cities market(42), with Flybe operating more routes from the UK to France than any other airline in the 2010 summer season(43). Flybe flew approximately 7.2 million passengers(44) in the 2009/10 Financial Year and approximately 4.0 million passengers(45) in the 2010/11 First Half Year and operated more than 500 flights per day(46) at peak times during its 2010 summer season.

The Directors believe that Flybe will also benefit from the codeshare agreement entered into with Air France (please see paragraph 9.16 of Part 7 "Additional Information" of this document for further details). The Directors consider that this agreement should serve as a blueprint for further European expansion by Flybe.

Flybe's strong competitive position has been developed through, among other things, the creation of an extensive non-radial network of 215 routes(47) between 39 UK(48) and 34 other European airports in 13 countries. Flybe has 14 UK domestic airport bases and was the largest UK domestic airline by number of flights at 13 UK airports (22 including airports served by Loganair) as at 30 September 2010, allowing Flybe to take advantage of economies of scale in areas such as marketing, staffing, ground handling and line maintenance.

Another significant contributory factor to Flybe's growth and market position has been the establishment of conveniently timed, high frequency flight schedules operating from accessible regional airports, which are intended to appeal to the Group's customers (and particularly its target business customers who the Directors believe require multiple daily departures and minimal transit time to and from the airport) and to provide a more attractive alternative to the Group's competitor airlines. This approach has resulted in Flybe generating a high level of repeat business, with passengers flying with Flybe an average of 5.5 times per annum(49).

Flybe has also improved its competitive position by selecting routes which minimise the potential competition from alternative forms of transport. The Group seeks to avoid operating routes where the alternative journey by road or rail takes less than four hours. In addition, the average duration of a Flybe

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(39) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

(40) By passengers carried within the UK (including the Channel Islands and the Isle of Man) in the 2010/11 First Half Year (Source: CAA).

(41) Includes routes flown by Loganair under the Flybe brand in the 2010/11 First Half Year.

(42) UK to European business cities market characterised as flights from regional UK airports to Amsterdam, Barcelona, Berlin, Brussels, Copenhagen, Dusseldorf, Frankfurt, Lisbon, Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart, Vienna.

(43) 42 direct routes (and 136 connecting routes) to 13 French airports in the 2010 summer season (Source: CAA).

(44) 7.7 million passengers flown including passengers flown by Loganair under the Flybe brand.

(45) 4.3 million passengers flown including passengers flown by Loganair under the Flybe brand.

(46) Includes flights flown by Loganair under the Flybe brand.

(47) Includes routes flown by Loganair under the Flybe brand.

(48) Includes airports served by Loganair under the Flybe brand.

(49) By reference to passenger surveys undertaken by Flybe in the first financial quarter and in July 2010 of the 2010/11 First Half Year.

flight is 58 minutes and 82 per cent. of Flybe's routes cross open water[50], which in the majority of cases eliminates the possibility of customers being able to find a faster road, rail or sea alternative.

A modern fuel efficient fleet of 68 regional aircraft chosen specifically to suit Flybe's business model

Flybe's fleet consists exclusively of Embraer E-Series and Bombardier Q400 aircraft. These aircraft were selected after extensive review and analysis of available options for the suitability of their performance characteristics to serve the Group's route network and on the basis that they offer significant cost and performance advantages to larger short-haul aircraft such as the Boeing 737 or Airbus 319/320, which are typically used by European LCCs. By way of example, the Directors believe that the total average cost to the Group of operating a 78-seat Q400 on a one hour flight (the average flight time of Flybe's route network is 58 minutes), is 42 per cent. less than it would cost the Group to operate a 150-seat (or more) Boeing 737 or a 149-seat (or more) Airbus 319/320 on the same flight, allowing Flybe to fly 74 per cent. more frequently on a route of this duration for approximately the same overall cost i.e. 8 one hour flights for the cost of 4.6 flights on a Boeing 737 or Airbus 319/320. The Directors expect that operating the 88-seat E-175 jet aircraft will offer similar advantages.

This cost efficiency allows Flybe to provide a high frequency flight schedule, which is attractive to its target customers. In addition, in periods of lower demand, this high frequency model enables Flybe to reduce its number of daily departures on a particular route (thereby reducing its variable cost exposure) while still maintaining a presence on that particular route. In contrast, a competitor airline operating larger aircraft at lower frequency and experiencing lower demand may face the choice of either operating a particular route at a loss or ending service on that route altogether.

An aircraft order profile which provides flexible fleet growth options

Firm orders

Flybe will be taking delivery of 35 88-seat E-Series regional jets between June 2011 and October 2016. The Group has negotiated attractive debt financing arrangements for all 35 of these orders at a loan to value ratio of 85 per cent. The Group will also take delivery of four 78-seat Q400 turboprops between March and June 2011.

Based on these delivery dates, and assumed sale/return dates of Flybe's existing owned and operating leased aircraft, these aircraft will increase Flybe's seat capacity from 5,864 to 7,262, a 24 per cent. increase over the six year period to 31 October 2016.

Options

In the period to December 2020, Flybe has options to acquire 77 further E-Series regional jets and 12 Q400 turboprops. These options are exercisable at Flybe's discretion on specific dates and, if so exercised, oblige the manufacturer to deliver the aircraft at a specified time. If exercised, they would increase seat capacity by a further 63 per cent. beyond that currently available in the fleet, including aircraft on firm order, over the 6 year period to 31 October 2016.

Purchase Rights

Flybe has purchase rights for a further 40 E-Series regional jets. These are exercisable at Flybe's discretion at any time up to November 2017 but, if so exercised, each purchase right is subject to the existence of sufficient manufacturing capacity at Embraer to satisfy Flybe's requested delivery schedule. If all 40 purchase rights are exercised and delivered before 31 October 2016, the purchase rights would increase seat capacity by a further 60 per cent. over the current fleet, including those aircraft under options and aircraft on firm order, over the 6 year period to 31 October 2016.

Operating lease extensions

Further seat capacity growth could be achieved by the extension of existing operating leases beyond their primary term. At present, Flybe's operating leases run for periods of between 8 to 12 years. Having considered maintenance costs, operational and environmental factors, the Directors believe that the maximum age of any single aircraft in the fleet should not exceed 15 years. If leases on the aircraft were extended for a secondary term up to a maximum of 15 years, further growth of up to 33 per cent. in seat capacity above that currently available in the fleet (including aircraft on firm order) would be achievable, over the 6 year period to October 2016.

(50) Includes routes flown by Loganair under the Flybe brand.

Aircraft acquired by Flybe under each of these growth options will be used both for substitution of existing fleet and to drive the Group's proposed European expansion.

Strong commercial and codeshare relationships with other major airlines coupled with a firm platform to further develop such relationships

Flybe has strong relationships with other major airlines, including codeshare arrangements with British Airways and Air France (see below). These arrangements have extended the Group's route network further into mainland Europe and the Directors believe that further developments in this area will assist the Group in exporting its business model into continental Europe.

By way of example, on 7 July 2010 Flybe signed a wide-ranging codeshare agreement with Air France involving capacity sharing arrangements on the Group's routes between Birmingham, Manchester, Southampton and Edinburgh to Paris, to take effect from the commencement of the 2010/11 winter season. The Directors believe that these codeshare arrangements will deliver immediate benefits to the Group. Flybe benefits from the pre-booking by Air France of a substantial number of seats on its early morning flights to Paris. The Group's passengers will benefit from a greater choice of flight times and an improved airport experience at Paris, as a result of the Group being able to operate from the Air France terminal at Paris Charles de Gaulle. In particular, all Flybe services into Paris Charles de Gaulle, in arriving at the Air France hub, will benefit from reduced transit time to all of Air France's extensive international services.

In addition, Flybe entered into codeshare arrangements with Air France on each of its 44 routes from regional UK to France. Air France has also agreed to codesharing arrangements on 5 further routes from France to the UK, 7 internal French routes and 12 international routes into France.

Attractive passenger mix supported by enhanced service offering and comprehensive sales distribution channels

As part of its strategy, Flybe has focused on increasing the amount and frequency of business from higher yielding passenger groups, such as passengers travelling on business and those visiting friends and relatives. These passengers collectively made up 71 per cent. of Flybe's total passengers in the 2009/10 Financial Year and 65 per cent. for the 2010/11 First Half Year.

The Group has taken a number of measures to specifically target these customers and to grow passenger numbers generally, including the selection of an appealing route network, airport profile and flight schedule. Flybe has also taken a number of steps to enhance its passengers' flying experience, including providing its own business lounges at its busiest airports and creating a straightforward self-service check-in service easily accessible to customers. In addition, the Group has sought to differentiate itself from most European LCCs by pre-allocating seats as part of the standard fare and providing the 2x2 seating configuration across its fleet which the Directors believe passengers typically prefer.

The Group also offers a range of premium services intended to appeal to its target customers. These services include the option to book a "Flybe Economy Plus" premium fare, which provides a bundled package of services such as access to business lounges, free seat selection, increased baggage allowance, free catering on-board, double points under Flybe's frequent flyer programme "Rewards4All" and the ability to change tickets free of charge. The Group also provides the "Flybe Spend & Fly Credit Card", which provides its holders with a number of benefits, including "Rewards4all" points accumulation.

The Group has also increased its number of passengers by offering alternative methods of booking and purchasing flights. By retaining sales distribution through GDS and related systems, Flybe has access to sales from travel agents and businesses booking through corporate accounts. Use of the GDS booking system has also allowed Flybe to enter into full service codeshare and interline agreements with airlines such as British Airways, Etihad and Air France, which allows Flybe's customers to book connected flights with those airlines as a single booking. Passenger bookings through travel agents or through corporate accounts typically generate higher yield for the Group. By way of example:

- the 17 per cent. of passenger bookings in the 2009/10 Financial Year and 17 per cent. of passenger bookings for the 2010/11 First Half Year which came from travel agents through GDS or related distribution channels generated 22 per cent. and 23 per cent. of ticket revenues respectively in those periods; whereas

- the 77 per cent. of passenger bookings in the 2009/10 Financial Year and 75 per cent. of passenger bookings for the 2010/11 First Half Year which came directly through the Flybe website generated 70 per cent. and 69 per cent. of ticket revenues respectively in those periods.

A track record of ancillary revenue generation and growth based on an unbundled product offering

Ancillary revenues, which are primarily derived from a range of unbundled products and travel related ancillary services provided to customers, such as seat selection, checked-in baggage, car hire and insurance commission, and on-board sales of food, drinks and merchandise, are particularly important to the Group as they generate high margins and have a significant impact on profitability.

Flybe has grown its ancillary revenues per passenger from £0.85 in the 2002/03 Financial Year to £11.98 in the 2009/10 Financial Year, a compound annual growth rate of 45.9 per cent. For the 2010/11 First Half Year, ancillary revenues per passenger had risen to £13.12. This growth in ancillary revenues since 2002 has been achieved partly through a number of innovations and marketing measures taken by the Group such as, for example, the implementation of separate charging for checked-in baggage (which the Directors believe Flybe was the first European scheduled airline to introduce) and separate charging for seat selection (which the Directors believe Flybe was one of the first European airlines to introduce). Ancillary revenue growth and innovation has also been supported by the Group's strong in-house technical and logistics teams, which enable rapid introduction of new ancillary revenue initiatives.

While the Group has sought to be an industry innovator in ancillary revenue generation, decisions as to whether to adopt new ancillary revenue measures have been and remain guided by the Directors' philosophy that, in order to preserve customer loyalty to the Flybe brand, ancillary items should largely be at the customer's discretion.

Widely recognised brand

Flybe benefits from the strength of its brand and increasing recognition of its brand amongst the public. The establishment of Flybe as what the Directors consider to be one of the most widely recognised airline brands in the United Kingdom has been achieved through a high-profile marketing strategy incorporating easily recognisable brand images, distinctive advertising and targeted public relations campaigns. The Directors aim to have customers associate the Flybe brand with value for money, an enhanced travel experience, reliability, professionalism and environmentally sensitive air travel.

Complementary MRO and training businesses

Flybe Aviation Services operates one of Europe's leading regional aircraft MRO businesses. Flybe Aviation Services is manufacturer-approved by both Embraer and Bombardier (the manufacturers of Flybe's E-Series and Q400 aircraft respectively) and holds EASA certification. Flybe Aviation Services enables Flybe to provide safe and timely scheduled maintenance of its own fleet, and also generates profits from its third party customers (who represented 62.4 per cent. of Flybe Aviation Services' revenue in the 2009/10 Financial Year and 64.5 per cent. for the 2010/11 First Half Year), ensuring the delivery of the MRO service at a low net cost to Flybe. The Flybe Aviation Services and training businesses generated £45.2 million of revenue and £1.6 million of profit for the Group in the 2009/10 Financial Year and revenue of £20.0 million and a loss of £(0.3) million for the 2010/11 First Half Year.

The Directors believe that there is scope to grow Flybe's existing training business. The Group is establishing the Flybe Training Academy to operate on a similar model to Flybe Aviation Services, with operations being split between Flybe's own training requirements and the provision of training services to third party airlines. The Flybe Training Academy is due to be completed by the first calendar quarter of 2011, and will provide an approximate 5,500 square metre facility, with approximately 25 classrooms, up to four flight simulators, cabin simulator hulls for cabin crew safety training and an engineering apprentice workshop. As with the MRO facility, the Directors expect the Flybe Training Academy to provide significant financial and operational benefits to the Group, with a significant customer base overlap with Flybe Aviation Services.

Strong and experienced management team

The Group's stable and experienced management team, with an average of more than 15 years experience in the European airline industry each, has a track record of achieving profitable growth, executing and integrating a major acquisition, introducing innovative ancillary revenue products and delivering cost saving strategies.

A testament to the strength of the Group's management is the way in which Flybe has performed since the acquisition of BA Connect in March 2007. Since that point, the Group has: (i) become Europe's largest regional airline[51] and the UK's largest domestic airline[52]; (ii) in the Directors' belief been one of only a few major European airlines to consistently report profits before tax in the period since the onset of the economic downturn in late 2008[53]; (iii) financed 39 new aircraft as part of the Group's fleet rationalisation strategy; and (iv) successfully managed its aircraft capacity so as to mitigate the impact of the recession on the Group by removing costs associated with surplus capacity within its fleet.

Flybe was awarded the titles of "Best Short-Haul Airline" and "Most Environmentally Responsible Budget Airline" at the 2010 British Travel Awards. In 2009 Flybe was awarded the titles of "Global Regional Airline of the Year" by Air Transport World and "European Airline MRO of the Year" by Aviation Week MRO Europe. In addition, Flybe was awarded the "Management Team of the Year" award by Flight International at the Paris air show flight awards in 2007 in recognition of its standing within the industry and the successful completion of the BA Connect acquisition.

5. STRATEGY

Flybe's strategy is focused on building upon the Group's key strengths to create Europe's largest and most profitable regional aviation group. The key elements underpinning this strategy are to:

- leverage the Group's historical investments and market position to:
  - (a) capitalise on sector recovery in its existing UK domestic and regional UK to European city and leisure markets, and
  - (b) drive European expansion, through organic growth, relationships with other major carriers (such as codeshare, contract flying and joint ventures), and selected acquisitions;
- build on the Group's track record of passenger revenue growth;
- deliver the lowest cost base for the European regional airline sector; and
- expand Flybe Aviation Services and develop the Flybe Training Academy.

Leverage the Group's investments and market position to:

(i) Capitalise on sector recovery in its existing UK Domestic and regional UK to European city and leisure markets

Flybe has a 28 per cent. share of the UK domestic market, including flights to and from London, and a leading share of the UK domestic market excluding flights to and from London. In addition, the Group has a significant presence in the regional UK to European business cities market[54]. Flybe operates a high frequency business model with 49 per cent. of its 2010 summer season capacity deployed on routes with frequencies of four or more a day.

During the recessionary period from late 2008 to early 2010, passenger demand for Flybe's services was weaker than it had been previously. Flybe's high frequency business model allowed it to protect its profitability by reducing the frequency of its flights on a planned basis (typically four to six weeks in advance), thus saving the variable operating costs associated with the cancelled flights, but without materially inconveniencing its passengers. Approximately 61 per cent. of Flybe's costs are variable and the reduction in frequency from 9 to 7 flights per day on routes such as Birmingham to Edinburgh, to cite one of many examples, resulted in these variable costs being saved, while the Group maintained a convenient, high frequency commuter service for its passengers.

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(51) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

(52) By passengers carried within the UK (including the Channel Islands and the Isle of Man) in the 2010/11 First Half Year (Source: CAA).

(53) Flybe's airline division reported profits before tax of £5.1 million in the 2008/09 Financial Year, profits before tax of £6.2 million in the 2009/10 Financial Year and profits before tax of £8.5 million in the 2010/11 First Half Year.

(54) UK to European Business City regional airline marketplace characterised as flights from regional UK airports to Amsterdam, Barcelona, Berlin, Brussels, Copenhagen, Dusseldorf, Frankfurt, Lisbon, Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart and Vienna.

In the 2009/10 Financial Year, the number of sectors flown by Flybe totalled 135,100, a reduction of 6.2 per cent. on the total flown in the 2007/08 Financial Year of 144,000. During this same period, average passenger ticket yields declined from £64.54 to £60.56 and load factor declined from 64.9 per cent. to 63.5 per cent.

As evidence of the sector recovery became clear during the 2010/11 First Half Year, Flybe increased the number of sectors flown in the quarter to 30 September 2010 by 5.9 per cent. over the same period in the 2009/10 Financial Year. The combination of increased passenger numbers and improved ticket and ancillary revenue yields resulted in airline revenue per seat increasing in the same period by 3.5 per cent. over the three months to 30 September 2009. As at 22 November 2010, forward passenger bookings were up by 3.4 per cent. on 22 November 2009, and average monthly ticket yields for those forward passenger bookings were up by an average of 4.7 per cent. year on year.

The Directors believe that, as the recovery from the economic downturn continues, Flybe's business model and strength in its market segments should present further opportunities to increase both Flybe's load factor and overall passenger yields from those delivered in the 2010/11 First Half Year.

(ii) Drive European expansion

The Directors believe that the state of the European regional airline market provides opportunities for Flybe to expand beyond its current presence in that market. Current market conditions that the Directors consider to be favourable to such expansion include:

- the high level of fragmentation of the market (while the Directors estimate that in the 2009/10 Financial Year the European regional aviation market had a seat capacity of approximately 169 million seats, the market comprises over 200 airlines[55]);
- the inefficient aircraft fleets and relatively high cost structures of major European carriers, which are typically not optimised for regional routes;
- recent withdrawals from routes by certain airlines; and
- the interest of major European carriers in maintaining and supporting the development of networks of regional routes to feed the long-haul flights that they operate out of their hubs.

The Directors believe that Flybe's business model is adaptable to providing expanded regional airline services in the European airline market outside of the UK. It is the Directors view that several of the Group's strengths will be key in pursuing these expansion opportunities, including its (i) fleet and cost structure, (ii) established position as Europe's largest regional airline[56], (iii) aircraft order profile, including the Group's existing options and purchase rights that provide flexibility to add additional aircraft if needed, (iv) position as an independent airline not affiliated with any major airlines or alliances, (v) strong commercial and codeshare relationships with major European carriers and (vi) track record of executing and integrating a major acquisition.

The ways in which the Group may seek to take advantage of these opportunities include:

- further development and expansion of existing codeshare arrangements;
- additional codeshare arrangements with airlines operating in other European markets;
- strategic arrangements with existing airlines in various European markets, taking advantage of Flybe's cost structure, for example by taking over routes already operated by other airlines in co-operation with those airlines, which would allow Flybe to benefit from existing route passenger flows and in some cases codeshare arrangements;
- the provision of increased capacity to either stimulate new markets, or provide greater choice and cheaper alternatives to consumers compared to existing regional airlines that have traditionally operated in those markets; and
- the acquisition of independent regional airline operations or the regional businesses of major European airlines.

(55) Source: UBS, 20 January 2010.

(56) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

Build on the Group's track record of passenger revenue growth

From the 2005/06 Financial Year to the 2009/10 Financial Year, Flybe grew its total revenues per passenger from £56.02 to £72.54, comprised as follows:

- Ticket yield increased from £51.90 in the 2005/06 Financial Year to a pre-recession peak of £64.54 in the 2007/08 Financial Year, before declining during the recessionary period to £60.56 in the 2009/10 Financial Year. For the 2010/11 First Half Year, ticket revenue per passenger was £60.53 compared to £59.40 in the 2009/10 First Half Year. As at 22 November 2010, average monthly ticket yield for bookings in respect of the 2010/11 winter season was 4.7 per cent. higher than at 22 November 2009 in respect of the 2009/10 winter season. At the same date, i.e. 22 November 2010, average monthly ticket yield in respect of the 2011 summer season was 9.4 per cent. higher than at 22 November 2009 in respect of the 2010 summer season. The Directors believe that, as the recovery from the economic downturn continues, Flybe's business model and strength in its market segments should present further opportunities to increase Flybe's ticket revenue per passenger from that delivered in the 2010/11 First Half Year; and
- Ancillary yield increased from £4.12 in the 2005/06 Financial Year to £11.98 in the 2009/10 Financial Year through increased revenue from existing ancillary revenue products and the introduction of new ancillary revenue streams, including several industry innovations (such as separate charging for checked in baggage). For the 2010/11 First Half Year, ancillary revenue per passenger was £13.12 compared to £11.38 in the 2009/10 First Half Year. Strong ancillary revenue generation (which supplements the income that Flybe generates from passenger ticket sales) is important to Flybe because these revenues are typically associated with low marginal costs and result in high margins. The Group intends to seek opportunities to expand its range of ancillary revenue offerings and continue ancillary revenue growth (for example, through the development of airport check-in via mobile phone and the further monetisation of the Group's 1.4 million member (as at 30 September 2010) frequent flyer programme), while adhering to its philosophy that the purchase of such ancillary products should largely be at the customer's discretion.

Deliver the lowest cost base for the European regional airline sector

Consistent with its historical strategy, the Group will continue to focus on cost reductions across all aspects of the Flybe business, with the aim of delivering the lowest unit cost base amongst European regional airlines. The significant investments already made by Flybe in areas such as fleet, its MRO and training businesses, internet distribution and its base and route network are all part of the Directors' overall strategy to optimise the cost base of the business by reducing operating costs such as fuel, maintenance, training, cost of sales and airport and handling charges. In particular, the Group is currently undertaking a project to reduce operating costs associated with ground handling arrangements by improving and making better use of information technology.

Expand Flybe Aviation Services and develop the Flybe Training Academy

Flybe's strategy in the provision of MRO and training is to provide the Group with the highest standard of maintenance and training at the lowest cost, and, at the same time, maximise revenue opportunities from third party customers.

The Directors have identified growth opportunities for the Group's MRO services within three market segments within Europe (Northern, Central and Southern Europe). The Directors intend to expand both Flybe Aviation Services and the Flybe Training Academy (which the Directors believe will have a significant customer base overlap with Flybe Aviation Services) into these segments.

Flybe Aviation Services currently generates 62 per cent. of its revenues from third parties, and based upon the potential customer overlap with the Flybe Training Academy, the Directors believe that the Flybe Training Academy can generate a similar proportion of its revenues from third parties within three years of Admission.

6. BUSINESS OVERVIEW

Flybe's service offering

The Group focuses on passenger convenience by operating 215 routes[57] from 39 UK[58] airports and 34 other European airports and by offering conveniently timed departures, particularly for passengers travelling on business. This focus on passenger convenience is further enhanced by the Group's high frequency schedules.

In addition to a commitment to offering competitive base fares, the Directors believe that the Group provides a higher level of customer service through its provision of:

- pre-allocated seating;
- 2x2 seating configuration (such that no passengers have the unpopular "middle seat") in modern aircraft that provide a light and spacious cabin environment;
- self-service check-in kiosks at certain of the airports it serves, designed to reduce queuing times for passengers, with an ancillary benefit to the Group of a reduction in ground handling staff costs;
- "Rewards4all", the Group's frequent flyer programme, which is open to all passengers. Accrued points are redeemable for additional flights across the Group's network and/or access to executive lounges. Launched in 2007, "Rewards4all" had over 1.4 million enrolled members at 30 September 2010;
- "Flybe Economy Plus", premium fares which provide access to executive lounges, fully flexible tickets, priority check-in, advance seat allocation, complimentary on-board drinks and snacks, increased baggage entitlement and double frequent flyer points;
- the ability for business travellers to book flights via their existing travel management companies, with the Group providing a business-to-business platform that provides full information for the management of corporate travel; and
- access to the Group's own executive lounges, which offer a variety of business services, at Manchester, Birmingham, Southampton, Belfast City, London Gatwick, Edinburgh, Glasgow, Exeter, Jersey, Guernsey and Newcastle, or to lounges provided by third parties at 22 other airports at which the Group operates.

Network

The Group operates a regional route network from more UK airports than any other airline. The Flybe network is currently concentrated on UK domestic routes, where the Group has a 28 per cent. market share[59]. UK domestic routes represented 76 per cent. of the Group's seat capacity for the 2010 summer season. Routes to European business cities represented 14 per cent. of seat capacity for the same period. In addition, the Group operated more routes from the UK to France than any other airline in the 2010 summer season[60]. The Group's 2009/10 winter season comprised 46 per cent. UK domestic routes and 16 per cent. routes to European business cities[61].

Since the Group's re-launch as Flybe in 2002, its network has grown from 38 routes to 215 routes[62] for the 2010 summer season. The Directors' experience is that when Flybe begins service on a new route, its passenger load factors and yields initially tend to be lower than those on its established routes, and its advertising and other promotional costs tend to be higher. Typically, new routes opened by the Group require an investment period of 2 to 3 years before the route matures and generates profit.

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(57) Includes routes flown by Loganair under the Flybe brand.

(58) Includes airports served by Loganair under the Flybe brand.

(59) Market share calculated by comparing Flybe passengers (including passengers flown by Loganair under the Flybe brand) against total UK domestic passengers in the 2009/10 Financial Year (Source: CAA).

(60) 42 direct routes (and 136 connecting routes) to 13 French airports in the 2010 summer season (Source: CAA).

(61) UK to European business cities market characterised as flights from regional UK airports to Amsterdam, Barcelona, Berlin, Brussels, Copenhagen, Dusseldorf, Frankfurt, Lisbon, Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart and Vienna.

(62) Includes routes flown by Loganair under the Flybe brand.

The codeshare agreement between Flybe and Air France gives Flybe passengers access to 5 additional routes between the UK and France, 7 new domestic French routes and 12 international routes. Air France customers will gain access to 44 new routes from France to the UK and connections to 17 UK domestic routes through Birmingham, Manchester and Southampton.

Out of the Group's network of 215 routes[(63)], 132 have been established for 3 years or more. In addition, the percentage of Flybe's seat capacity deployed on routes established for 3 years or more is comparatively high at 84 per cent., as illustrated below:

	Number of routes opened in year[(64)]	Percentage of total routes in current network (%)[(65)]	Seat capacity deployed[(66)]
			%
Year route was opened			
2007/08 Financial Year or earlier	131	61	90
2008/09 Financial Year	42	20	3
2009/10 Financial Year	9	4	0
2010/11 Financial Year	33	15	7
	215		

Source: Unaudited management information.

(64) Includes routes flown by Loganair under the Flybe brand.

(65) Includes routes flown by Loganair under the Flybe brand.

(66) Excludes routes flown by Loganair under the Flybe brand.

The Group focuses on multiple daily weekday services on its domestic and European business city routes, with approximately 78 per cent. of the Group's seat capacity deployed on routes with two or more services a day, approximately 49 per cent. deployed on routes with four or more services a day and approximately 25 per cent. deployed on routes with six or more services a day. These are the Group's "anchor" routes.

The Group seeks to utilise any unused capacity beyond its anchor routes by operating regional routes with low-to-medium passenger volumes (typically, routes with passenger volumes of less than 50,000 per annum), known as "filler" routes. These routes are typically single daily departures or less, to destinations at non peak times, with a predominant bias towards VFR and leisure traffic. These filler routes are either in their development phases or are operated where the Group can make a positive financial contribution to its fixed operating costs and attempt to maximise its aircraft utilisation.

All of Flybe's current routes[(67)] either depart from or arrive at a UK airport (which, for this purpose, includes the Channel Islands and the Isle of Man). In total, Flybe flew to 13 European countries in the 2010/11 First Half Year, as shown below:

Country	Routes[(68)]	Airports
UK	134	38
France	39	13
Germany	13	5
Spain	7	3
Croatia	5	2
Italy	3	2
Ireland	2	2
Belgium	2	1
Netherlands	2	1
Norway	2	1
Portugal	2	1

(68) Excludes four routes flown to Austria and Switzerland in the early part of the period as the winter season came to a close.

(63) Includes routes flown by Loganair under the Flybe brand.

(67) Includes routes flown by Loganair under the Flybe brand.

Airport bases

The Group's modern regional aircraft are primarily based at 14 domestic airports, as set out below:

	Aircraft (at November 2010)		
	E195	**Q400**	**Total**
Airport base			
Primary bases:			
Birmingham	3	7	10
Belfast City	2	7	9
Southampton	3	5	8
Manchester	1	7	8
Edinburgh	1	5	6
Glasgow	–	4	4
Isle of Man	–	4	4
Exeter	1	2	3
Guernsey	–	2	2
Inverness	1	1	2
Jersey	1	1	2
London Gatwick	–	2	2
Newcastle	–	2	2
Aberdeen	1	–	1
Secondary bases:			
Düsseldorf (no crew)	–	1	1
Leeds Bradford (no crew)	–	1	1
Newquay (no crew)	–	1	1
Maintenance/standby	–	2	2
	14	**54**	**68**[(69)]

Source: Unaudited management information.

(69) "Total Aircraft" excludes two Q400 aircraft sub-leased by Flybe from SAS. The SAS aircraft are scheduled to return to SAS in March 2011.

Flybe operated the largest number of UK domestic flights from London Gatwick in the 2010/11 First Half Year[(70)] and was the largest airline by number of flights operating from Belfast City, Birmingham, Exeter, Inverness, Isle of Man, Jersey, Manchester, Norwich and Southampton during this period.

Fleet

Flybe's fleet has been strategically selected for the suitability of its performance characteristics to serve its business model and network profile in terms of low fuel consumption and noise emissions, and reducing the Group's environmental impact.

Flybe has also aimed to simplify its operations and increase scheduling flexibility by moving to a two aircraft type fleet. Over the last few years, the Group has moved its entire fleet of aircraft to Embraer E-Series regional jets and Bombardier Q400 turboprop aircraft. Flybe's current fleet consists of 14 118-seat E-Series regional jets and 54 78-seat Q400 turboprop aircraft. The average age of the fleet at 30 September 2010 was 3.8 years.

In July 2010, Flybe announced an agreement to purchase up to 140 Embraer E-series jets. This order includes 35 firm orders for the 88-seat Embraer E175. The addition of these aircraft to Flybe's fleet will enable the Company to retain its core principle of maintaining a two aircraft strategy as the E175 is common-rated with the E195 having similar operational and maintenance characteristics.

(70) By passengers carried (Source: CAA).

The table below summarises Flybe's fleet by type of aircraft and average age at (i) the re-launch of Flybe in 2002, (ii) immediately post-acquisition of BA Connect at 31 March 2007 and (iii) at 30 September 2010:

	Seats per aircraft	31 March 2002 Number of aircraft	31 March 2007 Number of aircraft	30 September 2010 Number of aircraft
Aircraft type				
Embraer E-Series	118	–	3	14
Embraer E145[71]	49		28	–
Bombardier Q400	78	2	29	54
Bombardier Q300	50	6	–	–
Bombardier Q200	37	3	–	–
Canadair CRJ	50	4	–	–
BAe 146	74-112	16	12	
Total		**31**	**72**	**68**
Average age (years)		8.6	6.3	3.8

Source: Unaudited management information.

(71) The Embraer E145 aircraft were acquired by Flybe as part of the acquisition of BA Connect and have now been fully transitioned out of the Flybe fleet.

The transition to the two aircraft types now used by Flybe has allowed the Group to:

- reduce the complexity of its operations, by enabling more flexible fleet planning decisions to be made;
- increase pilot and engineer efficiency by reducing the training requirements needed in order to maintain currency for a particular pilot or engineer across a large number of aircraft types; and
- reduce engineering and maintenance costs through more efficient spares holdings.

The completion of the transition to a two aircraft fleet type of Embraer E-Series regional jets and Q400 turboprops has seen the Group's fuel burn per seat reduce by 15.5 per cent. from the 2007/08 Financial Year to the 2009/10 Financial Year. This has improved fuel efficiency, a factor which has had a positive effect on both the environmental impact of the Group's aircraft and the Group's profitability. In addition, the aircraft used by Flybe meet the latest EU noise requirements (for further details, please see the "Environmental protection" paragraph within Part 2 "Regulatory and Market Overview" of this document.

In addition to its existing fleet of 14 E-series 118-seat regional jets and 54 Q400 turboprop aircraft, Flybe is committed to acquire an additional four Q400 aircraft between March and June 2011, and 35 E-series 88-seat regional jets with deliveries between June 2011 and October 2016. Additionally, Flybe has options to acquire (exercisable at Flybe's discretion) up to 12 E series 118-seat regional jets and 12 Q400 aircraft for delivery between April 2012 and October 2013, as well as 105 options or purchase rights to acquire Embraer E-series 88-seat regional jets[72].

(72) The E-series 88-seat regional jet options and purchase rights (E175 aircraft), can be swapped into 100-seat E190 or 118-seat E195 aircraft at Flybe's discretion.

The table below summarises the option rights currently held by Flybe over Embraer E-Series and Bombardier Q400 aircraft:

Options (financial year)	Embraer E-Series 118 Number of aircraft	Embraer E-Series 88 Number of aircraft	Bombardier Q400 78 Number of aircraft
Exercise up to long stop dates which expire in:			
2010/11	3	5	3
2011/12	9	–	9
2012/13	–	5	–
2013/14	–	5	–
2014/15	–	–	–
2015/16	–	10	–
2016/17	–	15	–
2017/18	–	10	–
2018/19	–	10	–
2019/20	–	5	–
Total	**12**	**65**	**12**
Delivery between:			
2010/11	–	–	–
2011/12	–	–	–
2012/13	8	4	12
2013/14	4	3	–
2014/15	–	3	–
2015/16	–	2	–
2016/17	–	8	–
2017/18	–	12	–
2018/19	–	12	–
2019/20	–	12	–
2020/21	–	9	–
Total	**12**	**65**	**12**

Source: Unaudited management information.

These options must be exercised no later than 18 months prior to delivery in respect of the E195 aircraft, 16 months prior to delivery in respect of the E175 aircraft and 15 months prior to delivery in respect of the Q400 aircraft. It is the Directors' experience and belief, however, that it is often possible for the Group to negotiate the deferral or acceleration of option exercise dates.

In order to maintain the Group's current fleet capacity, the Directors currently anticipate exercising the options in order to coincide with the expiry of operating leases in respect of the Group's existing fleet and the retirement of the Group's nine owned aircraft (please see the "Fleet funding" paragraph within section 6 of this Part 1 of this document for further details). Options may also be exercised in the future in order to increase Flybe's existing fleet capacity.

In addition to option rights, the Group has purchase rights for 40 further Embraer E-series 88-seat aircraft. These may be exercised on or before November 2017 for delivery on or before December 2019.

In addition, the Group periodically reviews its fleet, the age of each aircraft, its expected use of the aircraft and the overall market for the aircraft. It may from time to time decide to dispose of owned aircraft or terminate leases for leased aircraft as a result of this evaluation. The Group is currently in negotiations with a potential purchaser of up to seven of its Q400 aircraft. Discussions are ongoing, and the Company is expecting to make a decision as to whether or not to proceed with the sale shortly after Admission, at which point details will be notified to the market if appropriate.

Since 2007, the Group has promoted the environmental profile of its aircraft to its customers through its "eco-labelling" scheme. Passengers are provided with information concerning the environmental impact of the aircraft used for their flight by use of a label similar to that required to be displayed on consumer "white goods" products in the EU.

Fleet funding

In order to maintain a modern fleet, the Group typically finances its aircraft, whether held under operating leases or owned outright by Flybe (with associated debt financing), over an 8 to 12 year period. After this period, aircraft are usually retired by returning them to the lessor or selling them in the second-hand market, thus avoiding the higher operational costs (such as fuel and maintenance) associated with older aircraft. The majority of the Group's fleet is financed in US dollars.

The table below summarises (i) the dates on which each of Flybe's 59 aircraft operating leases expire and (ii) the date on which the Directors anticipate each of Flybe's nine owned aircraft will be retired from service (which matches the relevant final loan repayment dates for all bar one of these aircraft):

	E-Series		Q400		Total	
	Op. lease	**Owned**	**Op. lease**	**Owned**	**Op. lease**	**Owned**
Lease expiry date or anticipated retirement date from fleet (financial year)						
2011/12	–	–	1	1	1	1
2012/13	–	–	1	1	1	1
2013/14	–	–	3	–	3	–
2014/15	3	–	2	–	5	–
2015/16	2	–	2	3	4	3
2016/17	–	–	5	1	5	1
2017/18	–	–	10	–	10	–
2018/19	3	–	6	3	9	3
2019/20	5	–	2	–	7	–
2020/21	1	–	5	–	6	–
2021/22	–	–	7	–	7	–
2022/23	–	–	1	–	1	–
Total	**14**	**–**	**45**	**9**	**59**	**9**

Source: Unaudited management information.

To date, Flybe has financed the majority of its fleet through operating leases. The two principal considerations on which Flybe has historically based its decision to finance the majority of its fleet by way of operating leases are:

- residual value of aircraft: the use of operating leases to finance aircraft reduces residual value risk because the Group typically operates the aircraft until expiry of its operating lease, and then returns it to the lessor, subject to agreed return conditions. In contrast, aircraft purchased using debt finance must either be sold or re-financed at the end of the financing period. If the decision is made to sell an aircraft, the proceeds will be dependent on the prevailing market, which is difficult to predict as it is typically eight to twelve years after initial purchase date; and
- cash flow: financing new aircraft by way of operating lease typically requires significantly less initial cash outlay than acquiring outright ownership of aircraft using debt finance. For example, an operating lease covering the full initial purchase price of an aircraft typically requires an initial cash deposit representing approximately three per cent. of the aircraft's value. In contrast, the Group's acquisition of outright ownership of an aircraft using debt finance has typically required an initial cash outlay of 15 to 20 per. cent or more of the purchase price of the aircraft, as the maximum loan to value ratio of debt funding available to the Group has usually been approximately 80 to 85 per cent.

While the Group's decision to date to finance the majority of its aircraft via operating leases minimises initial cash outlay and residual value risk, annual operating lease payments are typically up to fifteen per cent. higher than the corresponding ownership costs, including depreciation and interest payments due to the operating lessors profit margin and risk premium for assuming the residual value risk in the capital value of the aircraft.

Flybe has entered into a letter agreement with Embraer for the provision of debt financing for the purchase of all of the 35 committed E175 aircraft deliveries. Under this arrangement with Embraer, if BNDES (the Brazilian national development bank) is not able to provide finance for the delivery of a particular aircraft within agreed financial parameters by a specified date prior to the contractual delivery date in respect of that aircraft, and alternative financing arrangements cannot then be made through Embraer, Flybe is not obliged to accept delivery of that aircraft. If BNDES fails to provide the financing in respect of the delivery of a particular E175 aircraft (and alternative financing arrangements cannot be made through Embraer), this default does not impact on the delivery or financing obligations agreed to by Embraer in respect of subsequent committed E175 aircraft deliveries.

The terms of the debt financing are to be in accordance with the OECD Aircraft Sector Understanding on Export Credits for Civil Aircraft (the "ASU"), save that Flybe has secured additional terms that cap the interest rate costs related to the lender's cost of funding. The debt financing is for 85 per cent. of the net aircraft price. The Directors estimate that the margin, based on Flybe's previous ASU financings, is likely to be less than 200 basis points. At Flybe's election, financing may be provided directly to Flybe (in order for Flybe to purchase the aircraft) or to a third party aircraft lessor nominated by Flybe who will purchase the aircraft and subsequently lease it back to Flybe under an operating lease structure.

The Directors believe that the purchase price, loan to value ratio and margin obtained mean that each E175 aircraft that is purchased and owned by Flybe will achieve a significant annual saving when compared to alternative third party operating lease finance for the acquisition of these aircraft on terms similar to those currently available to Flybe.

Flybe currently has firm commitments to purchase a further four Q400 aircraft for delivery from March 2011 to June 2011. Flybe has signed a non-binding letter of intent with HEH for the financing of the four committed Q400 aircraft. Under the terms of the letter of intent, the financing for these aircraft will be by way of operating lease (over a 10 year period) using the same structure that Flybe has in place for 11 other Q400 aircraft already on lease from HEH. In a repeat of a previous Q400 operating lease structure provided to Flybe by HEH, HEH is seeking senior debt for 85 per cent. of the aircraft value from Export Development Canada ("EDC"), and the lending terms will be in accordance with the OECD aircraft sector understanding on export credits for civil aircraft.

If Flybe is not able to secure finance from EDC (or another senior debt provider) for the four committed Q400 aircraft, Flybe has agreed committed "backstop" financing with Bombardier for each of the committed Q400 aircraft deliveries. This committed "backstop" financing is for 80 per cent. of the net aircraft price, and is exercisable at Flybe's option in the three month period prior to the contracted delivery date of each aircraft.

Flybe does not yet have committed financing in place for the Q400, E175 or E195 option aircraft. If Flybe decides to exercise these options, Flybe will seek financing for such aircraft on similar terms and conditions as that secured for its firm aircraft deliveries.

Safety, training and insurance

Safety is Flybe's primary concern and its commitment to safety runs through every part of the Group. The Safety and Security Review Committee is chaired by an independent Non-Executive Director, Peter Smith, and meets at least quarterly or more regularly as necessary in order to review current safety performance and issues that may affect the safe operation of the Flybe business.

Flybe is subject to regular and rigorous external safety reviews, primarily through the CAA. The Group also maintains its own safety management system, which is based upon the ICAO (International Civil Aviation Organisation) 9859 document, which is an integrated safety management system. This covers all areas of flight operations and aircraft maintenance, as well as general safety issues. Flybe is a member of various airline safety organisations including IATA, the Flight Operations Liaison Group and the United Kingdom Flight Safety Committee.

Flybe has extensive in-house and external training programmes covering all aspects of its business, with safety and accident prevention always being a priority in these programmes. Every member of staff connected with operations receives basic safety training on induction, with more detailed training being provided as required by their role.

Flybe has a comprehensive crisis management plan. This includes a three-tier cascade system to ensure any event is dealt with at the appropriate level and a structure that ensures each position is covered by alternative resourcing. The plan is fully documented and has been tested through various emergency scenarios.

Flybe has had no major safety incidents and none involving fatalities. It is exposed on a daily basis to potentially significant losses that may be incurred in the event of an aircraft accident or terrorist incident. This exposure is mitigated by its safety systems and Flybe holds comprehensive insurance including the following:

- Hull – all risks
- Passenger liability
- Third party liability
- Hangar keepers liability
- Loss of aviation spares
- War risk and associated perils
- General insurances (including employers liability, professional indemnity, property, motor fleet, directors and officers)

These policies are consistent with industry standards and meet the Company's obligations under applicable laws and regulations. Flybe arranges its aviation-related insurances with Albatros, which is part of the Lufthansa group, and its non-aviation insurances through Willis.

Revenue management

Revenue management is the application of statistical methods to pricing, based on historical demand patterns and anticipated consumer behaviour, in an effort to maximise total revenue on each aircraft for each departure. Flybe divides revenue management into three areas, known internally as "pricing", "revenue trading" and "revenue research".

Pricing is the initial stage in which the different levels of fare on a particular flight are determined as well as the conditions attaching to different types of fare and the allocation of tickets for each flight across Flybe's different distribution channels. This process takes into account, amongst other things, the competitiveness of these fares and other fare conditions available within the marketplace.

Revenue trading, also known as yield management, seeks to maximise the Group's revenue by determining the number of seats on a flight to sell at each price and the times when particular fares will be available to passengers. The revenue trading team uses a number of tools to assist in its decision-making, such as statistical forecasting software, which takes into account round-the-clock tracking of competitor pricing via the internet (web-crawling) and a near real time data feed from the Group's reservations system. In addition, the revenue trading team considers wider market trends such as competitors' changes in capacity, alternative methods of transport, market size and market share and how these might provide opportunities for the team to improve revenue performance.

Revenue traders consider the risks of selling too many seats too cheaply and potentially filling flights prematurely, meaning that potential passengers willing to pay a higher price are either unable to book a seat or book a lower priced fare. The revenue trading team sets this against the concern that by setting fares too high for too long and thereby putting off potential passengers, the Group may reduce its overall ticket revenue and prevent collection of ancillary revenue from such potential passengers. Revenue traders are financially incentivised to exceed budgeted revenue targets for their portfolio of routes.

In order to take quick advantage of marginal revenue opportunities as they arise, the revenue management team engages with many areas of Flybe's business, including the planning, marketing, public relations, sales, logistics and airport operations departments. Examples of such opportunities include periods of disruption to alternative means of transport (such as rail strikes), major sporting events and other special events which create higher demand.

The revenue research team undertakes two principal roles. Firstly, analysts collate the information from every customer transaction as it occurs, providing an insight into areas such as short-term revenue forecasting, advance passenger sales comparisons and passenger booking behaviour. Secondly, the revenue research team monitors competitive actions and trends within Flybe's market, briefing the revenue traders on a daily basis.

Ancillary revenues

Since the Group's 2002 re-launch as a European regional airline, Flybe has focused on developing its revenues from sales of products and services ancillary to its core flight operations. Strong ancillary revenue generation is particularly important to Flybe because these revenues are typically associated with low marginal costs, resulting in higher profit margins.

The Group's track record of ancillary revenue growth is founded on a three track strategy:

(i) Unbundled product offering

The majority of the Group's ancillary revenues are generated in connection with direct flight bookings made through www.flybe.com, where customers can choose to pay for unbundled features such as advanced seat assignment and checked-in baggage, and from charging passengers that choose to use credit or debit cards to pay for such bookings.

The Group has undertaken a process of unbundling such ancillary products and services from the basic ticket fare, driven by the Directors' belief that passengers prefer to have a choice as to whether to acquire such additional items. In both the 2009/10 Financial Year and the 2010/11 First Half Year, over 90 per cent. of Flybe's ancillary revenues were earned from unbundled products.

(ii) Travel related ancillaries

Additional ancillary revenues are generated from complementary travel products such as commission from sales of car hire, trip insurance and hotel bookings through Flybe's website and service centre and passenger charges for excess baggage and ticket changes.

(iii) Brand Leverage

Further ancillary revenues are generated from leveraging Flybe's brand profile and customer database. In 2008, the Group launched the "Flybe Spend & Fly Credit Card" in partnership with a major third party provider, which has allowed the Group to generate in excess of £5.3 million commission from the issue of Flybe branded credit cards since its inception.

In general, the Group has sought to grow its ancillary revenues by maximising sales from existing products and services, introducing new ancillary products and services, and by broadening its co-operation with third party service providers, such as tourist attraction, event and hotel companies. For example, the Directors believe that the Group was the first scheduled airline in Europe to introduce separate charging for checked-in baggage, and one of the first airlines in Europe to introduce a charge for seat selection prior to check-in.

Flybe's focus on ancillary revenue generation and speed to market has resulted in strong growth in average ancillary revenues, both in total and per seat sold, as can be seen from the table below:

Financial Year	Total ancillary revenues	Ancillary yield	Ancillary revenues as a percentage of Group revenue
	£m	£	%
2002/03 Financial Year	2.5	0.85	1.1
2003/04 Financial Year	10.1	3.01	4.2
2004/05 Financial Year	13.3	3.34	5.0
2005/06 Financial Year	20.9	4.12	6.8
2006/07 Financial Year	32.9	6.32	9.0
2007/08 Financial Year	56.3	8.07	10.5
2008/09 Financial Year	75.3	10.34	13.1
2009/10 Financial Year	86.0	11.98	15.1
2010/11 First Half Year	52.3	13.12	16.3

Source: Figures for the 2007/08, 2008/09 and 2009/10 Financial Year and the 2010/11 First Half Year extracted from section B of Part 5 "Financial Information relating to the Group" of this document. All other figures extracted from unaudited management information.

Overall, Flybe has grown its ancillary yield from the 2002/03 Financial Year to the 2009/10 Financial Year by a compound rate of 45.9 per cent. per annum. Ancillary yield has continued to grow into the 2010/11

First Half Year reaching £13.12 giving a compound rate of 44.1 per cent. per annum from the 2002/03 Financial Year.

Further growth of ancillary revenues is a key part of the Group's strategy. The Directors intend to achieve this growth through the continuation of its strategy of developing additional revenue lines (for example, through the development of airport check-in via mobile phone and the further monetisation of the Group's frequent flyer programme) while adhering to the Directors' belief that it is an important part of Flybe's brand that the purchase of ancillary services and products should largely be at the customer's discretion.

Marketing, the Flybe brand and intellectual property

Marketing and the Flybe brand

The Group's marketing strategy is focused on establishing the Flybe brand in the minds of consumers as a substantial and reliable provider of regional air services as well as generating sales from its target customers.

Since its re-launch as Flybe in 2002, the Group has spent over £100 million in retail advertising that associates the brand with convenient regional departure points, low fares, and a wide choice of UK and European destinations. This primary marketing message has over the years remained essentially consistent, while evolving to incorporate other key features of Flybe's business model, such as the high frequency of its departures.

Brand awareness studies conducted in November 2010[(73)] indicate that Flybe was the fourth most spontaneously recalled aviation brand in the UK out of 12 aviation brands. In addition, Flybe's prompted awareness was 94 per cent. (with only British Airways, Ryanair, easyJet and Virgin achieving higher scores).

As Flybe has become increasingly established as a UK aviation brand name, the Group has also engaged in marketing specifically targeted at creating strong positive recognition amongst its key target customers: business travellers, customers visiting their friends and relatives, and customers travelling to undertake leisure or hobby pursuits.

Flybe also promotes specific time limited offers, in particular in conjunction with the launch of new routes, and over the years has engaged in sports sponsorship of various football clubs in order to increase flight sales and brand awareness.

The Group primarily markets its business through national and regional press titles, concentrating its expenditure on titles with a predominantly ABC1 readership and advertising in the catchment areas which the Group serves. Flybe also invests heavily in marketing through digital media, including leveraging its database of over 3.5 million customers through targeted email marketing, taking into account the recipient's location and historic usage patterns. Marketing through digital media has also proved cost effective, with the Group's marketing costs per passenger now lower than those incurred by the Group in the 2006/07 Financial Year.

Intellectual property

The Directors believe that Flybe's name, logo and the www.flybe.com website are integral parts of the Flybe brand and are of great importance to the Group's operations. Flybe has registered its name and logo as a trademark within the United Kingdom and the European Union. In addition, Flybe has registered the www.flybe.com website as a trademark within the United Kingdom and the European Union and as a separate internet domain.

Sales and distribution

Flybe's sales and distribution strategy seeks to follow a retail model, with instant purchase, non-refundable tickets. Flybe sells seats on its flights through all major distribution channels, including via its internet website, GDS, tour operators, web consolidators, airport ticket desks and the Flybe call centre.

Flybe's distribution network has been developed to ensure that there are options appealing to each of its three target passenger markets. At the same time, Flybe's sales and distribution strategy focuses on reducing the Group's distribution costs by promoting sales via the internet, the Group's lowest cost sales channel. In the 2009/10 Financial Year 77 per cent. of the Group's customers (comprising 70 per cent. of

(73) Studies conducted by Right Angle Research & Design, November 2010.

ticket revenues) and 75 per cent. (comprising 69 per cent. of ticket revenues) in the 2010/11 First Half Year, booked their ticket directly through the Flybe website.

The table below sets out the percentage of passengers and airline ticket revenue[74] generated by each of these distribution channels in the 2002/03 and the 2009/10 Financial Years, and the 2010/11 First Half Year:

	2002/03 Financial Year		**2009/10 Financial Year**		**2010/11 First Half Year**	
Distribution channel	**Number of passengers**	**Ticket revenue**	**Number of passengers**	**Ticket revenue**	**Number of passengers**	**Ticket revenue**
	%	%	%	%	%	%
Internet	20	15	77	70	75	69
GDS	46	50	17	22	17	23
Other Airlines	2	2	1	3	2	3
Airport ticket desks	5	5	1	1	1	1
Call centre	17	18	1	1	1	1
Other	10	10	3	3	4	3

Source: Unaudited management information.

Internet

Surveys carried out by Hitwise in November 2010 indicate that Flybe's website is the fourth most visited in the UK aviation sector. The maximum number of unique visitors per month to www.flybe.com has increased from 250,000 in the 2001/02 Financial Year to 2.5 million[75] in the 2009/10 Financial Year. The design of the website is intended to maximise: (i) the proportion of visitors to the site who make a booking, (ii) sales of ancillary products and services, (iii) use of additional self-service booking features, such as online check-in, reservations for hold baggage and advance seat allocation and (iv) customer retention, through enabling customers to create a personalised account. These offerings seek to improve customer satisfaction and increase ancillary revenue generation, as well as reduce the costs to the Group in areas such as airport check-in. The website is available in French, German and Spanish, as well as English.

GDS and related systems

Flybe's flights are also available for purchase via GDS and related systems. GDS (global distribution systems) are computerised systems used by the travel industry to store and retrieve information, and conduct transactions relating to, amongst other things, airline travel.

The Group's distribution of tickets through GDS and related systems enables Flybe to access potential sales from users of such systems in both mass markets, such as business travellers booking through corporate accounts, and niche markets, such as tour operator services, for example, to the Channel Islands. For this reason, the sale of seats through such systems has been and continues to be a key part of the Group's strategy since the re-launch of the Group in 2002.

In the 2009/10 Financial Year 17 per cent. of Flybe's ticket sales by volume, but 22 per cent. by value (17 per cent. and 23 per cent. for the 2010/11 First Half Year respectively), were achieved via GDS and related systems.

The cost to Flybe of bookings made via the GDS distribution system is higher than bookings made by direct methods such as the internet, including commission payments to GDS providers. The Group mitigates this additional cost by applying a premium to fares for bookings made via GDS or related systems. In addition, Flybe has now negotiated lower payments under its agreements with certain GDS providers, reducing the average level of GDS cost per booking from the 2002/03 Financial Year to the 2010/11 First Half Year by 6 per cent.

Sales force and other sale methods

Flybe maintains a sales team of 13 people, based in the UK, France and Germany which aims to increase ticket sales through: (i) targeting key corporate customers directly, (ii) working with business travel agencies to develop strategies for maximising sales, (iii) targeting niche tour operators to the Group's core

(74) Rounded to the nearest whole per cent.

(75) Source: Google Analytics.

destinations, and (iv) increasing prospects for sales through consolidator websites (such as www.expedia.co.uk and www.lastminute.com).

Arrangements with other airlines

Following the acquisition of BA Connect, which significantly enhanced the Group's European network, the Group has actively sought to grow its revenue by exploiting codeshare and interline agreements.

Since March 2007, the business has entered into codeshare agreements with British Airways, Air France and Etihad and is actively pursuing further opportunities. The number of interline agreements entered into by the Group has grown from approximately 8 as at 31 March 2006 to 37 as at 30 September 2010. The Directors believe that there is increasing demand for partnership solutions from other airlines.

Codeshare

A codeshare agreement provides for flights operated by one airline to be sold by another airline, coded with the flight number of the selling airline. The operating airline will also continue to sell seats on such flights, coded with its own flight number. This means that flights operated by a single airline are included within both airlines' route networks, and flights on that route may be sold by both airlines in exchange for an agreed percentage of the overall fare.

Following the acquisition by the Group of BA Connect in 2007, Flybe signed a codeshare agreement with British Airways and began codesharing on 19 of the former BA Connect routes (please see paragraph 9.4 of Part 7 "Additional Information" of this document). Due to the passenger demand for flights under the arrangement, this codeshare agreement has been extended nine times (most recently in August 2010), with the Group currently operating a codeshare with British Airways on 13 of the former BA Connect routes.

In November 2009, Flybe entered into a codeshare agreement with Etihad linking Etihad's long-haul services to and from the Middle East into Flybe's short-haul network via Birmingham, Paris and Frankfurt (please see paragraph 9.5 of Part 7 "Additional Information" of this document).

The benefit to Flybe of operating flights which can be coded as British Airways or Etihad is that passengers who wish to fly a route on either British Airways' or Etihad's network but where Flybe is able to offer a conveniently located regional departure point or destination, may seamlessly book their entire journey as a single booking. As a consequence, the route network of the selling airline is extended without entering new arrangements with airports or investing further capital in aircraft and crew. Furthermore, bookings on flights operated by Flybe which are made via codeshare arrangements typically generate higher yields.

In July 2010 Flybe entered into a codeshare agreement with Air France, effective from the end of October 2010. Under this agreement, Flybe passengers will gain access to 5 additional routes between the UK and France as well as 7 new domestic French routes and 12 international routes. Additionally, Flybe services into Paris Charles de Gaulle airport will conveniently connect to the Air France hub allowing easy access to the Air France's extensive international network. Air France codeshare customers will gain access to 44 new routes from France to UK, as well as connections through Birmingham, Manchester and Southampton on a further 17 domestic routes.

As a result of these arrangements, where Flybe is able to offer a conveniently located regional departure point or destination, passengers who wish to fly a route offered by a codeshare partner, may book their entire journey as a single booking. As a consequence, the route network of the selling airline is extended without entering new arrangements with airports or investing further capital in aircraft and crew. Furthermore, bookings on flights operated by Flybe which are made via codeshare arrangements typically generate higher yields for Flybe.

Sales of flights under these codeshare agreements are promoted through the combined marketing efforts of the partner airlines. In addition, codeshare agreements increase the attractiveness to passengers of booking connected flights, while also giving passengers a broader range of departure times and choice of routes.

Interline

Interline agreements allow travel agents and others with access to GDS or a related system to book a journey comprising of more than one airline's flights as a single fare. In contrast to codeshare arrangements, the passenger is aware that they are flying separate flights with separate airlines, but pays a single price. The interline agreement governs the revenue sharing between airlines of the price paid by the passenger for the overall journey.

Flybe engages with a number of airlines to distribute tickets through interline agreements. Flybe currently has 37 interline agreements in place and these arrangements further expand the service offering for its customers. The Directors believe that, as with codeshare arrangements, the Group's interline agreements afford Flybe access to passengers booking connected flights which can not be operated in full by the Group, in preference to other airlines without such agreements.

Franchising

In December 2007 Flybe signed a franchise agreement with Loganair which commenced in October 2008 (please see paragraph 9.6 of Part 7 "Additional Information" of this document). Under this agreement, which replaced a longstanding franchise arrangement between Loganair and British Airways, Loganair operates aircraft under the Flybe brand. This relationship, under which 16 Loganair aircraft fly under the Flybe brand across 28 franchise routes between 18 airports throughout England, the Isle of Man, Scotland and Northern Ireland, extends Flybe's brand presence in Scotland and Northern Ireland, provides passenger connections into the Flybe network and generates revenue for Flybe through franchise fees and a share of Loganair's ancillary revenues. Either party may terminate the agreement on one year's prior written notice which may be given on or after 26 October 2011. Flybe is currently in discussion with two further airlines regarding their adoption of a Flybe franchise operation.

Experience of international operations

One of the measures implemented by Flybe to combat the economic downturn in the period October 2008 to December 2009 was the removal of costs associated with surplus capacity.

As a result of the economic downturn in 2008, Flybe identified the opportunity to deploy part of its fleet under a wet lease arrangement with Olympic Air, to increase its experience of operating internationally, and to remove costs by reducing the Flybe flying programme.

In August 2009, the Group:

- sold two Q400s to Olympic Air; and
- 'wet leased' four Q400s to Olympic Air for an average 11 month period from Autumn 2009. A 'wet lease' agreement occurs where the lessor (Flybe) provides an aircraft together with its requisite crew, maintenance and insurance to the lessee (Olympic Air). All four wet-leased aircraft (and crew) returned to Flybe's operations at the end of October 2010.

In addition, in June 2009 Flybe agreed separately with Bombardier to defer an additional three Q400 aircraft delivery positions until mid 2011.

As a result of such arrangements, the Group now has much greater experience of basing aircraft, crew, line maintenance and support staff in continental Europe, having completed 11,470 flights under the Olympic Air brand as at 31 October 2010. The Directors believe that arrangements such as the Olympic Air wet lease have given the Group the operational experience necessary to undertake its proposed European expansion.

Ground handling

Flybe outsources its ground handling operations at its 14 domestic airport bases to third parties such as Servisair, Swissport, Flight Support and Menzies. This outsourcing is augmented at 11 of these bases by directly employed customer care staff. The Group's aims are to minimise fixed overhead cost and to ensure that defined product standards are delivered. The Group seeks to obtain competitive rates for outsourced services by negotiating multi-year contracts at prices that are fixed or subject only to periodic index-linked increases.

Flybe Aviation Services

Flybe Aviation Services is one of Europe's leading regional aircraft MRO businesses. The primary objective of Flybe Aviation Services is to minimise the cost of maintenance for the Flybe fleet. It achieves this through generating revenues and profit from other regional airline customers, which results in an effective cost of maintenance to the Group below market level.

On average, 58 per cent. of Flybe Aviation Services' revenue over the 2007/08, 2008/09 and 2009/10 Financial Years and the 2010/11 First Half Year was derived from third party customers (with revenue derived from third party customers continuing to grow following the onset of the economic downturn in late 2008). During this period, the MRO business has carried out significant volumes of work for airlines such as British Airways, Lufthansa and SAS.

Flybe Aviation Services was the first MRO business to receive Bombardier "Recognised Service Facility" status for its turboprop aircraft. It has also been designated as an approved "Authorised Service Centre" by Embraer. Flybe Aviation Services holds all required EASA approvals for the provision of MRO services to the Embraer E-series jets, the E 145, the Bombardier Dash series, the Canadair CRJ 200 to 900 series, the British Aerospace 146 RJ and the ATR 42 and 72, as well as the design and manufacture of aviation components (please see the "Maintenance, design, manufacture and training" paragraph of section A of Part 2 "Regulatory and Market Overview" of this document for further details).

Flybe Aviation Services operates from modern, purpose built hangar facilities at Exeter Airport constructed between 2004 and 2006. These maintenance facilities enable the Group to perform its regular airframe maintenance as efficiently as possible, with minimal aircraft downtime. Flybe Aviation Services, which has a 950,000 man-hour capacity[(76)], was 72 per cent. utilised in the 2009/10 Financial Year, producing approximately 680,000 man-hours of base maintenance and employing 831 engineering staff. In the 2010/11 First Half Year., the MRO businesses produced approximately 299,000 man-hours of base maintenance.

In order to take advantage of the original equipment manufacturers' knowledge and investment, engine and component maintenance is typically outsourced to Pratt & Whitney and Singapore Technology in respect of the Q400, and to General Electric and Embraer in respect of the E-Series.

Expansion of component maintenance, refurbishment and manufacture capabilities at Flybe Aviation Services is underway, focusing on regional aircraft components, with new capabilities being added on a regular basis.

Hangars for light maintenance are located at Birmingham and Manchester and line maintenance is provided at a total of 12 other airports in the United Kingdom and Europe. The Group employs over 200 engineering staff in line maintenance.

In 2009, the excellence of the MRO operation was recognised by the industry publication Aviation Week MRO Europe, which awarded Flybe Aviation Services its "European Airline MRO of the Year" award.

Flybe Training Academy

The completed construction of the Flybe Training Academy will significantly increase both the Group's capacity to provide training, and the quality of such training, for its own staff and those of third parties. On completion (expected by the Directors to be in the first calendar quarter of 2011), the Flybe Training Academy will be an approximate 5,500 square metre facility, with approximately 25 classrooms, four flight simulator halls, cabin simulator hulls for cabin crew safety training and an engineering apprentice workshop. Qualifications will include a flight deck Multi Pilots Licence (under the first CAA approved scheme for a UK airline), cabin crew and customer service NVQs and a BTEC and diploma in engineering.

The academy is being established to replace a temporary training facility already being used by the Group at Exeter airport to provide training to the Group's staff, directly benefiting Flybe's airline business and Flybe Aviation Services. Courses are provided to third party customers in order to minimise the costs of training the Group's own staff. The Group already has over 90 apprentices engaged on the first three years of the engineering apprenticeship scheme, which after four years will provide successful students with a foundation degree level qualification, a Part 66 engineering licence and an aircraft type approval.

In January 2008, Flybe was one of the first three employers in the UK to be given "Awarding Body" status for its own approved national qualifications, part of a national initiative by the Qualifications Curriculum Authority. "Awarding Body" status means that Flybe's training programmes have received official recognition, enabling the Group to confer qualifications from level 2 (GCSE-level at A* to C grade equivalent) to level 4 (degree-level equivalent) to its employees. The Group has also entered into arrangements with Exeter College under which people trained by Flybe will receive nationally recognised qualifications and developed employer training programmes in conjunction with "*GoSkills*" (the Sector Skills Council for Passenger Transport). Its training programmes have received support from, amongst

(76) 950,000 man-hour capacity in the 2009/10 Financial Year.

others, the UK Department for Business, Innovation and Skills (initially through the Learning and Skills Council and latterly through the Skills Funding Agency), City & Guilds and EdExcel.

The Directors believe that the Flybe Training Academy will significantly increase the availability of high quality training within the aviation industry.

IT infrastructure

Flybe makes extensive use of IT for both its commercial and operational needs. Based in Exeter, Flybe's internal IT team works closely with the airline, Flybe Aviation Services and the Flybe Training Academy in an effort to provide rapid delivery of IT solutions to meet the Group's demands, including infrastructure, back office functions (such as revenue accounting) and reservation systems.

The Group's general approach to software solutions is to purchase, where available, the most suitable off-the-shelf ("OTS") software on the market. In some cases, the in-house IT team has then modified such software further to better meet the Group's needs. Only in instances where either suitable OTS software is not available or where the development of an in-house solution by the IT team is likely to be quicker or significantly more cost effective, will the IT team seek to develop software in-house.

The Group has dual data centres and dual internet service provider pipes (one for each of the Group's two internet service providers) in Exeter and a standby site at Heathrow. All of the Group's in-house developed systems and the majority of its third party systems are hosted at the Group's headquarters in Exeter. The Group has recently invested in an enhanced local area network, an upgraded storage solution and server virtualisation. A wide area network upgrade has recently begun and is being rolled out to the Group's principal operational bases during the current financial year.

The Group's commercial and operational activities are underpinned by the Group's reservation system, SHARES. The SHARES system, which is used by a number of major airlines, has enabled the Group to pursue its sales model, permitting the Group to sell tickets through www.flybe.com, while also selling tickets through GDS (including interline and codeshare arrangements). The IT team has developed Flybe's online booking engine to operate in tandem with SHARES.

The Group manages its flight and crew operational needs using AIMS software product. This self-hosted system, which is also used by a number of other major airlines, provides aircraft and crew scheduling support, crew control, rostering and operations control both in Exeter and at each crew base.

Flybe Aviation Services uses an in-house developed MRO system ("Oracle MRO"), which is regularly audited by the CAA, and satisfies all of the Group's data and safety requirements. This system monitors and helps manage a wide range of Flybe Aviation Services' business functions, including labour requirements, staff holidays, stock control and ongoing engineering.

The Group uses the Rembrandt revenue management system. This system has been enhanced by an in-house developed near-real-time sales reporting system. The availability of this information is critical to the Group's efforts to maximise revenue (please see the "Revenue management" paragraph of section 6 of this Part 1 of this document).

The Group maintains IT security at a level which the Directors believe is acceptable by e-commerce industry standards. The Directors anticipate that certification under the Payment Card Industry ("PCI") Data Security Standard regulations will be achieved during 2011 upon the replacement of the Group's in-house developed revenue accounting system with Kale's "Revera" system (which is currently being implemented and which the Directors believe will be in place by early 2011), the completion of the SHARES PCI schedule, encryption of card data and the implementation of an intrusion protection system. Quarterly third-party penetration tests are performed by the Group to validate the Group's IT network security. Secure off-site nightly backups combined with the dual data centres at Exeter provide protection against system failure. All major systems are protected with uninterrupted power supply units and in addition, generator power is available to all key IT systems in the event of a mains power outage.

The Group continues to pursue new applications of information technology to make the Group's business more effective and reduce overall costs. The Group's IT team is currently engaged in a major review of the ground handling process, from the time of an initial ticket sale to the eventual flight departure. This project seeks to combine certain aspects of the current ground handling process, to reduce the requirement for unnecessary steps such as face-to-face check-in, and build greater functionality into existing airport kiosk software, for example to upgrade tickets and deal with flight disruptions.

Employees

As at 30 September 2010, Flybe employed 2,931 employees of whom 2,517 were full time employees and 414 were part-time employees. The full time equivalent ("FTE") of all 2,931 employees as at 30 September 2010 was 2,769.

The number of FTE permanent employees in the last five financial years of the Group is set out in the table below, including a break down by role performed:

FTE	31 March 2006	31 March 2007	31 March 2008	31 March 2009	31 March 2010	30 September 2010
Pilots	360	684	660	693	684	687
Cabin crew	358	790	710	702	705	713
Engineers	551	924	811	850	818	807
Other selling, general, administrative and executive teams	389	637	591	588	571	562
	1,658	**3,035**	**2,772**	**2,833**	**2,778**	**2,769**

Source: Unaudited management information.

The Group employs pilots, engineers and cabin crew at 14 bases operated by the Group and at three base maintenance locations, including its principal MRO facility in Exeter. 46 per cent. of Flybe's pilots, 44 per cent. of cabin crew and 56 per cent. of engineers have greater than five years' experience with the Group.

A key part of the Group's employment strategy is to develop and promote talent internally (please see the "Flybe Training Academy" paragraph of section 6 of this Part 1 of this document). This strategy includes the operation of a "Mentored Airline Pilot Scheme" that part sponsors pilot training through the provision of an interest free loan, in exchange for which the pilots commit to work for Flybe for a three-year period on qualification or alternatively make a pro-rated repayment of the loaned amount. The Group also provides a programme of refresher training for all employees, such as three days mandatory annual recurrent training for all cabin crew, after which staff must pass an associated examination.

The Group also recruits individuals externally, provided that they meet the Group's minimum recruitment criteria, such as the requirement for pilots to hold a current commercial pilot's licence or for direct entry senior cabin crew to have at least one year's recent experience flying in such position in a multi-crewed environment. In connection with such recruitment, Flybe maintains ongoing relationships with flying schools in the UK and Europe, in order to promote the Flybe brand to potential employees.

All key teams (including the executive, sales, marketing, revenue management, operations, finance, information technology and human resources) are based in Exeter and there is a management and supervision structure in place to support employees in their daily tasks. In addition, Flybe's call centre is housed at its Exeter headquarters.

Culture, performance and development

Despite the recent growth of the Group, Flybe has maintained its commitment to certain core principles and values in its relations with its employees. These are expressed as "Passion" (seeking success using two way communication and the ability to challenge and be challenged), "Simplicity" (clarity of objectives and accountability for results), "Agility" (agility and speed of action) and "Reward" (recognition of effort, rewarding results and developing people to their full potential).

Employee consultation and union recognition

Flybe has entered into voluntary recognition agreements with three trade unions: BALPA for pilots, UNITE for cabin crew and Prospect for engineers and is committed to thorough consultation with employees as well as negotiation on terms and conditions with recognised trade unions. These agreements cover various employment matters, including pay, hours and holiday entitlement as well as general collective bargaining criteria and provide a procedure to facilitate the resolution of disputes.

In 2000, Flybe formed an employee consultative body known as "Open Channel". Open Channel is chaired by one of the Directors, has up to 25 elected representatives and meets at least quarterly to discuss, among other things, the development of Flybe, its business performance, its organisation and structure and any relevant health and safety issues.

Benefits

The Group operates a discretionary all-employee bonus scheme whereby, subject to the achievement of pre-determined profit targets, all staff, receive a bonus calculated as a percentage of basic pay. Separate bonus schemes for the Directors and Executive Briefing Team are also in operation.

The Flybe Employees' Share Plan was established in June 2005 by the trustees of the Flybe Group Limited Employees' Share Ownership Trust and the Flybe Group Limited Employees' Share Ownership (No 2) Trust. Appropriations of beneficial interests in shares were made to qualifying employees based on service and seniority in three offerings between June 2005 and June 2007. Approximately 34 per cent. of Flybe's current employees continue to hold a beneficial interest in shares which were acquired through the Flybe Employees' Share Plan.

Pensions arrangements

Normal retirement age ("NRA") for Flybe employees is 65. Flybe staff accrue pension benefits through defined contribution arrangements. Flybe encourages all of its employees to make adequate pension provision. All employees are eligible to participate in the Group's defined contribution pension arrangements, the principal scheme being the Flybe Group Personal Pension Plan ("GPPP") with AEGON Scottish Equitable which is available for UK employees and as at 30 September 2010 has 1,627 members (55.5 per cent. of Flybe's overall employees). The GPPP provides a pension following retirement as well as a tax free cash payment on retirement and benefits payable on death. Standard individual contributions are 3 per cent. with employer's contributions set at 5 per cent. collected monthly. Certain employees may elect to make higher contributions, which in turn attract increased contributions by the Group. The pensions cost charge to the Group in respect of pensions contributions in the 2009/10 Financial Year was £5.5 million (£5.2 million in respect of the 2008/09 Financial Year) and £2.9 million for the 2010/11 First Half Year.

Channel Islands and Isle of Man employees are eligible to join the Flybe Overseas Pension Scheme ("FOPS") provided by Legal and General and established under trust deed that as at 30 September 2010 has 71 members (2.4 per cent. of Flybe's overall employees). The FOPS provides a pension following retirement as well as a tax free cash payment on retirement and benefits payable on death. Contributions mirror the GPPP and are as above.

A further 42 members (1.4 per cent. of Flybe's overall employees) are in a number of historical offshore funds including the International Retirement Savings Plan for certain non-UK resident employees, this arrangement being administered by Kleinwort Benson in the Channel Islands as trustee. Contributions mirror the GPPP and are as above and benefits include the cash value of the retirement account on retirement or a lump sum on death before retirement.

Flybe does not operate any defined benefit pension accrual for current employees. Upon its acquisition of BA Connect in March 2007, the Company became responsible for funding the British Regional Airlines Group Pension Scheme, a defined benefits occupational pension scheme (the "BRAL Scheme"). The BRAL Scheme had been closed to new members since 2002. Following consultation, Flybe closed the BRAL Scheme to future benefit accrual with effect from 31 October 2007 at which time the active members in that scheme became deferred members and were offered future accrual in the GPPP or the FOPS.

The BRAL Scheme was established on 1 September 1983 by irrevocable deed of trust. At the last actuarial valuation, effective 31 March 2010, this scheme had an actuarial surplus on an ongoing basis of £2.5 million (funding level of 102 per cent.) with assets of £110.6 million and liabilities of £108.1 million. At 31 March 2010, the BRAL Scheme had 1,492 members of which 278 were pensioners and 1,214 deferred members.

The table below summarises the valuation under IAS 19 of the BRAL Scheme (as extracted from the Group's financial statements) for the three years and the 2010/11 First Half Year under review:

	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Fair value of plan assets	105.1	95.0	111.9	114.3
Present value of funded defined benefit obligations	(101.2)	(91.7)	(116.7)	(112.8)
Net surplus / (deficit)	3.9	3.3	(4.8)	1.5
Assumptions:	%	%	%	%
Discount rate	6.0	6.4	5.7	5.3
Expected rate of return of assets	6.7	6.6	6.3	6.3
Inflation	3.5	3.25	3.6	3.1

Source: Figures for the 2007/08, 2008/09 and 2009/10 Financial Years and the 2010/11 First Half Year extracted from section B of Part 5 "Financial Information relating to the Group" of this document.

The trustees of the scheme have power under the governing documentation, in certain circumstances and on actuarial advice, to place the scheme into winding-up. On a winding-up, statute requires the employers participating in the scheme to contribute sufficient assets to secure the members' benefits in full. Further, the trustees have a power to demand specified amounts of contributions from the scheme's employers on giving one month's notice.

In addition, upon its acquisition of BA Connect, the Company became responsible for funding the British Airways Connect Ltd Retirement Benefits Scheme, (the "BA Connect RBS"), a trust based defined contribution scheme. Following consultation, the BA Connect RBS was closed to future benefit accrual with effect from 31 October 2007 and active employees were offered future accrual within the GPPP or the FOPS. As at the start of its last audited year, being 1 January 2007, the scheme had 559 active members, all with deferred status. The Company (in consultation with the trustees of the scheme) is seeking to wind-up the BA Connect RBS

7. DIVIDEND POLICY

Flybe has not paid any dividends since 2000. The declaration and payment by the Company of any future dividends and the amount of any such dividends will depend upon the Group's results, financial condition, future prospects, profits being available for distribution and any other factors deemed by the Directors to be relevant at the time, subject always to the requirements of applicable laws.

8. EMPLOYEE INCENTIVISATION

Flybe recognises the importance of its people to the success of the Group. Consequently, the Group's remuneration policy is designed to be market competitive in order to motivate and retain talented executives, align the reward strategy with delivery of the business strategy, incentivise and reward sustainable profit growth and the creation of long-term value, and align employee behaviours with the interests of shareholders.

In line with this remuneration policy, the Group has adopted three employee share schemes: (i) the Flybe Group plc Performance Share Plan 2010, (ii) the Flybe Group plc Savings Related Share Option Scheme 2010 and (iii) the Flybe Group plc Share Incentive Plan 2010. In addition, prior to Admission, the Company has been operating one share incentive plan (the Flybe Employees' Share Plan) to recognise the commitment and contribution of employees to the Company's success prior to Admission. Further details of these plans are set out in section 6 of Part 7 "Additional Information" of this document.

Pre-Admission Awards: The Pre-Admission Share Scheme

Prior to Admission, the trustees of the Flybe Group Limited Trust and the Flybe Group Limited No.2 Trust (being Kleinwort Benson (Jersey) Trustees Limited and Kleinwort Benson (Guernsey) Trustees Limited respectively) held in aggregate 4,412,500 Ordinary Shares on behalf of participating employees under the Pre-Admission Share Scheme. The legal title of these Ordinary Shares was held by the relevant trustee on bare trust for and on behalf of the participating employees.

The Ordinary Shares of each participating employee who is a member of the Board or the Operating Board, and some of the Ordinary Shares held by members of the Executive Briefing Team (being those Ordinary Shares acquired in June 2010 or later) will continue to be held by the relevant trustee, pursuant to the rules of the Pre-Admission Share Scheme, for a period of six months following Admission. At the end of that six month period, the relevant trustee will transfer the Ordinary Shares to the relevant participating employee.

The Ordinary Shares of each participating employee who is not a member of the Board or the Operating Board (and not including any Ordinary Shares acquired by a member of the Executive Briefing Team in June 2010 or later) are no longer held by either the Flybe Group Limited Trust or the Flybe Group Limited No.2 Trust. These Ordinary Shares were released by the relevant trustee immediately before Admission and are currently held by a nominee company on behalf of each participating employee.

No further awards of Ordinary Shares will be made pursuant to the Pre-Admission Share Scheme. Further, once the trustees of the Flybe Group Limited Trust and the Flybe Group Limited No.2 Trust have released all of their holdings of Ordinary Shares to the participating employees under the terms of the Pre-Admission Share Scheme (as described above), it is intended that the Pre-Admission Share Scheme, the Flybe Group Limited Trust and the Flybe Group Limited No.2 Trust will each be wound-up.

All-Employee Share Scheme: The SAYE Scheme

The SAYE Scheme is an all-employee scheme whose purpose is to encourage employees at all levels to acquire Ordinary Shares in the Company after Admission, with the aim of fostering a closer interest in, and alignment with, the performance of the Company and its Ordinary Shares.

It is intended that, subject to obtaining HMRC formal approval in respect of the SAYE Scheme, invitations to participate in the SAYE Scheme will be issued within the six week period immediately following the announcement of results for the 2010/11 Financial Year to all employees inviting them to apply for options under the SAYE Scheme. In relation to such invitations, eligible employees may apply to save an amount between £5 and £250 per month in accordance with the rules of the SAYE Scheme under a savings contract. Options pursuant to such invitations shall be granted shortly after the invitations have been accepted by participants.

Further details of the SAYE Scheme are summarised at paragraph 6.4 of section 6 of Part 7 "Additional Information" of this document.

All-Employee Share Scheme: The SIP Scheme

The SIP Scheme is an all-employee scheme, whose purpose is to encourage employees at all levels to acquire Ordinary Shares in the Company after Admission, with the aim of fostering a closer interest in, and alignment with, the performance of the Company and its Ordinary Shares.

It is intended that, subject to obtaining HMRC formal approval in respect of the SIP Scheme, "Free Share" awards (as such term is defined in paragraph 6.3 of section 6 of Part 7 "Additional Information" of this document) will be made within six weeks of Admission. It is currently intended that the awards will be made to each employee who has completed a minimum qualifying period of service (such period not to exceed 18 months). Each eligible employee will be awarded with a fixed number of Free Shares, without reference to performance conditions, and on the same basis as each other eligible employee.

Further details of the SIP Scheme are summarised at paragraph 6.3 of section 6 of Part 7 "Additional Information" of this document.

PSP

The PSP is intended as the primary long-term incentive for the Executive Directors, the Senior Management and members of the Executive Briefing Team. The PSP provides the opportunity to acquire Ordinary Shares which incentivises and rewards sustainable profit growth and the creation of long-term value, and further strengthens the alignment between executives and shareholders. Awards of Ordinary Shares will be granted under the plan, which will vest after three years contingent on performance on two measures: the growth of the Company's real earnings per share and the Company's relative total shareholder return compared with a comparator group comprising European airlines and other regional transport companies.

Further details of the PSP are summarised at paragraph 6.2 of section 6 of Part 7 "Additional Information" of this document. Particulars of awards to be granted on, or shortly after Admission, to Directors and Senior Management are set out in paragraph 7.4 of section 7 of Part 7 "Additional Information" of this document.

9. CURRENT TRADING AND PROSPECTS

Winter 2010/11 seat capacity and forward bookings

Seat Capacity: Flybe's current flying programme for the 2010/11 winter season shows an increase in seat capacity of more than 6.0 per cent. over the 2009/10 winter season.

Passengers: As at 22 November 2010, passenger bookings were 3.4 per cent. higher than at 22 November 2009.

Ticket yield: As at 22 November 2010, average ticket yield for forward passenger bookings was 4.7 per cent. higher than at 22 November 2009.

Ancillary revenue: The Directors believe that there is significantly less forward booking visibility on ancillary revenues. October 2010 ancillary revenues were 18.3 per cent. higher than October 2009.

10. FTSE ELIGIBILITY

Upon Admission, the Directors expect the Company to be eligible to be considered for inclusion in the UK FTSE All-Share Index.

11. REASONS FOR THE GLOBAL OFFER AND USE OF PROCEEDS

The Directors believe that the Global Offer and Admission will:

- provide the Company with capital to assist in the expansion of its operations within continental Europe;
- provide the Company with a platform for future growth through acquisitions using the Company's listed securities as consideration;
- assist the Group in recruiting, retaining and incentivising key management and employees; and
- improve the Group's profile, brand recognition and credibility with its customers and employees.

The gross proceeds of the subscription for New Shares in the Global Offer receivable by the Company are expected to be £60 million out of which it will pay underwriting commissions and other estimated fees and expenses of the Global Offer of approximately £3.1 million. Consequently, it is expected that the Company will receive net proceeds of approximately £56.9 million.

The Company intends to use:

- approximately 50 per cent. of the net proceeds from the Global Offer to provide it with capital to assist in funding its aircraft fleet expansion programme (as more particularly described in the "Fleet funding" paragraph of section 6 of Part 1 "Information relating to the Group" of this document); and
- approximately 50 per cent. of the net proceeds from the Global Offer to further strengthen its cash position, providing strategic flexibility to pursue additional growth opportunities (such as the expansion of codeshare arrangements, strategic arrangements with other European airlines and targeted acquisitions) should such opportunities present themselves (as more particularly described in the "Leverage the Group's Investment and Market Position to .... (ii) Drive European expansion" paragraph of section 5 of Part 1 "Information relating to the Group" of this document).

The Company has not, as at the date of this document, allocated any of the net proceeds from the Global Offer to any specific use or purpose or the acquisition of any specific asset. Rather, the net proceeds from the Global Offer will be used by the Company to provide flexibility in pursuing the strategic objectives set out above.

PART 2

REGULATORY AND MARKET OVERVIEW

A. Regulatory overview

Introduction

The aviation industry is highly regulated, at international, European and national level, from both a safety and an economic point of view.

From a safety point of view, the 1944 Chicago Convention (the "Convention") established the International Civil Aviation Organisation, and provides for the adoption of international standards and recommended practices in a number of safety-related areas. The Convention requires every aircraft to be registered on the national register of a contracting state, with the state of registry being responsible for regulating the safety of the aircraft and its operation, the competence of its crew and those who maintain the aircraft.

While, in accordance with this system, national aviation authorities continue to be responsible for regulatory oversight and the issue of certificates, licences and approvals, within the EU the making of rules has increasingly become a competence of the EU, and now most aviation technical rules and standards are set at EU level, by the European Aviation Safety Agency ("EASA") in conjunction with the European Commission.

From the point of view of economic regulation, the Convention confirms the principle that each state has sovereignty over the airspace above its territory, with the consequence that a state's permission is needed for air services to be operated to, from or in its territory.

However, EU states have created a common and liberalised aviation market among themselves, in which any entity that satisfies certain basic requirements (most importantly as to technical fitness, financial fitness and nationality of ownership and control) is permitted to operate air services between any two points in the EU at whatever fares it wishes. This area has been extended to Norway and Iceland by reason of the EEA Agreement, and (substantially) to Switzerland by reason of the EU/Switzerland Aviation Agreement.

The UK Government has announced a review of UK civil aviation policy (principally concerned with airports, as matters of airline policy are now mainly within the exclusive competence of the EU). The Secretary of State for Transport has said that a scoping document setting out a range of preliminary questions will be issued in 2011, to be followed by a draft policy document issued for consultation in early 2012.

Operating Licence

As an EU air carrier based in the UK, in order to carry passengers or cargo by air for remuneration or hire, Flybe needs an Operating Licence granted by the UK CAA (Article 3(1) EC Regulation 1008/2008). Flybe has such an Operating Licence.

In order to obtain and continue to be eligible to hold an Operating Licence, Flybe must satisfy certain conditions (Articles 4 and 8 EC Regulation 1008/2008), including in particular:

- that its principal place of business is within the United Kingdom;
- possession of an "Air Operator's Certificate", certifying that it is technically competent to operate aircraft of the type specified;
- satisfying the CAA that it has sufficient financial resources; and
- being owned as to more than 50 per cent. and effectively controlled, whether directly or indirectly, through one or more intermediate undertakings, by EEA member states and/or their nationals.

The ownership criterion is not further defined, but the CAA (which monitors and enforces these requirements in the case of UK licensed air carriers) takes the view that compliance with the criterion will normally be assessed having regard to the beneficial ownership of ordinary shares. While in practice it can be difficult for publicly owned companies to monitor and ensure continued compliance with the ownership criterion, particularly where a company has a wide spread of shareholders and where shares are held by investment funds, public companies typically seek to build certain safeguards regarding share ownership into their articles of association in order to ensure continued compliance with the ownership criterion. For details of the applicable restrictions within the articles of association of the Company, please see section 5 of Part 7 "Additional Information" of this document.

While EC Regulation 1008/2008 does provide a definition of "effective control", essentially in terms of decisive influence, it can be difficult to establish in a particular case whether a person or persons has effective control of an airline, particularly where shares are widely held. The CAA is concerned to establish the practical reality of who is actually making a company's decisions, and for this purpose will be ready to look behind the legal position as established by the company's constitution and relevant agreements. The CAA generally regards ownership as more important than management, as management may be replaced by the directors, who in turn may be replaced by the shareholders, although the CAA will normally require there to be a majority of EEA citizens on the board of directors of any UK licensed air carrier.

The CAA is obliged to monitor the continuing compliance by holders of Operating Licences with the relevant requirements, and may assess the financial performance of a carrier licensed by it at any time, and a carrier licensed by the CAA must be able at all times on request to demonstrate to it that it meets the relevant requirements. If the requirements are not satisfied, the CAA may take action which could include the suspension or revocation of the licence.

Safety

The aviation industry is highly regulated from a safety point of view. In essence, safety regulation operates at the following levels:

- the operator, whose fitness to operate is attested by an Air Operator's Certificate;
- the aircraft, whose fitness to fly is attested by a certificate of airworthiness, and on a continuing basis by its maintenance in accordance with maintenance requirements performed by an authorised maintenance provider;
- the flight crew, whose fitness to fly aircraft is attested by an appropriate pilot's licence; and
- operations, for which various flight rules are laid down.

Operating permission

The possession of an Operating Licence entitles Flybe to operate between any two points in the EEA without the need for any further permission (Article 15(1) EC Regulation 1008/2008).

By reason of an agreement concluded between the EU and Switzerland, which came into force on 1 June 2002, Switzerland is treated as part of the EU for most of the purposes of EU aviation legislation (except as regards rights to operate domestic services within another state). As a result of this agreement, Flybe is entitled to fly between points in the EEA and points in Switzerland without the need for any further permission.

The only points, other than points in the EEA and Switzerland, to/from which Flybe currently operates are in Jersey, Guernsey, Isle of Man (which are not part of the EU for such purposes) and Croatia. These operations require a Route Licence from the CAA (Section 69A Civil Aviation Act 1982). Flybe has a Route Licence for these operations.

In respect of Croatia, "traffic rights" are required under the UK/Croatia bilateral air services agreement, and Flybe is required to be designated by the UK government to exploit such rights. Such traffic rights exist and Flybe is so designated. Croatia is party to the European Common Aviation Area Agreement with the EU, which should have the result (once in force) of permitting any European Community carrier to operate to/from points in Croatia without the need for further permission. The European Common Aviation Area Agreement is currently anticipated to come into force within the next 24 months.

Slots

In order to operate at fully-coordinated (i.e. congested) airports in the EU, EEA and Switzerland, Flybe requires slots (i.e. permission to use the runway and related infrastructure at the appropriate times). Slots are not necessary at airports which are not fully-coordinated. Approximately 58 per cent. of Flybe rotations in 2009/10 were flown into, or out of, fully-coordinated airports.

Slots at airports in the EU, EEA and Switzerland are governed by Council Regulation (EEC) 95/93 (as amended). The most important practical effect of this is that, provided an airline uses slots for at least

80 per cent. of the time for which they are allocated during an IATA traffic season, it is entitled to have those slots re-allocated to it for the next equivalent season (Article 8(2) Regulation 95/93).

As a consequence of these "grandfather rights", and the fact that Regulation 95/93 permits airlines to exchange slots between themselves, slots can effectively be bought and sold between airlines, provided certain formalities are satisfied. The right to do this has been confirmed by the English High Court (in R v Airport Coordination Ltd ex p The States of Guernsey Transport Board 1999). The European Commission had until recently refused to accept this, but in April 2008 issued a communication in which it accepted slot trading.

Although an airport may be regulated, it does not follow that slots are impossible to obtain. However in the case of certain particularly congested airports such as London Heathrow, London City and London Gatwick for example, because of the existence of grandfather rights, it is can be very difficult, if not impossible, for a new entrant to commence services at popular times at a regulated airport without paying for the necessary slots.

Regulation 95/93 does not apply at Croatian airports. Regulation at Croatian airports is based on the IATA Worldwide Scheduling Guidelines (on which the Regulation 96/93 is based) and is similar to regulation within the EU, although without formal legal status.

Airport charges

Under Article 15 of the Convention, every airport open to public use by the aircraft of a contracting state must be open under uniform conditions to the aircraft of all the other contracting states.

At airports in the EU, EU Directive 2009/12 will oblige EU member states to implement certain (fairly modest) regulatory requirements relating to airport charges, but not until 15 March 2011.

Some of the airports in the UK, from which Flybe operates (eg, Gatwick) are designated under the Airports Act 1986, and charges at these airports are regulated under a mechanism involving the CAA and the Competition Commission.

Environmental protection

A series of EU Directives, as implemented into national laws of EU member states, regulates the levels of noise which may be created by aircraft operating within the EU. Civil subsonic jet aeroplanes with a maximum take-off mass of 34,000kg or more, or with more than 19 passenger seats, operating at airports in the EU are required to be "Chapter 3 compliant", which means they must be certificated as meeting the noise standards specified in Chapter 3 of Part II, Volume 1 of Annex 16 to the Convention on International Civil Aviation. Aircraft operated by Flybe comply with these requirements.

As a result of EC Directive 2008/101, extending the EU Emissions Trading Scheme to aviation, from 1 January 2012 the operator of any flight departing from or arriving at an EU airport will have to surrender allowances in order to cover the flight's emissions. In the early years of the scheme, 85 per cent. of allowances (based on historic figures) will be allocated free, but the remaining 15 per cent. will have to be purchased, either from other entities holding allowances or from the government via auction.

Passenger protection

Flybe, in common with other airlines, is subject to generally applicable consumer protection laws. In addition, there are a number of laws specifically aimed at protecting airline passengers, of which the two most relevant are:

- Article 23(1) of EC Regulation 1008/2008, which requires that with regard to air fares the final price to be paid shall at all times be indicated and shall include not only the fare but also all applicable taxes, charges, surcharges and fees which are unavoidable and foreseeable at the time of publication. This means that it is no longer possible for airlines to attract passengers to buy tickets with the lure of low fares (exclusive of taxes, charges, etc) and disclose the taxes, charges etc, at a later stage in the booking process, as some airlines did previously.
- EC Regulation 261/2004, which amongst other things, requires airlines to pay compensation to passengers whose flights are cancelled except by reason of extraordinary circumstances which could not have been avoided even if all reasonable measures had been taken. The amount of

compensation depends on the length of the route, and in the case of flights operated by Flybe will be €250 in most cases and €400 in the remainder.

Although Regulation 261/2004 clearly provides that such compensation is payable only in respect of cancelled flights, and not delayed flights, in a ruling delivered by the Court of Justice of the EU in November 2009, the Court of Justice held that compensation at such levels is also payable to passengers who are delayed so as to arrive at their final destination three hours or more late. In August 2010 a reference was made by the English High Court to the Court of Justice seeking to clarify the interpretation of certain aspects of the judgement delivered by the Court of Justice of the EU.

The unintended effects and wide scope of Regulation 261/2004 were demonstrated during the crisis resulting from the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland during April and May 2010, when many airlines had to bear significant expenses in accommodating and sustaining passengers, even though the cancellation and delay of flights was caused by reasons entirely outside their control.

Maintenance, design, manufacture and training

In order for a company to carry out maintenance and repair work on commercial aircraft (as Flybe does, through Flybe Aviation Services), it must have EASA 145 (previously JAR 145) approval from the UK CAA (Article 4 EU Regulation 2042/2003). Flybe has such an approval.

The CAA has also granted Flybe an EASA 21(G) approval authorising it to carry out design of aircraft, aircraft engines, propellers, auxiliary power units, or related parts and appliances, or modifications thereto, and an EASA 21(J) approval which authorises the Group to manufacture aircraft components.

Finally, Flybe has been granted an EASA 147 approval by the CAA authorising it to set up and run a training school for aircraft mechanics (as Flybe already does through its temporary training facility in Exeter, which will be replaced by the completed Flybe Training Academy).

Insurance

An EU Community air carrier such as Flybe must be insured for at least specified minimum levels in respect of passengers, baggage, cargo and third parties (EC Regulation 785/2004 (as amended)). Flybe's insurance cover complies with these requirements.

B. Market overview

European airline market overview

The European airline industry generally follows economic cycles, and over the long term revenue per passenger per kilometre ("RPK") has generally grown in line with GDP. Factors that have driven growth in the airline sector in Europe include the liberalisation of the EU air transportation market in the 1990s. This liberalisation has also changed the nature of competition in European aviation and paved the way for the growth of European LCCs.

The airline industry and demand for air travel are affected by both local and global economic conditions. The threat of bankruptcy is strong in this industry with airlines such as Zoom, Silverjet, XL, Frontier, ATA, Oasis Hong Kong Airlines and Sky Europe, going out of business or filing for bankruptcy protection in recent years(77), as a result of factors including the downturn in the financial markets and increases in fuel prices. The increasing threat of bankruptcy has forced airlines to raise fares and fees, which ultimately reduces customer satisfaction and brand loyalty.

The airline industry and demand for air travel may also be affected by internationally significant events such as the terrorist attacks in New York on 11 September 2001. In the wake of such events, increased requirements imposed on airlines and airports have generally had a negative impact on demand for air travel as result of: (i) higher costs translated onto passengers, (ii) increased travelling times, and (iii) passenger concerns about safety.

(77) Source: Datamonitor February 2010.

The European airline market, specifically, is very fragmented with over 200 airlines operating at the beginning of 2010[(78)]. Legacy carriers still top many market share charts although in general it appears they are progressively losing ground to European LCCs, who offer low fares in order to increase their market share.

Between 2005 and 2008, European LCCs typically achieved double-digit growth rates while at the same period, during a time of global economic growth and overall industry expansion, the majority of European legacy airlines experienced substantially lower growth.

Recent years have proved difficult for some carriers, with mergers and acquisitions becoming more prominent. In this respect, the European short and medium-haul market is rapidly consolidating around five groups: Air France-KLM (and with its 25 per cent. stake in Alitalia), British Airways-Iberia, Lufthansa (with BMI, Brussels and Austrian), Ryanair and easyJet. Combined, these companies now generate approximately 70 per cent. of total European revenues and control approximately 65 per cent. of capacity[(79)]. The Directors believe that in the next few years there will be additional consolidation in the European aviation industry along with further operational initiatives to reduce airlines' costs and optimise capacity.

On top of the consolidation process, there is also a new tendency towards inter airline cooperation through joint ventures, particularly when a merger is not possible due to regulatory issues. These alliances enable companies to benefit from synergies, economies of scale and capacity optimisation among other advantages. Examples of transatlantic joint ventures include Oneworld, SkyTeam, and Star Alliance.

Market growth in Europe

The European airlines industry has been growing steadily during the past decade until 2008 with a growth generally correlated to GDP growth in the region. During this period, the industry suffered significant short-term setbacks because of the 11 September 2001 terrorist attacks and the Severe Acute Respiratory Syndrome outbreak in 2003. Despite these setbacks, the European passenger market grew steadily at a compound annual growth rate (CAGR) of 9.3 per cent. for the period 2004 to 2008[(80)].

Within Europe, the UK is arguably one of the most important air transportation hubs with over 160 participating airlines flying into and out of the UK, including the world's busiest international airport Heathrow[(81)]. During the same 2004-2008 period, the UK airline industry grew at a compound annual rate of 3.5 per cent. generating total revenues of US$19.9 billion in 2008[(82)].

In response to the general economic downturn in late 2008, airlines have generally sought to reduce capacity by lowering frequency of service on certain routes and by cancelling services on unprofitable routes. The global airline industry removed almost 8 per cent. of aircraft capacity or 1,400 planes during the period 2008 to 2009[(83)]. As such, after two years of being relatively flat, the Directors believe that industry capacity is likely to recover throughout 2011.

After two years of relatively modest growth, the third quarter of 2010 showed strong signs of recovery, with underlying industry revenue estimated to have increased by 16 per cent. in conjunction with seat capacity (available seat kilometres, "ASK") growth of approximately 4 per cent. compared to the previous year. Additionally operating profit has been forecast to have quadrupled from last year's bottom-of-the cycle earnings, rising from approximately €500 million (and a 2.8 per cent. operating margin) in the third quarter of 2009 to approximately €2.1 billion (and a 10 per cent. operating margin) in the third quarter of 2010[(84)]. On a seasonally adjusted, constant currency basis, industry passenger revenue in the second quarter of 2010 returned to 98 per cent. of the first quarter of 2008 levels[(85)].

(78) Source: UBS, 20 January 2010.

(79) Source HSBC, 19 October 2010.

(80) Source: Datamonitor, February 2010.

(81) Source: IATA.

(82) Source: Datamonitor, 30 April 2010.

(83) Source: HSBC, 19 October 2010.

(84) Source: Citi 15 October 2010.

(85) Source: Barclays, 3 August 2010.

Improved earnings have primarily been driven by revenue growth across the sector, while unit costs ex-fuel have been broadly flat. Underlying passenger revenue growth of 16 per cent. is expected to have been driven by a 4.2 per cent. increase in capacity (ASKs), a 0.9 point improvement in seat load factor and a 9.6 per cent. increase in revenue yield (per RPK)(86).

The International Air Transport Association (IATA) issued an upward revision to its 2010 industry outlook on 21 September 2010 in its report "*Improved profitability, but Europe still lags*". The international agency raised its June 2010 worldwide net profit forecast from US$2.5 billion to US$8.9 billion driven by increasing demand, stronger yields and capacity management.(87) However, IATA expects Europe to lag the rest of the world and predict losses in 2010 of US$1.3 billion for European carriers(88).

With respect to long term growth, the UK airlines industry has been forecast to experience a steady growth with an expected value of US$22.7 billion in 2013, an increase of 13.7 per cent. since 2008(89) (CAGR of 2.8 per cent.). Comparatively, the French and German industries have been forecast to grow with CAGRs of 2 per cent. and 3.4 per cent. respectively, over the same period, to reach respective values of US$13.3 billion and US$30.4 billion in 2013(90).

Market segmentation

Airlines operating in the European airline market are generally divided into the following broad categories:

Legacy airlines

Legacy airlines operate a 'full-service' business model, and in Europe are predominantly made up of the flag carrier airlines, such as British Airways, Air France/KLM and Lufthansa.

The full-service model aims to offer passengers a comprehensive service whereby passengers can travel to anywhere in the world according to the level of service and flexibility required. The customer need only purchase one ticket even if it is necessary to travel via multiple carriers. The full-service offering generally includes a broad range of supplementary services, such as catering, in-flight entertainment and some ticket flexibility. As a result of the comprehensive and varied service offering, a wide range of price levels exist (even on the same journey).

In the past, the majority of these carriers were state-owned and many benefited from state aid. Many of these carriers have been either fully privatised (e.g. British Airways and Lufthansa) or partly privatised (e.g. Air France and SAS).

The primary aim of these airlines is to develop inter-continental hubs and to maximise their potential by feeding these hubs from their own domestic markets, from intra-european markets and from inter-continental interline traffic. With regard to their short haul feeder traffic, they either operate this themselves or utilise the services of regional airlines either through ownership or franchise operations. The point to point short haul traffic has become a secondary objective for many of these carriers. British Airways for example has abandoned its presence from the UK regions other than trunk services into its primary hubs, Heathrow and Gatwick whereas Air France/KLM have retained a strong position in their domestic markets through their subsidiary regional and short haul airlines. Lufthansa have operated a similar model. Iberia however have adopted the franchise model where Air Nostrum, an independently owned airline, operates totally under an Iberia franchise to provide feed traffic to its hubs.

These companies compete with each other on the interline feed in a complex network of routes from across the UK and Europe into their principal hub airports.

British Airways exited its home market regional airline sector when it sold its regional airline, BA Connect, to Flybe. At the time they stated that they were unable to achieve the lower costs of operation enjoyed by independently owned regional airlines because of higher operating costs and an aircraft fleet that was uneconomic for the regional market they were competing in. The consequential losses being achieved by

(86) Source: Citi, 15 October 2010.

(87) Source: IATA.

(88) Source: HSBC, 19 October 2010.

(89) Source: Datamonitor, 30 April 2010.

(90) Source: Datamonitor, February 2010.

their regional airline was no longer sustainable and the future investment in a fleet modernisation programme was not justifiable.

European LCCs

The principal aim within the business model of a European LCC (sometimes known as a 'no-frills' airline) is to offer as simple a product as possible and minimise the business's costs. European LCCs aim to maximise load factor and aircraft utilisation rates through offering flights at the lowest cost possible, and typically only operate on short-haul routes, with perhaps a smaller proportion of routes classified as medium-haul. Costs are kept low by having a ticket-less service, using a standardised fleet, having only one class of service, keeping staff to a minimum and at times flying to secondary or non-principal airports serving a particular destination. Tickets are generally sold online or directly by the airline, in order to avoid agency costs. Basic supplementary services are available, but passengers are charged extra for these services.

Turnaround times are kept to a minimum, generally about 25 minutes, by having no pre-flight seating plan for passengers. Space between the seats is generally less than on legacy airline flights. The operational model means that 'no-frills' airlines typically have unit costs that are as much as 50 per cent. lower than their full-service competitors and hence 'no-frills' airlines are typically able to charge prices that are significantly lower, resulting in high load factors.

Regional airlines

Regional airlines are defined predominantly by reference to the aircraft they operate and the markets they serve. There are primarily two distinct roles of regional airlines in Europe. One is to provide feed into the main hubs for their main shareholder airline or franchisor airline and the second is to provide region to region air services linking regional communities. The sector is broken down into two scales of operations with a small minority of the European regional airlines carrying in excess of five million passengers per year with the significant majority carrying less than one million passengers per year. Of those carrying more that 5 million passengers per year, Flybe is unique in that it operates under its own independent brand, generates its own revenues and operates its own business model. Lufthansa Cityline, the only other airline carrying over 5 million passengers per year, operates under the brand of its principal airline.

Flybe estimates that in the 2009/10 Financial Year, the European regional aviation market had a seat capacity of approximately 169 million seats (based on airlines flying aircraft with 120-seats or less, on point to point routes of 400,000 passengers per annum or less, between two regional airports).

Regional airlines typically operate regional jets or turboprop aircraft. These regional aircraft, which are generally smaller in terms of passengers carried than those operated by European LCCs, serve scheduled intra-European routes that are specifically chosen by the regional airline in order to maximise the operational efficiency of the aircraft, with sector lengths typically less than one hour. However the pressure from competition in the market or nearby markets from LCCs and improving high speed train services has resulted in consumer pressure for all airlines to offer a competitive range of prices. As a consequence regional airlines are having to reconsider their fleet economics and to look to operating aircraft which have the lowest seat or sector costs in their regions. The 50-seat jet which has been operated by many of the feeder airlines has proved to be uneconomic in today's market with most airlines (other than small niche airlines operating in specific markets) looking to invest in new regional aircraft. Like Flybe, other airlines have identified this and are taking steps to replace such aircraft with more competitive and economic aircraft types. This investment places further pressure on the economics of these regional airlines. It is for a combination of these various factors that some of the major Legacy Airlines in Europe are engaging with Flybe to seek new partnership solutions to providing economic feed from the regions into primary hubs.

The combination of the operational efficiency of its chosen aircraft and route network allows the regional airline to offer a high frequency schedule on its chosen routes. This schedule, which is typically flown on a point to point basis between two regional airports, is designed to appeal to higher yielding business or repeat travellers, who may be prepared to pay a premium for such convenience.

Regional airlines seek to reinforce their appeal by providing services not typically associated with European LCCs (such as seats being pre-allocated in advance as part of the standard fare), while at the same time giving passengers the opportunity to purchase premium products more typically associated with traditional legacy carriers. Passengers may be able to opt for a business class service, ticket flexibility or access to executive lounges. As a result of the varied nature of the service offering provided by regional carriers, a wide range of price levels may exist.

Charter airlines

Charter airlines are primarily sellers of integrated holiday packages which include flights with typically the cost of the ticket including catering and some form of in-flight entertainment. In order to operate profitably the model relies on a near 100 per cent. load factor and some charter operators sell left over capacity on a "flight only" basis. In addition, some charter airlines have diversified into scheduled flights.

Competition

The level of competition amongst European airlines is high, with an extremely fragmented market comprising over 200 airlines[(91)] at the beginning of 2010.

Significant competitive factors among airlines include, amongst other things, fare levels, frequency and reliability of service, brand recognition, service offering (such as access to executive lounges and a frequent flyer programme), route network and destinations and ancillary revenue lines. As well as competition between airlines operating routes between the same departure and destination points, airlines operating from other airports nearby to a specific departure or destination point may also be in competition for the same customers. For example, the Directors consider that Bristol and Exeter airports are in competition for many of the same passengers wishing to visit the English county of Cornwall, despite the fact that Exeter airport is geographically closer to Cornwall. In addition, airlines may face competition in relation to routes and destinations from ground and sea transportation, particularly high speed rail.

On the routes that that it serves, Flybe competes with legacy airlines, European LCCs and other regional airlines.

The Directors consider that the principal advantages of legacy airlines over Flybe are that such airlines may be larger, have greater brand recognition and have greater resources than Flybe. In addition, certain legacy airlines may have been (or currently are), state owned or controlled flag carrier airlines, which have in the past received (or may in the future receive) significant amounts of subsidies and other state aid from their respective governments. In addition, such flag carrier airlines may have a competitive advantage over Flybe through such airlines being historically perceived by customers as being of higher quality that regional airlines or LCCs.

While the Directors consider that Flybe faces competition from legacy airlines, the Directors believe that Flybe faces a greater potential level of direct competition from European LCCs.

The Directors consider that the principal advantage of European LCCs over Flybe is that European LCCs are able to charge the lowest fare possible in relation to a particular route (as they are not faced with some of the same overhead costs incurred by Flybe in delivering its business model (for example, the costs incurred by Flybe in providing executive lounges or a business class service in order to appeal to business or other repeat customers)). The Directors consider that the current differential between fares offered by Flybe and European LCCs is unlikely to change significantly in the future subject to the influence of external factors. European LCCs are unlikely to be able to further reduce their most competitive fares below the levels already on offer to passengers (which in some cases equal only the cost of applicable taxes and charges in relation to the flight).

The Directors consider that the current competitive position within the European airline industry is likely to vary in the short to medium term due to the following factors:

- as a result of the liberalisation of the European airline market, regulations over routes and fares within the EU have been substantially eliminated and the ability of airlines to compete with respect to flight frequencies and fares has increased. This liberalisation has meant that there are fewer barriers to entry to the European market and hence the Directors believe that Flybe may face increased competition from start-up LCCs and regional airlines (including those formed by legacy airlines) that may be formed to compete in the regional airline sector. While the Directors consider that barriers to entry have been reduced, the Directors acknowledge that the costs associated with forming a start-up airline within the European regional airline market could be financially prohibitive to potential competitors;

(91) Source: UBS, 20 January 2010.

- in an effort to reduce costs and optimise capacity, larger airlines may seek to acquire their weaker competitors. The Directors believe that this consolidation may have both a positive and negative impact on the Group on the basis that, while there will be fewer airlines competing for customers, those airlines that remain may be able to exert a substantial influence over the European airline market and seek to undercut competitors through leveraging economies of scale;
- in an effort to reduce costs and optimise capacity, legacy airlines flying larger aircraft may move away from short-haul and regional routes and concentrate their operations on medium-haul and long-haul (intercontinental) routes; and
- there may be increased competition from high speed rail routes (particularly within the non-UK market) as European rail transport infrastructure is modernised and rail journey times are reduced.

On its UK domestic routes, Flybe's principal competitors are easyJet, British Airways, Jet2, Aurigny, BMI, BMI Regional, BMI Baby, Air South West and Blue Islands.

On its regional UK to European business cities routes[92], Flybe's principal competitors are British Airways, Air France, KLM, Lufthansa, easyJet, Air Berlin, BMI and Brussels Airlines.

(92) UK to European business cities market characterised as flights from regional UK airports to Amsterdam, Barcelona, Berlin, Brussels, Copenhagen, Dusseldorf, Frankfurt, Lisbon, Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart and Vienna.

PART 3

DIRECTORS, SENIOR MANAGEMENT AND CORPORATE GOVERNANCE

1. DIRECTORS

The Board currently comprises the following persons:

Executive Directors

Jim French, Chairman and Chief Executive Officer (aged 57)

Mr. French began his aviation career in 1970 with Caledonian Airways Ltd, before joining Air UK Limited in 1980. During his 10 years at Air UK Limited he held senior roles, in commercial, planning and marketing areas.

Mr. French first joined Flybe in 1990, becoming commercial director shortly after. He subsequently became deputy Chief Executive and Chief Operating Officer. In June 2001, Mr. French was appointed Chief Executive Officer of Flybe and in 2002 developed the plan which transformed Flybe into Europe's largest regional airline[(93)]. Mr. French was appointed Executive Chairman in March 2005. Mr. French uniquely has been voted "Airline Executive of the Year" twice, in 2002 and 2004, by Regional Airline World. Mr. French chairs Flybe's nomination committee. Mr. French was awarded a CBE in the 2009 Queen's Birthday Honours list for "services to aviation".

Mark Chown, Deputy Chairman (aged 52)

Mr. Chown trained as a chartered accountant with Deloitte Haskins & Sells Limited and spent 10 years in the venture capital industry, including 6 years with 3i plc. Mr. Chown has been involved with Flybe for 14 years and has worked closely with the Board throughout that time. Mr. Chown continues to act as a representative of Rosedale. He was appointed Deputy Chairman of Flybe in February 2005, with responsibility for the Group's corporate strategy.

Andrew Knuckey, Chief Financial Officer (aged 50)

Mr. Knuckey joined Flybe in 2005. Mr. Knuckey previously had a 24 year career with KPMG LLP, latterly as a partner in audit and transaction services, and has held a number of other finance related positions. At Flybe, Mr. Knuckey played a key role in the completion of the BA Connect acquisition and was appointed as Chief Financial Officer in April 2007.

Mike Rutter, Chief Commercial Officer (aged 47)

Mr. Rutter joined ICI plc from university and after 5 years moved to Cape Industries plc (a subsidiary of Charter Plc). Upon leaving Cape Industries plc, Mr. Rutter joined Maytag Corporation's European Appliance group, where he became vice president of European Marketing and Sales. Mr. Rutter has been responsible for the development of Flybe's brand, network and its ancillary revenue streams. He was appointed as Chief Commercial Officer in 2005, having joined Flybe in 2003.

Andrew Strong, Chief Operating Officer (aged 37)

Mr. Strong joined Flybe in 1995 on a Flybe graduate scheme and proceeded to project manage fleet-type evaluation and aircraft introduction, at the same time as overseeing several key business development initiatives in the engineering wing of Flybe. Mr. Strong was promoted to become director of Flybe Aviation Services in 2003 and was appointed as Chief Operating Officer in 2005.

Independent Non-Executive Directors

Charlie Scott, Senior Independent Non-Executive Director (aged 61)

Mr. Scott was formerly chairman of William Hill plc from 2004 until 2010. He is a chartered accountant and was previously Chief Executive Officer at Saatchi & Saatchi plc and chairman of Cordiant plc. Mr. Scott has held other non-executive positions, including with airport group TBI plc. Mr. Scott chairs Flybe's audit committee.

(93) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

Alan Smith, Independent Non-Executive Director (aged 64)

Mr. Smith is currently chairman of Fisher Leisure Holdings Limited and Empire World Trade Limited. His career has included being managing director of Superdrug Stores plc, B&Q plc and The Victoria Wine Company Limited before working for the Boddington Group Limited as group managing director. In 1996, Mr. Smith moved to Evans Halshaw Holdings plc as group chief executive before becoming chief executive of Somerfield plc from 2000 until 2002.

David Longbottom, Independent Non-Executive Director (aged 66)

Mr. Longbottom is currently pro-chancellor and chairman of the board of governors of London South Bank University. He is also currently chairman of Horton International (UK) Limited and senior advisor to the Rose Partnership LLP, both executive search firms. Mr. Longbottom was formerly a senior independent director of Luminar Leisure plc and a director of DSG International plc, and held a number of senior positions within the Dixons Group plc after joining in 1987 (including group human resources director). Previously, Mr. Longbottom worked with British Gas plc, Courtaulds plc and Lloyds of London. Mr. Longbottom chairs Flybe's remuneration committee.

Peter Smith, Independent Non-Executive Director (aged 66)

Mr. Smith was previously chief executive of Menzies Aviation Group plc and a member of the main board of Menzies plc. Prior to this, Mr. Smith held senior positions in various UK and overseas airlines. Mr. Smith chairs Flybe's safety and security review committee.

Non-Executive Director

Anita Lovell, Non-Executive Director (aged 59)

Mrs. Lovell is a consultant to Hawksford International and executive director of the Walker Family Office. She has been a practising solicitor for over 30 years, is a former president of the Association of English Solicitors in Jersey and continues to represent the Channel Islands at the International Lawyers Network based in New York. As a trustee of the Walker Family Settlements and director of Rosedale, she has been involved with Flybe since 1999.

Company Secretary

Chris Simpson, Company Secretary (aged 52)

Mr. Simpson qualified as a chartered accountant in Scotland before moving into the airline industry in 1985 where he has served as finance director and company secretary of several airlines. Between 2003 and 2007 Mr. Simpson was Chief Financial Officer of Flybe, and was appointed as Company Secretary in 2010.

Senior Management

The Board is supported in its day to day running of the Group by the Senior Management, who comprise (in addition to Mr. Simpson):

Simon Charles, Director of Human Resources (aged 43)

Mr. Charles joined Flybe as Director of Human Resources in January 2007 from RHM Plc where he was group director of organisation and people development and part of the management team involved in the initial public offering of shares in RHM plc. Mr. Charles has spent 20 years in human resources within significant companies having been European Human Resources director at Quaker Oats Limited and held management positions with PricewaterhouseCoopers, Pepsico Inc and Unilever plc.

Mark Elkins, Director of Information Technology (aged 49)

Mr. Elkins' early career was within finance in the life assurance industry, latterly as a management accountant for Laurentian Life, before moving into the I.T. arena with Merchant Investors Limited (then part of the Allianz group). Mr. Elkins gained a breadth of experience across multiple sectors including roles with Diageo plc, Westland Helicopters Limited (then part of the British Aerospace group) and Anite Systems Limited before joining Flybe in 2000. He was appointed to the position of Director of Information Technology in June 2008.

2. CORPORATE GOVERNANCE

The Directors are committed to the highest standards of corporate governance and have fully considered the provisions of the Combined Code. Except as set out below, Flybe Group plc complies with the Combined Code. For the Company's financial year commencing on 1 April 2011 and subsequent financial years, the Directors intend to comply with, or explain any non-compliance with, the UK Code on Corporate Governance.

Mr. French serves as both Chairman and Chief Executive Officer of Flybe and is expected to remain in both roles in the near term. Mr. French has a long history of valuable experience in the airline industry, having joined Flybe in 1990 and risen to become the Company's Chief Executive Officer in June 2001. He is credited as one of the chief architects behind the Group's re-launch as Flybe and subsequent growth into Europe's largest regional airline[94]. In his time as Chief Executive Officer, Mr. French uniquely has been voted "Airline Executive of the Year" twice, in 2002 and 2004, by Regional Airline World.

Within the next three years, the Board and executive management intend to facilitate an orderly separation of the Chairman and Chief Executive Officer roles, in order to comply with the provisions of the Combined Code. The Board has also appointed four individuals to the position of independent Non-Executive Director, for the purpose of supporting the principle of maintaining board balance as set out in the Combined Code. The Combined Code recommends that at least 50 per cent. of the members of the Board (excluding the Chairman) should be independent. Excluding Mr. French, less than 50 per cent. of the Flybe Group Board is independent with a total of four Executive directors, one non-independent Non-Executive director and four independent Non-Executive directors. In addition, in line with Combined Code recommendations, the Board has appointed Mr. Scott, one of the independent Non-Executive Directors, to the role of senior independent Non-Executive Director.

In his time with the Company, Mr. French has accumulated a personal shareholding of 7.65 per cent. of the total issued share capital of the Company. The Directors believe this holding will align his interests with those of other Shareholders and it will be subject to a lock-up arrangement for a period of 6 months following Admission (please see section 10 of Part 6 "Information on the Global Offer and Admission" of this document).

The Board of Directors (known internally as the "Group Board") meets 10 times per year or more frequently if required. The Group Board establishes overall Group strategy, including new activities and withdrawal from existing activities. It approves the Group's commercial strategy and the operating budget and monitors performance through the receipt of monthly management accounts.

The day-to-day management of the operation of the Group's business is conducted by the "Operating Board" (which is not the Board for fiduciary purposes or the CA 2006), which also meets 10 times per year or more frequently if required. The Operating Board currently comprises Mr. French (Chairman and Chief Executive Officer), Mr. Chown (Deputy Chairman), Mr. Strong (Chief Operating Officer), Mr. Knuckey (Chief Financial Officer), Mr. Rutter (Chief Commercial Officer), Mr. Charles (Director of Human Resources) and Mr. Elkins (Director of IT).

Finally, each member of the "Operating Board" is also a member of the "Executive Briefing Team" along with 36 other employees of the Group who each report directly (or indirectly) to a member of the Operating Board on a specific area of the Group's business (for example, marketing, fleet or crew training). The Executive Briefing Team typically meets formally every three months, but may meet more regularly if appropriate.

In accordance with the principles laid down in the Combined Code, the Company has established separate audit, remuneration and nomination committees. In addition, the Company has also established a safety and security review committee.

Remuneration committee

The remuneration committee comprises three Non-Executive Directors of the Company. The members of the remuneration committee are Mr. Longbottom (Chairman), Mr. Scott and Mrs. Lovell.

The Combined Code requires that a remuneration committee should comprise at least three independent Non-Executive Directors. The remuneration committee currently comprises two independent Non-Executive Directors and Mrs. Lovell.

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(94) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

The duties of the committee include to:

- determine and agree with the Board the framework or broad policy for the remuneration of the Chairman and Chief Executive Officer, all other Executive Directors and any other members of the executive management that the Board delegates to it;
- within the terms of the agreed policy, determine individual remuneration packages including bonuses, incentive payments, share options, pension arrangements and any other benefits;
- determine the contractual terms on termination and individual termination payments, ensuring that the duty of the individual to mitigate loss is fully recognised;
- in determining individual packages and arrangements, give due regard to the comments and recommendations of the Combined Code, the Listing Rules and associated guidance;
- be told of and advise on any major changes in employee benefit structures in the Group; and
- recommend an annual report for the Board to put to shareholders on the Company's remuneration policies and practices compliant with relevant legal and regulatory provisions.

The remuneration committee is authorised by the Board to:

- seek any information it requires from any employee or officer of the Group in order to perform its duties;
- be responsible for establishing the selection criteria and then for selecting, appointing and setting the terms of reference for any remuneration consultants providing advice to the remuneration committee, at the Group's expense; and
- obtain, at the Group's expense, expert legal or other professional advice where necessary in the course of its activities.

Audit committee

The Group employs procedures to ensure the continued independence of the external auditor. The audit committee has responsibility for monitoring and reviewing the external auditors objectivity and independence.

The members of the audit committee are Mr. Scott (Chairman) (Chartered Accountant) and Mr. A. Smith. The Combined Code requires that an audit committee should comprise at least three independent Non-Executive Directors. The audit committee currently comprises two independent Non-Executive Directors.

The audit committee reviews the scope, results and cost-effectiveness of external audit, and has delegated power from the Board to keep under review the relationship with the external auditors, including the consideration or audit fees and any other fees which are payable to the Company's external auditors in respect of non-audit matters.

The audit committee reviews the effectiveness of internal controls, policies and systems. The Company currently does not have an internal audit function and at this time management does not consider that the creation of such a function would enhance the control environment within the Group. The audit committee reviewed this position in May 2010 and will review annually, consistent with the provisions of the Combined Code, whether there is a need for an internal audit function and will make recommendations to the Board.

Nomination committee

The members of the nomination committee are Mr. French (Chairman), Mr. Longbottom, Mr. Chown and Mr. Scott. The Combined Code requires that a nomination committee should comprise a majority of independent non-executive directors. The nomination committee currently comprises two independent Non-Executive Directors together with Mr. Chown and Mr. French.

The nomination committee regularly reviews the structure, size and compensation (including skills, knowledge and experience) of the Board and makes recommendations to the Board with regard to any adjustments that are deemed necessary.

In addition, the function of the nomination committee includes providing a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

In carrying out its duties, the nomination committee is primarily responsible for:

- identifying and nominating candidates, for the approval of the Board, to fill Board vacancies;
- reviewing the time requirements of Non-Executive Directors;
- giving full consideration to succession planning; and
- reviewing the leadership of the Group.

Safety and security review committee

The members of the safety and security review committee are Mr. P. Smith (Chairman), Mr. Strong and Mr. A. Smith. The safety and security review committee reports regularly to the Board on matters relating to safety.

The duties of the safety and security review committee include to:

- review matters concerned with the safe and secure operation (both in the air and on the ground) of any aircraft operated by the Group;
- consider reports on incidents involving any aircraft operated by the Group. In cases involving the Group's aircraft, the safety and security review committee will ensure that appropriate remedial action is taken and, in any other cases, that appropriate recommendations are made to third parties;
- consider reports of significant incidents concerning safety at airports and in engineering facilities and ensure remedial action or appropriate recommendations are implemented;
- review compliance with health and safety legislation; and
- ensure full attention is given to issues of security and advice received from relevant national agencies and authorities.

PART 4

OPERATING AND FINANCIAL REVIEW

The following operating and financial review contains financial information that has been extracted or derived without material adjustment from the Group's consolidated financial information prepared in accordance with IFRS as at 30 September 2009 and 2010, and 31 March 2008, 2009 and 2010, and for the six months ending 30 September 2009 and 30 September 2010 and the 2007/08 Financial Year, the 2008/09 Financial Year and the 2009/10 Financial Year.

This Part 4 of this document contains forward-looking statements about the Company's and the Directors' beliefs and expectations. Forward-looking statements involve inherent risks and uncertainties and speak only as at the date on which they are made. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements. In particular, the results of the Group's operations may not be consistent with predicted trends. Prospective investors should read the statement in relation to forward-looking statements contained on page 28 of this document.

1. Overview

Headquartered in Exeter, United Kingdom, Flybe is Europe's largest regional airline[95] and the UK's largest domestic airline[96], supported by one of Europe's leading regional aircraft maintenance, repair and overhaul ("MRO") businesses, trading as Flybe Aviation Services and a developing training business, trading as the Flybe Training Academy.

In the 2010/11 First Half Year, the Group generated:

- Revenue of £321.0 million (2009/10 First Half Year £302.8 million);
- Passengers of 4.0 million (2009/10 First Half Year 4.0 million);
- Adjusted EBITDAR[97] of £60.7 million (2009/10 First Half Year £52.6 million);
- Adjusted EBIT[98] of £11.3 million (2009/10 First Half Year £12.4 million);
- profit before tax of £1.7 million (2009/10 First Half Year £26.0 million); and
- an operating cash outflow of £(8.0) million (2009/10 First Half Year operating cash inflow of £16.4 million).

In the 2009/10 Financial Year, the Group generated:

- revenue of £570.5 million (2008/09 Financial Year £573.1 million);
- passengers of 7.2 million (2008/09 Financial Year 7.3 million);
- Adjusted EBITDAR[99] of £91.3 million (2008/09 Financial Year £89.4 million);
- Adjusted EBIT[100] of £10.8 million (2008/09 Financial Year £16.4 million);
- profit before tax of £24.6 million (2008/09 Financial Year loss before tax of £33.7 million); and
- an operating cash inflow of £40.2 million (2008/09 Financial Year £19.0 million).

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(95) By passengers carried within Europe on aircraft with 100 seats or less in the 2009 calendar year (Source: ATI).

(96) By passengers carried within the UK (including the Channel Islands and the Isle of Man) in the 2010/11 First Half Year (Source: CAA).

(97) See footnote 7 above.

(98) EBIT is generally defined as profit (or loss) before interest and taxes. The Group presents Adjusted EBIT which is profit/(loss) before interest and taxes adjusted to exclude the impact of unrealised gains and losses on fuel and foreign exchange hedges, integration costs (including any asset impairments), and IPO expenses and adds in the impact of seat compensation. The Group calculates Adjusted EBIT margin as Adjusted EBIT for the relevant period divided by the Group's revenue for the same period These are not measures defined by, or presented in accordance with, IFRS and should not be considered as an alternative to profit, or other measures, determined in accordance with IFRS.

(99) See footnote 7 above.

(100) See footnote 98 above.

The Directors believe that Flybe's growth has been due, among other things, to a combination of the establishment of conveniently timed, high frequency flight schedules operating from accessible regional airports and the growth of its ancillary revenues per passenger, through increased revenue from existing ancillary revenue products and the introduction of new ancillary revenue streams. Further, the Directors believe that as a result of that growth a key strength of the business is its operational resilience and cash flow, which is important as it emerges from the economic downturn. The Directors believe this can be demonstrated through Flybe's revenues, which increased from the year ended 31 March 2006 through the 2008/09 Financial Year and then remained broadly stable in the 2009/10 Financial Year with the prior year result. Revenue for the 2010/11 First Half Year saw a return to growth when compared to the corresponding period in the previous year.

The 2010/11 First Half Year saw a further increase in EBITDAR when compared to the corresponding period in the previous year. Furthermore, EBITDAR increased from the year ended 31 March 2006 to the 2007/08 Financial Year and then remained broadly stable in the 2008/09 and 2009/10 Financial Years.

The Group assesses its business through two business segments, the Airline and its Aviation Services business:

- *Airline business.* In the 2010/11 First Half Year the airline division of the Group (hereinafter defined in this Part 4 of this document as the "Airline"), generated revenue of £308.1 million, representing 96.0 per cent. of the Group's overall revenue. In the 2009/10 Financial Year the airline division generated revenue of £542.3 million, representing 95.1 per cent. of the Group's overall revenue. The Airline is currently, and expected by the Directors to be in the future, the largest, segment (by revenue, costs and assets) within the Group.
- *Aviation Services business.* This comprises the MRO and Training Academy. The Directors intend that once the Flybe Training Academy is further developed as a business, it will be reported as a third segment.

The Group does not allocate to its segment results certain items that are either managed at a Group level or it does not believe are indicative of operational performance. These primarily include the integration costs of BA Connect, the costs associated with the initial public offering of Flybe's shares and the unrealised gains or losses on open fuel and exchange rate derivatives at each year end. In addition, the Group's segment results include "seat compensation" (as allowed, as negative goodwill amortisation, under UK GAAP), which is the primary difference between the segment results and those reflected on an IFRS consolidated basis.

2. Overview of revenue, expenses and key performance indicators

This section 2 of Part 4 of this document sets out in overview the key issues for the Group in managing its business for the period under review, the drivers behind such issues and the Group's key performance indicators ("KPIs"). Detailed analysis of these issues, drivers and KPIs is set out in sections 3 to 8 of this Part 4 of this document.

2.1. Airline Revenue

The Group generates Airline revenue from ticket revenue, ancillary revenue, and other revenues. The key drivers behind the Airline's revenues for the period under review were (and continue to be):

- *scheduled sectors flown*, being the total number of aircraft flights excluding charter, positioning and training flights;
- *seat capacity*, being the number of seats per aircraft by type multiplied by the number of scheduled sectors flown by that aircraft type;
- *load factor*, being the number of seats sold divided by seat capacity;
- *ticket yield*, being the total ticket revenue per passenger (after the deduction of government taxes and levies); and
- *ancillary yield*, being the total average ancillary revenue per passenger. Ancillary revenues are generated from sales of products and services over and above the Airline's core flight operations.

Sectors flown. Following the onset of the economic downturn in the UK and Europe in late 2008, the Group reduced its sectors flown in response to reducing passenger demand. In the 2007/08 Financial Year, 144,000 scheduled sectors were flown decreasing to 140,400 scheduled sectors in the 2008/09 Financial Year and then to 135,100 scheduled sectors in the 2009/10 Financial Year. In the 2010/11 First Half Year 73,900 scheduled sectors were flown (2009/10 First Half Year 72,400).

Seat capacity. The reduction in sectors flown (as described above) limited the seat capacity growth which resulted from the move to larger aircraft types (completed in May 2009). As a result, seat capacity was 10.7 million in the 2007/08 Financial Year and rose to 11.3 million in the 2009/10 Financial Year. In the 2010/11 First Half Year seat capacity was 6.2 million (2009/10 First Half Year 6.1 million).

Ticket yield. The economic downturn resulted in the Group's average ticket yield decreasing from £64.54 in the 2007/08 Financial Year to £63.39 in the 2008/09 Financial Year and then to £60.56 in the 2009/10 Financial Year. The reduction in average ticket yield was primarily due to the proportion of passengers booking for business-related travel falling, leading to a reduction in the overall ticket yield. In the 2010/11 First Half Year, average ticket yield was £60.53 (2009/10 First Half Year £59.40).

Load factor. The Group's load factor increased from 64.9 per cent. in the 2007/08 Financial Year to 65.4 per cent. in the 2008/09 Financial Year as the Group increased its seat capacity, but also had an increase in passengers. However, the Group's load factor declined from 65.4 per cent. in the 2008/09 Financial Year to 63.5 per cent. in the 2009/10 Financial Year as a result of a decrease in passengers but an increase in seat capacity. In the 2010/11 First Half Year load factor was 64.0 per cent. (2009/10 First Half Year 65.5 per cent.).

Ancillary yield. Throughout the period under review, the Group increased the range of its ancillary revenue products and services, such that ancillary yield increased from £8.07 in the 2007/08 Financial Year to £11.98 in the 2009/10 Financial Year. In the 2010/11 First Half Year ancillary yield was £13.12 (2009/10 First Half Year £11.38)

Despite the economic recession, the Group (including passengers who travelled with Flybe's franchise partner, Loganair) grew its market share in its key UK domestic market from 18.6 per cent.(101) in the 2007/08 Financial Year to 28.0 per cent.(102) in the 2009/10 Financial Year. For the 2010/11 First Half Year the Group's market share in the key UK domestic market was 28.0 per cent.(103) The Group's market share in the 2002/03 Financial Year was 10 per cent.(104) and in the 2006/07 Financial Year was 14 per cent.(105). The Directors believe that the Group's growth in UK domestic market share was mainly the result of its high frequency business model, the increased seat capacity it deployed, competitors' reduction in routes and sectors flown, and Flybe's franchise agreement with Loganair. The Directors believe that the Group's strategy to deliver the lowest cost base of the regional airline sector and its business model centred around a high-frequency schedule and convenient regional network will allow Flybe to continue its growth in market share across the key UK domestic, regional UK to European business cities and regional UK to European leisure markets.

2.2. Fleet

The Group continues to manage its fleet costs through its fleet management, which impacts its maintenance, fuel costs, aircraft rental charges and depreciation and amortisation costs. During the period under review the principal focus of Flybe's fleet management effort has been:

- the substitution of the 31 aircraft acquired by Flybe through its acquisition of BA Connect (excluding seven Dash 8-Q300 aircraft that were very briefly operated by Flybe and which were acquired with BA Connect on leases that expired on average three and a half months after the acquisition, and one BAe 146 aircraft that was sold less than four months after the acquisition and was not operated by the Group); and

(101) Market share calculated by comparing Flybe passengers (including passengers flown by Loganair under the Flybe brand) against total UK domestic passengers in 2007/08 Financial Year (Source: CAA).

(102) Market share calculated by comparing Flybe passengers (including passengers flown by Loganair under the Flybe brand) against total UK domestic passengers in 2009/10 Financial Year (Source: CAA).

(103) Market share calculated by comparing Flybe passengers (including passengers flown by Loganair under the Flybe brand) against total UK domestic passengers in the 2010/11 First Half Year (Source: CAA).

(104) Market share calculated by comparing Flybe passengers (including passengers flown by Loganair under the Flybe brand) against total UK domestic passengers in the 2002/03 Financial Year (Source: CAA).

(105) Market share calculated by comparing Flybe passengers (including passengers flown by Loganair under the Flybe brand) against total UK domestic passengers in the 2006/07 Financial Year (Source: CAA).

- the transition of Flybe's existing (non-BA Connect) aircraft fleet to a fleet comprising only two types of aircraft, Embraer E-Series regional jets and Bombardier Q400 turboprops.

The benefits to Flybe of operating the E-Series and Q400 aircraft are set out in Part 1 "Information Relating to the Group" of this document. The transition to a two aircraft fleet type was completed in May 2009, and at 30 September 2010 Flybe's fleet of 68 aircraft had an average age of 3.8 years, as summarised below:

	Seats per aircraft	1 April 2007 Number of aircraft	31 March 2010 Number of aircraft	30 September 2010 Number of aircraft
Aircraft type				
Flybe Fleet				
Embraer E195	118	3	14	14
Bombardier Q400	78	29	54	54
BAe 146	98/112	9	–	–
BA Connect Fleet				
Embraer E145	49	28	–	–
BAe 146	98/112	3	–	–
Total Fleet		**72**	**68**(106)	**68**(107)
Total seats in fleet		5,262	5,864	5,864
Average seats per aircraft		73.1	86.2	86.2
Average age (years)		6.3	3.3	3.8

Source: Unaudited management information.

(106) At 31 March 2010 Flybe was, in addition, sub-leasing four 76-seat Q400 aircraft from SAS (see section 6.7 of this Part 4 of this document). The SAS leases are short-term (average 2.2 years) and thus are not considered part of the Flybe core operating fleet and are excluded from this table.

(107) At 30 September 2010 Flybe was, in addition, sub-leasing two 76-seat Q400 aircraft from SAS (see section 6.7 of this Part 4 of this document). The SAS leases are short-term (average 2.2 years) and thus are not considered part of the Flybe core operating fleet and are excluded from this table.

Historically, Flybe's fleet financing policy has been to hold its aircraft primarily through operating leases structures.

As at 30 September 2010, Flybe had:

- committed orders in place with Bombardier for a further four Q400 aircraft (due for delivery between March and June 2011);
- committed orders in place with Embraer for 35 88-seat Embraer E175 aircraft, part of the E-Series family (due for delivery between June 2011 and October 2016);
- options (exercisable at Flybe's discretion) for 12 Q400 aircraft with Bombardier, exercisable at Flybe's discretion between 1 January 2011 and 1 December 2011 for delivery between April 2012 and March 2013; and
- options for 77 E-Series aircraft, exercisable at Flybe's discretion for delivery between February 2012 and December 2020;
- purchase rights for a further 40 E-Series aircraft (purchase rights have no contractual exercise or delivery dates, the delivery date becoming fixed once contracted). Flybe relinquishes the right to any purchase right not exercised on or before November 2017 and the contractual delivery dates to which these purchase rights can apply can be no later than December 2019.

If the Group were to exercise all of the options (not the purchase rights) and assuming the delivery of each of the committed aircraft and scheduled returns of aircraft held on operating lease, Flybe's total number of seats would increase by 31 March 2013 by 3,024 from 5,864 to 8,888 seats, equating to a 51.6 per cent. increase on 31 March 2010 levels.

2.3. Cost management

In the period under review, the Group has focused on controlling costs across its business in line with its stated strategy of operating at a unit seat cost[108] which is lower than other European regional airlines (please see section 5 of Part 1 "Information relating to the Group" of this document for further details of this strategy).

The Directors estimate that in the 2009/10 Financial Year, and the 2010/11 First Half Year, approximately 61 per cent. of the Airline segment's costs were variable based on sectors flown or passengers carried (and consequently were therefore easier to influence through management actions). These costs included, fuel, airport and en route costs, ground handling and maintenance. By contrast, approximately 39 per cent. of the Airline segment's costs were fixed, including aircraft ownership, staff costs, ground operations, marketing and overheads.

The significant investments made by Flybe since its re-launch in 2002 in areas such as fleet modernisation, its MRO and training businesses, internet distribution and its base and route network are all part of the Directors' overall strategy to optimise the cost base of the business. This has allowed airline operating costs (at constant currency excluding seat compensation and fuel) per seat to be reduced in the period under review from £(40.83) in the 2007/08 Financial Year to £(39.92) in the 2010/11 First Half Year.

In addition, Flybe has implemented formal fuel and US dollar hedging programmes in an effort to smooth the impact of volatility in these areas and provide a degree of predictability.

Also, in order to preserve profit margin in the downturn in the market, following the onset of the economic recession in late 2008, Flybe has sought to manage its costs by:

- reducing variable costs, through matching seat capacity to demand; and
- removing any surplus fixed operating costs from the business, predominantly through the Group's agreement with Olympic Air (please see the "Arrangements with other airlines" paragraph of section 6 of Part 1 "Information relating to the Group" of this document).

A full analysis of the operating costs in Flybe's business for the period under review is set out at section 4 of this Part 4 of this document.

2.4. Key target markets and position

Since its re-launch in 2002, the Airline's key target markets have been:

- *UK domestic* (representing approximately 75 per cent. of Flybe passengers in the 2010/11 First Half Year and 77 per cent. of Flybe's passengers in the 2009/10 Financial Year). During the period from the 2002/03 Financial Year, Flybe has grown its share of the UK domestic market by passengers carried from approximately 10 per cent. to 26 per cent., and in the 2009/10 Financial Year was the UK's largest domestic airline[109]. In the 2010/11 First Half Year Flybe remained the UK's largest domestic airline[110] with a market share of 28 per. cent;
- *Regional UK to European business cities* represented approximately 14 per cent. of Flybe's passengers in both the 2010/11 First Half Year and the 2009/10 Financial Year). The acquisition of BA Connect added a significant number of regional UK to European business city routes to Flybe's route network (supplementing the Group's organic growth within the market). In the 2009/10 Financial Year and the 2010/11 First Half Year Flybe was the second largest airline by passengers carried in the regional UK to European cities market[111]; and
- *Regional UK to European leisure destinations* represented approximately 10 per cent. of Flybe passengers in the 2010/11 First Half Year and 7 per cent. of Flybe's passengers in the 2009/10

(108) Please see the definition within Part 9 "Glossary" of this document.

(109) By passengers carried within the United Kingdom (including the Channel Islands and the Isle of Man) in the 2009/10 Financial Year (Source: CAA).

(110) By passengers carried within the United Kingdom (including the Channel Islands and the Isle of Man) in the 2010/11 First Half Year (Source: CAA).

(111) UK to European business city regional airline marketplace characterised as flights from regional UK airports to Amsterdam, Barcelona, Berlin, Brussels, Copenhagen, Dusseldorf, Frankfurt, Lisbon, Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart and Vienna.

Financial Year). In the 2010 summer season, the Group operated 60 routes (and 178 connecting routes) to 21 European leisure destinations. In addition, the Group has operated more routes from the UK to France than any other airline in the 2010 summer season[112]. These services are focused on leisure-oriented passengers flying at non-peak times of the day.

2.5. Integration of BA Connect

One of the principal areas of focus during the period under review was to fully integrate the BA Connect business purchased in March 2007 into the legacy Flybe business in order to deliver the business benefits of increased growth and improved margin identified as the drivers of this acquisition while, using the funding negotiated under the purchase arrangement with British Airways, control the cost of this integration programme.

The impact of this integration is described in paragraph 3.1.1 of this Part 4 of this document.

2.6. Flybe Aviation Services

In addition to the Airline segment, the HFI also reports the segment results of Flybe Aviation Services, which comprises Flybe's MRO and training businesses.

During the period under review, the Aviation Services business has increased its revenue from third party customers from £23.5 million in the 2007/08 Financial Year to approximately £28.2 million in the 2009/10 Financial Year, and in the 2009/10 Financial Year produced approximately 680,000 total man hours and generated a profit before tax of £1.6 million.

In the 2010/11 First Half Year the Aviation Services segment produced revenue from third party customers of £12.9 million (£14.5 million in the 2009/10 First Half Year), approximately 299,000 total man hours (approximately 334,000 total man hours in the 2009/10 First Half Year) and generated a loss before tax of £(0.3) million (profit of £1.1 million in the 2009/10 First Half Year).

Third party activity accounted for approximately 62.4 per cent. of total revenues and 66.6 per cent. of total man hours for the 2009/10 Financial Year. For the 2010/11 First Half Year third party activity accounted for approximately 64.5 per cent. of total revenues and 71.6 per cent. of total man hours.

MRO

Flybe's MRO division, which is one of Europe's leading regional aircraft maintenance, repair and overhaul ("MRO") businesses, provides maintenance, repair and overhaul services both for the Group's fleet and for other airlines operating regional aircraft in Europe. The services are provided at Flybe's Exeter facility and from a number of other domestic airport bases from which the Group operates. The primary purpose of the MRO business is to deliver safe, timely and cost effective scheduled maintenance for the Flybe fleet.

For a description of the costs relating to the MRO business, please see paragraph 4.6 of this Part 4 of this document.

Training

In addition to its established MRO business, Flybe is investing in its existing training business to build an approximate 5,500 square metre building for the training academy. This building is scheduled to be completed in the first calendar quarter of 2011 at an expected cost of approximately £12 million. For a description of the costs relating to the training business, please see paragraph 4.6 of this Part 4 of this document.

Following completion of the training academy's new building, the Directors intend to follow the Flybe MRO business model and increasingly provide services to third parties.

(112) 42 direct routes (and 136 connecting routes) to 13 French airports in the 2010 summer season (Source: CAA).

2.7. Key performance indicators

A more detailed discussion of the key performance indicators than is outlined in the table below is contained in the applicable sections of this Part 4 of this document.

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
				%	%
Operational measures					
Airline					
Scheduled sectors flown (000s)(113)	144.0	140.4	135.1	*(2.5)*	*(3.7)*
Average sector length (kms)	490	472	464	*(3.7)*	*(1.7)*
Average seats per sector	74.6	79.3	83.7	*6.3*	*5.4*
Seat capacity (million)(114)	10.7	11.1	11.3	*3.7*	*1.8*
Passengers (million)	7.0	7.3	7.2	*4.3*	*(1.4)*
Load factor(115)	64.9%	65.4%	63.5%	*0.5pts*	*(1.9)pts*
Break even load factor(116)	60.1%	63.8%	62.4%	*(3.7)pts*	*1.4pts*
Fuel burn per seat (kgs)(117)	19.1	17.6	16.1	*8.1*	*8.1*
Employees (average FTEs)	1,971	2,030	1,959	*3.0*	*(3.5)*
Average number of aircraft operated during year	72.8	68.4	67.5	*(6.0)*	*(1.3)*
Airline employees per aircraft operated	28.6	34.5	33.5	*(20.4)*	*2.8*
Seats capacity per Airline employee	5,158	4,723	5,000	*(8.4)*	*5.9*
Operated aircraft utilisation – block hours (000s)(118)	169.5	165.2	161.5	*(2.5)*	*(2.2)*
Number of routes operated during the year(119)	150	165	159	*10.0*	*(3.6)*
Number of airports served during the year	55	53	56	*(3.6)*	*5.7*
Aviation Services					
Man hours – Flybe (000s)	290	327	227	*12.8*	*(30.6)*
Man Hours – third party (000s)	382	437	453	*14.4*	*3.7*
Man hours – total (000s)	672	764	680	*13.7*	*(11.0)*
Employees(120)	829	835	813	*(2.2)*	*1.3*

(113) Please see the definition within Part 9 "Glossary" of this document.

(114) Please see the definition within Part 9 "Glossary" of this document.

(115) Please see the definition within Part 9 "Glossary" of this document.

(116) Please see the definition within Part 9 "Glossary" of this document.

(117) Fuel burn per seat is calculated as the number of tonnes of jet fuel consumed during the year divided by the number of seats flown.

(118) Block hours represent the time interval between "brakes off" on an aircraft departure to "brakes on" at an aircraft's arrival.

(119) Routes operated during the year will include routes that may have ceased operations during that Financial Year. Routes with a start date that preceded the Financial Year by virtue of an early start to the IATA summer season are included in the subsequent Financial Year.

(120) Average number of full time equivalent people employed during the Financial Year.

	Six months ending 30 September		
	2009	2010	Change 2010 versus 2009
			%
Operational measures			
Airline			
Scheduled sectors flown (000s)	72.4	73.9	*2.1*
Average sector length (kms)	484	475	*(1.7)*
Average seats per sector	83.6	84.3	*0.8*
Seat capacity (million)	6.1	6.2	*2.9*
Passengers (million)	4.0	4.0	*0.6*
Load factor	65.5%	64.0%	*1.5pts*
Break even load factor	62.9%	61.5%	*(1.4)pts*
Fuel burn per seat (kgs)	16.5	16.2	*1.7*
Employees (average FTEs)	1,960	1,961	*0.1*
Average number of aircraft operated during year	67.0	68.0	*1.5*
Airline employees per aircraft operated	29.3	28.8	*1.4*
Seats capacity per Airline employee	3,088	3,176	*2.8*
Operated aircraft utilisation – block hours (000s)	89.0	90.5	*1.6*
Number of routes operated during the period	158	181	*14.6*
Number of airports served during the period	55	61	*10.9*
Aviation Services			
Man hours – Flybe (000s)	94	85	*(9.6)*
Man Hours – third party (000s)	240	214	*(10.8)*
Man hours – total (000s)	334	299	*(10.5)*
Employees	835	813	*(2.6)*

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008 %	Change 2010 versus 2009 %
Financial measures					
Airline					
Ticket yield	£ 64.54	£ 63.39	£ 60.56	*(1.8)*	*(4.5)*
Ancillary yield	£ 8.07	£ 10.34	£ 11.98	*28.1*	*15.9*
Total passenger yield	£ 72.61	£ 73.73	£ 72.54	*1.5*	*(1.6)*
Total passenger revenue per seat	£ 47.11	£ 48.21	£ 46.06	*2.3*	*(4.5)*
Operating costs (exc. fuel) per seat[121]	£ (36.55)	£ (38.12)	£ (39.76)	*(4.3)*	*(4.3)*
Operating costs (exc. fuel and seat compensation) per seat	£ (38.90)	£ (39.66)	£ (39.80)	*(2.0)*	*(0.3)*
Operating cost at constant currency (exc. fuel and seat compensation) per seat	£ (40.83)	£ (40.64)	£ (40.58)	*0.5*	*0.2*
Fuel cost per seat	£ (7.92)	£ (10.66)	£ (7.66)	*(34.6)*	*28.1*
Effective fuel price per tonne[122]	$ (731)	$ (1,064)	$ (799)	*(45.6)*	*24.9*
Effective USD exchange rate[123]	$ 1.92	$ 1.84	$ 1.86	*(4.2)*	*1.1*
Airline profit[124]	£ 34.4m	£ 5.1m	£ 6.2m	*(85.2)*	*21.6*
Aviation Services					
Third party revenue	£ 23.5m	£ 24.8m	£ 28.2m	*5.5*	*13.7*
Aviation Services profit[125]	£ 0.9m	£ 3.4m	£ 1.6m	*277.8*	*(52.9)*
Group					
Revenue	£535.9m	£ 573.1m	£570.5m	*6.9*	*(0.5)*
EBITDA[126]	£ 29.0m	£ 11.2m	£ 27.2m	*(61.4)*	*142.9*
Adjusted EBITDA[127]	£ 54.2m	£ 28.4m	£ 27.6m	*(47.6)*	*(2.8)*
EBITDAR[128]	£ 79.4m	£ 72.2m	£ 90.9m	*(9.1)*	*25.9*
Adjusted EBITDAR[129]	£104.6m	£ 89.4m	£ 91.3m	*(14.5)*	*2.1*
EBITDAR margin[130]	14.8%	12.6%	15.9%	*(2.2)pts*	*3.3pts*
Adjusted EBITDAR margin[131]	19.5%	15.6%	16.0%	*(3.9)pts*	*0.4pts*
Adjusted EBIT[132]	£ 38.2m	£ 16.4m	£ 10.8m	*(57.1)*	*(34.1)*
Adjusted EBIT margin[133]	7.1%	2.9%	1.9%	*(4.2)pts*	*(1.0)pts*
Profit / (loss) before tax	£ 13.3m	£(33.7)m	£ 24.6m	*n/a*	*n/a*

Source: Unaudited management information.

(121) For a description of operating costs, please see paragraphs 4.5.3 to 4.5.9 of this Part 4 of this document.

(122) This is the calculation of the average price based on the price paid for the fuel the Group acquires after accounting for receipts or payments on fuel hedges that were closed during the Financial Year.

(123) Please see the definition within Part 9 "Glossary" of this document.

(124) This is the segment profit as reported in section B of Part 5 "Financial Information relating to the Group" of this document.

(125) This is the segment profit as reported in section B of Part 5 "Financial Information relating to the Group" of this document.

(126) See footnote 5 above.

(127) See footnote 5 above.

(128) See footnote 7 above.

(129) See footnote 7 above.

(130) See footnote 7 above.

(131) See footnote 7 above.

(132) See footnote 98 above.

(133) See footnote 98 above.

	Six months ending 30 September		
	2009	2010	Change 2010 versus 2009
			%
Financial measures			
Airline			
Ticket yield	£ 59.40	£ 60.53	*1.9*
Ancillary yield	£ 11.38	£ 13.12	*15.3*
Total passenger yield	£ 70.78	£ 73.65	*4.1*
Total passenger revenue per seat	£ 46.36	£ 47.14	*1.7*
Operating costs (exc. fuel) per seat	£ (38.07)	£ (39.92)	*(4.8)*
Operating costs (exc. fuel and seat compensation) per seat	£ (38.13)	£ (39.92)	*(4.6)*
Operating cost at constant currency (exc. fuel and seat compensation) per seat	£ (38.88)	£ (39.92)	*(2.7)*
Fuel cost per seat	£ (7.78)	£ (8.19)	*(5.2)*
Effective fuel price per tonne	$ 783	$ 749	*4.3*
Effective USD exchange rate	$ 1.84	$ 1.64	*(10.9)*
Airline profit[134]	£ 10.7m	£ 8.5m	*(20.6)*
Aviation Services			
Third party revenue	£14.5 m	£ 12.9m	*(11.0)*
Aviation Services profit / (loss)	£ 1.1m	£(0.3)m	*n/a*
Group			
Revenue	£302.8m	£321.0m	*6.0*
EBITDA[135]	£ 22.6m	£ 21.8m	*(3.5)*
Adjusted EBITDA[136]	£ 23.0m	£ 21.8m	*(5.2)*
EBITDAR[137]	£ 52.2m	£ 60.7m	*16.3*
Adjusted EBITDAR[138]	£ 52.6m	£ 60.7m	*15.4*
EBITDAR margin[139]	17.2%	18.9%	*1.7pts*
Adjusted EBITDAR margin[140]	17.4%	18.9%	*1.5pts*
Adjusted EBIT[141]	£ 12.4m	£ 11.3m	*(8.9)*
Adjusted EBIT margin[142]	4.1%	3.5%	*(0.6)pts*
Profit before tax	£ 26.0m	£ 1.7m	*(93.5)*

Source: Unaudited management information.

(134) This is the segment profit as reported in section B of Part 5 "Financial Information relating to the Group" of this document.

(135) See footnote 5 above.

(136) See footnote 5 above.

(137) See footnote 7 above.

(138) See footnote 7 above.

(139) See footnote 7 above.

(140) See footnote 7 above.

(141) See footnote 98 above.

(142) See footnote 98 above.

Adjusted EBITDAR of £104.6 million in the 2007/08 Financial Year fell to £89.4 million in the 2008/09 Financial Year and then increased to £91.3 million in the 2009/10 Financial Year largely as a result of the fall in Adjusted EBITDA discussed in the paragraph below. In addition, aircraft rental charges increased throughout the period under review largely as a result of the change in aircraft ownership mix as described in the preceding paragraph.

Adjusted EBITDA of £54.2 million in the 2007/08 Financial Year fell to £28.4 million in the 2008/09 Financial Year and to £27.6 million in the 2009/10 Financial Year largely as a result of the fall in Adjusted EBIT discussed in the paragraph below. Depreciation and amortisation fell from £16.0 million in the 2007/08 Financial Year to £12.0 million in the 2008/09 Financial Year before increasing to £16.8 million in the 2009/10 Financial Year. The fall to £12.0 million in the 2008/09 Financial Year was as a result of significant sale and lease back arrangements which reduced the number of owned aircraft in the fleet from 35 at 31 March 2007 to 13 at 31 March 2008. In addition, during the 2008/09 Financial Year, the Group amended its method for calculating maintenance, in order to provide better information about the maintenance of its fleet, leading to, among other things, the recognition of additional property, plant and equipment with a net book value of £11.0 million in the 31 March 2009 balance sheet. This has led to higher depreciation charges in the 2009/10 Financial Year as these assets have relatively short lives when compared to the lives of the aircraft themselves.

Adjusted EBIT of £38.2 million in the 2007/08 Financial Year fell to £16.4 million in the 2008/09 Financial Year and to £10.8 million in the 2009/10 Financial Year largely as a result of the fall in operating profit before integration and IPO costs and unrealised gains and losses on fuel and foreign exchange hedges. Seat compensation also affected the Adjusted EBIT as it fell through the review period as discussed in paragraph 4.2 of this Part 4 of this document.

Adjusted EBITDAR of £52.6 million in the 2009/10 First Half Year increased to £60.7 million in the 2010/11 First Half Year, as the decline in Adjusted EBITDA (as discussed below) was more than offset by the add back of an increased level, between the six month periods under review, of aircraft rental charges as a result of seven more aircraft being operated, on average, under lease arrangements rather than being owned and unfavourable movements in the exchange rate between sterling and the US Dollar.

Adjusted EBITDA of £23.0 million in the 2009/10 First Half Year decreased to £21.8 million in the 2010/11 First Half Year largely as a result of the decline in Adjusted EBIT as discussed below. Depreciation and amortisation was broadly flat at £10.6 million in the 2009/10 First Half Year and £10.5 million in the 2010/11 First Half Year.

Adjusted EBIT of £12.4 million in the 2009/10 First Half Year decreased to £11.3 million in the 2010/11 First Half Year due to the impact of the closure of UK airspace in April and May 2010 significantly offsetting the improvement in passenger volume and ticket yield.

2.8. Impact of Icelandic volcanic ash disruption

During April and May 2010 Flybe cancelled 3,177 flights as a result of the disruption caused by the ash cloud from the eruption of the Eyjafjallajökull volcano in Iceland leading to the closure of various parts of northern European airspace. This represented approximately 4.2 per cent. of Flybe's planned flying programme for the 2010/11 First Half Year.

The ash cloud significantly disrupted the Group's ability to generate revenue and profit and resulted in lower revenues and profit for the 2010/11 First Quarter than in the 2009/10 First Quarter. The Directors believe that the lost profit before tax for the 2010/11 Financial Year relating to the disruptions in April and May 2010 is £(11.6) million, comprising:

	£m
Lost ticket revenue	
Revenue returned and compensation(143)	(9.2)
Estimated lost ticket revenue due to passengers not booking flights during the closure of air space from the volcanic ash disruption(144)	(5.2)
Estimated lost ticket revenue due to individuals not booking flights with Flybe in the immediate aftermath of the volcanic ash disruption due to concerns about flying programmes, further cancelled flights and general aviation uncertainties(145)	(3.2)
Lost ancillary revenue	
Ancillary revenue returned, plus estimated lost ancillary yield from lost passenger bookings(146)	(2.4)
Savings in operating costs	
Passenger direct operating costs(147)	2.6
Sector direct operating costs(148)	5.9
Additional overhead costs	(0.1)
Total	**(11.6)**

(143) "Revenue returned and compensation" is the amount refunded to passengers in relation to flights booked but not flown because of the disruption caused by the ash cloud, including an off-setting amount for refunds not claimed.

(144) Estimate calculated applying an estimated average ticket yield and estimated lost passenger bookings during the volcanic ash disruption based on trends experienced by Flybe over the corresponding period in the previous year, together with booking patterns in the weeks leading up to the volcanic ash disruption.

(145) Estimate calculated applying the average ticket yield for the 2010/11 First Half Year and estimated total lost passenger bookings during the four to five week period immediately following resumption of flying, based on trends experienced by Flybe during the corresponding period in the previous year, together with booking patterns in the weeks leading up to the volcanic ash disruption.

(146) Estimate calculated applying average ancillary revenue yield per passenger and estimated lost passenger bookings during the volcanic ash disruption, based on trends experienced during the corresponding period in the previous year together with booking patterns in the weeks leading up to the volcanic ash disruption.

(147) "Passenger direct operating costs" comprise airport passenger service charges, passenger handling costs and commission on GDS and related reservation systems. The estimated saving is calculated applying average passenger direct operating costs per passenger and estimated lost passenger bookings during the volcanic ash disruption.

(148) "Sector direct operating costs" comprise fuel, airport landing charges, ground handling, en-route charges and maintenance. The estimated saving is calculated applying average sector direct operating costs per flight on 3,177 cancelled flights during the volcanic ash disruption.

The Directors believe that changes implemented by the CAA (in May 2010) in the regulations concerning the safe flying of aircraft in the presence of volcanic ash are likely to have a much lower impact on Flybe's flying programme when compared to the disruption experienced in April and May 2010 as a result of the eruption in Iceland. By way of example, operating under the previous rules, 396 flights were cancelled by Flybe as a result of the volcanic ash on 16 and 17 May 2010 whereas the Directors believe that, under the new regulations, only 33 flights (approximately 3 per cent. of Flybe's total flying programme) would have been cancelled.

The £(11.6) million impact from volcanic ash disruption was recorded in the 2010/11 First Quarter. Flybe's key performance indicators in respect of the 2010/11 Second Quarter by comparison to the 2009/10 Second Quarter (based on unaudited management information) indicate:

- seat capacity increasing by 6.5 per cent. from 3.1 million to 3.3 million, with scheduled sectors flown increasing from 36,999 to 39,171;
- passenger revenue increasing by 8.7 per cent. from £144.2 million to £156.7 million;
- passenger yield increasing by 5.8 per cent. from £69.24 to £73.23; and
- load factor reducing from 67.2 per cent. to 64.8 per cent. The Directors believe that this reduction was partly due to the volcanic ash disruption's ongoing impact on leisure bookings.

2.9. Current trends, trading and prospects

Winter 2010/11 seat capacity and forward bookings

Seat Capacity: Flybe's current flying programme for the 2010/11 winter season shows an increase in seat capacity of more than 6.0 per cent. over the 2009/10 winter season.

Passengers: As at 22 November 2010, passenger bookings were 3.4 per cent. higher than at 22 November 2009.

Ticket yield: As at 22 November 2010, average ticket yield for forward passenger bookings was 4.7 per cent. higher than at 22 November 2009.

Ancillary revenue: The Directors believe that there is significantly less forward booking visibility on ancillary revenues. October 2010 ancillary revenues were 18.3 per cent. higher than October 2009.

3. Financial performance

3.1. Factors affecting Flybe's results of operations

The historical results of Flybe's operation may not be indicative of future performance. The business, financial position and historical results of operations, as well as period to period comparability of its financial results are affected by a number of factors which have been discussed in detail in the "Risk Factors" section of this document.

Both the historical and future results of Flybe's operational and financial performance are influenced by, amongst other things, risks associated with:

- merger and acquisition activity;
- fluctuations in fuel prices;
- fluctuations in foreign exchange rates;
- operational gearing;
- fleet rationalisation programme;
- seasonality;
- general economic downturn and capacity management;
- regulatory changes in the airline industry; and
- the effects of extraneous events, such as terrorist attacks, epidemics and natural disasters (including, most recently, the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland in April and May 2010).

Some of these factors have, during the period under review, materially influenced Flybe's financial results. The Directors expect that some of these factors will continue to be influential in the future. The most significant factors are discussed in this section 3 of this Part 4 of this document.

3.1.1. Merger and acquisition activity – acquisition and integration of BA Connect

In March 2007, the Group acquired BA Connect, a business of similar size to the then Flybe. BA Connect was the regional airline business of British Airways plc, operating 19 UK domestic and 36 routes between the UK and other European airports in the 2006/07 Financial Year.

The acquisition significantly increased the size of Flybe's operations and strengthened its business, for the reasons set out below:

- the Group's revenue increased from £367.5 million in the 2006/07 Financial Year to £535.9 million in the 2007/08 Financial Year. Of this increase, approximately £125 million of revenue was generated on routes formerly operated by BA Connect (and on which Flybe did not operate prior to the acquisition);
- the acquisition provided Flybe with an established route network with minimal overlap with the legacy Flybe network;

- the acquisition provided an experienced and well-trained workforce, with the Group's employee numbers at 31 March 2007 increasing from 1,790 in 2006 to 3,236 in 2007;
- the acquisition provided an increase in its overall fleet size from 41 aircraft to 72 aircraft (excluding the 8 aircraft discussed in paragraph 2.2 of this Part 4 of this document) at 31 March 2007; and
- the acquisition provided access to mature and established business destinations in Europe – through the BA Connect acquisition, Flybe acquired 19 additional landing slots at Paris Charles De Gaulle, nine at Düsseldorf and eight at Frankfurt.

The costs associated with the acquisition were either recognised in the Group's accounts in the financial year ended 31 March 2007 or in the case of integration costs, synergies, and developments resulting of the acquisition, have had an effect on the Group's accounts in each of the three years to 31 March 2010.

In recognition of the significant restructuring and integration challenges faced by the Group in acquiring BA Connect, British Airways provided total funding of £128.7 million on the acquisition, broken down as follows:

- £34.0 million in respect of anticipated "negative equity" on the disposal of 16 owned and debt financed E145 aircraft (see also the detailed commentary at paragraph 4.2 of this Part 4 of this document);
- £32.7 million paid into the defined benefit BA Connect pension scheme ("BRAL Pension Scheme"), to fully fund the deficit reported under IFRS as at 31 March 2006. At 31 March 2008, the BRAL Pension Scheme (which was closed to future benefit accrual in October 2007) had a surplus, under IFRS accounting rules, of £3.9 million, which by 31 March 2010, had moved to a deficit of £4.8 million, primarily due to changes in actuarial assumptions;
- £62.0 million of additional funding, negotiated by Flybe for the following purposes:
  - £50.0 million of "seat compensation", as described in more detail at paragraph 4.2 of this Part 4 of this document; and
  - £12.0 million of contribution towards restructuring and integration costs to be incurred by Flybe post acquisition. Flybe incurred total restructuring and integration costs for the period from 5 March 2007 to 31 March 2009 of £37.7 million.

The Group integrated BA Connect within the Flybe business model and in the 12 months following the completion of the acquisition achieved significant cost savings and synergies through:

- improved commercial terms with airports and suppliers;
- the closure of BA Connect's head office, base maintenance, operations and finance functions;
- the closure of loss making routes; and
- the application of Flybe's ancillary revenue model to former BA Connect routes.

The Directors believe that these savings were achieved in full in the 2007/08 Financial Year (being the first financial year after the acquisition of BA Connect), and this contributed to the combined loss, as reported under UK GAAP, for Flybe and BA Connect in the 2006/07 Financial Year being turned into a profit in the 2007/08 Financial Year.

3.1.2. Fuel

Aviation fuel is a significant variable cost which has had a material impact on Flybe's results during the period under review and will continue to do so. A variety of external factors, such as changes in supply and demand for oil and oil-related products and the increasing role of speculators and funds in the futures markets have played their part in making aviation fuel prices highly volatile. It is fuel price volatility which is the main driver of variances in Flybe's overall fuel costs.

The price of aviation fuel almost doubled to more than US$1,400 per tonne over the six months to July 2008, thereafter reducing by approximately 70 per cent. to US$440 per tonne over the following five months to December 2008. The market price has steadily recovered since that date, with the 2009/10 Financial Year and the 2010/11 First Half Year seeing prices largely between US$650 and US$800 per tonne. Overall, Flybe's fuel costs increased from £(85.1) million in the 2007/08 Financial Year to £(118.7) million in the 2008/09 Financial Year, reducing to £(86.6) million in the 2009/10 Financial Year. These costs represented a net cost per tonne (i.e. after the effect of fuel hedges and including the cost of supplying the fuel to the aircraft) of US$731, US$1,064 and US$799 for each of the three financial years respectively. In the 2010/11 First Half Year, Flybe's fuel costs increased from £(47.1) million in the 2009/10 First Half Year to £(51.0) million in the 2010/11 First Half Year. These costs represented a net cost per tonne (i.e. after the effect of fuel hedges and including the cost of supplying the fuel to the aircraft) of US$783 and US$749 for the two half years respectively.

Flybe operates a policy of managing this volatility by entering into derivative contracts representing a portion (between 60 per cent. and 90 per cent.) of its aviation fuel requirements up to 12 months forward. The intention of this programme is to provide a significant element of certainty over its fuel costs for any forthcoming IATA season. However, such contracts and agreements do not completely protect the Group against price volatility and are limited in volume and duration. As fuel is a global commodity, the price of it in the open market can go up as well as down from the position reported at any particular point in time. The factors that affect the commodity price of fuel are varied (including the state of the global economy, geo-political factors, market demand, supply from key producers, future investment in the exploration for oil and the production of fuel and the role of speculators) and, in some cases, the price can be very sensitive to small changes in these factors. As a result, the price experienced can be highly volatile.

Efficiencies derived from the fleet replacement programme, operational improvements and careful management of routes and frequencies allowed the Group to reduce fuel used in the business from 205,300 tonnes in the 2007/08 Financial Year, to 195,500 tonnes in the 2008/09 Financial Year and 182,400 tonnes in the 2009/10 Financial Year. In the 2010/11 First Half Year, the Group used 101,200 tonnes of fuel which was 1.2 per cent. higher than the 2009/10 First Half Year.

As a private company, Flybe has historically prepared its financial statements under UK GAAP, and its fuel hedges have qualified for hedge accounting under the requirements of UK accounting standards. However, IFRS requires significantly greater hedging documentation in order for financial instruments to qualify for hedge accounting. This documentation must be executed at the time that the hedges are entered into, i.e. it cannot be entered into retrospectively. Therefore, hedges entered into by Flybe up to 31 March 2010 did not qualify for hedge accounting under IFRS. All hedges entered into since that date have been documented to the standards required to meet IFRS requirements.

As a consequence, the results of the Group were impacted by the inclusion within profit before tax, of a gain of £8.1 million in the 2007/08 Financial Year, a loss of £(16.5) million in the 2008/09 Financial Year and a gain of £18.3 million in 2009/10 Financial Year.

Since 1 April 2010, the Directors require IFRS-compliant hedge documentation to be in place for all new derivative instruments, and therefore any gains and losses arising on effective hedges are now deferred until final settlement when the derivative instrument is finally realised. During the 2010/11 Financial Year, there will be gains and losses recognised in profit before tax because derivative instruments were entered into before the introduction of IFRS hedge documentation on 1 April 2010 with the 2010/11 First Half Year showing a loss of £(5.4) million reported (£14.6 million gain in the 2009/10 First Half Year).

As at 25 November 2010, Flybe had hedged 92 per cent. of its anticipated fuel requirements for December 2010 to March 2011 at US$748 per tonne, and had hedged 57 per cent. of its anticipated fuel requirements for the 2011/12 Financial Year at US$768 per tonne.

Further information on fuel and other financial instruments is set out at paragraphs 4.5.5 and 7.1 of this Part 4 of this document.

3.1.3. Foreign currency

Flybe reports its financial results in pounds sterling. However, due to its international operations, Flybe also generates revenues and incurs expenses in Euros. The Group also incurs a significant amount of expenses in US dollars as a result of fuel purchases, maintenance costs and operating lease commitments. Translation of receivables and payables are taken to the income statement at each balance sheet date.

The Group manages its exposures based on its net foreign currency exposure. As regards "net" foreign currency exposure (i.e. foreign currency expenditure less associated revenues), Flybe currently has a relatively small net exposure to Euro, but has to purchase a significant volume of US dollars to settle expenditure on items such as fuel, maintenance and aircraft operating leases. Flybe generates no significant US dollar revenues and actively manages its US dollar position through a foreign exchange forward purchase programme – see paragraph 7.2 of this Part 4 of this document for further details.

The table below sets out for each of the periods under review (i) Flybe's US dollar and Euro requirements, (ii) forward derivative instruments taken out in each currency and (iii) blended exchange rate achieved for each currency:

	Year ended 31 March			Six months to 30 September	
	2008	**2009**	**2010**	**2009**	**2010**
US dollar					
Foreign currency requirement	$305m	$369m	$338m	$175m	$178m
Proportion hedged at beginning of period	69%	59%	72%	44%	44%
Effective exchange rate(149)	$ 1.92	$ 1.84	$ 1.86	$ 1.84	$ 1.64
Euro					
Net foreign currency requirement	€ 70m	€ 7m	€ 10m	€ 15m	€ 3m
Proportion hedged at beginning of period	19%	0%	0%	0%	0%
Effective exchange rate(149)	€ 1.44	€ 1.21	€ 1.13	€ 1.18	€ 1.19

Source: Unaudited management information.

(149) Please see the definition within Part 9 "Glossary" of this document.

As at 25 November 2010, Flybe had hedged 84 per cent. of its anticipated US dollar requirements for December 2010 to March 2011 at US$1.59, and had hedged 49 per cent. of its anticipated US dollar requirements for the 2011/12 Financial Year at US$1.56.

3.1.4. Operational gearing

Flybe has a relatively high fixed cost base, being 39 per cent. in the 2009/10 Financial Year (37 per cent. in the 2008/09 Financial Year) and 39 per cent. in the 2010/11 First Half Year. These costs, which include pilots and cabin crew, aircraft ownership, depreciation, marketing, overheads and finance costs, vary to a minimal degree relative to seat capacity deployed or passengers flown.

As a result of this cost structure, Flybe's business is sensitive to fluctuations in passenger demand which has a significant effect on revenues. In an economic downturn, Flybe's relatively high level of fixed costs can limit its ability to reduce overall costs in the short term. The decrease in passengers as a result of the economic downturn that began in the 2008/09 Financial Year left Flybe with surplus fixed operating costs. However, Flybe managed to remove most of its surplus fixed operating costs from the business, predominantly through the Group's agreement with Olympic Air (and in addition to removing excess variable costs by managing capacity) (please see the "Arrangements with other airlines" paragraph of section 6 of Part 1 "Information relating to the Group" of this document for further details).

Conversely, in a period of increasing demand, Flybe is able to offer increased seat capacity with little or no increase in fixed costs.

3.1.5. Seasonality

Flybe's results of operations vary significantly from quarter to quarter within the financial year and the first half of the year is generally stronger than the second half of the year. Historically, Flybe has generated more than 50 per cent. of its passenger revenues during the summer season when many Europeans take their annual holiday. As a result, any disruption to Flybe's business during the summer season leading to lower utilisation, lower yields or reduced passenger load factor, would have a disproportionate impact on Flybe's results of operations. Flybe generally generates lower passenger revenues in the winter season. As the majority of Flybe's costs are incurred more evenly throughout the year, Flybe generally records lower operating results in the third and fourth quarters of its financial year. As a result of seasonality of demand, together with its high relative level of fixed costs, Flybe's passenger and ancillary revenues and profitability have varied and are expected to continue to vary significantly from quarter to quarter within the financial year.

Additionally, heavy maintenance checks are typically performed in the off-peak winter season, from November to April, when fewer aircraft are in use due to lower passenger demand. Line maintenance or minor checks of aircraft occur throughout the year.

3.1.6. General economic downturn and capacity management

The airline industry tends to experience comparatively adverse financial results during general economic downturns. The credit crisis beginning in late 2007 and the sustained deterioration of the global economy caused higher unemployment rates, constrained credit markets, housing related pressures and increased business operating costs. This in turn caused a decrease in the amount spent on discretionary items, such as air travel, which are often scaled back during economic downturns. The deterioration in the global economy (and the UK and European economy in particular, being the markets served by the Group) resulted in a decrease in demand for air travel in 2009 in comparison to 2008, as businesses reduced spending on air travel due to cost savings initiatives or as a result of decreased business activity requiring travel. Passengers travelling on business represent 43 per cent. of Flybe's total passengers in the 2009/10 Financial Year. In the 2010/11 First Half Year this figure was 38 per cent., as there is a higher level of leisure traffic during the summer months. In addition, passengers travelling to visit friends or relatives (representing 28 per cent. in the 2009/10 Financial Year and 27 per cent. in the 2010/11 First Half Year) or travelling in connection with leisure or hobby activities (representing 24 per cent. in the 2009/10 Financial Year and 29 per cent. in the 2010/11 First Half Year) may have been inclined either not to travel at all, delay travel plans or to opt for alternative methods of transportation, such as road and rail.

The behavioural patterns of business travellers, the Group's core passenger market, altered due to declining market conditions, which in turn had a negative impact on the Group's results of operations. Demand by these passengers decreased and the Group experienced a shift in passenger revenue from higher yielding tickets (such as Economy Plus tickets) to lower yielding tickets.

Since Flybe operates a high frequency flight schedule typically from regional airports and often in airline-dependent locations, the Group was able to reduce the number of frequencies on certain routes in times of reduced demand (thereby saving the approximately 61 per cent. of Flybe's operating costs which are variable), while providing sufficient flights on those routes to maintain customer loyalty over the medium to long term. The economic recession and subsequent reduction in passengers, led to requirements to reduce the flying programme beyond that already implemented by reducing flight frequencies. These further reductions in sectors and routes resulted in Flybe potentially having up to nine surplus aircraft and associated crew during the 2009/10 Financial Year.

In an effort to remove these surplus fixed operating costs from the business, the Company entered into discussions with Olympic Air during 2009. Olympic Air is a newly created Greek airline formed to take over the majority of the routes and operations of Olympic Airways.

The Olympic Air restructuring in 2009 led to an immediate requirement for aircraft and crew in order for Olympic Air to commence operations. The agreement with Olympic Air was signed in August 2009 and comprised:

- Flybe selling two Q400s to Olympic Air; and
- Flybe 'wet leasing' up to four Q400s to Olympic Air for an average 11 month period from Autumn 2009. A 'wet lease' agreement occurs where the lessor (Flybe) provides an aircraft together with its requisite crew, maintenance and insurance to the lessee (Olympic Air). All four wet-leased aircraft (and crew) returned to Flybe's operations at the end of October 2010.

In addition, in June 2009 Flybe agreed separately with Bombardier to defer an additional three Q400 aircraft delivery positions until mid 2011.

These transactions were aimed at removing surplus fixed operating costs from Flybe's operations at a time of more limited demand in Flybe's markets, while enabling the return of this capacity in a controlled fashion in late 2010, when the Directors anticipated that levels of passenger travel would have recovered.

4. Results of operations

The Group assesses its performance through the results of its segments, being the Airline and its Aviation Services business, which comprises the MRO and Training Academy. The Directors intend that once the Flybe Training Academy is further developed as a business, it will be reported as a third segment. As a consequence, the following discussion of results of operations focuses on segmental results.

The Group does not allocate to its segment results certain items that are either managed at a Group level or it does not believe are indicative of operational performance. These primarily include the integration costs of BA Connect, the costs associated with the initial public offering of Flybe's shares and the unrealised gains or losses on open fuel and exchange rate derivatives at each year end. In addition, the Group's segment results include "seat compensation" (as allowed, as negative goodwill amortisation under UK GAAP), which is the primary difference between the segment results and those reflected on an IFRS consolidated basis.

The following table shows the Group's results and how these are constructed from the segment results, including those items not allocated to segments.

	Year ended 31 March 2008			
	Airline	Aviation Services	Other(150)	Group
	£m	£m	£m	£m
Ticket revenue	450.1	–	–	450.1
Ancillary revenue	56.3	–	–	56.3
Maintenance and other revenue	6.0	42.2	(18.7)	29.5
Revenue	512.4	42.2	(18.7)	535.9
Staff costs	(72.2)	(33.9)	–	(106.1)
Fuel	(85.1)	–	–	(85.1)
Net airport costs, en route charges and ground operations	(172.2)	–	–	(172.2)
Aircraft rental, maintenance, depreciation and amortisation	(111.8)	(1.0)	18.7	(94.1)
Marketing and distribution	(26.0)	(0.6)	–	(26.6)
Other segment costs	(33.0)	(5.8)	–	(38.8)
Seat compensation(151)	25.2	–	(25.2)	–
Operating costs before integration costs and unrealised gains and losses on fuel and foreign exchange hedges	(475.1)	(41.3)	(6.5)	(522.9)
Operating profit / (loss) before integration costs and unrealised gains and losses on fuel and foreign exchange hedges	37.3	0.9	(25.2)	13.0
Integration costs(152)	–	–	(4.9)	(4.9)
Unrealised gains on fuel and foreign exchange hedges	–	–	8.1	8.1
Operating profit / (loss)	37.3	0.9	(22.0)	16.2
Net finance costs and other gains and losses	(2.9)	–	–	(2.9)
Profit / (loss) before tax	34.4	0.9	(22.0)	13.3
Tax credit				2.2
Profit after tax				15.5

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Segment revenue and profit and all of the Group figures have been derived from the Historical Financial Information. Segment costs and non-IFRS financial measures are unaudited.

(150) Intra-segment eliminations represent the trading between segments that is eliminated in order to present the overall trading of the Group with third parties. In addition, these results reflect "seat compensation" and "integration costs and unrealised gains/losses on fuel and foreign exchange hedges" in footnotes 151 and 152 below.

(151) Seat compensation is described in more detail in paragraph 4.2 of this Part 4 of this document.

(152) Integration costs and unrealised gains/losses on fuel and foreign exchange hedges are both managed centrally and are discussed further at paragraph 4.2 of this Part 4 of this document.

	Year ended 31 March 2009			
	Airline	Aviation Services	Other[153]	Group
	£m	£m	£m	£m
Ticket revenue	461.6	–	–	461.6
Ancillary revenue	75.3	–	–	75.3
Maintenance and other revenue	11.4	46.2	(21.4)	36.2
Revenue	548.3	46.2	(21.4)	573.1
Staff costs	(74.1)	(37.2)	–	(111.3)
Fuel	(118.7)	–	–	(118.7)
Net airport costs, en route charges and ground operations	(190.3)	–	–	(190.3)
Aircraft rental, maintenance, depreciation and amortisation	(116.8)	(1.0)	21.4	(96.4)
Marketing and distribution	(26.0)	(0.5)	–	(26.5)
Other segment costs	(26.6)	(4.1)	–	(30.7)
Seat compensation[154]	17.2	–	(17.2)	–
Operating costs before integration costs and unrealised gains and losses on fuel and foreign exchange hedges	(535.3)	(42.8)	4.2	(573.9)
Operating profit / (loss) before integration costs and unrealised gains and losses on fuel and foreign exchange hedges	13.0	3.4	(17.2)	(0.8)
Integration costs[155]	–	–	(8.5)	(8.5)
Unrealised gains on fuel and foreign exchange hedges	–	–	(16.5)	(16.5)
Operating profit / (loss)	13.0	3.4	(42.2)	(25.8)
Net finance costs and other gains and losses	(7.9)	–	–	(7.9)
Profit / (loss) before tax	5.1	3.4	(42.2)	(33.7)
Tax credit				5.7
Loss after tax				(28.0)

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Segment revenue and profit and all of the Group figures have been derived from the Historical Financial Information. Segment costs and non-IFRS financial measures are unaudited.

(153) Intra-segment eliminations represent the trading between segments that is eliminated in order to present the overall trading of the Group with third parties. In addition, these results reflect "seat compensation" and "integration costs and unrealised gains/losses on fuel and foreign exchange hedges" in footnotes 154 and 155 below.

(154) Seat compensation is described in more detail in paragraph 4.2 of this Part 4 of this document.

(155) Integration costs and unrealised gains on fuel and foreign exchange hedges are both managed centrally and are discussed further at paragraph 4.2 of this Part 4 of this document.

	Year ended 31 March 2010			
	Airline	Aviation Services	Other[156]	Group
	£m	£m	£m	£m
Ticket revenue	434.7	–	–	434.7
Ancillary revenue	86.0	–	–	86.0
Maintenance and other revenue	21.6	45.2	(17.0)	49.8
Revenue	542.3	45.2	(17.0)	570.5
Staff costs	(73.2)	(38.5)	–	(111.7)
Fuel	(86.6)	–	–	(86.6)
Net airport costs, en route charges and ground operations	(195.0)	–	–	(195.0)
Aircraft rental, maintenance and depreciation	(125.5)	(1.0)	17.0	(109.5)
Marketing and distribution	(23.5)	(0.6)	–	(24.1)
Other segment costs	(29.7)	(3.5)	–	(33.2)
Seat compensation[157]	0.4	–	(0.4)	–
Operating costs before IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	(533.1)	(43.6)	16.6	(560.1)
Operating profit / (loss) before IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	9.2	1.6	(0.4)	10.4
IPO costs	–	–	(1.1)	(1.1)
Unrealised gains on fuel and foreign exchange hedges[158]	–	–	18.3	18.3
Operating profit	9.2	1.6	16.8	27.6
Net finance costs and other gains and losses	(3.0)	–	–	(3.0)
Profit before tax	6.2	1.6	16.8	24.6
Tax charge				(2.4)
Profit after tax				22.2

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Segment revenue and profit and all of the Group figures have been derived from the Historical Financial Information. Segment costs and non-IFRS financial measures are unaudited.

(156) Intra-segment eliminations represent the trading between segments that is eliminated in order to present the overall trading of the Group with third parties. In addition, these results reflect "seat compensation" and "integration costs and unrealised gains/losses on fuel and foreign exchange hedges" in footnotes 157 and 158 below.

(157) Seat compensation is described in more detail in paragraph 4.2 of this Part 4 of this document.

(158) Unrealised gains on fuel and foreign exchange hedges are is managed centrally and is discussed further at paragraph 4.2 of this Part 4 of this document.

	Six months ended 30 September 2009			
	Airline	Aviation Services	Other[159]	Group
	£m	£m	£m	£m
Ticket revenue	235.5	–	–	235.5
Ancillary revenue	45.1	–	–	45.1
Maintenance and other revenue	7.7	22.2	(7.7)	22.2
Revenue	288.3	22.2	(7.7)	302.8
Staff costs	(38.6)	(19.0)	–	(57.6)
Fuel	(47.1)	–	–	(47.1)
Net airport costs, en route charges and ground operations	(103.9)	–	–	(103.9)
Aircraft rental, maintenance, depreciation and amortisation	(63.8)	(0.5)	7.7	(56.6)
Marketing and distribution	(11.8)	(0.2)	–	(12.0)
Other segment costs	(12.2)	(1.4)	–	(13.6)
Seat compensation[160]	0.4	–	(0.4)	–
Operating costs before IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	(277.0)	(21.1)	7.3	(290.8)
Operating profit / (loss) before IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	11.3	1.1	(0.4)	12.0
IPO costs	–	–	–	–
Unrealised gains on fuel and foreign exchange hedges[161]	–	–	14.6	14.6
Operating profit	11.3	1.1	14.2	26.6
Net finance costs and other gains and losses	(0.6)	–	–	(0.6)
Profit before tax	10.7	1.1	14.2	26.0
Tax charge				(1.7)
Profit after tax				24.3

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. All information provided is unaudited.

(159) Intra-segment eliminations represent the trading between segments that is eliminated in order to present the overall trading of the Group with third parties. In addition, these results reflect "seat compensation" and "integration costs and unrealised gains/losses on fuel and foreign exchange hedges" in footnotes 160 and 161 below.

(160) Seat compensation is described in more detail in paragraph 4.2 of this Part 4 of this document.

(161) Unrealised gains on fuel and foreign exchange hedges are is managed centrally and is discussed further at paragraph 4.2 of this Part 4 of this document.

	Six months ended 30 September 2010			
	Airline	Aviation Services	Other(162)	Group
	£m	£m	£m	£m
Ticket revenue	241.3	–	–	241.3
Ancillary revenue	52.3	–	–	52.3
Maintenance and other revenue	14.5	20.0	(7.1)	27.4
Revenue	308.1	20.0	(7.1)	321.0
Staff costs	(36.3)	(17.0)	–	(53.3)
Fuel	(51.0)	–	–	(51.0)
Net airport costs, en route charges and ground operations	(107.4)	–	–	(107.4)
Aircraft rental, maintenance and depreciation	(73.1)	(0.5)	7.1	(66.5)
Marketing and distribution	(11.9)	(0.2)	–	(12.1)
Other segment costs	(16.8)	(2.6)	–	(19.4)
Operating costs before IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	(296.5)	(20.3)	7.1	(309.7)
Operating profit / (loss) before IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	11.6	(0.3)	–	11.3
IPO costs	–	–	(1.1)	(1.1)
Unrealised losses on fuel and foreign exchange hedges(163)	–	–	(5.4)	(5.4)
Operating profit / (loss)	11.6	(0.3)	(6.5)	4.8
Net finance costs and other gains and losses	(3.1)	–	–	(3.1)
Profit before tax	8.5	(0.3)	(6.5)	1.7
Tax credit				5.4
Profit after tax				7.1

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Segment revenue and profit and all of the Group figures have been derived from the Historical Financial Information. Segment costs and non-IFRS financial measures are unaudited.

(162) Intra-segment eliminations represent the trading between segments that is eliminated in order to present the overall trading of the Group with third parties. In addition, these results reflect "integration costs and unrealised gains/losses on fuel and foreign exchange hedges" in footnote 163 below.

(163) Unrealised gains on fuel and foreign exchange hedges are is managed centrally and is discussed further at paragraph 4.2 of this Part 4 of this document.

As mentioned in paragraph 2.8 of this Part 4 of this document, during April and May 2010 Flybe cancelled 3,177 flights as a result of the disruption caused by the ash cloud from the eruption of the Eyjafjallajökull volcano in Iceland leading to the closure of various parts of northern European airspace. This represented approximately 4.2 per cent. of Flybe's planned flying programme for the 2010/11 First Half Year.

The Directors believe that the lost profit before tax for the 2010/11 Financial Year relating to the disruptions in April and May 2010 was £(11.6) million.

4.1. Revenue

On a consolidated basis, revenue grew from £535.9 million in the 2007/08 Financial Year to £573.1 million in the 2008/09 Financial Year and declined to £570.5 million in the 2009/10 Financial Year. Revenue also grew from £302.8 million in the 2009/10 First Half Year to £321.0 million in the 2010/11 First Half Year.

The Airline segment accounted for over 95 per cent. of Group revenues for each of the periods under review. Although ticket revenues, as described at paragraph 4.5.1 of this Part 4 of this document, declined in the 2009/10 Financial Year due to the economic recession, this has been broadly offset by the growth in ancillary revenue, which has grown through the period under review. In addition, ticket revenues have begun to recover and were higher in the 2010/11 First Half Year compared to the 2009/10 First Half Year. The Aviation Services segment's third party sales accounted for, on average, 58.2 per cent. of the Group's maintenance and other revenues during the periods under review.

A detailed analysis of segmental revenues is provided at paragraphs 4.5 and 4.6 of this Part 4 of this document.

4.2. Costs

The tables set out above in this section 4 of Part 4 of this document show Flybe's results and an analysis of operating costs for each of the 2007/08, 2008/09 and 2009/10 Financial Years and the 2009/10 First Half Year and 2010/11 First Half Year on a segment (which are discussed further at paragraphs 4.5.3 and 4.5.4 of this Part 4 of this document) and Group basis.

The Airline segment accounted for over 90 per cent. of Group operating costs before integration costs and unrealised gains and losses on fuel and foreign exchange hedges throughout the periods under review.

Other items consist of:

- *Intra-group eliminations.* These relate to maintenance carried out by Flybe Aviation Services for the Airline, thus reporting only third party revenue and costs in the consolidated financial statements;
- *Seat compensation.* As part of the BA Connect acquisition, Flybe received cash of £50.0 million to compensate for flying former BA Connect E145 aircraft, that were deemed by Flybe not to be economic within the Group's business model, until the Group was able to substitute such aircraft for Q400 aircraft. This substitution was completed in May 2009. On a consolidated basis, the full value of seat compensation was released (as negative goodwill) to the Income Statement upon acquisition in the 2006/07 Financial Year. For segment reporting purposes, (and in accordance with UK GAAP, under which Flybe has historically reported its results) Flybe released this to the income statement over the period these assets remained in operation in order to match the compensation to the related costs. Seat compensation amounted to £25.2 million in the 2007/08 Financial Year, £17.2 million in the 2008/09 Financial Year and £0.4 million in the 2009/10 Financial Year;
- *Unrealised gains/(losses) on fuel and foreign exchange hedges.* These represent movements in the mark-to-market value of fuel and foreign exchange hedges existing as at each balance sheet date. On a consolidated basis, Flybe has recognised in the Income Statement the gains and losses from hedging contracts as they arise. These movements led to an unrealised gain of £8.1 million in the 2007/08 Financial Year, an unrealised (loss) of £(16.5) million in the 2008/09 Financial Year and an unrealised gain of £18.3 million in the 2009/10 Financial Year. They also led to an unrealised gain of £14.6 million in the 2009/10 First Half Year and an unrealised loss of £(5.4) million for the 2010/11 First Half Year. See also paragraphs 3.1.2 and 3.1.3 of this Part 4 of this document;
- *BA Connect integration costs.* During the two year integration period from March 2007 to March 2009, Flybe incurred significant costs in fully integrating the BA Connect business into the enlarged Flybe, with, integration costs of £(4.9) million in the 2007/08 Financial Year and £(8.5) million in the 2008/09 Financial Year. Of these costs, £(2.6) million in the 2007/08 Financial Year and £(5.7) million in the 2008/09 Financial Year were incurred on a range of activities including crew and engineering training, short-term replacement of aircraft, hand-back costs of leased E145 aircraft, revising employment contracts, legal and professional fees as well as the costs associated with administering the integration process. In addition, during the same integration period, the open market value of 12 owned BAe 146 regional jets that were retired from operational deployment within Flybe during 2007/08 and 2008/09 Financial Years declined leading to impairment charges of £(2.3) million in the 2007/08 and £(2.8) million in the 2008/09 Financial Years being recognised in the Income Statement; and
- *IPO costs.* These are the advice and direct incremental costs associated with obtaining approval to list Flybe's shares on the London Stock Exchange incurred in the 2009/10 Financial Year and the 2010/11 First Half Year. Further costs will be incurred in the remaining period of the 2010/11 Financial Year.

A detailed analysis of segmental costs is provided at paragraphs 4.5 (Airline) and 4.6 (Aviation Services) of this Part 4 of this document.

4.3. Operating profit / (loss)

Operating profit before unrealised gains and losses on fuel and foreign exchange hedges and integration and IPO costs of £13.0 million in the 2007/08 Financial Year moved to a loss of £(0.8) million in 2008/09 Financial Year largely as a result of the Group's exposure to fuel cost price rises discussed at paragraph 4.5.5 of this Part 4 of this document and increases in its other operating costs described at paragraph 4.5.9 of this Part 4 of this document. The 2009/10 Financial Year saw a return to operating profit before unrealised gains and losses on fuel and foreign exchange hedges and integration and IPO costs of

£10.4 million mainly as a result of airline revenue levels holding broadly stable and fuel costs per tonne incurred reducing significantly from the 2008/09 Financial Year, together with an increase in other revenue. An operating profit before unrealised gains and losses on fuel and foreign exchange hedges and integration and IPO costs of £12.0 million for the 2009/10 First Half Year decreased to £11.3 million for the 2010/11 First Half Year due to the impact of the closure of parts of European airspace as a result of the volcanic ash cloud in April and May 2010 significantly offsetting increases in passenger volume and ticket yield.

Operating profit of £16.2 million in the 2007/08 Financial Year fell to a loss of £(25.8) million in the 2008/09 Financial Year largely as a result of an increase in costs to the Airline, specifically fuel costs and adverse movements in unrealised fuel and other hedges as described at paragraph 4.5.5 of this Part 4 of this document. The increase in operating profit to £27.6 million in the 2009/10 Financial Year was mainly due to the factors mentioned in the previous section and the movement in unrealised fuel and foreign exchange hedges discussed further in paragraph 4.2 of this Part 4 of this document. Operating profit for the 2009/10 First Half Year of £26.6 million decreased to £4.8 million for the 2010/11 First Half Year largely due to the factors affecting operating profit before unrealised gains and losses on fuel and foreign exchange hedges and integration and IPO costs and the impact of an unrealised gain on fuel and foreign exchange of £14.6 million in the 2009/10 First Half Year moving to a loss of £(5.4) million in the 2010/11 First Half Year.

4.4. Tax

The Group paid no corporation tax during the period under review. Taxable profits generated have been fully offset by tax losses carried forward from previous financial years and capital allowances on aircraft purchases.

The Group has recorded a tax credit for the 2010/11 First Half Year of £5.4 million, with both the 2007/08 and 2008/09 Financial Years showing a tax credit due to the utilisation of accumulated tax losses coupled with a low level of recognition of deferred tax assets. The Group's effective rate of tax charged for the 2009/10 Financial Year was 9.8 per cent. Not all of the available losses have been recognised, historically, due to uncertainty over their recovery. As at 30 September 2010, Flybe had utilised all of the available tax losses leaving unrecognised deferred tax assets of £10.4 million, mainly comprising differences between depreciation and capital allowances. To the extent that the Group generates taxable profits in excess of the amounts for which assets have been recognised, the tax payable will be offset by these assets.

4.5. Airline

The following table indicates the results of the Airline segment for each of the periods under review:

	Year ended 31 March				
	2008	**2009**	**2010**	**Change 2009 versus 2008**	**Change 2010 versus 2009**
	£m	**£m**	**£m**	**%**	**%**
Airline revenue	512.4	548.3	542.3	*7.0*	*(1.1)*
Staff costs	(72.2)	(74.1)	(73.2)	*(2.6)*	*1.2*
Fuel	(85.1)	(118.7)	(86.6)	*(39.5)*	*27.0*
Net airport costs, en route charges and ground operations	(172.2)	(190.3)	(195.0)	*(10.5)*	*(2.5)*
Aircraft rental, maintenance, depreciation and amortisation	(111.8)	(116.8)	(125.4)	*(4.5)*	*(7.4)*
Marketing and distribution	(26.0)	(26.0)	(23.5)	*0.0*	*9.6*
Other Airline costs	(35.9)	(34.5)	(32.8)	*3.9*	*4.9*
Seat compensation	25.2	17.2	0.4	*(31.7)*	*(97.7)*
Underlying operating costs	(478.0)	(543.2)	(536.1)	*(13.6)*	*1.3*
Airline result	34.4	5.1	6.2	*(85.2)*	*21.6*

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Audited information is the segment revenue and profit. Segment costs are unaudited.

	Six months ended 30 September		
	2009	2010	Change 2010 versus 2009
	£m	£m	%
Airline revenue	288.3	308.1	*6.9*
Staff costs	(38.6)	(36.3)	*6.0*
Fuel	(47.1)	(51.0)	*(8.3)*
Net airport costs, en route charges and ground operations	(103.9)	(107.4)	*(3.4)*
Aircraft rental, maintenance and depreciation	(63.8)	(73.1)	*(14.6)*
Marketing and distribution	(11.8)	(11.9)	*(0.8)*
Other Airline costs	(12.8)	(19.9)	*(55.5)*
Seat compensation	0.4	–	*n/a*
Underlying operating costs	(277.6)	(299.6)	*(7.9)*
Airline result	10.7	8.5	*(20.6)*

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Audited information is the segment revenue and profit. Segment costs are unaudited.

Flybe generates its Airline revenues principally from passenger revenues (as defined in paragraph 4.5.1 of this Part 4 of this document). In addition, other revenue is earned from charter, cargo, wet leasing and franchising activities.

Flybe's Airline revenues are summarised in the following table:

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
	£m	£m	£m	%	%
Ticket revenue	450.1	461.6	434.7	*2.6*	*(5.8)*
Ancillary revenue	56.3	75.3	86.0	*33.7*	*14.2*
Passenger revenue	506.4	536.9	520.7	*6.0*	*(3.0)*
Other revenue	6.0	11.4	21.6	*90.0*	*89.5*
Total	512.4	548.3	542.3	*7.0*	*(1.1)*
Scheduled sectors flown (000s)	144.0	140.4	135.1	*(2.5)*	*(3.7)*
Seats flown (million)	10.7	11.1	11.3	*3.7*	*1.8*
Passengers (million)	7.0	7.3	7.2	*4.3*	*(1.4)*
Load factor	64.9%	65.4%	63.5%	*0.5 pts*	*(1.9) pts*
Ticket yield	£64.54	£63.39	£60.56	*(1.8)*	*(4.5)*
Ancillary yield	£ 8.07	£10.34	£11.98	*28.1*	*15.9*
Total passenger yield	£72.61	£73.73	£72.54	*1.5*	*(1.6)*
Total passenger revenue per seat	£47.11	£48.21	£46.06	*2.3*	*(4.5)*

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Audited information is the segment revenue. Other information is unaudited.

	Six months ended 30 September		
	2009	2010	Change 2010 versus 2009
	£m	£m	%
Ticket revenue	235.5	241.3	*2.5*
Ancillary revenue	45.1	52.3	*16.0*
Passenger revenue	280.6	293.6	*4.6*
Other revenue	7.7	14.5	*88.3*
Total	288.3	308.1	*6.9*
Scheduled sectors flown (000s)	72.4	73.9	*2.1*
Seats flown (million)	6.1	6.2	*2.9*
Passengers (million)	4.0	4.0	*0.6*
Load factor	65.5%	64.0%	*(1.5) pts*
Ticket yield	£ 59.4	£60.53	*1.9*
Ancillary yield	£11.38	£13.12	*15.3*
Total passenger yield	£70.78	£73.65	*4.1*
Total passenger revenue per seat	£46.36	£47.14	*1.7*

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Audited information is the segment revenue. Other information is unaudited.

4.5.1. Passenger revenue

Passenger revenue consists of ticket revenue and ancillary revenue.

Ticket revenue represents the ticket price paid by the passenger. Air Passenger Duty paid by the passenger is passed on to the relevant tax authority, and therefore excluded from ticket revenue.

Ticket revenue increased by 2.6 per cent. from £450.1 million in the 2007/08 Financial Year to £461.6 million in the 2008/09 Financial Year mainly as a result of the increase in the number of seats flown through both the introduction of new routes and an increase in seat capacity on existing routes. This was partially offset by a decrease in ticket yield, since new routes typically have a lower average yield than more established routes. Ticket revenue decreased by 5.8 per cent. from £461.6 million in the 2008/09 Financial Year to £434.7 million in the 2009/10 Financial Year mainly as a result of a fall in ticket yield as a result of the economic recession. Although Flybe was able to keep passenger numbers broadly stable at 7.2 million, there was a decline in the number of higher yielding business passengers, particularly on routes from UK Regions to European business cities, which typically pay higher ticket prices than Flybe's other passengers. Ticket revenue increased by 2.5 per cent. from £235.5 million in the 2009/10 First Half Year to £241.3 million in the 2010/11 First Half Year. This was largely due to both the increase in passenger volumes and ticket yields offset by the impact of the closure of parts of European airspace in April and May 2010.

Ancillary revenues are generated from a range of products and services chosen and paid for by the passenger separately to the ticket price. These ancillary products and services include, hold and excess baggage charges, advanced seat assignment charges, ticket change fees, sales of in-flight products, including food, drinks and merchandise and retail revenue such as credit card, car hire and insurance commission.

Ancillary revenue increased by 33.7 per cent. from £56.3 million in the 2007/08 Financial Year to £75.3 million in the 2008/09 Financial Year and then increased by 14.2 per cent. to £86.0 million in the 2009/10 Financial Year. These increases were mainly a result of increased passenger volume from the 2007/08 Financial Year to the 2008/09 Financial Year and also as a result of an increase in the ancillary product offering, and price increases on certain ancillary product offerings, in each of the years. Ancillary revenues increased by 16.0 per cent. from £45.1 million in the 2009/10 First Half Year to £52.3 million in the 2010/11 First Half Year largely as a result of higher passenger volumes, greater product offering and certain price increases.

Passenger revenue increased by 6.0 per cent. from £506.4 million in the 2007/08 Financial Year to £536.9 million in the 2008/09 Financial Year and decreased by 3.0 per cent. to £520.7 million in the 2009/10 Financial Year. Passenger revenue increased by 4.6 per cent. from £280.6 million in the

2009/10 First Half Year to £293.6 million in the 2010/11 First Half Year. The key drivers behind the Airline's passenger revenues are:

- scheduled sectors flown[164];
- seat capacity[165];
- load factor[166];
- ticket yield[167]; and
- ancillary yield[168].

Sectors and seat capacity

In response to the economic downturn discussed in paragraph 3.1.6 of this Part 4 of this document, Flybe reduced its scheduled sectors flown from 144,000 in the 2007/08 Financial Year to 135,100 in the 2009/10 Financial Year, a 6.2 per cent. reduction. However, the fleet replacement programme, which substituted 78-seat Q400 aircraft for 49-seat E145 aircraft resulted in an increase in the average seats per sector from 74.6 seats in the 2007/08 Financial Year to 83.7 seats in the 2009/10 Financial Year. Consequently, total seat capacity increased over the period under review by 5.6 per cent to 11.3 million seats in the 2009/10 Financial Year. Scheduled sectors flown increased from 72,400 in the 2009/10 First Half Year to 73,900 in the 2010/11 First Half Year. The average seats per sector increased from 83.6 seats in the 2009/10 First Half Year to 84.3 seats in the 2010/11 First Half Year.

Load factor

Load factor increased from 64.9 per cent in the 2007/08 Financial Year to 65.4 per cent. in the 2008/09 Financial Year before reducing to 63.5 per cent. in the 2009/10 Financial Year. The number of passengers increased from 7.0 million in the 2007/08 Financial Year to 7.3 million in the 2008/09 Financial Year before reducing slightly to 7.2 million in the 2009/10 Financial Year. The increase in passenger numbers and load factor between the 2007/08 Financial Year and the 2008/09 Financial Year reflected the improving trends experienced during the summer season 2008 but were offset by the partial impact of the initial stages of the economic downturn experienced during the winter season 2008/09. The small fall in passenger numbers during the 2009/10 Financial Year reflects the impact of the economic downturn over the full financial year. Despite the decline in passenger numbers, Flybe grew its share of the UK domestic market from 18.6 per cent. in the 2007/08 Financial Year to 28.0 per cent.[169] in the 2009/10 Financial Year, partially as a result of the increase in numbers of passengers carried as a result of the franchise agreement with Loganair.

The load factor decreased from 65.5 per cent. in the 2009/10 First Half Year to 64.0 per cent. for the 2010/11 First Half Year. The number of passengers was stable at 4.0 million for the 2009/10 First Half Year and the 2010/11 First Half Year. The fact that the number of passengers remained stable in the 2010/11 First Half Year in spite of the closure of parts of European airspace in April and May 2010 as a result of the volcanic eruption reflects the better economic climate in the UK when compared to the 2009/10 First Half Year.

Ticket yield

Average ticket yield fell from £64.54 in the 2007/08 Financial Year to £63.39 in the 2008/09 Financial Year as a result of the introduction of new routes, which typically have a lower average yield than more established routes. During the 2008/09 Financial Year, Flybe started 30 new routes taking the overall total of routes to 165. In addition, the economic pressures felt during the winter season 2008/09 had an adverse impact on yield.

(164) Please see the definition within Part 9 "Glossary" of this document.

(165) Please see the definition within Part 9 "Glossary" of this document.

(166) Please see the definition within Part 9 "Glossary" of this document.

(167) Please see the definition within Part 9 "Glossary" of this document.

(168) Please see the definition within Part 9 "Glossary" of this document.

(169) Market share calculated by comparing Flybe passengers (including passengers flown by Loganair under the Flybe brand) against total UK domestic passengers in the 2009/10 Financial Year (Source: CAA).

Average ticket yield declined further to £60.56 in the 2009/10 Financial Year, reflecting the impact of the economic downturn over the full financial year which had an adverse effect on both the average price and quantity of tickets sold. Although Flybe was able to keep passenger numbers broadly stable at 7.2 million, there was a decline in the number of higher yielding business passengers, particularly on routes from UK Regions to European business cities.

Average ticket yield increased from £59.40 for the 2009/10 First Half Year to £60.53 for the 2010/11 First Half Year. This reflected the improving economic situation and the measured growth of only 20 new routes for the summer season 2010 IATA season, partially offset by the closure of parts of European airspace in April and May 2010 as a result of the volcanic eruption.

Ancillary yield

Despite the economic challenges, Flybe was able to increase its ancillary yield from £8.07 in the 2007/08 Financial Year to £11.98 in the 2009/10 Financial Year. In the 2010/11 First Half Year this increased further to £13.12. This has been achieved through introducing new ancillary products, making improvements in the booking processes of discretionary ancillary services, particularly when booked through Flybe's website, and certain price increases. The Directors believe that ancillary yield growth represents additional discretionary spend, rather than ticket yield substitution.

Passenger yield

Total passenger yield increased from £72.61 in the 2007/08 Financial Year to £73.73 in the 2008/09 Financial Year as a result of the increase in ancillary revenue outweighing the small fall in ticket yield. The 2009/10 Financial Year saw total passenger yield decline to £72.54 as a result of falling ticket yield, which was partially offset by an increase in ancillary yield. However, total passenger yield increased to £73.65 for the 2010/11 First Half Year (£70.78 for the 2009/10 First Half Year) reflecting the increases in both ticket and ancillary yields.

Passenger revenue per seat

Total passenger revenue per seat increased from £47.11 in the 2007/08 Financial Year to £48.21 in the 2008/09 Financial Year due to the increase in total passenger yield and the load factor. The 2009/10 Financial Year saw a reduction to £46.06 as a result of the decline in total passenger yield and load factor. For the 2010/11 First Half Year total passenger revenue per seat increased to £47.14 (£46.36 for the 2009/10 First Half Year) reflecting the improving economic situation, partially offset by the closure of parts of European airspace in April and May 2010 as a result of the volcanic eruption.

4.5.2. Other Airline revenue

Other revenue consists mainly of income from charter, cargo, wet lease and the Loganair franchise.

Charter revenues represent aircraft and seat capacity provided to charter consolidators for series and ad hoc charter services. These are sold on an aircraft availability basis only and typically utilise gaps in Flybe's weekend flying programme, which tends to deploy less capacity than its business-oriented weekday flight schedule.

Cargo revenue is aircraft hold space sold for cargo and mail purposes on Flybe's scheduled services.

Wet leasing revenues were derived from the Olympic Air contract in 2009/10 Financial Year and the 2010/11 First Half Year, which accounted for a significant proportion of the overall growth in other revenue. Please see the "Arrangements with other airlines" paragraph of section 6 of Part 1 "Information relating to the Group" of this document for further details of the agreements with Olympic Air.

Franchise income is derived from the franchise agreement with Loganair, a regional airline based in Scotland, which flew 0.5 million passengers in the 2009/10 Financial Year and 0.3 million passengers during the 2010/11 First Half Year under the Flybe brand. Please see the "Arrangements with other airlines" paragraph of section 6 of Part 1 "Information relating to the Group" of this document for further details of the Loganair franchise.

Other airline revenue grew from £6.0 million in the 2007/08 Financial Year to £11.4 million in the 2008/09 Financial Year, and then to £21.6 million in the 2009/10 Financial Year. For the 2010/11 First Half Year other airline revenue was £14.5 million (£7.7 million for the 2009/10 First Half Year). The increases during the period under review were mainly the result of wet leases with Olympic Air in the 2009/10 and

2010/11 Financial Years and the growth of charter revenues in the 2008/09 Financial Year to utilise more of Flybe's capacity.

4.5.3. Airline costs

The table below summarises the Airline's costs for each of the three financial years under review:

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
	£m	£m	£m	%	%
Staff costs	(72.2)	(74.1)	(73.2)	*(2.6)*	*1.2*
Fuel	(85.1)	(118.7)	(86.6)	*(39.5)*	*27.0*
Net airport costs, en route charges and ground operations	(172.2)	(190.3)	(195.0)	*(10.5)*	*(2.5)*
Aircraft rental costs, maintenance and depreciation	(111.8)	(116.8)	(125.5)	*(4.5)*	*(7.4)*
Marketing and distribution cost	(26.0)	(26.0)	(23.5)	*0.0*	*9.6*
Other Airline costs	(35.9)	(34.5)	(32.7)	*(3.9)*	*(5.2)*
Seat compensation	25.2	17.2	0.4	*(31.7)*	*97.7*
Total	(478.0)	(543.2)	(536.1)	*(13.6)*	*1.3*
Seats flown (million)	10.7	11.1	11.3	*3.7*	*1.8*
Operating cost per seat	£(44.47)	£(48.77)	£(47.42)	*(9.7)*	*2.8*
Operating costs (exc. fuel) per seat	£(36.55)	£(38.12)	£(39.76)	*(4.3)*	*(4.3)*
Operating costs (exc. fuel and seat compensation) per seat	£(38.90)	£(39.66)	£(39.80)	*(2.0)*	*(0.3)*
Operating cost, at constant currency (excluding seat compensation and fuel price) per seat	£(40.83)	£(40.64)	£(40.58)	*0.5*	*0.2*
Operating costs (exc. seat compensation) at constant currency and fuel price	£(59.00)	£(60.73)	£(57.16)	*(2.9)*	*5.9*

Source: Unaudited management information.

	Six months to 30 September		
	2009	2010	Change 2010 versus 2009
	£m	£m	%
Staff costs	(38.6)	(36.3)	*6.0*
Fuel	(47.1)	(51.0)	*(8.3)*
Net airport costs, en route charges and ground operations	(103.9)	(107.4)	*(3.4)*
Aircraft rental costs, maintenance and depreciation	(63.8)	(73.1)	*(14.6)*
Marketing and distribution cost	(11.8)	(11.9)	*(0.8)*
Other Airline costs	(12.8)	(19.9)	*(55.5)*
Seat compensation	0.4	–	*n/a*
Total	(277.6)	(299.6)	*(7.9)*
Seats flown (million)	6.1	6.2	*2.9*
Operating cost per seat	£(45.86)	£(48.10)	*(4.9)*
Operating costs (exc. fuel) per seat	£(38.08)	£(39.92)	*(4.8)*
Operating costs (exc. fuel and seat compensation) per seat	£(38.15)	£(39.92)	*(4.6)*
Operating cost, at constant currency (excluding seat compensation and fuel price) per seat	£(38.88)	£(39.92)	*(2.7)*
Operating costs (exc. seat compensation) at constant currency and fuel price	£(55.65)	£(56.29)	*(1.2)*

Source: Unaudited management information.

Constant currency, throughout this Part 4 of this document, is calculated for the 2007/08, 2008/09 and 2009/10 Financial Years and for the 2010/11 First Half Year by applying the effective exchange rates that prevailed for reporting the results for of US$1.64 and €1.19.

A detailed line by line analysis of the Airline's costs is set out in paragraphs 4.5.4 to 4.5.9 of this Part 4 of this document.

4.5.4. Staff Costs

The tables below summarise the Airline's staff costs for each of the three financial years and the two six month periods under review.

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
				%	%
Total staff costs	£(72.2)m	£(74.1)m	£(73.2)m	*(2.6)*	*1.2*
Average FTEs	1,971	2,030	1,959	*3.0*	*(3.5)*
Seats flown (million)	10.7	11.1	11.3	*3.7*	*1.8*
Seats flown per Airline employee	5,453	5,486	5,770	*0.6*	*5.2*
Staff costs per FTE	£(34,600)	£(36,500)	£(37,400)	*0.3*	*(2.5)*
Staff costs per seat flown	£(6.75)	£(6.68)	£(6.48)	*1.1*	*3.0*

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information.

	Six months to 30 September		
	2009	2010	Change 2010 versus 2009
			%
Total staff costs	£(38.6)m	£(36.3)m	*(6.0)*
Average FTEs	1,960	1,961	*0.1*
Seats flown (million)	6.1	6.2	*2.9*
Seats flown per Airline employee	3,088	3,176	*2.8*
Staff costs per FTE	£(19,700)	£(18,500)	*6.1*
Staff costs per seat flown	£(6.33)	£(5.85)	*7.5*

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information.

Staff costs comprise the total employment costs of Flybe's staff, and include gross pay, bonuses payable, employers' national insurance and company pension contributions.

The Airline's staff costs increased by 2.6 per cent. from £(72.2) million in the 2007/08 Financial Year to £(74.1) million in the 2008/09 Financial Year mainly as a result of a rise of 4.3 per cent. in staff costs per FTE from the 2007/08 Financial Year to the 2008/09 Financial Year because of pay awards made in the 2008/09 Financial Year. The overall increase in staff costs was driven by the effect of the pay awards more than offsetting the beneficial impact of no bonus being paid to staff in respect of the 2008/09 Financial Year. A bonus was paid in respect of the 2007/08 Financial Year as a result of financial targets being achieved.

The Airline's staff costs decreased 1.2 per cent. from £(74.1) million in the 2008/09 Financial Year to £(73.2) million in the 2009/10 Financial Year mainly as a result of the decline in the total number of FTEs and because no pay awards were made in respect of the 2009/10 Financial Year. This was being partially offset by the rise in staff costs per FTE from the 2008/09 Financial Year to the 2009/10 Financial Year because of bonuses being awarded in respect of the 2009/10 Financial Year. Over this three year period, staff costs per FTE have increased by 2.2 per cent. to £(37,400) per annum.

In the 2010/11 First Half Year Airline staff costs decreased by 6.0 per cent to £(36.3) million from £(38.6) million in the 2009/10 First Half Year, due to the accruing for bonus payments in the 2009/10 First

Half Year that were not included in the 2010/11 First Half Year. The total number of FTEs remained broadly stable and as a result the staff costs per FTE decreased to £(18,500) for the 2010/11 First Half Year (£(19,700) for the 2009/10 First Half Year).

Total staff cost per seat flown fell from £(6.75) in the 2007/08 Financial Year to £(6.68) in the 2008/09 Financial Year, with a further decrease to £(6.48) in the 2009/10 Financial Year as a result of increased seat capacity more than offsetting the increase in average cost per FTE. There was a further reduction in the total staff cost per seat to £5.85 for the 2010/11 First Half Year (£6.33 for the 2009/10 First Half Year).

The seats flown per Airline employee have increased in each of the years and for the two six month periods under review, largely as a result of the slight decline in average FTEs coupled with the increase in seats flown.

4.5.5. Fuel

Fuel costs include the cost of aviation fuel used by Flybe's aircraft, the cost of delivery of the fuel to the aircraft by fuel suppliers and after accounting for receipts or payments on fuel hedges that were closed during the Financial Year.

Gains and losses arising on open fuel derivative positions are recorded in "Gains and losses on fuel and foreign exchange hedges" and discussed in paragraph 4.2 in this Part 4 of this document.

The following tables set out Flybe's fuel costs and usage for the periods under review. Fuel costs in the first table are considered at the effective US dollar blended rate achieved in each year by restating the first two years at the blended rate achieved in the Financial Year 2009/10. For the half year review shown in the second table the fuel costs are stated at both the effective rates achieved in each six month period by restating the costs in the 2009/10 First Half Year using a single effective rate achieved in the 2010/11 First Half Year:

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
				%	%
Fuel					
Fuel cost	£(85.1)m	£(118.7)m	£(86.6)m	*(39.5)*	*27.0*
Fuel cost (excluding hedges)[170]	£(87.6)m	£(108.2)m	£(67.1)m	*(23.5)*	*37.9*
Volume (000 tonnes)	205.3	195.5	182.4	*4.8*	*6.7*
Seats flown (million)	10.8	11.1	11.3	*3.7*	*1.8*
Fuel burn per seat (kgs)	19.1	17.6	16.1	*8.1*	*8.1*
Average market price per tonne	$ 755	$ 965	$ 600	*(27.8)*	*37.8*
Average effective price per tonne	$ 730	$ 1,069	$ 799	*(45.8)*	*25.3*
Fuel cost per seat	£(7.92)	£(10.66)	£(7.66)	*(34.6)*	*28.1*
Fuel cost as a proportion of total Airline costs	17.8%	21.9%	16.2%	*(4.1)pts*	*5.7pts*

Source: Unaudited management information.

(170) Fuel cost (excluding hedges) is defined as the cost of aviation fuel used by Flybe's aircraft and the cost of delivery of the fuel to the aircraft by fuel suppliers.

	Six months to 30 September		
	2009	2010	Change 2010 versus 2009
			%
Fuel			
Fuel cost	£(47.1)m	£(51.0)m	*(8.3)*
Fuel cost (excluding hedges)[171]	£(34.5)m	£(48.4)m	*(40.3)*
Volume (000 tonnes)	100.0	101.2	*(1.2)*
Seats flown (million)	6.1	6.2	*2.9*
Fuel burn per seat (kgs)	16.5	16.2	*1.7*
Average market price per tonne	$ 550	$ 707	*28.5*
Average effective price per tonne	$ 783	$ 749	*4.3*
Fuel cost per seat	£(7.78)	£(8.19)	*(5.2)*
Fuel cost as a proportion of total Airline costs	17.0%	17.1%	*0.1pts*

Source: Unaudited management information.

(171) Fuel cost (excluding hedges) is defined as the cost of aviation fuel used by Flybe's aircraft and the cost of delivery of the fuel to the aircraft by fuel suppliers.

Fuel costs increased by 39.5 per cent. from £(85.1) million in the 2007/08 Financial Year to £(118.7) million in the 2008/09 Financial Year as a result of an increase in the average market price per tonne of fuel, which was only partially hedged, combined with adverse currency movements, partially offset by a decline in the volume of fuel used. Fuel costs decreased by 27.0 per cent. from £(118.7) million in the 2008/09 Financial Year to £(86.6) million in the 2009/10 Financial Year as a result of a decrease in the average market price of fuel in the 2009/10 Financial Year and a decrease in the volume of fuel used. Aviation fuel prices have been highly volatile during the period under review as discussed further in paragraph 3.1.2 of this Part 4 of this document. This resulted in an average market price per tonne of US$755 in the 2007/08 Financial Year rising to US$965 in the 2008/09 Financial Year falling to US$600 in the 2009/10 Financial Year.

Fuel costs increased by 8.3 per cent from £47.1 million in the 2009/10 First Half Year to £51.0 million in the 2010/11 First Half Year largely as a result of the increase in the average market price per tonne of fuel which was only partially hedged, combined with adverse currency movements. Fuel usage in the 2010/11 First Half Year increased by 1.2 per cent. compared to the 2009/10 First Half Year largely as a result of the increase in sectors flown.

The Group's fuel hedging policy can only provide partial protection during periods of such high volatility. Further, with derivative transactions covering between 60 per cent. and 90 per cent. of its aviation fuel requirements, Flybe did not fully benefit from the sharp fall in fuel prices (from the peak experienced in summer 2008) in the second half of the 2008/09 Financial Year and through the 2009/10 Financial Year. The combination of these factors led to hedge receipts of US$4.8 million in the 2007/08 Financial Year, hedge payments of US$(19.4) million in the 2008/09 Financial Year and hedge payments of US$(36.2) million in the 2009/10 Financial Year. Consequently, the average effective price per tonne (i.e. including the impact of fuel hedging) rose from US$730 to US$1,069 before falling back to US$799 over the same periods. This equated to US$25 per tonne lower than the average market price per tonne in the 2007/08 Financial Year, but higher by approximately US$100 and US$200 per tonne in the 2008/09 and 2009/10 Financial Years respectively.

During the 2010/11 First Half Year the group made hedge payments of US$(4.3) million (US$(23.2) million for the 2009/10 First Half Year). The average effective price per tonne (i.e. including the impact of fuel hedging) fell from US$783 in the 2009/10 First Half Year to US$749 in the 2010/11 First Half Year. This resulted in an effective price which was US$233 per tonne higher than the average market price per tonne in the 2009/10 First Half Year and an effective price which was US$42 per tonne higher than the average market price in the 2010/11 First Half Year.

Flybe's fleet substitution programme to its more fuel efficient two-type fleet has led to a reduction in the fuel burn per seat from 19.1 kgs in the 2007/08 Financial Year to 17.6 kgs in the 2008/09 Financial Year and to 16.1 kgs in the 2009/10 Financial Year. This has helped mitigate the increase in effective fuel prices over the period under review. However, even with this reduced fuel burn, the price volatility during the period under review is reflected in Flybe's fuel cost per seat, which rose from £(7.92) in the 2007/08 Financial Year to £(10.66) in the 2008/09 Financial Year before falling back to £(7.66) in the 2009/10 Financial Year.

In the 2010/11 First Half Year the fuel burn per seat was 16.2 kgs (16.5 kgs for the 2009/10 First Half Year) and the fuel cost per seat was £(8.19) for the 2010/11 First Half Year (£(7.78) for the 2009/10 First Half Year).

The improved operating efficiency of Flybe's new fleet (with the substitution to the two-type fleet being completed in May 2009), and a reduction in the number of sectors flown, resulted in fuel usage reducing by 4.8 per cent. from 205,300 tonnes in the 2007/08 Financial Year to 195,500 tonnes in the 2008/09 Financial Year, with a further reduction of 6.7 per cent. to 182,400 tonnes in the 2009/10 Financial Year. Fuel used in the 2010/11 First Half Year was 101.2 tonnes which was up 1.2 per cent from the 100.0 tonnes used in the 2009/10 First Half Year due to the increase in sectors flown.

4.5.6. Net airport costs, en route charges and ground operations

The following tables show the break down of net airport costs, en route charges and ground operations cost during the periods under review:

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
	£m	£m	£m	%	%
Net airport and en route costs	(92.6)	(103.8)	(111.3)	*(12.1)*	*(7.2)*
Ground operations	(79.6)	(86.5)	(83.7)	*(8.7)*	*3.2*
Total airport, en route and ground operations costs	(172.2)	(190.3)	(195.0)	*(10.5)*	*(2.5)*
Total airport, en route and ground operations costs at constant currency	(178.3)	(190.8)	(193.0)	*(7.0)*	*(1.2)*
	No.	No.	No.		
Seats flown (million)	10.7	11.1	11.3	*3.7*	*1.8*
Airport, en route and ground operations costs per seat	£(16.09)	£(17.14)	£(17.26)	*(6.5)*	*(0.7)*
Airport, en route and ground operations costs per seat at constant currency	£(16.59)	£(17.14)	£(17.07)	*(3.3)*	*0.4*

Source: Unaudited management information.

	Six months to 30 September		
	2009	2010	Change 2010 versus 2009
	£m	£m	%
Net airport and en route costs	(61.7)	(63.2)	*(2.4)*
Ground operations	(42.2)	(44.2)	*(4.7)*
Total airport, en route and ground operations costs	(103.9)	(107.4)	*(3.4)*
Total airport, en route and ground operations costs at constant currency	(103.4)	(107.4)	*(3.9)*
	No.	No.	
Seats flown (million)	6.1	6.2	*2.9*
Airport, en route and ground operations costs per seat	£(17.03)	£(17.32)	*(1.7)*
Airport, en route and ground operations costs per seat at constant currency	£(16.97)	£(17.24)	*(1.6)*

Source: Unaudited management information.

Net airport and en route costs

Net airport costs include passenger service charges (usually levied on a per passenger basis by each airport) and landing fees.

En route charges are the fees payable by airlines to air navigation service providers ("ANSPs") for the use of air traffic control, and the level of charge is dependant on a combination of the weight of the aircraft and the route distance flown. Flybe operates in a number of different sectors of airspace managed by a variety of local ANSPs, although the majority of its fights (and therefore en route charges) are managed by the UK ANSP, NATS (En Route) plc ("NERL"), which is a subsidiary of the NATS Holdings Group. NERL is regulated by the CAA and the price charged for en route services for the five year control period from 2011 to 2015 is currently the subject of a CAA price review and consultation called CP3, which the Directors understand is due to conclude in December 2010.

The total expenditure in respect of net airport costs and en route costs increased by 12.1 per cent. from £(92.6) million in the 2007/08 Financial Year to £(103.8) million in the 2008/09 Financial Year, and then increased by 7.2 per cent. to £(111.3) million in the 2009/10 Financial Year. Net airport and en route costs increased from £(61.7) million in the 2009/10 First Half Year to £(63.2) million in the 2010/11 First Half Year. These increases were mainly as a result of the growth of Flybe's business, development into new markets and the weakening in Sterling versus the Euro during the period. In particular:

- the Group has grown its services at business-centred airports in Europe (such as London Gatwick, Frankfurt and Paris Charles de Gaulle), which typically have higher airport charges than smaller regional airports; and
- there have been regulatory imposed increases in the unit charges levied by national air traffic providers controlling European airspace during the period.

Ground operations

Ground operations, also including catering and line maintenance, are activities that are required for each of Flybe's flights to ensure that passengers are boarded within the targeted turnaround time, the aircraft has appropriate catering on board and the aircraft is fully serviceable. Flybe typically uses third party handling agents to perform passenger service activities such as check-in procedures, boarding and baggage handling and has developed an efficient logistics process for the provision of on-board food, beverages and merchandise using a central depot managed by a third party. By way of contrast, line maintenance activity is performed by Flybe's own engineering staff based at each of the principal airports served by the Group.

Ground operations costs increased by 8.7 per cent. from £(79.6) million in the 2007/08 Financial Year to £(86.5) million in the 2008/09 Financial Year, mainly as a result of additional handling costs particularly at more expensive airports like London Gatwick only partially offset by lower delay and diversion costs. Ground operations costs decreased 3.2 per cent. from £(86.5) million in the 2008/09 Financial Year to £(83.7) million in the 2009/10 Financial Year, mainly as a result of efficiencies derived from the reductions in capacity which were implemented in response to the economic downturn.

Ground operations costs increased from £(42.2) million for the 2009/10 First Half Year to £(44.2) million for the 2010/11 First Half Year, mainly as a result of increased costs due to the disruption caused by the closure of airspace as a result of the volcanic ash cloud as well as a general increase in costs due to inflation.

On a per seat basis, airport, en route and ground operations costs increased by 6.5 per cent. from £(16.09) in the 2007/08 Financial Year to £(17.14) in the 2008/09 Financial Year, and then by 0.7 per cent. to £(17.26) in the 2009/10 Financial Year as the increase in costs more than offset the impact of the growth in seats flown. On a constant currency basis, these costs per seat increased by 3.3 per cent. from £(16.59) in the 2007/08 Financial Year to £(17.14) in the 2008/09 Financial Year, and decreased by 0.4 per cent. to £(17.07) in the 2009/10 Financial Year.

Airport, en route and ground operations costs on a per seat basis increased from £(17.03) for the 2009/10 First Half Year to £(17.32) for the 2010/11 First Half Year, mainly as a result of general increases in costs incurred from airports and ANSPs. On a constant currency basis the costs per seat for the 2010/11 First Half Year were £(17.24), a 1.6 per cent. increase on the £(16.97) reported in the 2009/10 First Half Year.

4.5.7. Aircraft rental costs, maintenance and depreciation

The tables below summarise costs in respect of aircraft rental, maintenance and depreciation for each of the three financial years and the two six month periods under review:

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
	£m	£m	£m	%	%
Aircraft rental costs	(50.4)	(61.0)	(63.7)	*(21.0)*	*(4.4)*
Maintenance	(46.4)	(44.8)	(46.0)	*3.4*	*(2.7)*
Depreciation	(15.0)	(11.0)	(15.8)	*26.7*	*(43.6)*
Aircraft rental, maintenance and depreciation	(111.8)	(116.8)	(125.5)	*(4.5)*	*(7.4)*
Aircraft rental, maintenance and depreciation at constant currency	(125.8)	(126.5)	(135.7)	*(0.6)*	*(7.3)*
	No.	No.	No.		
Sectors flown (000s)	144.0	140.4	135.1	*(2.5)*	*(3.7)*
Seats flown (million)	10.7	11.1	11.3	*3.7*	*1.8*
Average number of aircraft operated during the year	72.8	68.4	67.5	*(6.0)*	*(1.3)*
Seats flown per aircraft operated (000s)	147.6	162.8	167.5	*10.3*	*2.9*
Aircraft rental, maintenance and depreciation per seat	£(10.45)	£(10.52)	£(11.11)	*(0.7)*	*(5.5)*
Aircraft rental, maintenance and depreciation per seat at constant currency	£(11.70)	£(11.36)	£(12.01)	*2.9*	*(5.7)*

Source: Unaudited management information.

	Six months to 30 September		
	2009	2010	Change 2010 versus 2009
	£m	£m	%
Aircraft rental costs	(29.6)	(38.9)	*(31.4)*
Maintenance	(24.1)	(24.2)	*(0.4)*
Depreciation and amortisation	(10.1)	(10.0)	*1.0*
Aircraft rental, maintenance, depreciation and amortisation	(63.8)	(73.1)	*(14.6)*
Aircraft rental, maintenance, depreciation and amortisation at constant currency	(69.2)	(73.2)	*(5.8)*
	No.	No.	
Sectors flown (000s)	72.4	73.9	*2.1*
Seats flown (million)	6.1	6.2	*2.9*
Average number of aircraft operated during the period	67.0	68.0	*1.5*
Seats flown per aircraft operated (000s)	90.3	91.6	*1.4*
Aircraft rental, maintenance and depreciation per seat	£(10.46)	£(11.79)	*(12.7)*
Aircraft rental, maintenance and depreciation per seat at constant currency	£(11.43)	£(11.75)	*(2.8)*

Source: Unaudited management information.

Overall, aircraft ownership costs on a constant currency basis as represented by aircraft rental, maintenance and depreciation have remained broadly static at about £(125) million for the first two years under review with an increase to the 2009/10 Financial Year as a result of the change in maintenance estimation noted below resulting in greater capitalisation and hence depreciation, increased maintenance charges for the existing fleet and an increase in the number of aircraft held under operating lease. The initial improvement in these costs on a per seat basis reflects the transition to a two aircraft type fleet (completed in May 2009) which had the effect of increasing the average number of seats on each aircraft operated by Flybe. Subsequent increases in cost per seat result from the factors noted above. Aircraft ownership costs have increased from £63.8 million in the 2009/10 First Half Year to £73.1 million in the 2010/11 First Half Year largely as a result of movements in exchange rates, maintenance rate increases and additional leased aircraft.

Aircraft rental costs

Aircraft rental costs are the rental payments on Flybe's fleet financed by operating lease arrangements and have increased by 21.0 per cent. from £(50.4) million in the 2007/08 Financial Year to £(61.0) million in the 2008/09 Financial Year, and then by 4.4 per cent. to £(63.7) million in the 2009/10 Financial Year. For the 2010/11 First Half Year these costs were £(38.9) million (£(29.6) million for the 2009/10 First Half Year). These increases reflect Flybe's fleet substitution programme and the Group's current policy of financing the majority of its fleet through operating lease rather than ownership. At 1 April 2007, immediately following the BA Connect acquisition, the Group had 35 owned aircraft, reducing to 13 by 31 March 2008. This fell further by two aircraft at 31 March 2009 and one each at 31 March and 30 September 2010 respectively. In addition, the aircraft rental costs in the 2010/11 First Half Year, when compared to the 2009/10 First Half Year, were adversely affected by adverse currency movements.

Maintenance, depreciation and amortisation

The impact of maintenance efficiencies on the income statement is seen both in the maintenance charged directly to the income statement, and in the depreciation charged on capitalised maintenance events. Depreciation predominantly comprises (i) depreciation of owned aircraft and engines, and airframe checks and major component overhauls thereon, and (ii) depreciation of airframe checks and component overhauls for leased aircraft and engines.

The Group incurs liabilities for maintenance costs in respect of the aircraft it operates which accrue on the basis of a combination of the hours flown, sectors and landings undertaken and the passing of time. These maintenance procedures result from a combination of manufacturer recommendation, Flybe's own maintenance procedures and regulatory requirement. In addition there are maintenance requirements imposed by the financiers of the aircraft in order for them to be content that the asset they have financed is maintained in appropriate condition. In the case of aircraft financed under operating leases these arise from the 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.

Estimating the provision for maintenance costs so that they match the operation of the aircraft and the budgeted expectation of Flybe requires judgement as to the cost and timing of future maintenance events. This estimate is based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations.

Maintenance costs decreased by 3.4 per cent. from £(46.4) million in the 2007/08 Financial Year to £(44.8) million in the 2008/09 Financial Year, mainly as a result of inflationary increases under the Group's maintenance contracts being more than offset by the change in mix of the fleet as the substitution programme replaced more expensive to maintain aircraft with cheaper ones. Maintenance costs increased by 2.7 per cent. from £(44.8) million in the 2008/09 Financial Year to £(46.0) million in the 2009/10 Financial Year, mainly as a result of inflationary increases under the Group's maintenance contracts. In addition both years were affected by adverse movements in the US dollar exchange rate which had the effect of increasing the overall level of cost incurred.

Maintenance costs for the 2010/11 First Half Year were £(24.2) million (£(24.1) million for the 2009/10 First Half Year), mainly as a result of contractual increases in rates paid, and adverse movements in the US dollar exchange rate offsetting an improvement in the mix of aircraft types maintained.

Additionally, Flybe uses its MRO business to handle most of the Airline's maintenance costs. As a result these maintenance costs are recognised in the Airline segment's maintenance costs, but are in eliminated as intra-group transactions on a consolidated basis.

During the 2008/09 year, the Group amended, in order to provide better information about the maintenance of its fleet, its method for calculating maintenance. This led to the recognition of additional property, plant and equipment with a net book value of £11.0 million, other receivables of £13.1 million, and additional maintenance provisions of £20.5 million. The net impact of this change in accounting estimate, a credit of £3.6 million, was recognised in the income statement in that year and had the short term impact of reducing the maintenance cost expensed in the income statement; there was no impact on either Flybe's cash spend or its commitments to maintain its fleet.

Depreciation and amortisation costs decreased by 26.7 per cent. from £(15.0) million in the 2007/08 Financial Year to £(11.0) million in the 2008/09 Financial Year, and then increased by 43.6 per cent. to £(15.8) million in the 2009/10 Financial Year. These changes are as a result of:

- the disposal of 16 owned Embraer E145 aircraft (acquired through the acquisition of BA Connect) via sale and leaseback ("SALB") transactions in June and July 2007;
- disposal of Flybe's owned BAe146 aircraft, retired from the fleet in the 2008/09 Financial Year;
- entering into various SALBs on previously owned Q400 aircraft; and
- changes to accounting methodologies in order to better reflect the maintenance criteria that affect the Group's aircraft as discussed above. This also affected the rise in depreciation in the 2009/10 Financial Year.

Depreciation and amortisation costs were £(10.0) million for the 2010/11 First Half Year (£(10.1) million for the 2009/10 First Half Year).

4.5.8. Marketing and distribution costs

The tables below summarise the Airline's marketing and distribution costs for each of the three financial years and the two six month periods under review:

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
				%	%
Marketing and distribution costs	£(26.0)m	£(26.0)m	£(23.5)m	*0.0*	*9.6*
Seats flown (million)	10.7	11.1	11.3	*3.7*	*1.8*
Passengers (million)	7.0	7.3	7.2	*4.3*	*(1.4)*
Marketing and distribution costs per seat flown	£(2.43)	£(2.34)	£(2.08)	*3.6*	*11.2*
Marketing and distribution costs per passenger	£(3.71)	£(3.56)	£(3.26)	*4.1*	*8.4*

Source: Unaudited management information.

	Six months to 30 September		
	2009	2010	Change 2010 versus 2009
			%
Marketing and distribution costs	£(11.8)m	£(11.9)m	*(0.8)*
Seats flown (million)	6.1	6.2	*2.9*
Passengers (million)	4.0	4.0	*0.6*
Marketing and distribution costs per seat flown	£(1.92)	£(1.92)	*(0.0)*
Marketing and distribution costs per passenger	£(2.93)	£(2.98)	*(1.7)*

Source: Unaudited management information.

In total, marketing and distribution costs were stable between the 2007/08 Financial Year and the 2008/09 Financial Year at £(26.0) million and decreased by 9.6 per cent. to £(23.5) million in the 2009/10 Financial Year. For the 2010/11 First Half Year marketing and distribution costs were £(11.9) million (£(11.8) million for the 2009/10 First Half Year). This was driven primarily by savings in marketing costs and efficiencies in the delivery of marketing activities as part of Flybe's wider cost saving initiatives during the economic downturn. Distribution costs remained broadly stable throughout the period under review.

Both marketing and distribution costs per passenger and per seat have declined in each of the three years under review as costs have remained stable but both passenger numbers and seats have increased when compared to the start of the period. The 2010/11 First Half Year saw an increase in marketing and distribution costs per passenger (while marketing and distribution costs per seat remained static) compared to the 2009/10 First Half Year as passenger numbers only increased by 0.6 per cent. largely as a result of the disruption caused by the closure of airspace in April and May 2010.

4.5.9. Other costs

The tables below summarise the Airline's other operating costs for each of the three financial years and two six month periods under review:

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
				%	%
Other Airline costs	£(35.9)m	£(34.5)m	£(32.7)m	*3.9*	*5.2*
Seats flown (million)	10.7	11.1	11.3	*3.7*	*1.8*
Other Airline costs per seat flown	£(3.36)	£(3.11)	£(2.89)	*7.4*	*6.9*

Source: Unaudited management information.

	Six months to 30 September		
	2009	2010	Change 2010 versus 2009
Other Airline costs	£(12.8)m	£(19.9)m	*(55.5)*
Seats flown (million)	6.1	6.2	*2.9*
Other Airline costs per seat flown	£(2.10)	£(3.21)	*(52.9)*

Source: Unaudited management information.

Other operating costs include insurance, crew training and hotel accommodation, on-board catering, airport base related costs and Flybe's central overhead costs (commercial, operations, finance, IT, HR and company secretariat, property costs, legal and professional fees, and administration expenses). In addition, net finance costs related to aircraft purchases are included in this category, and are offset by bank interest receivable.

In total, other operating costs decreased by 3.9 per cent. from £(35.9) million in the 2007/08 Financial Year to £(34.5) million in the 2008/09 Financial Year and by 5.2 per cent. to £(32.7) million in the 2009/10 Financial Year, mainly as a result of Flybe's reducing its cost base during the economic downturn. For the 2010/11 First Half Year other operating costs were £(19.9) million (£(12.8) million for the 2009/10 First Half Year) largely as a result of an adverse movement in exchange rates and reduced levels of profits recognised in relation to sale and lease back transactions.

4.6. Aviation Services

Flybe's Aviation Services business generates its revenues principally from aircraft MRO of both third party and Flybe's own regional aircraft, with additional revenues being generated from training for third parties and Flybe.

The following tables indicate the results of the Aviation Services segment for each of the three financial years and the two six month periods under review:

	Year ended 31 March				
	2008	2009	2010	Change 2009 versus 2008	Change 2010 versus 2009
	£m	£m	£m	%	%
Aviation services – Third party revenue	23.5	24.8	28.2	*5.5*	*13.7*
Aviation services – Flybe revenue	18.7	21.4	17.0	*14.4*	*(20.6)*
Aviation services revenue	42.2	46.2	45.2	*9.5*	*(2.2)*
Staff costs	(33.9)	(37.2)	(38.5)	*(9.7)*	*(3.5)*
Depreciation and amortisation	(1.0)	(1.0)	(1.0)	–	–
Other operating costs	(6.4)	(4.6)	(4.1)	*28.1*	*10.9*
Underlying and total operating costs	(41.3)	(42.8)	(43.6)	*(3.6)*	*(1.9)*
Aviation Services business result	0.9	3.4	1.6	*277.8*	*(52.9)*
	No.	No.	No.		
Man hours – Flybe (000s)	290	327	227	*12.8*	*(30.6)*
Man Hours – third party (000s)	382	437	453	*14.4*	*3.7*
Man hours – total (000s)	672	764	680	*13.7*	*(11.0)*
Average FTEs	563	491	527	*(12.8)*	*7.4*
Man hours per employee	1,194	1,557	1,290	*30.4*	*(17.1)*
Number of aircraft maintained	165	172	204	*4.2*	*18.6*

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Audited information are the segment revenues and result. Unaudited information includes the analysis of revenue into third party and Flybe components as well as the cost analysis and performance indicators.

	Six months ending 30 September		
	2009	2010	Change 2010 versus 2009
	£m	£m	%
Aviation services – Third party revenue	14.5	12.9	*(11.0)*
Aviation services – Flybe revenue	7.7	7.1	*(7.8)*
Aviation services revenue	22.2	20.0	*(9.9)*
Staff costs	(19.0)	(17.0)	*(10.5)*
Depreciation and amortisation	(0.5)	(0.5)	*0.0*
Other operating costs	(1.6)	(2.8)	*75.0*
Underlying and total operating costs	(21.1)	(20.3)	*(3.8)*
Aviation Services business result	1.1	(0.3)	*n/a*
	No.	No.	
Man hours – Flybe (000s)	94	85	*(9.6)*
Man Hours – third party (000s)	240	214	*(10.8)*
Man hours – total (000s)	343	299	*(10.5)*
Average FTEs	529	527	*(0.3)*
Man hours per employee	631	567	*(10.2)*
Number of aircraft maintained	121	127	*5.0*

Source: Section B of Part 5 "Financial Information relating to the Group" of this document and unaudited management information. Audited information are the segment revenues and result. Unaudited information includes all of the 2009 data, the analysis of revenue into third party and Flybe components as well as the cost analysis and performance indicators.

Revenue

The 2008/09 Financial Year saw aircraft maintenance and other revenue increase, compared to the previous year, by 9.5 per cent. due to a 13.7 per cent. increase in maintenance hours sold, offset by a change in third party customer mix and the associated pricing of work performed. Both the 2007/08 and 2008/09 Financial Years saw a higher volume of work for the Airline as a result of the hand-back of aircraft being phased out under the fleet substitution programme.

In the 2009/10 Financial Year, third party revenue increased by 11.4 per cent. to £27.3 million. However, revenue generated from work on Flybe's own fleet fell by £3.6 million to £16.1 million, largely as a result of the completion of Flybe's fleet substitution programme in May 2009. This is reflected in the man hours worked on Flybe's own aircraft maintenance which rose by 12.8 per cent. to the 2008/09 Financial Year but fell back by 30.6 per cent. to the 2009/10 Financial Year.

Aircraft maintenance and other revenue decreased despite the increase in the number of aircraft maintained from £22.2 million in the 2009/10 First Half Year to £20.0 million in the 2010/11 First Half Year which was largely due to fewer large scale maintenance events occurring in either third party or Flybe's own fleets. As large maintenance events for modern aircraft are largely driven by the amount of usage, the economic downturn had the impact of reducing flying hours at most operators, thereby deferring the need for maintenance.

Costs

Staff costs increased mainly due to the direct costs of production man hours and therefore revenue in the MRO business, and include the impact of a two per cent. annual pay award for the 2007/08 Financial Year. Although depreciation remained broadly stable in all three Financial Years, other operating costs reduced by £1.8 million from the 2007/08 Financial Year to the 2008/09 Financial Year largely due to improved management of working practices and increased efficiency. Overall, operating profit for the Aviation Services segment rose by £2.5 million as a result of these factors.

The cost base in the 2009/10 Financial Year was broadly stable, rising by £0.8 million overall to £(43.6) million. The increase resulted largely from a small increase in staff numbers driving up staff costs of £1.3 million was offset by a £0.5 million reduction in other operating costs as part of Flybe's focus on cost management during the economic recession.

Costs for the 2010/11 First Half Year were £20.3 million (£21.1 million for the 2009/10 First Half Year. The operating loss for the 2010/11 First Half Year was £(0.3) million which was an decrease from the £1.1 million profit reported in the 2009/10 First Half Year.

Training Academy

In addition to the established MRO business, Flybe is investing in its existing training business to build an approximate 5,500 square metre training academy. The new building is scheduled to be completed in the first calendar quarter of 2011 at an expected cost of approximately £12 million. Following completion of the training academy, the Directors intend to follow the Flybe MRO business model and increasingly provide services to third parties in the future.

4.7. Impact on Earnings

If the Global Offer had taken effect on 1 April 2010, earnings for the 2010/11 First Half Year would have increased as a result of a reduction in net financing costs, caused by the use of the net proceeds of the Global Offer to reduce net debt.

5. Balance sheet

This section provides selected information on the financial position of the Group as contained in the Group's balance sheets. Flybe's acquisition of BA Connect was completed on 5 March 2007 and no material acquisitions or disposals of businesses occurred during the period under review. Accordingly, all balance sheet movements during this period resulted from normal trading activities in continuing operations.

The following table sets out certain of the Group's key balance sheet data as at 31 March 2008, 31 March 2009 and 31 March 2010 under IFRS:

	As at 31 March			As at 30 September
	2008	2009	2010	2010
	£m	£m	£m	£m
Aircraft	136.7	119.8	113.5	100.6
Trade and other receivables	77.0	92.5	71.7	74.7
Trade payables and other current liabilities	(135.9)	(167.0)	(177.4)	(154.2)
Net indebtedness[172]	(28.2)	(71.9)	(47.4)	(51.4)
Borrowings	(138.1)	(111.3)	(83.5)	(72.1)

Source: Section B of Part 5 "Financial Information relating to the Group" of this document.

(172) Net indebtedness represents current assets less current liabilities.

5.1. Aircraft

Flybe has historically financed the majority of its aircraft fleet by way of operating lease. However, in certain cases, Flybe will choose to take direct ownership of aircraft and will fund those purchases through loans secured on the respective aircraft. The balance sheet value of owned aircraft has been affected by the acquisition of BA Connect and the subsequent fleet substitution programme, as well as depreciation and impairment:

- in the 2007/08 Financial Year four aircraft were acquired as owned aircraft (and a further 11 under operating leases). 18 aircraft at a net book value of £55.4 million were disposed of in the 2007/08 Financial Year, of which 16 aircraft with a value of £53.0 million were acquired as part of the acquisition of the BA Connect business on 5 March 2007. These 16 aircraft were subject to a sale and leaseback transaction in June/July 2007, whereby the aircraft were leased back (under operating leases) for an average of 14 months. In addition, the impairment of BAe 146 aircraft led to charges of £2.3 million being reported in the 2007/08 Financial Year;
- during the 2008/09 Financial Year, only aircraft parts and one engine with a total value of £6.6 million were acquired. However, fleet substitution continued and four aircraft were disposed of in the year, leading to a reduction in net book value of £21.8 million – of these four disposals, two aircraft were sold but continued to be used under new operating lease arrangements. Another £1.6 million related to six aircraft transferred to assets available for sale in current assets. In addition, the impairment of BAe 146 aircraft led to charges of £2.8 million being reported in the 2008/09 Financial Year. Further, the Group amended, in order to provide better information about the maintenance of its leased fleet, its method for calculating maintenance obligations to lessors. This led to the recognition of additional aircraft with a net book value of £11.0 million, other receivables of £13.1 million, and additional maintenance provisions of £20.5 million. The net impact of this change in estimate, a credit of £3.6 million, was recognised in the income statement in that year;
- during the 2009/10 Financial Year, there was £86.1 million of additions and £82.2 million of disposals largely on SALB transactions representing six aircraft and three spare engines. A net book value of £0.7 million of assets were transferred to assets held for resale representing spares for aircraft no longer utilised by the Group and for which sale of the assets is being sought. Depreciation ran ahead of the previous year's level at £13.6 million largely as the result of the additional assets recognised in the previous Financial Year as a result of the change in calculating maintenance obligations Overall, net book value was only slightly lower than the previous year's £119.8 million at £113.5 million;
- during the 2010/11 First Half Year, there was one aircraft sale on a SALB transaction. The additions into the aircraft category of £7.0 million consisted of costs capitalised in respect of fleet maintenance.

The majority of the Group's fleet is financed in US dollars. Please see paragraph 3.1.3 of this Part 4 of this document for a discussion of the risks inherent in foreign currency financing arrangements.

5.2. Trade and other receivables

Trade and other receivables increased from £77.0 million at 31 March 2008 to £92.5 million at 31 March 2009 before decreasing to £71.7 million at 31 March 2010. The main increase was in other receivables, which rose from £28.5 million at 31 March 2008 to £40.7 million at 31 March 2009, driven by changes to the basis of estimating Flybe's obligations to maintain aircraft that accounted for £13.1 million of the increase in the 2008/09 Financial Year. Other receivables increased by £12.2 million largely as the result of the change in estimate relating to maintenance discussed at paragraph 4.5.7 of this Part 4 of this document and they were largely consumed in the 2009/10 Financial Year as this balance declined by £17.8 million to £22.9 million. In addition, prepayments rose from £13.6 million at 31 March 2008 to £17.3 million at 31 March 2009 and £18.0 million at 31 March 2010 as a result of the additional deposits to secure aircraft, lease and maintenance arrangements. As at 30 September 2010, the value of trade and other receivables remained broadly stable at £74.7 million.

Cash, cash equivalents and restricted cash are discussed in more detail at paragraph 6.3 of this Part 4 of this document, but fell by £14.7 million in 2008/09 Financial Year as the result of the consumption of the BA Connect cash received in the 2006/07 Financial Year used to compensate for the uneconomic aircraft acquired with the BA Connect business (please see paragraph 4.2 of this Part 4 of this document for further details in relation to "seat compensation") and the utilisation of provisions established in that year. These have been offset by other working capital movements in the period under review as discussed below. Overall, cash and cash equivalents have remained stable rising slightly by £1.4 million in the 2009/10 Financial Year. As at 30 September 2010, cash and cash equivalents decreased by £21.4 million principally as a result of the seasonal nature of cash generation in the Flybe business. This was reflected in the decrease in deferred income outlined in paragraph 5.3 of this Part 4 of this document.

Other current assets were broadly stable at £7.3 million, £9.1 million, £6.7 million and £7.6 million as at 31 March 2008, 2009 and 2010 and as at 30 September 2010 respectively, with the principal change being the transfer in of assets for sale of £1.6 million in the 2008/09 Financial Year and £0.6 million in the 2009/10 Financial Year discussed at paragraph 5.1 of this Part 4 of this document. These increases were offset in the 2009/10 Financial Year by a reduction in the overall level of inventory held as balances held were managed down and inventory utilised, provided for or written off where it related to older aircraft types.

5.3. Trade payables and other current liabilities

Trade payables and other current liabilities rose from £(135.9) million as at 31 March 2008 to £(167.0) million as at 31 March 2009 and £(177.4) million at 31 March 2010. The principal reason for the increase resulted from Flybe re-evaluating its process for establishing leased aircraft maintenance provisions thereby leading to, when comparing the 2008/09 and 2007/08 Financial Years, a net increase in the amount provided of £29.5 million in current liabilities but a £1.1 million decrease in non-current liabilities. These were partially offset by a £3.2 million reduction in the provisions related to the BA Connect acquisition. In comparing the 2009/10 and 2008/09 Financial Years, these provisions have increased by £3.4 million in current and by £7.1 million in non-current liabilities reflecting the greater proportion of the fleet that is leased and the current state of the aircraft in their progression through the maintenance cycle. To offset this, the provisions related to the BA Connect acquisition have been almost entirely consumed (£1.7 million utilised in the year). Other current liabilities increased in the 2009/10 Financial Year by £6.9 million largely driven by increases in deferred income not wholly offset by smaller decreases in other payables. As at 30 September 2010, there had been a £25.5 million decrease in deferred income largely as a result of the seasonal nature of the Flybe business with other current liabilities remaining broadly stable.

5.4. Borrowings and liquidity

The Group's liquidity position is discussed in paragraph 6.1 and borrowings are discussed in paragraph 6.3 of this Part 4 of this document.

6. Liquidity and capital resources

6.1. Overview

Flybe has historically funded its business through a combination of its operating cash flows, debt and operating lease financing. During this period the Group has historically maintained a net debt position, which amounted to £(70.6) million, £(54.7) million, £(21.4) million and £(30.3) million at 31 March 2008, 2009 and 2010 and 30 September 2010 respectively. This net debt primarily resulted from the timing of the receipt of cash from customers being earlier than the payments to key suppliers such as those for aircraft leases, airport charges and en route charges. Rather than having significant borrowings to finance day-to-day activities the Group uses the advance receipt of cash from customers to fund those activities. Borrowings are used to finance capital expenditures such as aircraft and new facilities.

The Group's primary liquidity needs in the future are to fund its ongoing operations, aircraft and non-aircraft capital expenditure, and its debt financing commitments. The Group expects to finance these liquidity needs, along with its net indebtedness position, through cash generated from operating activities, cash held on the balance sheet, and external funding, including committed bank facilities. As at 8 December 2010 (being the latest practical record date prior to Admission), the Group's sources of liquidity comprise cash and cash equivalents (which includes short term deposits) of £26.8 million, excluding £17.1 million held in Flybe's name in restricted accounts, an unused overdraft facility of £3.8 million and undrawn bonds facilities of £8.7 million.

6.2. Capital resources

The Group's business is capital intensive. Its main sources of liquidity are cash flows and debt financing arrangements.

6.3. Financing arrangements

The following table discloses the obligations under financing arrangements as at 30 September 2010 of Flybe.

	Payments due by period				
	Less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total
	£m	£m	£m	£m	£m
Secured bank loans[173]	(14.1)	(18.6)	(26.3)	(25.4)	(84.4)
Aircraft operating leases	(78.5)	(77.0)	(218.7)	(221.5)	(595.7)
Other operating leases	(3.2)	(2.1)	(3.4)	(7.9)	(16.6)
Total	**(95.8)**	**(97.7)**	**(248.4)**	**(254.8)**	**(696.7)**

Source: Section B of Part 5 "Financial Information relating to the Group" of this document.

(173) Includes interest that will accrue in future reporting periods.

Total borrowings on balance sheet were £(138.1) million as at 31 March 2008, falling to £(111.3) million as at 31 March 2009, £(83.5) million as at 31 March 2010 and £(72.1) million as at 30 September 2010, largely as the result of (i) the redemption of preference shares totalling £22.5 million over the period from November 2007 to May 2008, (ii) the disposal of owned aircraft now retired from Flybe's fleet, (iii) the sale and leaseback of certain aircraft still in operation and (iv) capital repayments against these borrowings. As at 30 September 2010, £(16.4) million in secured bank loans consisted of amounts denominated in US Dollars on which interest was charged based on floating interest rates based on LIBOR. Overall, £(59.8) million of the secured bank loans have interest charged based on floating rates based on LIBOR, with remaining £(12.3) million being at fixed interest rates under loans denominated in sterling. During the 2009/10 Financial Year, the weighted average interest rate was 4.0 per cent, a figure which increased to 4.5 per cent. in the 2010/11 First Half Year. Further details are provided at section 5 of this Part 4 of this document.

As at 8 December 2010 (being the latest practical record date prior to Admission), there have been no significant changes in Flybe's financing arrangements to the position set out in respect of the 2010/11 First Half Year. For further information on Flybe's levels of capitalisation and indebtedness as at 30 September 2010, please see section 16 of Part 7 "Additional Information" of this document.

6.4. Cash flows for the period under review

The following table displays Flybe's cash flows for the period under review.

	Year ended 31 March			Six months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Net cash from operating activities	(2.7)	19.0	40.2	(8.0)	16.4
Net cash from investing activities	8.4	13.6	(12.4)	(1.4)	(54.6)
Net cash from financing activities	(79.0)	(47.3)	(26.4)	(12.0)	19.5
Net (decrease) / increase in cash and cash equivalents	(73.3)	(14.7)	1.4	(21.4)	(18.7)
Cash and cash equivalents at beginning of period	132.7	59.4	44.7	46.1	44.7
Cash and cash equivalents at 31 March / 30 September	59.4	44.7	46.1	24.7	26.0

Source: Section B of Part 5 "Financial Information relating to the Group" of this document.

6.4.1. Operating activities

Cash inflows from operating activities comprise the net inflows from the Airline and Aviation Services segments. Included in cash inflow from operating activities are the movements in monetary receivables, payables and provisions. Flybe benefits from very low debtor days because the majority of ticket sales and ancillary revenues are sold through the internet using credit cards, with cash settlement occurring within a few days. The Directors consider that there is a very low credit default risk from sales on cards.

The net cash outflow from operations amounted to £(2.7) million in the 2007/08 Financial Year. Converting the profit for the year of £15.5 million into cash is affected by a number of non-cash movements such as depreciation, amortisation and impairments of £(18.3) million and net unrealised gains on hedges of £8.1 million, implying that operations generated a cash inflow of £25.7 million. However, there were also outflows of £(19.8) million associated with settling provisions arising from the restructuring of the BA Connect business acquired in March 2007 and other working capital movements which reduce this to a net figure of £(2.7) million.

The 2008/09 Financial Year delivered net cash inflow from operations of £19.0 million. The loss for the year was £(28.0) million, but was adversely affected by non-cash movements for depreciation, amortisation and impairments of £(14.8) million and net unrealised hedge losses of £(16.5) million. This indicates that operations had generated cash inflows of approximately £3.3 million. Further working capital movements, particularly in respect of provisions for maintenance generated a positive cash inflow of £25.0 million.

The 2009/10 Financial Year delivered net cash inflow from operations of £40.2 million. The profit for the year was £22.2 million, but was adversely affected by non-cash movements for depreciation and amortisation of £(16.8) million offset by net unrealised hedge gains of £18.3 million. As a result operations had generated cash inflows of approximately £20.7 million. Further working capital movements, particularly in respect of provisions for maintenance and improvements in trade receivables only partially offset by outflows in respect of trade and other payables generated a positive cash inflow of £18.3 million.

The 2010/11 First Half Year delivered net cash outflow from operations of £(8.0) million (£16.4 million inflow in the 2009/10 First Half Year, which included £25.8 million of repayment of pre-delivery payments on delivery of related aircraft). The profit for the period was £7.1 million (£24.3 million in the 2009/10 First Half Year), but was adversely affected by non-cash movements for depreciation and amortisation of £(10.5) million (£10.6 million in the 2009/10 First Half Year) and net unrealised hedge losses of £(5.4) million (£14.6 million gain in the 2009/10 First Half Year). As a result, operations had generated cash inflows of approximately £23.0 million (£20.3 million in the 2009/10 First Half Year). Further working capital movements, particularly in respect of provisions for maintenance and improvements in trade receivables only partially offset by outflows in respect of trade and other payables generated a cash outflow of £(28.5) million in the 2010/11 First Half Year (outflow of £(4.0) million in the 2009/10 First Half Year) which also benefited from the return of pre-delivery payments in respect of newly acquired aircraft.

6.4.2. Investing activities

In the 2007/08 Financial Year, net cash inflow from investing was £8.4 million, primarily due to the SALB of 16 former BA Connect aircraft realising £58.8 million, offset by aircraft purchases of £(42.1) million and the £(3.2) million paid for landing slots during the year. The Group received interest of £4.5 million.

In the 2008/09 Financial Year, net cash inflow from investing was £13.6 million, which was again primarily due to further SALB receipts exceeding aircraft purchases. Flybe made purchases of an engine and aircraft parts totalling £(6.6) million; no aircraft were purchased. Interest received was lower at £1.8 million due to both lower interest rates and cash balances, and there was also a further purchase of landing slots totalling £(0.9) million.

In the 2009/10 Financial Year, net cash outflow from investing was £(12.4) million, which was primarily due to aircraft purchases exceeding SALB receipts. Flybe made purchases of six aircraft plus three engines and aircraft parts totalling £(86.0) million. Interest received was lower at £0.2 million due to lower interest rates.

The 2010/11 First Half Year delivered a net cash outflow from investing of £(1.4) million, which was primarily due to SALB receipts. Flybe incurred costs in relation to the new Training Academy building which is due to be completed in the first calendar quarter of 2011 and in relation to maintaining the aircraft fleet totalling £(12.7) million. Interest received was low at £0.1 million due to interest rates remaining low.

6.4.3. Financing activities

In the 2007/08 Financial Year, net cash outflow from financing was £(79.0) million driven mostly by repayment of borrowings of £(70.5) million and of preference shares of £(8.4) million. The payment of finance lease obligations of £35.5 million were the last under these arrangements and was typically offset by proceeds from new loans of £44.1 million.

In the 2008/09 Financial Year, net cash outflow from financing was £(47.3) million, of which £(34.5) million represented repayment of borrowings and £(14.1) million to redeem all of the remaining preference shares that were then outstanding. A total of £7.8 million was raised in new loans.

In the 2009/10 Financial Year, net cash outflow from financing was £(26.4) million, of which £(84.5) million represented repayment of borrowings. A total of £62.2 million was raised in new loans. Included within the outflow in respect of restricted cash is £(7.9) million deposited with the Group's bankers to secure additional finance facilities. These are discussed further in paragraph 6.10 of this Part 4 of this document.

The 2010/11 First Half Year delivered net cash outflow from financing of £(12.0) million, of which £(12.9) million represented repayment of borrowings. A total of £2.2 million was raised in new loans. These are discussed further in paragraph 6.10 of this Part 4 of this document.

As at 8 December 2010 (being the latest practical record date prior to Admission), there have been no significant changes in Flybe's cash flow arrangements to the position set out in respect of the 2010/11 First Half Year.

6.5. Capital Expenditure

Flybe's capital expenditure predominantly relates to aircraft purchases, although a significant number of the fleet (59 at 30 September 2010) have been financed through operating leases. £54.9 million of capital expenditure (mainly of aircraft purchases) was incurred in the 2007/08 Financial Year, £10.4 million in the 2008/09 Financial Year and £90.9 million in the 2009/10 Financial Year. During the 2007/08 Financial Year, Flybe bought four aircraft and took on another 11 under operating leases. Of the four purchased in that year, two were the subject of SALB transactions in the 2008/09 Financial Year when a further 15 aircraft were introduced to the fleet under operating leases. The 2009/10 Financial Year saw six aircraft purchased of which five were the subject of sales and lease backs during the year and the other one in April 2010. Two other aircraft were taken on under operating leases. One spare engine was bought during the 2008/09 Financial Year and three in the 2009/10 Financial Year. Other than one aircraft that was the subject of a SALB transaction, no aircraft or engines were bought or sold by Flybe in the 2010/11 First Half Year.

This analysis excludes the former BA Connect fleet of which 16 aircraft were the subject of SALB transactions in the 2007/08 Financial Year and a further seven were retired during that year. The remainder of this fleet was retired by May 2009 with 17 being disposed of in 2008/09 Financial Year and four in the 2009/10 Financial Year.

(i) Committed Q400 Aircraft

Flybe currently has firm commitments to purchase a further four Q400 aircraft for delivery from March 2011 to June 2011.

The four committed Q400 aircraft require pre-delivery payments ("PDPs") of 20 per cent. of the aircraft price prior to delivery. 10 per cent. is payable 8 months before the scheduled delivery date, a further 10 per cent. is payable 5 months before the scheduled delivery date.

Flybe has secured financing from Norddeutsche Landesbank Girozentrale for 90 per cent. of the PDPs (i.e. for 18 per cent. of each aircraft price). While Flybe has actually paid a 10 per cent. PDP against one of the committed Q400s, further PDPs have been delayed pending discussions with Bombardier. The PDP financing from Norddeutsche Landesbank Girozentrale is repayable when each aircraft is delivered.

Flybe has signed a non-binding letter of intent with HEH for the financing of the four committed Q400 aircraft through an operating lease structure. Under the terms of the letter of intent, the financing for these aircraft will be by way of operating lease (over a 10 to 12 year period) using the same structure that Flybe has in place for 11 other Q400 aircraft already on lease from HEH. In a repeat of a previous Q400 operating lease structure provided to Flybe by HEH, HEH is seeking senior debt for 85 per cent. of the aircraft value from Export Development Canada ("EDC"), and the lending terms will be in accordance with the OECD aircraft sector understanding on export credits for civil aircraft.

If Flybe is not able to secure finance from EDC (or another senior debt provider) for the four committed Q400 aircraft, Flybe has agreed committed "backstop" financing with Bombardier for each of the committed Q400 aircraft deliveries. This committed "backstop" financing is debt financing for 80 per cent. of the net aircraft price, and is exercisable at Flybe's option in the three month period prior to the contracted delivery date of each aircraft.

The committed "backstop" financing is for 80 per cent. of the net aircraft price. The Directors intend to fund the remaining 20 per cent. payable in respect of each aircraft through existing cash resources.

The expected cash outlay in respect of the delivery of each Q400 aircraft is expected to be less than US$800,000 (approximately £0.5 million).

(ii) E175 Committed Aircraft

Flybe currently has firm commitments to purchase a further 35 Embraer E-series jets for delivery between June 2011 and October 2016.

The committed Embraer E175 aircraft require PDPs of approximately 20 per cent. of the aircraft basic price prior to delivery. This is payable as set out below:

Firm aircraft initial contract deposit, paid in July 2010	US$100,000 per aircraft
First, second and third firm aircraft	US$2 million, payable five and two months prior to delivery.
Fourth firm aircraft	US$2 million, payable four and one month(s) prior to delivery.
Fifth to eight (inclusive) firm aircraft	US$2 million, payable eight and five months prior to delivery.
Ninth to thirty fifth (inclusive) firm aircraft	1 per cent. of the aircraft basic price (less the initial deposit), payable 15 months prior to delivery. 4 per cent. of the aircraft basic price, payable 12 months prior to delivery. 5 per cent. of the aircraft basic price, payable 9 months prior to delivery. 10 per cent. of the aircraft basic price, payable 5 months prior to delivery.

Flybe has not secured financing for these pre delivery payments, and the Directors therefore expect that the payments will be financed out of existing cash resources.

Flybe has entered into a letter agreement with Embraer for the provision of debt financing for the purchase of all of the 35 committed E175 aircraft deliveries. Under this arrangement with Embraer, if BNDES (the Brazilian national development bank) is not able to provide finance for the delivery of a particular aircraft within agreed financial parameters by a specified date prior to the contractual delivery date in respect of that aircraft, and alternative financing arrangements cannot then be made through Embraer, Flybe is not obliged to accept delivery of that aircraft. Any PDPs paid by Flybe to Embraer would be repayable by Embraer in the event that Flybe terminates the delivery of an aircraft in such circumstances. If BNDES fails to provide the financing in respect of the delivery of a particular E175 aircraft (and alternative financing arrangements cannot be made through Embraer), this default does not impact on the delivery or financing obligations agreed to by Embraer in respect of subsequent committed E175 aircraft deliveries.

The terms of the debt financing are to be in accordance with the OECD Aircraft Sector Understanding on Export Credits for Civil Aircraft (the "ASU"), save that Flybe has secured additional terms that cap the interest rate costs related to the lender's cost of funding. The debt financing is for 85 per cent. of the net aircraft price. The Directors estimate that the margin, based on Flybe's previous ASU financings, is likely to be less than 200 basis points. At Flybe's election, financing may be provided directly to Flybe (in order for Flybe to purchase the aircraft) or to a third party aircraft lessor nominated by Flybe who will purchase the aircraft and subsequently lease it back to Flybe under an operating lease structure.

The Directors intend to fund the remaining 15 per cent. of the net aircraft price payable in respect of each Embraer E175 delivery out of existing cash resources. The expected cash outlay in respect of the delivery of each Embraer E175 aircraft is expected to be less than £2.3 million (approximately US$3.8 million).

Flybe currently has firm commitments to purchase a further one spare CF34-10E7 spare engine for its Embraer E195 aircraft in December 2010 and four CF34-8E5 spare engines for its Embraer E175 aircraft for delivery between September 2011 and October 2016. The CF34-10E7 engines require pre-delivery payments of 10 per cent. of the acquisition price and the CF34-8E5 engines are likely to have similar payment terms and conditions. The Directors intend to obtain operating lease financing, on competitive terms, for these engines on delivery. A term sheet has been signed with a lessor in respect of the CF34-10E7 engine being delivered in 2010 and the ten per cent. deposit paid.

6.6. Capital commitments

As at each year end, the Group was contractually committed to the following capital expenditure:

	As at 31 March			As at 30 September
	2008	**2009**	**2010**	**2010**
	£m	**£m**	**£m**	**£m**
Aircraft purchase commitments	334.2	191.8	65.9	888.7
Flybe training academy commitments	–	–	7.7	2.2
	334.2	**191.8**	**73.6**	**890.9**
Number of aircraft under purchase commitments:	No.	No.	No.	No.
Q400	23	11	4	4
E-Series	3	–	–	35
	26	**11**	**4**	**39**

Source: Section B of Part 5 "Financial Information relating to the Group" of this document.

The number and value of aircraft subject to purchase commitments declined over the 2007/08, 2008/09 and 2009/10 Financial Years as the fleet transformation programme (to a two aircraft type fleet) moved towards its completion in May 2009, but increased again in the 2010/11 First Half Year when Flybe contracted to acquire 35 Embraer E175 aircraft.

The Directors expect that the committed aircraft purchases (alongside the various options and purchase rights held by Flybe) will be used to replace existing aircraft and to accommodate the growth ambitions of the business (please see "Drive European expansion" paragraph of section 5 of Part 1 "Information relating to the Group" of this document.

Flybe has committed orders in place with:

- Bombardier for a further four Q400 aircraft (due for delivery between March and June 2011);
- Embraer for 35 E175 aircraft (due for delivery between September 2011 and October 2016);

In addition, Flybe has:

- options over 12 Q400 aircraft with Bombardier, exercisable at Flybe's discretion between January and December 2011 for delivery between April 2012 and March 2013. Flybe is not contractually committed to exercise such options and can let the options lapse without penalty;
- options over 77 E-series aircraft with Embraer, exercisable at Flybe's discretion between February 2011 and April 2019, for delivery between June 2012 and December 2020. Flybe is not contractually committed to exercise such options and can let the options lapse without penalty; and
- purchase rights with Embraer for a further 40 E-series aircraft (purchase rights have no contractual exercise or delivery dates, the delivery date becoming fixed once contracted). Flybe is not contractually committed to exercise such purchase rights and can let the purchase rights lapse without penalty. Flybe relinquishes the right to any purchase right aircraft not exercised on or before November 2017 and the contractual delivery dates to which these purchase rights can apply can be no later than December 2019.

The Directors intend that the committed new aircraft will be financed partly though cash flow and partly through external financing and leasing arrangements.

As at 31 October 2010, the Flybe options to purchase (exercisable at Flybe's discretion) for new aircraft deliveries were analysed as follows:

	Q400	E175	E195	E-series	Total
Number of seats per aircraft	78	88	118	n/a	n/m
Number of option aircraft	12	65	12	77	89
Exercisable (financial year):					
2010/2011	3	5	3	8	11
2011/2012	9	–	9	9	18
2012/2013	–	5	–	5	5
2013/2014	–	5	–	5	5
2014/2015	–	–	–	–	–
2015/2016	–	10	–	10	10
2016/2017	–	15	–	15	15
2017/2018	–	10	–	10	10
2018/2019	–	10	–	10	10
2019/2020	–	5	–	5	5
For delivery (financial year):					
2011/2012	–	–	–	–	–
2012/2013	12	4	8	12	24
2013/2014		3	4	7	7
2014/2015	–	3	–	3	3
2015/2016	–	2	–	2	2
2016/2017	–	8	–	8	8
2017/2018	–	12	–	12	12
2018/2019	–	12	–	12	12
2019/2020	–	12	–	12	12
2020/2021	–	9	–	9	9

Source: Unaudited management information.

In respect of the E195 aircraft, Flybe has agreed with the aircraft manufacturer to divide the options into four groups (each referred to as an "option group") of three aircraft, for which the exercise dates apply to a whole group. Should Flybe fail to exercise at least one option from any two consecutive option groups by the relevant due dates, then the Group loses all rights in respect of those option groups and any subsequent option groups.

In respect of the E175 aircraft, Flybe has agreed with the aircraft manufacturer to divide the options into thirteen groups (each referred to as an "option group") of five aircraft for which the exercise dates apply to the whole group. Should Flybe fail to exercise at least one option from any four consecutive option groups by the relevant due dates, then the Group loses all rights in respect of those option groups and any subsequent option groups.

6.7. Financing of the fleet

In order to maintain a modern fleet, the Group typically finances its aircraft, whether held under operating leases or owned outright by Flybe (with associated debt financing), over an 8 to 12 year period. After this period, aircraft are usually retired by returning them to the lessor or selling them in the second-hand market, thus avoiding the higher operational costs (such as fuel and maintenance) associated with older aircraft. The majority of the Group's fleet is financed in US dollars.

The table below summarises (i) the dates on which each of Flybe's 59 aircraft operating leases expire and (ii) the date on which the Directors anticipate each of Flybe's 9 owned aircraft will be retired from service (which matches the relevant final loan repayment dates for all bar one of these aircraft):

	E-Series		Q400		Total	
	Op. lease	Owned	Op. lease	Owned	Op. lease	Owned
Lease expiry date or anticipated retirement date from fleet						
2011/12	–	–	1	1	1	1
2012/13	–	–	1	1	1	1
2013/14	–	–	3	–	3	–
2014/15	3	–	2	–	5	–
2015/16	2	–	2	3	4	3
2016/17	–	–	5	1	5	1
2017/18	–	–	10	–	10	–
2018/19	3	–	6	3	9	3
2019/20	5	–	2	–	7	–
2020/21	1	–	5	–	6	–
2021/22	–	–	7	–	7	–
2022/23	–	–	1	–	1	–
Total	**14**	**–**	**45**	**9**	**59**	**9**

Source: Unaudited management information.

To date, Flybe has financed the majority of its fleet through operating leases. The two principal considerations on which Flybe has historically based its decision to finance the majority of its fleet by way of operating leases are:

- residual value of aircraft: the use of operating leases to finance aircraft reduces residual value risk because the Group typically operates the aircraft until expiry of its operating lease, and then returns it to the lessor, subject to agreed return conditions. In contrast, aircraft purchased using debt finance must either be sold or re-financed at the end of the financing period. If the decision is made to sell an aircraft, the proceeds will be dependent on the prevailing market, which is difficult to predict as it is typically eight to twelve years after initial purchase date; and
- cash flow: financing new aircraft by way of operating lease typically requires significantly less initial cash outlay than acquiring outright ownership of aircraft using debt finance. For example, an operating lease covering the full initial purchase price of an aircraft typically requires an initial cash deposit representing approximately three per cent. of the aircraft's value. In contrast, the Group's acquisition of outright ownership of an aircraft using debt finance has typically required an initial cash outlay of 15 to 20 per. cent or more of the purchase price of the aircraft, as the maximum loan to value ratio of debt funding available to the Group has usually been approximately 80 to 85 per cent.

While the Group's decision to date to finance the majority of its aircraft via operating leases minimises initial cash outlay and residual value risk, annual operating lease payments are typically up to fifteen per cent. higher than the corresponding ownership costs, including depreciation and interest payments due to the operating lessors profit margin and risk premium for assuming the residual value risk in the capital value of the aircraft.

Flybe has entered into a letter agreement with Embraer for the provision of debt financing for the purchase of all of the 35 committed E175 aircraft deliveries. Under this arrangement with Embraer, if BNDES (the Brazilian national development bank) is not able to provide finance for the delivery of a particular aircraft within agreed financial parameters by a specified date prior to the contractual delivery date in respect of that aircraft, and alternative financing arrangements cannot then be made through Embraer, Flybe is not obliged to accept delivery of that aircraft. Any PDPs paid by Flybe to Embraer would be repayable by Embraer in the event that Flybe terminates the delivery of an aircraft in such circumstances. If BNDES fails to provide the financing in respect of the delivery of a particular E175 aircraft (and alternative financing arrangements cannot be made through Embraer), this default does not impact on the delivery or financing obligations agreed to by Embraer in respect of subsequent committed E175 aircraft deliveries.

The terms of the debt financing are to be in accordance with the OECD Aircraft Sector Understanding on Export Credits for Civil Aircraft (the "ASU"), save that Flybe has secured additional terms that cap the interest rate costs related to the lender's cost of funding. The debt financing is for 85 per cent. of the net aircraft price. The Directors estimate that the margin, based on Flybe's previous ASU financings, is likely to be less than 200 basis points. At Flybe's election, financing may be provided directly to Flybe (in order for Flybe to purchase the aircraft) or to a third party aircraft lessor nominated by Flybe who will purchase the aircraft and subsequently lease it back to Flybe under an operating lease structure. Please see paragraph 6.5 of this Part 4 of this document for further details of the debt financing relating to the 35 committed Embraer 175 aircraft).

Flybe has signed a non-binding letter of intent with HEH for the financing of the four committed Q400 aircraft through an operating lease structure. Under the terms of the letter of intent, the financing for these aircraft will be by way of operating lease (over a 10 to 12 year period) using the same structure that Flybe has in place for 11 other Q400 aircraft already on lease from HEH. In a repeat of a previous Q400 operating lease structure provided to Flybe by HEH, HEH is seeking senior debt for 85 per cent. of the aircraft value from Export Development Canada ("EDC"), and the lending terms will be in accordance with the OECD aircraft sector understanding on export credits for civil aircraft.

If Flybe is not able to secure finance from EDC (or another senior debt provider) for the four committed Q400 aircraft, Flybe has agreed committed "backstop" financing with Bombardier for each of the committed Q400 aircraft deliveries. This committed "backstop" financing is debt financing for 80 per cent. of the net aircraft price, and is exercisable at Flybe's option in the three month period prior to the contracted delivery date of each aircraft.

The committed "backstop" financing is for 80 per cent. of the net aircraft price. The Directors intend to fund the remaining 20 per cent. payable in respect of each aircraft through existing cash resources.

Sub-lease arrangements

Flybe is currently sub-leasing with operating leases two Q400s from the SAS group. These aircraft are leased on a fixed rate US dollar monthly rental and are due to return to SAS during March 2011.

6.8 Covenants

Under the terms of its finance facilities, including its operating leases, Flybe is subject to a variety of covenants. Flybe has complied with such covenants for the period under review.

6.9 Dividends

No dividends were paid or declared by the Company during the period under review.

6.10 Off balance sheet arrangements and contingent liabilities

Other than for operating leases referred to at paragraph 6.7 of this Part 4 of this document and the arrangements referred to in section B of Part 5 "Financial Information relating to the Group" of this document, the Group had no other off balance sheet arrangements for the periods under review.

The Group has entered into arrangements to guarantee the Group's credit card arrangements and has placed bonds in favour of various handling agents, fuel suppliers and customs offices:

	As at 31 March			As at 30 September
	2008	2009	2010	2010
	£m	£m	£m	£m
Credit card arrangements	14.0	14.0	14.0	14.0
Bonds	5.1	10.0	7.8	7.0
	19.1	24.0	21.8	21.0
Cash deposited to secure the above arrangements	3.0	2.6	8.0	8.0

Source: Section B of Part 5 "Financial Information relating to the Group" of this document.

In order to secure some of the arrangements highlighted above, the Group deposited amounts with its bankers that are classified as part of other restricted cash.

7. Quantitative and qualitative disclosures about market risk

Flybe is exposed to market risks relating to fluctuations in fuel prices, interest rates, and currency exchange rates. The Group has adopted a series of treasury policies designed to reduce uncertainty around fuel prices, foreign exchange rates and interest rates.

Historically, the Group has reported its results under UK GAAP and has therefore been able to deal with hedging only at the time that the relevant instruments matured or were settled. Under IFRS, which have been retrospectively applied for the period from 1 April 2007, the fair value of any derivative financial instruments has been measured and recognised on the Group's balance sheet, with any movements in fair value, being recognised in the income statement.

Since 1 April 2010, Flybe has documented new fuel and foreign exchange hedges to meet the requirements for hedge accounting under IFRS such that the charge or credit to the income statement will be in the same period as the item of expenditure to which it relates.

Paragraph 7.4 of this Part 4 of this document details the fair value of the derivative financial instruments held as at 30 September 2010.

7.1. Fuel policies

The Group purchases aviation fuel on the open market from recognised fuel suppliers in order to operate its fleet of aircraft. Jet fuel costs represented 15.2 per cent. of Flybe's revenue in the 2009/10 Financial Year and 15.9 per cent. of Flybe's revenue for the 2010/11 First Half Year and, in recent years, fuel prices have been extremely volatile. The objective of the Group's fuel hedging policy is to manage the average effective price of fuel over the subsequent 12 months to 24 months, in order to allow the Group to build known fuel costs into its pricing decisions. In order to do this, the Group enters into forward derivative contracts on a monthly rolling basis to gain certainty over fuel prices and delivery and provide some certainty around cash outflows for the Group's fuel requirements. The Group typically has 60 per cent. of its fuel requirements for the subsequent rolling 12 month period fixed at any given time. The Group fixes up to a maximum of 90 per cent. of its requirements for the following season.

To mitigate such fuel price risk, the Group enters into derivative contracts (swaps and options) in the "over the counter market" ("OTC") that are relatively straight-forward in nature and do not expose the Group to risks it does not understand. This policy is designed to gain greater certainty over a significant proportion of the Flybe's future short-term fuel payments. However, in order to protect itself from being at a competitive disadvantage from falling prices, the Group regularly reviews its current fuel hedging portfolio and may, from time to time, reconsider the proportion of its fuel that it will hedge.

For the 2009/10 Financial Year, the Directors estimate that a general increase of one percentage point in fuel price per tonne, all other factors being equal, would have increased the Group's costs by approximately £0.5 million. For the 2010/11 First Half Year, the equivalent increase would have been £0.5 million. The effect of these derivatives upon completion of the underlying transaction is recorded in the income statement under costs for jet fuel.

7.2. Foreign currency

Flybe reports its financial results in pounds sterling. However, due to its international operations, Flybe also generates revenues and incurs expenses in Euros. The Group also incurs a significant amount of expenses in US dollars as a result of purchases of aircraft, spare parts and fuel in US dollars. As regards "net" foreign currency exposure (i.e. foreign currency expenditure less associated revenues), Flybe currently has a relatively small net exposure to Euro, but has to purchase a significant volume of US dollars to settle expenditure on items such as fuel, maintenance and aircraft operating leases. Flybe generates a very small proportion of its revenues in US dollars and actively manages its US dollar position through a foreign exchange forward purchase programme – see paragraph 3.1.3 of this Part 4 of this document for further details. To mitigate this risk, Flybe enters into a series of forward contracts in order to gain certainty over a significant proportion of its future US dollar payments.

The Group's borrowings are used to finance the purchase of aircraft and engines and are denominated in both Sterling and US dollars. To mitigate the interest rate risk on these borrowings, Flybe enters into a mix of fixed and floating borrowing arrangements to gain certainty over a significant proportion of its future interest payments.

For the 2009/10 Financial Year, it is estimated that a general increase of one percentage point in US dollar and Euro exchange rates would have increased the Group's costs by approximately £1.2 million and £0.1 million respectively and for the 2010/11 First Half Year by approximately £0.8 million and £nil respectively.

Monetary assets and liabilities denominated in foreign currencies are re-translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the consolidated income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

7.3. Interest rate management

The Group is exposed to interest rate risk as the Group borrows funds in order to finance the purchase of aircraft and engines at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix between fixed and floating rate borrowings. In addition, Flybe generates investment income from its cash balances that are largely derived by its operating activities, although the financing of aircraft can also have a significant impact.

For the 2009/10 Financial Year, it is estimated that a general increase of one percentage point in interest rates would have increased the Group's costs by approximately £0.1 million and for the 2010/11 First Half Year by approximately £0.1 million.

7.4. Amounts of derivative financial instruments

At 30 September 2010, the Group had hedge instruments recorded at their fair market value as follows:

	Fair market value
	£m
Forward fuel price contracts	1.6
Forward contracts for foreign exchange	(0.3)
Net asset position	**1.3**

Source: Section B of Part 5 "Financial Information relating to the Group" of this document.

Derivative financial instruments are classified as current or non-current, assets or liabilities depending on their market value and their maturity date. The Group does not engage in any trading activity in respect of the instruments and the instruments are all designed to hedge known exposures within the Group.

8. Critical accounting policies

Flybe's significant accounting policies are more fully described in the historical financial information, contained in section B of Part 5 "Financial Information relating to the Group" of this document, which has been prepared in accordance with IFRS.

The preparation of such financial information requires management to apply accounting methods and policies that are based on difficult or subjective judgments, estimates based on past experience and assumptions determined to be reasonable and realistic based on the related circumstances. The application of these estimates and assumptions affects the reported amounts of assets and liabilities and the disclosure of Flybe's contingent assets and liabilities at the balance sheet date and the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates given the uncertainty surrounding the assumptions and conditions upon which the estimates are based. Summarised below are those accounting policies that require management to use more subjective judgment when making assumptions or estimates regarding the effects of the matter that are inherently uncertain and for which changes in conditions may significantly affect the results reported in section B of Part 5 "Financial Information relating to the Group" of this document.

Flybe believes the following to be the most significant critical accounting policies used in the preparation of its consolidated financial information:

8.1. Carrying value of aircraft

The Group had a net book value of approximately £100.6 million in aircraft as at 30 September 2010. Changes to the Group's estimation of useful lives, residual values and potential for impairment would have a material effect on the valuation of the Group's assets and on its operating profit.

Useful lives and residual values are reviewed at the end of each reporting period. Estimates of useful lives of aircraft are based on judgements as to expected usage of the aircraft, timing of maintenance events, the Group's route and fleet plans and on changes within the wider aviation industry. Estimates of residual value are based on current market values of aircraft in the same expected age and condition expected at the end of the asset's useful life to the Group.

The carrying value of aircraft, property, equipment and other tangible assets is reviewed for impairment at least annually and when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that would indicate a potential impairment of aircraft would include a significant reduction in market values based on appraisers' data for the aircraft type, a significant change in the physical condition of the aircraft and a reduction in forecast cash flows arising from operating the asset.

8.2. Aircraft maintenance

On acquisition of an aircraft, a proportion of the cost of the aircraft is allocated to engines and other material components with different useful lives to the airframe. Judgement is required to determine the amount of cost to allocate based on the estimated cost of overhauling the component, and the time between maintenance events.

For aircraft held under operating leases, the Group has a commitment to return the aircraft in a specific maintenance condition at the end of the lease term. Estimating the provision for maintenance costs requires judgement as to the cost and timing of future maintenance events. This estimate is based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations.

8.3. Recognition of deferred tax assets

The Group recognises deferred tax assets and liabilities based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are reviewed regularly to assess potential realisation and the portions of such assets that the Directors believe will not be ultimately realised are not recorded. In performing this review, Flybe makes estimates and assumptions regarding projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. A change in these assumptions could cause an increase or decrease in the amount recognised resulting in an increase or decrease in the effective tax rate, which could materially impact the results of operations. During the 2010/11 First Half Year, the Directors recorded £2.7 million of previously unrecorded assets due to a change in the Group's future estimated profitability attributable to the Directors' expectation that both the Group itself and the airline industry as a whole would see increasing profitability over the next 18 months.

8.4. Impact of potential future accounting policies

In addition to the critical accounting polices mentioned in paragraphs 8.1 to 8.3 of this Part 4 of this document, lease accounting requirements have a significant impact on Flybe's financial statements, as it finances the majority of its aircraft under operating lease arrangements. The accounting for leases is being revised and an Exposure Draft of a proposed new accounting standard has been released by the International Accounting Standards Board. The proposed changes, which would mean that more leases would be recognised on the balance sheet, would lead to a higher level of leased assets and financial obligations being reported. If this Exposure Draft becomes an IFRS, the amount currently charged to the income statement as aircraft rental costs would change with one component of it being reported as depreciation while another component would be recognised as interest on the lease liability. The sum of these two figures may or may not equal the amount currently reported as aircraft rental costs due to differences in the detail of the calculations. In addition, the balance on accumulated equity may also be different to that currently reported. The disclosures in the Group's cash flow statement will also change, although there will be no overall impact on the actual cash balances reported as a result of these proposals. It is expected that the Exposure Draft will become an IFRS in the second calendar quarter of 2011 and that the earliest financial statements that may be affected will be those for the year to 31 March 2012. The Directors are in the process of assessing what the possible impact of these draft proposals on its consolidated financial statements might be.

PART 5

FINANCIAL INFORMATION RELATING TO THE GROUP

A. Accountants' report on the Historical Financial Information

Deloitte LLP
2 Hardman Street
Manchester
M60 2AT

The Board of Directors
on behalf of Flybe Group plc
Jack Walker House
Exeter International Airport
Exeter
Devon
EX5 2HL

Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

10 December 2010

Dear Sirs

Flybe Group plc

We report on the financial information set out in section B of Part 5 of the prospectus dated 10 December 2010 of Flybe Group plc (the "Company" and, together with its subsidiaries, the "Group") (the "Prospectus"). This financial information has been prepared for inclusion in the Prospectus on the basis of the accounting policies set out in note 2 to the financial information. This report is required by Annex I item 20.1 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

We have not audited or reviewed the financial information for the six months ended 30 September 2009 and accordingly do not express an opinion thereon.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in note 2 to the financial information and in accordance with IFRS as adopted by the EU.

It is our responsibility to form an opinion as to whether the financial information gives a true and fair view, for the purposes of the Prospectus, and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work 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 information is free from material misstatement whether caused by fraud or other irregularity or error.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the state of affairs of the Group as at the dates stated and of its profits and losses, comprehensive income, changes in equity and cash flows for the periods then ended in accordance with the basis of preparation set out in note 2 and in accordance with IFRS as adopted by the EU.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 and Annex III item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Member of Deloitte Touche Tohmatsu Limited

B. Historical Financial Information

Consolidated Income Statement

	Note	Year ended 31 March			6 months ended 30 September	
		2008	2009	2010	2010	2009
		£m	£m	£m	£m	£m (unaudited)
Ticket revenue		450.1	461.6	434.7	241.3	235.5
Ancillary revenue		56.3	75.3	86.0	52.3	45.1
Aircraft maintenance and other revenue		29.5	36.2	49.8	27.4	22.2
Revenue	5	535.9	573.1	570.5	321.0	302.8
Staff costs		(106.1)	(111.3)	(111.7)	(53.3)	(57.6)
Fuel		(85.1)	(118.7)	(86.6)	(51.0)	(47.1)
Net airport and en route charges		(92.6)	(103.8)	(111.3)	(63.2)	(61.7)
Ground operations		(79.6)	(86.5)	(83.7)	(44.2)	(42.2)
Maintenance		(27.7)	(23.4)	(29.0)	(17.1)	(16.4)
Depreciation and amortisation		(16.0)	(12.0)	(16.8)	(10.5)	(10.6)
Aircraft rental charges		(50.4)	(61.0)	(63.7)	(38.9)	(29.6)
Marketing and distribution costs		(26.6)	(26.5)	(24.1)	(12.1)	(12.0)
Other operating gains or (losses)		(0.2)	8.4	2.5	(0.9)	2.4
Other operating expenses		(38.6)	(39.1)	(35.7)	(18.5)	(16.0)
Operating profit / (loss) before integration costs, Initial Public Offering ("IPO") expenses and unrealised gains and losses on fuel and foreign exchange hedges		13.0	(0.8)	10.4	11.3	12.0
Integration costs	6	(4.9)	(8.5)	–	–	–
IPO expenses incurred	6	–	–	(1.1)	(1.1)	–
Unrealised gains/ (losses) on fuel and foreign exchange hedges	24	8.1	(16.5)	18.3	(5.4)	14.6
Operating profit / (loss)		16.2	(25.8)	27.6	4.8	26.6
Investment income	7	4.5	1.8	0.2	0.1	0.2
Finance costs	7	(8.7)	(6.5)	(4.1)	(1.3)	(2.5)
Other gains and losses	8	1.3	(3.2)	0.9	(1.9)	1.7
Profit / (loss) before tax	5	13.3	(33.7)	24.6	1.7	26.0
Tax credit / (charge)	9	2.2	5.7	(2.4)	5.4	(1.7)
Profit / (loss) for the year / period		15.5	(28.0)	22.2	7.1	24.3
Earnings / (loss) per share:						
Basic and diluted	10	£7.38	£(13.34)	£10.59	£3.36	£11.56

Notes 1 to 30 form part of the financial information

Consolidated Statements of Comprehensive Income

	Note	Year ended 31 March			6 months ended 30 September	
		2008	2009	2010	2010	2009
		£m	£m	£m	£m	£m (unaudited)
Profit / (loss) for the year / period		15.5	(28.0)	22.2	7.1	24.3
Actuarial gains/ (losses) on defined benefit pension schemes	22	1.8	–	(4.7)	6.0	–
Gains arising during the period on cash flow hedges		–	–	–	0.1	–
Other comprehensive income / (loss) for the year / period		1.8	–	(4.7)	6.1	–
Total comprehensive income / (loss) for the year / period		17.3	(28.0)	17.5	13.2	24.3

Notes 1 to 30 form part of the financial information

Consolidated Balance Sheets

	Note	31 March 2008	31 March 2009	31 March 2010	30 September 2010
		£m	£m	£m	£m
Non-current assets					
Intangible assets	11	9.9	11.1	10.4	10.6
Property, plant and equipment	12	151.5	133.8	129.9	121.5
Other non-current assets	13	21.4	26.0	32.1	33.2
Restricted cash	17	4.4	8.3	8.0	9.1
Deferred tax asset	9	4.4	8.6	7.1	9.5
Derivative financial instruments	14	6.3	5.6	–	–
		197.9	193.4	187.5	183.9
Current assets					
Inventories	15	7.3	7.5	6.1	7.0
Trade and other receivables	16	77.0	92.5	71.7	74.7
Cash and cash equivalents	17	59.4	44.7	46.1	24.7
Restricted cash	17	3.7	3.6	8.0	8.0
Derivative financial instruments	14	5.3	20.2	10.1	3.3
Assets held for sale	18	–	1.6	0.6	0.6
		152.7	170.1	142.6	118.3
Total assets		350.6	363.5	330.1	302.2
Current liabilities					
Trade and other payables	19	(83.3)	(82.9)	(88.3)	(88.8)
Deferred income		(47.6)	(52.8)	(64.4)	(38.9)
Borrowings	20	(43.2)	(33.1)	(9.7)	(13.5)
Provisions	21	(5.0)	(31.3)	(24.7)	(26.5)
Derivative financial instruments	14	(1.8)	(41.9)	(2.9)	(2.0)
		(180.9)	(242.0)	(190.0)	(169.7)
Non-current liabilities					
Borrowings	20	(94.9)	(78.2)	(73.8)	(58.6)
Deferred tax liabilities	9	(12.0)	(10.5)	(11.4)	(8.4)
Provisions	21	(17.8)	(12.1)	(19.2)	(22.2)
Deferred income		(8.8)	(11.9)	(9.4)	(8.4)
Employee benefits	22	–	–	(4.8)	–
Derivative financial instruments	14	(4.9)	(5.2)	–	–
		(138.4)	(117.9)	(118.6)	(97.6)
Total liabilities		(319.3)	(359.9)	(308.6)	(267.3)
Net assets		31.3	3.6	21.5	34.9
Equity attributable to owners of the company					
Share capital	23	–	–	–	–
Share premium		1.0	1.0	1.0	1.0
Hedging reserve		–	–	–	0.1
Other reserves		6.7	6.7	6.7	6.7
Capital redemption reserve		8.4	22.5	22.5	22.5
Retained earnings / (deficit)		15.2	(26.6)	(8.7)	4.6
Total equity		31.3	3.6	21.5	34.9

Notes 1 to 30 form part of the financial information

Consolidated Statements of Changes in Equity
for each of the years ended 31 March 2008, 2009 and 2010 and the six months ended 30 September 2010

	Note	Share Capital	Share premium	Hedging reserve	Other reserves	Capital redemption reserve	Retained earnings/ (deficit)	Total equity
		£m	£m	£m	£m	£m	£m	£m
Balance at 1 April 2007		–	1.0	–	6.7	–	6.0	13.7
Total comprehensive income for the year		–	–	–	–	–	17.3	17.3
Redemption of preference shares	23	–	–	–	–	8.4	(8.4)	–
Equity-settled share-based payment transactions	22	–	–	–	–	–	0.3	0.3
Balance at 31 March 2008		–	1.0	–	6.7	8.4	15.2	31.3
Total comprehensive income for the year		–	–	–	–	–	(28.0)	(28.0)
Redemption of preference shares	23	–	–	–	–	14.1	(14.1)	–
Equity-settled share-based payment transactions	22	–	–	–	–	–	0.3	0.3
Balance at 31 March 2009		–	1.0	–	6.7	22.5	(26.6)	3.6
Total comprehensive loss for the year		–	–	–	–	–	17.5	17.5
Equity-settled share-based payment transactions		–	–	–	–	–	0.4	0.4
Balance at 31 March 2010		–	1.0	–	6.7	22.5	(8.7)	21.5
Total comprehensive income for the period		–	–	0.1	–	–	13.1	13.2
Equity-settled share-based payment transactions	22	–	–	–	–	–	0.2	0.2
Balance at 30 September 2010		–	1.0	0.1	6.7	22.5	4.6	34.9

Notes 1 to 30 form part of the financial information

Consolidated Cash Flow Statements

	Note	Year ended 31 March 2008 £m	Year ended 31 March 2009 £m	Year ended 31 March 2010 £m	6 months ended 30 September 2010 £m	6 months ended 30 September 2009 £m (unaudited)
Cash flows from operating activities						
Profit / (loss) for the year / period		15.5	(28.0)	22.2	7.1	24.3
Adjustments for:						
Unrealised gains and losses on fuel hedges	24	(8.1)	16.5	(18.3)	5.4	(14.6)
Depreciation, amortisation and impairment	11, 12	18.3	14.8	16.8	10.5	10.6
Investment income	7	(4.5)	(1.8)	(0.2)	(0.1)	(0.2)
Finance costs	7	8.7	6.5	4.1	1.3	2.5
Other gains and losses	8	(1.3)	3.2	(0.9)	1.9	(1.7)
Gain on sale of property, plant and equipment and assets held for sale	12	(0.2)	(0.2)	(0.5)	(0.4)	(2.3)
Loss on sale of subsidiary		0.1	–	–	–	–
Equity-settled share-based payment expenses	22	0.3	0.3	0.4	0.2	0.1
Taxation		(2.2)	(5.7)	2.4	(5.4)	1.7
		26.6	5.6	26.0	20.5	20.4
(Increase) / decrease in restricted cash		(4.5)	(3.8)	(4.1)	(1.1)	3.2
Increase / (decrease) in trade and other receivables		2.9	(0.9)	14.5	(4.0)	16.5
(Decrease) / increase in inventories		(0.4)	(0.1)	1.4	(0.9)	(0.1)
(Increase) / decrease in trade and other payables		(5.7)	25.1	(1.2)	(27.6)	(27.7)
Decrease in assets held for sale		–	–	1.9	0.1	1.2
(Increase) / decrease in provisions and employee benefits		(21.6)	(6.9)	1.7	5.0	2.9
		(29.3)	13.4	14.2	(28.5)	(4.0)
Tax (paid) / received		–	–	–	–	–
Net cash from operating activities		(2.7)	19.0	40.2	(8.0)	16.4
Cash flows from investing activities						
Proceeds from sale of property, plant and equipment		58.8	22.2	78.3	11.9	20.8
Interest received		4.5	1.8	0.2	0.1	0.2
Acquisition of property, plant and equipment	12	(50.1)	(8.2)	(90.5)	(12.7)	(75.4)
Capitalised development expenditure	11	(1.6)	(1.3)	(0.4)	(0.7)	(0.2)
Acquisition of landing rights	11	(3.2)	(0.9)	–	–	–
Net cash from investing activities		8.4	13.6	(12.4)	(1.4)	(54.6)
Cash flows from financing activities						
Proceeds from new loans		44.1	7.8	62.2	2.2	58.5
Redemption of preference shares		(8.4)	(14.1)	–	–	–
Finance lease interest paid		(0.4)	–	–	–	–
Interest paid		(8.3)	(6.5)	(4.1)	(1.3)	(2.5)
Repayment of borrowings		(70.5)	(34.5)	(84.5)	(12.9)	(36.5)
Payment of finance lease liabilities		(35.5)	–	–	–	–
Net cash from financing activities		(79.0)	(47.3)	(26.4)	(12.0)	19.5
Net (decrease) / increase in cash and cash equivalents		(73.3)	(14.7)	1.4	(21.4)	(18.7)
Cash and cash equivalents at 1 April and 1 October		132.7	59.4	44.7	46.1	44.7
Cash and cash equivalents at 31 March / 30 September	17	59.4	44.7	46.1	24.7	26.0

Notes 1 to 30 form part of the financial information

1. General information

Flybe Group plc ("Flybe", together with its subsidiaries, the "Group") is a company incorporated in the United Kingdom under the Companies Act 2006. The recent expansion plans of the Group included the business acquisition of British Regional Air Lines Group Limited ("BA Connect") on 5 March 2007.

The principal activities of the Group are that of airline services to ticketed passengers, ancillary services including baggage carriage and advanced seat assignments and the provision of aircraft maintenance services to customers.

As a whole, the airline industry has been affected by the global economic downturn which led to an industry-wide reduction in passenger numbers. The impact on the Group was predominantly to cause a shortfall in passenger sales against planned seat capacity which led to Flybe experiencing surplus capacity and costs in excess of that which the actual level of demand could profitably support. In response, the Group initiated actions such as reducing flight frequencies, deferring aircraft orders, selling two aircraft and wet leasing four aircraft to Olympic Air. Throughout this time the Directors continuously assessed liquidity requirements and implemented working capital improvement measures as required.

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 this document and will be able to meet its operating lease and other commitments as well as debt repayments as they become due.

The Directors continue to consider the uncertainties presented by current economic conditions in the aviation sector and specifically in relation to passenger volumes and yields, fuel prices, foreign exchange, route selection and investment in new aircraft and to assess any actions they consider necessary.

2. Accounting policies

Basis of preparation

This Historical Financial Information ("HFI") has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") and IFRIC interpretations. The HFI has been prepared under the historical cost convention except for certain financial instruments that are recorded at fair value. A summary of the more important Group accounting policies is set out below.

Flybe has historically reported under UK Generally Accepted Accounting Practice ("UK GAAP") and accounts have been prepared under IFRS for the first time for the purpose of presentation in this document. An explanation of the changes on transition to IFRS is presented in note 30.

This HFI is presented in pounds sterling and the functional currency of the Company and each of its subsidiaries is also pounds sterling because that is the currency of the primary economic environment in which they operate. Foreign operations are included in accordance with the policies set out below.

Basis of consolidation

The HFI incorporates the results and net assets of Flybe Group plc and its subsidiaries. Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the HFI from the date that control commences until the date that control ceases.

Inter-group balances and transactions and any unrealised gains and losses arising from intra-group transactions are eliminated in preparing the HFI.

Business combinations

The cost of a business combination is measured as the aggregate of the fair values at the date of exchange of assets given and liabilities incurred or assumed in exchange for control. The assets and liabilities and contingent liabilities of the acquired entity are measured at their fair values at the date of acquisition. When the initial accounting for a business combination is determined provisionally, any adjustments to the provisional values allocated are made within 12 months of the acquisition date and are effected prospectively from that date.

Where the cost of a business combination exceeds the net fair value of the acquired assets, liabilities and contingent liabilities, goodwill is recognised as an asset and initially measured at cost. Where the net fair value of the acquired assets, liabilities and contingent liabilities exceeds the cost of a business combination, the identification of acquired assets, liabilities and contingent liabilities is reassessed before recognising the excess immediately in the income statement.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and comprises:

Ticket revenue

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

For flights purchased by members of the 'Frequent Flyer Programme', 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 fair value of an equivalent flight.

Ancillary revenue

Ancillary revenues (comprising principally baggage carriage, advanced seat assignment, commissions, change fees and credit card fees due to the Group) 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 deferred to the extent that it relates to free flights which the Group is required to offer as part of the transaction. Commission received in excess of the sales value of free flights granted to card-holders is recognised immediately as revenue. Revenue associated with free flights is recognised when the related flights are taken.

Aircraft maintenance and other revenue

These represent the amounts derived from the provision of goods and services to customers during the year, including aircraft maintenance, overhauls and the associated rotable and consumable parts. The amount of profit attributable to the stage of completion of an engine and maintenance overhaul is recognised when the outcome of the contract can be foreseen with reasonable certainty. Revenue for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Other revenues, such as for cargo and wet-leasing, are recognised in the period when the services are provided.

Interest revenue

Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Foreign currencies

Transactions arising, other than in the functional currency, are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are re-translated using the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences are recognised in the income statement in the period in which they arise.

Leases

Operating leases

Rental charges on operating leases are charged to the income statement on a straight-line basis over the life of the lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the life of the respective asset.

Sale and leaseback

The Group enters into sale and leaseback transactions whereby it sells aircraft, or rights to acquire aircraft, to a third party. Flybe subsequently leases the aircraft back, by way of operating lease. Any profit on the disposal, where the price that the aircraft is sold for is not considered to be fair value, is deferred and amortised over the lease term of the asset.

Amounts paid for purchase rights (being pre-delivery deposits) for aircraft are considered to be non-monetary assets, property, plant, and equipment.

Finance leases

Where the Group enters into a lease which entails taking substantially all the risk and rewards or ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as property, plant, and equipment, and is depreciated over the estimated useful life to the Group. The asset is recorded at the lower of its fair value, less accumulated depreciation, and the present value of the minimum lease payments at the inception of the finance lease. Future instalments under such leases, net of finance charges, are included as obligations under finance leases. Rental payments are apportioned between the finance element, which is charged to the income statement, and the capital element which reduces the outstanding obligation for future instalments. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their utilisation to acquire qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Once such assurance exists, government grants are either recognised in the income statement or, where related to property, plant, and equipment are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

Operating profit/(loss)

Operating profit/(loss) is stated as profit/(loss) before tax, investment income, finance costs and other gains and losses.

Employee benefit costs

The Group operates defined contribution and defined benefit pension schemes.

For the defined contribution schemes, the assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged to the income statement represents the contributions payable to the schemes in respect of the accounting period.

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The liability discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

All actuarial gains and losses are recognised outside of profit in other comprehensive income in the period when they occur. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The net surplus or deficit arising on the Group's defined benefit schemes is shown within non-current assets or liabilities on the balance sheet. The deferred tax impact of any such amount is disclosed separately within deferred tax.

The expected cost of compensated holidays is recognised at the time that the related service is provided.

Share-based payments

Equity-settled share-based payments are measured at fair value at the grant date. The fair value excludes the effect of non market-based vesting conditions, which are that the grants vest on either a trade sale or IPO and the person holding the grant is still employed at that date. The fair value is expensed to the income statement evenly over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. The vesting date is based upon management's estimate of when the IPO will take place. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market vesting conditions.

Taxation including deferred tax

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

The tax currently payable is based on taxable profit/(loss) for the year. Taxable profit/(loss) differs from net profit/(loss) as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, plant and equipment

Property, plant, and equipment are stated at cost, less accumulated depreciation and impairment losses. Aircraft and engines and other associated equipment are classified as aircraft. All other equipment is classified as plant and equipment.

Period of depreciation

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

Freehold land	nil
Freehold and short leasehold buildings	10 per cent. per annum or lease term where shorter
Plant, equipment and motor vehicles	10 per cent. to 50 per cent. per annum
Aircraft	7 per cent. to 20 per cent. per annum
Maintenance assets	25 per cent. to 50 per cent. per annum

Estimated residual values are reviewed annually at each period end, with reference to current market conditions. Where estimated residual values are found to have changed significantly, then this is accounted for prospectively as a change in estimate and depreciation charged over the remaining useful life of the asset is adjusted to take account of the revised estimate of residual value.

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframe and is amortised over a period from one to five years from the date of purchase to the date of the next scheduled maintenance event for the component. Subsequent costs, such as long-term scheduled maintenance and major overhaul of aircraft, are capitalised and amortised over the length of period benefiting from these costs. All other costs relating to maintenance are charged to the income statement 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.

Advance payments and option payments made in respect of aircraft purchase commitments and options to acquire aircraft where the balance is expected to be funded by mortgage financing are recorded at cost in prepayments. On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date. Where the balance of the aircraft purchase payment is expected to be funded by lease financing, the advance payments are classified as current and non-current prepayments.

Intangible assets

Computer software

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to and has the technical ability and sufficient resources to complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Computer software is carried at cost less accumulated amortisation. It is amortised on a straight-line basis over its useful economic life of five years.

Landing rights

Intangible assets acquired are recognised to the extent it is probable that expected future benefits will flow to the Group and the associated costs can be measured reliably. Landing rights acquired either as part of a business combination or separately are capitalised at fair value at that date and are not amortised where those rights are considered to be indefinite. Landing rights are considered to have an indefinite life only when they will remain available for use for the foreseeable future provided minimum utilisation requirements are met. The carrying value of these rights is subject to impairment testing annually or when events or changes in circumstances indicate that carrying values may not be recoverable.

Disposals of property, plant, equipment and intangible assets

The gain or loss on disposal of property, plant, equipment and intangible assets after deducting any costs associated with selling, disposing of or retiring the relevant asset are recognised in the income statement and reported under other operating gains or losses.

Impairment of tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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.

Non-current assets held for sale

Where assets are available for sale in their current condition, and their disposal is highly probable (there is a committed plan to sell the asset and management has initiated the process to locate a buyer), they are reclassified as held for sale. Assets held for sale are measured at the lower of their carrying value and the fair value less costs to sell. Depreciation on fixed or intangible assets ceases at the point of their reclassification to assets held for sale.

Inventories

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

Aircraft consumables

These comprise aircraft parts which are non-repairable and non-renewable. 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 for third parties is based upon direct cost together with attributable overheads and profit based on the stage of completion of the contract. Materials issued from stores are valued as detailed above under 'aircraft consumables'. Other direct materials are valued at actual cost. Labour and attributable overhead rates are based upon normal levels of activity. When it is probable that maintenance contract costs will exceed maintenance contract revenue, the expected loss is recognised as an expense immediately.

Financial instruments

Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial assets

All financial assets are recognised and derecognised on the trade date where the purchase or sale of the financial asset is under a contract the terms of which require delivery of the financial asset within the timeframe established by the market concerned. Initially they are measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss ("FVTPL") or at fair value designated and effective as hedges, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at FVTPL', financial assets that are designed and effective as hedging instruments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group held no available for sale ("AFS") or held-to-maturity ("HTM") financial assets during the HFI period.

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL. A fuel or foreign exchange hedging instrument is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument. A fuel or foreign exchange hedging instrument may be designated as at FVTPL upon initial recognition if the instrument forms part of a Group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in the income statement. The net gain or loss recognised in the income statement incorporates any dividend or interest earned on the financial asset and is included in the 'unrealised gains and losses on fuel hedges' line item or 'other gains and losses' line item in the income statement depending upon the nature of the instrument. Fair value is determined in the manner described in note 24.

De-recognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Derivative financial instruments

The Group is exposed to market risks relating to fluctuations in commodity prices, interest rates and currency exchange rates. The objective of financial risk management is to minimise the impact of commodity prices, interest rate and foreign exchange fluctuations on the Group's earnings, cash flows and equity.

Derivative financial instruments are stated at fair value. Recognition of any resultant gain or loss depends on whether hedge accounting is in place for the particular item and on the nature of the item being hedged. When the hedge is not effective, as defined by IFRS, any gains and losses arising on changes to fair values are recognised immediately in the income statement. For the three years ended 31 March 2010, hedge accounting under IFRS was not in place. For instruments entered into from 1 April 2010, the Group's policy is to designate them, where appropriate, as cash flow hedges that comply with the requirements under IFRS for hedge accounting (see below).

The fair value of forward foreign exchange contracts and jet fuel contracts is their quoted market price at the balance sheet date, being the present value of the forward quoted price.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL'; financial liabilities that are designated and effective as hedging instruments or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. A fuel or foreign exchange hedging instrument is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument. A fuel or foreign exchange hedging instrument may be designated as at FVTPL upon initial recognition if the instrument forms part of a Group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'unrealised gains and losses on fuel hedges' line item or 'other gains and losses' line item in the income statement. Fair value is determined in the manner described below.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

De-recognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Hedge accounting

The Group designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges.

At the inception of the hedge relationship, in order to qualify for hedge accounting, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Movements in the hedging reserve are detailed in the statement of changes in equity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement, and is included in the 'other gains and losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to the income statement in the periods when the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision 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 the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Leased aircraft maintenance provisions

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 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:

- 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 its half life (or another measure depending on the individual lease) and compensation would be due to the lessor in accordance with the terms of the lease, 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.
- After a component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the specified work, a full provision for the cost of work is recorded. To the extent that this provision represents an increase to the half-life compensation provision already recorded a maintenance asset is recorded 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 maintenance paid to maintenance providers to cover the cost of the work is deemed to be irrecoverable, 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. Maintenance deposits which are refundable are recorded as other receivables.

Estimates are required to establish the likely utilisation of the aircraft, the expected cost of a maintenance check at the time it is expected to occur, the condition of an aircraft and the lifespan of 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.

Integration provisions

A provision is recognised when the Group has developed a detailed formal plan for the integration and has raised a valid expectation in those affected that it will carry out the integration by starting to implement the plan or announcing its main features to those affected by it. The measurement of an integration provision includes only the direct expenditures arising from the integration, which are those amounts that are both necessarily entailed by the integration and not associated with the ongoing activities of the entity.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. For leases acquired as part of a business combination, an onerous lease provision arises where the commitment under the lease contract exceeds the fair value of the liability acquired.

Cash and cash equivalents

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

Cash equivalents are current asset investments which are readily convertible into known amounts of cash at or close to their carrying values or traded in an active market, without curtailing or disrupting the business.

Restricted cash

Restricted cash represents funds held by the Group in bank accounts which cannot be withdrawn until certain conditions have been fulfilled. The aggregate restricted funds balance is disclosed by way of a note to these financial statements and is classified as a current or non-current asset based on the estimated remaining length of the restriction.

3. Adoption of new and revised Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	*Financial Instruments – Classification and Measurement*
Amendments to IFRS 7	*Financial Instruments – Disclosures*
Improvements to IFRSs (May 2010) . .	

The directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group.

4. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires the Directors to make judgements and use estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on historical experience and other factors that are considered to be relevant, events or actions may mean that actual results ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Carrying value of aircraft

At 30 September 2010, the Group owns aircraft with a net book value of approximately £100.6 million. Changes to the Group's estimation of useful lives, residual values and the potential for impairment would have a material effect on the valuation of the Group's assets and its operating profit / (loss).

Useful lives and residual values are reviewed at the end of each reporting period. Estimates of useful lives of aircraft are based on judgements as to expected usage of the aircraft, timing of maintenance events, the Group's route and fleet plans and on changes within the wider aviation industry. Estimates of residual value are based on current market values of aircraft in the same expected age and condition expected at the end of the asset's useful life to the Group.

The carrying value of aircraft, property, equipment and other tangible assets is reviewed for impairment at least annually and when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that would indicate a potential impairment of aircraft would include a significant reduction in market values based on appraisers' data for the aircraft type, a significant change in the physical condition of the aircraft and a reduction in forecast cash flows arising from operating the asset. Carrying value is then assessed based upon appraisers' data and forecast cash flows.

Aircraft maintenance

On acquisition of an aircraft, a proportion of the cost of the aircraft is allocated to engines and other material components with different useful lives to the airframe. Judgement is required to determine the amount of cost to allocate based on the estimated cost of overhauling the component, and the time between maintenance events. The judgement affects the amounts that are recognised as a depreciation expense given the different useful lives of components.

For aircraft held under operating leases, the Group has a commitment to return the aircraft in a specific maintenance condition at the end of the lease term. Management is required to estimate the provision for maintenance costs required including the cost and timing of future maintenance events. This estimate is based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations. Any change in these assumptions could potentially result in a significant change to the maintenance provisions and costs in future periods.

Recognition of deferred tax assets

The Group recognises deferred tax assets and liabilities based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are reviewed regularly to assess potential realisation and the portions of such assets that the Directors believe will not be ultimately realised are not recorded. In performing this review, Flybe makes estimates and assumptions regarding projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. A change in these assumptions could cause an increase or decrease in the amount recognised resulting in an increase or decrease in the effective tax rate, which could materially impact the results of operations. During the 2010/11 First Half Year, the Directors recorded £2.7 million of previously unrecorded assets due to a change in the Group's future estimated profitability attributable to the Directors' expectation that both the Group itself and the airline industry as a whole would see increasing profitability over the next 18 months.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Acquisitions and integration costs

On acquisition of BA Connect on 5 March 2007, estimates were made of the fair value of the assets acquired and liabilities incurred based on market values at the date of acquisition and estimated future cash flows arising from those assets or liabilities. The allocated fair values were provisional and where changes were noted during the year to 4 March 2008, these changes were accounted for as an adjustment to goodwill in the year ended 31 March 2008. However, where changes to estimates were noted after 5 March 2008, these were accounted for as changes of estimate in the period in which they were identified.

Employee benefits

The Directors have determined that the surplus of assets over projected liabilities within the defined benefit pension scheme should not be recognised on the basis that there is insufficient certainty that this surplus will be recoverable by the Group when the scheme has eventually settled all of its obligations.

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events including, but not limited to, discount rates, life expectancy, future pay inflation, expected rate of return on plan assets and expected health care cost trend rates. Determination of the projected benefit obligations for the Group's defined benefit schemes and post-retirement plans are important to the recorded amount of benefit expense in the income statement and valuation of the balance sheet. Details of the assumptions used are included in note 22. Any change in these assumptions could potentially result in a significant change to the pension assets, commitments and pension costs in future periods.

5. Segmental analysis

Operating segments are reported in a manner which is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for resource allocation and assessing performance of the operating segment has been identified as the Operating Board. The Group's operating segments are as follows:

Airline	The Airline business segment comprises the Group's main scheduled passenger operations and revenues ancillary to the provision of those services. The Airline business provides services between European airports.
Aviation Services . .	The Aviation Services segment comprises the Group's provision of goods and services to customers during the period, including aircraft maintenance, overhauls and the associated rotable and consumable parts. Training and other non-Airline related-activities are also included due to their relatively small impact on the segment's results.

Segment result

Segment result is profit before tax, integration costs, IPO expenses, unrealised gains and losses on fuel and foreign exchange and reversal of negative goodwill amortisation. The segment financial information used is based on UK GAAP and as a consequence of this the profit measure excludes unrealised gains and losses on fuel and foreign exchange and includes goodwill amortisation. This impacts the segment result only.

Transfer prices between business segments are set on an arm's length basis.

Segment revenues and results

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Segment revenues:					
Airline	512.4	548.3	542.3	308.1	288.3
Aviation Services	42.2	46.2	45.2	20.0	22.2
Inter-segment sales	(18.7)	(21.4)	(17.0)	(7.1)	(7.7)
Group revenues (excluding investment income)	535.9	573.1	570.5	321.0	302.8
Segment results:					
Airline segment result (including finance costs of £2.9 million in 2008; £7.9 million in 2009 and £3.0 million in 2010; £3.1 million September 2010; £0.6 million in September 2009)	34.4	5.1	6.2	8.5	10.7
Aviation Services segment result	0.9	3.4	1.6	(0.3)	1.1
Total segment results	**35.3**	**8.5**	**7.8**	**8.2**	**11.8**
Reconciliation to IFRS:					
Reversal of negative goodwill amortisation (note 30)	(25.2)	(17.2)	(0.4)	–	(0.4)
Unrealised gains and losses on fuel and foreign exchange hedges	8.1	(16.5)	18.3	(5.4)	14.6
	18.2	(25.2)	25.7	2.8	26.0
Other items not allocated:					
Integration costs in relation to the BA Connect acquisition (note 6)	(4.9)	(8.5)	–	–	–
IPO expenses (note 6)	–	–	(1.1)	(1.1)	–
Profit / (loss) before tax	**13.3**	**(33.7)**	**24.6**	**1.7**	**26.0**

Segment assets and liabilities

For the purposes of monitoring segment performance and allocating resources between segments the Operating Board monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of revalued open fuel and foreign exchange derivatives and tax assets and liabilities. Assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual reportable segments.

	31 March 2008	31 March 2009	As at 31 March 2010	30 September 2010
	£m	£m	£m	£m
Segment assets:				
Airline	311.9	282.6	252.0	206.9
Aviation Services	22.6	46.3	61.0	82.5
Total segment assets	334.5	328.9	313.0	289.4
Unallocated assets	16.1	34.6	17.1	12.8
Consolidated total assets	350.6	363.5	330.1	302.2

	As at 31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Segment liabilities:				
Airline	(284.4)	(257.4)	(231.2)	(185.9)
Aviation Services	(21.8)	(46.1)	(64.0)	(71.1)
Total segment liabilities	(306.2)	(303.5)	(295.2)	(257.0)
Unallocated liabilities	(13.1)	(56.4)	(13.4)	(10.3)
Consolidated total liabilities	(319.3)	(359.9)	(308.6)	(267.3)

Other segment information

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Depreciation and amortisation:					
Airline	15.0	11.0	15.8	10.0	10.1
Aviation Services	1.0	1.0	1.0	0.5	0.5
	16.0	12.0	16.8	10.5	10.6
Impairment losses:					
Airline	2.3	2.8	–	–	–
Investment income:					
Airline	4.5	1.8	0.2	0.1	0.2

	Year ended 31 March			6 months ended 30 September 2010
	2008	2009	2010	
	£m	£m	£m	£m
Additions to non-current assets:				
Airline	49.7	9.6	80.5	1.4
Aviation Services	5.2	0.8	10.5	11.9
	54.9	10.4	91.0	13.3

Geographical information

The Group's revenue from external customers and information about its segment assets (non-current assets excluding deferred tax assets and other financial assets) by geographical location are detailed below:

	Year ended 31 March			6 months ended 30 September	
Revenues from external customers:	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
United Kingdom	468.9	493.6	483.4	271.0	260.9
Rest of Europe	67.0	79.5	87.1	50.0	41.9
Consolidated revenue	535.9	573.1	570.5	321.0	302.8

No non-current assets were based outside of the United Kingdom for any of the periods presented.

Information about major customers

None of the Group's customers exceeded 10 per cent. of its revenues.

6. Integration costs and IPO costs

Integration costs

Following the acquisition of BA Connect, a significant integration programme commenced with the object of harmonising the Group's fleet of aircraft, employment terms and operational facilities. Provision was made for the estimated costs of this integration, and separately for the onerous element of the leased aircraft acquired from BA Connect, in the financial statements for the year ended 31 March 2007. Adjustments to those estimates, including a release of the onerous lease provision following a revision of the underlying assumptions, are included in the results in subsequent years as necessary (see note 21).

The integration costs incurred comprise:

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Pilot and cabin crew conversion training	(2.0)	(1.6)	–	–	–
Aircraft substitution costs	(2.5)	(2.3)	–	–	–
Aircraft handback costs	–	(4.3)	–	–	–
Legal and professional fees	(1.9)	(0.2)	–	–	–
Integration and onerous lease provisions reversed (note 21)	4.2	2.7	–	–	–
Impairment of BAe 146 aircraft (note 12)	(2.3)	(2.8)	–	–	–
Other costs	(0.4)	–	–	–	–
Charged to income statement	(4.9)	(8.5)	–	–	–

IPO costs

During the year ended 31 March 2010 and the six months ended 30 September 2010, the Group incurred costs associated with listing on the London Stock Exchange. These costs are sufficiently unusual in nature to be presented separately on the face of the income statement. Costs specifically in respect of the equity raising have been capitalised. It is expected that further costs will be incurred in the year to 31 March 2011 in this regard.

7. Investment income and finance costs

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Interest income on bank deposits	4.5	1.8	0.2	0.1	0.2
Interest expense on obligations under finance leases	(0.4)	–	–	–	–
Interest expense on bank loans	(9.7)	(7.2)	(4.2)	(1.3)	(2.5)
Total interest expense	(10.1)	(7.2)	(4.2)	(1.3)	(2.5)
Less: interest capitalised into qualifying assets (note 12)	1.4	0.7	0.1	–	–
Finance costs	(8.7)	(6.5)	(4.1)	(1.3)	(2.5)
Net financing costs	(4.2)	(4.7)	(3.9)	(1.2)	(2.3)

8. Other gains and losses

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Gains/ (losses) arising on retranslation of foreign currency loans and deposits	0.5	(3.2)	1.0	0.1	1.7
Amounts arising on pension scheme (note 22)	0.8	–	(0.1)	(2.0)	–
	1.3	(3.2)	0.9	(1.9)	1.7

9. Taxation

Recognised in the income statement

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Current tax expense	–	–	–	–	–
Deferred tax expense:					
Origination and reversal of temporary differences	(2.1)	0.4	(5.3)	(5.9)	(5.8)
Origination and reversal of tax losses recognised	(0.1)	(6.1)	7.7	0.5	7.5
Total tax (credit) / charge in income statement	(2.2)	(5.7)	2.4	(5.4)	1.7

Reconciliation of tax (credit) / charge

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Profit / (loss) before taxation	13.3	(33.7)	24.6	1.7	26.0
UK corporation tax rate	30%	28%	28%	28%	28%
Tax using the UK corporation tax rate	4.0	(9.5)	6.9	0.5	7.3
Non-deductible expenses / (non-taxable income)	0.7	2.9	(1.6)	(0.8)	(2.1)
Adjustment in respect of prior periods	(4.8)	(3.5)	–	–	–
Movement in deferred tax not recognised	(1.9)	4.4	(2.9)	(5.0)	(3.5)
Change in tax rate on deferred tax balances	(0.2)	–	–	(0.1)	–
Total tax (credit) / charge	(2.2)	(5.7)	2.4	(5.4)	1.7

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets as at				Liabilities as at			
	31 March 2008	31 March 2009	31 March 2010	30 Sept 2010	31 March 2008	31 March 2009	31 March 2010	30 Sept 2010
	£m	£m	£m	£m	£m	£m	£m	£m
Property, plant and equipment	2.0	–	6.6	9.5	(9.3)	(9.3)	(7.1)	(6.7)
Intangible assets	–	–	–	–	(1.2)	(1.2)	(1.2)	(1.2)
Employee benefits	0.3	0.3	–	–	–	–	–	–
Financial instruments	–	0.1	–	–	(1.5)	–	(3.1)	(0.5)
Tax value of loss carry-forwards	2.1	8.2	0.5	–	–	–	–	–
Tax assets / (liabilities)	4.4	8.6	7.1	9.5	(12.0)	(10.5)	(11.4)	(8.4)

Where carried-forward losses or unclaimed capital allowances are available, they are recognised to the extent that it is probable sufficient taxable profits will be available to allow all or part of the asset to be recovered. At each balance sheet date, the Group recognised deferred tax assets primarily on previously unrecognised losses or unutilised capital allowances. The recognition of an asset, as well as the composition of that asset, was a result of management's judgement that it was probable that it would realise such deferred tax assets in future periods, when taking into consideration the availability of feasible tax planning strategies and estimates of future taxable income in which these operating losses and other tax attributes exist.

The Group has significant deferred assets due to the accumulation of accelerated capital allowances in prior periods. The realisation of these assets is not assured and is dependent on the generation of sufficient taxable income in the future. The Directors have exercised judgement in determining the extent of the realisation of these losses based upon estimates of future taxable income. Where there is an expectation that on the balance of probabilities there will not be sufficient taxable profits to utilise these assets they have not been recognised. If actual events differ from the Directors' estimates, or to the extent that these estimates are adjusted in the future, any recognition in the future of previously generated assets would have a material impact on the Group's effective tax rates. During the 2010/11 First Half Year, the Group has recognised a portion of the previously unrecognised assets due to a change in estimate of the recoverability. This change in estimate is a result of a continued improvement in the overall airline industry and strategic actions taken by the Group that have resulted in expectations of future profitability improving for the 18-month period after 30 September 2010.

The Group has not recognised a deferred tax asset in relation to the following:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Capital allowances	36.5	51.6	53.4	33.7
Unused tax losses available for offset in future	17.8	6.1	4.9	4.9
Other timing differences	15.2	7.6	–	–
	69.5	65.3	58.3	38.6

No deferred tax asset has been recognised in respect of these items as it is not considered probable that there will be future taxable profits available. These unutilised deferred tax assets may be carried forward indefinitely.

During the period the Group has reflected the change in the enacted tax rate from 28 per cent. to 27 per cent., which is effective from 1 April 2011. The Government has also indicated that it intends to enact future reductions in the main tax rate of 1 per cent. each year down to 24 per cent. by 1 April 2014. The future 1 per cent. main tax rate reductions are expected to have a similar impact on the financial statements as outlined above.

Movements in deferred tax

	1 April 2007	Recognised in income	31 March 2008	Recognised in income	31 March 2009	Recognised in income	31 March 2010	Recognised in income	Effect of rate change	30 Sept. 2010
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Property, plant and equipment	11.4	(4.1)	7.3	2.0	9.3	(8.8)	0.5	(3.3)	–	(2.8)
Intangible assets	1.3	(0.1)	1.2	–	1.2	–	1.2	–	–	1.2
Provisions	(0.1)	0.1	–	–	–	–	–			
Interest-bearing loans and borrowings	0.4	(0.4)	–	–	–	–	–	–	–	–
Employee benefits	(0.3)	–	(0.3)	–	(0.3)	0.3	–	–	–	–
Financial instruments	(0.9)	2.4	1.5	(1.6)	(0.1)	3.2	3.1	(2.7)	0.1	0.5
Tax value of loss carry-forwards utilised	(2.0)	(0.1)	(2.1)	(6.1)	(8.2)	7.7	(0.5)	0.5	–	–
	9.8	(2.2)	7.6	(5.7)	1.9	2.4	4.3	(5.5)	0.1	(1.1)

10. Earnings per share

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Basic and diluted earnings / (loss) per share	7.38	(13.34)	10.59	3.36	11.56
Adjusted(174) basic and diluted earnings / (loss) per share	6.27	(4.77)	4.71	5.62	6.57

(174) Adjusted EPS is based on earnings before integration and IPO costs and gains and losses on revaluation of fuel and foreign exchange hedges. Adjustments are made net of tax.

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

Diluted

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Earnings for the purposes of basic and diluted earnings per share being net profit attributable to owners of the Group	15.5	(28.0)	22.2	7.1	24.3

Adjusted basic and adjusted diluted

	Note	Year ended 31 March			6 months ended 30 September	
		2008	2009	2010	2010	2009
		£m	£m	£m	£m	£m (unaudited)
Earnings for the purposes of basic earnings per share being net profit attributable to owners of the Group		15.5	(28.0)	22.2	7.1	24.3
Add back or (deduct):						
Integration costs	6	4.9	8.5	–	–	–
IPO expenses incurred	6	–	–	1.1	1.1	–
Unrealised (gains)/losses on fuel and foreign exchange hedges	24	(8.1)	16.5	(18.3)	5.4	(14.6)
Effect of tax on the above adjustments		0.9	(7.0)	4.8	(1.8)	4.1
Earnings for the purposes of adjusted basic and adjusted diluted earnings per share		13.2	(10.0)	9.8	11.8	13.8

Adjustments to basic earnings in respect of the integration costs which include IPO costs described in note 6, impairment (note 12) and the revaluation of hedging instruments (note 24).

Number of shares

	As at				
	31 March 2008	**31 March 2009**	**31 March 2010**	**30 September 2010**	**30 September 2009**
	Number	**Number**	**Number**	**Number**	**Number (unaudited)**
Weighted average number of ordinary shares	654,150	654,150	654,150	654,150	654,150
Weighted average number of "A" ordinary shares	1,445,850	1,445,850	1,445,850	1,445,850	1,445,850
Weighted average number of ordinary shares for the purposes of diluted and adjusted diluted earnings per share	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000

The number of shares in issue is the same for both diluted and basic earnings per share as the Company has issued, to a separately-administered employee benefit trust, all the shares necessary to fulfil the terms of the share plan in favour of management and employees.

11. Intangible assets

	Landing rights	**Computer software**	**Total**
	£m	**£m**	**£m**
Cost			
At 1 April 2007	4.4	3.9	8.3
Additions	3.2	1.6	4.8
At 31 March 2008	7.6	5.5	13.1
Additions	0.9	1.3	2.2
At 31 March 2009	8.5	6.8	15.3
Additions	–	0.4	0.4
At 31 March 2010	8.5	7.2	15.7
Additions	–	0.7	0.7
At 30 September 2010	8.5	7.9	16.4
Amortisation			
At 1 April 2007	–	2.4	2.4
Amortisation for the year	–	0.8	0.8
At 31 March 2008	–	3.2	3.2
Amortisation for the year	–	1.0	1.0
At 31 March 2009	–	4.2	4.2
Amortisation for the year	–	1.1	1.1
At 31 March 2010	–	5.3	5.3
Amortisation for the period	–	0.5	0.5
At 30 September 2010	–	5.8	5.8
Net book value			
At 31 March 2008	7.6	2.3	9.9
At 31 March 2009	8.5	2.6	11.1
At 31 March 2010	8.5	1.9	10.4
At 30 September 2010	8.5	2.1	10.6

Landing rights are not amortised as they are considered to have indefinite life. These assets have been impairment tested at each balance sheet date with reference to discounted cash flows arising for each route associated with these landing rights.

12. Property, plant and equipment

	Assets under construction	Land and buildings	Plant, equipment and motor vehicles	Aircraft	Total
	£m	£m	£m	£m	£m
Cost					
At 1 April 2007	–	8.7	10.7	236.2	255.6
Additions	–	4.9	3.1	42.1	50.1
Disposals	–	(2.0)	(2.1)	(61.8)	(65.9)
Sale of subsidiary	–	(0.1)	–	–	(0.1)
At 31 March 2008	–	11.5	11.7	216.5	239.7
Additions	–	0.2	1.4	6.6	8.2
Disposals	–	–	(0.4)	(53.6)	(54.0)
Change in estimate related to lease obligations	–	–	–	20.0	20.0
Transfer to assets held for resale	–	–	–	(25.7)	(25.7)
At 31 March 2009	–	11.7	12.7	163.8	188.2
Additions	3.2	–	1.3	86.1	90.6
Disposals	–	(0.2)	(1.4)	(82.2)	(83.8)
Transfer to assets held for resale	–	–	–	(1.6)	(1.6)
At 31 March 2010	3.2	11.5	12.6	166.1	193.4
Additions	5.4	–	0.3	7.0	12.7
Disposals	–	–	–	(11.5)	(11.5)
At 30 September 2010	8.6	11.5	12.9	161.6	194.6
Depreciation and impairment					
At 1 April 2007	–	2.1	5.4	70.3	77.8
Depreciation charge for the year	–	0.4	1.4	13.6	15.4
Impairment	–	–	–	2.3	2.3
Disposals	–	–	(0.8)	(6.4)	(7.2)
Sale of subsidiary	–	(0.1)	–	–	(0.1)
At 31 March 2008	–	2.4	6.0	79.8	88.2
Depreciation charge for the year	–	0.5	1.7	8.3	10.5
Impairment	–	–	–	2.8	2.8
Disposals	–	–	(0.2)	(31.8)	(32.0)
Change in estimate related to lease obligations	–	–	–	9.0	9.0
Transfer to assets held for resale	–	–	–	(24.1)	(24.1)
At 31 March 2009	–	2.9	7.5	44.0	54.4
Depreciation charge for the year	–	0.5	1.6	13.6	15.7
Disposals	–	(0.2)	(1.3)	(4.2)	(5.7)
Transfer to assets held for resale	–	–	–	(0.9)	(0.9)
At 31 March 2010	–	3.2	7.8	52.5	63.5
Depreciation charge for the period	–	0.3	0.8	8.5	9.6
At 30 September 2010		3.5	8.6	61.0	73.1
Net book value					
At 31 March 2008	–	9.1	5.7	136.7	151.5
At 31 March 2009	–	8.8	5.2	119.8	133.8
At 31 March 2010	3.2	8.3	4.8	113.6	129.9
At 30 September 2010	8.6	8.0	4.3	100.6	121.5

Change in estimate related to lease obligations

The estimates for obligations for maintenance under operating leases were reviewed in 2009 and following this review, the Group recognised additional maintenance assets with a net book value of £11.0 million, other debtors of £13.1 million and additional maintenance provisions of £20.5 million (note 21). The net impact of this change in estimate of £3.6 million was recognised in the income statement in the year to 31 March 2009.

Impairment

As part of the BA Connect integration programme, eight owned BAe 146 aircraft were withdrawn from service during the year ended 31 March 2008. An impairment of £2.8 million was recognised in the year ended 31 March 2009 against the carrying value of six owned aircraft plus several spare engines due to be disposed of as soon as market conditions allow and an impairment of £2.3 million in the year ended 31 March 2008 against the value of five aircraft. 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.

In both 2008 and 2009, the book value of these aircraft was compared with the likely disposal proceeds to third party aircraft breakers on the assumption that the aircraft would be sold and broken up for spares. The impairment loss for each year represents the deterioration, on this basis, in the market value of these aircraft. In 2009 these aircraft were reclassified as held for sale (note 18).

Profit on disposal of property, plant and equipment

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Profit on disposal	(0.2)	(0.2)	(0.2)	(0.4)	(2.3)

Leased plant and machinery

The net carrying amount of aircraft under finance leases was £nil for each of the three years to 31 March 2010. Depreciation on these leased assets for the year to 31 March 2008 was £1.3 million (2009 – £nil; 2010 year and period – £nil).

Capitalised interest

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Accumulated capitalised interest	0.8	1.0	–	–	–
Interest capitalised in the year (note 7)	1.4	0.7	0.1	–	–
Weighted average capitalisation rate	5.9%	4.7%	3.1%	–	–

Security

See note 20 for further details of the borrowings secured on aircraft.

13. Other non-current assets

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Aircraft deposits	4.8	5.3	7.5	9.4
Aircraft operating lease prepayments	13.8	18.3	16.3	15.1
Other receivables	2.8	2.4	8.3	8.7
	21.4	26.0	32.1	33.2

14. Derivative financial instruments

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Non-current assets				
Foreign exchange forward contracts / options	1.4	5.6	–	–
Fuel forward contracts / options	4.9	–	–	–
Derivative instruments classified as fair value through profit and loss	6.3	5.6	–	–
Current assets				
Foreign exchange forward contracts / options	1.1	19.8	7.5	1.0
Fuel forward contracts / options	4.2	0.4	2.6	0.2
Derivative instruments classified as fair value through profit or loss	5.3	20.2	10.1	1.2
Foreign exchange forward contracts / options	–	–	–	0.3
Fuel forward contracts / options	–	–	–	1.8
Derivative instruments that are designed and effective as hedging instruments carried at fair value	–	–	–	2.1
Total derivative financial assets held as current assets	5.3	20.2	10.1	3.3
Current liabilities				
Foreign exchange forward contracts / options	(0.1)	–	–	–
Fuel forward contracts / options	(1.7)	(41.9)	(2.9)	–
Derivative instruments classified as fair value through profit or loss	(1.8)	(41.9)	(2.9)	–
Foreign exchange forward contracts / options	–	–	–	(1.6)
Fuel forward contracts / options	–	–	–	(0.4)
Derivative instruments that are designed and effective as hedging instruments carried at fair value	–	–	–	(2.0)
Total derivative financial liabilities held as current liabilities	(1.8)	(41.9)	(2.9)	(2.0)
Non-current liabilities				
Foreign exchange forward contracts / options	(0.6)	–	–	–
Fuel forward contracts / options	(4.3)	(5.2)	–	–
Derivative instruments classified as fair value through profit and loss and classified as non-current liabilities	(4.9)	(5.2)	–	–

Further details of derivative financial instruments are provided in note 24.

15. Inventories

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Work in progress	1.5	1.1	1.1	1.7
Goods for resale	0.7	1.0	0.7	0.8
Aircraft consumables	5.1	5.4	4.3	4.5
	7.3	7.5	6.1	7.0

16. Trade and other receivables

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Amounts receivable	35.1	34.5	31.5	27.6
Allowance for doubtful debts	(0.2)	–	(0.7)	(0.2)
Trade receivables, net	34.9	34.5	30.8	27.4
Other receivables	28.5	40.7	22.9	28.3
Prepayments	13.6	17.3	18.0	19.0
	77.0	92.5	71.7	74.7

The allowance for doubtful debts arises from trade customers in liquidation or significantly overdue debts. The impairment loss recognised in each of the four periods to 30 September 2010 was £nil. Further detail on the Group's risk exposure and how it is managed is given in note 24.

17. Cash, cash equivalents and restricted cash

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Cash and cash equivalents	59.4	44.7	46.1	24.7
Current restricted cash	3.7	3.6	8.0	8.0
Non-current restricted cash	4.4	8.3	8.0	9.1
	67.5	56.6	62.1	41.8

Restricted cash comprises:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Aircraft operating lease deposits	3.9	6.3	6.0	7.1
Aircraft maintenance deposits	1.2	3.0	2.0	2.0
Other (note 27)	3.0	2.6	8.0	8.0
	8.1	11.9	16.0	17.1

18. Assets held for sale

At 31 March 2009, it was determined that the carrying value of the owned BAe146 aircraft within the fleet and associated rotables held by the Group, would be recovered principally through a sale transaction rather than through continuing use. Consequently these assets, with a fair value of £1.6 million, were reclassified, as at 31 March 2009, from property, plant and equipment to assets held for sale. These assets were fully disposed of by 31 March 2010 and generated a gain on disposal of £0.3 million.

At 31 March 2010, it was determined that the carrying value of the owned Embraer 145 rotables held by the Group, would be recovered through a sale transaction as the aircraft type was withdrawn from the fleet during the year. Consequently these assets, with a fair value of £0.6 million, were reclassified as at 31 March 2010 from property, plant and equipment to assets held for sale.

At 30 September 2010, the balance of £0.6 million represented the residual amount of assets held for sale as reported in the 31 March 2010 balance sheet after the disposal of a small value of assets during the six months to that date.

19. Trade and other payables

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Trade payables	23.9	28.4	28.3	26.8
Accrued expenses	33.1	24.2	34.8	40.4
Other payables	26.3	30.3	25.2	21.6
Trade and other payables	83.3	82.9	88.3	88.8

20. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, none of which are subject to significant financial covenants. For more information about the Group's exposure to interest rate and foreign currency risk as well as the repayment profile, see note 24.

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Current liabilities				
Current portion of secured bank loans	29.1	33.1	9.7	13.5
Preference shares classified as debt (note 23)	14.1	–	–	–
	43.2	33.1	9.7	13.5
Non-current liabilities				
Secured bank loans	94.9	78.2	73.8	58.6

Terms

	31 March 2008		31 March 2009		31 March 2010		30 September 2010	
	Interest rate	Amount	Interest rate	Amount	Interest rate	Amount	Interest rate	Amount
	%	£m	%	£m	%	£m	%	£m
Floating rate sterling loans	9.0	62.2	5.4	58.0	3.6	43.3	3.8	43.4
Floating rate US dollar loans	8.6	46.1	4.8	37.6	3.1	27.2	4.2	16.4
Fixed rate sterling loans	7.1	15.7	7.1	14.4	7.1	13.0	7.1	12.3
Fixed rate US dollar loans	–	–	4.9	1.3	–	–	–	
Shares classified as debt	–	14.1	–	–	–	–	–	–
		138.1		111.3		83.5		72.1

The interest rate above relates to the weighted average for the year or period. Floating rates are based upon LIBOR with margins of between 1.2 per cent. and 3.7 per cent. The loans are repayable over a period to 30 June 2021.

All loans are secured on specific aircraft assets or land and buildings. As at 30 September 2010, one of the loans, with £6.5 million outstanding, contained a covenant requiring that the Group maintains net assets (as reported under UK GAAP) of £10.0 million and an average liquidity of £10.0 million except between the months of October and February when the limit is reduced to £5.0 million.

At 30 September 2010, the Group had £9.0 million of unused borrowing facilities in the form of guarantees and a £3.8 million unused overdraft facility.

21. Provisions

	Leased aircraft maintenance	BA Connect onerous lease provision	BA Connect integration provision	Total
	£m	£m	£m	£m
Balance at 1 April 2007	15.4	18.2	10.4	44.0
Provisions made during the year	2.9	–	–	2.9
Utilised during the year	(5.1)	(5.6)	(9.2)	(19.9)
Reversed during the year	–	(3.3)	(0.9)	(4.2)
Non-current	13.2	4.6	–	17.8
Current	–	4.7	0.3	5.0
Balance at 31 March 2008	13.2	9.3	0.3	22.8
Provisions made during the year	17.8	–	–	17.8
Change in estimate related to lease obligation (note 12)	20.5	–	–	20.5
Utilised during the year	(12.7)	(4.8)	(0.3)	(17.8)
Reversed during the year	–	(2.7)	–	(2.7)
Transfer from accruals	2.8	–	–	2.8
Non-current	12.1	–	–	12.1
Current	29.5	1.8	–	31.3
Balance at 31 March 2009	41.6	1.8	–	43.4
Provisions made during the year	22.9	–	–	22.9
Utilised during the year	(20.7)	(1.7)	–	(22.4)
Non-current	19.2	–	–	19.2
Current	24.6	0.1	–	24.7
Balance at 31 March 2010	43.8	0.1	–	43.9
Provisions made during the period	18.9	–	–	18.9
Utilised during the period	(14.0)	(0.1)	–	(14.1)
Non-current	22.2	–	–	22.2
Current	26.5	–	–	26.5
Balance at 30 September 2010	48.7	–	–	48.7

Aircraft maintenance 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. Typically this will be charged to the income statement within two years.

The onerous lease and integration provisions both relate to the BA Connect acquisition and the costs of integrating that business into those of Flybe Group plc as described in further detail in note 6. The integration costs relate primarily to staff costs and property costs. The onerous lease provisions relate to the costs of aircraft acquired with BA Connect that were assessed as being above the market rate for the respective aircraft.

22. Employee benefits

British Regional Air Lines Group Pension Scheme

The Scheme was acquired on 5 March 2007 as part of the acquisition of BA Connect. The scheme was closed to contributions during that year and its members now contribute to the Group's defined contribution scheme. No asset is recognised in respect of the net surplus because the Group does not have sufficient certainty that any asset will eventually be realised.

A formal actuarial valuation was carried out as at 31 March 2010. The results of this have been updated to conform with the requirements of IFRS at 30 September 2010 by an independent qualified actuary.

No contributions were payable into the fund at period-end as at 31 March 2008, 2009 or 2010. No contributions were payable at 30 September 2010.

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Present value of funded defined benefit obligations	(101.2)	(91.7)	(116.7)	(112.8)
Fair value of plan assets	105.1	95.0	111.9	114.3
Net surplus / (deficit)	3.9	3.3	(4.8)	1.5
Unrecognised actuarial gains	(3.9)	(3.3)	–	(1.5)
Recognised liability for defined benefit obligations	–	–	(4.8)	–

Movements in present value of defined benefit obligation

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Opening value	109.8	101.2	91.7	116.7	91.7
Interest cost	6.3	6.0	5.8	3.3	2.8
Benefits paid	(2.1)	(2.7)	(3.3)	(2.0)	(1.5)
Contributions by members	0.6	–	–	–	–
Actuarial (gains) and losses	(13.4)	(12.8)	22.5	(5.2)	15.4
Closing value	101.2	91.7	116.7	112.8	108.4

The triennial valuation as at 31 March has been completed and the scheme has reported a net surplus on the actuarial basis of £2.5 million. A tax charge of £1.9 million in relation the Isle of Man portion of the scheme was paid and reported as part of other operating gains and losses. This was partially offset by a £0.8 million contribution that was paid into the plan by the former owner of the business to which the scheme relates.

Movements in fair value of plan assets

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Opening value	106.4	105.1	95.0	111.9	95.0
Expected return on plan assets	7.1	6.0	5.7	1.3	2.8
Actuarial gains and (losses)	(7.7)	(13.4)	14.5	2.3	12.6
Contributions by employer	0.8	–	–	0.8	–
Contributions by members	0.6	–	–	–	–
Benefits paid	(2.1)	(2.7)	(3.3)	(2.0)	(1.6)
Closing value	105.1	95.0	111.9	114.3	108.8

Expense recognised in the consolidated income statement

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Expected return on pension scheme assets	(7.1)	(6.0)	(5.7)	(1.3)	(2.8)
Interest on defined benefit pension plan obligation	6.3	6.0	5.8	3.3	2.8
Total	(0.8)	–	0.1	2.0	–

The expense is recognised in the following line items in the consolidated income statement:

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Other gains and losses (note 8)	(0.8)	–	0.1	2.0	–
	(0.8)	–	0.1	2.0	–

Cumulative actuarial gains and losses reported in the consolidated statement of comprehensive income are:

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	£m	£m	£m	£m	£m (unaudited)
Opening cumulative value	1.3	3.1	3.1	(1.6)	3.1
Recognised in the year	1.8	–	(4.7)	6.0	–
Closing cumulative value	3.1	3.1	(1.6)	4.4	3.1

The fair value of the plan assets and the return on those assets were as follows:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Equities	57.5	26.9	42.9	40.1
Corporate bonds	47.4	68.0	68.5	73.8
Cash	0.2	0.1	0.5	0.4
	105.1	95.0	111.9	114.3
Actual return on plan assets	6.7%	6.6%	5.1%	1.1%

Principal actuarial assumptions (expressed as weighted averages) at the period-end were as follows:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£m	£m	£m	£m
Discount rate	6.0	6.4	5.7	5.3
Expected rate of return on plan assets	6.7	6.6	6.3	6.3
Future salary increases	n / a	n / a	n/a	n/a
Increases to pension payments pre- / post-October 2006	3.5 / 2.5	3.25 / 2.5	3.6 / 2.5	3.1 / 2.3
Inflation assumption	3.5	3.25	3.6	3.1
Mortality rate	PA921c	PA921c	PA92lc	PA92lc

The liabilities of the scheme are sensitive to the assumptions adopted. The following table shows the effect on the scheme liabilities to a change in two key assumptions:

	Year ended 31 March			6 months ended 30 September
(Increase) / decrease in scheme liabilities	2008	2009	2010	2010
	£m	£m	£m	£m
0.1% increase in the discount rate	(2.3)	(2.0)	(2.5)	(2.6)
0.1% increase in inflation	1.7	1.5	2.0	2.1

Defined contribution plans

The Group also operates defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Group to the schemes and amounted to £5.5 million for the year ended 31 March 2010 (2009: £5.2 million, 2008: £4.3 million). The charge for the six month period to 30 September 2010 was £2.9 million (2009: £2.0 million)

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

Share-based payments

The Employees' Trust has a share distribution scheme open to qualifying employees whereby such employees acquire beneficial interests in a given number of shares in Flybe Group plc which are held by the Employee Trust. The employees will have an option to sell their shares if there is a flotation or trade sale. Shares are forfeited if the employee leaves the Group before a flotation or trade sale.

The shares awarded are accounted for as equity-settled.

The number and weighted average exercise prices of shares are as follows:

	Year ended March 2008		Year ended March 2009		Year ended March 2010	
	Weighted average share price	Number of shares	Weighted average share price	Number of shares	Weighted average share price	Number of shares
Outstanding at the beginning of the period	£12.33	90,864	£19.06	104,476	£19.79	98,292
Forfeited during the period	£7.50	(6,617)	£7.50	(6,184)	£7.50	(3,432)
Granted during the period	£45.54	20,229	–	–	–	–
Outstanding at the end of the period	£19.06	104,476	£19.79	98,292	£20.23	94,860

	6 months ended September 2010		6 months ended September 2009	
	Weighted average share price	Number of shares	Weighted average share price	Number of shares
			(unaudited)	(unaudited)
Outstanding at the beginning of the period	£20.23	94,860	£19.79	98,292
Forfeited during the period	£7.50	(2,400)	£7.50	(2,682)
Outstanding at the end of the period	£20.56	92,460	£20.13	95,610

The fair value of services received in return for the beneficial interest in shares granted is measured by reference to the fair value of the beneficial interest in the share granted. No share awards were capable of being exercised at the end of 30 September 2010 or 2009, 31 March 2010, 2009 or 2008.

The total expense recognised in the income statement to reflect the fair value of the awards given in the year to 31 March 2010 was £0.4 million (2009: £0.3 million, 2008:£0.3 million). The total expense recognised in the income statement to reflect the fair value of the awards given in the 6-month period to 30 September 2010 was £0.2 million (2009: £0.1 million). During 2009, management revisited 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 2009 under the revised basis, shown above, is not materially different to that under the original assumptions.

23. Capital and reserves

Share capital

Authorised, allotted, called up and fully paid

	Ordinary shares of 1 pence each	"A" ordinary shares of 1 pence each	Cumulative redeemable preference shares of 1 pence each	Redeemable preference shares of 1 pence each
	No.	No.	No.	No.
Number of shares:				
As at 1 April 2007	654,150	1,445,850	99,000,000	2,150,000,000
Redeemed, settled in cash	–	–	–	(840,000,000)
As at 31 March 2008	654,150	1,445,850	99,000,000	1,310,000,000
Redeemed, settled in cash	–	–	(99,000,000)	(1,310,000,000)
As at 31 March 2009 and 2010 and at 30 September 2010	654,150	1,445,850	–	–

Value of shares

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£000	£000	£000	£000
Ordinary shares of 1 pence each	7	7	7	7
"A" ordinary shares of 1 pence each	15	15	15	15
Shares classified in shareholders' funds	22	22	22	22
Cumulative redeemable preference shares of 1 pence each	990	–	–	–
Redeemable preference shares of 1 pence each	13,100	–	–	–
Shares classified as current liabilities	14,090	–	–	–
	14,112	22	22	22

The redeemable preference shares were redeemable prior to a sale or listing at the shareholder's option and have consequently been classified as current liabilities. The shareholders were not entitled to a premium on redemption and the shares were redeemed at their par value. The redeemable preference shares had no dividend rights and were redeemed for cash, in full and at their par value by the end of the year to 31 March 2009.

Voting rights are applied on a one vote per share basis, except when concerned with 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 Flybe Group plc (the "Company"), the assets of the Company available for distribution shall be applied to the holders of the "A" ordinary shares in preference to ordinary shares.

Dividends for equity shareholders

No dividends have been declared, provided for or paid in respect of each of the three years ended 31 March 2008, 2009 and 2010 or the 6-month periods ended 30 September 2009 and 2010.

Reserves

Other reserves

In March 2007, the Group acquired the BA Connect group of companies and, as part of that acquisition, issued ordinary shares with a fair value of £6.7 million. A reserve was created which represents the excess of the fair value of the issued shares over their par value. This reserve is not distributable.

Capital redemption reserve

At the time the Group's preference shares were redeemed in December 2007 and May 2008 the UK's High Court required the Company to establish a specific reserve to the value of the preference shares redeemed. This reserve is not distributable.

Hedging reserve

The hedging reserve represents the cumulative proportion of gains and losses on hedging instruments deemed effective in cash flow hedges. The cumulative deferred gain or loss on the hedging instrument is recognised in profit or loss only when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy. This reserve is not distributable.

24. Financial instruments

Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Categories of financial instruments

	At 31 March 2008		At 31 March 2009		At 31 March 2010		At 30 September 2010	
	Carrying value	Fair Value	Carrying value	Fair value	Carrying Value	Fair Value	Carrying value	Fair Value
	£m	£m	£m	£m	£m	£m	£m	£m
Cash, cash equivalents and restricted cash	67.5	67.5	56.6	56.6	62.1	62.1	41.8	41.8
Loans and receivables:								
Trade and other receivables	67.4	67.4	81.2	81.2	67.0	67.0	69.6	69.6
Derivative assets at fair value through profit and loss	11.6	11.6	25.8	25.8	10.1	10.1	1.2	1.2
Derivative instruments in designated hedge accounting relationships	–	–	–	–	–	–	2.1	2.1
Liabilities held at amortised cost:								
Trade and other payables	(29.1)	(29.1)	(40.4)	(40.4)	(38.2)	(38.2)	(33.6)	(33.6)
Debt	(138.1)	(142.4)	(111.3)	(123.1)	(83.5)	(86.5)	(72.1)	(74.9)
Derivative liabilities at fair value through profit and loss	(6.7)	(6.7)	(47.1)	(47.1)	(2.9)	(2.9)	–	–
Derivative instruments in designated hedge accounting relationships	–	–	–	–	–	–	(2.0)	(2.0)

Financial instruments recorded at fair value at 30 September 2010:

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 (asset priced in active market)	Level 2 (inputs observable)	Level 3 (significant unobservable inputs)
	£m	£m	£m
Foreign exchange derivatives	–	1.8	–
Fuel derivatives	–	3.1	–
Total at 31 March 2008	–	4.9	–
Foreign exchange derivatives	–	25.4	–
Fuel derivatives	–	(47.6)	–
Total at 31 March 2009	–	(21.2)	–
Foreign exchange derivatives	–	7.5	–
Fuel derivatives	–	(0.3)	–
Total at 31 March 2010	–	7.2	–
Foreign exchange derivatives	–	(0.3)	–
Fuel derivatives	–	1.6	–
Total at 30 September 2010	–	1.3	–

Financial risk management objectives

The Group is exposed to financial risks in respect of:

- liquidity and management of working capital;
- foreign currency;
- interest rates;
- liquidity;
- credit risk; and
- fuel price.

A description of each risk, together with the policy for managing risk is given below. To manage these risks, the Group uses various derivative financial instruments, including foreign currency forward contracts and commodity contracts. These derivative financial instruments are generally held to maturity and are not actively traded. The Group enters into these arrangements with the goal of hedging its operational and balance sheet, income statements and cash flow risk. However, the Group's exposure to commodity price and currency exchange fluctuations cannot be neutralised completely.

Liquidity and working capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 20, cash and cash equivalents note 17 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in the consolidated statement of changes in equity and note 23.

Gearing ratio

The Group's Board reviews the capital structure on a regular basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital. The gearing ratio at the balance sheet dates is as follows:

	As at			
	31 March 2008	**31 March 2009**	**31 March 2010**	**30 September 2010**
	£000	**£000**	**£000**	**£000**
Debt	(138.1)	(111.3)	(83.5)	(72.1)
Cash, cash equivalents and restricted cash	67.5	56.6	62.1	41.8
Net debt	(70.6)	(54.7)	(21.4)	(30.3)
Equity	31.3	3.6	21.5	34.9
Net debt to equity ratio	226%	1,519%	100%	87%

Debt is defined as long- and short-term borrowings. Equity includes all capital and reserves of the group attributable to equity holders of the parent.

Liquidity risk management

The Directors believe that the Group has adequate cash holdings to meet its short-term creditors as they fall due. The Group also arranges to borrow funds in order to finance purchases of aircraft and engines. The following table which does not take into account the discounting of cash flows and includes forecasted interest payments shows the contractual maturity of the Group's non-derivative financial instruments:

	Within 1 year	**1-2 years**	**2-5 years**	**Over 5 years**	**Total**
	£m	**£m**	**£m**	**£m**	**£m**
At 31 March 2008					
Financial assets					
Cash, cash equivalents and restricted cash	63.1	–	1.8	2.6	**67.5**
Loans and receivables	59.8	2.8	–	4.8	**67.4**
Financial liabilities:					
Trade and other payables	(29.1)	–	–	–	**(29.1)**
Borrowings	(45.9)	(8.8)	(46.1)	(110.8)	**(211.6)**
At 31 March 2009					
Financial assets					
Cash, cash equivalents and restricted cash	48.3	–	3.5	4.8	**56.6**
Loans and receivables	73.5	2.4	–	5.3	**81.2**
Financial liabilities:					
Trade and other payables	(40.4)	–	–	–	**(40.4)**
Borrowings	(34.8)	(8.1)	(38.1)	(61.2)	**(142.2)**
At 31 March 2010					
Financial assets					
Cash, cash equivalents and restricted cash	54.1	1.0	3.5	3.5	**62.1**
Loans and receivables	51.2	8.3	–	7.5	**67.0**
Financial liabilities:					
Trade and other payables	(38.2)	–	–	–	**(38.2)**
Borrowings	(10.1)	(12.7)	(34.8)	(42.1)	**(99.7)**
At 30 September 2010					
Financial assets					
Cash, cash equivalents and restricted cash	32.7	2.0	2.5	4.6	**41.8**
Loans and receivables	51.5	9.5	1.4	7.2	**69.6**
Financial liabilities:					
Trade and other payables	(33.6)	–	–	–	**(33.6)**
Borrowings	(14.1)	(18.6)	(26.3)	(25.4)	**(84.4)**

The following table, which is based on market pricing in place at the end of each reporting period, shows the maturity of the Group's derivative financial instruments:

	Within 1 year	1-2 years	2-5 years	Over 5 years	Total
	£m	£m	£m	£m	£m
At 31 March 2008					
Net settled derivatives:					
Fuel derivatives	2.5	0.6	–	–	**3.1**
Gross settled derivatives:					
Foreign currency payments	1.0	0.7	0.1	–	**1.8**
At 31 March 2009					
Net settled derivatives:					
Fuel derivatives	(41.5)	(5.2)	–	–	**(46.7)**
Gross settled derivatives:					
Foreign currency payments	19.8	5.6	–	–	**25.4**
At 31 March 2010					
Net settled derivatives:					
Fuel derivatives	(0.3)	–	–	–	**(0.3)**
Gross settled derivatives:					
Foreign currency payments	7.5	–	–	–	**7.5**
At 30 September 2010					
Net settled derivatives:					
Fuel derivatives	1.6	–	–	–	**1.6**
Gross settled derivatives:					
Foreign currency payments	(0.3)	–	–	–	**(0.3)**

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, primarily the leasing and purchase of aircraft, spare parts and fuel in US dollars. In addition, certain sales and airport costs are incurred in Euros. Hence, significant exposures to exchange rate fluctuations arise to US dollars.

Exchange rate exposures are managed within approved parameters by entering into a series of forward foreign exchange contacts. Foreign exchange forward contracts are used in conjunction with fuel derivatives to mitigate fuel procurement price risk. In addition, foreign exchange forward contracts are matched to planned purchases of aircraft, spare parts and lease costs. It is the policy of the Group to enter into forward foreign exchange contracts to cover specific US dollar payments to cover up to 90.0 per cent. of the exposure generated.

The Group does not enter into significant Euro forward foreign exchange contracts as the Euro payment exposure is largely, though not entirely, offset by Euro revenue receipts. At 30 September 2010, the Group had entered into two short-term contracts to purchase a total of €6.5 million. These contracts matured in October 2010 and the fair value at 30 September 2010 was not materially different from their value at inception.

All Group companies have a pound sterling functional currency and use only US dollars foreign exchange derivative instruments. The following table summarises the Group's derivative financial instruments that are used to mitigate the exposures described above:

	Average exchange rate	Foreign currency	Contract value	Fair value of asset / (liability)
		$m	£m	£m
At 31 March 2008	$1.9778	255.5	129.2	1.8
At 31 March 2009	$1.9498	109.9	56.4	25.4
At 31 March 2010	$1.6997	105.0	61.8	7.5
At 30 September 2010	$1.5715	250.0	159.1	(0.3)

It is estimated that a general strengthening of sterling of one percentage point against the US dollar and the Euro would increase both the Group's profit before tax and its equity by approximately:

	Year ended 31 March			6 months ended 30 September
	2008	2009	2010	2010
	£m	£m	£m	£m
US dollar	0.5	0.9	1.2	0.8
Euro	0.2	0.1	0.1	–

The carrying amounts of the Group's foreign currency denominated non-derivative monetary assets and liabilities at the reporting date are as follows:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	£000	£000	£000	£000
Assets				
Euro				
Cash and cash equivalents	1.5	2.2	0.7	0.7
Trade receivables	3.8	3.2	4.7	3.2
US Dollar				
Cash and cash equivalents	2.1	1.0	24.0	2.4
Restricted cash	5.1	9.3	8.0	9.1
Trade receivables	5.6	5.8	8.3	8.1
Liabilities				
Euro				
Trade and other payables	(6.0)	(11.3)	(9.9)	(12.1)
US Dollar				
Trade and other payables	(8.0)	(10.2)	(11.7)	(13.4)
Debt	(46.1)	(38.9)	(27.2)	(16.4)

Cash flow hedge effectiveness

The Group designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges. At 30 September 2010, the Group has identified 26 contracts for foreign exchange purchases and 10 contracts for fuel purchases which have been designated as cash flow hedges. For these hedges the changes in the fair value of the financial instrument is compared to market movement in the underlying hedged item and were found to be an effective offset. As a result a reduction in the fair value of these financial derivative instruments of £0.1 million was taken to equity through the hedging reserve.

Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds in order to finance the purchase of aircraft and engines at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix that varies from time-to-time between fixed and floating rate borrowings based on current year conditions and debt levels.

The Group's exposure to interest rates in financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

It is estimated that a general decrease in interest rates would increase both the Group's profit before tax and its equity by approximately:

	Year ended 31 March			6 months ended 30 September
	2008	2009	2010	2010
Percentage decrease	(1.0)%	(2.0)%	(1.0)%	(1.0)%
	(£m)	(£m)	(£m)	(£m)
Impact on profit before tax and equity	0.4	1.9	0.1	0.1

Credit risk management

The Group is exposed to credit risk in respect of sales made to customers that have not yet been converted into cash. The Group seeks to minimise its exposure to receivables becoming uncollectable.

The Airline segment transacts with well established providers of credit card arrangements and other corporate customers or through the IATA settlement arrangements. The Aviation Services business seeks to actively manage its portfolio of receivables by only offering credit terms (limited to a maximum of 30 days) to those customers specifically identified as being unlikely to default.

The ageing of trade receivables that have not been provided for are:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(£m)	(£m)	(£m)	(£m)
Not yet due				
0-29 days	30.3	30.4	25.8	20.3
Overdue				
30-59 days	2.3	1.8	1.3	4.1
60-89 days	0.7	1.0	1.5	1.0
90 days plus	1.6	1.3	2.2	2.0
	34.9	34.5	30.8	27.4

In respect of financial assets other than loans and receivables, the Group uses well regarded financial institutions to provide the services required and deposits surplus cash with a variety of institutions in order to minimise its exposure to the possibility of the counter-party defaulting. Similarly, the Group has counter-party relationships in respect of derivative financial institutions with at least two institutions other than the Group's bankers.

The table below shows the Group's major counterparties at the balance sheet date using the Standard and Poor's credit rating symbols.

			As at			
Counterparty	Location	Rating	31 March 2008	31 March 2009	31 March 2010	30 September 2010
			(£m)	(£m)	(£m)	(£m)
Barclays Bank plc	United Kingdom	AA−	49.1	43.9	38.8	17.6
Standard Life Plc	United Kingdom	A−	10.7	14.7	10.0	8.0
Blackrock Inc	Republic of Ireland	A+	10.4	14.4	10.0	8.0
Lloyds Banking Group plc	United Kingdom	A	5.2	6.2	4.9	4.8

The maximum exposure to credit risk is all financial assets plus any financial guarantees.

Fuel price risk management

The Group purchases fuel on the open market from recognised fuel suppliers in order to operate its fleet of aircraft and this constitute a substantial portion of the Group's activities (approximately 15.9 per cent., 20.7 per cent., 15.2 per cent. and 15.9 per cent. of revenues in the years ended 31 March 2008, 2009 and 2010 and the 6-month period ended 30 September 2010, respectively). The Group engages in fuel price hedging and foreign exchange transactions from time to time to meet its policy of entering into forward fuel price exchange contracts and other related financial instruments to cover at least 60.0 per cent. of its anticipated requirements for fuel over a 12-month period.

Aviation fuel is a significant variable cost which has had a material impact on the Group's results during the period under review. A variety of external factors, such as changes in supply and demand for oil and oil-related products and the increasing role of speculators and funds in the futures markets, have played their part in making aviation fuel prices highly volatile. It is fuel price volatility which is the main driver of variances in the Group's overall fuel costs.

The Group operates a policy of managing this volatility by entering into derivative contracts representing a portion (between 60 per cent. and 90 per cent.) of its aviation fuel requirements up to 12 months forward The intention of this programme is to provide a significant element of certainty over its fuel costs for any forthcoming IATA season.

Forward fuel price exchange contracts

The actual amount covered by such contracts, amounted to 49.0 per cent., 91.0 per cent., 78.7 per cent. and 41.4 per cent. of the following year's budgeted fuel consumption as at 31 March 2008, 2009, 2010 and at 30 September 2010 respectively. The amount of fuel actually consumed was 7.9 per cent. less, 13.4 per cent. less, 4.9 per cent. more and 4.3 per cent. less than anticipated in each of the years to 31 March 2008, 2009 and 2010 and for the 6-month period to 30 September 2010.

The following table details the forward fuel price contracts outstanding at the end of each reporting period:

	Fair value (USDm)
At 31 March 2008	
Buy fuel:	
In less than 3 months	0.8
Between 6 and 12 months	4.1
Between 12 and 18 months	0.2
After more than 18 months	1.2
	6.3
At 31 March 2009	
Buy fuel:	
In less than 3 months	(7.8)
Between 3 and 6 months	(3.5)
Between 6 and 12 months	(48.5)
Between 12 and 18 months	(6.3)
After more than 18 months	(0.7)
	(66.8)
At 31 March 2010	
Buy fuel:	
In less than 3 months	(3.8)
Between 3 and 6 months	0.8
Between 6 and 12 months	2.6
	(0.4)
At 31 September 2010	
Buy fuel:	
In less than 3 months	(0.1)
Between 3 and 6 months	0.2
Between 6 and 12 months	2.5
	2.6

Fuel price sensitivity analysis

The price paid for jet fuel was 16.1 per cent. higher, 7.2 per cent. higher, 17.8 per cent. lower and 0.3 per cent. higher than expected for the years to 31 March 2008, 2009 and 2010 and for the 6 months ended 30 September 2010 respectively. These movements increased or (decreased) the cost of fuel by £6.4 million, £11.4 million, £(13.4) million and £0.3 million respectively thereby reducing or (increasing) profit before tax and equity by the same amounts.

The highs and lows recorded in each period for jet fuel prices were as follows:

	Year ended 31 March						6 months ended 30 September 2010	
	2008		2009		2010			
	Price per tonne	Date	Price per tonne	Date	Price per tonne	Date	Price per tonne	Date
	(USD)		(USD)		(USD)		(USD)	
High	1,116	14 March	1,467	3 July	726	31 March	784	30 April
Low	640	19 April	391	12 March	450	1 April	647	25 May

The Group uses fuel derivatives to mitigate those exposures. It is estimated that a one percentage point increase in the market price of aviation fuel would decrease both the Group's profit / (loss) before tax and its equity by approximately:

	Year ended 31 March			6 months ended 30 September
	2008	2009	2010	2010
	(£m)	(£m)	(£m)	(£m)
Impact of 1.0% increase in the market price of fuel on profit / (loss) before tax and equity	(0.9)	(0.9)	(0.5)	(0.5)

25. Operating leases

Non-cancellable operating lease rentals are payable as follows:

	Property & equipment				Aircraft			
	As at				As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)	(£m)
Less than one year	3.4	2.9	3.7	3.2	48.3	61.6	71.2	78.5
Between one and two years	2.6	2.0	1.7	2.1	43.7	59.8	70.2	77.0
Between two and five years	4.0	3.1	2.9	3.4	116.6	174.8	199.8	218.7
More than five years	5.7	5.1	4.8	7.9	138.5	206.8	226.1	221.5
	15.7	13.1	13.1	16.6	347.1	503.0	567.3	595.7

The Group has entered into commercial leases on certain properties, equipment and aircraft. These leases have durations ranging from 1 to 20 years for property and 1 to 12 years for aircraft. The average term remaining under the aircraft leases was 6.0 years at 31 March 2008, 7.7 years at 31 March 2009, 7.4 years at 31 March 2010 and 7.2 years at September 2010.

The charge to operating profit / (loss) in respect of operating leases was as follows:

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	(£m)	(£m)	(£m)	(£m)	(£m) (unaudited)
Aircraft	44.8	57.6	68.1	39.9	33.0
Land and buildings	3.0	3.8	3.4	1.6	1.8
Property and equipment	0.2	0.2	0.2	0.1	0.1
Total	48.0	61.6	71.7	41.6	34.9

Aircraft leases are payable in US Dollars.

26. Capital commitments

The Group has, over time, contractually committed to the acquisition of aircraft with a total list price before escalations and discounts as follows:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(£m)	(£m)	(£m)	(£m)
Aircraft	334.2	191.8	65.9	888.7

It is intended that these aircraft will be financed partly though cash flow and partly through external financing and leasing arrangements. The number of aircraft covered by these arrangements is as follows:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(No)	(No)	(No)	(No)
Bombardier Q400	23	11	4	4
Embraer E-Series	3	–	–	35
Total	26	11	4	39

The Group is also contractually committed to spend £2.2 million as at 30 September 2010 (£7.7 million 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 the first calendar quarter of 2011. Such financial commitment will be borne by the Group out of existing cash resources and not out of the proceeds of the Global Offer.

27. Contingencies

The Group has entered into arrangements to guarantee the Group's credit card arrangements and has placed bonds in favour of various handling agents, fuel suppliers and customs offices:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(£m)	(£m)	(£m)	(£m)
Credit card arrangements	14.0	14.0	14.0	14.0
Bonds	5.1	10.0	7.8	7.0
Total	19.1	24.0	21.8	21.0
Cash deposited to secure the above arrangements	3.0	2.6	8.0	8.0

In order to secure some of the arrangements highlighted above, the Group deposited amounts with its bankers that are classified as part of other restricted cash (note 17).

At 30 September 2010, the Group has received £2.8 million of government funding via the Regional Development Agency to partly fund the construction of its Training Academy. The Regional Development Agency has received a challenge from a third party that this funding constitutes unfair state funding and, as a result, the Agency has commenced, but not yet completed, a review of the payments made. Consequently, the outcome is uncertain and it is possible that the Group may be required to repay all or part of the funding received.

28. Ultimate parent company and ultimate controlling party

The Directors regard Rosedale (JW) Investments Limited, incorporated in Jersey, as the ultimate parent company. The ultimate controlling party is the J Walker 1987 Settlement.

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

29. Related parties

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

	Sales of services			
	Year ended 31 March			6 months ended 30 September
	2008	2009	2010	2010
	(£m)	(£m)	(£m)	(£m)
Preston Travel (CI) Limited	1.4	1.5	1.4	1.0

	Amounts owed by related parties			
	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(£m)	(£m)	(£m)	(£m)
Preston Travel (CI) Limited	0.1	0.1	0.1	0.3

	Purchases of services			
	Year ended 31 March			6 months ended 30 September
	2008	2009	2010	2010
	(£m)	(£m)	(£m)	(£m)
Edenfield Investments Limited	0.5	0.2	0.2	0.1
Downham Properties Limited	0.2	0.2	0.2	0.1
Walker Aviation Finance	7.1	–	–	–

	Amounts owed to related parties			
	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(£m)	(£m)	(£m)	(£m)
Edenfield Investments Limited	–	–	–	–
Downham Properties Limited	–	–	–	–
Walker Aviation Finance	–	–	–	–

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 or 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 also purchased property services from Edenfield Investments Limited and from Downham Properties Limited. The Group made no further payments to Edenfield Investments Limited (2009: £nil; 2008: the Group also made a payment of £4.2m to Edenfield Investments Limited to purchase hangar accommodation which is occupied by the Group).

In the year ended 31 March 2008 the Group continued with a finance lease with Walker Aviation Finance Limited, a subsidiary of Rosedale (JW) Investments Limited, for three BAe 146-300 aircraft at an arm's length market rate. The amount paid included a purchase option of £2.0 million for each aircraft paid on 28 September 2007. This completed the lease arrangements with Walker Aviation Finance Limited.

Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 7.95 per cent of the voting shares of the Company.

The compensation of key management personnel (which the Group considers to be the Directors) is as follows:

	Year ended 31 March			6 months ended 30 September	
	2008	2009	2010	2010	2009
	(£m)	(£m)	(£m)	(£m)	(£m) (unaudited)
Key management emoluments	1.6	1.4	1.8	0.8	0.7
Company contributions to personal pension schemes	0.1	0.1	0.1	0.1	0.1
	1.7	1.5	1.9	0.9	0.8

At 30 September 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 plc:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(£000)	(£000)	(£000)	(£000)
MD Rutter	63	63	63	63
RA Knuckey	20	20	20	20

These transactions have been approved by the members of the company.

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 plc:

	As at			
	31 March 2008	31 March 2009	31 March 2010	30 September 2010
	(£000)	(£000)	(£000)	(£000)
RA Knuckey	134	134	134	134
AJ Strong	–	36	36	36
D Longbottom	–	–	9	9
CT Scott	–	–	9	9
A Smith	–	–	9	9
P Smith	–	–	9	9

The loans made by the Group and Rosedale Aviation Holdings Limited total £289,000 at 30 September 2010 (31 March 2010: £289,000; 31 March 2009: £253,000; 31 March 2008: £217,000), bear no interest and are repayable in the event of a flotation or trade sale of the Group and at the discretion of Rosedale Aviation Holdings Limited. New loans made in the 2010/11 First Half Year by Rosedale Aviation Holdings Limited amounted to £nil (year to 31 March 2010: £36,000; year to 31 March 2009: £nil; year to 31 March 2008: £134,000).

There are no other transactions or balances with key management.

30. Explanation of transition to IFRS

For all periods up to and including the period ended 31 March 2010, the Group prepared its financial statements in accordance with UK GAAP. The historical financial information, as stated in note 2, comprises the Group's first financial information prepared in accordance with IFRS.

The accounting policies set out in note 2 have been applied consistently in preparing the HFI for the three and a half years ended 30 September 2010, and in the preparation of the opening IFRS balance sheet at 1 April 2007.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in financial statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to Adopted IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

	Note	1 April 2007	31 March 2010
		(£m)	(£m)
Net (liabilities)/assets as reported under UK GAAP		(25.0)	18.9
Negative goodwill taken to income statement	a	43.5	–
Derivative financial instruments	b	(3.1)	6.8
Deferred tax	c	(0.1)	(4.1)
Holiday pay	d	(1.1)	(0.4)
Other adjustments		(0.5)	0.3
Total impact of adjustments		38.7	2.6
Net assets as reported under IFRS		13.7	21.5

Notes to the reconciliation of equity

(a) Intangible assets

Under IFRS, where the net fair value of the acquired assets, liabilities and contingent liabilities exceeds the cost of a business combination, the identification of acquired assets, liabilities and contingent liabilities is reassessed before recognising the excess immediately in the income statement. Under UK GAAP the excess was recognised proportionately against applicable non-monetary assets.

	1 April 2007	31 March 2010
	(£m)	(£m)
Negative goodwill under UK GAAP	(42.1)	–
Reversal of negative goodwill amortisation	(2.0)	–
Inclusion of revised deferred tax liability	1.3	–
Recognition of landing rights	(4.4)	–
Fair value adjustments made in year ended 31 March 2008	3.7	–
Release of recalculated negative goodwill to income statement	(43.5)	–

(b) Derivative financial instruments

IAS 39 requires all derivatives to be recognised at fair value in the balance sheet. Consequently, the fair value of foreign currency forward contracts and commodity contracts have been recognised at fair value in the balance sheet. Details of these contracts are given in note 24. Under UK GAAP the fair value of derivatives was not recognised in the balance sheet and accordingly changes were not recognised in the income statement or equity.

(c) Deferred taxation

Under UK GAAP, deferred tax was provided on certain timing differences that had originated but not reversed at the balance sheet date. Under IFRS, deferred tax is provided on temporary differences based upon future recovery or settlement of assets and liabilities recognised in the balance sheet. In addition, the Group cannot offset deferred tax assets and liabilities arising in separate entities unless the entities intend to settle the asset or liability on a net basis. Consequently, under IFRS, deferred tax assets and liabilities are shown separately on the balance sheet.

In addition adjustments to deferred tax in relation to IFRS adjustments made elsewhere in the HFI have been made. The deferred tax effect of all adjustments are summarised below:

	1 April 2007	31 March 2010
	(£m)	(£m)
Derivative financial instruments	0.9	(3.1)
Holiday pay	0.3	—
Landing rights recognised on BA Connect acquisition	(1.3)	(1.2)
Net effect of deferred tax on transition to IFRS	(0.1)	(4.3)

Under UK GAAP certain deferred tax assets are not recognised by the Group due to uncertainty as to when these assets will be realised. The same principles exist under IFRS so an element of the deferred tax asset has also not been recognised.

(d) Holiday pay

Under IFRS an accrual is required for holiday pay amounting to £1.1 million at 1 April 2007 and of £0.4 million at 31 March 2010.

Reconciliation of profit for the year ended 31 March 2010

	Note	UK GAAP	Effect of transition to IFRSs	IFRSs
		(£m)	(£m)	(£m)
Revenue		570.5	–	570.5
Operating costs	a	(561.8)	18.9	(542.9)
Operating profit before net financing costs		8.7	18.9	27.6
Net financing costs and other gains or losses		(3.0)	–	(3.0)
Profit before tax		5.7	18.9	24.6
Taxation	b	1.0	(3.4)	(2.4)
Profit for the year		6.7	15.5	22.2

Notes to the reconciliation of profit for the periods ended 31 March 2010

(a) Operating costs

	Year ended 31 March 2010
	(£m)
Negative goodwill	(0.4)
Holiday pay	0.6
Depreciation of property, plant and equipment	0.4
Hedging gains and losses	18.3
Net adjustment to operating costs	18.9

The amortisation in respect of goodwill in the year to 31 March 2010, has been reversed under IFRS, as under IFRS, total negative goodwill of £42.1 million was credited directly to the income statement in 2007, the year of acquisition. This entailed a corresponding adjustment to retained earnings as at 1 April 2007.

Holiday pay has moved in the year to 31 March 2010 as a result of changes relating to the enforcement of the holiday leave years (which run to March and April for different categories of staff).

Depreciation of property, plant and equipment has been reduced in the IFRS figures as the requirements for measuring residual value of assets mean that the values should be adjusted to the latest market price each year. The 31 March 2010 position value showed a relatively large upward movement in the residual value of owned aircraft, thereby reducing the depreciation charged under IFRS when compared with UK GAAP.

Under UK GAAP, gains and losses from derivative financial instruments used for hedging purposes are not recognised in earnings or as adjustments to carrying amounts until the gains or losses crystallise. IFRS requires all derivatives to be recognised at fair value in the balance sheet and classified as current and non-current, assets or liabilities, as appropriate. Agreements that were outstanding and were not closely related to an underlying financing transaction have been designated at fair value through the income statement and amounted to additional hedging movements that have been credited or charged to operating costs.

(b) Taxation

Under UK GAAP, deferred tax was provided on certain timing differences that had originated but not reversed at the balance sheet date. Under IFRS, deferred tax is provided on temporary differences based upon the future recovery or settlement of assets and liabilities recognised in the balance sheet.

C. Accountants' report on the Pro-Forma Financial Information

Deloitte LLP
2 Hardman Street
Manchester
M60 2AT

The Board of Directors
on behalf of Flybe Group plc
Jack Walker House
Exeter International Airport
Exeter
Devon
EX5 2HL

Merrill Lynch International
2 King Edward Street
London
EC1A 1HQ

10 December 2010

Dear Sirs,

Flybe Group plc (the "Company")

We report on the pro-forma financial information (the "Pro-forma financial information") set out in section D of Part 5 of the prospectus dated 10 December 2010 (the "**Prospectus**"), which has been prepared on the basis described, for illustrative purposes only, to provide information about how the proposed issue of new ordinary shares of the Company and the proposed admission to listing on the Official List of the Financial Services Authority and to trading on the main market of the London Stock Exchange might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ending 31 March 2011. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro forma financial information in accordance with Annex 1 item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in accordance with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, not do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

(a) the pro-forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully,

Deloitte LLP
Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Member of Deloitte Touche Tohmatsu Limited

D. Unaudited Pro-forma Financial Information

The unaudited pro-forma financial information set out below has been prepared to illustrate the impact of the Global Offer on the consolidated net assets of the Group. The pro-forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not and will not represent the Group's actual financial position or results.

The pro-forma financial information is based on the consolidated net assets of the Group as at 30 September 2010 and has been prepared on the basis that the settlement of the Global Offer took place on that date. The pro-forma financial information takes no account of the results of the Group for the period subsequent to 30 September 2010, or for any other changes in its financial position in that period.

Consolidated Pro-Forma Statement of Net Assets

at 30 September 2010

	Consolidated Net Assets of the Group as at 30 September 2010(175)	Adjustment: Estimated Net Proceeds of the Global Offer(176)	Consolidated Pro-forma Net Assets of the Group as at 30 September 2010(177)
	(£m)	(£m)	(£m)
Non-current assets			
Intangible assets	10.6	–	10.6
Property, plant and equipment	121.5	–	121.5
Other non-current assets	33.2	–	33.2
Restricted cash	9.1	–	9.1
Deferred tax asset	9.5	–	9.5
	183.9	0.0	183.9
Current assets			
Inventories	7.0	–	7.0
Trade and other receivables	74.7	(0.9)	73.8
Cash and cash equivalents	24.7	56.9	81.6
Restricted cash	8.0	–	8.0
Derivative financial instruments	3.3	–	3.3
Assets held for sale	0.6	–	0.6
	118.3	56.0	174.3
Total assets	302.2	56.0	358.2
Current liabilities			
Trade and other payables	(88.8)	–	(88.8)
Deferred income	(38.9)	–	(38.9)
Borrowings	(13.5)	–	(13.5)
Provisions	(26.5)	–	(26.5)
Derivative financial instruments	(2.0)	–	(2.0)
	(169.7)	0.0	(169.7)
Non-current liabilities			
Borrowings	(58.6)	–	(58.6)
Deferred tax liabilities	(8.4)	–	(8.4)
Provisions	(22.2)	–	(22.2)
Deferred income	(8.4)	–	(8.4)
	(97.6)	0.0	(97.6)
Total liabilities	(267.3)	0.0	(267.3)
Net assets	34.9	56.0	90.9

(175) The consolidated net assets position of the Group as at September 2010 has been extracted without material adjustment from the historical financial information set out in section B of this Part 5 of this document.

(176) The estimated net proceeds of the Global Offer receivable by the Company are calculated on the basis that the gross proceeds of the subscription for New Shares are £60 million and that the commissions, fees and expenses of the Global Offer in respect of the subscription for New Shares (payable by the Company) are £3.1 million, as described in paragraph 17.4 of Part 7 "Additional Information" of this document. Trade and other receivables as at 30 September 2010 include £0.9 million prepaid fees and expenses in respect of the Global Offer which are recognised against share premium on the issue of shares.

(177) The pro-forma financial information takes no account of the results of the Group for the period subsequent to 30 September 2010, or any other changes in its financial position in that period.

PART 6

INFORMATION ON THE GLOBAL OFFER AND ADMISSION

1. THE GLOBAL OFFER

The Global Offer is being made by way of an offer of Ordinary Shares to certain qualified investors, including to institutional investors in the United Kingdom, certain institutional investors outside the United States pursuant to Regulation S under the US Securities Act and, by way of a private placement, in the United States to persons reasonably believed to be QIBs in reliance on Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act.

The Global Offer comprises an offer of 20,338,983 new Ordinary Shares to be issued by the Company on the date of Admission. Members of the general public will not be able to apply for Ordinary Shares in the Global Offer. No existing Ordinary Shares will be sold or offered by the Existing Shareholders as part of the Global Offer.

All new Ordinary Shares will be issued at the Offer Price.

Certain restrictions that apply to the distribution of this document and the Ordinary Shares being issued under the Global Offer in jurisdictions outside the United Kingdom are described below.

Participants in the Global Offer will be advised verbally or by electronic mail of their allocation as soon as practicable following allocation. Prospective investors in the Global Offer will be contractually committed to acquire the number of Ordinary Shares allocated to them at the Offer Price and, to the fullest extent permitted by law, will be deemed to have agreed not to exercise any rights to rescind or terminate, or otherwise withdraw from, such commitment.

Allocations under the Global Offer will be proposed by the Global Coordinator and agreed with the Company. The allocation process is expected to cease on or about 10 December 2010 but the time for receipt of non-binding indications of interest under the Global Offer may be extended or shortened at the discretion of the Global Coordinator.

The net proceeds payable to the Company in respect of the Global Offer are expected to be approximately £56.9 million (net of underwriting commissions and other estimated fees and expenses).

The New Shares to be issued by the Company pursuant to the Global Offer will represent approximately 27.92 per cent. of the expected issued ordinary share capital of the Company immediately following Admission (assuming no exercise of the Over-allotment Option described below).

A further 2.72 per cent. of the expected issued ordinary share capital of the Company is being made available pursuant to the Over-allotment Option described below. In the event that the Over-allotment Option is exercised in full, the total number of Ordinary Shares to be issued pursuant to the Global Offer will represent approximately 27.16 per cent. of the expected issued ordinary share capital of the Company immediately following Admission.

Once admitted to trading, the Ordinary Shares will be registered with ISIN GB00B4QMVR10 and SEDOL number B4QMVR1.

Immediately following the Global Offer, it is expected that approximately 28 per cent. of the Company's issued share capital will be held in public hands (within the meaning of rule 6.1.19 of the Listing Rules) assuming that no Over-allotment Shares are issued pursuant to the Over-allotment Option. This increases to approximately 30 per cent. of the Company's issued share capital if the maximum number of Over-allotment Shares are issued pursuant to the Over-allotment Option.

2. REASONS FOR THE GLOBAL OFFER

The Directors believe that the Global Offer and Admission will:

- provide the Company with capital to assist in the expansion of its operations within continental Europe;
- provide the Company with a platform for future growth through acquisitions using the Company's listed securities as consideration;
- assist the Group in recruiting, retaining and incentivising key management and employees; and
- improve the Group's profile, brand recognition and credibility with its customers and employees.

3. USE OF PROCEEDS

The Company intends to use:

- approximately 50 per cent. of the net proceeds from the Global Offer to provide it with capital to assist in funding its aircraft fleet expansion programme (as more particularly described in the "Fleet funding" paragraph of section 6 of Part 1 "Information relating to the Group" of this document); and
- approximately 50 per cent. of the net proceeds from the Global Offer to further strengthen its cash position, providing strategic flexibility to pursue additional growth opportunities (such as the expansion of codeshare arrangements, strategic arrangements with other European airlines and targeted acquisitions) should such opportunities present themselves (as more particularly described in the "Leverage the Group's Investment and Market Position to .... (ii) Drive European expansion" paragraph of section 5 of Part 1 "Information relating to the Group" of this document).

The Company has not, as at the date of this document, allocated any of the net proceeds from the Global Offer to any specific use or purpose or the acquisition of any specific asset. Rather, the net proceeds from the Global Offer will be used by the Company to provide flexibility in pursuing the strategic objectives set out above.

4. COMMUNICATED INTENTION FROM BRITISH AIRWAYS PLC

British Airways has communicated its intention to the Company to subscribe for such number of Offer Shares in the Global Offer to enable it to maintain its pre-Admission 15 per cent. shareholding in the Company (held through its subsidiary company, The Plimsoll Line Limited). British Airways' communicated intention assumes no exercise of the Over-allotment Option.

The Offer Shares to be subscribed for by British Airways will rank pari passu in all respects with the Offer Shares under the Global Offer.

5. REPRESENTATIONS AND WARRANTIES

By receiving this document, each investor and, in the case of paragraphs 5(iv), 5(v) and 5(vi) below, any person confirming his agreement to purchase Ordinary Shares on behalf of an investor or authorising the Managers to notify an investor's name to the Registrars, is deemed to represent and warrant to each of the Managers, the Registrars and the Company that:

(i) if the investor is a natural person, such investor is not under the age of majority (18 years of age in the United Kingdom) on the date of such investor's agreement to purchase Ordinary Shares under the Global Offer and will not be any such person on the date any such offer is accepted;

(ii) in agreeing to purchase Ordinary Shares under the Global Offer, the investor is relying on this document or any supplementary prospectus (as the case may be) or any regulatory announcement issued by the Company, and not on any other information or representation concerning the Company, its Ordinary Shares or the Global Offer. Such investor agrees that none of the Company, the Registrars, the Managers nor any of their respective officers or directors will have any liability for any such other information or representation;

(iii) if the laws of any place outside the United Kingdom are applicable to the investor's agreement to purchase Ordinary Shares and/or acceptance thereof, such investor has complied with all such laws and none of the investors will infringe any laws outside the United Kingdom as a result of such investor's agreement to purchase Ordinary Shares and/or acceptance thereof or any actions arising from such investor's rights and obligations under the investor's agreement to purchase Ordinary Shares and/or acceptance thereof or under the Articles;

(iv) in the case of a person who confirms to a Manager on behalf of an investor an agreement to purchase Ordinary Shares and/or who authorises a Manager to notify the investor's name to the Registrars, that person represents and warrants that he has authority to do so on behalf of the investor;

(v) the investor is not, and is not applying as nominee or agent for, a person which is, or may be, mentioned in any of sections 67, 70, 93 or 96 of the UK Finance Act 1986 (depository receipts and clearance services);

(vi) in the case of a person who confirms to a Manager on behalf of an investor which is an entity other than a natural person an agreement to purchase Ordinary Shares and/or who authorises the notification of such investor's name to the Registrars, that person warrants that he has authority to do so on behalf of the investor; and

(vii) the investor has not relied on the Managers or any person affiliated with the Managers in connection with any investigation of the accuracy of any information contained in this document or their investment decision; it has relied only on the information contained in this document.

Each investor who is a person in a member state of the European Economic Area which has implemented the Prospectus Directive (each, a "relevant member state") who receives any communication in respect of, or who acquires any Ordinary Shares under, the Global Offer will be deemed to have represented, warranted and agreed to and with the Managers and the Company that:

(a) it is a qualified investor within the meaning of the law in that relevant member state implementing Article 2(1)(e) of the Prospectus Directive or it is itself acquiring Ordinary Shares for a total consideration of not less than €50,000; and

(b) in the case of any Ordinary Shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Ordinary Shares acquired by it in the Global Offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any relevant member state other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where Ordinary Shares have been acquired by it on behalf of persons in any relevant member state other than qualified investors, the offer of those Ordinary Shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an "offer of Ordinary Shares to the public" in relation to any Ordinary Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the Global Offer and any Ordinary Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Ordinary Shares, as the same may be varied in that relevant member state by any measure implementing the Prospectus Directive in that relevant member state and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

In the case of any Ordinary Shares being offered to a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, warranted and agreed to and with the Managers and the Company that (i) the Ordinary Shares acquired by it have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to persons in any relevant member state other than qualified investors, or in circumstances in which the prior consent of the Global Coordinator has been obtained to each such proposed offer or resale, or (ii) where Ordinary Shares have been acquired by it on behalf of persons in any relevant member state outside the United Kingdom other than qualified investors, the offer of those Ordinary Shares to it is not treated under the Prospectus Directive as having been made to such persons.

The Company, each Manager and each of their respective affiliates, and others will rely upon the truth and accuracy of the foregoing representations, warranties and agreements. Notwithstanding the above, a person who is not resident in the United Kingdom and is not a qualified investor and who has notified the Managers of such fact in writing may, with the consent of the Global Coordinator, be permitted to subscribe for or purchase Ordinary Shares.

Additional representations, acknowledgements and agreements given by subscribers for, or purchasers of, Ordinary Shares located in the United States and/or subscribers for, or purchasers of, Ordinary Shares offered in an offshore transaction pursuant to Regulation S are set forth in the "United States", "US Investors" and "Regulation S" paragraphs of section 11 of this Part 6 of this document.

6. SETTLEMENT AND DEALING ARRANGEMENTS

The Global Offer is subject to the satisfaction of certain conditions contained in the Underwriting Agreement, which are typical for an agreement of this nature. Certain conditions are related to events which are outside the control of the Company, the Directors and the Managers. Further details of the

Underwriting Agreement are described in paragraph 9.1 of Part 7 "Additional Information" of this document.

It is expected that Admission will take place and unconditional dealings in the Ordinary Shares will commence on the London Stock Exchange at 8.00 a.m. (London time) on 15 December 2010. Settlement of dealings from that date will be on a three-day rolling basis. Prior to Admission, it is expected that dealings in the Ordinary Shares will commence on a conditional basis on the London Stock Exchange on 10 December 2010. The earliest date for settlement of such dealings will be 15 December 2010. All dealings in the Ordinary Shares prior to the commencement of unconditional dealings will be on a "conditional basis", which means that they will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. These dates and times may be changed without further notice.

Each investor will be required to undertake to pay the Offer Price for the Ordinary Shares allocated to such investor in such manner as shall be directed by the Global Coordinator.

It is expected that Ordinary Shares allocated to investors in the Global Offer will be delivered in uncertificated form and settlement will take place through CREST on Admission. No temporary documents of title will be issued. Dealings in advance of crediting of the relevant CREST stock account will be at the risk of the person concerned.

In connection with the Global Offer, each of the Managers and any of their respective affiliates acting as an investor for its own account may take up Ordinary Shares in the Global Offer and in that capacity may retain, purchase or sell for its own account such securities and any securities of the Company or related investments and may offer or sell such securities or other investments otherwise than in connection with the Global Offer. Accordingly, references in this document to the Ordinary Shares being offered or placed should be read as including any offering or placement of securities to any of the Managers and any of their respective affiliates acting in such capacity. None of the Managers intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

7. OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offer, Merrill Lynch International (the "**Stabilisation Manager**"), or any of its agents, may (but will be under no obligation to), to the extent permitted by applicable law, over-allot and effect other transactions with a view to supporting the market price of the Ordinary Shares at a higher level than that which might otherwise prevail in the open market. The Stabilisation Manager is not required to enter into such transactions and such transactions may be effected on any stock market, over-the-counter market or otherwise. Such stabilising measures, if commenced, may be discontinued at any time and may only be taken up to the thirtieth day after the publication of this document. Save as required by law or regulation, neither the Stabilisation Manager nor any of its agents intends to disclose the extent of any over-allotments and/or stabilisation transactions under the Global Offer.

In connection with the Global Offer, the Stabilisation Manager may, for stabilisation purposes, over-allot Ordinary Shares up to a maximum of 10 per cent. of the total number of Offer Shares. For the purposes of allowing it to cover short positions resulting from any such over-allotments and/or from sales of Ordinary Shares by it during the stabilising period, the Company has granted to Merrill Lynch International an option (the "**Over-allotment Option**") to purchase or procure purchasers for additional Ordinary Shares up to a maximum of 10 per cent. of the total number of Offer Shares at the Offer Price. The Over-allotment Option is exercisable in whole or in part, upon notice by Merrill Lynch International, at any time on or before the thirty-third day after the publication of this document. Any Over-allotment Shares made available pursuant to the Over-allotment Option will be subscribed on the same terms and conditions as the Offer Shares being issued in the Global Offer and will form a single class for all purposes with the Company's other Ordinary Shares.

8. CREST

With effect from Admission, the Articles will permit the holding of Ordinary Shares by means of CREST. CREST is a paperless settlement system allowing securities to be transferred from one person's CREST account to another's without the need to use share certificates or written instruments of transfer. Settlement of transactions in the Ordinary Shares following Admission may take place within CREST if any Shareholder so wishes. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

9. UNDERWRITING ARRANGEMENTS

The Company, the Directors and the Managers have entered into the Underwriting Agreement pursuant to which each Manager has agreed, subject to certain conditions, to use its reasonable endeavours to procure subscribers for the Offer Shares or, failing which, itself to subscribe for the Offer Shares in the proportions set out in the Underwriting Agreement, at the Offer Price. The Underwriting Agreement contains provisions entitling Merrill Lynch International (for itself and on behalf of Investec and Execution Noble) to terminate the Global Offer (and the arrangements associated with it) at any time prior to Admission in certain circumstances. If this right is exercised, the Global Offer and these arrangements will lapse and any monies received in respect of the Global Offer will be returned to applicants without interest. The Underwriting Agreement provides for Merrill Lynch International (for itself and on behalf of Investec and Execution Noble) to be paid commission by the Company in respect of the New Shares and the Over-allotment Shares. Any commissions received by the Managers may be retained, and any Ordinary Shares acquired by any of them may be retained or dealt with by them for their own benefit.

Further details of the terms of the Underwriting Agreement are set out in paragraph 9.1 of Part 7 "Additional Information" of this document. Certain selling and transfer restrictions are set out below.

10. LOCK-UP ARRANGEMENTS

Pursuant to the Underwriting Agreement, the Company has agreed that, subject to certain exceptions, during the period of six months from the date of Admission, it will not, without the prior written consent of Merrill Lynch International, inter alia, offer, issue, lend, sell, contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, any Ordinary Shares (or any interest therein or in respect thereof), or any other securities exchangeable for or convertible into, or substantially similar to Ordinary Shares, or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing. This restriction shall not apply to the issue and offer by the Company of the Offer Shares or the Over-allotment Shares.

Pursuant to the Underwriting Agreement and, in the case of Mr. French, a separate lock-in deed, each of the Directors has agreed that, subject to certain exceptions, during the period of six months from the date of Admission, he or she will not, without the prior consent of Merrill Lynch International, inter alia, offer, issue, lend, sell or contract to sell, issue options in respect of, or otherwise dispose of, directly or indirectly, any Ordinary Shares (or any interest therein or in respect thereof) or any other securities exchangeable for or convertible into, or substantially similar to, Ordinary Shares or enter into any transaction with the same economic effect as, or agree to do, any of the foregoing. Directors may, however, enter into certain transactions without the prior written consent of Merrill Lynch International, including:

(i) accepting a general offer made to the holders of Ordinary Shares for the time being made in accordance with the City Code on terms which treat all such holders alike;

(ii) executing and delivering an irrevocable commitment or undertaking to accept a general offer as referred to in (i) above;

(iii) selling or otherwise disposing of Ordinary Shares pursuant to any offer by the Company to purchase its own Ordinary Shares which is made on identical terms to all holders of Ordinary Shares;

(iv) transferring or disposing of Ordinary Shares pursuant to a compromise or arrangement between the Company and its creditors or any class of them or between the Company and its members or any class of them which is agreed to by the creditors or members and (where required) sanctioned by the court; or

(v) taking up rights granted in respect of a rights issue or other pre-emptive share offering by the Company.

The Company has directed the trustees of the Flybe Employees' Share Plan (being the Flybe Group Limited Trust and the Flybe Group Limited No.2 Trust) that legal title to all the Ordinary Shares held on bare trust for the Executive Directors and the Ordinary Shares appropriated in June 2010 and held on bare trust for the members of the Executive Briefing Team should not be transferred to such persons during the period of six months from the date of Admission.

In addition, the Locked-In Shareholders have agreed that, subject to the exceptions outlined below, during the period of six months from the date of Admission, they will not, without the prior written consent of

Merrill Lynch International, inter alia, offer, sell, contract to sell, or otherwise dispose of, directly or indirectly, any Ordinary Shares (or any interest therein) or enter into any transaction with the same economic effect as any of the foregoing. They may, however, enter into certain transactions without the prior written consent of Merrill Lynch International including:

(i) accepting a general offer made to all the holders of Ordinary Shares for the time being made in accordance with the City Code and delivering an irrevocable commitment or undertaking to accept a general offer; or

(ii) transfers by way of gift to a member of his family or to any person or persons acting in the capacity of trustee of a trust created by him for the benefit of the members of his family; or

(iii) transfers in connection with, or pursuant to, any scheme of reconstruction under section 110 of the Insolvency Act 1986, or any compromise or arrangement under Part 26 of the CA 2006 entered into in relation to the Company; or

(iv) transfers by his personal representative in the event of his death.

11. SELLING RESTRICTIONS

The distribution of this document and the offer of Ordinary Shares in certain jurisdictions may be restricted by law and, therefore, persons into whose possession this document comes should inform themselves about, and observe, any restrictions, including those set out in the paragraphs that follow. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

No action has been or will be taken in any jurisdiction that would permit a public offering of the Ordinary Shares or possession or distribution of this document or any other offering or publicity material in any country or jurisdiction where action for that purpose is required. Accordingly, the Ordinary Shares may not be offered, directly or indirectly, and neither this document nor any other offering material or advertisement in connection with the Ordinary Shares may be distributed or published in or from any country or jurisdiction except under circumstances that will result in compliance with any and all applicable rules and regulations of any such country or jurisdiction. Persons into whose possession this document comes should inform themselves about and observe any restrictions on the distribution of this document and the offer of Ordinary Shares contained in this document. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. This document does not constitute an offer to sell, or the solicitation of an offer to purchase, any Ordinary Shares to any person in any jurisdiction to whom or in which it is unlawful to make such an offer or solicitation.

Canada

The Ordinary Shares may not be offered, directly or indirectly, within Canada to a resident of Canada and this document is not for delivery to a resident of Canada other than with the prior approval of the Global Coordinator on a basis exempt from the requirement that the Company prepares and files a prospectus with the securities regulatory authorities in each province or territory in Canada where trades of Ordinary Shares are effected.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each, a "relevant member state"), no Ordinary Shares have been offered or will be offered pursuant to the Global Offer to the public in that relevant member state prior to the publication of a prospectus in relation to the Ordinary Shares which has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in the relevant member state, all in accordance with the Prospectus Directive, except that offers of Ordinary Shares may be made to the public in that relevant member state at any time under the following exemptions under the Prospectus Directive, if they are implemented in that relevant member state:

(i) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(ii) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year, (ii) a total balance sheet of more than €43,000,000, and (iii) an annual turnover of more than €50,000,000 as shown in its last annual or consolidated accounts;

(iii) to fewer than 100 natural or legal persons (other than "qualified investors", as defined in the Prospectus Directive) subject to obtaining the prior consent of the Global Coordinator; or

(iv) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Ordinary Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a relevant member state and each person who initially acquires any Ordinary Shares or to whom any offer is made under the Global Offer will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

The expression an "offer of any Ordinary Shares to the public" (or similar expression) in relation to any Ordinary Shares in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer of any Ordinary Shares to be offered so as to enable an investor to decide to purchase any Ordinary Shares, as the same may be varied in the relevant member state by any measure implementing the Prospectus Directive in the relevant member state.

In the case of any Ordinary Shares being offered to a "financial intermediary", as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Ordinary Shares acquired by it in the Global Offer have not been acquired on a non-discretionary basis on behalf of, nor have they been acquired with a view to their offer or resale to persons in circumstances which may give rise to an offer of any Ordinary Shares to the public other than their offer or resale in a relevant member state to qualified investors (as so defined) or in circumstances in which the prior consent of the Global Coordinator has been obtained to each such proposed offer or resale. The Company, the Registrars, the Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing representation, acknowledgement and agreement. Notwithstanding the above, a person who is not a qualified investor and who has notified the Global Coordinator of such fact in writing may, with the consent of the Global Coordinator, be permitted to purchase Ordinary Shares in the Global Offer.

Australia

This document is not a prospectus for the purposes of the Corporations Act of Australia 2001 ("the Australian Corporations Act") and may not contain all of the information that an Australian investor may find in a prospectus prepared in accordance with the Australian Corporations Act which may be required in order to make an informed investment decision regarding, or about the rights attaching to, the Ordinary Shares. As no prospectus will be lodged with the Australian Securities & Investments Commission or otherwise prepared in accordance with the Australian Corporations Act in respect of the Global Offer, the Ordinary Shares will only be offered or issued to persons in Australia to whom an offer of shares for issue may be made without a prospectus under Part 6D.2 of the Australian Corporations Act or to persons outside Australia in accordance with the laws of any other applicable jurisdiction.

If you are located in Australia, you confirm and warrant that you are a person to whom an offer of securities may be made under section 708(11) of the Australian Corporations Act such that any offer or invitation to you does not require a prospectus or other form of disclosure document under the Australian Corporations Act and you agree that you will not offer to sell the Ordinary Shares to any person that is not a professional investor under 708(11) of the Australian Corporations Act until the day after a notice is lodged by the Company with the Australian Stock Exchange that complies with subsections 708A(5)(e) and (6) of the Australian Corporations Act.

Dubai International Financial Centre

This document relates to an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority ("DFSA"). This document is intended for distribution only to persons of a type specified in the Offered Securities Rules of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this document nor taken steps to verify the information set forth herein and has no responsibility for this document. The Ordinary Shares to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Ordinary Shares offered should conduct their own due diligence on the Ordinary Shares. If you do not understand the contents of this document you should consult an authorised financial adviser.

Japan

The Ordinary Shares have not been and will not be registered under the Financial Instruments and Exchange Law, as amended (the "FIEL"). This document is not an offer of securities for sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or entity, organised under the laws of Japan) or to others for reoffer or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements under the FIEL and otherwise in compliance with such law and any other applicable laws, regulations and ministerial guidelines of Japan.

Switzerland

This document, as well as any other material relating to the Ordinary Shares which are the subject of the offering contemplated by this document, does not constitute an issue prospectus pursuant to Articles 652a and/or 1156 of the Swiss Code of Obligations. The Ordinary Shares will not be listed on the SIX Swiss Exchange and, therefore, the documents relating to the Ordinary Shares, including, but not limited to, this document, do not claim to comply with the disclosure standards of the listing rules of the SIX Swiss Exchange and corresponding prospectus schemes annexed to the listing rules of the SIX Swiss Exchange. The Ordinary Shares are being offered in Switzerland by way of a private placement, i.e. to a small number of selected investors only, without any public offer and only to investors who do not purchase the Ordinary Shares with the intention to distribute them to the public. The investors will be individually approached by the Company from time to time. This document, as well as any other material relating to the Ordinary Shares, is personal and confidential and does not constitute an offer to any other person. This document may only be used by those investors to whom it has been handed out in connection with the Global Offer described herein and may neither directly nor indirectly be distributed or made available to other persons without express consent of the Company. It may not be used in connection with any other offer and shall, in particular, not be copied and/or distributed to the public in (or from) Switzerland.

United States

The Ordinary Shares have not been and will not be registered under the US Securities Act or under the applicable securities legislation of any state or other jurisdiction of the United States. The Ordinary Shares may not be offered, sold, pledged or otherwise transferred, directly or indirectly, in or into the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and any applicable state securities laws. Terms defined in Rule 144A or Regulation S, as applicable, shall have the same meaning in this section.

In addition, until 40 days after the later of the commencement of the Global Offer and the completion of the distribution of the Ordinary Shares, an offer or sale of Ordinary Shares within the United States by any dealer (whether or not participating in the Global Offer) may violate the registration requirements of the US Securities Act if such offer or sale is made otherwise than in accordance with an exemption from registration, or in a transaction not subject to registration, under the US Securities Act.

Each subscriber for, or purchaser of, Ordinary Shares will be deemed to have represented, acknowledged and agreed that (1) it has received a copy of this prospectus and such other information as it deems necessary to make an investment decision, and (2) it is not an affiliate (as defined in Rule 144 under the US Securities Act) of the Company, and is not acting on the Company's behalf.

US Investors

Each subscriber for, or purchaser of, Ordinary Shares located within the United States will be deemed to have represented, acknowledged and agreed as follows:

(i) the subscriber or purchaser: (1) is a QIB; (2) is aware, and each beneficial owner of such shares has been advised, that the sale of the Ordinary Shares to it is being made in reliance upon the exemption from the registration requirements of the US Securities Act provided by Rule 144A or another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act; (3) is acquiring such Ordinary Shares for its own account or for the account of another QIB, as the case may be; and (4) acknowledges that no representation can be made as to the availability of the exemption provided by Rule 144 for resales of the Ordinary Shares;

(ii) the subscriber or purchaser has such knowledge and experience in financial and business matters and in buying equity securities that it is capable of evaluating the merits and risks of its investment in the Ordinary Shares, and it is able to bear the economic risk of such investment and is able to sustain a complete loss of its investment in the Ordinary Shares;

(iii) the subscriber or purchaser acknowledges that: (1) it has had access to all such information regarding the Company and the Ordinary Shares and has made all such investigation with respect thereto as it deems necessary or appropriate to make its investment decision, and it has consulted its own independent advisors or otherwise made its own assessment and has satisfied itself concerning the relevant tax, legal, currency and other economic considerations relevant to its investment in the Ordinary Shares; and (2) it has had the opportunity to ask questions to the Company concerning the terms and conditions of the offer of the Ordinary Shares and concerning the Company;

(iv) the subscriber or purchaser understands (and, if it is acting for the account of another person, such person has confirmed to it that such person understands) that the Ordinary Shares are "restricted securities" (within the meaning of Rule 144(a)(3) under the US Securities Act) and that such Ordinary Shares are being offered only in a transaction not involving any public offering in the United States within the meaning of the US Securities Act, that the Ordinary Shares have not been and will not be registered under the US Securities Act and that it may not offer, resell, pledge or otherwise transfer any of such Ordinary Shares except: (i) in accordance with Rule 144A, or another exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act, to a person that the seller and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of another QIB; (ii) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the US Securities Act; (iii) pursuant to an exemption from registration under the US Securities Act provided by Rule 144 thereunder (if applicable); or (iv) pursuant to an effective registration statement under the US Securities Act, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States;

(v) the subscriber or purchaser understands that the Ordinary Shares, to the extent they are in certificated form, unless otherwise determined by the Company in accordance with applicable law, will bear a legend substantially to the following effect:

THE ORDINARY SHARES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "US SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE US SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE US SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE US SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), (4) IN ACCORDANCE WITH ANOTHER EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE US SECURITIES ACT (AND BASED UPON AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY IF THE COMPANY SO REQUESTS), (5) TO THE COMPANY, OR (6) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE US SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OR THE SECURITY EVIDENCED HEREBY OF THE RESALE RESTRICTIONS SET FORTH ABOVE. EACH PURCHASER OF THE SECURITY EVIDENCED HEREBY IS

HEREBY NOTIFIED THAT THE SELLER MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE US SECURITIES ACT PROVIDED BY RULE 144A. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE US SECURITIES ACT FOR RESALES OF THESE ORDINARY SHARES. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THE FOREGOING, THE ORDINARY SHARES MAY NOT BE DEPOSITED INTO ANY UNRESTRICTED DEPOSITARY RECEIPT FACILITY IN RESPECT OF THE COMPANY'S SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK;

(vi) the Company, the Registrars, the Managers and their affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements, and the subscriber or purchaser agrees that if any such acknowledgements, representations or agreements deemed to have been made by virtue of its purchase of the Ordinary Shares are no longer accurate, it will promptly notify the Company. If the subscriber or purchaser is acquiring any Ordinary Shares for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(vii) notwithstanding anything to the contrary in the foregoing, the Ordinary Shares may not be deposited into any unrestricted depositary receipt facility established or maintained by a depositary bank;

(viii) any offer, sale, resale, pledge or other transfer made other than in compliance with the above stated restrictions shall not be recognised by the Company in respect of the Ordinary Shares, provided that the Company may not refuse to register the transfer of any uncertificated shares unless permitted to do so by the Uncertificated Securities Regulations; and

(ix) each subscriber or purchaser which, in the future, offers, resells, pledges or otherwise transfers such Ordinary Shares, will notify such subsequent transferees of the transfer restrictions set out in paragraphs (i) to (viii) above.

Prospective purchasers are hereby notified that the sellers of the Ordinary Shares may be relying on the exemption from the provisions of section 5 of the US Securities Act provided by Rule 144A.

Regulation S

Each subscriber for, or purchaser of, Ordinary Shares offered in an "offshore transaction" pursuant to Regulation S will be deemed to have represented, agreed and acknowledged that it has received a copy of this document, and such other information as it deems necessary to make an investment decision and that:

(i) it is authorised to consummate the purchase of the Ordinary Shares in compliance with all applicable laws and regulations;

(ii) it acknowledges (or if it is a broker-dealer acting on behalf of a customer, its customer has confirmed to it that such customer acknowledges) that the Ordinary Shares have not been, and will not be, registered under the US Securities Act or with any securities regulatory authority of any state, territory or other jurisdiction of the United States;

(iii) it is subscribing for or purchasing the Ordinary Shares in an "offshore transaction" meeting the requirements of Regulation S;

(iv) it will not offer, sell, pledge or transfer any Ordinary Shares, except in accordance with Regulation S, pursuant to registration under the US Securities Act or pursuant to an available exemption from registration under the US Securities Act, and in accordance with any applicable laws of any state of the United States and any other jurisdiction;

(v) it will not engage in hedging transactions with regard to the Ordinary Shares unless in compliance with the US Securities Act;

(vi) the Company, the Registrars, the Managers and their respective affiliates, and others, will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any such acknowledgements, representations or agreements deemed to have been made by virtue of its subscription or purchase of the Ordinary Shares are no longer accurate, it will promptly notify the Company. If it is acquiring any Ordinary Shares as a fiduciary or agent for one or more accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account;

(vii) any offer, sale, resale, pledge or other transfer made other than in compliance with the above stated restrictions shall not be recognised by the Company in respect of the Ordinary Shares, provided that the Company may not refuse to register the transfer of any uncertificated shares unless permitted to do so by the Uncertificated Securities Regulations; and

(viii) each subscriber or purchaser which, in the future, offers, resells, pledges or otherwise transfers such Ordinary Shares, will notify such subsequent transferees of the transfer restrictions set out in paragraphs (i) to (vii) above.

PART 7

ADDITIONAL INFORMATION

1. RESPONSIBILITY

The Directors, whose names are set out in section 1 of Part 3 "Directors, Senior Management and Corporate Governance" of this document, and the Company, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors and the Company (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omissions likely to affect its import.

2. THE GROUP

2.1 The Company was incorporated in England on 14 June 1978 under the name of Spacegrand Limited (with registered number 1373432) as a private company limited by shares. The Company was re-registered as a public company on 7 December 2010. The principal legislation under which the Company operates is the CA 2006 and regulations made under the CA 2006. The liability of the Company's members is limited.

2.2 The Company is domiciled in the United Kingdom with its registered office (and principal place of business and head office) at Jack Walker House, Exeter International Airport, Exeter EX5 2HL. The telephone number of the Company's registered office is 01392 366669.

2.3 The Company is the ultimate holding company of the Group. The Company has the following significant subsidiary undertakings, being those considered by the Company to be likely to have a significant effect on the assessment of the assets and liabilities, financial position and/or profits and losses of the Group:

Company	Jurisdiction of incorporation	Principal activity	Issued share capital (fully paid)
Flybe Limited	England	Airline operator/aircraft technical support	£18,500,000[178]
Walker Aviation Leasing (UK) Limited	England	Aircraft leasing	£2
British Regional Air Lines Group Limited	England	Investment holding	£3
British Regional Airlines Limited	England	Aircraft leasing	£1
Flybe Leasing Limited	England	Airline operator	£94,331,000
Flybe (IOM) Limited	Isle of Man	Airline operator	£2,447,000
JEA Engineering UK Limited	England	Investment Holding	£1,000,000

(178) It is proposed that the 17,500,000 redeemable preference shares of £1 each in the capital of Flybe Limited will be cancelled and extinguished by way of a reduction of capital on or around Admission.

2.4 The Company owns directly or indirectly 100 per cent. of the issued shares of the above companies and can exercise 100 per cent. of the voting rights of each such company.

2.5 The registered office of each of the above companies is at Jack Walker House, Exeter International Airport, Exeter EX5 2HL (save for Flybe (IOM) Limited, whose registered office is at The Airport, Ronaldsway, Ballasalla, Isle of Man).

3. SHARE CAPITAL

3.1 The following table shows the issued ordinary share capital of the Company: (i) as at the date of this document; and (ii) immediately following Admission (before any exercise of the Over-allotment Option):

	Issued and fully paid	Number
As at the date of this document	£525,000	36,146,250 "A" ordinary shares of 1p each and 16,353,750 Ordinary Shares
Immediately following Admission	£728,389.83	72,838,983 Ordinary Shares

3.2 The following alterations in the issued share capital of the Company have taken place during the period for which the historical financial information set out in section B of Part 5 "Financial Information relating to the Group" of this document is provided:

3.2.1 by a resolution of the Board passed on 7 November 2007, the Company redeemed 440,000,000 redeemable preference shares of 1 pence each held by Rosedale Aviation Holdings Limited at a cash cost of £4,400,000;

3.2.2 by a resolution of the Board passed on 5 March 2008, the Company redeemed 400,000,000 redeemable preference shares of 1 pence each held by Rosedale Aviation Holdings Limited at a cash cost of £4,000,000;

3.2.3 by a resolution of the Board passed on 21 May 2008, the Company redeemed 1,310,000,000 redeemable preference shares and 99,000,000 cumulative redeemable preference shares both of 1 pence each held by Rosedale Aviation Holdings Limited at a cash cost of £13,100,000 and £990,000 respectively.

3.3 By a resolution of the Board passed on 25 November 2010, 34,700,400 "A" ordinary shares of 1 pence each and 15,699,600 Ordinary Shares were issued to the Shareholders at par by capitalising the sum of £504,000 being part of the amount standing to the credit of the Company's share premium account and applying such sum in paying up new shares by way of a bonus issue in order to increase the nominal value of the Company's allotted share capital to not less than £50,000 to satisfy the requirements for re-registration of the Company as a public company.

3.4 In addition to those matters referred to at paragraphs 3.2 and 3.3 above, by ordinary and special resolutions of the Company passed on 6 December 2010, such resolutions (other than the resolution described in paragraph 3.4.5 below) being conditional only upon Admission:

3.4.1 36,146,250 authorised and issued "A" ordinary shares of 1 pence each were reclassified as 36,146,250 Ordinary Shares;

3.4.2 99,000,000 authorised but un-issued cumulative redeemable preference shares of 1 pence each were reclassified as 99,000,000 authorised but un-issued Ordinary Shares;

3.4.3 2,150,000,000 authorised but un-issued redeemable preference shares of 1 pence each were reclassified as 2,150,000,000 authorised but un-issued Ordinary Shares;

3.4.4 the Articles (summarised in sections 4 and 5 of this Part 7 of this document) were adopted by the Company and were amended by deleting all of the provisions of the Company's Memorandum which, by virtue of section 28 of the CA 2006, are treated as provisions of the Articles;

3.4.5 3.4.5.1 the Board was generally and unconditionally authorised pursuant to section 551 of the CA 2006 to allot shares in the Company up to an aggregate nominal amount of £250,000 in connection with the allotment of the New Shares pursuant to the Global Offer, such authority to expire 10 business days after the Admission Date;

3.4.5.2 the Board was empowered pursuant to section 570 of the CA 2006 to allot up to an aggregate nominal amount of £250,000 of equity securities (as defined in section 560 of the CA 2006) for cash in connection with the allotment of the New Shares pursuant to the Global Offer, as if section 561(1) of the CA 2006 did not apply to such allotment, such power to expire 10 business days after the Admission Date;

3.4.6 3.4.6.1 subject to and in accordance with Article 15 of the Articles, the Board was generally and unconditionally authorised pursuant to section 551 of the CA 2006 (in addition to the authority granted under paragraph 3.4.5.1 above) to allot shares in the Company and to grant rights to subscribe for or to convert any security into shares in the Company up to an aggregate nominal amount of £258,333, such authority to expire on the conclusion of the next annual general meeting of the Company following the passing of the resolution, save that the Company may before such expiry make an offer or agreement which would or might require such shares to be allotted or rights to subscribe for or convert securities into shares to be granted after such expiry, and the Board may allot shares and grant rights to subscribe or convert securities into shares in pursuance of such offer or agreement as if the authority conferred by the resolution had not expired and further;

3.4.6.2 the Board was generally and unconditionally authorised to exercise all powers of the Company to allot equity securities (within the meaning of section 560 of the CA 2006) in connection with a rights issue in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of Ordinary Shares held by them up to an aggregate nominal amount of £258,333, such authority to expire on the conclusion of the next annual general meeting of the Company following the passing of the resolution, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the authority conferred by the resolution had not expired; and

3.4.7 in accordance with Article 16 of the Articles, the Board was empowered pursuant to section 570 of the CA 2006 to allot equity securities (as defined in section 560 of the CA 2006) for cash and was empowered pursuant to section 573 of the CA 2006 to sell ordinary shares (as defined in section 560 of the CA 2006) held by the Company as treasury shares (as defined in section 724 of the CA 2006) for cash, as if section 561(1) of the CA 2006 did not apply to such allotment or sale, provided that such power shall be limited to allotments of equity securities and the sale of treasury shares:

(i) in connection with or pursuant to an offer by way of rights, open offer or other pre-emptive offer to the holders of shares in the Company and other persons entitled to participate therein in proportion (as nearly as practicable) to their respective holdings, subject to such exclusions or other arrangements as the Board may consider necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of any territory or the regulations or requirements of any regulatory authority or any stock exchange in any territory;

(ii) up to an aggregate nominal amount of £25,000 in respect of the allotment of the Over-allotment Shares; and

(iii) otherwise than pursuant to sub-paragraphs (i) and (ii) above, up to an aggregate nominal amount of £38,750,

such power to expire on the conclusion of the next annual general meeting of the Company following the passing of the resolution but so that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted or treasury shares to be sold after such expiry, and the Board may allot equity securities or sell treasury shares in pursuance of such offer or agreement as if the power conferred by the resolution had not expired.

3.5 As at the date of this document, there are no outstanding options to subscribe for Ordinary Shares.

3.6 Prior to Admission, 4,412,500 Ordinary Shares were held by the trustees of the Flybe Group Limited Trust and the Flybe Group Limited No.2 Trust on behalf of participating employees under the Pre-Admission Share Scheme. These Ordinary Shares will be distributed to the participating employees in the manner described in section 8 of Part 1 "Information relating to the Group" of this document.

3.7 It is intended that, within six weeks of Admission, awards will be made pursuant to the PSP. These awards will be made by the trustee of the EBT and may ultimately be satisfied from Ordinary Shares that the trustee of the EBT acquires by way of subscription from the Company. Particulars of the awards to be granted to Directors and Senior Management are set out in paragraph 7.4 of section 7 of Part 7 "Additional Information" of this document.

3.8 It is intended that, subject to obtaining HMRC formal approval in respect of the SIP Scheme, "Free Share" awards (as such term is defined in paragraph 6.3 of section 6 of Part 7 "Additional Information" of this document) will be made within six weeks of Admission. Such "Free Shares" may be acquired by the SIP Trust by way of subscription from the Company.

3.9 The provisions of section 561 of the CA 2006 confer on the shareholders of a company rights of pre-emption in respect of the allotment of securities which are, or are to be, paid up in cash. Subject to certain limited exceptions, unless the approval of shareholders is obtained in a general meeting of the company, a company must normally offer shares to be issued for cash to existing Shareholders on a pro rata basis. The statutory rights of pre-emption in respect of the share capital of the Company have been disapplied as set out in paragraph 3.4.7 above.

3.10 The Ordinary Shares in issue on Admission will be in registered form and, following Admission, will be capable of being held in uncertificated form. None of the Ordinary Shares are being marketed or made available in whole or in part to the public in conjunction with the applications for Admission other than pursuant to the Global Offer.

3.11 The Articles permit the holding and transfer of Ordinary Shares under CREST. CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by certificate and transferred otherwise than by written instrument. The Directors have applied for the Ordinary Shares to be admitted to CREST. The records in respect of Ordinary Shares held in uncertificated form will be maintained by Euroclear and the Registrars.

3.12 It is anticipated that, where appropriate, share certificates will be despatched by first class post by 5 January 2011. Temporary documents of title will not be issued. Prior to the despatch of definitive share certificates, transfers will be certified against the register.

3.13 The ISIN of the Ordinary Shares is GB00B4QMVR10 and the SEDOL number is B4QMVR1.

3.14 The legislation under which the Ordinary Shares have been created is the CA 2006 and regulations made under the CA 2006.

3.15 The Ordinary Shares are denominated in sterling. The nominal value of the Ordinary Shares is 1 pence.

3.16 Save as disclosed in this section 3 of this Part 7 of this document, as at the date of this document:

3.16.1 the Company does not hold any treasury shares and no Shares are held by, or on behalf of, any member of the Group;

3.16.2 no shares in the capital of the Company have been issued otherwise than as fully paid;

3.16.3 the Company has no outstanding convertible securities, exchangeable securities or securities with warrants;

3.16.4 there are no shares in the Company not representing capital;

3.16.5 there are no acquisition rights and/or obligations over shares in the capital of the Company and the Company has given no undertaking to allot shares in the capital of the Company; and

3.16.6 no capital of any member of the Group is under option or is agreed, conditionally or unconditionally, to be put under option.

3.17 The Offer Shares will, on Admission, rank pari passu in all respects and will rank in full for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company.

4. MEMORANDUM AND ARTICLES

4.1 Memorandum

The Company passed a resolution on 6 December 2010 to amend its Articles by deleting all of the provisions of the Company's Memorandum which, by virtue of section 28 of the CA 2006, were to be treated as provisions of the Company's Articles. Pursuant to this resolution, the Company's objects have been deleted and consequently the objects of the Company are unlimited.

4.2 Articles

The Articles will be adopted pursuant to a conditional written resolution of the Company's members, such written resolution being conditional only upon Admission, and will contain provisions, *inter alia*, to the following effect:

4.2.1 Objects

The Articles contain no specific restrictions on the Company's objects and therefore, by virtue of section 31(1) of the CA 2006, the Company's objects are unrestricted.

4.2.2 Voting rights

Subject to any special terms as to voting, upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly appointed representative shall have one vote (other than in the case of a proxy appointed by multiple members, who may have (on a show of hands) more than one vote) and on a poll every member present in person or by a representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

4.2.3 Variation of rights

If at any time the capital of the Company is divided into different classes of shares, all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

4.2.4 Alteration of capital

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value and subdivide all or any of its shares into shares of a smaller nominal value.

Subject to and in accordance with the provisions of the CA 2006, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been sanctioned by a special resolution passed at a separate meeting of the holders of any class of shares convertible into equity share capital of the Company.

4.2.5 Transfer of shares

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in such other form as may be approved by the Directors and (2) in the case of uncertificated shares, through a relevant system in accordance with the Uncertificated Securities Regulations and the facilities and requirements of the relevant system concerned. The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or on behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share: (i) held in certificated form which is not fully paid, provided that dealings in the shares are not prevented from taking place on an open and proper basis, (ii) that is subject to a notice concerning the disclosure of interests (and certain circumstances apply) and (iii) that is in favour of more than four persons jointly. In the case of uncertificated shares the Directors may only refuse to register a transfer in accordance with the Uncertificated Securities Regulations. Subject to the above and to paragraph 4.2.7 and section 5 below of this Part 7, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

4.2.6 **Dividends**

The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.

Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph 4.2.7 below, all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.

All dividends unclaimed for a period of 12 years after the payment date for such dividend shall, if the Directors so resolve, be forfeited and cease to remain owing by the Company.

The Directors may, if authorised by an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive additional shares, credited as fully paid, instead of cash in respect of any dividend or any part of any dividend. The Directors may at their discretion make the right to participate in any such elections subject to restrictions necessary or expedient to deal with legal, regulatory or other difficulties in respect of overseas shareholders.

4.2.7 **Suspension of rights**

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice under section 793 of the CA 2006 and is in default in supplying to the Company within 14 days (or such longer period as may be specified in such notice) the information thereby required, then (unless the Directors otherwise determine) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class (calculated exclusive of any treasury shares of that class), the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arms length sale.

4.2.8 **Return of capital**

Subject to the provisions of the CA 2006 and any other relevant statutes and any special rights attached to any class of shares, on a winding-up or other return of capital, the holders of Ordinary Shares are entitled to share in any surplus assets pro rata to the amount paid up on their Ordinary Shares. A liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the CA 2006, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may, with the sanction of a special resolution, also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

4.2.9 **Pre-emption rights**

There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares.

In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the CA 2006 in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing Shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

4.2.10 **Shareholder meetings**

Annual general meetings should be held in accordance with the CA 2006. Other general meetings may be called whenever the Directors think fit or when the CA 2006 so requires. Two members present in person or by proxy (or, being a corporation, present by a duly authorised representative), at the meeting and entitled to vote shall be a quorum for all purposes.

Annual general meetings or a meeting at which it is proposed to pass a resolution requiring special notice are called on at least 21 days notice in writing, exclusive of the day of which the notice is served or deemed to be served and of the day on which the meeting is to be held. Other general meetings are to be called on 14 days notice in writing exclusive of the day on which notice is served or deemed to be served and of the day on which the meeting is to be held. Notice is to be given to all members on the register at the close of business on a day determined by the Directors, such day being not more than 21 days before the day that the notice of meeting is sent.

The Company may specify in the notice of meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered into the register in order to have the right to attend and vote at the meeting. In every notice calling a meeting of the Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and speak and vote instead of him/her, and that a proxy need not be a member.

A resolution of the Company proposed at an annual general meeting or a general meeting shall not be validly made in the event that a majority in number of the members voting in favour of such resolution are Relevant Non-EEA Persons or Relevant Non-UK Persons (as such terms are defined in section 5 of this Part 7).

4.2.11 **Directors**

Save as provided in the Articles or by the terms of any authorisation given by the Directors, a Director shall not vote as a Director in respect of any contract, transaction or arrangement or proposed contract, transaction or arrangement or any other proposal whatsoever in which he (or any person connected with him) has any interest (otherwise than by virtue of an interest in shares or debentures or other securities of or otherwise in or through the Company) and which conflicts or may conflict with the interests of the Company and if he shall do so his vote shall not be counted, nor in relation thereto shall he be counted in the quorum present at the meeting.

The Directors may authorise a Director to be involved in a situation in which the Director has or may have a direct or indirect interest which conflicts or may conflict with the interests of the Company and may impose such terms or conditions on the grant of such authorisation as they think fit and in doing so will act in such a way, in good faith, as they consider will be most likely to promote the success of the Company.

A Director shall (in the absence of some other interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution relating to any of the following matters namely:

(a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings; or

(b) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security; or

(c) the granting of an indemnity or provision of funding pursuant to the Articles unless the terms of such arrangement confer upon such director a benefit not generally available to any other Director; or

(d) an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or is to be or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate; or

(e) any other company in which he or any person connected with him is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he and any persons connected with him are not to his knowledge the holder (otherwise than as a nominee for the Company or any of its subsidiary undertakings) of or beneficially interested in one per cent. or more of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of the relevant Article to be a material interest in all circumstances); or

(f) an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or

(g) the purchase and/or maintenance of any insurance policy for the benefit of the Directors or for the benefit of persons including the Directors.

Fees may be paid out of the funds of the Company to Directors who are not managing or executive Directors at such rates as the Directors may from time to time determine provided that such fees do not in the aggregate exceed the sum of £500,000 per annum (exclusive of value added tax if applicable) or such other figure as the Company may by ordinary resolution from time to time determine.

Any Director who devotes special attention to the business of the Company, or otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a director, may be paid such additional remuneration as the Directors or any committee authorised by the Directors may determine.

The Directors (including alternate directors) are entitled to be paid out of the funds of the Company all their travelling, hotel and other expenses properly incurred by them in connection with the business of the Company, including their expenses of travelling to and from meetings of the Directors, committee meetings or general meetings.

A Director may hold any other office or employment with the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine. No Director or intending director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the Company either with regard to his tenure of any other such office or employment, nor shall any such contract, arrangement, transaction or proposal or any contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any Director or any person connected with him is in any way interested (whether directly or indirectly) be liable to be avoided, nor shall any Director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any benefit realised from any such contract, arrangement, transaction or proposal by reason of such director holding that office or of the fiduciary relationship thereby established, if the director has disclosed his interest in accordance with the CA 2006.

The remuneration and other terms and conditions of appointment of a Director appointed to any executive office or employment under the Company shall from time to time (without prejudice to the provisions of any agreement between him and the Company) be fixed by the Directors or by any committee appointed by the Directors, and may (without limitation) be by way of fixed salary, lump sum, commission on the dividends or profits of the Company (or of any other company in which the Company is interested) or other participation in any such profits or by any combination of such modes.

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed at any other number shall be two provided that at all times the Directors counting in the quorum shall comprise a majority of Directors who are UK nationals.

4.2.12 **Restrictions on Borrowing Powers of Directors**

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (as regards subsidiaries so far as by such exercise they can secure) that the aggregate amount for the time being remaining undischarged of all moneys borrowed by the Group and for the time being owing to persons outside the Group shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to the greater of two and one half times the Adjusted Capital and Reserves (as defined in the Articles) and £200,000,000. The certificate of the auditors of the Company for the time being as to the amount of the Adjusted Capital and Reserves (as defined in the Articles) at any time shall be conclusive and binding upon all concerned.

4.2.13 **Limitations on Share Ownership**

Please see the summary at section 5 of this Part 7 of this document.

5. LIMITATIONS ON SHARE OWNERSHIP

The Group holds a number of authorities, permissions, licences and privileges pursuant to which it has the right to operate air services (the "**Operating Rights**"). Some of the Operating Rights are conditional on the Company being owned or controlled, to varying degrees, by United Kingdom nationals or by nationals of EAA member states. The purpose of article 50 within the Articles is, accordingly, to enable the Company to ensure that so long as and to the extent that these conditions apply to the Operating Rights, the ownership of the Company satisfies the conditions.

The Directors can use various powers in order to prevent breaches of the conditions attached to the Operating Rights. These powers are exercisable in respect of shares in the Company, other than Exempted Shares, in which (depending on the condition breach of which is being prevented) Relevant Non-UK Persons, or Relevant Non-EEA Persons, have an interest (being respectively "**Relevant Non-UK Shares**" and "**Relevant Non-EEA Shares**" and Relevant Non-UK Shares together with Relevant Non-EEA Shares "**Relevant Shares**").

In this section 5 of this Part 7 of this document, the following expressions shall have the following meanings:

- a "**Relevant Non-UK Person**" includes any: (i) individual who is a non-UK citizen; (ii) body corporate that is non-UK incorporated and that does not have its central place of business and central management and control in the UK (along with any persons that would be taken to be interested in shares held by such a company by virtue of sections 822 and 823 of the CA 2006; and (iii) any government, government agency or body, local authority or municipality otherwise than of, or established in, the UK;
- a "**Relevant Non-EEA Person**" includes any: (i) individual who is a non-EEA citizen; (ii) body corporate that is incorporated outside the EEA and that does not have its central place of business and central management and control in the EEA (along with any persons that would be taken to be interested in shares held by such a company by virtue of sections 822 and 823 of the CA 2006); and (iii) any government, government agency or body, local authority or municipality otherwise than of, or established in, the EEA;
- an "**Exempted Share**" includes any share in the Company that, at the material time, is held by a trustee (acting in such capacity) of: (i) any approved employee share scheme established by the Company or its subsidiaries and approved in general meeting principally for the benefit of it or their employees; or (ii) any superannuation fund or retirement benefits scheme that has been approved by HMRC and is established wholly or mainly for UK employees of the Company; and

- a person is deemed to have an "**interest**" in relation to shares in circumstances which include where that person has an interest which would be taken into account, or which he would be taken as having, in determining whether that person has a notifiable interest under Rule 5 of the Disclosure and Transparency Rules, however that person will not be deemed to be interested in such shares if that interest arises solely by way of his relationship with a spouse, infant child or step-child.

In order to monitor the number of Relevant Shares that are held and the details of the Relevant Non-UK Persons and/or Relevant Non-EEA Persons (as appropriate) who are interested in those Relevant Shares, the Directors must maintain two additional share registers (together the "**Separate Registers**"), namely:

- a "**Separate Non-UK Register**" on which the particulars of Relevant Non-UK Shares, including details of the Relevant Non-UK Person and the size of that interest, are recorded; and
- a "**Separate Non-EEA Register**" on which the particulars of Relevant Non-EEA Shares, including details of the Relevant Non-EEA Person and the size of that interest, are recorded.

Where the Directors suspect a Relevant Non-UK Person or Relevant Non-EEA Person is or may be interested in Shares the Directors may order that those Shares are Relevant Shares and, accordingly and provided that the suspicion is not disproved to the satisfaction of the Directors by the person so interested (or alleged to be so interested), enter such Shares on the relevant Separate Register.

The Directors may apply these powers where they determine that it is necessary or desirable to take steps in order to protect any Operating Right of the Company or any subsidiary of the Company by reason of the fact that, among other things, an Intervening Act has occurred, may occur or may be contemplated, threatened or intended, in each case taking into account the likelihood of any further increases in the aggregate number of Relevant Shares.

An "**Intervening Act**" means the refusal, withholding, suspension or revocation of any Operating Right applied for, granted to or enjoyed by the Company or any subsidiary of the Company, or the imposition of any conditions or limitations upon any such Operating Right which materially inhibits the exercise thereof, in either case by any state, authority or person in reliance upon any provision or by reason of any matter or circumstance relating to the nationality of persons owning or controlling (however described) the Company.

Where the Directors have made such a determination, the Chairman or the Directors as a whole may take any of the following steps as are deemed necessary or desirable to overcome, prevent or avoid the Intervening Act or the risk thereof:

- remove any Director before the expiration of his term of office;
- identify, or seek to identify, those shares or Relevant Shares the interests in which gave rise or contributed to the determination or would, in the sole opinion of the Directors, have given rise to such a determination and dealing with such shares as Affected Shares (as defined below); and/or
- specify aggregate maximum permitted numbers (each a "**Permitted Maximum**") respectively of Relevant Non-UK Shares and Relevant Non-EEA Shares (or vary any such numbers previously specified), provided that at no time a Permitted Maximum is less than 25 per cent. of the aggregate number of shares in issue, and at any point when the aggregate number of Relevant Non-UK Shares or Relevant Non-EEA Shares is in excess of its respective Permitted Maximum, dealing with such of those Relevant Non-UK Shares or Relevant Non-EEA Shares as they decide are in excess of such Permitted Maximum as Affected Shares.

An "**Affected Share**" is any share which the Directors have declared as such and in respect of which the Directors have certain additional powers. As a consequence of such declaration the Directors are required to serve a notice (an "**Affected Share Notice**") on the registered holder of the share and on any other person who appears to the Directors to be interested in the share, specifying which of the additional powers are to be applied in respect of the Affected Shares. The Directors may from time to time serve further Affected Share Notices in respect of each Affected Share applying further of their powers.

In deciding which shares are to be dealt with as Affected Shares the Directors are, where applicable, entitled to have regard to the interests in Relevant Shares which, in their sole opinion, have directly or indirectly caused or contributed to the determination that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act. However, subject to such cases, the Directors are required, so far as practicable, to have regard to the chronological order in which particulars of Relevant Shares have been, or are to be, entered in the relevant Separate Register (and accordingly treat as Affected Shares those Relevant Shares which have been acquired, or details of which have been entered in the relevant Separate Register, most recently) save to the extent that the application of such criterion would in the sole opinion of the Directors be inequitable or would result in their actions being illegal or unenforceable, in which event the Directors may apply such other criterion as they, in their absolute discretion, consider appropriate.

The transfer of any share shall be subject to the approval of the Directors if, in the opinion of the Directors, upon the completion of the transfer the share would become, or would be capable of being treated as, or would continue or be capable of continuing to be capable of being treated as, an Affected Share and the Directors may refuse to register the transfer of any such share. In the case of shares held in uncertificated form, the Directors may only exercise their discretion not to register a transfer if permitted to do so by the Uncertificated Securities Regulations. However, the Directors may make such arrangements as they consider fit to convert such shares from uncertificated to certificated form if such conversion might enable the Directors to exercise their discretion not to register a transfer.

The additional powers that the Directors may apply in respect of Affected Shares include the following:

- the registered holder of the Affected Share on whom an Affected Share Notice has been served may be disentitled from exercising any right (in respect of such Affected Share) to attend, speak, vote or demand a poll vote at any general meeting of the Company or meeting of any class of shareholders of the Company;
- any person on whom an Affected Share Notice has been served may be required, within 10 business days of the Affected Share Notice being served, to dispose of his interest in the Affected Share (an "**Affected Share Disposal**") so that:
  - no Relevant Non-EEA Person or no Relevant Non-UK Person (as appropriate) has an interest in that share; and
  - the share ceases, to the satisfaction of the Directors, to be an Affected Share.

If an Affected Share Notice requires that an Affected Share Disposal be made and this is not done within 10 business days, the Directors may arrange for the sale of the Affected Share, on behalf of the registered holder and at the best price reasonably obtainable at the relevant time, so that the share ceases to be or to be capable of being treated as an Affected Share.

The net proceeds of an Affected Share Disposal that has been arranged by the Directors shall be received by the Company, shall be converted into sterling (if necessary) and shall be held on trust for and paid (together with interest at such rate as the Directors consider appropriate) to the former registered holder upon surrender by him, of any certificate in respect of the Affected Shares sold and formerly held by him.

The Directors are not obliged to serve any notice normally required under this article upon any person if they do not know either his identity or address. The absence of service in such circumstances shall not prevent the implementation of or invalidate any procedure under the Articles. Otherwise, the general notice provisions contained in the Articles apply in the same manner with such consequential changes as are necessary.

At any time when the Directors have resolved to specify a Permitted Maximum or deal with any shares as Affected Shares they shall publish, within two business days of the making of such determination, notice of their determination that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act and of any Permitted Maximum which has been specified together with a statement of the provisions of the relevant article which can apply to Affected Shares and the name of the person or persons who will answer any enquiries relating to Affected Shares on behalf of the Company.

If at any time when a determination by the Directors has been made (and not withdrawn) that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act, a person enquires of the Directors (i) whether the aggregate number of Relevant Non-EEA Shares or Relevant Non-UK Shares exceeds any Permitted Maximum that applies or (ii) whether any shares in the Company which such person proposes to purchase or acquire an interest in would in the opinion of the Directors, be capable following such purchase or acquisition of becoming Affected Shares, the Directors shall, on sufficient information being given to them to enable them to the answer the enquiry, notify the person whether, in their opinion, such shares would become or be capable of becoming Affected Shares. However, any such notification made by the Directors will not be binding on them or on the Company and shall not prevent such shares being subsequently identified as Affected Shares.

Any determination made by the Directors that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act shall apply until such time as the Directors resolve that the grounds for making such a determination have ceased to exist and that such determination shall be withdrawn. Upon such a withdrawal, the Directors shall cease to act pursuant to such determination and shall remove any Permitted Maximum that they may have specified. The Directors shall inform every person on whom an Affected Share Notice has been served in respect of an Affected Share which has not yet been subject to an Affected Share Disposal (whether by the registered holder or by the Company) that such provisions and requirements set out in the Affected Share Notice no longer apply in respect of such a share.

6. SHARE SCHEMES

The Company has an existing share scheme (the Flybe Employees' Share Plan) and has adopted three share schemes (the Flybe Group plc Performance Share Plan 2010, the Flybe Group plc Share Incentive Plan 2010 and the Flybe Group plc Savings Related Share Option Scheme 2010), the principal provisions of which are summarised below:

6.1 The Flybe Employees' Share Plan ("Pre-Admission Share Scheme")

Status of the Pre-Admission Share Scheme

The trustees of the Flybe Group Limited Trust and the Flybe Group Limited No.2 Trust ("**Pre-Admission Trustees**") held Ordinary Shares on behalf of participating employees under the Pre-Admission Share Scheme (as described at section 8 of Part 1 "Information relating to the Group" of this document). The legal title of these Ordinary Shares was held by the Pre-Admission Trustees on bare trust for and on behalf of the participating employees.

Following an admission of the Ordinary Shares to trading on the London Stock Exchange (or equivalent market), a participating employee may call upon the relevant Pre-Admission Trustee to transfer to him, or to sell in the market (at the best price which may reasonably be obtained at the time of the sale) the Ordinary Shares on his behalf. Participating employees may not however instruct a relevant Pre-Admission Trustee (and the Pre-Admission Trustees are not obliged to give effect to such an instruction) in this manner within the period of one year following such an admission without the prior agreement of the Company.

As described at section 8 of Part 1 "Information relating to the Group" of this document, the Company:

- proposes to permit participating employees who are members of the Board or the Operating Board, and participating employees who are members of the Executive Briefing Team and who acquired their Ordinary Shares in June 2010 or later, to transfer or dispose of their Ordinary Shares at any time after six months following Admission; and
- has permitted the relevant Pre-Admission Trustee to release the Ordinary Shares to other participating employees immediately prior to Admission (such Ordinary Shares being held by a nominee company on behalf of the participating employees).

No further awards of Ordinary Shares will be made pursuant to the Pre-Admission Share Scheme. Following the release of Ordinary Shares to participating employees in the manner described above, it is intended that the Pre-Admission Share Scheme will be wound-up.

Dividends

Dividends paid on Ordinary Shares held pursuant to the Pre-Admission Scheme will be paid to participating employees by or at the direction of the relevant Pre-Admission Trustee.

Voting

Other than in certain specified circumstances, the Pre-Admission Trustees will not exercise voting rights attaching to Ordinary Shares held on bare trust under the Pre-Admission Share Scheme.

Corporate Events and Share Reorganisations

A participant may direct the relevant Pre-Admission Trustee at any time while such trustee holds Ordinary Shares on the participant's behalf to:

- accept an offer for any such shares, if the acceptance of such offer would result in a new holding of shares being equated with the original Ordinary Shares for capital gains tax purposes;
- agree to a transaction which would if entered into be a scheme, compromise or arrangement applicable to all the Ordinary Shares; or
- accept an offer for cash (with or without other assets) or accept an offer for a qualifying corporate bond (whether alone or with other assets or cash or both) for such shares if such offer forms part of a general offer which is made on the condition that if satisfied it will result in the offeror obtaining control of the Company.

In the event that a Pre-Admission Trustee is offered the opportunity to acquire Ordinary Shares, securities or rights of any description in the Company pursuant to rights attaching to Ordinary Shares which it holds on behalf of any participant, it shall take up such opportunity only on the instructions of the participant concerned. In the absence of any direction to the contrary, a Pre-Admission Trustee may exercise the rights and sell the remainder of the rights nil paid (the sale proceeds to be used to take up the rights exercised).

Other Award terms

Prior to Admission, Ordinary Shares held under the Pre-Admission Share Scheme were subject to forfeiture in certain circumstances. These forfeiture provisions do not apply following Admission.

6.2 **The Flybe Performance Share Plan ("PSP")**

Status of the PSP

Awards granted under the PSP ("**Awards**") will take the form of conditional awards of Ordinary Shares from an employee benefit trust established by the Company for nil consideration. The Remuneration Committee may determine, however, that future awards granted under the PSP will take the form of nil-cost options which are commercially on equivalent terms to the conditional share awards (and if such determination is made, the Remuneration Committee may make such alterations to the rules of the PSP as are necessary so as to give effect to the use of nil-cost options). Awards will have no beneficial tax status.

Eligibility

All employees (including Executive Directors) of the Company and any of its subsidiaries may be granted Awards under the PSP.

Grant

The Remuneration Committee will have absolute discretion to select the persons to whom Awards may be granted and, subject to the limits set out below, in determining the number of Ordinary Shares to be subject to each Award. The Remuneration Committee will then authorise the trustee to grant the proposed Awards.

Awards may be granted during the period of 42 days commencing on: (a) the Admission Date; (b) the Dealing Day immediately following the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year (provided that if the Ordinary Shares continue to be admitted to the Official List at the time in question, no Award shall be granted during the first two Dealing Days following the date of any such announcement); or (c) any other time fixed by the Remuneration Committee where, in its discretion, circumstances are considered to be exceptional so as to justify the grant of Awards.

If the grant of an Award on any of the above days would be prohibited by virtue of the Model Code or any statute or regulation or any order made pursuant to such statute, then such Award may be granted during the period of 40 days commencing immediately after the second Dealing Day following the time that such prohibition shall cease to have effect.

No consideration is payable for the grant of an Award.

PSP Limits

On any date, no Award may be granted under the PSP if, as a result, the aggregate nominal value of Ordinary Shares issued or issuable pursuant to Awards granted during the previous ten years under the PSP or any other discretionary employees' share scheme (which excludes any Save As You Earn Scheme approved by HMRC, a share incentive plan approved by HMRC under Schedule 2 to ITEPA or any other share option scheme of the Company which is linked to a contractual savings scheme) adopted by the Company would exceed five per cent. of the nominal value of the share capital of the Company in issue on that date.

On any date, no Award may be granted under the PSP if, as a result, the aggregate nominal value of Ordinary Shares issued or issuable pursuant to Awards granted during the previous ten years under the PSP or any other employees' share scheme, profit sharing scheme or employee share ownership plan adopted by the Company would exceed ten per cent. of the nominal value of the share capital of the Company in issue on that date.

For the purposes of the limits set out above:

- any Ordinary Shares issued or then capable of being issued pursuant to any Awards or options granted prior to the Admission Date (under any other employees' share scheme adopted by the Company) shall not count towards the limits set out above; and
- where an Award takes the form of a right to acquire Ordinary Shares from an employee benefit trust established by the Company, such Ordinary Shares will only be counted as "issued or issuable" to the extent to which they have been issued (or there is an intention for them to be issued) by the Company to the trust for the purposes of the PSP or any other employees' share scheme operated by the Company.

Individual Limit

In general, each individual's participation is limited so that, in any one financial year of the Company, the aggregate market value of Ordinary Shares subject to all Awards (calculated as at the date of grant of each Award) granted to the individual under the PSP in that financial year, will not exceed 150 per cent. of the individual's basic salary at the date of grant.

The individual limit can be exceeded in circumstances which the Remuneration Committee considers to be exceptional.

Performance Target

The vesting of Awards granted under the PSP will be made conditional upon the achievement of an objective performance target set at the time of grant. Such a performance target shall be measured over a performance period (determined by the Remuneration Committee at the time of grant but which shall not ordinarily be less than three years) ("**Performance Period**").

Awards vest as and when (and to the extent to which) the Remuneration Committee determines that the performance targets imposed on an Award have been met. The Vesting may not occur, however, before a date ("**Earliest Vesting Date**") specified at the time of grant of an Award. The Earliest Vesting Date for an award may not occur before the third anniversary of the date of grant.

If events occur which cause the Remuneration Committee reasonably to consider that a different or amended performance target would be a fairer measure of performance, the Remuneration Committee may waive or amend the original performance target in such manner as it deems fit provided that any such amended target is not materially more difficult to achieve than the original performance target.

It should also be noted that a performance target, applying to an Award, may be measured over an abbreviated period less than the Performance Period in circumstances where:

- an employee ceases to be a Group employee before the end of the relevant Performance Period and the Remuneration Committee exercises its discretion to allow the Award to vest immediately as described below; or
- certain corporate events occur (such as a change of control of the Company) before the end of the relevant Performance Period.

In these circumstances such performance target may be modified in such manner as the Remuneration Committee thinks fit so as to be applied over such abbreviated period.

Dividends

Until an Award vests, the Award holder shall have no entitlement to any dividends or other distributions payable by reference to a record date preceding the date of such vesting.

Dividend equivalent payments will be made in respect of vested Ordinary Shares. The Remuneration Committee will have a discretion to determine, at the time Awards vest, whether such payments are satisfied in cash or Ordinary Shares. The value of the payment shall be equal (rounded down to the nearest whole number of Ordinary Shares in the case of payments satisfied in Ordinary Shares) to the aggregate value of any dividends or other cash distributions which would have been paid by the Company in respect of the Ordinary Shares that vest under an Award during the period commencing on the date of grant of the Award and ending on the date upon which the Award vests.

Vesting of Awards

Generally, Awards vest as and when (and to the extent to which) the Remuneration Committee determines that the performance conditions imposed on an Award have been met. Normally, no vesting can occur before the Earliest Vesting Date.

No vesting can occur at a time when the Ordinary Shares are not capable of transfer due to the provisions of the Model Code.

Awards may vest earlier than the Earliest Vesting Date in the event that the Award holder dies. In these circumstances, his Awards will vest on the date of his death. The maximum number of Ordinary Shares over which an Award will vest in these circumstances shall, subject to the discretion of the Remuneration Committee, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the relevant date of grant until the date of death. Vesting in the event of an Award holder's death shall not, however, be conditional upon the satisfaction of any performance condition to which an Award is subject.

Awards will vest earlier than the Earliest Vesting Date in the event of a takeover (pursuant to the City Code), a scheme of arrangement under Part 26 of the CA 2006 being sanctioned by the court or the voluntary winding up of the Company. In the case of a takeover of the Company, Awards will vest conditional upon, but so as to take effect immediately before, the takeover concerned. The maximum number of Ordinary Shares over which any Award is capable of vesting in such circumstances shall, subject to the discretion of the Remuneration Committee, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the relevant date of grant to the date upon which the event triggering vesting occurs.

In the event of cessation of employment (other than in the event of an Award holder's death), the Remuneration Committee has a discretion to determine that Awards which would otherwise continue in existence and be retained by an Award holder (as described further below) shall vest upon the Award holder ceasing to be an employee. The maximum number of Ordinary Shares over which any Award is capable of vesting in such circumstances shall, subject to the discretion of the

Remuneration Committee, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the relevant date of grant to the date upon which the event triggering vesting occurs.

In all of the above mentioned circumstances (with the exception of death), vesting of an Award remains conditional upon the satisfaction of the performance condition, if any, to which it is subject.

In relation to the pro-rating mechanisms outlined above, the Remuneration Committee has a discretion, having full regard to all the circumstances, to ignore the prescribed pro-rating of the Ordinary Shares over which such Award may vest.

Cessation of Employment

Other than in the event of death and in the circumstances set out below, Awards generally lapse on cessation of employment.

In the event an Award holder ceases to be employed within the Group by reason of:

- ill health or permanent disability (evidenced to the satisfaction of the Remuneration Committee), redundancy or retirement or upon the sale or transfer out of the Group of the company or undertaking employing him; or
- in such other circumstances as the Remuneration Committee considers to be relevant,

his Award shall continue in existence and may be retained by the Award holder. Such Award may then vest after the Earliest Vesting Date, but only to the extent that any performance condition is satisfied. The maximum number of Ordinary Shares over which any Award is capable of vesting in such circumstances shall, subject to the discretion of the Remuneration Committee, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the relevant date of grant to the date upon which the Award holder ceased to be employed within the Group.

In relation to the pro-rating mechanisms outlined above, the Remuneration Committee has a discretion, having full regard to all the circumstances, to ignore the prescribed pro-rating of the Ordinary Shares over which such Award may vest.

Other Award terms

Awards are not capable of transfer or assignment.

Until Awards vest, Award holders have no voting or other rights in relation to the Ordinary Shares subject to those Awards.

Ordinary Shares transferred on the vesting of an Award shall be transferred without the benefit of any rights attaching to the Ordinary Shares by reference to a record date preceding the date of such vesting.

Benefits obtained under the PSP are not pensionable.

Adjustment of Awards

The number of Ordinary Shares under an Award and their nominal value may be adjusted by the Remuneration Committee in the event of any capitalisation issue or rights issue (other than an issue of Ordinary Shares pursuant to the exercise of an option given to the shareholders of the Company to receive shares in lieu of a dividend) or any other variation in the share capital of the Company including (without limitation) any consolidation, subdivision or reduction of capital.

Administration & amendment

The PSP is administered by the Remuneration Committee. The Board may amend the provisions of the PSP. The rules of the PSP which relate to:

- the persons to whom Ordinary Shares are provided under the PSP;
- the limits on the number of Ordinary Shares which may be issued under the PSP;
- the maximum entitlement of any Award holder;
- the basis for determining an Award holders entitlement to Ordinary Shares or Awards; and

- the basis for determining the adjustment of any Award granted under the PSP following any increase or variation in the share capital of the Company

cannot be amended to the advantage of any Award holder or potential Award holder without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the PSP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Award holders or any Group company.

Termination

The PSP may be terminated at any time by resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption so that no further Awards can be granted under the PSP after such termination. Termination shall not affect the outstanding rights of existing Award holders.

6.3 **The Flybe Share Incentive Plan ("SIP")**

Status of the SIP Scheme

The SIP Scheme is designed to be capable of approval by HMRC under Schedule 2 to ITEPA.

Eligibility

Subject to some limited exceptions set out in the rules of the SIP Scheme, the SIP Scheme is open to all UK employees of the Company or any company in the Group which is participating in the SIP Scheme. The SIP Scheme may (in the discretion of the Company) be used in relation to non-UK employees.

Eligible employees may, however, only participate if they are not prohibited under the relevant legislation relating to HMRC approved SIP schemes from being made an award by virtue of having (or having had) a material interest in the Company.

As noted below, the Remuneration Committee can exclude employees whom have not completed a qualifying period of service.

How the SIP Scheme may be operated

The SIP Scheme provides that the Company can offer to employees any of the following types of awards of Ordinary Shares:

- "**Free Shares**" **–** being an allocation of Ordinary Shares to employees without charge.
- "**Partnership Shares**" **–** being an allocation of Ordinary Shares paid for by employees out of deductions made from pre-tax salary.
- "**Matching Shares**" **–** being an allocation of Ordinary Shares to employees without charge, the number of which is proportionate to the number of Partnership Shares acquired.

Any combination of the above awards may be utilised in any year (except that Matching Shares are dependent on awards of Partnership Shares being made and so can only be made at the same time as a corresponding award of Partnership Shares).

The SIP Scheme operates in conjunction with the SIP Trust which is administered by the SIP Trustee under the direction of the Company. No director of the Company has any interest in the SIP Trustee.

The SIP Scheme is structured to allow for the SIP Trustee to subscribe for, or purchase, Ordinary Shares. The money to acquire the Ordinary Shares is provided by the Company or the relevant employing company (or, in the case of Partnership Shares, from the employees themselves).

Free Shares

The Company may give Free Shares up to a maximum value calculated at the date of award of £3,000 per employee in a tax year (or such other amount as specified in the relevant legislation relating to HMRC approved SIP schemes).

Qualifying Periods

In relation to each award of Free Shares, the Board may (in its discretion) set a qualifying period during which an individual must have been employed in order to be eligible to participate in the award. The qualifying period cannot exceed a period of 18 months before the date of the award.

Timing of Awards

Awards of Free Shares may only be made within the period of 42 days commencing on: (a) the Admission Date; or (b) the Dealing Day immediately following the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year (provided that if the Ordinary Shares continue to be admitted to the Official List at the time in question, no Award shall be made during the first two Dealing Days following the date of any such announcement). No awards may be made at a time when the making of such award would be in breach of the Model Code.

Performance Conditions

An award of Free Shares can at the discretion of the Board be made subject to the prior satisfaction of performance conditions. If the Board determines to use performance conditions it must follow one of the two methods of applying performance conditions set out in the rules of the SIP Scheme which accord with the legislation relating to HMRC approved SIP schemes.

Holding Period

In relation to each award of Free Shares, the Board must set a holding period determined in its discretion of between three and five years from the date of the award of Free Shares. Once set, the holding period cannot be amended.

While individuals remain employed within the Group, they must generally leave their Free Shares within the hands of the SIP Trustee throughout the holding period.

Forfeiture Provisions

In relation to each award of Free Shares, the Board may set a forfeiture period which must not exceed three years from the date of the award. The Board may provide that if, during a stated forfeiture period, an individual ceases to be an employee or otherwise attempts to withdraw his Free Shares from the SIP Scheme, the Free Shares shall be forfeited.

Free Shares will not be forfeited if an individual ceases to be employed due to death, injury or disability, redundancy or retirement or as a result of the company or business by which the individual is employed ceasing to be part of the Group. The Board (in its discretion) may also specify other circumstances in which Free Shares will not be forfeited.

Partnership Shares

The Company may provide employees with the opportunity to enter into an agreement with the Company to enable such employees to use part of their pre-tax salary to acquire Partnership Shares.

Deductions

An employee may allow the Company to make deductions from his salary up to a maximum of 10 per cent. of his salary in any tax year or £1,500 in any tax year (or such other maximum ratio as specified in the relevant legislation relating to HMRC approved SIP schemes), whichever is less, for the purpose of acquiring Partnership Shares. The Company may impose lower maximum limits. In addition, the Company may set a minimum monthly deduction (but such minimum cannot exceed £10 per month).

The money deducted from an employee's salary will be held by the SIP Trustee and shall be applied by the SIP Trustee in purchasing Partnership Shares.

Accumulation Period

If the Board so chooses, deductions in relation to Partnership Shares may be accumulated over an accumulation period not exceeding 12 months.

If no accumulation period is set, any deduction from salary must be used by the SIP Trustee to acquire Partnership Shares within 30 days from the date on which it was deducted. Any surplus money remaining after the acquisition of Partnership Shares may be added to the next deduction or paid over to the participant.

If an accumulation period is set, the deductions from salary will be accumulated throughout the period. At the end of the period, the accumulated deductions from salary must be used by the SIP Trustee to acquire Partnership Shares within 30 days from the end of the accumulation period. Partnership Shares will be allocated to employees at the end of an accumulation period at the lower of the market value of the Ordinary Shares at the beginning of the accumulation period and the market value of the Ordinary Shares on the date they are allocated to the employees following the end of the accumulation period. Any surplus money remaining after the acquisition of Partnership Shares may be carried forward or paid over to the participant.

Qualifying Period

In relation to each award of Partnership Shares, the Board may (in its discretion) set a qualifying period during which an individual must have been employed in order to be eligible to participate in the award.

If there is an accumulation period, the qualifying period cannot exceed six months before the starting date of the accumulation period.

If there is no accumulation period, the qualifying period cannot exceed 18 months before the date of the award (and, for these purposes, each individual acquisition of Ordinary Shares will constitute an award).

Forfeiture

Partnership Shares shall not be subject to forfeiture and may be withdrawn from the SIP Scheme at any time.

Matching Shares

If employees acquire Partnership Shares, the Board can also (at its discretion) give the employees Matching Shares in proportion to the number of Partnerships Shares acquired by the employee. The maximum ratio for an award of Matching Shares to Partnership Shares is 2:1 (or such other maximum ratio as specified in the relevant legislation relating to HMRC approved SIP schemes).

Holding Period

In relation to each award of Matching Shares, the Board must set a holding period determined in its discretion of between three and five years from the date of the award of Matching Shares.

While individuals remain employed within the Group, they must generally leave their Matching Shares within the hands of the SIP Trustee of the SIP Scheme throughout the specified holding period.

Forfeiture Provisions

In relation to an award of Matching Shares, the Board may set a forfeiture period determined at its discretion which must not exceed three years from the date of the award of Matching Shares.

The Board may provide that it, during a stated forfeiture period, an individual ceases to be an employee or otherwise attempts to withdraw his Matching Shares from the SIP Scheme, the Matching Shares shall be forfeited.

In addition, the Company may provide that Matching Shares will be forfeited if the Partnership Shares to which such Matching Shares relate are withdrawn at any time during the applicable forfeiture period.

Matching Shares will not be forfeited if an individual ceases to be employed due to death, injury or disability, redundancy or retirement or as a result of the company or business by which the individual is employed ceasing to be part of the Group. The Board (in its discretion) may also specify other circumstances in which Matching Shares will not be forfeited.

Dividends and Dividend Shares

In relation to any dividends paid on Ordinary Shares held within the SIP Scheme, the Board shall decide whether:

- they are paid out in cash;
- they are re-invested in the Dividend Shares (as defined in the SIP Scheme); or
- the employees are given an individual choice to take either cash or Dividend Shares.

Maximum Amount

The maximum amount of dividends which an employee can re-invest in any tax year in the acquisition of Dividend Shares is £1,500 (or such other amount specified in the relevant legislation relating to HMRC approved SIP schemes). If the dividend paid on a participant's SIP Scheme shares exceeds such limit the balance shall be paid to the participant as soon as possible.

Surplus Cash Dividends

Any surplus cash after Dividend Shares have been acquired may be retained by the SIP Trustee and carried forward to acquire further Dividend Shares in the future.

Holding Period

The rules for the SIP Scheme provide that Dividend Shares must be held in the SIP Scheme for a period of three years from acquisition.

SIP Scheme Limits

In any 10 year period, the number of Ordinary Shares issued under the SIP Scheme, when aggregated with the number of Ordinary Shares issued or issuable under any other employees' share scheme operated by the Company, shall not exceed more than 10 per cent. of the Company's issued share capital from time to time.

Other Award Terms

Awards under the SIP Scheme will not be pensionable.

Corporate Events and Share Reorganisations

A participant may direct the SIP Trustee at any time while the SIP Trustee holds Ordinary Shares on the participant's behalf to:

- accept any offer for such shares, if the acceptance of such offer would result in a new holding of shares being equated with the original Ordinary Shares for capital gains tax purposes;
- agree to a transaction which would if entered into be a scheme, compromise or arrangement applicable to all the Ordinary Shares (or all such class of Ordinary Shares as have been appropriated to the participant) or all Ordinary Shares (or Ordinary Shares of the class in question) held by a class of shareholders identified otherwise than by reference to their employment; or
- accept an offer for cash (with or without other assets) or accept an offer for a qualifying corporate bond (whether alone or with other assets or cash or both) for such shares if such offer forms part of a general offer which is made on the condition that if satisfied will result in the offeror obtaining control of the Company.

In the event of a rights issue in respect of any Ordinary Shares, each participant may instruct the SIP Trustee in respect of all or any of the Ordinary Shares allocated to him and held by the SIP Trustee to exercise the rights on all or any of such Ordinary Shares or to exercise some of the rights and sell the remainder of the rights nil paid (the sale proceeds to be used to take up the rights exercised) or to sell all of the rights on some or all of such Ordinary Shares.

In the event that the SIP Trustee is offered the opportunity to acquire Ordinary Shares pursuant to rights attaching to Ordinary Shares which it holds on behalf of any participant, it shall take up such opportunity only on the instructions of the participant concerned.

Administration and Amendments

The SIP Scheme is administered by the Board. The Board may amend the provisions of the SIP Scheme. However, no amendment to a key feature of the SIP Scheme shall have effect until HMRC has approved such amendment. Furthermore, the rules of the SIP Scheme which relate to:

- the persons to whom awards may be made under the SIP Scheme;
- the limitations on the number or amount of Ordinary Shares which may be used under the SIP Scheme;
- the maximum entitlement of any one employee under the SIP Scheme;
- the basis for determining an employee's entitlement to Ordinary Shares under the SIP Scheme following any increase or variation in the share capital of the Company; and
- the basis for determining the adjustment of any award granted under the SIP Scheme following any increase or variation in share capital of the Company,

cannot be amended to the advantage of any participant or potential participant without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the SIP Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any option holder or any Group company.

In addition, no amendments shall be made which adversely affects the rights of subsisting participants without the prior written consent of three-quarters of such Participants (by number) or, at the Board's discretion, the prior written consent of three-quarters of the Participants (by number) as hold subsisting rights that are affected).

Overseas Employees

The Board may adopt supplemental rules to the SIP Scheme to facilitate the granting of awards to individuals not resident in the UK provided that such supplemental rules will, so far as the Board in its discretion considers reasonably practicable, follow the rules of the SIP Scheme.

Termination

The SIP Scheme may be terminated at any time by a resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption. After termination no further Ordinary Shares may be awarded to individuals under the SIP Scheme.

6.4 **The Flybe Sharesave**

Status of the SAYE Scheme

The SAYE Scheme is designed to be capable of approval by HMRC under Schedule 3 to ITEPA.

Eligibility

Participation in the SAYE Scheme will be offered to all employees (including full-time Executive Directors) of the Company and participating subsidiaries who have been employed for a continuous period to be determined by the Board (not exceeding five years ending on the date of grant of the relevant option) and whose earnings from employment are general earnings (or would be if there were any) for a tax year in which the employee is ordinarily resident in the United Kingdom. In addition, certain other employees of any member of the Group nominated by the Board may be permitted to participate in the SAYE Scheme.

Eligible employees may however only participate if they are not prohibited under the relevant legislation relating to HMRC approved SAYE schemes from being granted an option by virtue of having (or having had) a material interest in the Company.

Issue of Invitations

Invitations to participate in the SAYE Scheme ("**Invitations**") may be issued to eligible employees during the period of 42 days commencing on: (a) the Admission Date; (b) the Adoption Date; (c) the day on which the SAYE Scheme is formally approved by HMRC; (d) the Dealing Day immediately following the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year (provided that if the Ordinary Shares continue to be admitted to the Official List at the time in question, no Invitation shall be issued during the first two Dealing Days following the date of any such announcement); (e) any day on which a change to the legislation affecting savings related share option schemes approved by HMRC is proposed or takes effect; or (f) any day on which a new savings contract prospectus is announced or takes effect.

If the issue of an Invitation on any of the above days would be prohibited by virtue of the Model Code or any statute or regulation or order made pursuant to such statute, then such Invitation may be issued during the period of 40 days commencing immediately after the second Dealing Day following the time that such prohibition shall cease to have effect.

Each eligible employee who receives an Invitation may, within 21 days from the date of Invitation (or such shorter period selected by the Board not being less than 14 days), apply for an option.

Savings Contract and Grant of Options

An eligible employee who wishes to be granted an option must enter into a savings contract "**SAYE contract**" with an approved savings body selected by the Board. Under the SAYE contract, the eligible employee will save a regular sum each month for three or five years of not less than £5 nor more than £250 per month (or such greater amount as may from time to time be permitted by Schedule 3 of ITEPA). Employees who complete an SAYE contract will be entitled to a bonus from the building society or bank. The bonus is fixed at the inception of the SAYE contract.

In relation to a given round of option awards, the Board may determine:

- whether the savings period will be three or five years or whether each employee will be given a choice; and
- if a five year savings contract is used, whether a standard bonus should be paid at the end of the five year period or whether a maximum bonus should be paid two years after the end of the five year period or whether each employee will be given a choice.

An option to acquire Ordinary Shares will be granted to each eligible employee who enters into an SAYE contract. The number of Ordinary Shares subject to such an option will be that number of Ordinary Shares which have an aggregate option price not exceeding the projected proceeds of the SAYE contract concerned including the bonus (subject to any scaling back – see below).

No consideration is payable for the grant of an option.

Scaling Back

If there are insufficient Ordinary Shares available to fully satisfy all applications received for an option from eligible employees (either due to the scheme limit referred to below or such other limit imposed by the Board for the purposes of an option), the Board may scale down the applications by taking one or more prescribed steps approved by HMRC and set out in the rules of the SAYE Scheme to reduce the amount of savings made under each SAYE contract or otherwise reduce the proceeds derived from each SAYE contract so as to ensure that the options are granted over such number of Ordinary Shares as does not exceed the number of Ordinary Shares available to satisfy those options.

Exercise Price

The option price per Ordinary Share subject to an option will be selected by the Board but will not be less than the greater of 80 per cent. (or such lesser percentage as may from time to time be permitted by Schedule 3 of ITEPA) of the market value of an Ordinary Share on the day on which Invitations to apply for options are issued and, in the case of an option to subscribe for Ordinary Shares, the nominal value of an Ordinary Share. While the Ordinary Shares are traded on the Official List the market value of an Ordinary Share will be the average of the middle market prices of an Ordinary Share as derived from the Official List for the three consecutive Dealing Days immediately preceding the date of Invitation.

The exercise price (as well as the number of Ordinary Shares under option and their nominal value) may be adjusted by the Board in the event of any capitalisation issue or rights issue (other than an issue of Ordinary Shares pursuant to the exercise of an option given to the shareholders of the Company to receive shares in lieu of a dividend) or any other variation in the share capital of the Company including (without limitation) any consolidation, subdivision or reduction of capital. Any such adjustment will require the prior approval of HMRC.

SAYE Scheme Limits

On any date, no option may be granted under the SAYE Scheme if as a result the aggregate nominal value of Ordinary Shares issued or issuable pursuant to options granted during the previous ten years under the SAYE Scheme or any other employee's share scheme or profit sharing scheme or employee share ownership plan adopted by the Company would exceed 10 per cent. of the nominal value of the share capital of the Company in issue at that date.

Exercise and Lapse of Options

Options are not transferable and (except in the circumstances described below) an option may normally only be exercised within a period of six months following the maturity of the relevant SAYE contract by a person who remains a Director or employee.

Where an option holder dies before the maturity of his SAYE contract, his personal representatives may exercise his option within a period of 12 months from the date of his death. Where an option holder dies within a period of six months following the expiry of his SAYE contract without having exercised his option, his personal representatives may exercise his option within a period of 12 months from the date of expiry of the SAYE contract.

An option holder may exercise his option within a period of six months of ceasing to be an employee of the Group where the cessation occurs as a result of:

- injury, disability, redundancy (within the meaning of the Employment Rights Act 1996) or retirement on reaching the age of 60 or at any other age at which the option holder is bound to retire in accordance with his contract of employment; or
- his employing company or business being disposed of outside the Group.

Where an option holder reaches the age of 60, but remains in employment he may exercise his option within a period of six months after reaching such age.

Options will lapse upon cessation of employment of the option holder in any other circumstances not referred to above.

An option holder may exercise his option within a limited period following a takeover (pursuant to the City Code) of the Company, the Court sanctioning a scheme under section 899 of the CA 2006 in connection with the reconstruction or amalgamation of the Company or the passing of a resolution for the voluntary winding up of the Company.

In certain circumstances option holders may release their rights under options in consideration of the grant to them of equivalent rights over shares in an acquiring company which gains control of the Company.

The number of Ordinary Shares acquired on exercise will in any event be limited by reference to the proceeds accrued under the relevant SAYE contract up to the date of exercise.

Other Option Terms and Issues of Ordinary Shares

The SAYE Scheme provides the facility for the exercise of options to be satisfied by either the issue of Ordinary Shares, the transfer of Ordinary Shares held by trustees of an employee benefit trust established for the purpose of facilitating the holding of Ordinary Shares by Group employees or by the transfer of Ordinary Shares held in treasury.

Options are not capable of transfer or assignment.

Until options are exercised, option holders have no voting or other rights in relation to the Ordinary Shares subject to those options.

Ordinary Shares allotted pursuant to the exercise of an option will rank pari passu in all respects with the Ordinary Shares already in issue but shall not rank for any dividends or other distribution payable by reference to a record date preceding the date of allotment. Ordinary Shares transferred on the exercise of an option shall be transferred without the benefit of any rights attaching to the Ordinary Shares by reference to a record date preceding the date of that exercise. For so long as the Company's Ordinary Shares are traded on the Official List, the Company will use its best endeavours to procure that the Ordinary Shares issued following exercise of any options are admitted to trading on the Official List as soon as practicable after allotment.

Benefits obtained under the SAYE Scheme are not pensionable.

Administration and Amendments

The SAYE Scheme is administered by the Board. The Board may amend the provisions of the SAYE Scheme. However, no amendment to a key feature of the SAYE Scheme shall have effect until HMRC has approved such amendment. Furthermore, the rules of the SAYE Scheme which relate to:

- the persons to whom options may be granted;
- the limits on the number of Ordinary Shares which may be issued under the SAYE Scheme;
- the maximum entitlement of any option holder;
- the basis for determining an option holders entitlement to Ordinary Shares or options; and
- the basis for determining the adjustment of any option granted under the SAYE Scheme following any increase or variation in the share capital of the Company

cannot be amended to the advantage of any option holder or potential option holder without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the SAYE Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any option holder or any Group company.

Overseas Employees

The Board may adopt supplemental rules to the SAYE Scheme to facilitate the granting of awards to individuals not resident in the UK provided that such supplemental rules will, so far as the Board in its discretion considers reasonably practicable, follow the rules of the SAYE Scheme.

Termination

The SAYE Scheme may be terminated at any time by resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption by the Company so that no further options can be granted under the SAYE Scheme after such termination. Termination shall not affect the outstanding rights of existing option holders.

6.5 **The Flybe Group Limited Employees' Share Ownership Trust ("Flybe Group Limited Trust")**

The Flybe Group Limited Trust was constituted by a trust deed entered into between the Company and Kleinwort Benson (Jersey) Trustees Limited (a company registered in Jersey) ("Flybe Group Limited Trustee") on 4 April 1997. The Company has the power to appoint and remove the Flybe Group Limited Trustee.

The Flybe Group Limited Trust is a discretionary settlement set up for the benefit of employees and former employees (and their immediate dependants) of the Company and its subsidiaries (not including those resident in Jersey).

The Flybe Group Limited Trustee currently holds Ordinary Shares on bare trust for and on behalf of employees participating in the Pre-Admission Share Scheme (as described above). The Company does not propose to request the Flybe Group Limited Trustee to acquire any further shares in the Company and, once the Flybe Group Limited Trustee has released all of its holdings of Ordinary Shares on bare trust, it is intended that the Flybe Group Limited Trust will be wound-up.

The Flybe Group Limited Employees' Share Ownership (No.2) Trust ("Flybe Group Limited No.2 Trust")

The Flybe Group Limited No.2 Trust was constituted by a trust deed entered into between the Company and Kleinwort Benson (Guernsey) Trustees Limited (a company registered in Guernsey) ("Flybe Group Limited No.2 Trustee") on 3 June 2005. The Company has the power to appoint and remove the Flybe Group Limited No.2 Trustee.

The Flybe Group Limited No.2 Trust is a discretionary settlement set up for the benefit of employees and former employees (and their immediate dependants) of the Company and its subsidiaries (not including those resident in Guernsey).

The Flybe Group Limited No.2 Trustee currently holds Ordinary Shares on bare trust for and on behalf of employees participating in the Pre-Admission Share Scheme (as described above). The Company does not propose to request the Flybe Group Limited No.2 Trustee to acquire any further shares in the Company and, once the Flybe Group Limited No.2 Trustee has released all of its holdings of Ordinary Shares on bare trust, it is intended that the Flybe Group Limited No.2 Trust will be wound-up.

The Flybe Group plc Employee Benefit Trust ("EBT")

The EBT will be constituted by a trust deed to be entered into between the Company and the trustee ("**EBT Trustee**"). The Company will have the power to appoint and remove the EBT Trustee. It is intended that the EBT Trustee will be an offshore trustee.

The EBT will be a discretionary settlement set up for the benefit of employees and former employees (and their immediate dependants) of the Company and its subsidiaries.

The EBT Trustee may either purchase existing shares in the Company in the market or subscribe for new shares in the Company. It is proposed that such shares will predominantly be used for the purposes of the employee share schemes established by the Company.

In accordance with the guidelines issued by the Association of British Insurers, the maximum number of shares in the Company which may be held by the EBT Trustee at any time may not exceed 5 per cent. of the Company's issued ordinary share capital at that time.

7. DIRECTORS' AND OTHERS' INTERESTS

7.1 Details of the Directors and the Senior Management and their functions in the Group are set out in Part 3 "Directors, Senior Management and Corporate Governance" of this document. The business address of each of the Directors and the Senior Management is at Jack Walker House, Exeter International Airport, Exeter EX5 2HL.

7.2 The interests of the Directors, the Senior Management and persons connected with them (within the meaning of section 252 of the CA 2006) in the issued share capital of the Company (all of which are beneficial) as at the date of this document and as they will be immediately following Admission (assuming no exercise of the Over-allotment Option) are as follows:

	As at the date of this document		Immediately following Admission	
Director	**Number of Ordinary Shares**	**Percentage of voting rights**	**Number of Ordinary Shares**	**Percentage of voting rights**
Jim French	4,016,250	7.65	4,016,250	5.514
Mark Chown	0	n/a	0	n/a
Andrew Strong(179)	224,875	n/a	224,875	0.309
Andrew Knuckey(179)	223,125	n/a	223,125	0.306
Michael Rutter(179)	224,125	n/a	224,125	0.308
Charlie Scott	12,500	0.023	12,500	0.017
Alan Smith	12,500	0.023	12,500	0.017
David Longbottom	12,500	0.023	12,500	0.017
Peter Smith	12,500	0.023	12,500	0.017
Anita Lovell	0	n/a	0	n/a
Simon Charles(179)	75,000	n/a	75,000	0.103
Chris Simpson(179)	224,125	n/a	224,125	0.308
Mark Elkins(179)	75,000	n/a	75,000	0.103

(179) This interest is held beneficially. Legal title to the Ordinary Shares allocated to the individual is held by K.B. (C.I.) Nominees Limited as nominee for the trustees of the Flybe Employees' Share Plan.

7.3 During the 12 months prior to the date of this document the following interests in shares in the capital of the Company have been acquired by the Directors and Senior Management at a cost below the Offer Price:

Director/Senior Manager	**Shares acquired**	**Date**	**Cost per share (£)**
Charlie Scott	500	16 June 2010	18
Alan Smith	500	16 June 2010	18
David Longbottom	500	16 June 2010	18
Peter Smith	500	16 June 2010	18
Mark Elkins(180)	1,500	11 June 2010	nil
Simon Charles(180)	1,500	11 June 2010	nil

(180) This interest is held beneficially. Legal title to the Ordinary Shares allocated to the individual is held by K.B. (C.I.) Nominees Limited as nominee for the trustees of the Flybe Employees' Share Plan.

7.4 It is intended that the following awards over Ordinary Shares be granted to Directors and Senior Management on Admission or within six weeks thereafter pursuant to the PSP:

Name	**Maximum value of Ordinary Shares under award (by reference to the Offer Price)**	**Earliest Vesting Date**
Jim French	£500,000	Third anniversary of award date
Mark Chown	£95,000	Third anniversary of award date
Andrew Knuckey	£250,000	Third anniversary of award date
Mike Rutter	£250,000	Third anniversary of award date
Andrew Strong	£250,000	Third anniversary of award date
Chris Simpson	£60,000	Third anniversary of award date
Mark Elkins	£104,000	Third anniversary of award date
Simon Charles	£104,000	Third anniversary of award date

7.5 Each of the Executive Directors and the Senior Management will be eligible to participate in the SIP Scheme and the SAYE Scheme.

7.6 Save as disclosed in paragraph 7.2 of this Part 7 of this document, no Director or member of the Senior Management has any interest in the share capital or loan capital of the Company or any of its subsidiaries nor does any person connected with them (within the meaning of section 252 of the CA 2006) have any such interest, whether beneficial or non-beneficial.

7.7 Other than current or former directorships of members of the Group, during the five years immediately prior to the date of this document, the Directors and the Senior Management are or have been members of the administrative, management or supervising bodies or partners of the companies or partnerships specified below (excluding, save where set out below, subsidiaries of any company of which the relevant Director or member of the Senior Management is also a member of the administrative, management or supervisory bodies):

Name	Current directorships and partnerships	Previous directorships and partnerships held in the last five years
Jim French	None	None
Andrew Knuckey	34-48 Macrae Road Management Company Limited	RAK Interim Management Limited
Andrew Strong	Lambert View Management Company Limited	None
Mike Rutter	None	None
Charlie Scott	Kircal Limited Intechnology plc William Hill plc Emcore Corporation	William Hill Holdings Limited Massive Limited Speciality Retail Group Limited William Hill Employee Shares Trustee Limited Profile Media Group plc New William Hill
Alan Smith	The Royal Air Force Charitable Trust Enterprises Fisher Outdoor Leisure Holdings Limited Fisher Outdoor Leisure Limited Fisher Outdoor Leisure Trustee Company Limited Navy, Army and Air Force Institutes (The) EWT Trustees Limited Empire World Trade Limited Empire World Trade Holdings Limited Bezier Acquisitions Limited Brambledown Aircraft Hire (Partner)	Riverdance Limited Robert Dyas Holdings Limited F2G Realisations Limited NAAFI Incorporated Trustees NAAFI Pension Fund Trustees The Works Stores Limited Flexeprint Limited Anglo B Realisations Limited Myriad Childrenswear Group Limited Aquabella Group plc
David Longbottom	Horton International (UK) Limited London South Bank University	DSG Retail Limited DSG International plc Luminar Leisure plc Chilton Road Abstraction (Pitters Piece) Limited
Mark Chown	Animated Adventures and Pictures Limited Likeaballs (Soccer) Limited Datastrip Limited Datastrip Systems Limited David Brown Management Limited MCP Limited	None

Name	Current directorships and partnerships	Previous directorships and partnerships held in the last five years
Anita Lovell	10 Chaucer Mansions Limited	Aberystwyth Retail Limited
	Array Properties Limited	Accrington Broadway Limited
	Aspinall Properties Limited	Aero Properties (Exeter) Limited
	Basil Street Investments Limited	Alconbury Investments Limited
	Belmore Holdings Limited	Animated Adventures and Pictures
	Benora (Sauchiehall) Investments	Limited
	Limited	Apex 123 Limited
	BRFC Investments Limited	Aspinall Developments Limited
	C.M.W. Holdings Limited	Aspinall Holdings Limited
	Cagney Limited	Aspinall Limited
	Carow Holdings Limited	Australian Timber Trustees (C.I.)
	CC Art Investments Limited	Limited
	Chase Point (Coventry) Limited	Barnscar Limited
	Colorado Motors (Jersey) Limited	Beamish Holdings Limited
	Conqueror Holdings Limited	Bellatrix Property Management
	Croftben Limited	Limited
	Curance Limited	Bemerton Holdings Limited
	Datastrip (IOM) Limited	Bengatehall Limited
	Datastrip Holdings Limited	Benora (Westgate) Investments
	Destinations Limited	Limited
	Deveau Commercials Limited	BHS Ayr Limited
	Dinkleystone Limited	Chase Point One Limited
	Downham Properties Limited	Clandon Properties
	Downtown Investments Limited	Limited
	E.J.W. Administrators Limited	Clifton Moor Investments Limited
	E.J.W. Ret Limited	Consolidated High Street
	Eagle House Limited	Investments Limited
	Earcroft Holdings Limited	Corrringdon (Alwyn House)
	Edenfield Investments Limited	Limited
	Ellenbrook Holdings Limited	Craven Street Properties Limited
	Enderbery Invest. Limited	D F B. Properties Limited
	Ewood Limited	Danstar Holdings Limited
	F.W. (1964) Ret Limited	Datastrip (Southern Africa) Limited
	F.W. (1987) Ret Limited	Datastrip International Limited
	F.W. Administrators Limited	David M Brown Management
	F.W. Representatives Limited	Limited
	Fidere Limited	Doxford Investments Limited
	Fishwick Holdings Limited	E&F Distribution Limited
	Flagon Holdings Limited	EJW Retail Investments Limited
	Flambeau Investments Limited	Fairways Holdings Limited
	Freelance Motors (Guernsey)	FWW Retail Properties Limited
	Limited	G&S Trustees (Jersey) Limited
	Frontline Invest. Ltd	G&S Trustees Limited
	Gilston Road Properties Limited	Green Holdings Limited
	Guide Security Services (Jersey)	Haslington Limited
	Limited	Hawksford Executors Limited
	Howjow Investments Limited	Hawksford Fiduciaries Jersey
	J.A.F. Holdings Limited	Limited
	Jackdaw Holdings Limited	Hawksford Foundations Jersey
	Jerseybowl Limited	Limited
	Kinder Properties Limited	Hawksford Jersey Limited
	Koala Investments Limited	Hawksford Law Limited
	Les Jardins Investments Limited	Hawksford Nominees Jersey
	Lynward Investments Limited	Limited
	Matlyn Investments Limited	Hawksford Secretaries Jersey
	Mayfield Investments Limited	Limited
	Michaela Walker Photography	Hawksford Trust Company Jersey

Name	Current directorships and partnerships	Previous directorships and partnerships held in the last five years
	Limited Oxel Holdings Limited Pendleton Investments Limited Preston Travel (C.I.) Limited Preston Travel Group Holdings Limited Rosedale (J.W.) Investments Limited Rosedale Aviation Holdings Limited Rosedale Property Developments Limited Rosedale Property Holdings Limited Rosedale Property Trading 2005 Limited Silvercliff Limited Spindles Investments Limited Strand Street (IOM) Retail Limited Sunnydale Properties Limited Trafford Investments Limited Travelwright Channel Islands Limited Trident Park Investment Limited W.F.O. Jersey Limited Walker Administrators Limited Walker Representatives Limited WCT No. 1 Limited WCT Property Trading Limited WWW (Jersey) Limited XCI Vehicle Contracts Limited	Limited Hawksford Trustee Services Jersey Limited Hawksford Trustees Jersey Limited High Street Retail Investments Limited Hudson Investments Limited Interlex Trust Corporation Interserco Limited Jersey European Airways Limited Laydon Limited Likeaballs (Soccer) Limited Limerick Holdings Limited Lincoln Park Limited Longridge Investments Limited Lou Mas Limited Mannasas Limited Margate Retail Investments Limited Moorben Limited Moorcroft Park Investments Limited Morley Property (IOM) Limited Newgreendale Limited Newport (IOW) Retail Limited Pinctada Properties Limited Portland Walk (Barrow) Limited Prime Point One Limited Prime Point Two Limited Rathbone Holdings Jersey Limited Ravenglass Limited Retail Propeties Brentwood Limited Ribchester Limited Rigel Property Management Limited Rollerblade Limited Rosedale Link 5 Limited Rosedale Properties (Coalville) Limited Ryleygate (Haydock Park) Limited Sandybrook Properties Limited Sealdore Limited Seaton Employment Services Limited Sirius Property Management Limited Sparhawk (Ashton Park) Limited Swallowfield Properties Limited Swift Point Limited Trifolium Limited Trinity Finance Limited Waverly Holdings Limited Wisbech Retail Limited Witton Investments (Academy Park) Limited

Name	Current directorships and partnerships	Previous directorships and partnerships held in the last five years
Peter Smith	TC Communications Holdings Limited Alba Strategic Assets Limited Oryx Global Limited Oryx Aviation Consulting Limited Brooklands Museum Trust (Trustee)	Dunwoody Airline Services Limited MSP Solutions Limited Clove Business Systems Ltd
Chris Simpson	Bulldog Aviation Limited (registered in Jersey) Oystercatcher Limited (registered in Jersey)	None
Simon Charles	None	None
Mark Elkins	None	None

7.8 Save as disclosed in paragraph 7.8.1 of this Part 7 of this document, no Director or member of the Senior Management (for at least the previous five years before the date of this document):

(i) has any convictions in relation to fraudulent offences; or

(ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any of his assets; or

(iii) has been a director of any company which, while he was a director had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or

(iv) has been a partner of any partnership which, while he was a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset: or

(v) has had any public criticism and/or sanction by statutory or regulatory authorities (including designated professional bodies); or

(vi) has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7.8.1 Charlie Scott was until 20 May 2007, a director of Profile Media Group plc. Profile Media Group plc went into administration on 17 February 2006. Alan Smith was until 26 January 2006, a director of Flexeprint Limited. Flexeprint Limited went into administration on 26 January 2006. Alan Smith was also a director of Aquabella Group plc until 12 August 2009. Aquabella Group plc went into administration on 29 April 2008.

7.9 Rosedale will hold in excess of 49.62 per cent. of the issued Ordinary Shares of the Company upon Admission. So far as the Directors are aware, no person (other than Rosedale), directly or indirectly, jointly or severally, exercises or could exercise control over the Company. The Company and Rosedale have entered into the Relationship Agreement to regulate aspects of the continuing relationship between the Company and Rosedale after the termination of the current Shareholders' Agreement to ensure that the Company is capable at all times of carrying on its business independently of Rosedale and that transactions and relationships in the future between the Company and Rosedale are at arm's length and on a normal commercial basis (please see paragraph 9.3 of this Part 7 of this document for a summary of the Relationship Agreement).

7.10 So far as the Directors are aware, there are no arrangements the operation of which may at a later date result in a change of control of the Company.

7.11 In addition to the interests of Mr. French disclosed in paragraph 7.2 of this Part 7 of this document, insofar as is known to the Company, the following persons are interested in 3 per cent. or more of the Company's share capital or voting rights at the date of this document and/or immediately following Admission (assuming no exercise of the Over-allotment Option):

	As at the date of this document		Immediately following Admission	
Name	**Number of Ordinary Shares**	**Percentage of voting rights**	**Number of Ordinary Shares**	**Percentage of voting rights**
Rosedale Aviation Holdings Limited .	36,146,250(181)	68.85	36,146,250	49.62
The Plimsoll Line Limited	7,875,000	15.00	7,875,000(182)	10.81
K.B. (C.I.) Nominees Limited	4,412,500	8.40	4,412,500	6.05

(181) "A" ordinary shares at the date of this document.

(182) Excluding any participation in the Global Offer.

7.12 None of the Company's major holders of Shares listed above has voting rights which are different from other Shareholders.

7.13 There are no loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director or member of the Senior Management, other than those set out in paragraph 7.15.1 and section 10 of this Part 7 of this document.

7.14 No Director or member of the Senior Management is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries during the current or immediately preceding financial year or which was effected by the Company or any of its subsidiaries during any earlier financial year and remains in any respect outstanding or unperformed.

7.15 No Director or member of the Senior Management has any conflict of interest (or potential conflict of interest) between any duties he has to the Company and his private interests and/or other duties he may have, other than as set out below:

7.15.1 on 24 August 2005, Rosedale advanced an interest free unsecured loan in the sum of £1,000,000 to Mr. French in order to enable Mr. French to purchase a property. This loan is outstanding and is repayable by Mr. French upon a future sale by Mr. French of his Ordinary Shares in the Company;

7.15.2 in the 2009/10 Financial Year, Rosedale advanced an interest free unsecured loan in the sum of £9,045 to each of Mr. Scott, Mr. Longbottom, Mr. A Smith and Mr. P Smith to enable Mr. Scott, Mr. Longbottom, Mr. A Smith and Mr. P. Smith to acquire 500 Ordinary Shares each in the capital of the Company. These loans are outstanding and are repayable (at the discretion of Rosedale) by Mr. Scott, Mr. Longbottom, Mr. A. Smith and Mr. P. Smith out of the proceeds receivable by each Director from a subsequent sale of his respective Ordinary Shares;

7.15.3 in the 2005/06 Financial Year, Rosedale advanced an interest free unsecured loan in the sum of £35,700 to Mr. Strong in order to enable Mr. Strong to acquire the beneficial interest in 8,925 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Rosedale) by Mr. Strong out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest;

7.15.4 in the 2005/06 Financial Year, Rosedale advanced an interest free unsecured loan in the sum of £35,700 to Mr. Simpson in order to enable Mr. Simpson to acquire the beneficial interest in 8,925 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Rosedale) by Mr. Simpson out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest;

7.15.5 in the 2007/08 Financial Year, Rosedale advanced an interest free unsecured loan in the sum of £134,318 to Mr. Knuckey in order to enable Mr. Knuckey to acquire the beneficial interest in 7,425 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Rosedale) by Mr. Knuckey out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest; and

7.15.6 Mr. Chown serves as a representative of Rosedale on the Board. In consideration of his performance as Rosedale's representative in the period prior to Admission, Rosedale will pay Mr. Chown a personal bonus upon the sale of its Ordinary Shares in the Company. As Mr. Chown's bonus is linked to the sale of Rosedale's Ordinary Shares in the Company, such bonus may be paid in a number of instalments as share sales are made.

7.16 The amount of remuneration (including any contingent or deferred compensation) payable and benefits in kind granted to each of the Directors and the Senior Management for the 2009/10 Financial Year was:

Name	**Remuneration** (£)
Jim French	714,738.00
Andrew Knuckey	305,755.62
Andrew Strong	304,818.60
Mike Rutter	305,367.69
Charlie Scott	50,000.04
Alan Smith	30,000.00
David Longbottom	35,000.04
Mark Chown	110,760.00
Anita Lovell	nil
Peter Smith	35,000.04
Chris Simpson	nil
Simon Charles	147,236.13
Mark Elkins	148,789.50

7.17 The total amount set aside or accrued by the Group to provide pension, retirement or similar benefits in the 2009/10 Financial Year was £123,309.

8. DIRECTORS' SERVICE CONTRACTS

8.1 Jim French has entered into a service agreement with the Company dated 9 December 2010, subject to termination upon 12 months' notice by either party. The service agreement provides for an annual salary of £500,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, income protection insurance, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £13,500. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for 12 months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the 12 months prior to termination or, if earlier, the start of any period of garden leave.

8.2 Andrew Knuckey has entered into a service agreement with the Company dated 9 December 2010, subject to termination upon 12 months' notice by either party. The service agreement provides for an annual salary of £250,000), pension contributions in line with the Company's current policy, life assurance of up to four times salary, income protection insurance, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £7,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for 12 months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the 12 months prior to termination or, if earlier, the start of any period of garden leave.

8.3 Mike Rutter has entered into a service agreement with the Company dated 9 December 2010, subject to termination upon 12 months' notice by either party. The service agreement provides for an annual salary of £250,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, income protection insurance, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £7,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for 12 months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the 12 months prior to termination or, if earlier, the start of any period of garden leave.

8.4 Andrew Strong has entered into a service agreement with the Company dated 9 December 2010, subject to termination upon 12 months' notice by either party. The service agreement provides for an annual salary of £250,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, income protection insurance, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £7,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for 12 months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the 12 months prior to termination or, if earlier, the start of any period of garden leave.

8.5 Mark Chown has entered into a service agreement with the Company dated 9 December 2010, subject to termination upon 12 months' notice by either party. The service agreement provides for an annual salary of £150,000 and income protection insurance. The service agreement does not provide for Company pension contributions, life assurance or private medical expenses insurance. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for 12 months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the 12 months prior to termination or, if earlier, the start of any period of garden leave.

8.6 Simon Charles has entered into a service agreement with the Company dated 15 December 2006, subject to termination upon six months' notice by either party. Under the terms of the service agreement, the executive is entitled to an annual salary of £130,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £6,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive for a period of six months following the termination of his employment from interfering with, soliciting or endeavouring to entice away the business of any person who was a client, customer or supplier of the Company at the date of termination or in the year prior to that date and with whom the executive had personal dealings.

8.7 Mark Elkins has entered into a service agreement with the Company dated 9 June 2008, subject to termination upon six months' notice by either party. Under the terms of the service agreement, the executive is entitled to an annual salary of £130,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £6,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive for a period of six months following the termination of his employment from interfering with, soliciting or endeavouring to entice away the business of any person who was a client, customer or supplier of the Company at the date of termination or in the year prior to that date and with whom the executive had personal dealings.

8.8 Chris Simpson has entered into a service agreement with the Company dated 9 December 2010, subject to termination upon six months' notice by either party. The service agreement provides for an annual salary of £60,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £3,600 or in the alternative the executive may elect to receive a cash allowance in lieu of pension, private medical and life insurance and car allowance. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for six months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the six months prior to termination or, if earlier, the start of any period of garden leave.

8.9 The services of Charlie Scott as Non-Executive Director are provided under the terms of a letter of appointment with the Company dated 9 December 2010. The appointment will terminate on 31 March 2015 unless terminated earlier by either party upon six months' notice, at an initial fee of £61,000 per annum.

8.10 The services of Alan Smith as Non-Executive Director are provided under the terms of a letter of appointment with the Company dated 9 December 2010. The appointment will terminate on 31 March 2012 unless terminated earlier by either party upon six months' notice, at an initial fee of £38,000 per annum.

8.11 The services of David Longbottom as Non-Executive Director are provided under the terms of a letter of appointment with the Company dated 9 December 2010. The appointment will terminate on 31 March 2015 unless terminated earlier by either party upon six months' notice, at an initial fee of £46,000 per annum.

8.12 The services of Peter Smith as Non-Executive Director are provided under the terms of a letter of appointment with the Company dated 9 December 2010. The appointment will terminate on 31 March 2012 unless terminated earlier by either party upon six months' notice, at an initial fee of £46,000 per annum.

8.13 The services of Anita Lovell as Non-Executive Director are provided under the terms of a letter of appointment with the Company dated 9 December 2010. The appointment will terminate on 7 July 2013 unless terminated earlier by either party upon six months' notice, at an initial fee of £38,000 per annum.

8.14 Save as set out in this section 8 of Part 7 of this document, there are no service agreements in existence between any of the Directors and the Company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.

9. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries during the two years preceding the date of this document and are or may be material or contain any provision under which any member of the Group has an obligation or entitlement which is material to the Group as at the date of this document:

9.1 Underwriting Agreement

The Underwriting Agreement is between the Company, the Directors and the Managers and provides for the appointment of the Managers as the agent of the Company to offer the New Shares at the Offer Price. Each of the Managers will use its reasonable endeavours to procure subscribers for the New Shares at the Offer Price. Subject to the terms of the agreement, each of the Managers has agreed to subscribe for as principal any Offer Shares which are not otherwise subscribed for pursuant to the Global Offer in the proportions set out in the Underwriting Agreement.

The Underwriting Agreement is conditional, inter alia, upon Admission taking place on or before 15 December 2010 or such later date as the Global Coordinator (for itself and on behalf of Investec and Execution Noble) and the Company may agree but, in any event, not later than 22 December 2010.

The Company will pay to the Global Coordinator (for itself and on behalf of Investec and Execution Noble) a commission of 2.5 per cent. of the aggregate value of the New Shares at the Offer Price, and a commission of between 0 and 1.5 per cent. of the aggregate value of the New Shares at the Offer Price, to be determined at the sole discretion of the Company. The Company will also pay to the Stabilising Manager (for itself and on behalf of Investec and Execution Noble), on the Over-allotment Closing Date (if any), a commission of 2.5 per cent. of the aggregate value of the Over-allotment Shares at the Offer Price, and a commission of between 0 and 1.5 per cent. of the aggregate value of the Over-allotment Shares at the Offer Price to be determined at the sole discretion of the Company. The Underwriting Agreement provides for the Company to pay all costs and expenses of and incidental to the offer of the Ordinary Shares and the applications for Admission, including the fees and costs of other professional advisers, all costs relating to the

Global Offer, including printing, advertising and distribution charges, the fees of the Registrars and the fees payable to the London Stock Exchange.

The Underwriting Agreement contains certain usual warranties given by the Company and the Executive Directors in favour of the Managers and more limited warranties given by the Non-Executive Directors. The Underwriting Agreement also contains an indemnity, in a form customary for an agreement of its nature, from the Company in favour of the Managers.

The Global Coordinator (for itself and on behalf of Investec and Execution Noble) may terminate the Underwriting Agreement in specified circumstances prior to Admission, principally in the event of a breach of the Underwriting Agreement or any breach of any of the warranties contained in it or where any event or omission relating to the Group is, or will be in the opinion of the Global Coordinator, materially prejudicial to the successful outcome of the Global Offer or Admission, or where any change in national or international, financial, monetary, economic, political or market conditions is, or will be in the opinion of the Global Coordinator, such as to make it impractical or inadvisable to market the Ordinary Shares, to enforce the contracts for the sale of the Ordinary Shares, or to otherwise proceed with the Global Offer or Admission.

9.2 **Company Shareholders' Agreement**

A shareholders' agreement was entered into on 5 March 2007 between Flybe, Rosedale, Kleinwort Benson (Jersey) Trustees Limited, Kleinwort Benson (Guernsey) Trustees Limited, James French, British Airways and The Plimsoll Line.

The principal terms of the shareholders' agreement (which terminates automatically in accordance with its terms upon Admission), govern matters such as the appointment of the Company's directors, the management of the Group's business, certain matters requiring special consent, the transfer of Company shares, the issue of securities for cash, provisions relating to a future initial public offering of the Ordinary Shares of the Company, breach of the terms of the shareholders' agreement (and the consequences thereof) and termination of the shareholders' agreement. The shareholders' agreement will terminate automatically upon Admission.

9.3 **Rosedale Relationship Agreement**

A relationship agreement was entered into between the Company and Rosedale on 9 December 2010. The purpose of this agreement is to regulate aspects of the continuing relationship between the Company and Rosedale after the termination of the current agreement between the Company's shareholders, to ensure that the Company is capable at all times of carrying on its business independently of Rosedale and that all transactions and relationships in the future between the Company and Rosedale are at arm's length and on a normal commercial basis. The agreement contains, among other things, provisions relating to certain assurances from Rosedale to the Company to ensure that the Company is able to carry on its business independently of Rosedale and that all transactions between the Company and Rosedale are and will be conducted at arm's length and on a commercial basis. The Relationship Agreement permits Rosedale to appoint one person to the Board if Rosedale holds in excess of 15 per cent. of the Ordinary Shares, and two people to the Board if Rosedale holds in excess of 30 per cent. of the Ordinary Shares.

9.4 **British Airways Codeshare Agreement**

This agreement relates to codeshare agreements between British Airways, BA Connect Limited and Flybe entered into on 5 March 2007 which allow British Airways to place its designator code on certain flights operated by Flybe Limited, with revenue being apportioned between the parties under a Multilateral Prorate Agreement being industry standard terms drawn up by IATA. The agreement relates principally to flights departing from Birmingham airport but also covers flights departing from a variety of UK and European airports. The agreement has been restated and amended on a number of occasions since March 2007 and the current stated term of the agreement ends on 26 March 2011.

9.5 **Etihad Airways Codeshare Agreement**

Under this agreement, which was entered into between Flybe Limited and Etihad Airways on 4 November 2009, either party can sell transportation in their own name and place their IATA airline designator code on flights operated by the other party and/or any of the other party's affiliates, with revenue being shared in accordance with a Special Prorate Agreement and the IATA Multilateral Interline Traffic Agreement being industry standard terms drawn up by IATA.

The agreement applies to flights between the United Arab Emirates and various UK and European airports. The term of the agreement is three years. Either party may terminate the agreement on the first day of the following IATA summer or winter season by giving the other party 90 days prior written notice.

9.6 **Loganair Franchise Agreement**

Flybe Group plc, Flybe Limited and Loganair entered into a franchise agreement in December 2007 (effective from October 2008) under which Flybe granted Loganair a franchise along with a non-exclusive and non-assignable licence to use certain intellectual property rights of Flybe to enable Loganair to operate scheduled flights under the Flybe brand. Loganair pays a franchise fee of 2.5 per cent. of gross passenger revenue (inclusive of passenger service charges levied by airports and security and fuel charge levies, but exclusive of air passenger duty unless this relates to passengers who do not actually fly), subject to certain exclusions and modifications. During the term of the agreement, Flybe is prohibited from commencing or operating any air services on any route on which Loganair operates scheduled air services under the Flybe brand or licensing any other person to do so. Either party may terminate the agreement on one year's prior written notice which may be given on or after 26 October 2011.

Loganair and the Company have also entered into various service agreements, the terms of which are contemporaneous with the Loganair Franchise Agreement. These govern various administrative and operational parts of the franchise arrangement, the provision by the Group of reservation, ticketing, and other passenger services, the provision of information technology services, and the ability of passengers on Loganair operated franchise flights to participate in the Flybe frequent flyer programme.

9.7 **Term Loan Facility with Barclays**

This agreement is a facility letter dated 21 January 2008 between Barclays Bank plc ("**Barclays**") as lender and Flybe Limited as borrower, in respect of a term loan facility of £2,600,000. This facility was made available for a term of ten years and is repayable in equal quarterly instalments of £65,000. The interest rate applicable to the facility is 1 per cent. over LIBOR. The facility is stated to be for the purpose of acquiring the leasehold title to the property known as Hangar 1 at Exeter International Airport. The facility was renewed for a further period of 12 months on 22 November 2010.

9.8 **BGI Facilities with Barclays**

This agreement, comprised in three facility letters, each entered into between Barclays and Flybe Limited, is in relation to the provision of bonds, guarantees and/or indemnities, as follows:

(a) a facility letter dated 15 February 2010 (as amended by a letter of variation dated 18 November 2010) in respect of a facility of up to £14,000,000 for the purpose of Barclays issuing a guarantee of the obligations of Flybe Limited under a Lloyds TSB Bank plc cardnet facility. The fee for any obligations issued by Barclays under this facility letter is 2.75 per cent. per annum;

(b) a facility letter dated 15 February 2010 (as amended by a letter of variation dated 18 November 2010) in respect of a facility of up to £11,000,000 for the purpose of issuing bonds, guarantees and/or indemnities. The fee for any obligations issued by Barclays under this facility letter is 2.75 per cent. per annum; and

(c) a facility Letter dated 15 February 2010 (as amended by a letter of variation dated 18 November 2010) in respect of a facility of up to £5,000,000 for the purpose of issuing bonds, guarantees and/or indemnities. The fee for any obligations issued by Barclays under this facility letter is 3.5 per cent. per annum.

All of the above facilities are made available by Barclays on-demand, and as such Barclays may, in its sole discretion at any time, cancel its commitment and/or demand repayment from Flybe Limited of any amounts outstanding.

9.9 **Overdraft Facilities with Barclays**

(a) A multi-option facility agreement dated 15 February 2010 (as amended by a letter of variation dated 18 November 2010) entered into between Barclays and Flybe Limited in respect of sterling and foreign currency overdraft facilities. This is an 'umbrella' facility agreement, with each overdraft then documented separately.

(b) An overdraft facility agreement dated 15 February 2010 (as amended by a letter of variation dated 18 November 2010) entered into between Barclays and Flybe Limited pursuant to the multi-option facility agreement described above. The facility made available is a sterling overdraft facility with an aggregate gross limit of £8,750,000 and an aggregate net limit of £3,750,000. The overdraft is an on-demand facility and it may therefore be cancelled and/or withdrawn by Barclays at any time. Subject to this, the renewal date for the overdraft facility is 22 December 2011. The interest rate applicable to the overdraft facility is 4 per cent. over the base rate of Barclays from time to time.

9.10 **ISDA Master Agreement**

This agreement comprises an ISDA master agreement dated 3 July 1997 entered into between Barclays and Flybe Limited (the "**Master Agreement**"), together with a schedule to the Master Agreement also dated 3 July 1997, an amendment agreement to the Master Agreement dated 21 December 2004, a further amendment agreement to the Master Agreement dated 27 April 2010 and an ISDA credit support annex dated 27 April 2010 (the "**CSA**"). These documents, taken together, form the contract between Barclays and Flybe Limited in respect of any hedging/swap transactions conducted by Flybe. Under the CSA, Barclays is entitled to obtain weekly valuations of any hedging/swap transaction and, if the amount which would be payable by Flybe Limited under the relevant transaction exceeds a threshold of US$5,000,000, Barclays will be entitled to call for credit support from Flybe Limited in minimum transfer amounts of US$100,000.

9.11 **Cross-Guarantees and Security with Barclays**

The performance by Flybe Limited of its obligations under the facility and hedging documents referred to at paragraphs 9.9 and 9.10 above is guaranteed by the Company and its subsidiaries, pursuant to cross guarantees dated 19 February 2003 and 3rd March 2010. In support of these guarantees, Barclays has the following items of security:

(a) debentures from Flybe Group plc, Flybe Limited, JEA Engineering (UK) Limited, Westcountry Aircraft Services (UK) Limited, Guide Leasing Limited, Iscavia Limited, Walker Aviation Leasing UK Limited, British Regional Airlines Limited, British Regional Airlines Group Limited, Flybe Leasing Limited and Flybe (IOM) Limited;

(b) a legal charge from Flybe Limited over the property known as Hangar 1 at Exeter International Airport;

(c) a charge over credit balances from Flybe Limited;

(d) a deed of assignment in respect of a receivable owed by Flybe Limited to Jersey European Airways Limited; and

(e) a counter indemnity from Flybe Limited.

9.12 **Learning and Skills Council Funding Agreement**

This agreement is a grant agreement dated 29 October 2009 entered into between Flybe Limited and the Learning and Skills Council in respect of a capital project grant towards the costs of developing a national training centre for the airline industry (the Flybe Training Academy). The amount of the grant is to be calculated by reference to a percentage of the eligible project costs, up to a maximum amount of £4,261,704. The grant is subject to various conditions and the council may be entitled to clawback the grant if these conditions are not observed.

9.13 **South West of England Regional Development Agency Funding Agreement**

This agreement is a grant agreement dated 13 October 2009 between Flybe Limited and the South West of England Regional Development Agency in respect of a grant of up to £2,826,500 towards the development of the Flybe Training Academy. The grant is subject to various conditions and the agency may be entitled to clawback the grant if these conditions are not observed.

9.14 **Business Loan Agreement – Lloyds TSB Bank plc**

A business loan agreement executed by Flybe Limited on 30 March 2010 between Lloyds TSB Bank plc ("**Lloyds**") as lender and Flybe Limited as borrower, in respect of a term loan facility of

£3,400,000. This facility is repayable in full on 30 April 2011. The interest rate applicable to the facility is 2.5 per cent. over LIBOR. The facility was made available for the purpose of developing the training academy at Exeter International Airport. There is a 'change of control' provision in the events of default clause which would entitle Lloyds to demand repayment of the loan.

The performance by Flybe Limited of its obligations under the business loan agreement is secured by:

(a) a legal charge over the site on which the academy is to be built; and

(b) a guarantee from Flybe Group plc.

9.15 **Fuel and/or FOREX Hedging – World Fuel Services Inc.**

Flybe Group plc entered into a swap transaction confirmation with World Fuel Services Inc. ("**WFS**") on 17 November 2010. This document is governed by New York law and it does not follow the ISDA recommended form for hedging documents of this type, although there is a contractual obligation on both parties to negotiate a replacement set of the documents which are based on ISDA templates. The swap confirmation forms the contract between Flybe Group plc and WFS in respect of any hedging/swap transactions for fluctuating fuel and/or foreign exchange prices.

9.16 **Air France Codeshare Agreement**

Under this agreement, which was entered into between Flybe Limited and Air France in October 2010 and effective from 31 October 2010, either party can sell transportation in their own name and place their IATA airline designator code on flights operated by the other party and/or any of the other party's affiliates on certain specified routes, with revenue being shared in accordance with a Special Revenue Sharing Agreement and the IATA Multilateral Interline Traffic Agreement, being industry standard terms drawn up by IATA. The agreement applies primarily to flights between various airports in France (mainly Paris Orly and Paris Charles de Gaulle airports) and certain airports serviced by the Group within the UK (in particular Birmingham, Manchester, Southampton and Edinburgh). The term of the agreement is stated to be until the end of the IATA summer season 2011, after which it is to be renewed for an indefinite period, unless terminated in accordance with the terms of the agreement. Either party may terminate the agreement on 6 months' notice so long as the effective termination date shall coincide with the last day of an IATA season

9.17 **Flybe Limited aircraft subject to German KG financing and lease structures**

25 of the Q400 aircraft, with manufacturer's serial numbers 4113, 4114, 4118, 4120, 4126, 4136, 4139, 4155, 4157, 4179, 4197, 4201, 4206, 4216, 4220, 4221, 4224, 4229, 4230, 4233, 4237, 4251, 4257, 4259 and 4261 and three Embraer E195 aircraft with manufacturers serial numbers 184, 204, 213 (each, an "**Aircraft"**) are leased to Flybe Limited using a German KG financing and leasing structure.

The partnership structure of a KG investment model involves a Kommanditgesellschaft ("KG") which is a limited partnership. Each KG investment vehicle is comprised of a limited liability company. The management companies, in some cases GOAL German Operating Aircraft Leasing GmbH & Co, KG and in other cases HEH Beteillgungsgesellschaft GmbH, act as non-recourse general partners to the KG, Private Investors act as the limited partners.

Each KG has purchased an Aircraft from Flybe Limited or in the case of 4179, 4179, 4201, 4206, 4220, 4233, 4229, 4251 and 4257 by means of an assignment of Flybe's purchase agreements with Bombardier, and leased it back to Flybe Limited for ten years (with a two year extension option in the case of the HEH aircraft) under an operating lease. The purchase price of the Aircraft is financed partly by equity provided by the investors and partly by a bank loan. The investors' investments are placed shortly after the purchase. In the interim period the KG funds this element using an unsecured bridge loan. The bank loans in respect of the Aircraft have been provided by any one of, HSH Nordbank AG, Norddeutsche Landesbank Girozentrale, Export Development Capital ("EDC"), Bayerische Landesbank Girozentrale and DVB Bank SE, London Branch.

The bank loan which is used to finance the purchase of the Aircraft is typically secured by a first ranking mortgage over the Aircraft and a security assignment of claims under the operating lease as well as security over airframe warranties/Pratt & Whitney term cost plan agreement, the insurances and in the case of Embraer 195 aircraft the provision by Flybe Limited of maintenance reserves.

The banks' recourse is (i) to Flybe Limited as primary credit counterparty during the term of lease, (ii) to the value of the Aircraft, and (iii) to the other securities.

Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each Aircraft.

At the expiry of the lease term Flybe Limited has no right to continue leasing the Aircraft nor to take title to the Aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.18 **Flybe Limited aircraft subject to loan mortgage structures**

Three of the Q400 aircraft are owned by Flybe Limited subject to a mortgage and further security arrangements with EDC being aircraft with manufacturer's serial numbers 4142, 4144 and 4146. The loans in respect of these aircraft will be fully repaid in January 2019. Flybe Limited has granted EDC a mortgage over the aircraft as well as an assignment of the airframe warranties and an assignment of the term cost plan with Pratt & Whitney in respect of the engines. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the loans entered into in respect of each aircraft.

9.19 **Flybe Limited aircraft subject to RASPRO Trust operating lease structure**

Five of the Q400 aircraft (being aircraft with manufacturer's serial numbers 4094, 4095, 4098, 4103 and 4105) are leased to Flybe Limited until December 2017 from RASPRO Trust 2005, a Delaware statutory trust. Flybe Limited has granted an assignment of the insurances to the lessor and entered into an airframe warranty agreement with, amongst others, the lessor. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each aircraft.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.20 **Walker Aviation Leasing (UK) Limited aircraft financed by UT Finance Corporation, GE Corporation Finance Bank SAS, Norddeutsche Landesbank Girozentrale, West LB AG and HBOS**

Six of the Q400 aircraft are leased to Flybe Limited with lease terms expiring in December 2012 or 2015, from Walker Aviation Leasing (UK) Limited ("WALL"), a wholly owned subsidiary of Flybe Group plc, being aircraft with manufacturer's serial numbers 4058, 4067, 4077, 4078, 4079 and 4093. In order to purchase the aircraft WALL entered into loan agreements with UT Finance Corporation ("UTF") in respect of three of the aircraft.

Further to historic loan novations two of the aircraft (bearing manufacturer's serial numbers 4058 and 4067) are financed by way of loans from GE Corporation Finance Bank SAS and Norddeutsche Landesbank Girozentrale, respectively (each a "Financier"). The aircraft bearing manufacturer's serial number 4077 continues to be financed by UTF, the aircraft bearing manufacturer's serial numbers 4078 and 4079 are now financed by West LB AG with Bombardier Capital Inc. as junior participant. The aircraft bearing manufacturer's serial number 4093 is financed by HBOS.

Flybe Limited has granted an assignment of the insurances to WALL, which is assigned to the respective security trustee, and entered into an airframe warranty agreement with, amongst others, WALL and the Security Trustee. WALL has granted a mortgage in favour of the respective Security Trustee in respect of each Aircraft. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of WALL under the loans entered into in respect of each aircraft.

9.21 **Flybe Limited operating leases with Nordic Aviation Capital A/S ("NAC")**

Four of the Q400 aircraft are leased to Flybe Limited until November 2021 from NAC Aviation 2 Limited being aircraft with manufacturer's serial numbers 4242, 4248, 4253 and 4255. Flybe Limited has entered into an airframe warranty agreement with, amongst others, the lessor and provides maintenance reserves.

Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each aircraft. The lessor's ownership of the Aircraft is partially financed by EDC. NAC has entered into payment guarantees to guarantee the obligations of NAC Aviation 2 Limited under the lease agreements and any related documents thereto.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.22 **Flybe Limited operating leases with Fly 108 Limited**

Three of the Q400 aircraft are leased to Flybe Limited with lease terms expiring in 2017 or 2018 from Fly 108 Limited being aircraft with manufacturer's serial numbers 4180, 4185 and 4212. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each Aircraft. The lessor company is financed by FirstRand (Ireland) plc as a junior lender and by HSH Nordbank AG as senior lender and Norddeutsche Landesbank Girozentrale as senior lender and security trustee.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.23 **Flybe Limited operating lease with Turbo Leasing Limited**

One of the Q400 aircraft is leased to Flybe Limited with the lease term expiring on 27 January 2018 from Turbo Leasing Limited being aircraft with manufacturer's serial number 4110. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into a payment guarantee to guarantee the payment obligations of Flybe Limited under the operating lease entered into in respect of the aircraft. The lessor company's ownership of the Aircraft is partially financed by HSH Nordbank AG.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease.

9.24 **Flybe Limited operating leases with A&L CF June (2) Limited**

Two of the Q400 aircraft are leased to Flybe Limited with lease terms expiring in October 2011 and April 2014 from A&L CF June (2) Limited being aircraft with manufacturer's serial numbers 4052 and 4089 respectively. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor, provides maintenance reserves (but not in respect of the engines) into a Flybe Limited bank account charged in favour of the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each aircraft. The lessor company is financed by Santander UK plc.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.25 **Flybe Limited operating leases with Capital Bank Leasing 12 Limited**

Two of the Q400 aircraft are leased to Flybe Limited with lease terms expiring in April 2012 and May 2014 from Capital Bank Leasing 12 Limited being aircraft with manufacturer's serial numbers 4065 and 4090 respectively. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor, provides maintenance reserves (but not in respect of the engines) into a Flybe Limited bank account charged in favour of the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe

Limited under the operating leases entered into in respect of each aircraft. The lessor company is financed by HBoS plc.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.26 **Flybe Limited operating leases with Scandinavian Airline System (SAS)**

Two Bombardier Q400 aircraft bearing manufacturer's serial numbers 4033 and 4034 are leased to Flybe Limited by SAS under operating leases which will expire in March 2011. Flybe Limited pays maintenance reserves into a lessor bank account and, except for line maintenance and repairs arising out of operational or maintenance mishandling or accidental damage, no further sums are payable by Flybe Limited in respect of major checks during, or at the end of, the lease term.

At the end of the lease term, Flybe Limited has no right to take title to any of the aircraft, and Flybe Limited is obliged to redeliver each aircraft to the lessor in the return condition set out in the respective lease.

9.27 **Flybe Limited operating leases with BMBF (No 12) Limited**

Three of the Q400 aircraft are leased to Flybe Limited with lease terms expiring in February and March 2014 from BMBF (No 12) Limited being aircraft with manufacturer's serial numbers 4085, 4087 and 4088 pursuant to a master operating lease agreement and separate lease supplements. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor, provides maintenance reserves (but not in respect of the engines) into a Flybe Limited bank account charged in favour of the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each aircraft. The lessor company is financed by Barclays Bank PLC.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.28 **Financings in relation to 9 PW 150A spare engines**

Four of the PW 150A spare engines are owned by Flybe Limited subject to a mortgage and further security arrangements with EDC being engines with serial numbers 0487, 0640, 0644 and 0645. The loans in respect of these engines are due to be fully repaid between December 2014 (in the case of 0640, 0644 & 0645) and September 2018 (in the case of 0487). Flybe Limited has granted EDC a mortgage over the engines as well as an assignment of the term cost plan with Pratt & Whitney. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the loans entered into in respect of each engine.

Two of the PW 150A spare engines are owned by Flybe Limited subject to a mortgage and further security arrangements with UT Finance Corporation being engines with serial numbers 0053 and 0242. The loans in respect of these engines are due to be fully repaid at the end of December 2010. Flybe Limited has granted UT Finance Corporation a mortgage over the engines.

One PW 150A engine is owned by Flybe Limited having been financed by UTF being an engine with serial number 0146. The loan was repaid in 2008 and the engine is free and clear of encumbrances.

Two of the PW 150A engines are owned by Walker Aviation Leasing (UK) Limited, a 100 per cent. subsidiary of Flybe Group plc, having been financed by UTF being engines with serial numbers 0025 and 0144. The loans were repaid in 2008 and the engines are free and clear of encumbrances. There is an intra-group lease between Flybe Limited and Walker Aviation Leasing (UK) Limited.

9.29 **Pre delivery payment financing with Norddeutsche Landesbank Girozentrale**

Flybe Limited entered into a pre-delivery loan agreement on 27 March 2008 in respect of 22 Q400 aircraft for a maximum loan amount of £20 million (the **PDP Loan**). The PDP Loan was amended on 26 January 2010 to extend the pre-delivery financing to cover the four outstanding aircraft which have been deferred by Flybe Limited under contract change order number 5 to Bombardier purchase agreement 0606 until 2011. As security for the PDP Loan Flybe Limited have assigned the benefit of Bombardier purchase agreement 0606 and Flybe Group plc has entered into a payment guarantee to guarantee the payment obligations of Flybe Limited under the PDP Loan.

9.30 **Bombardier Q400 purchase agreement No. 606**

The Bombardier Purchase Agreement no. 0606 dated May 2007 is in respect of 15 firm aircraft and 15 optional aircraft. The period of warranty cover for each delivered aircraft is for the following periods:

– 48 months from the delivery of the aircraft in respect of failure to conform to the specification and installation on the aircraft;

– 48 months from the delivery of the aircraft such Bombardier parts found to be defective in material or workmanship;

– 48 months from the delivery of the aircraft defects in such Bombardier parts relating to the design;

– 12 months from the delivery of the aircraft in relation to errors in such technical data; and

– 144 months from the delivery of the aircraft due to failure of any covered component in respect of the additional Service Life Policy.

The remainder of Flybe's fleet purchased under similar purchase agreements have similar warranty terms.

Bombardier agrees to maintain or cause to be maintained the capability to respond to Flybe Limited's technical inquiries, to conduct investigations concerning repetitive maintenance problems and to issue findings and recommend action thereon. This service shall be provided for as long as ten Q400 aircraft remain in commercial air transport service.

11 firm aircraft have been delivered to Flybe Limited with four aircraft remaining to be delivered to Flybe Limited during 2011.

The first date for the exercise of the first option aircraft was 1 October 2010 with each subsequent option exercise date following on the first of each subsequent month. Options were not exercised on 1 October 2010, 1 November 2010 or 1 December 2010.

By a letter agreement dated May 2007, Flybe Limited has the benefit of a backstop finance facility from Bombardier. Under the terms of the facility, Bombardier has agreed to provide a ten year US dollar financing facility through a conditional sale, finance lease or equivalent structure for up to 80 per cent. of the purchase price of the relevant aircraft. Interest accrues at US dollar LIBOR plus an additional specified percentage rate per annum and the facility is to be repaid in equal annuity style repayments over the term with a final balloon payment at maturity. The obligations of Flybe Limited in respect of any drawing under the facility are to be guaranteed by Flybe Group plc.

Flybe Limited is required to give three months notice of its intention to draw down on the facility, and availability is subject to satisfaction by Flybe Limited of conditions precedent typical for aircraft financings of this nature. In addition, the letter agreement contains specific conditions typical for aircraft financings of this nature which Bombardier requires to be satisfied, including satisfactory review and acceptance by Bombardier of a three year business plan and that no material adverse change ("MAC"), reasonably determined by Bombardier, has occurred in the financial condition, financial prospects or business prospects of Flybe Limited or Flybe Group plc since 31 March 2004, or in the financial markets affecting the availability and terms for the financing of the aircraft. In circumstances where a MAC has occurred and is continuing, Bombardier is entitled on sixty days notice to Flybe Limited to withdraw the availability of the facility, in which event Flybe Limited will no longer be obliged to take delivery of the subject aircraft.

9.31 **Flybe Limited aircraft subject to GECAS operating lease structure**

Flybe Limited entered into a Purchase Agreement with Embraer, dated 12 June 2005, for the purchase of 14 new Embraer E195 LR aircraft, with options to purchase another 12. On 12 July 2006, Flybe Limited entered into an "Aircraft Lease Common Terms Agreement" with GE Commercial Aviation Services Limited ("GECAS"), pursuant to which it was agreed that Flybe

Limited would assign to a GECAS subsidiary its right to purchase five of those aircraft from Embraer, following which they would be leased to Flybe Limited under eight-year operating leases.

Three of the aircraft were purchased by Celestial Aviation Trading 69 Limited and the other two were purchased by Celestial Aviation Trading 5 Limited. Both companies were incorporated in Ireland.

Each individual aircraft was leased to Flybe Limited pursuant to an "Aircraft Specific Lease Agreement" which incorporated the terms of the Aircraft Lease Common Terms Agreement.

Flybe Group plc was also a party to each Aircraft Specific Lease Agreement, accepting joint and several liability with Flybe Limited for the performance of Flybe Limited's obligations under the Aircraft Specific Lease Agreement.

The Aircraft Specific Lease Agreements in respect of the first two aircraft to be leased to Flybe Limited were novated to Aldus Portfolio Leasing Limited in March 2008. Aldus Portfolio Leasing Limited demonstrated that its net worth was not less than US$7,500,000, so there was no requirement for a lessor parent guarantee to be provided.

Flybe Limited is required to pay a floating rate rent for the first three aircraft, monthly in advance and in US dollars. The rent is calculated on the basis of the prevailing six month US dollars LIBOR. For the fourth and fifth aircraft, the rent is fixed and is calculated by reference to a 6.5-year US dollars fixed interest rate swap. That rent is also payable monthly in advance and in US dollars.

Flybe Limited was required to provide a security deposit equal to three months' rent under each Aircraft Specific Lease Agreement. In lieu of paying cash, Flybe Limited provided standby letters of credit, issued by Barclays Bank plc. Flybe Limited is also required to pay maintenance reserves (characterised as supplemental rent) to each lessor, monthly in arrears. These are calculated to cover the cost of major airframe, engine, landing gear and APU maintenance and Flybe Limited is entitled to be reimbursed with the cost of such maintenance out of the accumulated reserves.

None of the Aircraft Specific Lease Agreements contains an extension or aircraft purchase option. At the end of each lease term, Flybe Limited is required to redeliver the aircraft to the lessor in compliance with a set of standard return conditions. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.32 **Flybe Limited CF34-10E7G06 engine subject to GECAS operating lease structure**

Flybe Limited entered into a sale and leaseback transaction with GECAS in March 2008, pursuant to which Flybe Limited sold a CF34-10E7 spare engine to Celestial Aviation Trading 50 Limited, a subsidiary of GECAS, and leased it back under a 12-year operating lease. Celestial Aviation Trading 50 Limited is incorporated in Ireland.

The engine was leased by Celestial Aviation Trading 50 Limited to Flybe Limited pursuant to an "Engine Lease Agreement 994374" which incorporated the terms of an "Engine Lease Common Terms Agreement" between Flybe Limited and GECAS.

Flybe Group plc was also a party to the Engine Lease Agreement 994374, accepting joint and several liability with Flybe Limited for the performance of Flybe Limited's obligations under it.

Flybe Limited is required to pay a fixed rent which was calculated by reference to a ten-year US dollars fixed interest rate swap. The rent is payable in US dollars monthly in advance.

Flybe Limited was required to provide a security deposit equal to two months' rent. Flybe Limited is also required to pay maintenance reserves (characterised as supplemental rent) to Celestial Aviation Trading 50 Limited, monthly in arrears. These are calculated to cover the cost of each engine refurbishment and life-limited part replacement. Flybe Limited is entitled to be reimbursed with the cost of such refurbishment and replacement out of the accumulated reserves.

The Engine Lease Agreement 994374 does not contain an extension or purchase option. At the end of the lease term, Flybe Limited is required to redeliver the engine to the lessor in compliance with a set of detailed but industry-standard return conditions. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.33 **Flybe Limited aircraft subject to Allco operating lease structure**

Flybe Limited entered into a Purchase Agreement with Embraer, dated 12 June 2005, for the purchase of 14 new Embraer 195 LR aircraft, with options to purchase another 12. On 5 September 2007, Flybe Limited entered into a "Master Aircraft Operating Lease" with Allco Rentals (UK) Limited, pursuant to which it was agreed that Flybe Limited would assign to Allco Rentals (UK) Limited its right to purchase 6 of those aircraft from Embraer, following which each such aircraft would be sold by Allco Rentals (UK) Limited to a special purpose vehicle incorporated in the Cayman Islands which would then lease the aircraft back to Allco Rentals (UK) Limited, which would then sub-lease the aircraft to Flybe Limited under a 12-year operating lease.

Each aircraft was sub-leased to Flybe Limited by Allco Rentals (UK) Limited pursuant to an "Operating Lease Schedule". That Operating Lease Schedule, together with the Master Aircraft Operating Lease, constituted the sub-lease between Allco Rentals (UK) Limited and Flybe Limited.

Flybe Group plc was also a party to the Master Aircraft Operating Lease and to each Operating Lease Schedule, thereby accepting joint and several liability with Flybe Limited for the performance of Flybe Limited's obligations under each sub-lease.

Allco Finance Group provided a letter of comfort to Flybe Limited, undertaking, inter alia, to procure that certain parties to the overall structure, including each Cayman Island special purpose vehicle (as owner and head lessor), and Allco Rentals (UK) Limited (as sub-lessor) complied with their respective obligations under the transaction documents to which they were parties.

Flybe Limited is required to pay rent in respect of each aircraft quarterly in advance and in US dollars. For three of the aircraft, the quarterly rent is fixed and for the other three aircraft the rent is floating, linked to the three-month US dollars LIBOR, but with a smaller "hybrid fixed rate component".

Flybe Limited was required to provide a security deposit equal to an instalment of rent. Flybe Limited is also required to pay maintenance reserves monthly in arrears. Both the security deposit and the maintenance reserves are paid to, and held, by BTA Institutional Services Australia Limited, as security trustee. The maintenance reserves are calculated to cover the cost of major airframe, engine, landing gear and APU maintenance and Flybe Limited is entitled to be reimbursed with the cost of such maintenance out of the accumulated reserves.

Neither the Master Aircraft Operating Lease nor the Operating Lease Schedule contains a sub-lease extension or aircraft purchase option in favour of Flybe Limited. At the end of each sub-lease term, Flybe Limited is required to redeliver the aircraft to Allco Rentals (UK) Limited in compliance with a set of standard return conditions. There is also a financial adjustment mechanism pursuant to which Flybe Limited is obliged to make certain payments calculated by reference to the utilisation of the aircraft since new or (if applicable) since the last heavy check, shop visit or overhaul. Any remaining balance of the maintenance reserves is available to cover any sums payable by Flybe Limited pursuant to such mechanism and any final balance then remaining is payable to Flybe Limited. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.34 **Embraer 195 LR Purchase Agreement DCT-017/05**

Flybe Limited entered into the Purchase Agreement DCT-017/05 with Embraer on 12 June 2005. It provided for the purchase by Flybe Limited of 14 new Embraer 195 LR aircraft, with options to purchase another 12. The 14 firmly ordered aircraft have all been acquired and are in service with Flybe Limited. The 12 options are for deliveries between August 2012 and October 2013. To date, no options have been exercised.

In respect of both the firmly ordered and option aircraft, Embraer has granted (and will grant) the following warranty package:

(a) freedom from defects in materials, workmanship, design and installation of parts manufactured by Embraer or its sub-contractors for 48 months from delivery of each aircraft;

(b) freedom from defects in operation, installation and conformity with specification of vendor parts (excluding Engines, APU and their accessories) for 36 months from delivery of each aircraft; and

(c) freedom from defects in materials, workmanship, manufacturing processes and design of spare parts or ground support equipment (excluding Engines, APU and their accessories) for 24 months from date of the relevant invoice.

In the event of a breach of these warranties, Flybe Limited is entitled to have the defective part repaired or replaced free of charge, with the warranty period being suspended in the meantime. Flybe Limited also has the right to perform warranty repairs in-house and receive a credit for the direct labour costs involved.

In addition, Embraer has granted (and will grant) a "Service Life Guarantee" which covers structural defects occurring within the first 30,000 cycles or 12 years (whichever is the earlier) in the main load-bearing elements of the fuselage, wings, pylon, empennage, landing gears and structural attachment fittings. In the event of any such defect, Embraer is obliged to provide a design remedy and corrective modification kit or replacement item, with the costs being shared on a sliding scale, with Embraer's share declining to zero by the end of the guarantee period.

Embraer has also provided a package of other guarantees relating to the aircraft's performance and maintenance, comprising "Performance and Weight Guarantees" (covering take-off, climb and landing performance, the take-off, landing and zero fuel weights, together with certain mission payloads and trip fuel burn), a "Basic and Structural Maintenance Direct Labour Guarantee" (covering the labour involved in carrying out certain airframe checks) and a "Dispatch Reliability Guarantee" (covering the cancellation or delay of a revenue flight due to a component failure or corrective action).

9.35 **Embraer E175 STD Purchase Agreement COM0139-10**

Flybe Limited entered into the Purchase Agreement COM0139-10 with Embraer on 19 July 2010. It provided for the purchase by Flybe Limited of 35 new Embraer 175 STD aircraft, with options to purchase another 65 and purchase rights in respect of a further 40. Flybe has the right, on giving sufficient notice and subject to availability, to convert any firm option or purchase right aircraft into other Embraer 190 STD or Embraer 195 STD aircraft. In addition, Flybe can request the conversion of any of the option or purchase right aircraft into new generation E-Jet family aircraft which may be certified by December 2020.

The first of the 35 firmly ordered aircraft is scheduled for delivery in June 2011. The final firm aircraft is scheduled for delivery in October 2016 (a delivery stream of slightly less than one aircraft every two months). The 65 options are for deliveries between June 2012 and December 2020. To date, no options have been exercised. The first options lapse at the end of February 2011.

The price of each of the firm, option and purchase right aircraft is based in January 2010 US dollars. Flybe has agreed price escalation sharing with Embraer which controls any increase in price due to economic factors. If the price of an aircraft does escalate to a level unacceptable to Flybe, Flybe has the right to refuse delivery of that aircraft. In this event Embraer will return to Flybe any deposits paid against that aircraft.

In respect of the firmly ordered, option and purchase right aircraft, Embraer has granted (and will grant) the following warranty package:

(a) freedom from defects in materials, workmanship, design and installation of parts manufactured by Embraer or its sub-contractors for 48 months from delivery of each aircraft;

(b) freedom from defects in operation, installation and conformity with specification of vendor parts (excluding Engines, APU and their accessories) for 36 months from delivery of each aircraft; and

(c) freedom from defects in materials, workmanship, manufacturing processes and design of spare parts or ground support equipment (excluding Engines, APU and their accessories) for 24 months from the date of the relevant invoice.

In the event of a breach of these warranties, Flybe Limited is entitled to have the defective part repaired or replaced free of charge, with the warranty period being suspended in the meantime. Flybe Limited also has the right to perform warranty repairs in-house and to receive a credit for the direct labour costs involved.

Flybe has entered into a letter agreement with Embraer for the provision of debt financing for the purchase of all of the 35 committed E175 aircraft deliveries. Under this arrangement with Embraer, if BNDES (the Brazilian national development bank) is not able to provide finance for the delivery of a particular aircraft within agreed financial parameters by a specified date prior to the contractual delivery date in respect of that aircraft, and alternative financing arrangements cannot then be made through Embraer, Flybe is not obliged to accept delivery of that aircraft. Any PDPs paid by Flybe to Embraer would be repayable by Embraer in the event that Flybe terminates the delivery of an aircraft in such circumstances. If BNDES fails to provide the financing in respect of the delivery of a particular E175 aircraft (and alternative financing arrangements cannot be made through Embraer), this default does not impact on the delivery or financing obligations agreed to by Embraer in respect of subsequent committed E175 aircraft deliveries.

In addition, Embraer has granted (and will grant) a "Service Life Guarantee" which covers structural defects occurring within the first 30,000 cycles or 12 years (whichever is the earlier) in the main load-bearing elements of the fuselage, wings, pylon, empennage, landing gears and structural attachment fittings. In the event of any such defect, Embraer is obliged to provide a design remedy and corrective modification kit or replacement item, with the costs being shared on a sliding scale, with Embraer's share declining to zero by the end of the guarantee period.

Embraer has also provided a package of other guarantees relating to the aircraft's performance and maintenance, comprising "Performance and Weight Guarantees" (covering take-off, climb and landing performance, the take-off, landing and zero fuel weights, together with certain mission payloads and trip fuel burn), a "Basic and Structural Maintenance Direct Labour Guarantee" (covering the labour involved in carrying out certain airframe checks) and a "Dispatch Reliability Guarantee" (covering the cancellation or delay of a revenue flight due to a component failure or corrective action). Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

10. RELATED PARTY TRANSACTIONS

Save as disclosed below, no related party transactions (as defined, for these purposes, by IFRS) have been entered into by members of the Group.

The following related party transactions have been entered into by members of the Group: (i) during the period covered by the historical financial information set out in section B of Part 5 of this document, (ii) during the subsequent period to the publication of this document, or (iii) while not entered into during such periods, have been outstanding during such periods:

10.1 during the 2007/08 Financial Year, the Group was party to a finance lease with Walker Aviation Finance Limited, a subsidiary of Rosedale (JW) Investments Limited, for the financing of three BAE 146-300 aircraft at an arm's length market rate. The amount paid under the lease was £7,129,000 and included a purchase option of £2,000,000 for each aircraft which was paid on 28 September 2007. These final payments completed the lease arrangements with Walker Aviation Finance Limited;

10.2 during the 2007/08, 2008/09 and 2009/10 Financial Years and the six month period to 30 September 2010, the Group provided services to Preston Travel (CI) Limited, a subsidiary of Rosedale (JW) Investments Limited. The amount charged by the Group for the 2007/08 Financial Year was £1,381,000, for the 2008/09 Financial Year was £1,460,000, for the 2009/10 Financial Year was £1,383,678 and for the 2010/11 First Half Year was £1,021,000. The outstanding amounts owed by Preston Travel (CI) Limited to the Group as at 31 March 2008, 31 March 2009, 31 March 2010 and 30 September 2010 were £91,000, £94,000, £106,804 and £309,000 respectively;

10.3 the following transactions have taken place with Edenfield Investments Limited and Downham Properties Limited, which are companies 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. There is no holding/subsidiary company relationship between Edenfield Investments Limited and Downham Properties Limited and Rosedale (JW) Investments Limited:

10.3.1 during the 2007/08, 2008/09 and 2009/10 Financial Years and the 2010/11 First Half Year, the Group purchased property services from Edenfield Investments Limited and from Downham Properties Limited. The amounts paid by the Group to Edenfield Investments

Limited in the 2007/08, 2008/09 and 2009/10 Financial Years and the 2010/11 First Half Year were £527,000, £242,000, £242,000 and £139,000 respectively. The amounts paid by the Group to Downham Properties Limited in the 2007/08, 2008/09 and 2009/10 Financial Years and the 2010/11 First Half Year were £227,000, £235,000, £227,660 and £117,000 respectively. The Group held a deferred income balance of £45,000 at 31 March 2009 regarding a rent-free period on a property leased from Downham Properties Limited (31 March 2008: £50,500); and

10.3.2 in the Financial Year 2007/08 the Group made a payment of £4,200,000 to Edenfield Investments Limited to purchase hangar accommodation which is occupied by the Group;

10.4 during the 2009/10 Financial Year, Flybe provided Rosedale with a £7,000,000 loan. This loan put Rosedale back into funds after Rosedale had transferred an amount of £7,000,000 into a blocked account with Barclays Bank plc. The funds provided by Rosedale to Barclays Bank plc constituted partial security in respect of a £14,000,000 guarantee given by Barclays Bank plc (at the request of Flybe) to Lloyds TSB Bank plc. The guarantee from Barclays Bank plc to Lloyds TSB Bank plc was given in respect of a facility provided by Lloyds TSB Bank plc to Flybe for the processing of flight purchases by Flybe's customers executed by credit card;

10.5 on 24 April 2007, Rosedale paid Mr. French a cash bonus of £800,000 on account of Rosedale JW Investments Limited's valuation of the Group as at 31 March 2007;

10.6 on 14 April 2008, Rosedale paid Mr. French a cash bonus of £210,000 on account of Rosedale JW Investments Limited's valuation of the Group as at 31 March 2008;

10.7 in the 2009/10 Financial Year, Rosedale advanced an interest free unsecured loan in the sum of £9,045 to each of Mr. Scott, Mr. Longbottom, Mr. A Smith and Mr. P Smith to enable Mr. Scott, Mr. Longbottom, Mr. A Smith and Mr. P. Smith to acquire 500 Ordinary Shares each in the capital of the Company. These loans are outstanding and are repayable (at the discretion of Rosedale) by Mr. Scott, Mr. Longbottom, Mr. A. Smith and Mr. P. Smith out of the proceeds receivable by each Director from a subsequent sale of his respective Ordinary Shares;

10.8 in the 2005/06 Financial Year, Rosedale advanced an interest free unsecured loan in the sum of £35,700 to Mr. Strong in order to enable Mr. Strong to acquire the beneficial interest in 8,925 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Rosedale) by Mr. Strong out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest;

10.9 in the 2005/06 Financial Year, Rosedale advanced an interest free unsecured loan in the sum of £35,700 to Mr. Simpson in order to enable Mr. Simpson to acquire the beneficial interest in 8,925 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Rosedale) by Mr. Simpson out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest;

10.10 in the 2007/08 Financial Year, Rosedale advanced an interest free unsecured loan in the sum of £134,318 to Mr. Knuckey in order to enable Mr. Knuckey to acquire the beneficial interest in 7,425 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Rosedale) by Mr. Knuckey out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest;

10.11 in the 2005/06 Financial Year, Flybe Limited advanced an interest free unsecured loan in the sum of £24,000 to Mr. Rutter (who at the date of such loan was not a director of Flybe Limited) in order to enable Mr. Rutter to acquire the beneficial interest in 5,962 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Flybe Limited) by Mr. Rutter out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest. The loan by Flybe Limited to Mr. Rutter was ratified and approved by the Shareholders of the Company (being the holding company of Flybe Limited) on 25 November 2010;

10.12 in the 2006/07 Financial Year, Flybe Limited advanced an interest free unsecured loan in the sum of £38,700 to Mr. Rutter (who at the date of such loan was not a director of Flybe Limited) in order to enable Mr. Rutter to acquire the beneficial interest in 3,003 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Flybe Limited) by Mr. Rutter out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest. The loan by Flybe Limited to Mr. Rutter was ratified and approved by the Shareholders of the Company (being the holding company of Flybe Limited) on 25 November 2010;

10.13 in the 2006/07 Financial Year, Flybe Limited advanced an interest free unsecured loan in the sum of £19,600 to Mr. Knuckey (who at the date of such loan was not a director of Flybe Limited) in order to enable Mr. Knuckey to acquire the beneficial interest in 1,500 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Flybe Limited) by Mr. Knuckey out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest. The loan by Flybe Limited to Mr. Knuckey was ratified and approved by the Shareholders of the Company (being the holding company of Flybe Limited) on 25 November 2010;

10.14 in the 2007/08 Financial Year, Flybe Limited advanced an interest free unsecured loan in the sum of £32,034.38 to Mr. Charles in order to enable Mr. Charles to acquire the beneficial interest in 1,500 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Flybe Limited) by Mr. Charles out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest;

10.15 in the 2008/09 Financial Year, Flybe Limited advanced an interest free unsecured loan in the sum of £24,964.20 to Mr. Elkins in order to enable Mr. Elkins to acquire the beneficial interest in 1,380 Ordinary Shares in the capital of the Company via the Flybe Employees' Share Plan. This loan is outstanding and is repayable (at the discretion of Flybe Limited) by Mr. Elkins out of the proceeds receivable by him from a future sale of the Ordinary Shares to which he has beneficial interest; and

10.16 Mr. Chown serves as a representative of Rosedale on the Board. In consideration of his performance as Rosedale's representative in the period prior to Admission, Rosedale will pay Mr. Chown a personal bonus upon the sale of its Ordinary Shares in the Company. As Mr. Chown's bonus is linked to the sale of Rosedale's Ordinary Shares in the Company, such bonus may be paid in a number of instalments as share sales are made.

11. CERTAIN UK AND US FEDERAL INCOME TAX CONSIDERATIONS

Certain UK tax considerations

The following statements are intended only as a general guide to current UK tax legislation and what is understood to be HMRC practice as at the date of this document in respect of stamp duty, stamp duty reserve tax ("SDRT"), taxation of capital gains and taxation of dividends paid by the Company. UK tax legislation and HMRC practice are both subject to change, possibly with retrospective effect. The following statements relate to persons who are resident or ordinarily resident in the United Kingdom for UK tax purposes and who are beneficial owners of Ordinary Shares. They may not relate to certain Shareholders, such as dealers in securities. If a Shareholder is in doubt as to its tax position or is subject to tax in any jurisdiction other than the United Kingdom, it should consult its professional adviser without delay.

Shareholders who are Directors or employees of the Company or related to any such person are strongly advised to seek professional advice on their personal tax position in relation to the acquisition of any Ordinary Shares pursuant to the Global Offer.

11.1 Stamp duty and SDRT

The issue of New Shares direct to persons acquiring New Shares under the Global Offer will not generally give rise to stamp duty or SDRT.

Save as mentioned below, and subject to an exemption for certain low value transactions, the subsequent transfer on the sale of Ordinary Shares outside the CREST system will generally give rise to a stamp duty liability at the rate of 0.5 per cent. (rounded up to the nearest £5.00) of the amount or value of consideration given. Stamp duty is normally paid by the purchaser or transferee of the Ordinary Shares. An unconditional agreement to transfer Ordinary Shares will normally give rise to a charge to SDRT at the rate of 0.5 per cent. of the amount or value of the consideration given for the Ordinary Shares. However, where within six years of the date of the agreement (or, if the agreement was conditional, the date on which the agreement became unconditional), an instrument of transfer is executed in pursuance of the agreement and duly stamped and a claim is made, the SDRT liability will be cancelled and any SDRT which has been paid will be repaid (generally with interest). SDRT is normally the liability of the purchaser or transferee of the Ordinary Shares.

Where Ordinary Shares are issued or transferred to issuers of depositary receipts or providers of clearance services, or in certain circumstances, their nominees or agents, stamp duty or SDRT may be payable generally at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Ordinary Shares or, in the case of an issue to such persons, the price when issued of the Ordinary Shares. HMRC have announced that the 1.5 per cent. charge does not apply on an issue of shares into a clearance system or depository receipt system within the EU. The legality of the charge is the subject of on-going litigation. Specialist advice should be sought for those affected.

Clearance service providers may opt, under certain circumstances, for the normal rates of stamp duty and SDRT (0.5 per cent.) to apply to transactions within the service instead of (i) the once and for all 1.5 per cent. charge either as stamp duty or SDRT, on an issue or transfer of Ordinary Shares into the clearance system and (ii) the exemption for dealings in the Ordinary Shares while in the system.

Under the CREST system no stamp duty or SDRT will arise on a transfer of Ordinary Shares into CREST unless such transfer is made for a consideration in money or money's worth in which case a liability to SDRT (usually at a rate of 0.5 per cent. of the amount or value of the consideration given) will arise. Paperless transfers of Ordinary Shares within CREST will generally be liable to SDRT (rather than stamp duty) at the rate of 0.5 per cent. of the amount or value of the consideration given, which will be collected and accounted for to HMRC by Euroclear (such SDRT generally being payable by the transferee or purchaser).

The above statements are intended as a general guide to the current UK stamp duty and SDRT position. Certain categories of person are not generally liable to stamp duty or SDRT and others may be liable at a higher rate or may, although not primarily liable for SDRT, be required to notify and account for it. If an investor is in any doubt as to its tax position, it should consult its own professional tax adviser without delay.

11.2 **Taxation of capital gains**

A disposal of Ordinary Shares by a Shareholder may, depending on the Shareholder's circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

A Shareholder who is neither resident nor, in the case of an individual, ordinarily resident in the United Kingdom will not be liable for UK tax on chargeable gains realised on the disposal of his/her Ordinary Shares unless such Shareholder carries on:

(i) in the case of a non-corporate Shareholder, a trade, profession or vocation in the United Kingdom through a branch or agency and has either (1) used the Ordinary Shares in or for the purposes of such trade, profession or vocation or (2) used or held the Ordinary Shares for the purposes of the branch or agency or acquired them for use by or for the purposes of the branch or agency; or

(ii) in the case of a corporate Shareholder, a trade in the United Kingdom through a permanent establishment and has either (1) used the Ordinary Shares in or for the purposes of the trade or (2) has used or held the Ordinary Shares for the purposes of such permanent establishment or acquired them for use by or for the purposes of such permanent establishment.

However, a Shareholder who is an individual and who is only temporarily resident outside the United Kingdom for UK tax purposes at the date of a disposal of Ordinary Shares may be liable to UK tax on chargeable gains on becoming resident or ordinarily resident in the United Kingdom again, in respect of disposals made while he was temporarily resident outside the United Kingdom, subject to any available exemption or relief.

11.3 **Taxation of dividends**

(i) Under current UK tax legislation, the Company is not required to withhold tax at source from dividend payments it makes.

(ii) Non-corporate Shareholders resident for tax purposes in the United Kingdom should generally be entitled to a tax credit in respect of any dividend received equal to one-ninth of the amount of the dividend. Such individual Shareholder's liability to UK tax is calculated on the sum of the dividend and the tax credit ("gross dividend") which, with certain other investment income, will be regarded as the top part of the individual's income and which will be subject to UK income tax at rates of tax described below. The tax credit, therefore, equals 10 per cent. of the gross dividend. The tax credit will be available to offset the Shareholders liability (if any) to income tax on the gross dividend. Individual Shareholders liable to tax at the basic rate or at a rate which is lower than the basic rate will be liable to tax on dividends received at the rate of 10 per cent. This means that the tax credit will satisfy the income tax liability of such Shareholders.

Non-corporate Shareholders who are liable to income tax at the higher rate will be liable to tax on dividend income at the rate of 32.5 per cent. After taking into account the 10 per cent. tax credit, a higher rate taxpayer will be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend.

With limited exceptions, non-corporate Shareholders who are resident in the United Kingdom cannot claim repayment of the tax credit from HMRC.

(iii) Non-corporate Shareholders who are liable to income tax at the 50 per cent. rate will be liable to income tax on the gross dividend at a rate of 42.5 per cent. After taking into account the 10 per cent. tax credit an individual will be liable to pay additional income tax at the rate of 32.5 per cent. of the gross dividend (which is equivalent to 36.11 per cent. of the dividend received).

(iv) Corporate Shareholders resident for tax purposes in the United Kingdom and which are medium or large companies will be subject to corporation tax on dividends paid by the Company, unless the dividends fall with an exempt class and certain detailed conditions are met. Whether an exempt class applies and the other conditions are met will depend on the circumstances of the shareholder. Corporate shareholders resident for tax purposes in the United Kingdom which are small companies will generally be exempt from corporation tax on dividends paid on ordinary shares subject to certain additional conditions. Corporate Shareholders resident for tax purposes in the United Kingdom should take specific professional advice if they are in any doubt as to whether any exemption applies, and whether other necessary conditions are satisfied.

(v) Tax exempt pension funds cannot reclaim from HMRC tax credits attaching to dividend payments on UK equities.

(vi) Although non-corporate Shareholders who are resident for tax purposes in countries other than the United Kingdom but who are Commonwealth citizens, nationals of states which are parts of the European Economic Area, residents of the Isle of Man or the Channel Islands and certain other types of person are entitled to a tax credit as if they were resident for tax purposes in the United Kingdom which they may set off against their total UK tax liability, such Shareholders will generally not be able to claim payment of the tax credit from HMRC.

Other Shareholders who are resident for tax purposes in countries other than the United Kingdom should consult their own tax advisers concerning their own tax liabilities on dividends received and whether they are entitled to claim for any part of the tax credit.

Certain US federal income tax considerations

PURSUANT TO US TREASURY DEPARTMENT CIRCULAR 230, PROSPECTIVE INVESTORS ARE HEREBY NOTIFIED THAT (A) ANY DISCUSSION OF US FEDERAL INCOME TAX ISSUES CONTAINED OR REFERRED TO IN THIS DOCUMENT AND RELATED MATERIALS IS NOT INTENDED AND WAS NOT WRITTEN TO BE USED, AND CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING PENALTIES UNDER THE US FEDERAL TAX LAWS THAT MAY BE IMPOSED ON THE TAXPAYER, (B) ANY SUCH DISCUSSION WAS

WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING BY THE COMPANY AND THE UNDERWRITER OF THE OFFER SHARES, AND (C) EACH PROSPECTIVE INVESTOR SHOULD SEEK ADVICE BASED ON ITS PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

This summary of certain US federal income tax considerations applicable to US Holders (as defined below) that subscribe for or purchase the Ordinary Shares in the Global Offer is not intended to be, and should not be construed as, legal or tax advice to any prospective investor. This summary is based upon the US Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing final, temporary and proposed Treasury regulations, administrative pronouncements by the US Internal Revenue Service ("IRS") and judicial decisions, all as in effect or in existence as of the date of this document and all of which at any time may be repealed, revoked or modified or subject to differing interpretations so as to result in US federal income tax consequences different from those discussed below, possibly with retrospective effect.

In addition, this summary does not discuss all aspects of US federal income taxation that may be relevant to each US Holder in light of such US Holder's circumstances, including certain US Holders that may be subject to special treatment under the Code (for example, US Holders: (i) that are tax-exempt organisations, qualified retirement plans, individual retirement accounts and other tax-deferred accounts; (ii) that are financial institutions, insurance companies, real estate investment trusts, regulated investment companies, or brokers, dealers or traders in securities or currencies; (iii) that are subject to the alternative minimum tax provisions of the Code; (iv) that are pass-through entities or investors in pass-through entities such as partnerships; (v) that own directly, indirectly or by attribution at least 10 per cent. (by voting power or value) of the Company's outstanding stock; (vi) that are former citizens or former long-term residents of the United States; (vii) that own the Ordinary Shares as part of a straddle, hedging, conversion transaction, constructive sale or other arrangement involving more than one position; (viii) that hold the Ordinary Shares other than as a capital asset; or (ix) that do not use the US dollar as their functional currency. Moreover, this summary does not include any discussion of US state or local or non-US income or other tax consequences that may be relevant to a US Holder with respect to the ownership and disposition of the Ordinary Shares. Consequently, each prospective investor that is a US Holder is urged to consult its own tax advisers as to the particular tax consequences of the ownership and disposition of the Ordinary Shares to such investor, including the effect and applicability of US federal, state, or local and non-US income and other tax laws.

The statements regarding the Company's beliefs, expectations and conclusions as to the application of the US federal income tax laws represent the views of the Directors as to the application of such laws and do not represent legal opinions of the Company or of its counsel.

As used in this summary, "US Holder" means a beneficial owner of the Ordinary Shares that is, for US federal income tax purposes, (i) an individual who is a citizen or resident of the United States, (ii) a corporation, or any other entity taxable as a corporation, created or organised in or under the laws of the United States or any state thereof, including the District of Columbia, (iii) an estate the income of which is subject to US federal income taxation regardless of its source, or (iv) a trust if (x) a court within the United States is able to exercise primary supervision over its administration and one or more "United States persons" (as defined in the Code) have the authority to control all substantial decisions of the trust or (y) the trust has a valid election in effect under current Treasury regulations to be treated as a "United States person". If a partnership (or any entity or arrangement treated as a partnership for US federal income tax purposes) holds the Ordinary Shares, the tax treatment of a partner will generally depend upon the status of the partner, the activities of the partnership, and certain determinations made at the partner level. A prospective investor that is a partnership, or a partner in such a partnership, should consult its own tax advisers.

11.4 **Sale, exchange or other disposition of the Ordinary Shares**

Subject to the passive foreign investment company ("PFIC") rules discussed below, a US Holder generally will recognise capital gain or loss upon the sale or exchange of the Ordinary Shares measured by the difference between the amount realised on the sale or exchange (determined in US dollars in the case of Ordinary Shares sold or exchanged for currencies other than US dollars by reference to the spot exchange rate in effect on the date of the sale or exchange or, if the Ordinary Shares sold or exchanged are traded on an "established securities market" and the US Holder is a cash basis taxpayer or an electing accrual basis taxpayer, the spot exchange rate in effect on the settlement date of the sale) and the US Holder's adjusted tax basis in the Ordinary Shares. The

US Holder's initial tax basis in the Ordinary Shares will be the US Holder's US dollar purchase price for the Ordinary Shares (determined in the case of the Ordinary Shares purchased for currencies other than US dollars by reference to the spot exchange rate in effect on the date of the purchase or, if the Ordinary Shares sold or exchanged are traded on an "established securities market" and the US Holder is a cash basis taxpayer or an electing accrual basis taxpayer, the spot exchange rate in effect on the settlement date of the purchase). Any gain or loss so recognised will be long-term capital gain or loss if the Ordinary Shares have been held for more than one year at the time of the sale or exchange. Certain US Holders (including individuals) may be eligible for preferential rates of US federal income tax in respect of long-term capital gains. The deductibility of capital losses is subject to significant limitations under the Code. Any capital gain or loss recognised by a US Holder on the sale or exchange of the Ordinary Shares generally will be treated as US source income or loss for US foreign tax credit limitation purposes. US Holders should consult their own tax advisers in relation to the recognition of foreign currency gain or loss (which generally will be treated as US source ordinary income or loss) as a result of the purchase, sale or exchange of the Ordinary Shares, the use of foreign currency to purchase the Ordinary Shares or the disposition of foreign currency received on a sale of the Ordinary Shares.

11.5 **Distributions on the Ordinary Shares**

Subject to the PFIC rules discussed below, cash distributions, if any, received by US Holders from the Company with respect to the Ordinary Shares will constitute dividends for US federal income tax purposes to the extent paid out of the Company's current or accumulated earnings and profits (as computed using US federal income tax principles).

To the extent cash distributions received by a US Holder with respect to the Ordinary Shares are treated as dividends, they will be taxable as ordinary income. To the extent such cash distributions exceed the Company's earning and profits, they will first be treated as a tax-free return of the US Holder's tax basis in the Ordinary Shares to the extent thereof, and then as gain from the sale or exchange of a capital asset. US Holders that are corporations generally will not be eligible for any dividends received deduction with respect to dividends paid by the Company. Non-corporate US Holders should consult their own tax advisers concerning the eligibility of any dividends paid with respect to the Ordinary Shares for the reduced rates of US federal income taxation that apply to dividends from certain non-US corporations paid before 1 January 2011. The Company does not currently maintain, and does not intend to maintain, calculations of its earnings and profits under US federal income tax principles and, consequently, US Holders will likely be required to treat the full amount of distributions with respect to the Ordinary Shares as taxable dividends for US federal income tax purposes.

The amount of any cash distribution paid in pounds sterling will equal the US dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the US Holder, regardless of whether the payment is in fact converted to US dollars at that time. US Holders should consult their own tax advisers regarding the treatment of any foreign currency gain or loss (which generally will be treated as US source ordinary income or loss) on any pounds sterling received that is converted into US dollars (or otherwise disposed of) on a date subsequent to receipt by the US Holder.

Dividends received with respect to the Ordinary Shares will be treated as foreign source income for US foreign tax credit limitation purposes. Dividend income generally will constitute "passive income" or, in the case of certain US Holders, "general category income" for US foreign tax credit limitation purposes.

11.6 **Passive foreign investment company rules**

In general, a non-US corporation is classified as a PFIC for US federal income tax purposes for a taxable year in which either (i) 75 per cent. or more of its gross income is passive income (such as certain dividends, interest or royalties) or (ii) on average for such taxable year, 50 per cent. or more (by value) of its assets either produce or are held for the production of passive income. For purposes of making this determination, a non-US corporation generally is treated as if it owned and earned directly its proportionate share of the assets and income, respectively, of 25 per cent. or more owned (by value) direct and indirect subsidiaries.

Based on the Company's current estimates of, and its current plans, expectations and projections of, the value and nature of its assets, the sources and nature of its income and its use of the net proceeds of the Global Offer, the Directors believe that the Company will not be classified as PFIC for its current taxable year, and the Directors expect that the Company will not be classified as a PFIC in the future. However, PFIC status is a factual determination made after the close of each taxable year and, thus, there can be no assurance that the Company will not be treated as a PFIC in its current taxable year or future taxable years, and no rulings from the IRS or opinion of counsel has been or will be sought with respect to the Company's status as a PFIC. In particular, because the total value of the Company's assets for purposes of the asset test described above will generally be calculated using the market price of its shares, the Company's PFIC status will depend in large part on the market price of its shares. Accordingly, fluctuations in the market price of the shares may cause the Company to become a PFIC. In addition, the composition of the Company's income and assets will be affected by how, and how quickly, the Company uses the cash generated by its business operations, the Global Offer and any future financing transactions. Further, the PFIC determination is made annually and the Company's circumstances may change.

If the Company were classified as a PFIC for any taxable year, a US Holder generally would be subject to increased tax liability and an interest charge in respect of any gain realised on the sale or other disposition of the US Holder's Ordinary Shares and on the receipt of certain "excess distributions" and other adverse US federal tax consequence may also apply.

If a mark-to-market election is available with respect to the Ordinary Shares, and if a US Holder makes such an election with respect to the US Holder's Ordinary Shares, the US Holder generally would not be subject to such adverse US federal tax consequences. Under this election, the US Holder generally will include as US source ordinary income the excess, if any, of the fair market value of the US Holder's Ordinary Shares at the end of each taxable year over the adjusted tax basis of the Ordinary Shares, and will be permitted a US source ordinary loss in respect of the excess, if any, of the adjusted tax basis of the Ordinary Shares over their fair market value at the end of each taxable year (but only to the extent of the net amount of previously included income as a result of the mark-to-market election with respect to the Ordinary Shares). A US Holder's adjusted tax basis in the Ordinary Shares will be increased by the amount of any income inclusions and decreased by the amount of any deductions under the mark-to-market rules. Any gains the US Holder recognises on the sale or other disposition of the Ordinary Shares will be treated as ordinary income and any losses will be treated as ordinary losses (but only to the extent of the net amount of previously included income as a result of the mark-to-market election with respect to the Ordinary Shares). The mark-to-market election is available only for "marketable stock", which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable US Treasury regulations. There can be no assurance that the Ordinary Shares will qualify as marketable stock during all or any portion of a US Holder's holding period for the Ordinary Shares. If a US Holder makes a mark-to-market election, the election will be effective for the taxable year for which it is made and all subsequent taxable years unless the Ordinary Shares are no longer marketable stock or the IRS consents to revocation of the election.

In addition, if the Company were classified as a PFIC, a US Holder generally would not be subject to such adverse US federal tax consequences if the US Holder made an election to treat the Company as a "qualified electing fund" for U.S. federal income tax purposes. However, to make a qualified electing fund election, the Company must provide US Holders with certain information compiled according to US federal income tax principles. The Company does not intend to prepare or provide the information that would enable a US Holder to make a qualified electing fund election.

If the Company were classified as a PFIC, a US Holder would be required to file IRS Form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) for each year in which the US Holder (1) recognises gain on disposition of the Ordinary Shares, (2) receives certain distributions from the Company, or (3) makes any of certain reportable elections (including a mark-to-market election). In addition, pursuant to recently enacted legislation, each US Holder of a PFIC is required to file an annual report containing such information as the US Treasury may require.

US Holders should consult their own tax advisers regarding the U.S. federal tax consequences to them that would arise if the Company were treated as a PFIC.

11.7 **Additional taxes after 2012**

Newly enacted legislation may require certain non-corporate US Holders to pay a 3.8 per cent. Medicare tax on, among other things, dividends on and capital gains from the sale or other disposition of the Ordinary Shares. This legislation would apply for taxable years beginning after December 31, 2012. US Holders should consult their own tax advisers regarding the effect, if any, of this legislation on their ownership and disposition of the Ordinary Shares.

11.8 **US information reporting and backup withholding and certain reporting requirements**

US information reporting requirements and backup withholding generally will apply to certain non-corporate US Holders of the Ordinary Shares. US information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, the Ordinary Shares by a paying agent within the United States or with certain nexus with the United States to a US Holder of the Ordinary Shares (other than a person that establishes that it is an "exempt recipient"). Such paying agent or other intermediary within the United States will be required to withhold on any payment of dividends on, or proceeds from the sale or redemption of the Ordinary Shares to a US Holder (other than a corporation or an "exempt recipient") if such shareholder fails to furnish its correct taxpayer identification number or otherwise fails to comply with such US backup withholding requirements. Any amounts withheld under the US backup withholding rules from a payment to a US Holder generally may be credited against such US Holder's US federal income tax liability, if any, or refunded provided the required information is timely furnished to the IRS. US Holders should consult their tax advisers as to their qualification for exemption from US backup withholding and the procedure for obtaining such an exemption. If US information reporting requirements apply to a US Holder, the amount of dividends paid with respect to such Ordinary Shares will be reported annually to the IRS and such US Holder.

A US Holder (including a tax-exempt US Holder) will be required to file IRS Form 926 (Return by a US Transferor of Property to a Foreign Corporation) if the amount of cash transferred by such US Holder (or any related person) to the Company during the 12 month period ending on the date of transfer exceeds US$100,000. Substantial penalties may be imposed for failure to make, on a timely basis, the foregoing filing. US Holders (including tax-exempt US Holders) are urged to consult with their own tax advisors concerning this filing requirement.

Every United States person, including individuals, corporations, and partnerships, that has a financial interest in or signature authority over any foreign financial accounts must report that relationship each year if the aggregate value of the financial accounts exceed US$10,000. Reporting is done on Form TD F 90-22.1. The term "financial account" includes any bank, securities, securities derivatives, or other financial instruments accounts. However, individual bonds, notes or stock certificates held by a US person are not considered financial accounts. US Holders who are individuals should consult their own tax advisors regarding their reporting obligations under this legislation. US Holders consult their own tax advisors regarding their reporting obligations under this legislation.

Pursuant to recently enacted legislation, effective for tax years beginning after March 18, 2010, individuals who are US Holders, and who hold "specified foreign financial assets" (as defined), including stock of a non-US corporation that is not held in an account maintained by a US "financial institution" (as defined), whose aggregate value exceeds US$50,000 during the tax year, may be required to attach to their tax returns for the year certain specified information. An individual who fails to timely furnish the required information may be subject to a penalty. US Holders who are individuals should consult their own tax advisors regarding their reporting obligations under this legislation.

THE US FEDERAL INCOME TAX TREATMENT OF THE ORDINARY SHARES IS COMPLEX AND MAY BE POTENTIALLY UNFAVOURABLE TO US HOLDERS. ACCORDINGLY, EACH US HOLDER WHO ACQUIRES ORDINARY SHARES UNDER THIS DOCUMENT IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISER WITH RESPECT TO THE US FEDERAL, STATE, OR LOCAL AND NON-US INCOME, ESTATE AND OTHER TAX CONSEQUENCES OF THE ACQUISITION OF THE ORDINARY SHARES, WITH SPECIFIC REFERENCE TO SUCH US HOLDER'S PARTICULAR FACTS AND CIRCUMSTANCES.

12. INVESTMENTS

Other than the investments of the Company in its subsidiary undertakings, as described in section 2 of this Part 7 of this document, and the current investment by Flybe in the Flybe Training Academy, as described in the "Flybe Training Academy" paragraph of section 6 of Part 1 "Information relating to the Group" of this document, there has been no material acquisition nor other principal investment made by the Company or the Group in the three years immediately preceding the date of this document. As at the date of this document the Company has made no firm commitments on any principal future investments.

13. PROPERTY AND ENVIRONMENTAL ISSUES

The Group's principal establishments are as follows:

13.1 Freehold

The Group owns and occupies land to the South of Exeter Airport, Clyst Honiton, registered at HM Land Registry under title number DN384010 with Title Absolute via the registered proprietor, JEA Engineering (UK) Limited.

13.2 Leasehold

Premises	Date of expiry of lease	Current rent	Approximate size (m2)
Engineering Line Station at Belfast City Airport	31.3.2011	£129,159	438
Hangar 2 at Birmingham Airport	19.11.2012	£154,000	2,697
Hangar 1 at Birmingham Airport	12.9.2012	£250,000	3,682
Lounge within Terminal 2 at Birmingham City Airport	Tenancy at Will	£345,000	745
Apron Level Office/Crew Room within Terminal 2 at Birmingham City Airport	22.7.2014	£138,575	460
Hangar 2, Exeter International Airport	31.10.2029	£277,158	4,700
Jack Walker House, Exeter	29.9.2018	£140,000	912
Business Lounge at London Gatwick Airport	6.10.2014	£107,000	171
Executive Lounge at Manchester International Airport	18.04.2013	£211,138	413
Hangar 4 at Manchester International Airport	31.8.2017	£130,000	1,720
Hangar 1, Exeter International Airport	31.10.2154	£ 38,994	7,370

13.3 Contractual

The Group's occupation of property at Belfast City Airport is subject to a commercial agreement (rather than a formal property lease / licence):

Premises	Date of expiry of contractual occupancy period	Current payment	Approximate size (m2)
Executive Lounge within Belfast City Airport	31.3.2011	£87,058.08	208

13.4 Save as disclosed in paragraph 13.5 below, the Group's properties are not subject to any major encumbrances (meaning that the Group's properties are not subject to anything that materially interferes with the ordinary conduct and operation of the Group's business). The Group does not currently plan to acquire any material tangible fixed assets.

13.5 The leasehold interest in the land known as Hangar 1 at Exeter International Airport is owned by Flybe Limited and is subject to a legal charge created on 27 February 2008 and registered on 4 March 2008 in favour of Barclays Bank plc, the amount secured against the charge being all monies due or to become due from Flybe Limited to Barclays Bank plc on any account whatsoever.

13.6 To the best of the Company's knowledge, the Company is unaware of any environmental issues that may affect the Company's utilisation of its tangible fixed assets described in this section 13 of this Part 7 of this document.

14. WORKING CAPITAL

In the opinion of the Company, taking into account the net proceeds of the Global Offer, the working capital available to the Group is sufficient for its present requirements, that is for at least the next 12 months from the date of this document.

15. LITIGATION

Save as disclosed in paragraphs 15.1 and 15.2 below, no member of the Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the previous 12 months preceding the date of this document which may have, or have had in the recent past, significant effects on the Company or the Group's financial position or profitability.

15.1 Flybe is the subject of claims by 251 pilots (comprising both current and former employees) in relation to the calculation of their holiday pay. Flybe is defending these proceedings and a defence has been lodged at the employment tribunal. The claims against Flybe have been stayed in the employment tribunal pending the outcome of a similar case being brought against British Airways (British Airways v Williams and others), it being anticipated that the outcome of the British Airways claim will form the basis of the decision in the claims against Flybe.

The Court of Appeal found in favour of British Airways in the case mentioned above. However, the claimants have appealed the decision of the Court of Appeal to the Supreme Court. The Supreme Court has neither upheld nor dismissed the appeal and has instead referred various questions of interpretation of European law to the European Court of Justice ("**ECJ**"). Once the ECJ has ruled on these points, the matters will be sent back to the Supreme Court for a final judgment. It is expected that there will be no final judgment until 2011.

No schedules of loss have been issued by the various claimants and Flybe has been unable to accurately assess the quantum of their claims. Should the Supreme Court find in favour of the claimants in the British Airways claim, the Court in the Flybe claim may adjudge Flybe liable for any losses suffered by the claimants.

15.2 Flybe is the subject of a threatened claim from Lorne Stewart plc, a sub-contractor involved in the construction of the site for the Flybe Training Academy. The main contractor for the building project, Rok Building Limited ("**Rok**") recently entered into administration and Flybe has subsequently made arrangements to take over the management of the works and to deal directly with the various sub-contractors. However, Lorne Stewart plc has asserted copyright ownership in certain design drawings which Flybe intended to use to complete the construction works.

Lorne Stewart plc initially alleged that its employees had created the drawings, but has subsequently stated that they were created jointly with a third party designer. Lorne Stewart plc initially threatened to apply for an injunction to prevent Flybe from using the drawings, and to pursue an action for damages, should Flybe make any use of them (it no longer appears to be threatening a claim for an injunction but maintains its claim in other respects though has never set out what level of damages it is seeking). It has stated that the third party designer will be joined as a co-claimant to any proceedings. As at the date of this document, the designer has not asserted any claim against Flybe.

Since Lorne Stewart plc has not fully particularised its claim (and has never set out the level of damages it is seeking), the claim is currently unquantifiable and Flybe is currently unable to fully assess the merits of the potential claim against it. Lorne Stewart plc has also written directly to Flybe's agent making similar claims. However, should a successful claim be brought against Flybe for copyright infringement, the Directors believe that its liability will most likely be in damages. The measure of such damages is likely to be calculated by reference to the amount that Flybe would have had to pay for a licence to use the design drawings. The Directors believe (having taken legal advice) that a court would be unlikely to grant an injunction against Flybe in circumstances where the claimant's loss was purely financial.

In addition to the threatened copyright claim, Lorne Stewart plc has suggested that Flybe has overvalued works carried out by Rok and overpaid Rok by approximately £700,000. The Directors consider that there is no valid basis for this allegation as Rok's work was valued by Flybe's surveyor and such valuations were subsequently checked and verified by the bank's monitoring surveyor. All payments to Rok were made in accordance with these valuations.

16. CAPITALISATION AND INDEBTEDNESS

The table below sets out the Company's capitalisation as of 30 September 2010:

	£m
Current debt	
Secured	13.5
Non-current debt	
Secured	58.6
Total debt	72.1
Other reserves	34.9
Total equity	34.9
Total capitalisation	107.0

There has been no material change since 30 September 2010.

The following table sets out the Company's net indebtedness as of 30 September 2010.

	£m
Non-current financial receivable	
Restricted cash	9.1
Current financial receivable	
Cash and cash equivalents	24.7
Restricted cash	8.0
Current financial debt	
Current portion of non-current debt	13.5
Non-current financial debt	
Non-current bank loans	58.6
Net debt	30.3

The Group is contractully committed to purchase 39 new aircraft with a total list price of £825.3 million and to spend £2.2 million completing the construction of a new building for its training academy as at 30 September 2010. The Group has entered into arrangements to guarantee the Group's credit card arrangements for £14.0 million and has placed bonds in favour of various handling agents, fuel suppliers and customs offices for £7.0 million as at 30 September 2010. £8.0 million of cash, which is classified as restricted cash, has been deposited with the Group's bankers to secure these arrangements.

Save as disclosed above, and excluding intra-group liabilities, at the close of business on 30 September 2010, the Group had no loan capital (including term loans) outstanding or created but unissued, and no mortgages, charges or any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits or finance lease obligations, hire purchase commitments, guarantees or contingent liabilities.

17. GENERAL

17.1 There has been no significant change in the financial or trading position of the Group since 30 September 2010, the date to which the Group's most recent audited financial information were prepared.

17.2 Deloitte LLP has given and has not withdrawn its written consent to the inclusion in this document of its accountants' reports set out in sections A and C of Part 5 "Financial Information relating to the Group" of this document in the form and context in which they appear in this document and has authorised those parts of this document which comprise its reports for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules. As the Ordinary Shares will not be registered under the US Securities Act, Deloitte LLP has not filed and will not be required to file or issue a consent under the US Securities Act.

17.3 Each of the Managers, Right Angle Research & Design and British Airways has given and has not withdrawn its written consent to the inclusion in this document of its name in the form and context in which it appears.

17.4 The commissions, fees and expenses of and incidental to the offer of the New Shares, are estimated to amount to approximately £3,100,000 (excluding VAT) and will be payable by the Company. The estimated net cash proceeds of the offer of the New Shares accruing to the Company are £56.9 million and will be used for the purposes described in section 3 of Part 6 "Information on the Global Offer and Admission" of this document.

17.5 The statutory accounts of the Group have been independently audited in accordance with national law as at, and for the 2007/08 Financial Year the 2008/09 Financial Year and the 2009/10 Financial Year by Deloitte LLP, Chartered Accountants and Statutory Auditors, 3 Rivergate, Temple Quay, Bristol BS1 6GD. Auditors' reports in respect of each of the statutory accounts of the Group as at, and for the 2007/08 Financial Year, the 2008/09 Financial Year and the 2009/10 Financial Year have been made and each such report was an unqualified report.

17.6 The Ordinary Shares will only be listed on the Official List.

17.7 The Company's registrar and paying agent for the payment of dividends is Capita Registrars Limited of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The Registrars will maintain the records of securities held in certificated form and book-entry form.

17.8 Information in this document has been sourced as follows:

(i) the statement that "The threat of bankruptcy is strong in this industry with airlines such as Zoom, Silverjet, XL, Frontier, ATA, Oasis Hong Kong Airlines and Sky Europe, going out of business or filing for bankruptcy protection in recent years" on page 68 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from Datamonitor statistics;

(ii) the statement that "The European airline market, specifically, is very fragmented with over 200 airlines operating at the beginning of 2010" on pages 43, 69 and 72 in section 5 of Part 1 "Information relating to the Group" and section B of Part 2 "Regulatory and Market Overview" of this document has been derived from UBS, 20 January 2010;

(iii) the statement that "the European short and medium-haul market is rapidly consolidating around five groups: Air France-KLM (and with its 25 per cent. stake in Alitalia), British Airways-Iberia, Lufthansa (with BMI, Brussels and Austrian), Ryanair and easyJet. Combined, these companies now generate approximately 70 per cent. of total European revenues and control approximately 65 per cent. of capacity" on page 69 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from HSBC, 19 October 2010;

(iv) the statement that "the European passenger market grew steadily at a compound annual growth rate (CAGR) of 9.3 per cent. for the period 2004 to 2008" on page 69 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from Datamonitor statistics, February 2010;

(v) the statement that "Within Europe, the UK is arguably one of the most important air transportation hubs with over 160 participating airlines flying into and out of the UK, including the world's busiest international airport Heathrow" on page 69 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from IATA statistics;

(vi) the statement that "During the same 2004-2008 period, the UK airline industry grew at a compound annual rate of 3.5 per cent. generating total revenues of US$19.9 billion in 2008" on page 69 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from Datamonitor, 30 April 2010;

(vii) the statement that "The global airline industry removed almost 8 per cent. of aircraft capacity or 1,400 planes during the period 2008 to 2009" on page 69 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from HSBC, 19 October 2010;

(viii) the statement that "operating profit has been forecast to have quadrupled from last year's bottom-of-the cycle earnings, rising from approximately €500 million (and a 2.8 per cent. operating margin) in the third quarter of 2009 to approximately €2.1 billion (and a 10 per cent. operating margin) in the third quarter of 2010" on page 69 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from Citi, 15 October 2010;

(ix) the statement that "On a seasonally adjusted, constant currency basis, industry passenger revenue in the second quarter of 2010 returned to 98 per cent. of the first quarter of 2008 levels" on page 69 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from Barclays, 3 August 2010;

(x) the statement that "Underlying passenger revenue growth of 16 per cent. is expected to have been driven by a 4.2 per cent. increase in capacity (ASKs) a 0.9 point improvement in seat load factor and a 9.6 per cent. increase in revenue yield (per RPK)" on page 70 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from Citi, 15 October 2010;

(xi) the statement that "the international agency raised its June 2010 worldwide net profit forecast from US$2.5 billion to US$8.9 billion driven by increasing demand, stronger yields and capacity management" on page 70 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from IATA statistics;

(xii) the statement "IATA expects Europe to lag the rest of the world and predict losses in 2010 of US$1.3 billion for European carriers" on page 70 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from HSBC, 19 October 2010;

(xiii) the statement that "With respect to long term growth, the UK airlines industry has been forecast to experience a steady growth with an expected value of US$22.7 billion in 2013, an increase of 13.7 per cent. since 2008" on page 70 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from Datamonitor, 30 April 2010;

(xiv) the statement that "Comparatively, the French and German industries have been forecast to grow with CAGRs of 2 per cent. and 3.4 per cent. respectively, over the same period, to reach respective values of US$13.3billion and US$30.4billion in 2013" on page 70 in section B of Part 2 "Regulatory and Market Overview" of this document has been derived from Datamonitor, February 2010;

(xv) the statement "Despite the economic recession, the Group grew its market share in its key UK domestic market from 18.6 per cent. in the 2007/08 Financial Year to 28.0 per cent. in the 2009/10 Financial Year" on page 81 and page 105 in sections 2 and 4 of Part 4 "Operating and Financial Review" of this document has been derived from CAA statistics;

(xvi) the statement "For the 2010/11 First Half Year the Group's market share in the key UK domestic market was 28.0 per cent." on page 81 in section 1 of Part 4 "Operating and Financial Review" of this document has been derived from CAA statistics;

(xvii) the statement "The Group's market share in the 2002/03 Financial Year was 10 per cent." on page 81 in section 1 of Part 4 "Operating and Financial Review" of this document has been derived from CAA statistics;

(xviii) the statement "and in the 2006/07 Financial Year was 14 per cent." on page 81 in section 1 of Part 4 "Operating and Financial Review" of this document has been derived from CAA statistics;

(xix) the statement "Flybe is the UK's largest domestic airline" on pages 3, 31, 32, 34, 38, 42, 79 and 83 in the Summary section, section 1, 2 and 4 of Part 1 "Information relating to the Group" and in sections 1 and 2 of Part 4 "Operating and Financial Review" of this document has been derived from CAA statistics;

(xx) the statement "Flybe is Europe's largest regional airline" on pages 3, 31, 32, 34, 38, 42, 43, 74, 76 and 79 in the Summary section, sections 1, 2, 4 and 5 of Part 1 "Information relating to the Group", sections 1 and 2 of Part 3 "Directors, Senior Management and Corporate Governance" and section 1 of Part 4 "Operating and Financial review" of this document has been derived from ATI statistics;

(xxi) The statement "the Group operated more routes from the UK to France than any other airline in the 2010 summer season" on pages 38, 45 and 84 in sections 4 and 6 of Part 1 "Information relating to the Group" of this document has been derived from CAA statistics;

(xxii) The statement "The Flybe network is currently concentrated on UK domestic routes, where the Group has a 28 per cent. market share" on page 45 in section 6 of Part 1 "Information relating to the Group" and section 2 of Part 4 "Operating and Financial Review" of this document has been derived from CAA statistics;

(xxiii) The statement "Flybe operated the largest number of UK domestic flights from London Gatwick in the 2010/11 First Half Year" on page 47 in section 6 of Part 1 "Information relating to the Group" of this document has been derived from CAA statistics;

(xxiv) The statement "Flybe was the fourth most spontaneously recalled aviation brand in the UK out of 12 aviation brands. In addition, Flybe's prompted awareness was 94 per cent. (with only British Airways, Ryanair, easyJet and Virgin achieving higher scores)" on page 54 in section 6 of Part 1 "Information relating to the Group" of this document has been derived from studies conducted by Right Angle Research & Design, November 2010;

(xxv) The statement "The maximum number of unique visitors per month to www.flybe.com has increased from 250,000 in the 2001/02 Financial Year, to 2.5 million" on page 55 in section 6 of Part 1 "Information relating to the Group" of this document has been derived from Google Analytics;

The Directors confirm that such third party information used in this document has been accurately reproduced and that, so far as the Directors are aware and are able to ascertain from information published by these third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected at the offices of Eversheds LLP, One Wood Street, London EC2V 7WS, during usual business hours on any weekday (excluding Saturdays, Sundays and public holidays) up to and including the date of Admission:

18.1 the Memorandum and Articles;

18.2 the audited consolidated financial statements of the Group as at, and for the 2007/08 Financial Year, the 2008/09 Financial Year and the 2009/10 Financial Year;

18.3 the reports prepared by Deloitte and included in sections A and C of Part 5 "Financial Information relating to the Group" of this document;

18.4 the Directors' service agreements and letters of appointment described in section 8 of this Part 7 of this document;

18.5 the material contracts described in section 9 of this Part 7 of this document;

18.6 the written consents referred to in section 17 of this Part 7 of this document; and

18.7 this document.

Dated: 10 December 2010

PART 8

DEFINITIONS

In this document, the following words and expressions have the following meanings, unless the context otherwise requires:

"2002/03 Financial Year"	1 April 2002 to 31 March 2003
"2003/04 Financial Year"	1 April 2003 to 31 March 2004
"2004/05 Financial Year"	1 April 2004 to 31 March 2005
"2005/06 Financial Year"	1 April 2005 to 31 March 2006
"2006/07 Financial Year"	1 April 2006 to 31 March 2007
"2007/08 Financial Year"	1 April 2007 to 31 March 2008
"2008/09 Financial Year"	1 April 2008 to 31 March 2009
"2009/10 Financial Year"	1 April 2009 to 31 March 2010
"2009/10 First Half Year"	1 April 2009 to 30 September 2009
"2009/10 First Quarter"	1 April 2009 to 30 June 2009
"2009/10 Second Quarter"	1 July 2009 to 30 September 2009
"2010/11 Financial Year"	1 April 2010 to 31 March 2011
"2010/11 First Half Year"	1 April 2010 to 30 September 2010
"2010/11 First Quarter"	1 April 2010 to 30 June 2010
"2010/11 Second Quarter"	1 July 2010 to 30 September 2010
"2011/12 Financial Year"	1 April 2011 to 31 March 2012
"Admission"	the admission of the Ordinary Shares to the Official List and to trading on the London Stock Exchange's main market for listed securities becoming effective in accordance with, respectively, the Listing Rules and the Admission and Disclosure Standards
"Admission and Disclosure Standards"	the requirements contained in the publication "Admission and Disclosure Standards" dated November 2007 (as amended) containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange's main market for listed securities
"Admission Date"	the date of Admission
"Aer Arann"	Aer Arann Group Limited (a private limited company registered in Ireland with registered number 82864)
"Air Berlin"	Air Berlin Plc & Co. Luftverkehrs KG (a private company registered in Germany, with trade register number 14057 HRA 23373)
"Air France"	Societe Air France (a French joint stock company (Societe Anonyme) registered in France, with registered number 420495178 RCS Bobigny)
"Air South West"	Air South West Limited (a private company registered in England and Wales, with registered number 04638357)
"Albatros"	Albatros Versicherungsdienste GmbH (a company registered in Germany with registered office at Von-Gablenz-Straße 2-6, D 50679, Köln
"Air Operator's Certificate"	Air Operator's Certificate (granted by the CAA's Safety Regulation Group)

"Articles"	the articles of association of the Company, adopted subject to (and conditional upon) Admission, a summary of which is included in paragraph 4 of Part 7 "Additional Information" of this document
"ATI"	Air Transport Intelligence operated by Reed Business Information Limited (a private limited company registered in England and Wales with registered number 00151537)
"ATR"	ATR, an aircraft manufacturer, headquartered at 1 Allee Pierre Nadot, 31712, Blagnac, Cedex, France
"ATR 42"	an ATR 42 aircraft manufactured by ATR
"ATR 72"	an ATR 72 aircraft manufactured by ATR
"Aurigny"	Aurigny Air Services Limited (a private limited company registered in Jersey with registered number 2994)
"BA Connect"	the legacy "BA Connect" business acquired by Flybe from British Airways in March 2007
"BAE Systems"	BAE Systems Plc (a public limited company registered in England and Wales with registered number 1470151)
"BALPA"	the British Airline Pilots Association, the union with its head office at 5 Heathrow Boulevard, 278 Bath Road, West Drayton, UB7 0DQ
"Barclays"	Barclays Capital the investment banking division of Barclays Bank plc (a public limited company registered in England and Wales with registered number 01036167)
"Blue Islands"	Blue Islands Limited (a private limited company registered in Alderney with registered number 1344)
"BMI"	British Midland plc (a public limited company registered in England and Wales with registered number 02107441)
"BMI Baby"	the low fares airline subsidiary of BMI
"BMI Regional"	a division of BMI operating from regional UK airports
"BNDES"	the Brazilian national development bank
"Board" or "Directors"	the board of directors of the Company from time to time, comprising, as at the date of this document, those persons whose names are set out on page 22 of this document
"Bombardier"	Bombardier Inc. (a public quoted company registered in Canada, with CUSIP number 097751)
"Bombardier Dash Series"	the "Dash" series of aircraft manufactured by Bombardier
"Bookrunner"	Merrill Lynch International
"British Aerospace 146 RJ"	the BAE 146 Avro RJ aircraft manufactured by British Aerospace
"British Airways" or "BA"	British Airways plc (a public limited company registered in England and Wales with registered number 01777777)
"British European Airways"	a former trading name of Flybe
"Brussels Airlines"	Brussels Airlines NV/SA (a company registered in Belgium with enterprise number 0400853488)
"BTEC"	Business and Technology Education Council
"CA 2006"	the Companies Act 2006, as amended
"CAA" or "Civil Aviation Authority"	the UK Civil Aviation Authority
"CAGR"	compound annual growth rate

"Canadair CRJ 200 to 900 series"	the family of CRJ 200 to CRJ 900 aircraft manufactured by Bombardier
"certificated" or "in certificated form"	in relation to Ordinary Shares, not in uncertificated form (that is, not in CREST)
"Citi"	Citi Investment Research & Analysis a division of Citigroup Global Markets Inc. (incorporated in New York, United States, headquartered at 388 Greenwich Street, New York, NY, 10013, United States)
"City Code"	The City Code on Takeovers and Mergers
"Chief Officers"	the Group's Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer and Chief Operating Officer (as identified in Part 3 "Directors, Senior Management and Corporate Governance" of this document)
"Code"	the US Internal Revenue Code of 1986
"Combined Code"	the Code on Corporate Governance published by the Financial Reporting Council
"Company"	Flybe Group plc
"Consolidated Financial Statements"	the consolidated financial statements of the Group as set out in section B of Part 5 "Financial Information relating to the Group" of this document
"Convention"	the 1944 Chicago Convention
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (S.I. 2001 No. 3755) operated by Euroclear
"Datamonitor"	Datamonitor plc (the previous name of Datamonitor Limited a private limited company registered in England and Wales with registered number 02306113)
"Dealing Day"	a day on which the London Stock Exchange is open for the transaction of business
"Deloitte"	Deloitte LLP (a limited liability partnership registered in England and Wales with registered number OC303675)
"Directors"	Mr. Jim French, Mr. Mark Chown, Mr. Andrew Knuckey, Mr. Mike Rutter, Mr. Andrew Strong, Mr. Charlie Scott, Mr. Alan Smith, Mr. David Longbottom, Mr. Peter Smith and Mrs. Anita Lovell (details of whom are set out in Part 3 "Directors, Senior Management and Corporate Governance" of this document)
"EASA"	the European Aviation Safety Agency
"easyJet"	easyJet plc (a public limited company registered in England and Wales with registered number 03959649)
"EBT"	the Flybe Group plc Employee Benefit Trust as more particularly described in paragraph 6.5 of Part 7 "Additional Information" of this document
"EDS"	Electronic Data Systems Corporation (a corporation registered in Delaware, with its place of registration at 5400 Legacy Drive, Plano, Texas 75024)
"EEA Agreement"	the European Economic Area Agreement signed 2 May 1992 (and effective 1 January 1994)
"Embraer"	Empresa Brasileira de Aeronautica SA (a public limited company registered in Brazil, with ISIN number BREMBRACNOR 4)

"Embraer E-series jets"	the "E-series" aircraft manufactured by Embraer
"EU"	the European Union
"EU ETS"	European Union Emissions Trading Scheme
"EU/Switzerland Aviation Agreement"	the agreement between the European Community and the Swiss Confederation, approved by the Council and Commission of the EU on 4 April 2002 (and effective 1 June 2002)
"Euroclear"	Euroclear UK & Ireland Limited (a private limited company registered in England and Wales with registered number 02878738)
"European Economic Area" or "EEA"	the European free trade association member countries (except Switzerland) and the European Union member states (or, in the context of EU ownership and control requirements pursuant to Articles 4 and 8 EC Regulation 1008/2008, the European free trade association member states including Switzerland and the European Union member states)
"Execution Noble"	Execution Noble Limited (a private limited company registered in England and Wales with registered number: 04058971)
"Executive Briefing Team"	a group of 34 other employees of Flybe who each report directly to a member of the Operating Board on a specific area of the Group's business (for example, marketing, fleet or crew training)
"Executive Directors"	Mr. Jim French, Mr. Mark Chown, Mr. Andrew Knuckey, Mr. Mike Rutter and Mr. Andrew Strong (details of whom are set out in Part 3 "Directors, Senior Management and Corporate Governance" of this document)
"Existing Shareholders"	Rosedale, Kleinwort Benson (Jersey) Trustees Limited, Kleinwort Benson (Guernsey) Trustees Limited, Jim French and The Plimsoll Line
"Export Development Canada"	Export Development Canada, a corporation created pursuant to an Act of the Parliament of Canada with its head office at 151 O'Connor Street, 11th Floor, Ottawa, Ontario, Canada, K1A 1K3 (and "EDC" shall be construed accordingly)
"Financial Services Authority" or "FSA"	the Financial Services Authority of the United Kingdom
"flag carrier airlines"	an airline (typically currently or historically state owned) particularly associated with a specific country (for example, British Airways in relation to the United Kingdom or Air France in relation to France)
"Flight International"	a global aerospace weekly magazine published by Reed Business Information Limited
"Flybe" or the "Company"	Flybe Group plc (a public limited company registered in England and Wales, with registered number 01373432)
"Flybe Aviation Services"	the aviation maintenance, repair and overall division of Flybe
"Flybe Employees' Share Plan"	see Pre-Admission Share Scheme
"Flybe Group Limited Trust"	the Flybe Group Limited Employees' Share Ownership Trust
"Flybe Group Limited No. 2 Trust"	the Flybe Group Limited Employees' Share Ownership (No. 2) Trust
"Flybe (IOM) Limited"	BA Connect (IOM) Limited (a private limited company registered in the Isle of Man, with registered number 1042C)
"FSMA"	the Financial Services and Markets Act 2000
"FTE"	full time equivalent

"GCSE"	a general certificate of secondary education issued by the Qualifications Curriculum Authority in the UK
"General Electric"	General Electric Company (a public quoted company registered in the state of New York, United States of America)
"Global Coordinator"	Merrill Lynch International
"Global Offer"	the offer of Offer Shares pursuant as described in Part 6 "Information on the Global Offer and Admission" of this document
"gross dividend"	the sum of the dividend and the tax credit on a security
"Group"	the Company, its subsidiaries at the relevant time and, where the context shall require or permit, the Company; and "member of the Group" shall be construed accordingly
"HEH"	HEH Hamburger EmissionsHaus GmbH & Cie. KG of Grosse Elbstasse 14, 22767 Hamburg, Germany
"Historical Financial Information"	the historical financial information of the Group for the 2007/08, 2008/09 and 2009/10 Financial Years and the 2010/11 First Half Year, as set out in section B of Part 5 "Financial Information relating to the Group" of this document
"HMRC"	Her Majesty's Revenue & Customs and, where relevant, any predecessor body which carried out part of its functions and references to any approval by HMRC shall, where appropriate, include approval by an officer of Her Majesty's Revenue & Customs
"IATA"	International Air Transport Association
"IFRS"	International Financial Reporting Standards
"IMF"	International Monetary Fund
"Investec"	Investec Bank plc (a private limited company registered in England and Wales with registered number: 02739537)
"IRS"	the US Internal Revenue Service
"ISIN"	International Securities Identification Number
"IT"	information technology
"ITEPA"	the Income Tax (Earnings and Pensions Act) 2003
"Jet2"	Jet2.com Limited (a private limited company registered in England and Wales with registered number: 02739537)
"Kale"	Kale Consultants Limited (a publicly listed company registered in India)
"Kleinwort Benson (Guernsey) Trustees Limited"	Kleinwort Benson (Guernsey) Trustees Limited (a private limited company registered in Guernsey with registered number 3333)
"Kleinwort Benson (Jersey) Trustees Limited"	Kleinwort Benson (Jersey) Limited (a private limited company registered in Jersey with registered number 7366)
"LIBOR"	the London Interbank Offered Rate
"Listing Rules"	the listing rules of the FSA (as amended) made under section 73A of the FSMA
"Locked-In Shareholders"	Rosedale, Jim French and The Plimsoll Line Limited
"Loganair"	Loganair Limited (a private company limited by shares registered in Scotland, with registered number SC170072)
"London Stock Exchange"	London Stock Exchange Group plc (a public limited company registered in England with registered number 5369106)

"Lufthansa"	Deutsche Lufthansa AG (a public company registered in Germany with registered number 50670B2168)
"Management Team"	the Board and Senior Management
"Managers"	Merrill Lynch International, Investec and Execution Noble
"Memorandum"	the memorandum of association of the Company
"Merrill Lynch International" or "BofA Merrill Lynch"	Merrill Lynch International
"Model Code"	the rules governing dealings by directors in the securities of the Company as set out in the Annex to chapter 9 of the Listing Rules
"New Shares"	the 20,338,983 new Ordinary Shares to be allotted and issued by the Company pursuant to the Global Offer
"Non-Executive Directors"	Mr. Charlie Scott, Mr. Alan Smith, Mr. David Longbottom, Mr. Peter Smith and Mrs. Anita Lovell (details of whom are set out in Part 3 "Directors, Senior Management and Corporate Governance" of this document)
"NVQ"	a national vocational qualification issued by the Qualifications Curriculum Authority in the UK
"Offer Price"	295 pence per Ordinary Share
"Offer Shares"	the New Shares
"Official List"	the official list maintained by the FSA under section 74(1) of FSMA for the purposes of Part VI of FSMA
"Olympic Air"	Olympic Air (a company registered in Greece with its registered office at 1st klm Varis-Koropiou and Ifaistou, 19400, Koropi Attiki, Greece)
"Operating Board"	a group of Flybe employees, reporting to the Board, comprising Mr. French (Chair and Chief Executive Officer), Mr. Chown (Deputy Chairman), Mr. Strong (Chief Operating Officer), Mr. Knuckey (Chief Financial Officer), Mr. Rutter (Chief Operating Officer), Mr. Charles (Director of HR) and Mr. Elkins (Director of IT).
"Operating Lease"	a form of lease where the lessor (or finance company) retains ownership and risk in the asset for the period of the lease. At the end of such period, the asset is typically returned to the lessor without penalty to the lessee.
"Operating Licence"	a licence granted by the CAA under EC Regulation 1008/2008
"Ordinary Shares"	ordinary shares of 1 pence each in the capital of the Company
"Over-allotment Option"	the option granted by the Company to the Global Coordinator (for itself and on behalf of Investec) in respect of Ordinary Shares to be issued by the Company for the purposes of covering certain permitted short positions created by Merrill Lynch International, acting as the stabilising manager
"Over-allotment Shares"	up to 2,033,898 additional Ordinary Shares to be allotted and issued by the Company pursuant to the Over-allotment Option
"Pratt & Whitney"	the aircraft engine manufacturing division of United Technologies Corporation, a company registered in the United States of America
"Pre-Admission Share Scheme"	the Flybe Employees' Share Plan approved and adopted by the trustees of the Flybe Group Limited Trust and the Flybe Group Limited No. 2 Trust on 28 June 2005 as more particularly described at paragraph 6.2 of Part 7 "Additional Information" of this document
"Prospect"	an independent union for professionals, with over 122,000 members

"Prospectus Directive"	Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state of the EEA
"Prospectus Rules"	the prospectus rules of the FSA (as amended) made under section 73A of the FSMA
"PSP"	the Flybe Performance Share Plan
"QIB"	qualified institutional buyer, as defined in Rule 144A under the US Securities Act
"Registrars"	Capita Registrars Limited (a private limited company registered in England with registered number 2605568)
"Regulation S"	Regulation S under the US Securities Act
"Regulatory Information Service"	any of the services set out in schedule 12 of the Listing Rules
"Relationship Agreement"	the agreement dated 9 December 2010 between Rosedale Aviation Holdings Limited and the Company under which Rosedale Aviation Holdings Limited give certain undertakings in relation to the independence of the Company
"Relevant Shareholders"	Rosedale, Kleinwort Benson (Jersey) Trustees Limited, Kleinwort Benson (Guernsey) Trustees Limited, Jim French and The Plimsoll Line
"Rembrandt"	the "Rembrandt" airline revenue management system manufactured by Amadeus IT Group SA
"Remuneration Committee"	the remuneration committee of the Board
"Right Angle Research & Design"	headquartered at 164 Bermondsey Wall East, London, SE16 4TT with Vat Registration No 858 5380 83
"Rosedale"	Rosedale Aviation Holdings Limited (a private limited company registered in Jersey with registered number 45392)
"Route Licence"	a licence granted by the UK CAA under section 65 of the Civil Aviation Act 1982
"Rule 144A"	Rule 144A under the US Securities Act
"Ryanair"	Ryanair Holdings plc (a public limited company registered in Ireland with registered number 249885)
"SAS"	SAS AB (a public listed company registered in Sweden with registered number 556606)
"SAYE Scheme"	the Flybe Sharesave
"SDRT"	Stamp Duty Reserve Tax
"seat compensation"	cash received by Flybe to compensate for flying former BA Connect E145 aircraft, as more fully described in paragraph 4.2 of Part 4 ("Operating and Financial Review") of this document
"SEC"	US Securities and Exchange Commission
"SEDOL"	Stock Exchange Daily Official List
"Senior Management"	Simon Charles (head of human resources), Mark Elkins (head of information technology) and Chris Simpson (company secretary)
"Shareholders"	the holders of Ordinary Shares from time to time
"Shareholders' Agreement"	Shareholders agreement between (1) Flybe, (2) British Airways and (3) the Relevant Shareholders
"Shares"	shares in the capital of the Company

"SHARES System"	an airline reservation system licensed to Flybe by EDS
"Singapore Technology"	Singapore Technologies Engineering Limited (a public limited company registered in Singapore with registered number 199706274H)
"SIP Scheme"	the Flybe Share Incentive Plan
"SIP Trust"	the trust established for the purposes of the SIP Scheme
"The Plimsoll Line"	The Plimsoll Line Limited (a private limited company registered in England and Wales, with registered number 1967358 (being a subsidiary of BA))
"UBS"	UBS Limited (a private limited company registered in England and Wales with registered number 02035362)
"UK FTSE All-Share Index"	a market capitalisation weighted stock exchange index incorporating approximately the largest 800 companies by market capitalisation which have a listing on the main market of the London Stock Exchange
"UK Listing Authority" or "UKLA"	the FSA, acting in its capacity as the competent authority for the purposes of Part VI of FSMA
"uncertificated" or "in uncertificated form"	in relation to Ordinary Shares, recorded on the relevant register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
"Uncertificated Securities Regulations"	the Uncertificated Securities Regulations 2001, SI 2001 no. 3755
"Underwriting Agreement"	the conditional agreement dated 10 December 2010 between the Company, the Directors and the Managers relating to the Global Offer and Admission, details of which are set out in paragraph 9.1 of Part 7 "Additional Information" of this document
"UNITE"	Unite, the union with its head office at 35 King Street, Covent Garden, London WC2E 8JG
"United Kingdom" or "UK"	the United Kingdom of Great Britain and Northern Ireland
"United States" or "USA" or "US"	the United States of America, its territories and possessions, any states of the United States and the District of Columbia
"US Exchange Act"	the United States Securities Exchange Act of 1934, as amended
"US Securities Act"	the United States Securities Act of 1933, as amended
"Value Added Tax" or "VAT"	value added tax, being an indirect tax levied on the supply of goods and services in the UK
"Walker Family Office"	the trading name of W.F.O. Jersey Limited (a private limited company registered in Jersey, with registered number 73814), being a company which, among other things, administers the personal and financial interests of the late Jack Walker's family
"Walker Family Settlements"	the J. Walker 1987 Settlement, the E.J. Walker 1964 Settlement, the F. Walker 1964 Settlement and the F. Walker 1987 Settlement
"Walker Trust"	the Jack Walker 1987 Settlement Trust (a settlement established in Jersey by Mr. Jack Walker for the benefit of his family)
"Willis"	Willis Group Holdings Public Limited Company (a publicly listed company registered in Ireland with registered number: 475616)
"Wizzair"	Wizz Air Hungary Airlines Limited (a private limited company registered in Hungary with registered number 13-09-096209)

PART 9

GLOSSARY

In this document, the following technical terms have the following meanings, unless the context otherwise requires:

"ABC1"	a demographical and social grade definition encompassing the upper-class, upper middle-class and lower middle-class social denominations
"ACMI"	a rate charged, usually per block hour, by the lessor to the lessee encompassing the provision of the aircraft, one or more crews, including their salaries and typically their allowances, all maintenance for the aircraft and insurance, (including hull and third party liability)
"advanced seat assignment"	a product offered by the Group allowing passengers to pre-select their seats on an aircraft for an additional charge
"AIMS"	a custom networked flight operations information management system licensed to the Group by AIMS Limited (a company registered in Jersey with registered number: 94519)
"Air Operator's Certificate"	an air operator's certificate issued by the UK Civil Aviation Authority
"aircraft type approval"	the regulatory approval to perform maintenance on a particular type of aircraft, known as EASA Part 145 approval
"airline dependent destinations"	destinations which, due to their geographical location, are more easily reached by sea or air travel
"ancillary yield"	total ancillary revenue per passenger
"ASK"	available seat kilometre or the number of seats flown multiplied by the distance travelled in kilometres
"BAe 146"	a medium-sized commercial aircraft manufactured in the United Kingdom by British Aerospace (now BAE Systems)
"base maintenance"	any manufacturer designated maintenance, inspection, repair or alteration that requires specialised training, equipment or facilities, also known as "heavy maintenance"
"break-even"	the point where revenues and expenses are equal i.e. when neither a profit nor a loss has been (or will be) made
"break-even load factor"	the passenger occupancy rate on an aircraft, expressed as a percentage, where, at an assumed passenger ticket yield and ancillary revenue figure per passenger, the revenues equal the expenses
"codeshare"	an arrangement whereby multiple airlines sell seats on the same flights and multiple flight designators and flight numbers are used for the same flight
"component maintenance"	any manufacturer designated maintenance, inspection, repair or alteration on aircraft components that requires specialised training, equipment or facilities
"corporate accounts"	a contractual arrangement with a third party company which sets out the terms for selling tickets for the use of staff members of that company
"density"	passenger volume
"domestic"	passengers from one UK airport (including the Channel Islands and the Isle of Man, to another UK airport (including the Channel Islands and the Isle of Man)
"E145"	the series 145 aircraft manufactured by Embraer

"E175"	the series 175 aircraft manufactured by Embraer
"E195"	the series 195 aircraft manufactured by Embraer
"eco-labelling scheme"	a scheme, introduced by the Group in June 2007, designed to provide passengers with environmental information concerning the aircraft used for their flight
"Effective exchange rate"	the cost of currency for a period implicit through the weighted average cost of (i) currency acquired through forward contracts, and (ii) currency bought in the spot markets
"European business cities"	Amsterdam, Barcelona, Berlin, Brussels, Copenhagen, Dusseldorf, Frankfurt, Lisbon, Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart and Vienna
"European business cities market"	the market for air travel from regional UK airports to Amsterdam, Barcelona, Berlin, Brussels, Copenhagen, Dusseldorf, Frankfurt, Lisbon, Luxembourg, Madrid, Milan, Munich, Oslo, Paris, Rome, Stockholm, Stuttgart and Vienna
"European LCCs"	European low-cost carriers, such as easyJet, BMI Baby, Ryanair, Jet2, Norwegian and Wizzair
"filler route"	a route that utilises aircraft capacity at non-peak times, such as some sun/ski and French regional routes
"flag carrier airline"	an airline particularly associated with a country, often currently or historically under public ownership; for example, "Air France" in relation to France and "British Airways" in relation to the United Kingdom
"flight operations"	the co-ordination by an airline of, amongst other things, aircraft movements, servicing and repairs
"Flybe Economy Plus"	a premium fare offered by the Group, focused primarily on business passengers, providing access to executive lounges, fully flexible tickets, priority check-in, advance seat allocation, complimentary on-board drinks and snacks and increased baggage entitlement
"Flybe Spend & Fly Credit Card"	a credit card provided and operated by Sygma and having the Group's branding
"franchise route"	a route flown by a franchise partner of an airline, for example a route flown by Loganair on behalf of the Group under the terms of the Loganair Franchise Agreement
"frequent flyer programme"	an airline customer loyalty scheme designed to reward passengers for use of an airline
"GDS"	Global Distribution Systems, a computerised system used by the travel industry to store, retrieve information and conduct transactions relating to, amongst other things, airline travel
"high frequency services"	two or more flight rotations per day
"Interline"	an arrangement whereby multiple airlines sell seats on the same flight, but use only the flight designator and flight number of the operating carrier
"Jersey European Airways"	a former trading name of Flybe
"LCC"	low-cost carrier
"light maintenance"	maintenance that is performed (typically over-night and more frequently that base maintenance) as dictated by the aircraft manufacturer's maintenance manual

"line maintenance"	minor or scheduled maintenance carried out on an aircraft that is in service to ensure that the aircraft is fit for its next flight (including defect rectification, daily checks, visual inspections, minor repairs and modifications which do not require extensive disassembly)
"load factor"	the number of seats sold divided by seat capacity (and "flown" load factor, the number of seats flown divided by seat capacity, shall be construed accordingly)
"Loganair Franchise Agreement"	the franchise agreement dated 15 April 2008 between Flybe Group plc, Flybe Limited and Loganair under which Flybe granted Loganair a franchise along with a non-exclusive and non-assignable licence to use certain intellectual property rights of Flybe to enable Loganair to operate scheduled flights under the Flybe brand
"long-haul"	a flight, typically made by a wide bodied aircraft, over a long distance, often in excess of six hours
"low fares"	ticket prices that are, on average, significantly lower than those typically charged by flag carrier airlines or legacy airlines
"medium-haul"	a flight, which may be made by a wide bodied aircraft, typically over a distance in excess of 1,500 kilometres, whose flight time is usually between three and six hours
"MRO"	maintenance repairs and overhaul
"non-radial network"	a route network that is not centred or focused upon one particular airport
"Part 66 engineering license"	a license, issued by the CAA on behalf of EASA, being the basic qualification entitling the holder to be a licensed aircraft engineer
"passenger"	a person with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable)
"point-to-point"	a non-stop flight without stopovers or "changes"
"purchase rights"	the right to purchase additional aircraft under the same terms and conditions as for firm and option aircraft. Such rights to be exercised within a finite time
"Q400"	the Q400 series turboprop aircraft manufactured by Bombardier
"regional aircraft"	turboprop aircraft and regional jets
"regional airline"	an airline that flies predominantly regional aircraft
"regional jet"	an aircraft, powered by jet engines, with certain characteristics that make it particularly suitable for regional routes
"regional network"	a route network that is predominantly comprised of regional routes
"regional route"	typically a route where either one or both of the departure or destination airports is in a regional location (as opposed to, for example, a route between London Heathrow and Paris Charles de Gaulle)
"regional UK"	an airport or destination in the UK (including the Channel Islands) but excluding London
"regulated airports"	airports at which the number of take-off and landing slots is restricted
"Rewards4all"	the Group's frequent flyer programme, allowing passengers to use accrued points to buy additional flights across the Group's network and/or secure access to executive lounges
"rotation"	a flight which serves an outward and inward sector, typically returning to the same airport

"route"	a scheduled service flown by an airline other than any franchise route
"Scheduled sectors flown"	the total number of aircraft flights per annum, excluding positioning, charter, and training flights
"seat capacity"	the average number of seats per aircraft multiplied by the number of scheduled sectors flown
"sector"	a flight between an originating airport and a destination airport, typically with no intervening stops
"sector length"	the distance, typically in kilometres, of a flown sector
"short-haul"	a point-to-point route of less than 1,500 kilometres
"slot"	an authorisation to arrive at or depart from a stand at a particular airport at a specific time on a particular day
"summer season"	the last Saturday in March until the last Saturday in October in any particular year
"ticket yield"	the total ticket revenue per passenger (after the deduction of government taxes and levies)
"turboprop aircraft"	an type of aircraft using a gas turbine to turn a propeller (and a "regional turboprop aircraft" shall be construed as a turboprop aircraft with certain characteristics that make it particularly suitable for regional routes)
"UK domestic routes"	routes where both the departure and destination airports are within the United Kingdom, the Isle of Man or the Channel Islands
"Unit seat cost"	costs incurred in a period divided by the seat capacity deployed during the same period
"VFR"	visiting friends and relatives
"wet lease"	a leasing agreement whereby an aircraft (together with its operating crew), maintenance, support and insurance are provided from one party to another, otherwise known as an ACMI agreement
"winter season"	the first Sunday following the last Saturday in October to the Friday before the last Saturday in March in any particular year
"yield"	total ticket revenue per passenger (after the deduction of government taxes and levies)

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