9th November 2016

Flybe Group plc

Registered number 1373432

Flybe completes its transformation programme

Flybe Group plc

Half-yearly financial report

For the six months ended 30th September 2016

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9th November 2016

Flybe completes its transformation programme: Results for the six months to 30th September 2016

Financial summary

	H1 2016/17 £m	H1 2015/16 £m	Change £m
Group revenue	**383.0**	339.6	43.4
Total costs (excluding revaluation effect of USD aircraft loans)	**(367.1)**	(318.5)	(48.6)
Adjusted profit before tax[1]	**15.9**	21.1	(5.2)
Profit before tax	**7.0**	22.9	(15.9)
Profit after tax	**13.4**	26.8	(13.4)

Simon Laffin, Executive Chairman, commented:

"We have completed the transformation, which started three years ago. Next year, for the first time since the IPO in 2010, we will have control over our aircraft capacity. We can begin to move from being a supply-driven business to a demand-driven business. This will free us for even greater focus on implementation excellence and refining route profitability.

As passenger numbers are still rising across the industry, we see further revenue opportunities. The aviation market is tough at the moment, with excess seat capacity in the European short-haul market coupled with a weaker pound, and both business and consumer uncertainty impacting all airlines. However, Flybe has a robust balance sheet and cash position. From this strong position, over the next 12 months, we will open our first European base in Dusseldorf and continue to cautiously test routes to maximise the returns from our existing capacity. Our aviation services are growing well, particularly as we support the RAF A400M turboprop. White Label flying revenue is also growing, through delivery of the SAS contract.

The Board is confident of Flybe's resilience in this market. Our strategy is unchanged and we will further secure our place as the leading European regional airline."

Financial highlights - Group

- 12.8% increase in Group revenue to £383.0m, driven by higher passenger volumes in Flybe UK, further development of White Label operations and increased revenue in Flybe Aviation Services.
- Adjusted profit before tax[1] of £15.9m (H1 2015/16: £21.1m) reflected the impact of challenging external market conditions. Profit before tax of £7.0m (H1 2015/16: £22.9m) was affected by the fall in sterling, increasing the cost of USD loans on aircraft.
- 15.4% increase in EBITDAR[2] to £83.2m (H1 2015/16: restated[2] £72.1m).
- Cash outflow from operating activities £(0.5)m (H1 2015/16: £21.3m inflow).
- At 30th September 2016, the Group's balance sheet remained strong with net assets of £167.1m (31st March 2016: £154.2m). Net debt was £(24.8)m at 30th September 2016 (31st March 2016: net funds of £62.2m) mainly reflecting the increased level of aircraft ownership.

[1] Adjusted profit before tax is reported profit before tax excluding the revaluation effect of USD aircraft loans (H1 2016/17: loss of £8.9m; H1 2015/16: gain of £1.8m).

[2] EBITDAR defined as operating profit after adding back depreciation, amortisation and aircraft rental charges. H1 2015/16 condensed consolidated income statement has been restated to show each cost line at the transactional spot rate therefore EBITDAR for H1 2015/16 has been restated.

Flybe UK

- 10.2% increase in revenue to £364.6m.
- 13.5% increase in seat capacity, as additional aircraft were deployed.
- 7.1% increase in passenger volumes to 4.8 million in H1 2016/17. The effect of adding new routes and rotations, together with a weak aviation market, meant that load factor fell by 4.3 ppts to 72.0%.
- 2.0% decrease in passenger yield to £70.58, due to careful pricing management. However, the lower load factor resulted in a 6.9% decrease in passenger revenue per seat to £50.80.
- 1.2% reduction in cost per seat (excluding fuel at constant currency) due to continued efficiency improvements and non-fuel cost savings including maintenance, ground operations and overheads.
- 5.8% reduction in cost per seat (including fuel at constant currency) reflecting lower oil prices.
- Flybe remained the top UK airline for punctuality per OAG[1]. On-time performance within 15 minutes of scheduled arrival time fell back by 3.0 ppts to 81.7% in H1 2016/17.
- 43 new routes launched as well as 18 daily and 58 weekly frequency increases.
- Flybe's 'One Stop to the World' expanded with new codeshare or interline agreements with Air Berlin, Air India, Hainan Airlines and Singapore Airlines.
- Three-fold increase in White Label revenue to £15.8m (£5.0m in H1 2015/16) as the operations on behalf of SAS made an encouraging start.

Flybe Aviation Services (FAS)

- 28.6% increase in FAS's revenue to £23.8m (H1 2015/16: £18.5m) including the maintenance activities of the RAF's A400M turboprop fleet at Brize Norton.
- Improved revenue flowed through to give a profit of £1.7m (H1 2015/16: loss of £(0.3)m).

As Flybe's three-year transformation plan is now complete, the business will become demand-driven

The three-year transformation led by Saad Hammad is now complete. The turnaround was a major reinvention of Flybe, including: a capital raise; brand relaunch; exiting the Finland joint venture; addressing legacy fleet issues; building a new management team; and establishing a strong cost culture to drive efficient unit cost reductions.

The last remaining legacy issue is the residual capacity growth from the historic order (dating from the IPO in 2010) for 24 new Embraer jets. In 2014, Flybe agreed with Embraer and Republic to swap 20 of these brand new jet aircraft orders into 24 smaller used ex-Republic Q400s, which reduced both costs and ultimate seat capacity growth. Earlier this year, Flybe concluded an agreement with the lessor NAC to cancel nine of the 24 Q400 deliveries. Seven of the 15 remaining Q400s have now been received by Flybe and the remaining eight will be delivered in the second half of this year.

Despite the significant progress in reducing the size of this legacy order, Flybe still has significant capacity growth in a market with slower growth in consumer demand. The Company has deployed its additional capacity on new routes and increased frequencies on existing routes, where they could deliver at least a contribution to fixed costs. Flybe grounded some surplus aircraft in 2014-2016 when it couldn't find enough routes to fly profitably. New routes and increased frequencies are targeted to cover their marginal costs in the early years of operation, but do not contribute significantly to overall profitability. The capacity growth therefore had no significant effect on profitability. Indeed with the current market capacity growth, shortages of trained pilots are emerging that put further strain on Flybe's ability to grow the route network.

As part of the deal to cancel nine of the ex-Republic Q400s, Flybe took ownership of (rather than leased) 10 of the remaining Q400s delivered for an aggregate cost of c£102m. Of these, six were purchased in H1 and the remaining four will complete in H2. This earns Flybe a c12% return on capital and gives much greater flexibility for deployment or divestment of the aircraft. The purchase is being funded by c£70m of new loans and c£32m of cash. The balance sheet at 30th September 2016 remains strong with total cash of £141.7m and net debt of £(24.8)m. Future allocation of cash will be applied to: maintaining a strong balance sheet; investing for superior returns; and providing returns to shareholders.

[1] Official Airline Guide (OAG) is an independent provider of air travel information - http://www.oag.com/

As Flybe's three-year transformation plan is now complete, the business will become demand-driven (continued)

In the next six months, the airline will take delivery of the remaining eight ex-Republic Q400s which will mark the peak of the number of aircraft in the fleet. There are no more aircraft deliveries planned in 2017/18, but instead five aircraft could be returned to lessors as they come to the end of their leases.

Flybe will now start to build on the success of its three-year transformation programme. The strategy remains unchanged from that laid out three years ago. In a tough market for European aviation, Flybe operates in a niche segment serving regional aviation in the UK and UK to Europe.

However, over the next 12 months, it will become the first time since the IPO that Flybe will be able to control its own capacity growth. The business will be able to move from being supply-driven to demand-driven and capacity will peak in the coming year. The focus will be progressively switched over the next 12 months to: better serving customers; improving route profitability; enhancing implementation and operations; consolidating network strength; and profit and cash generation.

Outlook

The aviation market is a turbulent one at the moment and there is limited forward visibility. Excess seat capacity in the European short-haul market coupled with a weaker pound, and both business and consumer uncertainty are impacting all airlines. However, Flybe has a robust balance sheet and cash position. The Board believes that Flybe continues to have a clear strategy that will ensure its resilience in this market, which, together with control of its own capacity growth, will secure Flybe's role in UK regional aviation.

Q3 Trading Update (as at 7th November 2016)

Flybe UK's current forward booking profile for Q3 2016/17 shows the following changes vs. prior year:

- Seat capacity up by c16%
- c49% of seats sold vs. c52% in the prior year
- Yield down c5%
- Passenger revenue per seat down by c9%

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation EU no. 596/2014 ("MAR"). Upon the publication of this announcement via a Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.

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There will be an analyst presentation at 10:30 GMT on 9th November 2016 at Numis Securities Limited, The London Stock Exchange Building, 10 Paternoster Square, London EC4M 7LT.

A live webcast of the presentation will be transmitted and a recording will be available at the end of the day at www.flybe.com

Responsibility statement

For the six months ended 30th September 2016

Responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 'Interim Financial Reporting';

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related parties' transactions and changes therein).

By order of the Board

Simon Laffin **Executive Chairman**	**Philip de Klerk** **Chief Financial Officer**
9th November 2016	9th November 2016

Cautionary statement

To the shareholders of Flybe Group plc

Cautionary statement

This Interim Management Report (IMR) has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. The IMR should not be relied on by any other party or for any other purpose. This IMR contains certain forward-looking statements. These statements are made by the directors in good faith based on information available to them at the time of their approval of this report, but such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

This IMR has been prepared for the Group as a whole and therefore gives greater emphasis to those matters which are significant to Flybe Group plc and its subsidiary undertakings when viewed as a whole.

Detailed results for the six months ended 30th September 2016

	H1 2016/17 £m	H1 2015/16 £m	Change £m
Group revenue	**383.0**	339.6	43.4
EBITDAR[1]	**83.2**	72.1	11.1
Adjusted profit before tax[2]	**15.9**	21.1	(5.2)
Profit before tax	**7.0**	22.9	(15.9)
Profit after tax	**13.4**	26.8	(13.4)
Net cash (outflow)/inflow from operating activities	**(0.5)**	21.3	(21.8)

1. EBITDAR defined as operating profit after adding back depreciation, amortisation and aircraft rental charges. H1 2015/16 condensed consolidated income statement has been restated to show each cost line at the transactional spot rate therefore EBITDAR for H1 2015/16 has been restated.
2. Adjusted profit before tax is reported operating profit before the revaluation effect of USD aircraft loans.

EBITDAR and profit measures[1]

EBITDAR is an alternative profit measure used by airlines for making comparisons between airlines given differing owned and leased aircraft fleets. Set out below is a reconciliation from operating profit to the EBITDAR figures:

	H1 2016/17 £m	H1 2015/16 Restated[2] £m	Change £m
Operating profit	**17.4**	21.9	(4.5)
Depreciation and amortisation	**18.2**	11.5	6.7
Aircraft rental charges	**47.6**	38.7	8.9
EBITDAR	**83.2**	72.1	11.1

Adjusted profit before tax[1] is an alternative profit measure used by Flybe to assess underlying profit performance. This measure adjusts for USD loan revaluations which result in a non-cash translation impact on USD denominated debt used to fund the acquisition of aircraft which are also dollar denominated. Given Flybe has a reporting currency which is sterling, as the USD exchange rate moves, our outstanding loan liability changes in sterling terms. In accordance with IAS 39, exchange movements arising on USD loan revaluations are processed through the condensed consolidated income statement. As this is not a cash transaction, it does not reflect the underlying performance of Flybe and therefore we measure adjusted profit before tax to illustrate underlying commercial performance. The table below sets out a reconciliation from profit before tax to adjusted profit before tax:

	2016 £m	2015 £m	Change £m
Profit before tax	**7.0**	22.9	(15.9)
USD aircraft loan revaluation loss/(gain)	**8.9**	(1.8)	10.7
Adjusted profit before tax	**15.9**	21.1	(5.2)

1. Alternative (non-GAAP) profit measures exclude amounts that are included in the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. The reconciliations above describe how the alternative profit measure is determined from the most directly comparable measure calculated and presented in accordance with IFRS. The alternative profit measures are not regarded as a substitute for, or to be superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS. The non-GAAP measures described may not be directly comparable with similarly-titled measures used by other companies.
2. EBITDAR defined as operating profit after adding back depreciation, amortisation and aircraft rental charges. H1 2015/16 condensed consolidated income statement has been restated to show each cost line at the transactional spot rate therefore EBITDAR for H1 2015/16 has been restated.

Flybe Group plc
Interim management report (continued)

Fleet

The profile of Flybe's fleet at 30th September 2016 is summarised below:

		Number of aircraft		
	Number of seats	At 31st March 2016	Net movements in period	**At 30th September 2016**
Bombardier Q400 turboprop	78	50	2	**52**
Embraer E175 regional jet	88	11	-	**11**
Embraer E195 regional jet	118	9	-	**9**
ATR72 turboprop (SAS contract)	70	4	1	**5**
Total		74	**3**	**77**
Held on operating lease		57	(3)	**54**
Owned		17	6	**23**
Total		74	**3**	**77**
Total seats in fleet		6,210	226	**6,436**
Average seats per aircraft		84.0	(0.4)	**83.6**
Average age of fleet (years)		7.4	0.4	**7.8**

In 2014/15 Flybe entered into agreements with Embraer S.A. ('Embraer') and Republic Airline Inc. ('Republic') whereby the contractual commitment to acquire 20 (of a backlog of 24) Embraer E175 aircraft was removed and Flybe committed to sub-leasing 24 Republic Q400 aircraft between 2015 and 2019. In 2015/16 Flybe took delivery of five Republic aircraft.

Flybe subsequently entered into a contract with Nordic Aviation Capital ('NAC'), to cancel obligations to lease nine of the 24 used Bombardier Q400 turboprop aircraft it was committed to under the terms of the Embraer and Republic agreement, while taking ownership of 10 Q400 aircraft it was under contract to lease, for a cash consideration of cUSD129m (c£98m based on aircraft financed to date and aircraft contracted to be financed in H2 2016/17) with delivery and consideration to take place during 2016/17. Of these 10 aircraft, five were delivered in 2015/16, and another two Q400 have been delivered in 2016/17. As at 30th September 2016, therefore, seven aircraft have been delivered to Flybe, of which six have been purchased and one, currently leased, will be purchased later this financial year. Eight further aircraft are expected to be delivered later this financial year of which three will be purchased and the other five will be on operating lease. The commitment to finance the four Q400 aircraft is disclosed in note 15.

In support of White Label operations in Sweden, Flybe leased one additional ATR72 aircraft (increasing the total to five), which was delivered in May 2016.

The following table shows the current number of aircraft that are contracted for delivery (either acquired or leased) to the Group as at 30th September 2016:

	E175s	**Q400s**
2016/17	-	8
2017/18	-	-
2018/19	3	-
2019/20	1	-
Total	**4**	**8**

Business results

Flybe's results before tax, analysed by segment, are summarised below:

	H1 2016/17 £m	H1 2015/16 £m
Business revenues:		
Flybe UK	**364.6**	330.9
FAS	**23.8**	18.5
Inter-segment sales	**(5.4)**	(9.8)
Group revenue	**383.0**	339.6
Business adjusted profit/(loss) before tax:		
Flybe UK[1]	**16.4**	23.5
FAS	**1.7**	(0.3)
Group costs	**(2.2)**	(2.1)
Adjusted profit before tax and USD aircraft loan revaluation[2]	**15.9**	21.1
Revaluation (losses)/gains on USD aircraft loans	**(8.9)**	1.8
Profit before tax	**7.0**	22.9

1. Flybe UK adjusted profit before tax reports a segment profit of £16.4m (H1 2015/16: profit of £23.5m) excluding Group costs of £2.2m (H1 2015/16: £2.1m), and revaluation losses on USD aircraft loans of £8.9m (H1 2015/16: gains of £1.8m).
2. Adjusted profit before tax is defined as profit before tax excluding revaluation (losses)/gains on USD aircraft loans of £8.9m (H1 2015/16: gains of £1.8m).

Flybe UK

Revenue

	H1 2016/17		H1 2015/16	
	£m	**£ per seat**	£m	£ per seat
Passenger revenue	**338.1**	**50.80**	320.0	54.56
White Label flying revenue	**15.8**		5.0	
Other revenue	**10.7**		5.9	
Total revenue – Flybe UK	**364.6**	**54.78**	330.9	56.42

Flybe UK's seat capacity increased by 13.5% to 6.7 million in H1 2016/17 (H1 2015/16: 5.9 million) with scheduled sectors increasing by 10.8% to 79,908 (H1 2015/16: 72,132). Passenger numbers increased 7.1% to 4.8 million (H1 2015/16: 4.5 million). Load factor decreased to 72.0%, down 4.3 ppts on last half year (76.3%) while passenger yield decreased by 2.0% to £70.58 (H1 2015/16: £72.05) reflecting demand challenges across the industry and significant short-haul market over-capacity. There was a resulting 6.9% fall in passenger revenue per seat to £50.80.

Operating costs

	H1 2016/17		H1 2015/16 Restated[1]		
	£m	**£ per seat**	£m	£ per seat	£ per seat at constant currency[2]
Fuel and aircraft operations	**181.9**	**27.33**	159.6	27.22	29.02
Aircraft ownership and maintenance	**97.4**	**14.63**	80.4	13.71	14.84
Staff and other net operating expenses	**69.8**	**10.49**	68.6	11.70	11.83
Operating costs	**349.1**	**52.45**	308.6	52.63	55.69

1. Prior year restatement – from 1st April 2016, a new finance system was implemented which resulted in a change in presentation of transactional foreign exchange. Previously, each line had been shown at the effective exchange rate. However, from 1st April 2016, each line has been shown at the transactional spot rate and the gains on hedges shown in the other operating (losses)/gains line. The prior year period has therefore been restated.
2. Constant currency is calculated for the H1 2015/16 year by applying the exchange rates that prevailed for reporting the H1 2016/17 results of $1.37 and €1.22

Operating costs have increased by 13.1% to £349.1m, substantially driven by the increase in capacity of 13.5% with an increase in both owned and leased related costs. The increase also includes a 28.2% increase in maintenance costs related to volume, including the aircraft and route mix increases driven by our E195 flying, much of which is underwritten by various airport deals. As the majority of fuel requirements were hedged, Flybe has benefited from a reduction of underlying fuel prices of c£11m in the first half-year. Total fuel costs have reduced by c£3m, reflecting the volume impact related to increasing the number of flights. At constant currency, the increase in total operating costs is 6.9%.

Cost per seat including fuel decreased by 0.3% from £52.63 to £52.45. On a constant currency basis, cost per seat including fuel reduced by 5.8% from £55.69 to £52.45.

Cost per seat excluding fuel increased by 3.3% from £43.07 to £44.49. On a constant currency basis, cost per seat excluding fuel decreased by 1.2% from £45.02 to £44.49. Aircraft ownership and maintenance costs were flat year-on-year on a constant currency basis as Flybe offset the increased cost of more E195 flying by improvements in aircraft ownership cost.

Fuel

Flybe UK's results are impacted by movements in the price of fuel which forms a significant variable cost for the business. H1 2016/17 has seen an overall increase in fuel prices although there have been some decreases through the period. Brent crude has been in the USD38 to USD53 a barrel range for the period, with the average price over the period being USD47. The price of jet fuel has traded between USD347 and USD488 per tonne. Aviation fuel prices remain capable of large and unpredictable movements due to a variety of external factors, such as changes in supply and demand for oil and oil-related products, and the role of speculators and funds in the futures markets.

During H1 2016/17, Flybe UK used some 109,500 tonnes of jet fuel, an increase on the 92,300 tonnes used in H1 of the prior year. Fuel burn increased to 16.3kg per seat for H1 2016/17 (H1 2015/16: 15.7kg). The average market price during the period was USD437 per tonne (H1 2015/16: USD551), with the Group paying a blended rate (net of hedges) of USD575 per tonne (H1 2015/16: USD835). Including 'into plane' costs, Flybe's fuel costs in H1 2016/17 of £52.9m (H1 2015/16: £56.1m) represent an all-in cost of USD657 per tonne (H1 2015/16: USD933).

Flybe UK operates a policy of managing fuel price volatility by entering into derivative contracts representing a portion of its aviation fuel requirements a minimum of 12 months forward from the current date. The intention of this programme is to provide a significant element of certainty over its forthcoming fuel costs. As at 30th September 2016, 91.8% of the fuel requirement for H2 2016/17 was hedged at an average price of USD533 per tonne, and 82.1% of Flybe UK's expected fuel requirement in H1 2017/18 was hedged at an average price of USD477 per tonne.

Foreign exchange

The Group foreign currency hedging policy has an objective to reduce the volatility of costs. Flybe manages its foreign exchange positions based on its net foreign currency exposure, being foreign currency expenditure less associated revenue. Historically treasury policy capped hedging at 90%, though treasury policy now allows hedging up to 100% to protect against increased risks to profit. The Group currently has a relatively small net exposure to the Euro, but has significant USD costs in relation to fuel, maintenance, aircraft operating leases and loan repayments. The Group generates no significant USD revenue and actively manages its USD position through a foreign exchange forward purchase programme similar to that outlined for fuel. The post-Brexit deflation of sterling has been mitigated due to hedging levels. As at 30th September 2016, 92.7% of Flybe's anticipated USD requirements for H2 2016/17 were hedged at an average exchange rate of USD1.50, and 82.1% of its forecast USD requirements for H1 2017/18 were hedged at an average exchange rate of USD1.44. All existing derivative financial instruments are cash flow hedges.

Carbon emissions

The Group is required to purchase carbon allowances for all flights departing from and arriving into the EU in order to offset its carbon footprint in each calendar year. Flybe manages its exposure by purchasing carbon emissions allowances through a forward purchase programme to top up the free allowances awarded to it under the scheme. The table below sets out Flybe UK's emissions and carbon allowances for each of the periods under review:

	Calendar year 2016	Calendar year 2015
	Budget	Actual
Anticipated carbon allowances required, tonnes	514,681	503,663
Free allowance allocation, tonnes	222,778	222,778
Proportion forward purchased at beginning of period	100%	100%
Effective carbon rate	€4.42	€3.52

Flybe Aviation Services ('FAS')

This is a stand-alone maintenance, repair and overhaul (MRO) business. The main business within this segment is based in Exeter. FAS also provides MRO services to the Royal Air Force fleet of A400M aircraft at RAF Brize Norton and has entered into a new long-term partnership with Nordic Regional Airlines Oy (Norra), the regional partner of Finnair, to carry out all scheduled base maintenance for the airline's 12 E190s.

	H1 2016/17 £m	H1 2015/16 £m	Change %
Revenue	**23.8**	18.5	28.6
Operating costs	**(22.1)**	(18.8)	17.6
Profit/(loss) before tax	**1.7**	(0.3)	n/m

FAS's revenue in H1 2016/17 increased to £23.8m (H1 2015/16: £18.5m). Though total man-hours decreased by 4.4% to 233k (H1 2015/16 244k) there was a 44.3% increase in higher margin third party man-hours. The increase in revenue was offset by a 17.6% increase in operating costs from £18.8m to £22.1m.

Flybe Group plc
Interim management report (continued)

Group costs

Group costs of £2.2m (H1 2015/16: £2.1m) include Group Board salaries and Group legal and professional fees.

Group – overall results

The Group's operating profit of £17.4m compares to an operating profit of £21.9m in the first half of 2015/16.

The Group incurred net finance costs of £1.5m (H1 2015/16: £0.9m) and other losses of £8.9m (H1 2015/16: other gains of £1.8m) relating to the translation of USD aircraft loans.

Profit before tax for the period was £7.0m (H1 2015/16: profit of £22.9m). There was a current tax credit of £6.4m in the period (H1 2015/16: credit £3.9m). As a result, the Group reported a profit after tax for H1 2016/17 of £13.4m (H1 2015/16: profit of £26.8m).

EPS and dividends

Basic and diluted earnings per share for H1 2016/17 was 6.2p, compared to earnings of 12.3p in H1 2015/16 (see note 7 to the Condensed Financial Statements).

No dividends were paid or proposed in either the current or prior financial periods.

Cash flow

	H1 2016/17 £m	H1 2015/16 £m	Change £m
Net cash (outflow)/inflow from operating activities	**(0.5)**	21.3	(21.8)
Net capital expenditure after disposal proceeds	**(76.0)**	(12.7)	(63.3)
Net proceeds from new loans/(repayment of borrowings)	**47.3**	(6.4)	53.7
Net interest paid	**(1.5)**	(0.9)	(0.6)
Net (decrease)/increase in cash and cash equivalents	**(30.7)**	1.3	(32.0)
Cash and cash equivalents at beginning of period	**163.6**	177.9	(14.3)
Cash and cash equivalents at end of period	**132.9**	179.2	(46.3)
Restricted cash	**8.8**	18.0	(9.2)
Total cash	**141.7**	197.2	(55.5)

In H1 2016/17, there was a net cash outflow from operating activities of £(0.5)m (H1 2015/16: inflow of £21.3m) reflecting the increased direct operating cash costs associated with having an increased aircraft fleet, but set against relatively lower forward sales. In addition, capital expenditure increased to £76.0m (H1 2015/16: £12.7m) offset by the increased net proceeds from new loans of £47.3m (H1 2015/16: £6.4m net repayment of borrowings).

Flybe Group plc
Interim management report (continued)

Balance sheet

	30th Sept 2016 £m	31st Mar 2016 £m	Change £m
Owned aircraft	**246.6**	192.3	54.3
Other property, plant and equipment	**22.9**	21.4	1.5
Net (debt)/funds	**(24.8)**	62.2	(87.0)
Net derivative financial instruments	**26.3**	(9.9)	36.2
Other working capital – net	**(90.5)**	(123.5)	33.0
Deferred taxation	**11.3**	11.3	-
Retirement benefits	**(47.0)**	(15.3)	(31.7)
Other non-current assets and liabilities	**22.3**	15.7	6.6
Net assets	**167.1**	154.2	12.9
Cash and cash equivalents	**132.9**	163.6	(30.7)
Restricted cash	**8.8**	7.8	1.0
Total cash	**141.7**	171.4	(29.7)
Borrowings	**(166.5)**	(109.2)	(57.3)
Net (debt)/funds	**(24.8)**	62.2	(87.0)

The £246.6m of net book value of aircraft represents owned aircraft, engines and aircraft modifications.

At 30th September 2016 there was a net debt of £(24.8)m compared to a net funds position at 31st March 2016 of £62.2m reflecting increased capital investment in ownership (rather than leasing) of the aircraft fleet. Net funds at 30th September 2016 included restricted cash of £8.8m (£7.8m at 31st March 2016) which is cash deposits held in favour of aircraft owners to secure operating lease arrangements.

The main movement in other working capital is due to a £25.7m decrease in deferred income due to the seasonality of revenue into the first half. The majority of the movement in other non-current assets and liabilities is as a result of a £7.1m increase in other non-current receivables which in the main relates to maintenance receivables. At 30th September 2016 the retirement benefits obligation, the Group defined benefit pension scheme which is closed to future benefit accrual, had an IAS 19 accounting deficit of £47.0m compared to a deficit of £15.3m at 31st March 2016. The increased liability reflects the market-driven fall off in bond yields used to discount the future cash flows (see note 17).

Shareholders' equity increased by £12.9m as a result of the profit after tax in the period of £13.4m plus an increase in hedging reserve of £33.9m offset by the actuarial losses incurred by the pension scheme valuation (£31.7m) and net £(2.7m) of share-based transactions.

High Court approval was obtained on 17th August 2016 for a reduction of capital, involving the cancellation of the amount standing in the capital redemption reserve of Flybe Group plc ('the Company') of £22.5m. This follows receipt of shareholder approval at the Company's AGM on 27th July 2016. The reduction of capital eliminates the accumulated deficit on the retained earnings account of the Company and creates a positive balance of distributable reserves. This gave the Board the ability to proceed with the share grant of 5% of basic salary to all employees employed as at 31st July 2016, giving eligible employees a stake in the Company. The shares were purchased at a cost of £3.3m by the Company's employee benefit trust during September 2016.

Related party transactions

Other than the share-based payment activity made to key management personnel (disclosed in note 16), there have been no material related party transactions since the last annual report.

Going concern

Flybe's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Interim Management Report on pages 1 to 3. The financial position of the Group, its cash flows and liquidity position, and events since the balance sheet date are described on pages 5 to 11. In addition, note 34 of the Group's Annual Report for the year ended 31st March 2016 covers Flybe's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

Flybe had free cash balances of £132.9m at 30th September 2016, and has met all of its operating lease commitments and debt repayments as they have fallen due during the period.

Flybe faces trading risks presented by current economic conditions in the aviation sector, particularly in relation to passenger volumes and yields and the associated profitability of individual routes. In addition, the Group is exposed to fluctuations in fuel prices and foreign exchange rates. As of 7th November 2016, Flybe had purchased 91.2% of its anticipated fuel requirements and 89.9% of its anticipated USD requirements for the following 12 months.

The directors have prepared a detailed trading budget and cash flow forecast for a period which covers at least 12 months from the date of this report. Having considered the forecasts and making other enquiries, the directors have a reasonable expectation that Flybe has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the condensed financial statements.

Risks and uncertainties

This section describes the principal risks and uncertainties which may affect Flybe's business, financial results and prospects. The Board has determined that these are the principal risks and uncertainties facing the Group for the remaining six months of the financial year. Pages 28 to 31 of the Group's Annual Report for the year ended 31st March 2016, which is available for download from its website at http://www.flybe.com/en/corporate/investors, contains further details on the principal risks, uncertainties and mitigations.

Safety and security

Flybe is exposed to the risk of a safety or security-related incident including a terrorist threat, or attacks from either internal or external sources as well as the risk of adequately responding to a safety or security-related event. The incidence of cyber-attacks has increased worldwide and Flybe is exposed to this as a result of its reliance on the internet for a high proportion of delivery of sales.

Commercial and operational

- Flybe is exposed to sustained deterioration in general economic conditions, and reduction in domestic and regional air travel, particularly in the UK;
- Flybe operates in a highly competitive and capacity-driven aviation market;
- Although the Group does not believe the impact of the Brexit vote will have a long-term impact there are definite short-term impacts particularly in currency and there remains a risk that the UK exiting the European Union could impact the industry both operationally and commercially;
- Flybe is exposed to the effects of extraneous events, such as terrorist events, epidemics, natural occurrences or disasters (e.g. severe weather or ash cloud disruption);
- Flybe is becoming increasingly reliant on the Bombardier Q400 aircraft, with dispatch reliability being a key factor in the performance of the airline; and
- Flybe depends on good industrial relations, across all its regions, with a workforce that is, in significant part, unionised and is exposed to recruitment lags as it returns to growth especially if other airlines are also in growth mode and competing for the same human resources, e.g. pilots.

Financial

Flybe is exposed to risks associated with:
- Fluctuations in fuel prices and foreign exchange rates;
- The unavailability of suitable financing; and
- Failure or non-performance of commercial counterparties.

Regulatory

- 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; and
- Airlines may be adversely affected by increases in Air Passenger Duty in the UK and its equivalent in other countries, and by any future amendment with regard to regulation of emissions trading and other environmental laws and regulations, or negative environmental perception of the airline industry.

Independent review report to Flybe Group plc

For the six months ended 30th September 2016

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2016 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 21. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors’ responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting” as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2016 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom’s Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom

9th November 2016

Flybe Group plc

Condensed consolidated income statement
For the six months ended 30th September 2016 (unaudited)

	Note	Six months ended 30th September 2016 £m	2015 Restated[1] £m
Group revenue	3	**383.0**	339.6
Consisting of:			
Passenger revenue		**338.1**	320.0
White Label flying revenue		**15.8**	5.0
Revenue from other activities		**29.1**	14.6
Group revenue		**383.0**	339.6
Staff costs		**(55.9)**	(51.4)
Fuel		**(52.9)**	(56.1)
Airport and en route charges		**(82.3)**	(62.5)
Ground operations		**(46.7)**	(41.0)
Maintenance		**(26.4)**	(20.6)
Depreciation and amortisation		**(18.2)**	(11.5)
Aircraft rental charges		**(47.6)**	(38.7)
Marketing and distribution costs		**(13.6)**	(13.1)
Other operating gains		**7.9**	3.3
Other operating expenses		**(29.9)**	(26.1)
Operating profit		**17.4**	21.9
Investment income		**0.6**	0.4
Finance costs		**(2.1)**	(1.3)
(Losses)/gains on USD loan revaluations		**(8.9)**	1.8
Profit before tax	3	**7.0**	22.9
Tax credit	5	**6.4**	3.9
Profit after tax		**13.4**	26.8
Earnings per share:			
Basic and diluted	7	**6.2p**	12.3p

[1] Prior year restatement – from 1st April 2016, a new finance system was implemented which resulted in a change in presentation of transactional foreign exchange. Previously, each line had been shown at the effective exchange rate. However, from 1st April 2016, each line has been shown at the transactional spot rate and the gains on hedges shown in the other operating gains line. The prior period has therefore been restated.

Flybe Group plc

Condensed consolidated statement of comprehensive income
For the six months ended 30th September 2016 (unaudited)

	Six months ended 30th September	
	2016 £m	2015 £m
Profit for the period	**13.4**	26.8
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension scheme	**(31.7)**	9.7
Deferred tax arising on defined benefit pension scheme	**-**	(1.9)
	(31.7)	7.8
Items that may be reclassified subsequently to profit or loss:		
Gains/(losses) arising during the period on cash flow hedges	**35.6**	(14.0)
Reclassification of gains on cash flow hedges included in the condensed consolidated income statement	**1.6**	9.8
Deferred tax arising on cash flow hedges	**(6.4)**	2.6
Foreign exchange translation differences	**3.1**	(0.4)
	33.9	(2.0)
Other comprehensive income for the period	**2.2**	5.8
Total comprehensive income for the period	**15.6**	32.6

Condensed consolidated statement of changes in equity
For the six months ended 30th September 2016 (unaudited)

	Share capital £m	Share premium £m	Hedging reserve £m	Merger reserve £m	Capital redemp-tion reserve £m	Retained deficit £m	Total equity £m
Balance at 1st April 2016	2.2	209.3	(9.9)	6.7	22.5	(76.6)	154.2
Profit for the period	-	-	-	-	-	13.4	13.4
Other comprehensive income/(loss) for the period	-	-	33.9	-	-	(31.7)	2.2
Equity-settled share-based payment transactions	-	-	-	-	-	0.6	0.6
Capital reduction	-	-	-	-	(22.5)	22.5	-
Purchase of shares for employee benefit trust	-	-	-	-	-	(3.3)	(3.3)
Balance at 30th September 2016	**2.2**	**209.3**	**24.0**	**6.7**	**-**	**(75.1)**	**167.1**

	Share capital £m	Share premium £m	Hedging reserve £m	Other reserves £m	Capital redemp-tion reserve £m	Retained deficit £m	Total equity £m
Balance at 1st April 2015	**2.2**	**209.3**	**(11.7)**	**6.7**	**22.5**	**(89.0)**	**140.0**
Profit for the period	-	-	-	-	-	26.8	26.8
Other comprehensive (loss)/income for the period	-	-	(2.0)	-	-	7.8	5.8
Equity-settled share-based payment transactions	-	-	-	-	-	0.2	0.2
Balance at 30th September 2015	**2.2**	**209.3**	**(13.7)**	**6.7**	**22.5**	**(54.2)**	**172.8**

Flybe Group plc

Condensed consolidated balance sheet
As at 30th September 2016

	Note	30th September 2016 (unaudited) £m	31st March 2016 £m
Non-current assets			
Intangible assets		**14.4**	13.3
Property, plant and equipment	8	**269.5**	213.7
Other non-current assets		**47.8**	40.7
Restricted cash		**8.8**	7.8
Deferred tax asset		**16.3**	11.3
Derivative financial instruments	18	**8.3**	0.8
		365.1	287.6
Current assets			
Inventories		**6.9**	6.4
Trade and other receivables		**108.9**	101.4
Cash and cash equivalents		**132.9**	163.6
Derivative financial instruments	18	**22.7**	9.7
		271.4	281.1
Total assets		**636.5**	568.7
Current liabilities			
Trade and other payables		**(110.4)**	(104.3)
Deferred income		**(58.0)**	(84.7)
Borrowings	9	**(19.7)**	(14.7)
Provisions	10	**(37.9)**	(42.3)
Derivative financial instruments	18	**(4.5)**	(18.8)
		(230.5)	(264.8)
Non-current liabilities			
Borrowings	9	**(146.8)**	(94.5)
Deferred tax liability		**(5.0)**	-
Provisions	10	**(31.5)**	(30.9)
Deferred income		**(8.4)**	(7.4)
Retirement benefits	17	**(47.0)**	(15.3)
Derivative financial instruments	18	**(0.2)**	(1.6)
		(238.9)	(149.7)
Total liabilities		**(469.4)**	(414.5)
Net assets		**167.1**	154.2
Equity attributable to owners of the Company			
Share capital	11	**2.2**	2.2
Share premium account		**209.3**	209.3
Hedging reserve		**24.0**	(9.9)
Merger reserve		**6.7**	6.7
Capital redemption reserve	12	**-**	22.5
Retained deficit		**(75.1)**	(76.6)
Total equity		**167.1**	154.2

Flybe Group plc

Condensed consolidated cash flow statement
For the six months ended 30th September 2016 (unaudited)

	Six months ended 30th September	
	2016	2015
	£m	£m
Cash flows from operating activities		
Profit for the period	**13.4**	26.8
Adjustments for:		
Unrealised gains on financial instruments	**5.3**	5.0
Depreciation and amortisation	**18.2**	11.5
Investment income	**(0.6)**	(0.4)
Interest expense	**2.1**	1.3
Other losses/(gains) on USD loan revaluations	**8.9**	(2.3)
Loss on disposal of intangible fixed assets	**-**	1.3
Loss on disposal of property, plant and equipment	**1.0**	2.3
Share-based payment expenses	**0.6**	0.4
Taxation	**(6.4)**	(3.9)
	42.5	41.9
Cash paid for purchase of shares for employee benefit trust	**(3.3)**	-
Cash paid for defined benefit pension funding	**(0.5)**	(0.5)
Increase in restricted cash	**(1.0)**	-
(Increase)/decrease in trade and other receivables	**(14.6)**	12.4
(Increase)/decrease in inventories	**(0.5)**	0.1
Decrease in trade and other payables	**(19.6)**	(26.9)
Decrease in provisions and retirement benefits	**(3.5)**	(5.7)
	(43.0)	(20.6)
Tax paid	**-**	-
Net cash flows from operating activities	**(0.5)**	21.3
Cash flows from investing activities		
Interest received	**0.6**	0.4
Acquisition of property, plant and equipment	**(73.8)**	(11.4)
Capitalised computer software expenditure	**(2.2)**	(1.3)
Net cash flows from investing activities	**(75.4)**	(12.3)
Cash flows from financing activities		
Interest paid	**(2.1)**	(1.3)
Proceeds from new loans	**58.2**	-
Repayment of borrowings	**(10.9)**	(6.4)
Net cash flows from financing activities	**45.2**	(7.7)
Net (decrease)/increase in cash and cash equivalents	**(30.7)**	1.3
Cash and cash equivalents at beginning of period	**163.6**	177.9
Cash and cash equivalents at end of period	**132.9**	179.2

Flybe Group plc

Notes to the condensed set of financial statements
For the six months ended 30th September 2016

1. GENERAL INFORMATION

The condensed interim financial statements have been prepared using accounting policies set out in the Annual Report and Financial Statements 2015/16 and in accordance with IAS 34. They are unaudited but have been reviewed by the Company's auditor. The results for the year ended 31st March 2016 and the balance sheet as at that date are abridged from the Company's Annual Report and Financial Statements 2015/16 which have been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters for which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under sections 498 (2) or (3) of the Companies Act 2006.

2. ACCOUNTING POLICIES

Basis of accounting

The Annual Financial Statements of Flybe Group plc are prepared in accordance with IFRS as adopted by the European Union. The condensed interim set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', as adopted by the European Union.

Going concern

The directors have prepared a detailed trading budget and cash flow forecast for a period which covers at least 12 months after the date of approval of these condensed interim financial statements. Having considered the forecasts and making other enquiries, the directors have a reasonable expectation that Flybe has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the condensed interim financial statements.

Changes in accounting policy

The same accounting policies, presentation and methods of computation are followed in the condensed interim financial statements as applied in the Group's latest annual audited financial statements.

No material new standards, amendments to standards or interpretations are effective in the period ending 31st March 2017.

IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' have been published, but not yet applied. The Group will apply these standards by year ending 31st March 2019, subject to EU endorsement. IFRS 16 'Leases' has also been published, but not yet applied. The Group will apply this standard by year ending 31st March 2020, subject to EU endorsement. The assessment has not yet been finalised by management as to the impact of the above standards.

3. BUSINESS SEGMENTS

The chief operating decision-maker responsible for resource allocation and when assessing performance of operating segments has been identified as the Executive Committee. Operating segments are reported in a manner which is consistent with internal reporting provided to the chief operating decision-maker:

Flybe UK	This business segment comprises the Group's main scheduled UK domestic and UK-Europe passenger operations and revenue ancillary to the provision of those services along with White Label flying.
FAS	This segment provides maintenance, repair and overhaul services to customers, largely in Western Europe. FAS supports Flybe's UK activities as well as serving third-party customers.

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2016

3. BUSINESS SEGMENTS (continued)

Under IFRS 8, Flybe reports two business segments in order to comply with accounting standards. The presentation of segments is consistent with the published financial statements for the year ended 31st March 2016.

Segment revenues and results

Transfer prices between business segments are set on an arm's length basis.

	Six months ended 30th September	
	2016 **£m**	2015 £m
Segment revenues:		
Flybe UK	**364.6**	330.9
FAS	**23.8**	18.5
Inter-segment sales	**(5.4)**	(9.8)
Group revenue (excluding investment income)	**383.0**	339.6
Segment results:		
Flybe UK (including net finance (costs)/income of £(10.4)m in 2016 and £1.0m in 2015)	**5.3**	23.2
FAS	**1.7**	(0.3)
Total segment profit before tax	**7.0**	22.9

The Flybe UK segment includes group costs of £2.2m (H1 2015/16: £2.1m) and revaluation losses on USD aircraft loans of £8.9m (H1 2015/16: gain of £1.8m).

4. SEASONALITY

Flybe's operating results vary significantly from quarter to quarter and the first half of the year is generally significantly stronger than the second half as the airline industry enjoys higher demand and yields during the summer.

5. TAX

Current tax for the six-month period is charged at 0% (six months ended 30th September 2015: 0%), representing the best estimate of the average annual effective tax rate expected for the full year, applied to the pre-tax income of the six-month period. Deferred tax is calculated based on the expected annual outturn.

The tax credit in the condensed consolidated income statement of £6.4m represents the movement in the recognised deferred tax asset on fixed asset temporary differences, taking into account substantively enacted changes in corporation tax rates. The £(6.4)m charge to the condensed consolidated statement of changes in comprehensive income reflects the movement in derivative financial instruments from an expected loss at 31st March 2016 to an expected profit at 31st March 2017 therefore changing the deferred tax on derivative financial instruments from a deferred tax asset to a deferred tax liability. This is realisable in 2017/18 and therefore adopts the 19% corporation tax rate enacted for that period.

The prior year tax credit of £3.9m reported in the first half of H1 2015/16 resulted from the revaluation of previously recognised deferred tax assets.

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2016

6. DIVIDENDS

No dividends have been paid or proposed either during the six months ended 30th September 2016 or during the comparative accounting period.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30th September	
	2016	2015
	£m	£m
Earnings for the purposes of earnings per share being net profit attributable to owners of the Group	**13.4**	26.8
	No.	No.
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	**216,656,776**	216,656,776
Earnings per ordinary share – basic and diluted	**6.2p**	12.3p

Diluted earnings per share is the same as basic earnings per share in the period ended 30th September 2015 and 30th September 2016 because none of the shares that could, potentially, be issued are dilutive.

8. PROPERTY, PLANT AND EQUIPMENT

	30th September 2016 £m	31st March 2016 £m
Opening cost as at 1st April	**304.7**	283.0
Additions	**73.8**	59.7
Disposals	**(3.6)**	(36.1)
Reclassifications from/(to) intangible assets	**0.3**	(1.9)
Closing cost at 30th September / 31st March	**375.2**	304.7
Accumulated depreciation	**(105.7)**	(91.0)
Closing net book value as at 30th September / 31st March	**269.5**	213.7

Additions includes £69.1m of aircraft additions (which comprises cost of aircraft, engines and aircraft modifications).

See note 15 for capital commitments.

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2016

9. BORROWINGS

Repayments on bank loans amounting to £10.9m were made during the period. Three Q400 aircraft were purchased from Rand Merchant Bank in February 2016 and £17.6m debt was taken out against these aircraft in May 2016. £40.6m was drawn down under the Group's facility with Nord LB in order to fund the ownership of six further Q400 aircraft in August 2016. As at 30th September 2016, seven aircraft had been delivered under the NAC contract on operating leases. Flybe took ownership of six aircraft in August 2016 and the remaining one will be debt financed under the facility with Nord LB before 31st March 2017.

	30th September 2016 £m	31st March 2016 £m
Secured bank loans		
Amount due for settlement within 12 months	19.7	14.7
Amount due for settlement after 12 months	146.8	94.5
	166.5	109.2

Terms

	30th September 2016		31st March 2016	
	Interest rate %	**Amount £m**	Interest rate %	Amount £m
Floating rate sterling loans	3.3	19.4	3.5	24.9
Floating rate USD loans	2.6	88.3	2.5	83.0
Fixed rate sterling loans	3.1	35.3	3.0	0.9
Fixed rate USD loans	4.1	23.5	5.4	0.4
		166.5		109.2

The interest rate above relates to the weighted average for the period or year. Floating rates are based upon LIBOR and sterling base rate with margins of between 1.1% and 4.1%. The loans are repayable over the period to 31st December 2028. All loans are secured on specific aircraft assets or land and buildings. All of the covenants tested have been satisfied since inception of the agreements.

Notes to the condensed set of financial statements (continued)

For the six months ended 30th September 2016

10. PROVISIONS

	30th September 2016 £m	31st March 2016 £m
Leased aircraft maintenance	**67.3**	71.4
Other	**2.1**	1.8
	69.4	73.2
Current	**37.9**	42.3
Non-current	**31.5**	30.9
	69.4	73.2

The Group's provisions are as follows:

	Leased aircraft maintenance £m	**Other £m**	**Total £m**
At 1st April 2016	71.4	1.8	73.2
Additional provision	11.7	4.7	16.4
Utilisation of provision	(15.8)	(4.4)	(20.2)
At 30th September 2016	**67.3**	**2.1**	**69.4**

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 utilised within two years. The additional provision in the period is included within maintenance charges shown in the condensed consolidated income statement.

Other provisions includes £1.6m (31st March 2016: £1.1m) for passenger compensation claims when the group has an obligation to recompense customers under regulation EU261 and £0.5m for onerous property leases (31st March 2016: £0.7m).

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2016

11. SHARE CAPITAL

	30th September 2016 £000	31st March 2016 £000
Authorised, issued and fully paid		
216,656,776 ordinary shares of 1p each	**2,167**	2,167

In the six months ended 30th September 2016 no shares were issued. The Company has one class of ordinary shares which carry no right to fixed income.

12. RESERVES

Shareholder and High Court approval was obtained on 27th July 2016 and 17th August 2016 respectively to a Reduction of Capital of Flybe Group plc ('the Company').

£22.5m was held in the capital redemption reserve as disclosed in the Company statement of changes in equity on page 115 of the Group's Annual Report for the year ended 31st March 2016. The approval released the full amount of £22.5m into the retained earnings reserve therefore eliminating the accumulated deficit on the retained earnings reserve of the Company and creating a positive balance of distributable reserves.

This balance gave the Board the flexibility to proceed with a share grant of 5% of basic salary to all employees employed as at 31st July 2016, giving employees a stake in the Company (see note 16 on the Share incentive plan). The shares to enable the grant were purchased in August and September by the Company's employee benefit trust. The purchase of these shares has therefore been reflected in the Condensed consolidated statement of changes in equity for the six months ended 30th September 2016.

13. CONTINGENCIES

The Group has placed bank guarantees and letters of credit in favour of various aircraft lessors, handling agents, fuel suppliers and customs offices as follows:

	30th September 2016 £m	31st March 2016 £m
Bank guarantees and letters of credit issued	8.1	6.8

14. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Property and equipment		Aircraft	
	30th September 2016 £m	31st March 2016 £m	30th September 2016 £m	31st March 2016 £m
Less than one year	1.7	1.7	76.4	79.2
Between one and two years	0.9	1.0	69.6	77.0
Between two and five years	1.7	1.9	135.6	161.0
More than five years	10.1	10.4	15.1	28.0
	14.4	15.0	296.7	345.2

The fall in obligations for aircraft operating leases reflects the acquisition of previously leased aircraft mainly as a result of the NAC transaction in H1 2016/17. In H2 2016/17, five further aircraft are expected to be delivered on operating lease. The majority of aircraft operating leases are denominated in USDs.

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2016

15. 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:

	30th September 2016 £m	31st March 2016 £m
Embraer E175 regional jet	**114.4**	103.4
Bombardier Q400 turboprop	**38.9**	-
	153.3	103.4

It is intended that these aircraft will be financed partly through cash flow and partly through external financing and lease arrangements.

16. SHARE-BASED PAYMENTS

The Company has share award schemes under which employees of the Group may be granted awards. Awards are exercisable at nil consideration. The following new schemes commenced during the six months ended 30th September 2016:

Performance share plan (PSP) - September 2016 award
Eligible employees were granted awards totalling 3,465,224 shares under the PSP with a grant date of 30th September 2016. The awards were in the form of an option over a number of Flybe shares with a strike price of 1p per share, which vests subject to TSR and EPS performance conditions.

The performance period is over three years, commencing 1st April 2016 with 50% of the award vesting being subject to TSR exceeding the median of the constituents of the FTSE Small Cap Index (excluding investment trusts and Flybe Group plc) at the commencement of the performance period. 50% of the award is subject to the Company’s EPS at the end of the performance period.

To the extent the award vests, 50% of the shares under option will vest on the third anniversary of grant (30th September 2019), 25% will vest on the fourth anniversary of grant (30th September 2020), and the final 25% on the fifth anniversary of grant (30th September 2021).

A stochastic valuation methodology has been used to calculate the charge taken each year which will be trued up at each reporting period-end for forfeitures (as no forfeitures risk has been assumed in the valuation).

Notes to the condensed set of financial statements (continued)

For the six months ended 30th September 2016

16. SHARE-BASED PAYMENTS (continued)

Share incentive plan (SIP) - September 2016 award

During H1 2016/17, the performance conditions for the 2015/16 bonus were assessed and £3.6m was determined not to be payable and was therefore released to the condensed consolidated income statement. At the same time, a SIP was announced which will cost £3.3m over the three years from grant date and is phased according to IFRS 2.

Employees have been able to participate in the Group's SIP under which all eligible employees were awarded shares to the value of 5% of their basic salary up to a maximum of £3,600. The shares are held in Trust by Capita IRG Trustees Limited in a plan called the 'Flybe Share Incentive Plan'. If during the three-year vesting period an individual ceases to be an employee, the shares will be forfeited.

If 5% of their basic salary exceeded £3,600, then additional shares have been awarded separately as a 'Top-up award' in a PSP. These top-up shares are held in a separate employee trust.

Eligible employees were granted awards totalling 6,422,968 shares in the SIP with a grant date of 26th September 2016, and 233,188 shares in the PSP with a grant date of 29th September 2016. The fair value of these awards is equal to the face value of these awards (the three-day average closing market price was 51.42p) spread over the three-year vesting period. The charge taken each year will be trued up at each reporting period-end for forfeitures.

Deferred bonus for 2015/16

As disclosed in the Directors' remuneration report on page 72 of the Group's Annual Report for the financial year ended 31st March 2016, the Remuneration committee and the executive directors agreed that 45% of the bonus should be payable in Flybe shares, subject to a one-year deferral period. The fair value of these awards is equal to the face value of these awards, 38.0p on the date of grant of 2nd August 2016, spread over the one-year vesting period.

17. RETIREMENT BENEFITS

Defined benefit scheme

The defined benefit obligation as at 30th September 2016 is calculated on a roll-forward basis, using the latest agreed actuarial valuation as at 31st March 2013. The actuarial valuation as at 31st March 2016 is underway but is not yet completed. There have been significant fluctuations in the economic drivers since that time which have been estimated in the accounting obligation estimate. The defined benefit scheme liability as at 30th September 2016 has been updated to reflect the scheme cash flows and asset valuation movements, although the scheme's liabilities and membership numbers have not been updated for half-year purposes. The £(31.7)m increase in deficit to £(47.0)m at 30th September 2016 is primarily as a result of the fall in discount rate following the market-driven reduction in bond yields.

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2016

18. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES

Categories of financial instruments

	30th September 2016		31st March 2016	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash, cash equivalents and restricted cash	**141.7**	**141.7**	171.4	171.4
Loans and receivables:				
Trade and other receivables	**133.9**	**133.9**	120.4	120.4
Derivative instruments in designated accounting relationships	**31.0**	**31.0**	10.5	10.5
Financial liabilities				
Liabilities held at amortised cost:				
Trade and other payables	**(51.1)**	**(51.1)**	(44.5)	(44.5)
Debt	**(166.5)**	**(171.5)**	(109.2)	(112.1)
Derivative instruments in designated hedge accounting relationships	**(4.7)**	**(4.7)**	(20.4)	(20.4)

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2016

18. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES (continued)

The following table provides an analysis of the Group’s financial instruments, all of which are grouped into Level 2 in the fair value measurement hierarchy:

	30th September 2016 £m	31st March 2016 £m
Foreign exchange derivatives	**26.5**	8.8
Fuel derivatives	**(0.5)**	(20.0)
Margin calls	**0.3**	1.3
Total financial instruments	**26.3**	(9.9)

19. RELATED PARTIES

Transactions with key management personnel

Details of the compensation paid to the Directors will be disclosed in the Group’s Annual Report for the year ending 31st March 2017.

20. CONTINGENT LIABILITIES

Flybe has a potential obligation relating to cancelled aircraft commitments. The obligation is contingent upon components being undelivered under the original contract. As part of an ongoing commercial relationship, Flybe is in discussions with the supplier to clarify and resolve the situation. It is estimated that likely settlement could range from £nil to £6m and will potentially be settled alongside future commercial arrangements with the supplier.

21. POST BALANCE SHEET EVENT

On 26th October 2016, the Chief Executive Officer (‘CEO’) of Flybe Group plc, Saad Hammad, stepped down with immediate effect. Simon Laffin, Non-executive Chairman, has assumed the role of Executive Chairman until a new CEO is appointed.

Saad Hammad is entitled to 12 months' notice from the Company under his service agreement and will therefore continue to receive his salary (£433,500 per annum) and other benefits until 25th October 2017. He will be on garden leave until this date. During his notice period he will be available to ensure an orderly transition. In addition he will be paid £30,000 in compensation of lost benefits and in consideration of a waiver of his statutory employment rights. His award under the Company's 2015/16 annual discretionary bonus scheme will vest. No bonus payment will be made in respect of the Company's current financial year. Unvested awards under the Performance Share Plan will lapse. The Company will also make a contribution of £4,000 plus VAT towards legal fees on obtaining advice on the termination of his employment.

Flybe Group plc

Glossary

adjusted total cost	total costs less revaluation of USD loans
adjusted profit before tax	reported profit before tax less revaluation of USD loans
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
contract flying	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
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) as appropriate
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 market
ETS	Emissions Trading Scheme
FAS	Flybe Aviation Services Limited
Flybe	Flybe Group plc
fuel burn per seat	jet kerosene used, divided by number of seats flown
the Group	Flybe Group plc
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
load factor	sold seats (Flybe ticketed passengers on either Flybe operated scheduled services or hardblock routes operated by the codeshare partner) divided by scheduled available seats (seats available for passenger occupancy on scheduled services)
MRO	maintenance, repair and overhaul
net (debt)/funds	total cash less borrowings
passenger	a person with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable)
passenger revenue	total ticket and ancillary revenue (including unflown APD less refunds) plus revenue from hardblock codeshare arrangements
passenger revenue per seat	passenger revenue generated divided by scheduled available seats (seats available for passenger occupancy on scheduled services)
passenger yield	total passenger revenue per passenger (after the deduction of government taxes and levies)
route	a scheduled service flown by an airline other than on a franchised route
scheduled sectors flown	the total number of aircraft flights per annum, excluding contract flying, 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
Summer season	the last Sunday in March until the last Saturday in October in any particular year
White Label	flying operated by Flybe on behalf of another airline, on which Flybe takes operational risk, but the revenue and cost risks remain with the airline for whom Flybe is operating
Winter season	the first Sunday in October to the last Saturday in March in any particular year