12 November 2014

Flybe Group plc

Flybe's positive momentum continues

Results for the six months to 30 September 2014

Flybe, Europe's largest regional airline, reported a significantly improved performance in its core UK business, Flybe UK. This was more than offset by a full impairment of assets related to its joint venture with Finnair and a provision for EU 261 flight delay claims.

Flybe UK – Strong core business

- Passenger revenue per seat increased 8.7% to £54.75
- Load factor increased 8.6ppts to a record 77.2%
- On track to deliver £24m of incremental full year cost savings, in line with previously announced plans
- Adjusted profit before tax[1] up £2.0m to £13.7m, despite £6.0m provision for EU 261 flight delay compensation

Flybe Finland – joint venture exit announced

- Flybe is pleased to announce the sale of its 60% share in loss making Flybe Finland for €1 to Finnair, its joint venture partner
- Share purchase agreement is conditional only upon competition authority approval in Finland and is targeting 1 January 2015 completion
- Full impairment of investment has resulted in a net £9.9m, non-cash charge in the period

Group – Operating cash flow positive

- Loss after tax of £15.4m compared to profit after tax of £13.6m for the same period last year, impacted by £34.3m of one-offs and revaluations: Finland net impairment (£9.9m), EU261 flight delay catch-up provision (£6.0m), a net movement on surplus capacity and restructuring cost (£10.4m) and movement on revaluations of USD loans (£8.0m)
- £6.5m net cash inflow from operating activities after restructuring (H1 2013/14: outflow £9.9m)

Saad Hammad, Chief Executive Officer, commented:
"Our UK business performed well in the first half of the year showing the strength of the new Flybe. We delivered an increased adjusted profit before tax in the Flybe UK business and importantly became cash generative. Though our business transformation is far from complete, we are seeing the benefits of improved commercial execution with the right cost base and we now have improved operational and financial disciplines throughout our organisation.

"We are making significant progress in addressing the legacy issues within the business, which will ensure we operate with a simpler business model. We have taken decisive action in removing the overhang of the outstanding $750m order for 20 unwanted E175 aircraft, withdrawing from the Finland joint venture as well as providing for the potential costs for the arbitrary EU 261 regulation for flight delay claims in Flybe UK. We are working hard to resolve our surplus fleet issue.

"We are undertaking a measured approach to growth in the second half with our launch of new routes to and from London City Airport. In addition, today we have announced that we will be opening new bases in Bournemouth and Aberdeen. Whilst there are still a number of challenges ahead, Flybe enters the Winter season with solid momentum in its core UK business."

Key financial headlines

	H1 2014/15 £m	H1 2013/14 £m	Change %
Revenue under management	**425.0**	477.3	(11.0)
Less joint venture revenue	**(117.2)**	(126.2)	(7.1)
Group revenue	**307.8**	351.1	(12.3)
Adjusted EBITDAR before restructuring[2]	**34.8**	61.3	(43.2)
Adjusted profit before tax, restructuring, surplus capacity costs and revaluation on USD aircraft loans[3]	**1.5**	12.2	(87.7)
Adjusted (loss)/profit before tax and restructuring[4]	**(15.3)**	17.1	N/M
(Loss)/profit before tax	**(15.3)**	13.8	N/M
(Loss)/profit after tax	**(15.4)**	13.6	N/M
Net cash inflow/(outflow) from operating activities after Restructuring	**6.5**	(9.9)	N/M

1. Flybe UK adjusted (loss)/profit before tax, restructuring and surplus capacity costs is the segment loss of £4.9m (H1 2013/14: profit of £11.6m) after adding back group costs of £1.8m (H1 2013/14: £1.7m), £nil restructuring costs (H1 2013/14: £3.3m) and surplus capacity costs of £14.5m (2013/14: £0.8m) and revaluation losses on USD aircraft loans of £2.3m (2013/14: gains of £5.7m).
2. Adjusted EBITDAR before restructuring defined as operating (loss)/profit after adding back depreciation, amortisation, aircraft rental charges and restructuring costs of £nil (H1 2013/14: £3.3m).
3. Adjusted (loss)/profit before tax, restructuring and surplus capacity costs and revaluation on USD aircraft loans is defined as (loss)/profit before tax, £nil restructuring costs (H1 2013/14: £3.3m), surplus capacity costs of £14.5m (H1 2013/14: £0.8m) and revaluation losses on USD aircraft loans of £2.3m (H1 2013/14: gains of £5.7m). Surplus capacity costs represent in 2013/14, the costs incurred relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in 2013/14 and prior. In 2014/15, the surplus capacity costs are those costs associated with the strategic decision to exit an aircraft type unsuited to Flybe's operations.
4. Adjusted (loss)/profit before tax and restructuring defined as (loss)/profit before tax and £nil restructuring (H1 2013/14: £3.3m)

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There will be an analyst presentation at 09.00 BST on 12 November 2014 at the Grange St Paul's Hotel, 10 Godliman Street, London, EC4V 5AJ.

A live webcast of the presentation will be available at www.flybe.com.

Business review

Group summary

Revenue under management was £425.0m, (£477.3m in H1 2013/14), and group revenue was £307.8m (£351.1m in H1 2013/14), reflecting the change in UK business operations following the major restructuring programme during the last financial year.

The Group continued to manage its cost base effectively, achieving:

- 10.2% reduction in group operating costs (excluding joint venture result, restructuring costs, surplus capacity costs and USD loan revaluation movements)
- Significant progress with its £24m planned annual cost savings, taking cumulative annualised savings in the turnaround plan to £71m
- Lower aircraft ownership costs from the purchase of five Q400 turboprop aircraft for use on the London City routes from October 2014

The Group reported a loss after tax of £15.4m (profit of £13.6m in H1 2013/14). This reduction was caused by mostly external costs related to surplus capacity (£14.5m), a £2.3m loss on revaluation of USD aircraft loans (£5.7m gain in H1 2013/24), the net impairment of assets related to Flybe Finland (£9.9m) and the provision related to flight delay claims under EU 261 (£6.0m). Adjusted profit before tax, restructuring (in H1 2013/14 only) and surplus capacity costs reduced by 87.7%, from £12.2m in H1 2013/14 to £1.5m in H1 2014/15.

At 30 September 2014, the Group's balance sheet remained strong with net assets of £173.1m, including total cash of £171.0m and net funds (i.e. total borrowings less total cash) of £72.0m.

Flybe UK

Passenger revenue per seat grew by 8.7% to £54.75, with passenger revenue from Flybe UK reducing by 9.1% to £283.9m (H1 2013/14: £312.3m) as a result of the route network and base restructuring completed in the last financial year. The programme resulted in a 16.4%, reduction in Flybe UK's seat capacity to 5.2 million (H1 2013/14: 6.2 million) and a 12.7% decrease in sectors flown (73,100 to 63,800). Load factor increased significantly to 77.2%, up 8.6ppts, driven by a planned 3.4% reduction in passenger yield to £70.89 and improved commercial execution. Flybe has increased its UK regional sector share for the Flybe brand by 0.9ppts to 56.0%.

Unit revenue growth was supported by the Flybe brand re-launch, including new purple livery, redesigned website, a new advertising campaign and improvements to the on-board experience.

Contract flying by Flybe UK generated revenue of £7.3m (H1 2013/14: £8.2m) in relation to two aircraft operating on a Brussels Airlines agreement throughout H1 2014/15 and a third aircraft operating on three-month agreement with Aurigny (which ceased at the end of June 2014) before it moved on to a two-month contract with Helvetic. In the prior year, four Q400 aircraft operated on contract for Brussels Airlines. Aurigny and Helvetic activities involved one E195 aircraft and were put in place to reduce overall surplus capacity costs.

Other revenue streams reduced to £6.3m (H1 2013/14: £16.4m) since available surplus aircraft and crew in H1 2013/14 had resulted in exceptionally high levels of charter revenue in the comparative period. Revenue from other activities in H1 2014/15 is therefore lower since these surplus resources have been removed from the business.

Costs per seat excluding marketing, restructuring and surplus capacity increased by 2.7% to £53.30 due to absorption of one-off costs of c£8m (including a £6.0m catch-up provision for compensation in relation to flight delays under EU 261 and a £0.6m write-off of a bad debt) plus a c£2m bonus provision for Flybe's staff. On a constant currency basis, costs per seat excluding marketing, restructuring and surplus capacity increased by 4.7%. Management has estimated that up to £3m per annum of additional cost could be incurred if the EU 261 regulation in respect of flight delays is enacted in its current form. £6.0m has been provided in the half-year to cover potential historical claims. Flybe recognises that there might be a further contingent liability as the amount ultimately claimed is difficult to estimate.

Flybe Finland

The joint venture accounts for 27.6% of Flybe Group's revenue under management (H1 2013/14: 26.4%). There was a 4.7% reduction in contract flying revenue to £105.4m (H1 2013/14: £110.6m) as a result of exchange rate movements and a 25.2% reduction in scheduled passenger revenue to £10.1m (H1 2013/14: £13.5m) driven by a reduction in overall scheduled flying capacity and continuing poor load factors on the routes flown. There was a 2.2% decrease in passengers flown to 1.5 million, of which white label flying totalled 1.4 million, in line with H1 2013/14. White label therefore accounts for over 90% of passengers flown by the joint venture.

Flybe's share of the joint venture result for Flybe Finland was a loss after tax of £2.2m (H1 2013/14: profit of £0.2m). Overall, Flybe Finland generated revenue of £117.2m (H1 2013/14: £126.2m) and costs of £121.7m (H1 2013/14: £125.8m), £29.2m of which was fuel (H1 2013/14: £32.3m). After investment income, write back of deferred consideration of £0.7m and impairment of the joint venture carrying value by £10.6m, the Flybe Finland segment generated a loss of £11.9m (H1 2013/14: breakeven).

Contract flying accounts for the bulk of the activity in Flybe Finland involving 22 aircraft, out of a total of 26 in the joint venture, and is profitable. The smaller commercial flying operation of four aircraft is loss-making due to the continuing decline in the domestic Finnish passenger market. The losses have been increasing over H1 despite the reduction in scheduled capacity (two out of six aircraft removed in April/May). These losses significantly outweighed the profits in contract flying.

At 30 September 2014, 26 aircraft were in the Flybe Finland fleet compared to 28 at 30 September 2013.

An impairment review was performed at the balance sheet date to determine whether the carrying value of the joint venture was impaired. This resulted in a full net impairment of assets of £9.9m being recognised in the period.

Maintenance, Repair and Overhaul (MRO) business

Following a detailed review and efficiency programme, Flybe has confirmed it will retain the MRO business as a separate strategic business unit.

The MRO organisation (branded Flybe Aviation Services) continues to support in-house activities and serves third-party customers.

The MRO's revenue in H1 2014/15 decreased to £19.3m (including revenue of £0.8m from the A400M contract) compared to £20.5m in H1 2013/14. The benefit of an improvement in labour revenue this year was not sufficient to offset the impact of a significant one-off sale of parts last year. Overall, profitability reduced to £1.5m (H1 2013/14: £2.2m) as we booked a £0.5m provision for MRO staff related bonuses in the period.

In July 2014, we announced that our MRO business has been awarded the preferred bidder status to provide MRO services to the Royal Air Force fleet of A400M aircraft at RAF Brize Norton and we received £0.8m of revenue for services to ensure readiness before the end of November 2014.

Strategic developments

Our core UK business is performing well. The business has been transformed over the past 12 months as we have taken action to strengthen our financial position, realign our cost base, including asset utilisation, and reinvigorate our customer proposition. The Group is in the best position in its history, not only to plan for growth, but, with better execution capabilities to fund and deliver that growth. None of this could have been done without the co-operation and support of our staff, unions, partners and shareholders.

A number of significant initiatives were announced during the period which both provide seeds of growth and address legacy issues. More needs to be done and the management team is focused on these priorities.

Flybe Finland

In its first quarter IMS, Flybe stated that whilst the Flybe Finland joint venture's white label business was performing in line with expectations, the continuing decline in the domestic Finnish passenger market has resulted in sustained revenue weakness in the scheduled flying operation. Consequently, the growing losses in scheduled activity had become unacceptable to Flybe, especially as they more than offset the profit contribution of contract flying. Flybe has now signed a binding agreement to sell its 60% equity share in the joint venture to its partner, Finnair, for €1. Flybe has written down its accumulated investment of £10.6m in the joint venture and separately released a payable release of £0.7m. The agreement is subject only to approval from the Finnish Competition authorities, and is targeted to complete by January 2015. In the meantime, Flybe Finland services will continue as normal, and Flybe will provide transitional support to the joint venture as necessary. The UK codeshare with Finnair will also continue.

Strategic services agreement with Bombardier

In July 2014, Flybe and Bombardier announced a strategic services agreement which confirmed the Bombardier Q400 as Flybe's aircraft of choice in its UK branded business. Bombardier will undertake a major programme of aircraft enhancements which will make Flybe's 45-strong Q400 fleet one of the most operationally efficient regional fleets in the world.

Breakthrough agreement with Embraer and Republic Airways

In July 2010, Flybe announced a $1.3bn firm order with Embraer SA for 35 Embraer E175 88-seat regional jets, with deliveries originally scheduled to complete by March 2017. To date, 11 of these aircraft have been delivered to Flybe and last year the deliveries of the remaining 24 were rescheduled to a four-year period from October 2015.

In September 2014, Flybe announced new agreements relating to both the remaining 24 E175 orders and 24 Q400s currently operated by Republic Airways in the US. Embraer agreed to terminate 20 E175s from Flybe's firm order backlog of 24 and to defer delivery of the remaining four until 2018, in line with current fleet planning needs. In the meantime, Flybe has secured 24 attractively priced, young and modern Bombardier Q400s on sub-lease from Republic Airways with delivery starting in May 2015.

This agreement delivered major benefits for all Flybe stakeholders by removing another major legacy financial liability associated with orders for an inappropriate aircraft type and simultaneously securing the delivery of modern, attractively priced Q400 turboprop growth aircraft. Broadly, the total capacity matches our lessor hand back schedule and future growth plans.

Project Blackbird

Following the review of Group operations last year, it was determined that the Bombardier Q400 turboprop was the most appropriate aircraft for Flybe's future regional UK network. Accordingly, it was announced in November 2013, that Management would seek to exit Flybe's fleet of 14 Embraer E195 aircraft at the earliest opportunity. By April 2014, it was originally planned that all 14 aircraft would be grounded to limit the cost exposure to the Group. However, we found mitigating uses for four of the 14 aircraft in H1 2014/15 and as a result have only grounded 10 aircraft in this period.

Of the original fleet of 14 E195s, agreement has been reached to hand back five aircraft to lessors before the financial year end. The cost to the Group of the remaining nine E195s plus the carrying and re-delivery costs of the hand backs, amounts to a maximum of c£26m per annum.

Flybe has been pursuing actively a permanent solution for the remaining nine aircraft. Exit timing and costs will be dependent on the terms of each specific transaction.

White label flying

Flybe has strengthened the leadership of its white label activity with the recruitment of an experienced specialist. A number of discussions have already been held with airlines across the EMEA region. The medium-to-long-term opportunity remains clear for the Group. Our development in this division will be through profitable contracts, as a preference over joint ventures, because of the fee-based nature of these contracts is more transparent and avoids conflicts of interest.

The Group is pleased to announce that it has signed a letter of intent with a leading European airline to provide a regional service starting in autumn 2015 subject to contract completion.

Fleet and network development

We have removed loss-making capacity in both our UK and Finnish businesses (10 E195 aircraft grounded in the UK airline; two out of six aircraft in Finnish scheduled flying returned to lessors).

Our route assessment model sits at the heart of our decision making with regards to new routes, code shares and bases. We cut Flybe UK capacity during the period by 16.4%, largely with the removal of unprofitable routes and bases. Our cuts achieved the strengthening of the core Flybe UK regional flying business as we expected and it has positioned us for growth, with 11 new routes announced which performed above route assessment model projections. We have launched 23 new routes for the coming Winter, including the four routes associated with Flybe Shuttle, our new multi-stop “hop-on, hop-off” service linking Aberdeen, Leeds Bradford, Jersey and Southampton. We announced our return to a major London airport with the launch of seven London City Airport routes that started operating in late October 2014. London City Airport offers a major opportunity for Flybe with its heavy weighting towards time-sensitive business travellers who will be able to take advantage of flights at regular frequencies from a convenient airport location in the heart of London.

On 27 October 2014, we also announced that the Cornwall Country Council and the UK Department for Transport will provide a financial guarantee for the full four-year duration of the Public Service Obligation for the Newquay to London Gatwick route with up to three daily flights.

In addition to new route development, Flybe has been reviewing its current airport contracts. Flybe is pleased to announce today a new three year agreement with Manchester Airports Group (MAG). The agreement is significant because it provides cost certainty and a competitive cost structure at Manchester Airport over a three year period at Flybe's second largest base. In addition, the agreement locks-in similarly advantageous cost certainty for our ongoing operations through East Midlands airport. It also includes Stansted and Bournemouth airports.

New bases

Flybe is pleased to announce the opening of a base for two Q400 aircraft at Bournemouth Airport starting in March 2015 that serves both business and leisure orientated routes. This initiative builds on Flybe's already strong presence along England's South Coast.

Flybe will also commence limited operations without basing aircraft or crew at Stansted airport with a focus on giving the regional leisure passenger cost effective access into London. Stansted operations will also commence in March 2015.

In addition, Flybe will re-establish an aircraft and crew base at Aberdeen Airport in March 2015 after successfully rebuilding our network and presence at the airport over the last 12 months. The plan will see four Q400 aircraft based in Aberdeen. Our objective is to build a strong and vibrant operation in the North East of Scotland that benefits both the local community and those seeking access to Aberdeen from other regions of the UK and Europe.

Airport groups have been early to recognise our transformed business and we have been approached by various groups from across Europe to consider them as new bases. They recognise the passenger volume we can bring to their region or the connecting passengers we can provide for their flag carriers. We remain rigorous in our assessment of the commercial opportunities presented and will only open new bases in the future if the appropriate commercial terms can be agreed and the value proposition for Flybe is clear. Building on our strong UK position is our priority in the short-term.

Growth through partnership

A key component of our growth agenda is to strike appropriate partnerships with organisations which enhance our value proposition to customers and which can drive profitable incremental passenger volumes.

Accordingly, since 1 April 2014, Flybe has announced a number of exciting partnerships:

- Avios: This represents a significant service enhancement for Flybe customers, adding value to their flight purchase and providing a broader selection of redemption opportunities for points earned through frequent travel. There are also two million customers holding billions of Avios within 30 miles of a Flybe airport.

- STA Travel: This agreement has established Flybe as the preferred partner for student and youth travel with the world’s largest student and youth travel company with a 2.3 million contact database.

- booking.com: This is a partnership with the world leader in online accommodation booking which enables Flybe customers to book attractively priced accommodation across the destinations covered by the Flybe network.

- Stobart Air commenced franchised operations from Southend Airport, flying two ATR 72s.

- PayPal: Payments by PayPal were introduced during the period on the Flybe website. Users booking flights online can use the system to pay in Sterling, Euros or US Dollars. The introduction of PayPal means the airline can attract consumers who either do not have, or dislike using, credit or debit cards.

- Workspace Group plc: This enables Flybe's inbound London City Airport business travellers to access Club Workspace, a network of co-working business clubs across London. Each Club Workspace facility has free wi-fi, café and meeting room facilities and is a unique office environment. Club Workspace facilities are located in eight central locations within established Workspace business centres at Waterloo, Chancery Lane, Kennington, London Bridge, Clerkenwell, Islington, Chiswick and Bethnal Green.

- Code shares: we have signed new code share agreements with Finnair and Aer Lingus as part of our programme to provide a one-stop to the world service for customers based in the regions.

Staff relations

Flybe is significantly more than a brand, aircraft and route network. We are essentially a people business with frontline staff engaging with customers every day. It is critical that we listen to our colleagues and act where necessary to improve their working environment and provide them with the tools they need to deliver levels of safety and service which delight customers and keeps them returning to Flybe.

During the period, the Group worked extensively with all members of staff and our unions to continue our business transformation and drive improved operating performance, with signs of success becoming evident in our H1 2014/15 results. Our ‘Purple Way’ programme has played a significant role in reinvigorating our business, with consistent improvements in levels of service and customer engagement.

We have agreed new two-year compensation agreements with engineers and cabin crew, following negotiations with union representatives from Prospect and UNITE. In ballots with both employee groups, we achieved more than 80% turnout with more than 90% voting yes. Discussions with BALPA, the pilots’ union, continue.

Active engagement with government

As the leading regional airline in Europe, Flybe engages with local and national government across the continent to support our operational business of connecting regions, which in turn can be the catalyst for regional economic growth. Flybe also actively promotes with governments the benefits of white label flying, which is an attractive solution for many flag carriers to make their loss-making domestic services viable. Flybe has received strong support from the UK Government for a number of initiatives, most recently the PSO agreement announced to provide vital daily services between Newquay and London Gatwick. The launch of our operations at London City Airport also received cross-party support. We continue to engage with national government, alongside others in the aviation sector, on two particular issues:

- Air Passenger Duty (APD) as it exists today is a discriminatory tax on the UK regions as it favours international short-haul and long-haul traffic and is an impediment to UK regional connectivity. There is little logic to such a discriminatory tax regime (originally introduced for environmental reasons) that favours international and long-haul travel, and as a by-product, encourages a higher level of carbon emissions to be generated.

  The basic rate for APD has almost tripled from £5 for a domestic one-way flight, when it was introduced in 1994, to £13 today, which on a sector such as Newquay to Manchester of 245 miles, works out at an average of 5.3p per mile. By way of contrast, the new band B rate for long-haul will be £71 from April 2015, which, on a 3,400-mile trip to Bermuda, works out at 2.0p per mile; or 6,000 miles to Tokyo at 1.2p per mile. As well as discriminating against regional air travel on a per mile basis on one way trips, APD is also discriminatory against return domestic travel as it is a departure tax and, on a domestic return journey, it is payable twice compared to only once on an international short-haul or long-haul return trip.

  Flybe would like to see either APD completely abolished or, as a minimum, reduced on short-haul or domestic flights. An alternative would be to abolish APD on services from smaller regional airports, with revenue offset by increases in band B tax or increases in APD at larger congested airports. We believe that a restructuring of the tax could be done in a way that is fiscally neutral while generating both substantial net benefits and significant regional re-distribution. As these scenarios have not been modelled by the UK Airports Commission or the UK Government, we have engaged and will continue to actively engage with both bodies and are hopeful that Government will take positive action ahead of the General Election in May 2015.

- EU Regulation 261 governs air passenger rights and the compensation payable to passengers in the event of travel disruption. Flybe supports the need to look after passengers during times of disruption, and will always meet our legal obligations to do so. However, compensation needs to be proportionate and in-line with other modes of transport. EU 261 does not apply to other modes of transport such as rail or road or ferry and discriminates against domestic and regional air carriers like Flybe whose main competition are the rail, road and ferry operators who are not confronted with similar compensation requirements in the event of disruption. As an example, compensation payable under EU 261 for flight departures delayed for more than three hours due to factors within the airline's control on short sectors (up to 1,500km) is €250 which is significantly more than Flybe's average fare of less than €85. EU 261 is therefore in our opinion both disproportionate and anti-competitive and an arbitrary restriction on trade.

  Flybe has been advocating reform of EU 261, but this has been delayed in Brussels due to disagreements between the Spanish and UK governments over Gibraltar Airport. We have been engaging with the UK Government to resolve the issues with the Spanish Government urgently in order for reform to take place. Disadvantaged regional air operators can only result in disadvantaged regions in the UK which is at odds with the UK Government's policy of creating a balanced economic recovery across the country.

  Recently, the UK's Supreme Court decided to deny Jet2.com and Thomson Airways permission to appeal separate rulings by the High Court regarding compensation for delays. The Jet2.com ruling prevents airlines from avoiding compensation in the event of technical problems, with the Thomson ruling confirming passengers in England and Wales have six years to make a claim for compensation. Flybe has been liaising with the CAA to understand the repercussions on Flybe of the Supreme Court's decision. Flybe has estimated that up to £3m per annum of additional cost could be incurred if the legislation is enacted in its current form. A provision of £6.0m, based on claims received to date has been established in the half-year to cover potential historical claims. Flybe has recognised that an additional contingent liability may exist as the amount ultimately claimed is difficult to estimate.

Board and Company Secretary

Following the appointment of Saad Hammad as Chief Executive Officer (in August 2013) and Simon Laffin as Non-Executive Chairman (in November 2013), there have been further changes to the Board and Company Secretary:

- Philip de Klerk joined as Chief Financial Officer on 19 August 2014, from SABMiller, where he was Global Head of Financial Planning and Analysis and Finance Director of the Business Capabilities Programme. He was previously CFO of Ineos Olefins and Polymers Europe, a division with a $10bn annual turnover. Philip started his career at Unilever, where he spent sixteen years in various finance roles across Europe, including Vice President Investor Relations, CFO Unilever Switzerland and CFO Unilever Benelux.

- Sir Timothy (Timo) Anderson joined the Board as Non-Executive Director with effect from 1 May 2014. As an Air Marshal, Timo established the Military Aviation Authority (the body responsible for military aviation safety), becoming its first Director General from 2010 to 2013, and before that was Assistant Chief of Royal Air Force Air Staff. Timo chairs the Safety and Security Review Committee, and serves on the Nomination, Remuneration and Audit Committees.

- Liz McMeikan joined the Board as Non-Executive Director on 1 August 2014. Liz is Senior Independent Director at JD Wetherspoon plc and chairs the Remuneration Committee at Unite Group plc. She is also a Non-Executive Director at Fresca Group, a £365m private business, and Chairman of the Moat Housing Association. Liz spent her early career at Colgate-Palmolive and then at Tesco, establishing Tesco Express and being appointed Stores Board Director for Change Management and Human Resources. Liz joins the Remuneration and Nomination Committee, and chairs the Remuneration Committee.

- Annelie Carver joined as General Counsel and Company Secretary. Annelie joined Flybe on 23 June 2014 and was formerly a partner at Michelmores Solicitors with over 12 years of experience advising listed and unlisted companies.

Summary and outlook

The UK business performed well in the first half of the year showing the strength of the new Flybe. The Flybe UK business increased underlying pre-tax profit and became cash generative. The business transformation is far from complete, but benefits are beginning to be seen from improved commercial execution and stronger operational and financial disciplines throughout the organisation. Significant progress has been made in addressing the legacy issues, including decisive action to remove the overhang of the outstanding $750m order for twenty unwanted Ejets, withdrawing from the Finland JV as well as providing for the potential costs for EU261 flight delay claims in Flybe UK. Work continues to resolve our surplus fleet issue.

We are undertaking a measured approach to growth in the second half with our launch of new routes to and from London City Airport. In addition, today we have announced that we will be opening new bases in Bournemouth and Aberdeen. Whilst there are still a number of challenges ahead, Flybe enters the Winter season with solid momentum in its core UK business.

Q3 2014/15 current trading remains in line with management expectations. Flybe UK's current forward booking profile for Q3 2014/15 shows:

- Seat capacity of c2.6m seats, down by c5% vs. prior year
- c56% of seats sold as at 7 November vs. c52% in the prior year
- Passenger revenue per seat up by c1%

We have hedged the majority of our fuel and foreign exchange exposure in line with our stated policies.

Financial review

EBITDAR and profit measures

Set out below is a reconciliation from operating (loss)/profit to the adjusted EBITDAR figures. All EBITDAR metrics are non-GAAP measures[1].

EBITDAR is a common airline profit measure which is used for making comparisons between airlines. The adjusted EBITDAR measure presented removes restructuring costs reported in the income statement.

	H1 2014/15	H1 2013/14	Change
	£m	£m	%
Operating (loss)/profit – unadjusted	**(12.8)**	8.9	N/M
Depreciation and amortisation[2]	**6.7**	6.9	(2.9)
Aircraft rental charges	**40.9**	42.2	(3.1)
EBITDAR – unadjusted	**34.8**	58.0	(40.0)
Restructuring costs reported in the income statement[3]	**-**	3.3	N/M
Adjusted EBITDAR before restructuring costs	**34.8**	61.3	(43.2)

The table below sets out a reconciliation from (loss)/profit before tax to adjusted (loss)/profit before tax which adjusts the result for restructuring costs.

	2014	2013	Change
	£m	£m	%
(Loss)/profit before tax – unadjusted	**(15.3)**	13.8	N/M
Restructuring costs reported in the income statement	-	3.3	N/M
Adjusted (loss)/profit before tax and restructuring	**(15.3)**	17.1	N/M

Adjusted (loss)/profit before tax and restructuring is further adjusted to remove the revaluation loss/(gain) on USD aircraft loans and surplus capacity costs within the business. This measure demonstrates how adjusted (loss)/profit before tax and restructuring might have appeared if it had been possible to remove the surplus capacity costs[4].

	2014	2013	Change
	£m	£m	%
Adjusted (loss)/profit before tax and restructuring	**(15.3)**	17.1	N/M
Surplus capacity costs[4]	**14.5**	0.8	N/M
Revaluation loss/(gain) on USD aircraft loans	**2.3**	(5.7)	N/M
Adjusted profit before tax, restructuring and surplus capacity costs	**1.5**	12.2	(87.7)

The adjusted (loss)/profit before tax figures given above are non-GAAP measures[1].

1. Non-GAAP 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 non-GAAP measure is determined from the most directly comparable measure calculated and presented in accordance with IFRS. The non-GAAP 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. Excludes depreciation on maintenance assets set up in accordance with IFRS requirements.
3. Per note 5, H1 2014/15 restructuring costs of £nil comprised of £1.1m release of provision for redundancy costs net of £1.1m additional legal and professional costs incurred (H1 2013/14: £3.3m).
4. Surplus capacity costs represent in 2013/14, the costs incurred relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in 2013/14 and prior. In 2014/15, the surplus capacity costs are those costs associated with the strategic decision to exit an aircraft type unsuited to Flybe's operations.

Fleet

Flybe's total fleet under management at 30 September 2014 totalled 96 aircraft with an average age of 6.3 years (31 March 2014: 98 aircraft, average age 5.9 years), as summarised below:

	Number of seats	Number of aircraft At 31 March 2014	Net movements in period	**At 30 September 2014**
Flybe UK				
Embraer E195 regional jet	118	14	-	14
Embraer E175 regional jet	88	11	-	11
Bombardier Q400 turboprop	78	45	-	45
		70	-	70
Flybe Finland				
ATR 42 turboprop	48	2	(2)	-
ATR 72 turboprop	68-72	12	-	12
Embraer E170 regional jet	76	2	-	2
Embraer E190 regional jet	100	12	-	12
		28	(2)	26
Total		**98**	**(2)**	**96**
Held on operating lease		89	(7)	82
Owned[1]		9	5	14
Total		**98**	**(2)**	**96**
Total seats in fleet		8,410		8,314
Average seats per aircraft		85.8		86.6
Average age of fleet (years)		5.9		6.3

1. Five aircraft are owned outright, three are financed by loans and six are owned via finance leases.

Five Bombardier Q400 turboprops contracted to return to lessors were purchased by Flybe UK in order to provide capacity for expansion at London City. This investment is in line with the March 2014 fund raising objective to reduce fleet ownership costs.

In Flybe Finland, two ATR 42 turboprops were returned to lessors at the end of the operating lease agreement.

The Group continues to match capacity to demand particularly in its core UK market. In H1 2014/15, 10 Embraer E195 operating leased aircraft were grounded. Five early hand backs to lessors have been negotiated to be returned before the end of the fiscal year. A long-term solution for the five remaining grounded and four operational E195s is well advanced.

The £12.9m aircraft ownership costs incurred in relation to the ten grounded aircraft have been separately identified and shown as surplus capacity costs in the adjusted (loss)/profit measures shown above. A further £1.6m has been provided for the onerous leases associated with the five aircraft which are being handed back early. This brings total surplus capacity costs to £14.5m in H1 2014/15. Maximum exposure for 2014/15 is now capped at c£26m as mitigation initiatives contribute to reducing ownership costs.

As announced on 17 September 2014, Embraer terminated 20 E175s from Flybe's firm order backlog of 24 E175s. Embraer has agreed to defer delivery of the four remaining E175s until 2018, in line with current fleet planning needs.

Flybe has agreed with Republic to sub-lease 24 71-seat Bombardier Q400 turboprop aircraft, with three deliveries in 2014/15 (commencing in May 2015) and the rest spread over a two-year period, with seven being delivered in 2015/16. These Q400 aircraft will have an average age of 5.4 years and will have an average sub-lease period of 4.6 years at February 2015. The delivery schedule fits Flybe's fleet replacement and growth profile as 21 Bombardier Q400s from the existing Flybe fleet come to the end of their lease periods over the next four years.

Business results

Flybe's results analysed by segment are summarised below. These results are before tax, other than share of joint venture results.

	H1 2014/15 £m	H1 2013/14 £m
Business revenues:		
Flybe UK	**297.5**	336.9
Flybe Finland	**117.2**	126.2
MRO	**19.3**	20.5
Inter-segment sales	**(9.0)**	(6.3)
Revenue under management	**425.0**	477.3
Less: Revenue from Flybe Finland joint venture	**(117.2)**	(126.2)
Group revenue	**307.8**	351.1
Business adjusted profit/(loss) before tax:		
Flybe UK[1]	**13.7**	11.7
Flybe Finland	**(11.9)**	-
MRO	**1.5**	2.2
Group costs	**(1.8)**	(1.7)
Group adjusted profit before tax, restructuring and surplus capacity costs[2]	**1.5**	12.2
Restructuring and surplus capacity costs	**(14.5)**	(4.1)
Revaluation (loss)/gain on USD aircraft loans	**(2.3)**	5.7
Group (loss)/profit before tax	**(15.3)**	13.8

1. Flybe UK adjusted (loss)/profit before tax, restructuring and surplus capacity costs is the segment loss of £4.9m (H1 2013/14: profit of £11.6m) after adding back group costs of £1.8m (H1 2013/14: £1.7m), £nil restructuring costs (H1 2013/14: £3.3m) and surplus capacity costs of £14.5m (2013/14: £0.8m) and revaluation losses on USD aircraft loans of £2.3m (2013/14: gains of £5.7m).
2. Adjusted profit before tax, restructuring and surplus capacity costs and revaluation on USD aircraft loans is defined as (loss)/profit before tax, £nil restructuring costs (H1 2013/14: £3.3m), surplus capacity costs of £14.5m (H1 2013/14: £0.8m) and revaluation losses on USD aircraft loans of £2.3m (H1 2013/14: gains of £5.7m). Surplus capacity costs represent in 2013/14, the costs incurred relating to capacity that is considered by management to be surplus as a result of the restructuring decisions taken in 2013/14 and prior. In 2014/15, the surplus capacity costs are those costs associated with the strategic decision to exit an aircraft type unsuited to Flybe's operations.

Flybe UK

Revenue

	H1 2014/15		H1 2013/14 (restated[1])	
	£m	**£ per seat**	£m	£ per seat
Passenger revenue	**283.9**	**54.75**	312.3	50.35
Contract flying revenue	**7.3**		8.2	
Other revenue	**6.3**		16.4	
Total revenue – Flybe UK	**297.5**		336.9	

1. H1 2013/14 restated due to change in segments. See note 3.

Management reduced Flybe UK's seat capacity deliberately by 16.4% to 5.2 million in H1 2014/15 (H1 2013/14: 6.2 million) with sectors flown reduced by 12.7% to 63,800 (H1 2013/14: 73,100). Passenger numbers decreased 5.9% to 4.0 million (H1 2013/14: 4.3 million), but load factor increased significantly to 77.2%, up 8.6ppts (H1 2013/14: 68.6%), driven by a planned 3.4% reduction in passenger yield to £70.89 (H1 2013/14: £73.36) and improved commercial execution. There was an 8.7% growth in passenger revenue per seat to £54.75.

Revenue from contract flying operated by Flybe UK was £7.3m in relation to two Q400 aircraft operating on a Brussels Airlines contract flying agreement and a third E195 aircraft operating on agreement with Aurigny (which ceased at the end of June 2014) before operating on a two-month contract with Helvetic. In the prior year, four aircraft operated on contract for Brussels Airlines.

Revenue from other activities in H1 2013/14 was higher than H1 2014/15 due to exceptionally high levels of charter revenue due to available surplus aircraft and crew which have since been removed from the business.

Operating costs, excluding restructuring and surplus capacity costs

	H1 2014/15		H1 2013/14		
	£m	**£ per seat**	(restated[1]) £m	£ per seat	£ per seat at constant currency[2]
Fuel and aircraft operations	**145.2**	**28.01**	180.5	29.11	28.46
Aircraft ownership and maintenance	**64.2**	**12.39**	80.3	12.94	12.59
Staff and other net operating expenses	**75.8**	**14.56**	65.1	10.51	10.48
Operating costs	**285.2**	**54.96**	325.9	52.56	51.53

1. Operating costs for H1 2013/14 have been restated to reflect the change in segments.
2. Constant currency is calculated for the H1 2013/14 year by applying the effective exchange rates that prevailed for reporting the H1 2014/15 results of $1.59 and €1.25.

Operating costs decreased by 12.6% from £325.9m to £285.2m largely as a result of cost savings following implementation of the Turnaround Plan, Immediate Actions and Strategic Review. On a constant currency basis, underlying operating costs decreased by 10.8% from £319.5m in H1 2013/14 to £285.2m. Following recent decisions in the UK's Supreme Court confirming passenger rights in the case of delay, the management of Flybe UK have looked to assess what would be a reasonable and reliable provision based on the current level of claims experience and a provision for compensation in relation to flight delays of £6.0m has been recorded. The cost of this provision is included within operating expenses.

Operating costs per seat increased by 4.6% from £52.56 to £54.96 and on a constant currency basis, operating costs per seat increased by 6.7% from £51.53 to £54.96, due to seats decreasing from 6.2 million to 5.2 million.

Operating costs, including restructuring and surplus capacity costs

	H1 2014/15		H1 2013/14		
	£m	**£ per seat**	(restated[1]) £m	£ per seat	£ per seat at constant currency[2]
Fuel and aircraft operations	**145.2**	**28.01**	180.5	29.11	28.46
Aircraft ownership and maintenance	**78.7**	**15.19**	81.1	13.07	12.73
Staff and other net operating expenses	**75.8**	**14.56**	68.4	11.04	11.01
Operating costs	**299.7**	**57.76**	330.0	53.22	52.20

1. Operating costs for H1 2013/14 have been restated to reflect the change in segments.
2. Constant currency is calculated for the H1 2013/14 year by applying the effective exchange rates that prevailed for reporting the H1 2014/15 results of $1.59 and €1.25.

Fuel

Flybe UK's results are subject to significant change as a result of movements in the price of fuel which forms a significant variable cost for the business. Although H1 2014/15 initially saw an increase in fuel prices, they declined rapidly in the last few days of September. Brent crude has been in the $105 to $110 a barrel range for the majority of the period, although saw a steady decline in the last month with the average price being $107, while the price of jet fuel has traded between $879 and $1,010 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. This was demonstrated when the oil price touched a recent low of just under $83 per barrel.

During H1 2014/15, Flybe UK used some 83,600 tonnes of jet fuel, a reduction on H1 2013/14's 100,500 tonnes, and fuel burn was stable at 16.1kg per seat for H1 2014/15 (H1 2013/14: 16.2kg). The average market price during the period was $959 per tonne (H1 2013/14: $964), with the Group paying a blended rate (net of hedges) of $959 per tonne (H1 2013/14: $975). Including 'into plane' costs, Flybe UK's fuel costs in H1 2014/15 of £55.5m (H1 2013/14: £69.4m) represent an all-in cost of $1,055 per tonne (H1 2013/14: $1,057).

Flybe UK operates a policy of managing fuel price volatility by entering into derivative contracts representing a portion (between 60% and 90%) 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. As at 7 November 2014, 90.2% of the fuel burn for H2 2014/15 was hedged at an average price of $950 per tonne, and 80.1% of Flybe UK's expected fuel burn on H1 2015/16 was hedged at an average price of $936 per tonne.

Net finance costs/(gains)

Net finance gains changed to a net finance cost resulting in a movement of £7.4m largely due to a swing from H1 2013/14 gains of £5.7m arising on the retranslation of US Dollar denominated debt to a loss of £2.3m in H1 2014/15. The movement in this US Dollar liability cannot be naturally offset against the value of the aircraft as the latter are recorded in UK Sterling at date of acquisition in order to comply with the requirements of International Financial Reporting Standards. This income statement loss (or gain in prior period) has therefore been adjusted in arriving at adjusted profit before tax.

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. Flybe UK currently has a relatively small net exposure to the Euro, but has significant US Dollar costs in relation to fuel, maintenance, aircraft operating leases and loan repayments. The Group generates no significant US Dollar revenue and actively manages its US Dollar position through a foreign exchange forward purchase programme similar to that outlined for fuel. As at 7 November 2014, 78.7% of our anticipated US Dollar requirements for H2 2014/15 were hedged at an average exchange rate of $1.64, and 68.0% of its forecast US Dollar requirements for H1 2015/16 were hedged at an average exchange rate of $1.66. All existing derivative financial instruments are forward swap arrangements.

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.

	Calendar year 2015	**Calendar year 2014**	Calendar year 2013
Anticipated carbon allowances required, tonnes	518,100	496,500	555,900
Free allowance allocation, tonnes	222,800	222,800	222,800
Proportion forward purchased at beginning of period	89%	99%	100%
Effective carbon rate	€6.76	€5.61	€3.63

Following the EU ETS regulation update in April 2014, the fuel emissions for calendar year 2013 to 2016 are subject to reduced scope; therefore the number of free allowances to be issued to aircraft operators each year from 2013 to 2016 was reduced in proportion to the reduced scope Flybe expects to receive of 222,800. Subject to re-verification, the emissions allowances returns for both calendar years 2013 and 2014 will be submitted in April 2015.

Anticipated carbon allowances required for calendar year 2014 amount to 496,500 tonnes, with the free allowance allocation being maintained at calendar year 2013's level of 222,800 tonnes. As at 7 November 2014, 89% of our anticipated requirement including free allowances for calendar year 2015 had been purchased at an average effective rate of €6.64.

Flybe Finland

With revenue of £117.2m (H1 2013/14: £126.2m) and costs of £121.7m (H1 2013/14: £125.8m), £29.2m of which was fuel (H1 2013/14: £32.3m), Flybe Finland generated a loss before tax of £4.5m (H1 2013/14: profit before tax of £0.4m). A tax credit of £0.8m relating to losses generated was also reported, resulting in a loss after tax for Flybe Finland of £3.7m (H1 2013/14: profit after tax charge was £0.3m), of which Flybe's 60% share was a loss of £2.2m (H1 2013/14: profit of £0.2m).

Contract flying for Finnair accounted for 1.4 million passengers in line with H1 2013/14. In addition, Flybe Finland's passenger numbers on commercial flying represented 0.1 million passengers with a load factor of 41.4%.

Central overhead income, net of investment income receivable, amounted to £0.2m (H1 2013/14: cost of £0.2m).

An impairment review was performed at the balance sheet date to determine whether the carrying value of the joint venture was impaired (see note 10). This resulted in a net impairment of assets of £9.9m being recognised in the period. The overall Flybe Finland result was a loss of £11.9m (H1 2013/14: breakeven).

	H1 2014/15 £m	H1 2013/14 £m	Change %
Flybe Finland joint venture			
Revenue			
Contract flying	**105.4**	110.6	(4.7)
Passenger revenue	**10.1**	13.5	(25.2)
Other revenue	**1.7**	2.1	(19.0)
	117.2	126.2	(7.1)
Costs			
Fuel	**(29.2)**	(32.3)	9.6
Other operating costs	**(92.5)**	(93.5)	1.1
	(121.7)	(125.8)	3.3
(Loss)/profit before tax			
White label	**1.7**	3.5	(51.4)
Scheduled flying	**(6.2)**	(3.1)	(100.0)
Total (loss)/profit before tax	**(4.5)**	0.4	N/M
Tax credit/(charge)	**0.8**	(0.1)	N/M
(Loss)/profit after tax	**(3.7)**	0.3	N/M
60% share of Flybe Finland joint venture (loss)/profit	**(2.2)**	0.2	N/M
Other net costs including interest	**0.2**	(0.2)	N/M
Release of deferred consideration payable	**0.7**	-	N/M
Impairment of assets	**(10.6)**	-	N/M
Flybe Finland result	**(11.9)**	-	N/M

MRO

The main business within this segment is the MRO based in Exeter. In addition, Flybe Aviation Services has been awarded the preferred bidder status to provide MRO services to the Royal Air Force fleet of A400M aircraft at RAF Brize Norton.

	H1 2014/15 £m	H1 2013/14 (restated[1]) £m	Change %
Revenue	**19.3**	20.5	(5.9)
Operating costs	**(17.8)**	(18.3)	(2.7)
Profit before tax	**1.5**	2.2	(31.8)

1. H1 2013/14 restated due to change in segments. See note 3.

The MRO's revenue in H1 2014/15 decreased to £19.3m (including revenue of £0.8m from the A400M contract) compared to £20.5m in H1 2013/14. The benefit of an improvement in labour revenue this year was not sufficient to offset the impact of a significant one-off sale of parts last year. Overall, profitability reduced to £1.5m (H1 2013/14: £2.2m).

Group costs

Group costs of £1.8m (H1 2013/14: £1.7m) include Group Board salaries and Group legal and professional fees.

Group – overall results

The Group made an operating loss after joint venture results of £12.8m compared to the H1 2013/14 operating profit before restructuring costs but after joint venture results of £12.2m.

The Group's operating loss of £12.8m compared to H1 2013/14 operating profit after restructuring costs of £8.9m.

The Group incurred net finance costs of £0.2m (H1 2013/14: £0.8m) and other losses of £2.3m (H1 2013/14: other gains of £5.7m), the latter being due to the losses on translation of USD aircraft loans.

Other gains and losses in H1 2013/14 have been previously reported as £5.5m, however, following the adoption of IAS 19 (revised), the actuarial loss of £0.2m has been reclassified to net finance costs (to be consistent with the 2013/14 Annual Report presentation), which in turn was previously stated as £0.6m. Profit before tax for that period has not changed as this is simply a reclassification between line items.

Loss before tax for the period was £15.3m (H1 2013/14: profit of £13.8m). There was no movement on current tax and only a small movement arising from the reduction in the corporation tax rate on deferred tax resulting in a charge of £0.1m (H1 2013/14: £0.2m). As a result, the Group reported a loss after tax for H1 2014/15 of £15.4m (H1 2013/14: profit of £13.6m).

EPS and dividends

Basic and diluted (loss)/earnings per share for H1 2014/15 was a loss of 7.1p, compared with 18.1p in H1 2013/14 (see note 8 to the condensed financial statements). Adjusted basic and diluted earnings per share (see note 8) was 0.7p, compared with 16.0p for H1 2013/14.

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

Cash flow

	H1 2014/15 £m	H1 2013/14 £m	Change £m
Net cash inflow/(outflow) from operating activities before restructuring	**10.7**	(3.0)	13.7
Cash flows associated with restructuring activities	**(4.2)**	(6.9)	2.7
Net cash inflow/(outflow) from operating activities after restructuring	**6.5**	(9.9)	16.4
Net capital (expenditure)/income after disposal proceeds	**(30.1)**	23.2	(53.3)
Net repayment of borrowings	**(5.1)**	(16.7)	11.6
Net interest paid	**(0.2)**	(0.8)	0.6
Net decrease in cash and cash equivalents	**(28.9)**	(4.2)	(24.7)
Cash and cash equivalents at beginning of period	**177.9**	23.3	(154.6)
Cash and cash equivalents at end of period	**149.0**	19.1	129.9
Restricted cash	**22.0**	45.1	(23.1)
Total cash	**171.0**	64.2	106.8

Net cash inflows from operating activities before restructuring were £10.7m (H1 2013/14: outflow of £3.0m). However, the net cash flow after the cash out flows associated with restructuring activities have resulted in an overall net cash inflow from operating activities after restructuring of £6.5m (H1 2013/14: outflow of £9.9m).

The largest movement in net capital expenditure relates to the acquisition of five previously leased Q400 aircraft for £25.5m.

Balance sheet

	30 Sept 2014 £m	31 Mar 2014 £m	Change £m
Aircraft	**169.9**	147.0	22.9
Other property, plant and equipment	**23.1**	23.6	(0.5)
Interest in joint venture	**-**	12.4	(12.4)
Net funds	**72.0**	116.9	(44.9)
Derivative financial instruments	**(2.0)**	(7.6)	5.6
Other working capital – net	**(89.5)**	(105.4)	15.9
Deferred taxation	**4.9**	4.5	0.4
Other non-current assets and liabilities	**(5.3)**	2.7	(8.0)
Net assets	**173.1**	194.1	(21.0)

The £169.9m of net book value of aircraft represents owned aircraft, engines and aircraft modifications. An impairment review was performed at the balance sheet date to determine whether the carrying value of the joint venture was impaired (see note 10). This resulted in a net impairment of assets of £9.9m being recognised in the period, after release of a £0.8m amount payable in respect of deferred consideration. When combined with our share of the loss, interest receivable and foreign exchange incurred in the period, the movement was £12.4m.

Net funds at 30 September 2014 of £72.0m decreased from the position at 31 March 2014 of £116.9m in the main due to the purchase of five Bombardier Q400 turboprops contracted to return to lessors in order to provide capacity for expansion at London City. This investment is in line with the fund raising objective to reduce fleet ownership costs and Flybe intends to finance these aircraft via loans before 31 March 2015. Net funds at 30 September 2014 included restricted cash of £22.0m (£40.5m at 31 March 2014) which is predominantly cash held with the Group's bankers to facilitate guarantee arrangements with merchant card acquirers, cash deposits held in favour of aircraft owners to secure operating lease arrangements plus cash held with the Group's bankers to facilitate guarantee arrangements with other suppliers. The £18.5m decrease is predominantly due to a reduction in guarantee facilities required by banks and merchant card acquirers as a result of the strengthened balance sheet following the March 2014 fund raise.

The main movement in other working capital is due to the seasonal change in deferred income. Other non-current assets and liabilities include the £8.6m adverse movement resulting in a defined benefit pension scheme deficit of £11.1m at September 2014. At March 2014, this scheme, which is closed to future benefit accrual, had a deficit of £2.5m.

The debenture held by Barclays, secured against the assets of the Group, was submitted for release to Companies House on 11 November 2014.

Shareholders' equity decreased by £21.0m as a result of the loss after tax in the period of £15.4m and the movement in the increase in pension scheme deficit of £7.1m. This was partially offset by the movement in hedge reserves of £1.3m.

Related party transactions

Related party transactions are disclosed in note 19 to the condensed financial statements. Other than the Long-Term Incentive Plan 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 Business Review and Financial Review on pages 3 to 17. The financial position of the Group, its cash flows and liquidity position, and events since the balance sheet date are described in the Financial Review on pages 10 to 17. In addition, note 36 of the Group's Annual Report for the year ended 31 March 2014 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 £149.0m at 30 September 2014, and has met all of its operating lease commitments and debt repayments as they have fallen due during the year.

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. The Group's policy is to hedge between 60% and 90% of estimated exposures 12 months in advance. As of 7 November 2014, Flybe had purchased 84.5% of its anticipated fuel requirements and 73.2% of its anticipated US Dollar requirements for the following twelve months.

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 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 these 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 34 to 37 of the Group's Annual report for the financial year ended 31 March 2014, and 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

- Failure to prevent a safety or security-related incident including terrorist threat, or attacks from either internal or external sources or to respond adequately to a safety or security-related event.

Extraneous matters

- 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 aviation market.
- 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 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.
- Flybe is exposed to the failure or non-performance of commercial counterparties as well as requiring the services of key suppliers such as airports, air traffic control systems, and fuel supply companies.
- Flybe is exposed to the effects of extraneous events, such as epidemics, natural occurrences or disasters (e.g. severe weather or ash cloud disruption).

Reputational risk

- Flybe is exposed to an event damaging its fleet reputation, company reputation or brand.

IT systems and the internet

- Flybe is heavily dependent on its information technology systems, the ongoing development of those systems, and the internet to operate its business. 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 its sales.
- Flybe operates an e-commerce business and deals with a significant amount of personal and business information.

Relationships with our people

- Flybe is dependent on good industrial relations, across all its regions (with a workforce that is, in significant part, unionised), and is exposed to shortages of key personnel.

Financial risks

- Flybe is exposed to risks associated with:
    - Fluctuations in fuel prices and foreign exchange rates.
    - Continuing performance of counter-parties.
    - Failure to remove surplus capacity costs.
    - Potential compensation claims due to flight delays, cancellations and/or maintenance failures in excess of the amount provided.

Statement of Directors' responsibilities

Six months ended 30 September 2014

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

Saad Hammad **Chief Executive Officer**	**Philip de Klerk** **Chief Financial Officer**
11 November 2014	11 November 2014

Independent review report to Flybe Group plc

Six months ended 30 September 2014

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 30 September 2014 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated balance sheet, the condensed consolidated cash flow statement and related notes 1 to 19. 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 30 September 2014 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
Reading, United Kingdom

11 November 2014

Consolidated income statement

Six months ended 30 September 2014

		Six months ended 30 September (unaudited)			
	Note	**2014 Total £m**	2013 Before restructuring costs (restated) £m	2013 Restructuring costs (note 5) £m	2013 Total (restated) £m
Total revenue under management	3	**425.0**	477.3	-	477.3
Less: Joint venture revenue		**(117.2)**	(126.2)	-	(126.2)
GROUP REVENUE		**307.8**	351.1	-	351.1
Consisting of:					
Passenger revenue		**283.9**	312.3	-	312.3
Contract flying revenue		**7.3**	8.2	-	8.2
Revenue from other activities		**16.6**	30.6	-	30.6
		307.8	351.1	-	351.1
Staff costs		**(43.6)**	(49.3)	(2.4)	(51.7)
Fuel		**(55.5)**	(69.4)	-	(69.4)
Net airport and en route charges		**(56.7)**	(70.0)	-	(70.0)
Ground operations		**(33.1)**	(41.1)	-	(41.1)
Maintenance		**(22.4)**	(25.9)	-	(25.9)
Depreciation and amortisation		**(6.7)**	(6.9)	-	(6.9)
Aircraft rental charges		**(40.9)**	(42.2)	-	(42.2)
Marketing and distribution costs		**(15.9)**	(11.7)	-	(11.7)
Other operating gains		**0.1**	2.5	-	2.5
Impairment of joint venture carrying value		**(10.6)**	-	-	-
Other operating expenses		**(33.1)**	(25.1)	(0.9)	(26.0)
Operating (loss)/profit before joint venture results		**(10.6)**	12.0	(3.3)	8.7
Share of joint venture (loss)/profit		**(2.2)**	0.2	-	0.2
OPERATING (LOSS)/PROFIT		**(12.8)**	12.2	(3.3)	8.9
Investment income		**0.6**	0.3	-	0.3
Finance costs		**(0.8)**	(1.1)	-	(1.1)
Other (losses)/gains		**(2.3)**	5.7	-	5.7
(LOSS)/PROFIT BEFORE TAX		**(15.3)**	17.1	(3.3)	13.8
Tax charge	6	(0.1)	(0.2)	-	(0.2)
(LOSS)/PROFIT FOR THE PERIOD		**(15.4)**	16.9	(3.3)	13.6
(Loss)/earnings per share:					
Basic and diluted	8	**(7.1)p**			18.1p

Consolidated statement of comprehensive income

Six months ended 30 September 2014

	Six months ended 30 September (unaudited)	
	2014 £m	2013 £m
(Loss)/profit for the period	**(15.4)**	13.6
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension scheme	**(8.8)**	0.2
Items that may be reclassified subsequently to profit or loss:		
Gains/(losses) arising during the period on cash flow hedges	**4.3**	(12.9)
Reclassification of gains/(losses) on cash flow hedges included in the income statement	**1.2**	(0.8)
Deferred tax arising on cash flow hedges	**(1.1)**	2.8
Deferred tax arising on defined benefit pension scheme	**1.7**	-
Foreign exchange translation differences	**(3.1)**	(0.7)
	3.0	(11.6)
Other comprehensive loss for the period	**(5.8)**	(11.4)
Total comprehensive (loss)/income for the period	**(21.2)**	2.2

Consolidated statement of changes in equity

Six months ended 30 September 2014

	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 1 April 2014	**2.2**	**209.2**	**(7.4)**	**6.7**	**22.5**	**(39.1)**	**194.1**
Loss for the period	-	-	-	-	-	(15.4)	(15.4)
Other comprehensive income/(loss) for the period	-	-	1.3	-	-	(7.1)	(5.8)
Equity-settled share-based payment transactions	-	-	-	-	-	0.2	0.2
Balance at 30 September 2014 (unaudited)	**2.2**	**209.2**	**(6.1)**	**6.7**	**22.5**	**(61.4)**	**173.1**

	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 1 April 2013	**0.7**	**60.6**	**3.6**	**6.7**	**22.5**	**(46.0)**	**48.1**
Profit for the period	-	-	-	-	-	13.6	13.6
Other comprehensive (loss)/income for the period	-	-	(11.6)	-	-	0.2	(11.4)
Equity-settled share-based payment transactions	-	-	-	-	-	0.3	0.3
Balance at 30 September 2013 (unaudited)	**0.7**	**60.6**	**(8.0)**	**6.7**	**22.5**	**(31.9)**	**50.6**

Consolidated balance sheet

At 30 September 2014

	Note	**30 September 2014 £m (Unaudited)**	31 March 2014 £m (Audited)
NON-CURRENT ASSETS			
Intangible assets		**5.6**	5.2
Property, plant and equipment	9	**193.0**	170.6
Interests in joint venture	10	**-**	12.4
Other non-current assets		**40.0**	42.3
Restricted cash		**6.5**	6.6
Deferred tax asset		**6.7**	6.1
Derivative financial instruments		**0.3**	-
		252.1	243.2
CURRENT ASSETS			
Inventories		**7.1**	6.8
Trade and other receivables		**90.0**	85.8
Cash and cash equivalents		**149.0**	177.9
Restricted cash		**15.5**	33.9
Derivative financial instruments		**3.5**	0.4
		265.1	304.8
TOTAL ASSETS		**517.2**	548.0
CURRENT LIABILITIES			
Trade and other payables		**(81.0)**	(82.0)
Deferred income		**(48.7)**	(70.7)
Borrowings	11	**(13.5)**	(10.4)
Provisions	12	**(56.9)**	(45.3)
Derivative financial instruments		**(5.0)**	(8.0)
		(205.1)	(216.4)
NON-CURRENT LIABILITIES			
Borrowings	11	**(85.5)**	(91.1)
Deferred tax liabilities		**(1.8)**	(1.6)
Provisions	12	**(29.1)**	(31.9)
Deferred income		**(9.0)**	(9.5)
Employee benefits	17	**(11.1)**	(2.5)
Liability for share-based payments	16	**(1.7)**	(0.9)
Derivative financial instruments		**(0.8)**	-
		(139.0)	(137.5)
TOTAL LIABILITIES		**(344.1)**	(353.9)
NET ASSETS		**173.1**	194.1
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital	13	**2.2**	2.2
Share premium account		**209.2**	209.2
Hedging reserve		**(6.1)**	(7.4)
Other reserves		**6.7**	6.7
Capital redemption reserve		**22.5**	22.5
Retained deficit		**(61.4)**	(39.1)
TOTAL EQUITY		**173.1**	194.1

Consolidated cash flow statement

Six months ended 30 September 2014

	Six months ended 30 September (unaudited)	
	2014 **£m**	2013 (restated) £m
Cash flows from operating activities		
(Loss)/profit for the period	**(15.4)**	13.6
Adjustments for:		
Restructuring costs	**-**	3.3
Unrealised gains on derivative contracts	**(2.1)**	(1.2)
Depreciation, amortisation and impairment	**7.0**	8.8
Investment income	**(0.6)**	(0.3)
Finance costs	**0.8**	1.1
Other net losses/(gains)	**2.3**	(5.7)
Profit on assets held for sale	**-**	(0.4)
Loss on disposal of intangible fixed assets	**0.3**	-
Net impairment of joint venture asset	**9.9**	-
Equity-settled share-based payment expenses	**1.0**	0.3
Share of joint venture loss/(profit)	**2.2**	(0.2)
Taxation	**0.1**	0.2
	5.5	19.5
Cash paid in respect of restructuring costs	**(4.2)**	(6.9)
Cash paid for defined benefit pension funding	**(0.5)**	-
Decrease/(increase) in restricted cash	**18.5**	(13.7)
Increase in trade and other receivables	**(3.1)**	(2.9)
(Increase)/decrease in inventories	**(0.3)**	0.2
Decrease in trade and other payables	**(22.7)**	(19.9)
Increase in provisions and employee benefits	**13.3**	7.8
	1.0	(29.4)
Tax paid	**-**	-
Net cash flows from operating activities	**6.5**	(9.9)
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**-**	0.9
Proceeds from sale of intangible landing slots	**-**	7.5
Proceeds from sale of asset held for sale	**-**	12.3
Decrease in pre-delivery deposits	**-**	3.5
Interest received	**0.6**	0.3
Acquisition of property, plant and equipment	**(29.0)**	(0.2)
Capitalised computer software expenditure	**(1.1)**	(0.8)
Net cash flows from investing activities	**(29.5)**	23.5
Cash flows from financing activities		
Proceeds from new loans	**-**	0.9
Interest paid	**(0.8)**	(1.1)
Repayment of borrowings	**(5.1)**	(17.6)
Net cash flows from financing activities	**(5.9)**	(17.8)
Net decrease in cash and cash equivalents	**(28.9)**	(4.2)
Cash and cash equivalents at beginning of period	**177.9**	23.3
Cash and cash equivalents at end of period	**149.0**	19.1

Notes to the condensed set of financial statements

Six months ended 30 September 2014

1. GENERAL INFORMATION

The information for the year ended 31 March 2014 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor reported on those accounts: their report was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 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 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 are satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, for a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the condensed financial statements. Further detail is contained in the Financial review on pages 17 and 18.

Changes in accounting policy

The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest annual audited financial statements, with a new policy in relation to contract costs introduced in order to address the changes brought by the award of a significant maintenance contract and the development of further contract flying opportunities, as noted below.

Contract costs

Costs incurred in relation to the performance of a contract before the contract term commences are capitalised where the costs:

- relate to a significant activity or customer relationship where the relationship with the customer is sufficiently complex to require significant costs to be incurred in advance of the contracted work commencing; and
- are incremental to existing costs of the business; or
- are recovered over the course of the contract or are subject to cost recovery from the customer under arrangements agreed with them; or
- represent an allocation of existing general and administrative overhead that is specific to the operation of that contract.

Cost capitalisation commences when the award of a contract is reasonably certain, typically where a letter of intent or equivalent document has been signed, and ceases with commencement of the contract. The costs capitalised into contract assets are released to the income statement over the expected life of the contract, including any contract extensions.

Contract costs are capitalised within receivables and split between long and short-term depending upon when they are expected to be released.

Licences

Expenditure on licensing the activities of the Group that are required for the Group to perform its activities as an airline or MRO operation is capitalised 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. It is amortised on a straight-line basis over its useful economic life or, where appropriate for assets acquired to service a particular customer contract, the length of any associated contract with that customer.

No restatement was required due to the introduction of this policy and less than £0.1m and less than £0.1m was capitalised in respect of contract costs and licences respectively in H1 2014/15.

The following new standards have been issued by the IASB but have not yet been approved for use in the EU:

IFRS 9 (July 2014)	*Financial instruments*
IFRS 14 (January 2014)	*Regulatory deferral accounts*
IFRS 15 (May 2014)	*Revenue from contracts with customers*
Amendments to IFRS 10 and IAS 28: (September 2014)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
Amendments to IAS 27 (August 2014)	*Equity Method in Separate Financial Statements*
Amendments to IAS 16 and IAS 41 (June 2014)	*Bearer Plants*
Amendments to IAS 16 and IAS 38 (May 2014)	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to IFRS 11 (May 2014)	*Accounting for Acquisitions of Interests in Joint Operations*

No assessment has yet been made by management as to whether the impact of the above standards is likely to have a material impact on the reported results of the Group or its financial position other than for IFRS 14 and the Amendments to IAS 16 and IAS 41 which will have no impact on the Group.

The following standards have been issued by the IASB and been approved for use in the EU:

Amendments to IAS 19 (November 2013)	*Defined Benefit Plans: Employee Contributions*
Annual Improvements to IFRSs 2010–2012 Cycle (December 2013)	
Annual Improvements to IFRSs 2011–2013 Cycle (December 2013)	

None of these changes is expected to have a material impact on the reported results of the Group or its financial position.

3. BUSINESS AND GEOGRAPHICAL SEGMENTS

The chief operating decision maker responsible for resource allocation and when assessing performance of operating segments has been identified as the Operating Board. 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.
Flybe Finland	This business segment comprises the Group's scheduled Finnish contract flying and scheduled passenger operations and revenue ancillary to the provision of those services.
MRO	This segment aims to provide aviation services to customers, largely in Western Europe. The MRO supports Flybe's UK and Finnish activities as well as serving third-party customers. The MRO also provides services to the Royal Air Force's fleet of A400M.

During the second half of the financial year ended 31 March 2014, the Group's divisions were removed and the business was refocused into One Flybe. Under IFRS 8, Flybe reports three business segments in order to comply with accounting standards. Comparatives for the six months ended 30 September 2013 have therefore been restated to correspond with the new structure. The presentation of segments is consistent with the published financial statements for year ended 31 March 2014.

Segment revenues and results

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

	Six months ended 30 September	
	2014 £m	2013 (restated)[1] £m
Segment revenues:		
Flybe UK	**297.5**	336.9
Flybe Finland	**117.2**	126.2
MRO	**19.3**	20.5
Inter-segment sales	**(9.0)**	(6.3)
Revenue under management	**425.0**	477.3
Less: Revenue from Flybe Finland joint venture	**(117.2)**	(126.2)
Group revenue	**307.8**	351.1
Segment results:		
Flybe UK (including net finance (costs)/income of £(2.7m) in 2014 and £4.8m in 2013)	**(4.9)**	11.6
Flybe Finland[2] (including investment income of £0.2m in 2014 and £0.2m in 2013)	**(11.9)**	-
MRO	**1.5**	2.2
(Loss)/profit before tax	**(15.3)**	13.8

1. Segment revenues for Flybe UK and MRO in H1 2013/14 have been restated to correspond with the H1 2014/15 structure.
2. The segment Flybe Finland includes both the appropriate share of joint venture results derived from Flybe Finland, and other costs of running this business. It also includes the £9.9m net impairment of assets.

Flybe UK segment includes group costs of £1.8m (H1 2013/14 £1.7m), revaluation losses on USD aircraft loans of £2.3m (H1 2013/14: gains of £5.7m) and £nil restructuring costs (H1 2013/14: £2.3m).

4. 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. The airline industry is highly seasonal and demand and yields are significantly higher during the summer. Flybe generates more than 50% of its passenger revenues during the summer season.

5. RESTRUCTURING COSTS

	30 September 2014 £m	**30 September 2013 £m**
Staff costs - Redundancy costs	**(1.1)**	**2.4**
Other operating expenses - Legal, professional and support costs	**1.1**	**0.9**
Total restructuring costs	**-**	**3.3**

6. TAX

Current tax for the six-month period is charged at 0% (six months ended 30 September 2013: 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 apportioned between the interim periods based on the expected pattern of profit generation. The tax charge of £0.1m (H1 2013/14: £0.2m) reported in the H1 2014/15 results from the revaluation of previously recognised deferred tax assets as a result of the change in the enacted corporation tax rate in the UK.

7. DIVIDENDS

No dividends have been paid or proposed either during the six months ended 30 September 2014 or during the comparative accounting period.

8. EARNINGS PER SHARE

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

	Six months ended 30 September 2014 £m	2013 £m
(Loss)/earnings for the purposes of unadjusted earnings per share being net (loss)/profit attributable to owners of the Group	**(15.4)**	13.6
Add back[1]:		
Restructuring costs	**-**	3.3
Surplus capacity costs	**14.5**	0.8
Revaluation losses/(gains) on USD aircraft loans	**2.3**	(5.7)
(Loss)/earnings for the purposes of adjusted earnings per share	**1.4**	12.0

	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	**216,654,801**	75,152,881
(Loss)/earnings per ordinary share – basic and diluted[2]	**(7.1)p**	18.1p
Adjusted (loss)/earnings per ordinary share – basic and diluted	**0.7p**	16.0p

1. Adjusted items have been brought in line with adjusted measures published in the Financial Review on page 10. H1 2013/14 adjusted earnings per share have therefore been restated.
2. For the six months ended 30 September 2014 diluted loss per share is the same as basic loss per share because the Group recorded a loss and as such none of the potentially issuable shares are dilutive. Diluted profit per share is the same as basic profit per share in the six months ended 30 September 2013 because the average market price of ordinary shares during the period was less than the exercise price of the potentially issuable shares.

9. PROPERTY, PLANT AND EQUIPMENT

	30 September 2014 £m	31 March 2014 £m
Opening cost as at 1 April	**251.5**	234.5
Additions	**29.0**	19.9
Disposals	**-**	(2.9)
Closing cost at 30 September / 31 March	**280.5**	251.5
Accumulated depreciation	**(87.5)**	(80.9)
Closing net book value as at 30 September / 31 March	**193.0**	170.6

See note 15 for capital commitments.

10. JOINT VENTURE

An impairment review was performed at the balance sheet date to determine whether the carrying value of the joint venture, which is a cash generating unit, of £10.6m was impaired as a result of its continued losses. For Flybe Finland, the recoverable amount of nil was calculated using a value in use model and the interest in the joint venture determined to be fully impaired when using a weighted average cost of capital of 9.5%. In addition, £0.7m of deferred consideration was released to the income statement as it is no longer due to be paid.

11. BORROWINGS

Repayments on bank loans amounting to £5.1m were made during the period. No additional amounts were drawn down.

12. PROVISIONS

	30 September 2014 £m	31 March 2014 £m
Leased aircraft maintenance	**78.1**	72.7
Flight delay provision	**6.0**	-
Onerous lease provisions	**1.6**	-
Restructuring	**0.3**	4.5
	86.0	77.2
Current	**56.9**	45.3
Non-current	**29.1**	31.9
	86.0	77.2

The Group's provisions are as follows:

	Leased aircraft maintenance £m	Flight delay provision £m	Onerous lease provisions £m	Restructuring £m	Total £m
At 1 April 2014	72.7	-	-	4.5	77.2
Additional provision	16.1	6.0	1.6	1.1	24.8
Release of provision	-	-	-	(1.1)	(1.1)
Utilisation of provision	(10.7)	-	-	(4.2)	(14.9)
At 30 September 2014	**78.1**	**6.0**	**1.6**	**0.3**	**86.0**

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 consolidated income statement.

Recent decisions around EU 261 in the UK's Supreme Court have confirmed passenger rights in the case of delay caused to travel that are deemed to be within the airline's control. As a consequence, the management of Flybe UK have looked to assess what would be a reasonable and reliable provision based on the current level of claims experience and a provision for compensation in relation to flight delays of £6.0m has been recorded. There is a significant degree of judgement involved in coming to this assessment as the data available may be subject to change as new passenger behaviour patterns emerge and as such the amount provided may increase or decrease by a material amount leading to significant changes to both the profitability and cash flows of the Group.

An onerous leases provision of £1.6m was created in the period for the lease and maintenance costs associated with the five E195 aircraft which are being handed back early.

The restructuring provision is expected to be utilised in the current financial year.

13. SHARE CAPITAL

	30 September 2014 £000	31 March 2014 £000
Issued and fully paid		
216,654,801 ordinary shares of 1p each	**2,167**	2,167

In the six months ended 30 September 2014 no shares were issued. The Company has one class of ordinary shares which carry no right to fixed income.

14. CONTINGENCIES

The Group has entered into arrangements to guarantee the Group's credit card arrangements and has placed bonds in favour of various aircraft lessors, handling agents, fuel suppliers and customs offices as follows:

	30 September 2014 £m	31 March 2014 £m
Credit card arrangements	**15.0**	24.0
Bonds	**7.6**	7.2
Total	**22.6**	31.2
Cash deposited to secure the above arrangements	**15.0**	31.2

The debenture held by Barclays, secured against the assets of the Group, was submitted for release to Companies House on 11 November 2014.

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:

	30 September 2014 £m	31 March 2014 £m
Embraer E-Series aircraft	**91.7**	534.9

Four aircraft were covered by these arrangements at 30 September 2014 (31 March 2014: 24). As announced on 17 September 2014, Embraer terminated 20 E175s from Flybe's firm order backlog of 24 E175s. Embraer has agreed to defer delivery of the four remaining E175s until 2018, in line with current fleet planning needs. It is intended that these aircraft will be financed partly though cash flow and partly through external financing and operating lease arrangements.

16. SHARE-BASED PAYMENTS

Performance Share Plan ('PSP') - August 2011 and April 2014 awards
Based on the share price as at 5 August 2014, the remaining 1,803,725 share awards did not vest in respect of the August 2011 PSP award. The Group recognised expenses of less than £0.1m in relation to this award in the period to 30 September 2014.

On 22 April 2014, 672,110 shares were awarded whereby employees of the Group may be granted awards which are exercisable at 124p at the end of a three-year period. The Group recognised expenses of £0.1m in relation to this award in the period to 30 September 2014.

Save As You Earn ('SAYE') – August 2011 and 2014 awards
In respect of the August 2011 award, the option to acquire ordinary shares was granted on 5 August 2014 to eligible employees who entered into a SAYE contract and remained in the Flybe Sharesave SAYE scheme until the exercise date. During the period from 1 April 2014 until date of grant 2,897 were forfeited, 20,565 were cancelled and 20,803 expired. Based on the share price on 5 August 2014, 1,975 options were exercised to acquire ordinary shares at £1.76 (being market value at the date of allocation) and a further 424,041 options remain as there is a six month period from exercise date in which to exercise options. The Group recognised expenses of less than £0.1m in relation to these options in the period to 30 September 2014.

On 8 August 2014, the Flybe Sharesave SAYE scheme was offered to all employees with a length of service more than three months and provides for an employee to be granted an option (1,659,467 options were issued for this purpose) when entering into a three-year savings contract with monthly contributions of between £5 and £100. The calculation of the charge is based on the market value at the date of allocation of £1.01 and the Group recognised expenses of £0.1m in the period to 30 September 2014.

Long-Term Incentive Plan – The Flybe LTIP 2013
The charge for the period in relation to this scheme was £0.2m. At 30 September 2014, the cumulative liability stood at £0.3m.

Long-Term Incentive Plan – The Saad Hammad and The Philip de Klerk LTIP awards
The charge for the period in relation to the Saad Hammad LTIP was £0.6m and as at 30 September 2014, the cumulative liability stood at £1.4m.

Mr. de Klerk is the sole participant under the Philip de Klerk LTIP. On 22 August 2014, Philip de Klerk was awarded a notional number of Flybe shares that entitle him to a cash payment equivalent to the gain in share price above 121.26p over a three-year period, subject to the three-month average share price at the end of the three-year period exceeding 161.26p. The total number of notional shares awarded was 705,096.

To the extent the award vests, 50% of the cash payment will vest immediately at the end of the three-year performance period, 25% will vest six months after the end of the performance period, with the remaining 25% vesting 12 months after the end of the performance period.

The Philip de Klerk LTIP award was granted on 22 August 2014. Fair value of the award at this time was calculated using a Monte Carlo valuation model. The inputs into the valuation are as follows:

	2014
Prevailing share price at date of grant on 22 August 2014	111.00p
Share price for granting purposes	121.26p
Risk-free rate of interest	1.24%
Flybe volatility	57%

As participation is limited to one individual, no forfeiture risk has been assumed in the valuation.

The charge for the period in relation to this scheme was less than £0.1m and the Group has recorded liabilities of less than £0.1m at 30 September 2014.

Summary
The Group recognised total expenses of £1.0m in relation to share-based payments in the period to 30 September 2014. The Group has total liabilities in respect of the LTIP schemes of £1.7m (31 March 2014: £0.9m).

17. EMPLOYEE BENEFITS

Defined benefit scheme

The defined benefit obligation as at 30 September 2014 is calculated on a year-to-date basis, using the latest actuarial valuation as at 31 March 2013. There have not been any significant fluctuations or one-time events since that time which would require adjustment to the actuarial assumptions made at 31 March 2013. The defined benefit scheme liability as at 30 September 2014 has been updated to reflect the scheme cash flows and asset valuation movements which have occurred in the period, however scheme liabilities and membership numbers have not been updated as is customary for an IAS 19 valuation.

18. FINANCIAL INSTRUMENTS' FAIR VALUE DISCLOSURES

	30 September 2014 £m	31 March 2014 £m
Current assets		
Forward foreign currency contracts/options	**3.5**	-
Fuel contracts/options	**-**	0.4
Derivative instruments that are designated and effective as hedging instruments carried at fair value	**3.5**	0.4
Total derivative financial assets held as current assets	**3.5**	0.4
Current liabilities		
Forward foreign currency contracts/options	**(0.2)**	(7.5)
Fuel contracts/options	**(4.8)**	(0.5)
Derivative instruments that are designated and effective as hedging instruments carried at fair value	**(5.0)**	(8.0)
Total derivative financial liabilities held as current liabilities	**(5.0)**	(8.0)
Non-current assets		
Forward foreign currency contracts/options that are designated and effective as hedging instruments carried at fair value	**0.3**	-
Total derivative financial assets held as non-current assets	**0.3**	-
Non-current liabilities		
Fuel contracts/options that are designated and effective as hedging instruments carried at fair value	**(0.8)**	-
Total derivative financial liabilities held as non-current liabilities	**(0.8)**	-
Net derivative financial liabilities	**(2.0)**	(7.6)

Carrying amounts and fair values

	30 September 2014		31 March 2014	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Cash, cash equivalents and restricted cash	**171.0**	**171.0**	218.4	218.4
Loans and receivables:				
Trade and other receivables	**101.7**	**101.7**	98.9	98.9
Derivative instruments in designated accounting relationships	**3.8**	**3.8**	0.4	0.4
Financial liabilities				
Liabilities held at amortised cost:				
Trade and other payables	**(32.2)**	**(32.2)**	(36.8)	(36.8)
Debt	**(99.0)**	**(101.3)**	(101.5)	(103.9)
Derivative instruments in designated hedge accounting relationships	**(5.8)**	**(5.8)**	(8.0)	(8.0)

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.

Financial instruments recorded at fair value at 30 September 2014

Financial instruments that are measured subsequent to initial recognition at fair value are 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).

The following table provides an analysis of the Group's financial instruments, all of which are grouped into Level 2:

	30 September 2014 £m	31 March 2014 £m
Foreign exchange derivatives	**3.6**	(7.5)
Fuel derivatives	**(5.6)**	(0.1)
	(2.0)	(7.6)

19. RELATED PARTIES

At 30 September 2013, the Group was 48.1% owned by Rosedale Aviation Holdings Limited, incorporated in Jersey. Rosedale Aviation Holdings Limited sold all its shares on 12 November 2013.

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

	Sales of services	
	Six months ended 30 September	
	2014 £m	2013 £m
Flybe Finland	**1.6**	1.1
Preston Travel (CI) Limited[1]	**n/a**	1.2

1. On 12 November 2013, Rosedale Aviation Holdings Limited ceased to be a related party, therefore no sale of services to be disclosed for the six months ended 30 September 2014.

	Amounts owed by related parties	
	30 September 2014 £m	31 March 2014 £m
Flybe Finland	**0.9**	1.2
Preston Travel (CI) Limited[2]	**n/a**	0.4

2. As at 12 November 2013, Rosedale Aviation Holdings Limited ceased to be a related party. Therefore no balance disclosed as at 30 September 2014.

The Group provided services to its 60.0% owned operation, Flybe Finland. At 30 September 2014, £3.3m (31 March 2014: £2.7m) was owed in respect of revenue collected on behalf of Flybe Finland.

The Group also provided services to Preston Travel (CI) Limited which, together with Rosedale Aviation Holdings Limited, is a subsidiary of Rosedale (J.W.) Investments Limited.

	Purchases of services	
	Six months ended 30 September	
	2014	2013
	£m	£m
Edenfield Investments Limited[3]	**n/a**	0.2
Downham Properties Limited[3]	**n/a**	0.2

3. As at 12 November 2013, Rosedale Aviation Holdings Limited ceased to be a related party. Therefore no purchases of services to be disclosed for the six months ended 30 September 2014 and no balance is disclosed as at 31 March 2014 or 30 September 2014.

The transactions with Edenfield Investments Limited and Downham Properties Limited have been disclosed although there is no holding or subsidiary company relationship between these two companies and Rosedale Aviation Holdings Limited. These two companies are owned and controlled by the EJ 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 Aviation Holdings Limited. The Group also purchased property services from Edenfield Investments Limited and from Downham Properties Limited.

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 31 March 2015. For Long-Term Incentive Plan activity, see note 16 above.

Glossary

Air Operator's Certificate	an air operator's certificate issued by the national regulator – the Civil Aviation Authority in the UK and the Transport Safety Agency, Trafi, in Finland
Air Passenger Duty (APD)	an excise duty which is charged by the UK government on the carriage of passengers flying from a United Kingdom airport
CAA	the UK Civil Aviation Authority
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 (including the Channel Islands and the Isle of Man) or Finnish airport to another UK (including the Channel Islands and the Isle of Man) or Finnish airport 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 markets
ETS	Emissions Trading Scheme
EU 261	Regulation 261/2004 is a regulation establishing common rules among the EU member states on compensation and assistance to passengers in the event of denied boarding, flight cancellations, or long delays of flights.
Flybe	Flybe Group plc
Flybe Finland	Flybe Finland Oy (formerly Finnish Commuter Airlines Oy) which is wholly-owned by the joint venture between Flybe (60%) and Finnair Oyj (40%), Flybe Nordic
the Group	Flybe Group plc
IATA	International Air Transport Association
IPO	the admission, through an Initial Public Offering, of the Company's shares to the Official List of the London Stock Exchange on 15 December 2010
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 scheduled seats sold divided by seat capacity (and 'flown' load factor, the number of seats flown divided by seat capacity)
MRO	maintenance, repair and overhaul
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 per seat	passenger revenue generated divided by seat capacity
passenger yield	total ticket and ancillary revenue per passenger (after the deduction of government taxes and levies)
regional aircraft	turboprop aircraft and regional jets
regional airline	an airline that flies predominantly regional aircraft
regional UK	an airport or destination in the UK (including the Channel Islands and the Isle of Man) but excluding London
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 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
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
Trafi	the Finnish Transport Safety Agency
under management	figures presented for revenue, passengers and seats flown 'under management' include both Group and joint venture activity but exclude contract flying
white label	flying operated by Flybe on behalf of another airline, on which Flybe takes cost and operational risk, but the revenue risk remains with the airline for whom Flybe is operating
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)