9th November 2017

Flybe Group plc

Registered number 1373432

Building a sustainable future

Flybe Group plc

Half-yearly financial report

For the six months ended 30th September 2017

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Flybe is building for a sustainable future:
Results for the six months to 30th September 2017

Flybe today presents its consolidated Group results for the six months to 30th September 2017.

The half-year results are summarised below:

Financial summary

	H1 2017/18 £m	H1 2016/17 £m	Change £m	Change %
Group revenue	**418.5**	383.0	35.5	9.3
Total costs (excluding revaluation effect of USD aircraft loans)	**(410.1)**	(367.1)	(43.0)	11.7
Adjusted profit before tax[1]	**8.4**	15.9	(7.5)	(47.2)
Profit before tax	**15.1**	7.0	8.1	115.7
Profit after tax	**15.1**	13.4	1.7	12.7

Financial overview - Group

- 9.3% increase in Group revenue to £418.5m (H1 2016/17: £383.0m).
- Adjusted profit before tax[1] reduced to £8.4m (H1 2016/17: £15.9m) largely due to the previously announced one-off onerous IT contract provision and the impact of increased aircraft maintenance costs. This adjusted profit before tax is towards the upper end of the range of £5m to £10m announced on 18th October 2017.
- Profit before tax increased to £15.1m (H1 2016/17: £7.0m) reflecting £6.7m of non-cash revaluation gains on USD aircraft loans (H1 2016/17: losses of £8.9m).
- 3.1% increase in EBITDAR[2] to £85.8m (H1 2016/17: £83.2m).
- Stable net assets of £151.7m (31st March 2017: £153.5m) with a small seasonal increase in net debt to £67.0m (31st March 2017: £64.0m).

Christine Ourmieres-Widener, Chief Executive Officer, commented:

“We have made good progress in the first half of the year and with our fleet size under control, we are already delivering improvements to passenger yield and load factors. Load factors are expected to continue to strengthen as the fleet reduces and we anticipate that yields will stabilise. While half-year profits are lower than last year, due to the one-off IT contract costs, higher maintenance expenses and the impact of the fall in the value of sterling, I am confident that we are on a clear path to sustainable profitability through the investments and improvements we are making at Flybe. In the second half, we will focus on improving our cost base and reliability performance while preparing the business for the future as we invest in the new digital platform. As the business model changes, I am particularly pleased to have a new senior management team with ever more aviation experience.

I look forward to a positive future and would like to thank all Flybe employees for their ongoing support and commitment.”

[1]Adjusted profit before tax is reported profit before tax excluding the revaluation effect of USD aircraft loans (see page 6).
[2]EBITDAR defined as operating profit after adding back depreciation, amortisation and aircraft rental charges (see page 6).

Flybe UK

- 11.6% increase in total revenue to £406.8m (H1 2016/17: £364.6m).
- 3.0% growth in seat capacity, slowing as we have greater control over the fleet.
- 8.8% increase in passenger volumes to 5.2 million (H1 2016/17: 4.8 million).
- 4.0 percentage points improvement in load factor to 76.0% (H1 2016/17: 72.0%).
- 3.0% growth in passenger yield to £72.73 (H1 2016/17: £70.58).
- 8.8% improvement in revenue per seat to £55.29 (H1 2016/17: £50.80).
- 10.1% increase in cost per seat at constant currency (excluding fuel) due principally to the onerous IT contract provision, higher maintenance costs and lower value of sterling.
- 6.9% increase in cost per seat (including fuel) at constant currency helped by lower fuel costs as a result of hedging gains.
- Profit before tax increased to £13.3m (H1 2016/17: £5.3m).

Flybe Aviation Services (FAS)

- 11.6% increase in FAS revenue to £26.6m (H1 2016/17: £23.8m).
- 9.7% increase in total man-hours, but a 39.3% decrease in chargeable third party man-hours reflecting the focus on internal maintenance and handbacks.
- 5.3% increase in profit before tax to £1.8m (H1 2016/17: £1.7m).

Flybe is building for a sustainable profitable future

As announced at the year end results in June 2017, we have implemented a Sustainable Business Improvement Plan aimed at driving sustainable profit and cash generation. This plan consists of six focus areas underpinned by a strong organisation and safety culture:

- Sales and marketing;
- Network, fleet and revenue optimisation;
- Operational excellence;
- Organisational excellence;
- Technology; and
- Cost improvement.

Our strategy remains on track to reduce our fleet size to an optimum level for the number of identified profitable routes and make the business demand-driven rather than capacity-led. As previously announced, fleet numbers peaked in May 2017 at 85 aircraft, as legacy aircraft orders have been largely fulfilled. We now plan to reduce the fleet size over the next three years to around 70 aircraft in 2019/20 (including the five ATR aircraft fulfilling the SAS White Label contract). We will hand back six end of lease Bombardier Q400 aircraft this financial year, of which four have already been returned (two during H1 and two in October/November). Each handback is benefiting from the experience gained on the prior handbacks.

Capacity will start to fall in the second half as further handbacks take place and there are two main benefits arising from our ability to control our fleet size. Firstly, we are able to focus our resources on fewer, more profitable routes; five loss making routes have already been closed. This delivers improvement in our load factors and helps to maintain yield. Secondly, the greater stability in our route network will give operational efficiencies and better customer service.

Load factors were 76.0% in H1 2017/18, up 4.0 percentage points on H1 last year with the Q2 improvement being even stronger than Q1. Average passenger yield was £72.73, up 3.0% on last H1. As a result, passenger revenue per seat was up 8.8% in the first half, significantly ahead of the capacity growth of 3.0%.

Flybe Group plc
Interim management report (continued)

Scotland remains a core part of our network and we are further strengthening our connectivity in Scotland. The new Heathrow routes continue to perform in line or ahead of our expectations, and our turboprop aircraft are now an established part of Heathrow's operations. In addition, we recently embarked on a commercial partnership with Eastern Airways, franchising Eastern's existing routes as Flybe. We have also launched six new partnership (risk-sharing) routes with Eastern, both within Scotland and connecting Scotland to England which also provide links to Flybe connecting flights. This helps to further support Flybe's long-term 'One Stop to the World' model, connecting our passengers through our own network, plus codeshare and interline partners.

As part of our Sustainable Business Improvement Plan, we are working hard on improving despatch reliability and on time performance ('OTP'), key issues for our passengers. The first priority was to reduce the number of flight cancellations, particularly due to aircraft serviceability issues, resulting in a 35.3% improvement compared to the same period last year. However, arrivals OTP was 78.1%, 3.6 percentage points below last year. In part, this is because we have been making extra efforts to fly sectors and not cancel them, even if they run late. Poor weather and air traffic control issues have also been factors this year. Technical Despatch Reliability ('TDR') was 99.1% for the Q400 in the first half with a TDR for the Embraer jets of 99.3%.

In response to this we have worked alongside Bombardier to improve Q400 reliability, resulting in Q400 TDR improving by 10 basis points on last year. However, this resulted in increased maintenance expenses in Flybe UK. Maintenance costs have also been affected by the fall in the value of sterling, as most spare parts and rotables are priced in US Dollars, and the H1 cost associated with the handbacks. We are taking a fresh look at our maintenance strategy and operational processes to address the increase in maintenance costs and working with Bombardier on resolving common issues.

Plans have now further progressed on designing and scoping the new digital IT platform. As announced this week, Flybe will partner with Amadeus, the market-leading provider, to implement a new passenger service system which will provide customers with a significantly enhanced online experience from searching for a flight to landing at their end destination. This will help Flybe to drive additional revenues, improve efficiency and radically improve the online customer experience.

Revenue was up £35.5m against last year as a result of yield and load factor improvements, but costs were up by £43.0m to leave adjusted profit before tax down by £7.5m. The £5.4m one-off onerous IT contract provision, the c. £10m impact of the fall in the value of sterling and £9.5m of added maintenance costs were the principal factors in the increased costs and subsequent adjusted profit before tax decline. In order to drive a sustainable, profitable business there needs to be a relentless focus on costs. We will extend our focus on costs and accountability while working alongside our partners to ensure that we are working collaboratively to reduce costs.

Senior management team

To support the delivery of the Sustainable Business Improvement Plan, we have been building the leadership team. Ian Milne joined as Chief Financial Officer on 1st November after a brief time in an interim role. In addition, to help drive long-term thinking and planning, a new strategy team under the direction of Chief Strategy Officer Vincent Hodder is being put in place. Roy Kinnear, formerly Chief Executive Officer of Air Seychelles, will join the company as Chief Commercial Officer in January 2018. The new team brings significant expertise and experience into the business.

Outlook

The European aviation market continues to be challenging, with many airlines impacted by excess seat capacity in the short-haul market, a weaker pound and both business and consumer uncertainty. Within this market, the Board believes that Flybe offers a differentiated regional business model and has clear plans to deliver a sustainable profitable future helped by the plans to reduce capacity and cost.

Flybe Group plc
Interim management report (continued)

Q3 Trading Update

Forward sales in Q3 as at 5th November 2017 have continued to be encouraging in the early weeks of the second half:

- 3% reduction in seat capacity vs. prior year
- 54% of seats sold vs. 50% in the prior year
- 9% increase in passenger revenue vs. prior year

Excluding the new Eastern risk-sharing flights, we are now planning for H2 capacity to reduce by around 4%, reflecting a smaller fleet and the latest winter schedule. This reduction is slightly lower than guided at the Q1 trading update to reflect our stronger H1 route performance and the absorption of the two ex-Brussels Airlines aircraft from the start of the winter season. Eastern flights add around 3% to capacity.

As of 5th November 2017, we had purchased 86.2% of our anticipated fuel requirements at USD499 and 93.4% of our anticipated US Dollar requirements at USD1.41 for H2 2017/18.

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

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There will be an analyst presentation at 10:00 on 9th November 2017 at The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED.

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

Responsibility statement

For the six months ended 30th September 2017

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

Christine Ourmieres-Widener **Chief Executive Officer**	**Ian Milne** **Chief Financial Officer**
9th November 2017	9th November 2017

Cautionary statement

To the shareholders of Flybe Group plc

Cautionary statement

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

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

Flybe Group plc
Interim management report (continued)

Detailed results for the six months ended 30th September 2017

	H1 2017/18 £m	H1 2016/17 £m	Change £m
Group revenue	**418.5**	383.0	35.5
EBITDAR[1]	**85.8**	83.2	2.6
Adjusted profit before tax[2]	**8.4**	15.9	(7.5)
Profit before tax	**15.1**	7.0	8.1
Profit after tax	**15.1**	13.4	1.7
Net cash outflow from operating activities	**(0.7)**	(3.2)	2.5

[1] EBITDAR defined as operating profit after adding back depreciation, amortisation and aircraft rental charges.

[2] Adjusted profit before tax is reported operating profit before the revaluation effect of USD aircraft loans.

EBITDAR and profit measures[1]

Both EBITDAR and adjusted profit before tax outlined below are alternative non-GAAP measures[1].

Set out below is a reconciliation from operating profit to the EBITDAR figures:

	H1 2017/18 £m	H1 2016/17 £m	Change £m
Operating profit	**11.2**	17.4	(6.2)
Depreciation and amortisation	**23.3**	18.2	5.1
Aircraft rental charges	**51.3**	47.6	3.7
EBITDAR	**85.8**	83.2	2.6

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

The table below sets out a reconciliation from profit before tax to adjusted profit before tax which adjusts the result for USD loan revaluations:

	H1 2017/18 £m	H1 2016/17 £m	Change £m
Profit before tax	**15.1**	7.0	8.1
USD aircraft loan revaluation (gain)/loss	**(6.7)**	8.9	(15.6)
Adjusted profit before tax	**8.4**	15.9	(7.5)

[1] Alternative (non-GAAP) profit measures exclude amounts that are included in the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS. The reconciliations above describe how the alternative profit measure is determined from the most directly comparable measure calculated and presented in accordance with IFRS. The alternative profit measures are not regarded as a substitute for, or to be superior to, the equivalent measures calculated and presented in accordance with IFRS or those calculated using financial measures that are calculated in accordance with IFRS. The non-GAAP measures described may not be directly comparable with similarly-titled measures used by other companies.

Fleet

The profile of Flybe's fleet at 30th September 2017 and 31st March 2017 is summarised below:

		Number of aircraft		
	Number of seats	At 31st March 2017	Net movements in period	**At 30th September 2017**
Scheduled Airline:				
Bombardier Q400 turboprop	78	58	-	**58**
Embraer E175 regional jet	88	11	-	**11**
Embraer E195 regional jet	118	9	(2)	**7**
Total Scheduled Airline		78	(2)	**76**
White Label:				
ATR72 turboprop (SAS)	70	5	-	**5**
E195 regional jet (Stobart)	118	-	2	**2**
Total White Label		5	2	**7**
Total Flybe UK		83	**-**	**83**
Held on operating lease		56	-	**56**
Owned		27	-	**27**
Total		83	**-**	**83**
Total seats in fleet		6,904		**6,904**
Average seats per aircraft		83.2		**83.2**
Average age of fleet (years)		8.4		**8.7**

Note: In addition to the above Flybe UK fleet, quoted seat capacity includes four aircraft operated under the new commercial risk-share arrangement with Eastern Airways which has average seats per aircraft of 46. Two further aircraft are operated under a wet lease from Stobart with average seats per aircraft of 72.

The final two aircraft from the NAC agreement were delivered during the first two months of 2017/18. The fleet peaked at 85 aircraft in May 2017; Flybe has since started to return end of lease aircraft to its lessors. Six operating leased Q400 aircraft are due to be returned in 2017/18. At 30th September 2017, two end of lease handbacks had been completed resulting in a fleet size of 83 aircraft. The third and fourth handbacks were completed in October/November 2017 and two further handbacks will be completed by the end of 2017/18.

In support of White Label operations in Sweden, Flybe lease five ATR72 aircraft. Stobart Air is currently wet leasing two E195 aircraft from Flybe which will convert to a dry lease in H2 2017/18.

The mix of owned aircraft as a proportion of the total fleet has not changed during the period and remains at 32.5% which will increase to 34.2% at 31st March 2018 following the four end of lease handbacks.

The following table shows the current number of Embraer E175 aircraft that are contracted for delivery (either acquired or leased) to the Group as at 30th September 2017:

	E175s
2018/19	3
2019/20	1
Total	**4**

Flybe Group plc
Interim management report (continued)

Business results

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

	H1 2017/18 £m	H1 2016/17 £m
Business revenues:		
Flybe UK	**406.8**	364.6
FAS	**26.6**	23.8
Inter-segment sales	**(14.9)**	(5.4)
Group revenue	**418.5**	383.0
Business adjusted profit before tax:		
Flybe UK[1]	**9.2**	16.4
FAS	**1.8**	1.7
Group costs	**(2.6)**	(2.2)
Adjusted profit before tax and USD aircraft loan revaluation[2]	**8.4**	15.9
Revaluation gains/(losses) on USD aircraft loans	**6.7**	(8.9)
Profit before tax	**15.1**	7.0

[1] Flybe UK reports an adjusted segment profit before tax of £9.2m (H1 2016/17: £16.4m) excluding Group costs of £2.6m (H1 2016/17: £2.2m), and revaluation gains on USD aircraft loans of £6.7m (H1 2016/17: losses of £8.9m).

[2] Adjusted profit before tax is defined as profit before tax excluding revaluation gains on USD aircraft loans of £6.7m (H1 2016/17: losses of £8.9m).

Flybe UK

Operational statistics

	H1 2017/18	H1 2016/17	Change
Seat capacity (million)	**6.9**	6.7	3.0%
Passengers (million)	**5.2**	4.8	8.8%
Load factor (%)	**76.0**	72.0	4.0ppt
Passenger yield (£)	**72.73**	70.58	3.0%

Revenue

	H1 2017/18		H1 2016/17	
	£m	**£ per seat**	£m	£ per seat
Passenger revenue	**378.9**	**55.29**	338.1	50.80
White Label flying revenue	**19.5**		15.8	
Other revenue	**8.4**		10.7	
Total revenue – Flybe UK	**406.8**	**59.37**	364.6	54.78

Flybe UK's seat capacity increased by 3.0% to 6.9 million in H1 2017/18 (H1 2016/17: 6.7 million) with scheduled sectors increasing by 4.2% to 83,300 (H1 2016/17: 79,900). Flybe served 5.2 million customers on its network, an 8.8% increase year-on-year (H1 2016/17: 4.8 million). The enhanced focus on customer demand to allocate routes and scheduling resulted in load factor increasing from 72.0% in H1 2016/17 to 76.0%. Passenger yield increased to £72.73 (H1 2016/17: £70.58) with passenger revenue per seat increasing from £50.80 to £55.29, reflecting the focus on more profitable routes and new routes such as those to and from Heathrow.

Operating costs

	H1 2017/18		H1 2016/17		
	£m	**£ per seat**	£m	£ per seat	£ per seat at constant currency[1]
Fuel and aircraft operations	**198.7**	**28.99**	181.9	27.33	28.39
Aircraft ownership and maintenance	**117.6**	**17.15**	97.4	14.63	15.29
Staff costs	**53.9**	**7.87**	46.8	7.03	7.03
Other net operating expenses	**27.2**	**3.97**	23.0	3.46	3.54
Operating costs	**397.4**	**57.98**	349.1	52.45	54.25

[1] Constant currency is calculated for the H1 2016/17 year by applying the exchange rates that prevailed for reporting the H1 2017/18 results of $1.29 and €1.14

Flybe UK operating costs have increased by 13.8% to £397.4m (H1 2016/17: £349.1m). Due to the weaker pound, there has been c. £10m of adverse currency impact (c. £12m of line level cost increases offset by a £1.9m improvement in USD hedging gains).

By operational cost line, the main variances are summarised below:

Fuel and aircraft operations

- 2.8% reduction in fuel costs of £1.5m was mainly as a result of a £12.1m favourable year-on-year movement on hedges (last year was a hedging loss) and c. £2.5m of fuel burn efficiencies. This has been offset by a £7.4m adverse price movement and unfavourable currency movement of £3.1m. The higher fuel costs from increased flying hours have been mitigated by an improved aircraft mix as Q400 aircraft have been better utilised;
- 9.6% increase in airport and en route charges of £7.9m primarily due to £6.0m of costs due to increased passenger volumes, £2.8m of new airport costs, £2.9m of currency movements offset by c. £3m of price and efficiency savings; and
- 22.3% increase in ground operations costs of £10.4m in the main due to volume increases of c. £4m, new airports of £1.6m, price increases of £1.1m, currency movements of £1.2m and £2.1m of higher passenger compensation payments reflecting lower OTP and increased EU261 compensation claims.

Aircraft ownership and maintenance

- 35.8% increased maintenance costs of £11.4m were largely attributable to a £5.8m increase as a result of investment in the fleet to improve reliability and OTP as announced in October. Otherwise, costs increased due to volume of maintenance activities of £2.1m, currency fluctuations of £1.6m and £1.6m of added cost attributable to the Q400 handbacks which will be predominantly offset in H2 through savings in operating lease costs;
- 28.3% increase in depreciation and amortisation of £5.1m which reflects the increased aircraft ownership along with an additional £2.1m depreciation of maintenance assets; and
- 7.8% increase in aircraft rental charges of £3.7m. In the main this is due to £2.8m arising from the new leased aircraft and increased White Label flying which has been partly offset by £1.8m of savings on adhoc aircraft hire. Adverse FX movements of £2.8m also contributed to the increased costs.

Staff costs

- 15.2% increase in staff costs of £7.1m mainly as a result of a £3.0m movement on the bonus provision (as there was a release in the prior year) as well as pay inflation costs of £2.5m and £1.7m due to higher flying hours.

Other net operating expenses

- 18.3% increase in other net operating expenses of £4.2m was predominantly due to a £5.4m provision for the one-off onerous IT contract which was offset by a £1.9m increase in other operating gains due mainly to hedging.

Operating costs (continued)

Cost per seat increased by 10.6% from £52.45 to £57.98 and on a constant currency basis increased by 6.9% from £54.25 to £57.98.

Cost per seat (excluding fuel) increased by 13.5% from £44.48 to £50.48 and on a constant currency basis increased by 10.1% from £45.84 to £50.48.

Fuel

The fuel efficiency project succeeded in reducing fuel burn to 14.7kg per seat for H1 2017/18 (H1 2016/17: 16.3kg).

H1 2017/18 has seen an increase in market fuel prices. Brent crude has been in the USD44 to USD59 (H1 2016/17: USD38 to USD53) a barrel range for the period, leading to a market average price of USD51 (H1 2016/17: USD47). The price of jet fuel has traded between USD438 and USD580 per tonne (H1 2016/17: USD347 to USD488) with an average market price of USD502 per tonne (H1 2016/17: USD437).

The Group paid a blended rate (net of hedges) of USD490 per tonne (H1 2016/17: USD558[1]). Including 'into plane' costs, Flybe's fuel costs in H1 2017/18 were £51.4m (H1 2016/17: £52.9m) representing an all-in cost of USD587 per tonne (H1 2016/17: USD657). During H1 2017/18, Flybe UK used 113,400 tonnes of jet fuel, an increase of 3.8% on the prior year (H1 2016/17: 109,500 tonnes).

Flybe UK operates a policy of managing fuel price volatility by entering into derivative contracts representing a portion of its aviation fuel requirements a minimum of 12 months forward from the current date. The intention of this is to provide more certainty over its forthcoming fuel costs. As at 30th September 2017, 87.8% of the fuel requirement for H2 2017/18 was hedged at an average price of USD497 per tonne, and 73.2% of Flybe UK's expected fuel requirement in H1 2018/19 was hedged at an average price of USD512 per tonne.

[1] The prior year blended rate has been restated to reflect actual fuel costs charged by suppliers rather than using an average price.

Foreign exchange

The Group foreign currency hedging policy sets out to reduce the volatility of costs. Flybe manages its foreign exchange positions against its net foreign currency exposure, being foreign currency expenditure less associated revenue. Flybe's treasury policy allows hedging up to 100% to protect against risks to profit. The Group currently has a relatively small net exposure to the Euro, but has significant USD costs in relation to fuel, maintenance, aircraft operating leases and loan repayments. The Group generates no significant USD revenue and actively manages its USD position through a foreign exchange forward purchase programme similar to that outlined for fuel. The recent reduction in the value of sterling has been mitigated with higher hedging levels. As at 30th September 2017, 92.5% of Flybe's anticipated USD requirements for H2 2017/18 were hedged at an average exchange rate of USD1.41, and 61.1% of its forecast USD requirements for H1 2018/19 were hedged at an average exchange rate of USD1.31. All existing derivative financial instruments are cash flow hedges.

Carbon emissions

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

	Calendar year 2017	Calendar year 2016
	Budget	Actual
Anticipated carbon allowances required, tonnes	545,429	593,119
Free allowance allocation, tonnes	222,778	222,778
Proportion forward purchased at beginning of period	98%	100%
Effective carbon rate	€2.57	€4.85

Flybe Aviation Services ('FAS')

FAS is a stand-alone maintenance, repair and overhaul (MRO) business. The main business within this segment is based in Exeter. FAS also provides MRO services to the Royal Air Force fleet of A400M aircraft at RAF Brize Norton.

	H1 2017/18	H1 2016/17	Change
Flybe man-hours	**158,300**	72,800	85,500
Third party man-hours	**97,200**	160,200	(63,000)
Total man-hours	**255,500**	233,000	22,500

	H1 2017/18 £m	H1 2016/17 £m	Change
Revenue	**26.6**	23.8	11.6%
Operating costs	**(24.8)**	(22.1)	12.1%
Profit before tax	**1.8**	1.7	5.3%

FAS's revenue in H1 2017/18 increased to £26.6m (H1 2016/17: £23.8m). Total man-hours increased by 9.7% to 255,500 (H1 2016/17: 233,000) though there was a 39.3% decrease in chargeable third party man-hours due to the additional support needed by Flybe to improve operational performance and in respect of aircraft handbacks. The increase in revenue was offset by a 12.1% increase in operating costs from £22.1m to £24.8m.

Group costs

Group costs of £2.6m (H1 2016/17: £2.2m) include Group Board salaries and Group legal and professional fees.

Group – overall results

The Group's operating profit of £11.2m compares to an operating profit of £17.4m in the first half of 2016/17.

The Group incurred net finance costs of £2.8m (H1 2016/17: £1.5m) as the owned aircraft fleet increased and other gains of £6.7m (H1 2016/17: other losses of £8.9m) relating to the favourable translation of USD aircraft loans.

Profit before tax for the period was £15.1m (H1 2016/17: £7.0m). There was no current tax charge in the period (H1 2016/17: credit of £6.4m). As a result, the Group reported a profit after tax for H1 2017/18 of £15.1m (H1 2016/17: £13.4m).

EPS and dividends

Basic earnings per share for H1 2017/18 was 7.0p, compared to 6.2p in H1 2016/17. Diluted earnings per share for H1 2017/18 was 6.9p compared to 6.1p in H1 2016/17 (see note 7).

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

Cash flow

	H1 2017/18 £m	H1 2016/17 Restated[1] £m	Change £m
Net cash outflow from operating activities	**(0.7)**	(3.2)	2.5
Net capital expenditure after disposal proceeds	**(7.9)**	(73.3)	65.4
Net (repayment of borrowings)/ proceeds from new loans	**(11.1)**	47.3	(58.4)
Net interest paid	**(2.8)**	(1.5)	(1.3)
Net decrease in cash and cash equivalents	**(22.5)**	(30.7)	8.2
Cash and cash equivalents at beginning of period	**115.1**	163.6	(48.5)
Cash and cash equivalents at end of period	**92.6**	132.9	(40.3)
Restricted cash	**8.7**	8.8	(0.1)
Total cash	**101.3**	141.7	(40.4)

In H1 2017/18, there was a reported net cash outflow from operating activities of £0.7m (H1 2016/17: £3.2m[1]) reflecting favourable movements in working capital and provisions.

Net capital expenditure totals £7.9m with £2.4m of IT intangibles, £2.8m owned aircraft modifications and £2.7m of other property, plant and equipment. This excludes a net £17.2m of non-cash maintenance movements, predominantly arising from the timing and volume of engine overhauls on the Q400 and ATR aircraft which have been offset in operating activity provision movements. (H1 2016/17: net capital expenditure totalled £73.3m with £2.2m of IT intangibles, £67.8m of owned aircraft purchases and £3.3m of other property, plant and equipment).

There was an £11.1m repayment of borrowings in H1 2017/18 (H1 2016/17: £10.9m repayment of borrowings and £58.2m proceeds from new loans).

[1] The prior period has been restated to reclassify maintenance assets arising as a result of non-cash accounting transactions. £2.7m outflow has been removed from net capital expenditure and £2.7m inflow has been removed from movements in provisions within net cash outflow from operating activities. There was no impact on the income statement or balance sheet nor any change in net decrease in cash and cash equivalents.

Balance sheet

	30th Sept 2017 £m	31st Mar 2017 £m	Change £m
Owned aircraft	**290.1**	287.3	2.8
Other property, plant and equipment	**20.4**	21.8	(1.4)
Intangible assets	**12.0**	11.9	0.1
Net debt	**(67.0)**	(64.0)	(3.0)
Net derivative financial instruments	**7.4**	24.5	(17.1)
Other working capital – net	**(94.6)**	(116.4)	21.8
Deferred taxation	**2.1**	(0.6)	2.7
Retirement benefits	**(18.3)**	(20.8)	2.5
Other non-current assets and liabilities	**(0.4)**	9.8	(10.2)
Net assets	**151.7**	153.5	(1.8)
Cash and cash equivalents	**92.6**	115.1	(22.5)
Restricted cash	**8.7**	9.2	(0.5)
Total cash	**101.3**	124.3	(23.0)
Borrowings	**(168.3)**	(188.3)	20.0
Net debt	**(67.0)**	(64.0)	(3.0)

Flybe Group plc
Interim management report (continued)

Balance sheet (continued)

The £290.1m of net book value of aircraft represents owned aircraft, aircraft components, modifications and leased maintenance assets.

At 30th September 2017 net debt has increased to £67.0m (£64.0m at 31st March 2017) with total cash of £101.3m (£124.3m at 31st March 2017) offset by borrowings of £168.3m (£188.3m at 31st March 2017). Total cash included restricted cash of £8.7m (£9.2m at 31st March 2017) which are US Dollar denominated cash deposits held in favour of aircraft owners to secure operating lease arrangements.

There was a £21.8m decrease in reported working capital of which the main movements are due to a £28.8m seasonal fall off in deferred revenue offset by a £7.0m movement in other working capital due mainly to reductions in trade receivables.

The £10.2m decrease in other non-current assets and liabilities is due a £5.4m onerous IT contract provision and maintenance provision increases mainly due to engine obligations associated with the ATR and Q400 fleet.

At 30th September 2017 the retirement benefits obligation, the Group defined benefit pension scheme which is closed to future benefit accrual, had an IAS 19 accounting deficit of £18.3m compared to a deficit of £20.8m at 31st March 2017. The decreased liability reflects a lower long–term inflation assumption as discount rates have held flat (see note 16).

Shareholders' equity has decreased by £1.8m to £151.7m with the profit after tax in the period of £15.1m and £2.0m of actuarial gains on the IAS 19 pension scheme valuation (net of deferred tax) offset by a decrease in hedging reserve of £18.9m as amounts were released to the income statement or written down to reflect hedging losses as sterling has strengthened.

Related party transactions

There have been no material related party transactions since the last annual report.

Going concern

Flybe's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Interim Management Report on pages 1 to 4. The financial position of the Group, its cash flows and liquidity position, and events since the balance sheet date are described on pages 6 to 13. In addition, note 33 of the Group's Annual Report for the year ended 31st March 2017 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 £92.6m at 30th September 2017, and has met all of its operating lease commitments and debt repayments as they have fallen due during the period.

Flybe faces trading risks presented by current economic conditions in the aviation sector, particularly in relation to passenger volumes and yields and the associated profitability of individual routes. In addition, the Group is exposed to fluctuations in fuel prices and foreign exchange rates. As of 5th November 2017, Flybe had purchased 76.4% of its anticipated fuel requirements and 69.8% of its anticipated USD requirements for the following 12 months.

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

Risks and uncertainties

The Group faces a number of risks which, if they arise, could affect Flybe's business, financial results and strategic objectives. The principal risks and uncertainties and the mitigations identified at the time are laid out on pages 36 to 41 of the Group's Annual Report for the year ended 31st March 2017 which is available for download from the Flybe Group plc website at http://www.flybe.com/corporate/investors.

The Board feels that these risks and uncertainties remain relevant to the Group.

In addition, given the new Sustainable Business Improvement Plan the risk register and mitigating actions are being updated to include the new initiatives underway including the new digital platform and the fleet strategy which bring execution, operational and financial risks. In addition, the new GDPR ('General Data Protection Regulation') regulations to be implemented in 2018 brings new risks that the business needs to consider in order to mitigate financial and reputational risks.

Flybe Group plc
Independent review report to Flybe Group plc
For the six months ended 30th September 2017

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2017 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 18. 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 Guidance 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 consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30th September 2017 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
Statutory Auditor
Bristol, United Kingdom

9th November 2017

Flybe Group plc

Condensed consolidated income statement
For the six months ended 30th September 2017 (unaudited)

	Note	**Six months ended 30th September**	
		2017	2016 Restated
		£m	£m
Group revenue	3	**418.5**	383.0
Consisting of:			
Passenger revenue		**378.9**	338.1
White Label flying revenue		**19.5**	15.8
Revenue from other activities		**20.1**	29.1
Group revenue		**418.5**	383.0
Staff costs		**(65.6)**	(55.9)
Fuel		**(51.4)**	(52.9)
Airport and en route charges		**(90.2)**	(82.3)
Ground operations		**(55.0)**	(46.7)
Maintenance		**(41.1)**	(36.8)
Depreciation and amortisation		**(23.3)**	(18.2)
Aircraft rental charges		**(51.3)**	(47.6)
Marketing and distribution costs		**(14.7)**	(13.6)
Other operating gains		**10.0**	7.9
Other operating expenses		**(24.7)**	(19.5)
Operating profit		**11.2**	17.4
Investment income		**0.2**	0.6
Finance costs		**(3.0)**	(2.1)
Gains/(losses) on USD loan revaluations		**6.7**	(8.9)
Profit before tax	3	**15.1**	7.0
Tax credit	5	**-**	6.4
Profit after tax		**15.1**	13.4
Earnings per share:			
Basic	7	**7.0p**	6.2p
Diluted	7	**6.9p**	6.1p

Prior year restatement:
£10.4m of Flybe Aviation Services Limited cost of sales have been reclassified from the other operating expenses line to the maintenance line in the prior period. There has been no impact to the operating profit for the period.

Flybe Group plc

Condensed consolidated statement of comprehensive income

For the six months ended 30th September 2017 (unaudited)

	Six months ended 30th September 2017 £m	2016 £m
Profit for the period	**15.1**	13.4
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension scheme	**2.5**	(31.7)
Deferred tax arising on defined benefit pension scheme	**(0.5)**	-
	2.0	(31.7)
Items that may be reclassified subsequently to profit or loss:		
(Losses)/gains arising during the period on cash flow hedges	**(7.0)**	35.6
Reclassification of (losses)/gains on cash flow hedges included in the condensed consolidated income statement	**(10.2)**	1.6
Deferred tax arising on cash flow hedges	**3.2**	(6.4)
Foreign exchange translation differences	**(4.9)**	3.1
	(18.9)	33.9
Other comprehensive (loss)/income for the period	**(16.9)**	2.2
Total comprehensive (loss)/income for the period	**(1.8)**	15.6

Condensed consolidated statement of changes in equity

For the six months ended 30th September 2017 (unaudited)

	Share capital £m	Share premium £m	Own shares £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Retained deficit £m	Total equity £m
Balance at 1st April 2017	2.2	209.3	(3.3)	21.9	6.7	-	(83.3)	153.5
Profit for the period	-	-	-	-	-	-	15.1	15.1
Other comprehensive (loss)/income for the period	-	-	-	(18.9)	-	-	2.0	(16.9)
Balance at 30th September 2017	**2.2**	**209.3**	**(3.3)**	**3.0**	**6.7**	**-**	**(66.2)**	**151.7**

	Share capital £m	Share premium £m	Own shares £m	Hedging reserve £m	Other reserves £m	Capital redemption reserve £m	Retained deficit £m	Total equity £m
Balance at 1st April 2016	2.2	209.3	-	(9.9)	6.7	22.5	(76.6)	154.2
Profit for the period	-	-	-	-	-	-	13.4	13.4
Other comprehensive income/(loss) for the period	-	-	-	33.9	-	-	(31.7)	2.2
Equity-settled share-based payment transactions	-	-	-	-	-	-	0.6	0.6
Capital reduction	-	-	-	-	-	(22.5)	22.5	-
Purchase of shares for employee benefit trust (Restated - see note 11)	-	-	(3.3)	-	-	-	-	(3.3)
Balance at 30th September 2016	**2.2**	**209.3**	**(3.3)**	**24.0**	**6.7**	**-**	**(71.8)**	**167.1**

Flybe Group plc

Condensed consolidated balance sheet
As at 30th September 2017

	Note	**30th September 2017 (unaudited) £m**	31st March 2017 £m
Non-current assets			
Intangible assets		**12.0**	11.9
Property, plant and equipment	8	**310.5**	309.1
Other non-current assets		**77.1**	69.6
Restricted cash		**8.7**	9.2
Deferred tax asset		**3.5**	4.0
Derivative financial instruments	17	**0.9**	0.4
		412.7	404.2
Current assets			
Inventories		**6.4**	6.3
Trade and other receivables		**97.6**	108.0
Cash and cash equivalents		**92.6**	115.1
Derivative financial instruments	17	**10.4**	26.0
		207.0	255.4
Total assets		**619.7**	659.6
Current liabilities			
Trade and other payables		**(117.6)**	(116.9)
Deferred income		**(54.7)**	(83.5)
Borrowings	9	**(18.6)**	(20.6)
Provisions	10	**(26.2)**	(30.3)
Derivative financial instruments	17	**(3.2)**	(1.3)
		(220.3)	(252.6)
Non-current liabilities			
Borrowings	9	**(149.7)**	(167.7)
Deferred tax liability		**(1.4)**	(4.6)
Provisions	10	**(69.8)**	(53.0)
Other payables		**(1.3)**	-
Deferred income		**(6.5)**	(6.8)
Retirement benefits	16	**(18.3)**	(20.8)
Derivative financial instruments	17	**(0.7)**	(0.6)
		(247.7)	(253.5)
Total liabilities		**(468.0)**	(506.1)
Net assets		**151.7**	153.5
Equity attributable to owners of the Company			
Share capital	11	**2.2**	2.2
Share premium account		**209.3**	209.3
Own shares		**(3.3)**	(3.3)
Hedging reserve		**3.0**	21.9
Merger reserve		**6.7**	6.7
Retained deficit		**(66.2)**	(83.3)
Total equity		**151.7**	153.5

Flybe Group plc

Condensed consolidated cash flow statement

For the six months ended 30th September 2017 (unaudited)

	Six months ended 30th September	
	2017	2016 Restated
	£m	£m
Cash flows from operating activities		
Profit for the period	**15.1**	13.4
Adjustments for:		
Unrealised (gains)/losses on financial instruments	**(7.1)**	5.3
Depreciation and amortisation	**23.3**	18.2
Investment income	**(0.2)**	(0.6)
Interest expense	**3.0**	2.1
Other (gains)/losses on USD loan revaluations	**(6.7)**	8.9
Loss on disposal of property, plant and equipment	**1.4**	1.0
Share-based payment expenses	**-**	0.6
Taxation	**-**	(6.4)
	28.8	42.5
Cash paid for purchase of shares for employee benefit trust	**-**	(3.3)
Cash paid for defined benefit pension funding	**(0.7)**	(0.5)
Decrease/(increase) in restricted cash	**0.5**	(1.0)
Decrease/(increase) in trade and other receivables	**2.9**	(14.6)
Increase in inventories	**(0.1)**	(0.5)
Decrease in trade and other payables	**(26.9)**	(19.6)
Decrease in provisions and retirement benefits	**(5.2)**	(6.2)
	(29.5)	(45.7)
Tax paid	**-**	-
Net cash flows from operating activities	**(0.7)**	(3.2)
Cash flows from investing activities		
Interest received	**0.2**	0.6
Acquisition of property, plant and equipment	**(5.5)**	(71.1)
Capitalised computer software expenditure	**(2.4)**	(2.2)
Net cash flows from investing activities	**(7.7)**	(72.7)
Cash flows from financing activities		
Interest paid	**(3.0)**	(2.1)
Proceeds from new loans	**-**	58.2
Repayment of borrowings	**(11.1)**	(10.9)
Net cash flows from financing activities	**(14.1)**	45.2
Net decrease in cash and cash equivalents	**(22.5)**	(30.7)
Cash and cash equivalents at beginning of period	**115.1**	163.6
Cash and cash equivalents at end of period	**92.6**	132.9

Prior period restatement

The prior period has been restated to reclassify maintenance assets arising as a result of non-cash accounting transactions. £2.7m outflow has been removed from the acquisition of property, plant and equipment and £2.7m inflow has been removed from movement in provisions within net cash outflow from operating activities. There was no impact to the income statement or balance sheet nor any change in net decrease in cash and cash equivalents.

Notes to the condensed set of financial statements

For the six months ended 30th September 2017

1. GENERAL INFORMATION

The condensed interim financial statements have been prepared using accounting policies set out in the Annual Report and Financial Statements 2016/17 and in accordance with IAS 34. They are unaudited but have been reviewed by the Company's auditor. The results for the year ended 31st March 2017 and the balance sheet as at that date are abridged from the Company's Annual Report and Financial Statements 2016/17 which have been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters for which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under sections 498 (2) or (3) of the Companies Act 2006.

2. ACCOUNTING POLICIES

Basis of accounting

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

Going concern

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

Changes in accounting policy

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

No new material standards, amendments to standards or interpretations are effective in the period ending 30th September 2017.

IAS 7 (amendments) 'statement of cash flows' will result in additional disclosures for the Group in the consolidated financial statements for the year ending 31st March 2018.

IFRS 9 'Financial instruments' is effective for periods beginning on or after 1st January 2018. The Group will adopt the standard from 1st April 2018 and does not expect there to be a significant change in the classification and measurement of its financial instruments or in its hedging activities on adoption.

IFRS 2 (amendments) 'Classification and measurement of share-based payment transactions' is effective for periods beginning on or after 1st January 2018. The amendment provides guidance on three issues: the effects of vesting conditions on the measurement of cash-settled share-based payments; the classification of share-based payment transactions with net settlement features for withholding tax obligations; and the accounting for a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendment is not expected to result in any material changes for the Group.

IFRS 15 'Revenue from contracts with customers' is effective for periods beginning on or after 1st January 2018. The Group will adopt the standard from 1st April 2018. Flybe is currently analysing revenue streams under IFRS 15 and we will follow industry guidance. At this stage, the Group anticipates potential changes regarding the timing of the recognition of certain ancillary revenue and revenue streams from third-party contracts.

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2017

2. ACCOUNTING POLICIES (continued)

IFRS 16 'Leases' introduces a single lessee accounting model and is effective for periods beginning on or after 1st January 2019. The new standard will require lessees to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for all leases unless exemption is taken for certain short-term leases or for leases of low-value assets. At 30th September 2017, the Group has £280.6m outstanding commitments arising from operating leases (see note 13) so the new standard will have a material impact on the Group. The Group is currently assessing the impact of the new standard and it is not practicable to quantify the effect of this standard until this detailed review has been completed. In line with the reducing fleet size as leases expire, the eventual 'right of use' asset capitalised is likely to be significantly less than the current outstanding lease commitment. The Group expects to adopt the standard from 1st April 2019 and will be considering whether to use fully or modified retrospective application.

3. BUSINESS SEGMENTS

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

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

Under IFRS 8, Flybe reports two business segments in order to comply with accounting standards. The presentation of segments is consistent with the published financial statements for the year ended 31st March 2017.

Segment revenues and results

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

	Six months ended 30th September	
	2017 £m	2016 £m
Segment revenues:		
Flybe UK	**406.8**	364.6
FAS	**26.6**	23.8
Inter-segment sales	**(14.9)**	(5.4)
Group revenue (excluding investment income)	**418.5**	383.0
Segment results:		
Flybe UK (including net finance costs of £2.8m in H1 2017/18 and £1.5m in H1 2016/17)	**13.3**	5.3
FAS	**1.8**	1.7
Total segment profit before tax	**15.1**	7.0

The Flybe UK segment includes group costs of £2.6m (H1 2016/17: £2.2m) and revaluation gains on USD aircraft loans of £6.7m (H1 2016/17: losses of £8.9m).

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2017

4. SEASONALITY

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

5. TAX

Current tax for the six-month period is charged at 0% (six months ended 30th September 2016: 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.

There is no tax charge in the condensed consolidated income statement. The £2.7m credit to the condensed consolidated statement of comprehensive income reflects the movement in derivative financial instruments and the defined benefit scheme. As the pension scheme liability will eventually unwind, this is deemed realisable and therefore adopts the 19% corporation tax rate enacted for that period.

The prior year tax credit of £6.4m reported in the first half of H1 2016/17 resulted from the movement in the deferred tax asset on fixed asset temporary differences. As reported at 31st March 2017, no deferred asset is recognised on fixed asset temporary differences due to the length of time until they are expected to be utilised. £21.6m of deferred tax assets have not been recognised at 30th September 2017 (£21.1m at 31st March 2017).

6. DIVIDENDS

No dividends have been paid or proposed either during the six months ended 30th September 2017 or during the comparative accounting period.

7. EARNINGS PER SHARE

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

	Six months ended 30th September	
	2017	2016
	£m	£m
Earnings for the purposes of earnings per share being net profit attributable to owners of the Group	**15.1**	13.4
	No.	No.
Weighted average number of ordinary shares for the purposes of basic earnings per share	**216,656,776**	216,656,776
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**220,436,306**	220,436,306
Earnings per ordinary share – basic	**7.0p**	6.2p
Earnings per ordinary share – diluted	**6.9p**	6.1p

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2017

8. PROPERTY, PLANT AND EQUIPMENT

	30th September 2017 £m	31st March 2017 £m
Opening cost as at 1st April	**425.6**	304.7
Additions	**25.1**	134.6
Disposals	**(18.5)**	(13.9)
Reclassifications from intangible assets	**-**	0.2
Closing cost at 30th September / 31st March	**432.2**	425.6
Accumulated depreciation	**(121.7)**	(116.5)
Closing net book value as at 30th September / 31st March	**310.5**	309.1

See note 14 for capital commitments.

9. BORROWINGS

Repayments on bank loans amounting to £11.1m were made during the period and no additional amounts were drawn down (31st March 2017: repayments of £19.8m and proceeds from new loans of £84.3m).

USD loan revaluations resulted in a gain of £6.7m on borrowings (31st March 2017: loss of £13.2m).

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2017

10. PROVISIONS

	30th September 2017 £m	31st March 2017 £m
Leased aircraft maintenance	**88.7**	80.9
Other	**7.3**	2.4
	96.0	83.3
Current	**26.2**	30.3
Non-current	**69.8**	53.0
	96.0	83.3

The Group's provisions are as follows:

	Leased aircraft maintenance £m	**Other £m**	**Total £m**
At 1st April 2017	80.9	2.4	83.3
Additional provision	16.5	10.1	26.6
Utilisation of provision	(8.7)	(5.2)	(13.9)
At 30th September 2017	**88.7**	**7.3**	**96.0**

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 condensed consolidated income statement.

Other provisions includes £1.4m (31st March 2017: £0.8m) for passenger compensation claims when the group has an obligation to recompense customers under regulation EU261 and £5.9m for onerous contracts (31st March 2017: £1.6m) which includes £5.4m for an onerous IT contract (31st March 2017: £nil).

11. SHARE CAPITAL AND RESERVES

	30th September 2017 £000	31st March 2017 £000
Authorised, issued and fully paid		
216,656,776 ordinary shares of 1p each	**2,167**	2,167

In the six months ended 30th September 2017 no shares were issued. The Company has one class of ordinary shares which carry no right to fixed income.

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

Notes to the condensed set of financial statements (continued)
For the six months ended 30th September 2017

12. CONTINGENCIES

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

	30th September 2017 £m	31st March 2017 £m
Bank guarantees and letters of credit issued	**10.7**	9.8

13. OPERATING LEASE COMMITMENTS

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

	Property and equipment		**Aircraft**	
	30th September 2017 £m	31st March 2017 £m	**30th September 2017 £m**	31st March 2017 £m
Less than one year	**1.8**	1.8	**83.3**	91.4
Between one and two years	**0.7**	0.9	**70.0**	78.0
Between two and five years	**1.7**	1.9	**111.0**	142.2
More than five years	**9.6**	9.8	**2.5**	6.9
	13.8	14.4	**266.8**	318.5

The fall in obligations for aircraft operating leases reflects repayments on existing leases and favourable US Dollar foreign exchange rate movements (the majority of aircraft operating leases are denominated in USDs). This reduction has been partially offset by the delivery of two Q400s in April and May 2017.

14. CAPITAL COMMITMENTS

The Group has, over time, contractually committed to the acquisition of aircraft (all due to be delivered in the calendar year 2019) with a total list price before escalations and discounts as follows:

	30th September 2017 £m	31st March 2017 £m
Embraer E175 regional jet	**110.8**	118.8

It is intended that these aircraft will be financed partly through cash flow and partly through external financing and lease arrangements. These are all US Dollar denominated commitments.

15. SHARE-BASED PAYMENTS

The Company did not issue any share schemes during the six months ended 30th September 2017.

The likelihood of awards being made under a number of Performance share plan schemes was re-assessed during the period ended 30th September 2017 and a credit to the income statement of £0.5m was made in respect of the EPS element that is no longer expected to vest.

Notes to the condensed set of financial statements (continued)

For the six months ended 30th September 2017

16. RETIREMENT BENEFITS

Defined benefit scheme

The defined benefit obligation as at 30th September 2017 is calculated on a roll-forward basis, using the latest agreed actuarial valuation as at 31st March 2016. There have been significant fluctuations in the economic drivers since that time which have been estimated in the accounting obligation estimate. The defined benefit scheme liability as at 30th September 2017 has been updated to reflect the scheme cash flows and asset valuation movements, although the scheme's liabilities and membership numbers have not been updated for half-year purposes. The £2.5m decrease in deficit to £18.3m at 30th September 2017 (31st March 2017: £20.8m) is primarily due to changes in financial assumptions. However, lower than expected investment returns acted to partially offset the decrease in deficit.

17. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES

Categories of financial instruments

	30th September 2017		31st March 2017 Restated[1]	
	Carrying value £m	**Fair value £m**	Carrying value £m	Fair value £m
Financial assets				
Cash, cash equivalents and restricted cash	**101.2**	**101.2**	124.3	124.3
Loans and receivables:				
Trade and other receivables	**146.0**	**146.0**	156.2	156.2
Derivative instruments in designated accounting relationships	**11.3**	**11.3**	26.4	26.4
Financial liabilities				
Liabilities held at amortised cost:				
Trade and other payables	**(54.9)**	**(54.9)**	(53.9)	(53.9)
Debt	**(168.3)**	**(199.7)**	(188.3)	(212.3)
Derivative instruments in designated hedge accounting relationships	**(3.9)**	**(3.9)**	(1.9)	(1.9)

[1] The fair value of trade and other payables and debt for the year ended 31st March 2017 has been restated to show the correct value of future finance lease charges. There has been no impact to the income statement or balance sheet.

17. FINANCIAL INSTRUMENTS FAIR VALUE DISCLOSURES (continued)

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.

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

	30th September 2017 £m	31st March 2017 £m
Foreign exchange derivatives	**1.3**	21.5
Fuel derivatives	**6.1**	3.0
Total financial instruments	**7.4**	24.5

18. RELATED PARTIES

Transactions with key management personnel

Details of the compensation paid to the directors will be disclosed in the Group's Annual Report for the year ended 31st March 2018.

Flybe Group plc

Glossary

adjusted total cost	total costs less revaluation of USD loans
adjusted profit before tax	reported profit before tax less revaluation of USD loans
codeshare	an arrangement whereby multiple airlines sell seats on the same flights and multiple flight designators and flight numbers are used for the same flight
domestic	passengers from one UK airport (including the Channel Islands and the Isle of Man) to another UK airport (including the Channel Islands and the Isle of Man) as appropriate
dry lease	the lease of the basic aircraft without insurances, crew, maintenance etc
EBITDAR	Operating profit after adding back depreciation, amortisation and aircraft rental charges
effective exchange rate	the cost of currency for a period implicit through the weighted average cost of (i) currency acquired through forward contracts and (ii) currency bought in the spot market
ETS	Emissions Trading Scheme
FAS	Flybe Aviation Services Limited
Flybe	Flybe Group plc
fuel burn per seat	jet kerosene used, divided by number of seats flown
the Group	Flybe Group plc
Interline	an arrangement whereby multiple airlines sell seats on the same flight, but use only the flight designator and flight number of the operating carrier
load factor	sold seats (Flybe ticketed passengers on either Flybe operated scheduled services or hardblock routes operated by the codeshare partner) divided by scheduled available seats (seats available for passenger occupancy on scheduled services)
MRO	maintenance, repair and overhaul
net (debt)/funds	total cash less borrowings
passenger	a person with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable)
passenger revenue	total ticket and ancillary revenue (including unflown APD less refunds) plus revenue from hardblock codeshare arrangements
passenger revenue per seat	passenger revenue generated divided by scheduled available seats (seats available for passenger occupancy on scheduled services)
passenger yield	total passenger revenue per passenger (after the deduction of government taxes and levies)
route	a scheduled service flown by an airline other than on a franchised route
scheduled sectors flown	the total number of aircraft flights per annum, excluding positioning, charter and training flights
seat capacity	the average number of seats per aircraft multiplied by the number of scheduled sectors flown
sector	a flight between an originating airport and a destination airport, typically with no intervening stops
Summer season	the last Sunday in March until the last Saturday in October in any particular year
wet lease	the lessor provides the aircraft, crews, maintenance and insurance. An ACMI rate is charged per block hour
White Label	flying operated by Flybe on behalf of another airline, on which Flybe takes operational risk, but the revenue and cost risks remain with the airline for whom Flybe is operating
winter season	the first Sunday in October to the last Saturday in March in any particular year