flybe.
Close to you

**14th November 2018**

# Flybe Group plc

**Registered number 1373432**

# Interim management report

## For the six months ended 30th September 2018

# Flybe Group plc

# Interim management report

# For the six months ended 30th September 2018

## Contents

# Flybe Group plc
# Interim management report

**14th November 2018**

# Adjusted profit up despite fuel and currency headwinds

Flybe today presents its consolidated Group results for the six months to 30th September 2018.

**Christine Ourmières-Widener, Chief Executive Officer, commented:**

"In line with our strategy, we reduced seat capacity in the first half by 9.0% delivering a 7.2% increase in revenue per seat. Continued improvements are being seen into quarter three which demonstrates the popularity of Flybe for our customers. However there has been a recent softening in growth in the short-haul market, as well as continued headwinds from higher fuel and currency costs. We are responding to this by reviewing every aspect of our business, especially further capacity reduction, cash management and cost savings. This is already starting to have a positive impact, as shown by the improved first half adjusted profit before tax; however, we must do more in the coming months. We remain confident in the vital role that Flybe plays in UK connectivity."

## Financial summary

| | **H1 2018/19 £m** | H1 2017/18 (restated) £m | Change £m | Change % |
|---|---|---|---|---|
| Group revenue | **409.2** | 419.2 | (10.0) | (2.4) |
| Total costs (excluding revaluation effect of USD aircraft loans) | **(395.2)** | (409.8) | 14.6 | (3.6) |
| Adjusted profit before tax[1] | **14.0** | 9.4 | 4.6 | 48.9 |
| Profit before and after tax | **7.4** | 16.1 | (8.7) | (54.0) |

**Prior period restatement**
The prior period has been restated for the implementation of IFRS 15, IFRS 9 and the E195 onerous lease recognised as a prior year adjustment at 31st March 2018. All comparative figures throughout this report have been restated where necessary. See note 20 for a breakdown of the restatement and further information can be found in the Group's 2017/18 financial statements.

## Financial overview

- After a 9.0% reduction in capacity, Group revenue fell by 2.4% to £409.2m (H1 2017/18: £419.2m) although total revenue per seat ('RPS') increased by 7.2%.
- Adjusted profit before tax[1] increased to £14.0m (H1 2017/18: £9.4m). Excluding the impact of the E195 onerous lease, the adjusted profit before tax of £9.9m (H1 2017/18: £9.2m) is slightly ahead of guidance given in the October trading update.
- Profit before and after tax reduced to £7.4m (H1 2017/18: £16.1m) reflecting £6.6m of non-cash revaluation losses on USD aircraft loans (H1 2017/18: gains of £6.7m).
- Net assets increased to £118.6m (31st March 2018: £91.5m) reflecting improved hedging gains given adverse sterling and fuel price movements and a lower pension deficit.
- Net debt increased to £82.1m including £70.6m cash (31st March 2018: £59.1m including £95.0m cash) reflecting the seasonality of cash and adverse sterling movements.
- Q3 is showing a positive improvement with 63% of seats sold (Q3 2017/18: 59%).

[1] Adjusted profit before tax is reported profit before tax excluding the revaluation effect of USD aircraft loans (see page 8).

# Flybe Group plc
# Interim management report

## Operating statistics

- 7.9% improvement in passenger revenue per seat to £60.18 (H1 2017/18: £55.75).
- 8.0 percentage points improvement in load factor to 84.0% (H1 2017/18: 76.0%) reflecting a better utilisation of the fleet.
- Passenger volumes increased by 0.6% to 5,241 thousand (H1 2017/18: 5,210 thousand).
- 2.3% decrease in passenger yield to £71.65 (H1 2017/18: £73.34) of which c. 1% was due to the removal of credit card fees from January 2018.
- 9.0% reduction in seat capacity to 6,240 thousand reflecting the smaller fleet (H1 2017/18: 6,854 thousand).
- 5.9% increase in reported cost per seat ('CPS') or 2.6% at constant currency. CPS at constant currency and excluding fuel decreased by 0.1% reflecting stronger underlying cost control.

The effect of the prior year restatements is outlined below:

| | **H1 2017/18 (as presented) £m** | **E195 Onerous lease £m** | **IFRS 15 £m** | **IFRS 9 £m** | **H1 2017/18 (restated) £m** |
|---|---|---|---|---|---|
| Group revenue | 418.5 | - | 0.7 | - | 419.2 |
| Total operating costs | (407.3) | 0.2 | 0.3 | (0.8) | (407.6) |
| Operating profit | 11.2 | 0.2 | 1.0 | (0.8) | 11.6 |
| | | | | | |
| Investment income | 0.2 | - | - | - | 0.2 |
| Finance costs | (3.0) | - | - | 0.6 | (2.4) |
| Adjusted profit before tax | 8.4 | 0.2 | 1.0 | (0.2) | 9.4 |
| | | | | | |
| Profit before and after tax | 15.1 | 0.2 | 1.0 | (0.2) | 16.1 |
| EBITDAR | 85.8 | 0.3 | 4.7 | (0.8) | 90.0 |

| | **2017/18 (as presented) £m** | **E195 Onerous lease £m** | **IFRS 15 £m** | **IFRS 9 £m** | **2017/18 (restated) £m** |
|---|---|---|---|---|---|
| Net assets | 93.1 | n/a | (1.0) | (0.6) | 91.5 |

# Flybe Group plc
# Interim management report

## Business update

Flybe continues to deliver on its Sustainable Business Improvement Plan with five strategic objectives.

| Strategic objective | Success factors | Half-year update |
|---|---|---|
| Continuously improving revenue | Revenue per seat ('RPS') | Total revenue per seat is strong, increasing by 7.2% in H1 reflecting record Summer load factors of 84.0%. |
| Airline of choice for our customers | Net promoter score ('NPS') | Flybe's NPS has improved to a score of 23 (H1 2017/18: 13) indicating improved customer advocacy in line with the 2018/19 target. |
| Sustainable cost position | Cost per seat ('CPS') | CPS is the primary area of focus to demonstrate cost control improvements. Management is working on a number of cost initiatives to bring CPS down as outlined below. In H1, saw the impact on profitability of a lower growth in CPS compared to the RPS growth. |
| A stable and reliable operation | On time performance ('OTP') | In H1, departure OTP was one percentage point below last year at 76.8%, not helped by air traffic control issues but also reliability and availability factors. In order to improve OTP, there has been an increased focus on internal maintenance work. |
| Engaged and motivated employees | Employee engagement index | During H1 2018/19, Flybe conducted an independent employee engagement survey. The score was slightly below the national average and improvement action plans are being implemented. A follow up survey is intended during 2019/20. |

In order to monitor the delivery of the announced strategy, management is focused on the following key drivers:

- Fleet reduction plan;
- Network optimisation to ensure it best matches customer demand;
- Operational excellence (targeted at improving OTP and developing a leading maintenance, repair and overhaul ('MRO') organisation);
- New technology with the introduction of the new digital platform ('E-fly') in H2 2018/19; and
- Cost and cash initiatives both in operational and support areas of the business.

## Fleet reduction plan

The planned fleet reduction programme matches aircraft with our demand-driven route network. Our plan remains on track to reduce the fleet size to an optimum level of 70 aircraft, including the five ATR aircraft fulfilling the SAS White Label contract. At 30th September 2018, the fleet size totalled 78 aircraft compared to 80 at 31st March 2018 following the return of one Bombardier Q400 turboprop and one Embraer E195 jet at the end of their lease terms. A further two end-of-lease Embraer E195 aircraft are due to be handed back in H2. As announced in June 2018, in line with the strategy to retain the Q400s as the aircraft of choice for Flybe's fleet, Flybe has extended the leases of five Bombardier Q400 aircraft which immediately reduced the rental costs on these aircraft.

## Network Optimisation

The smaller fleet is already delivering improvements in commercial performance with higher load factors and revenue per seat. The removal of the Embraer 195 fleet will help further strengthen the performance by boosting load factors and yield as popular routes are flown by the smaller, and more cost efficient, Embraer E175 jets and the Bombardier Q400 turboprops.

# Flybe Group plc
# Interim management report

## Operational excellence

### Improving on time performance ('OTP')

There is an increased focus on improving OTP with particular emphasis on making changes to the inputs that Flybe can influence including first wave flights, block times and disruption management with added attention on the most important bases to make the most difference.

We have implemented a six month plan and anticipate improvements to commence into H2 2018/19. Further progress is expected in 2019/20 to reduce costs associated with disruption, such as EU261, crew and aircraft operations.

### MRO organisation

The Single Engineering Organisation ('SEO') concept is progressing and the MRO activities are expected to be transferred to Flybe Limited in H2 2018/19 with the objective of reducing complexity and cost. Flybe Aviation Services Limited ('FAS') remains as a legal entity servicing the Airbus 400M contract at RAF Brize Norton.

Consistent with our strategy announced in the Group's 2017/18 financial statements, third party maintenance work reduces to allow more dedicated support to the Flybe fleet. This is important to enable us to enhance OTP and wider operational efficiency. Consequently, lower MRO revenue has temporarily diluted H1 performance.

With the new senior technical management team now in place, we can further improve productivity in the hangar and enhance contract relationships. Added focus on productivity is already seeing improvements with activities completed on time increasing to 76% compared to 59% last year. We are aiming to reduce the time taken on C-checks from 35 days to 29 days with recent evidence showing a 32-day turnaround time. The departure of the last E195s will also remove complexity from the fleet and reduce maintenance costs.

## New technology

E-fly will provide a new passenger service system which will give customers a much better service throughout, from searching for a flight to landing at their end destination. The handover will progress throughout H2 2018/19 helping to drive additional revenues, improve efficiency and the online customer experience.

## Cost and cash initiatives

Given the challenges brought by rising fuel prices and weaker sterling, management is actively encouraging every employee to focus on innovative ways to reduce costs and challenge existing procedures. Various initiatives, including stricter contract management, review of all supplier contracts such as evaluating the most appropriate supply of maintenance parts and fuel planning and control initiatives have produced immediate results.

## Senior management team and the Board

Flybe has been continuing to strengthen its leadership team. Sir Timo Anderson, stepped down as a Non-Executive Director to join the Executive Committee in October 2018 and became Chief Operating Officer, replacing Luke Farajallah. Sir Glenn Torpy has been appointed to replace Timo as the chair of the Safety and Security committee. Rob Pendle has been appointed to the position of Chief Technical Officer.

Vincent Hodder, Chief Strategy Officer, and Peter Hauptvogel, Chief Information Officer have left the Company.

## Outlook

Flybe's strategy of reducing capacity has enabled the Company to report continued increases in revenue per seat with a 7.2% improvement in H1. However external factors, notably the weaker value of sterling and higher fuel prices have driven up the cost per seat, which together with a softening of market growth, has affected profitability within the European short-haul aviation market. Despite this, bookings remain ahead of last year showing the continued value of Flybe to its customers. However, the Board is reviewing a number of options to address the current cost challenges. These include further capacity and cost saving measures, as well as initiatives to strengthen the balance sheet and preserve cash resources.

The Board is also exploring a possible move to an LSE Standard listing, from the current Premium listing. This would have the benefit of allowing the Company greater flexibility when considering divestments, particularly to recycle cash, as the current low market capitalisation places restraints and complexity on such disposals for companies with a Premium listing. If the Board determines that such a move would be in the interests of the Company and shareholders, the Board will write to all shareholders and convene a general meeting to approve this move.

## Brexit

Brexit remains a major uncertainty for the sector and the wider economy. The Government continues to negotiate the UK's exit from the European Union but has not yet reached an agreed deal. In relation to aviation, the various Government papers on Brexit set out the issues facing the industry and failure to reach an agreement may put at risk, or damage, parts of the business. The "no-deal" Brexit proposals give a 14 month stand off period, thus giving more time for consideration of alternative strategies and solutions if required. The Board believes that an appropriate agreement will be reached, although it is also developing contingency plans including potentially reassigning contracts that could be directly affected.

## Q3 Trading Update

Forward sales in Q3 as at 12th November 2018 show a positive increase in sold seats:

- 6.0% reduction in seat capacity vs. prior year
- 63% of seats sold vs. 59% in the prior year
- 2.0% increase in passenger revenue per seat

We are now planning for H2 capacity to reduce by around 3%, reflecting the smaller fleet, lease extensions and the latest winter schedule.

As of 12th November 2018, we had purchased 96.9% of our anticipated fuel requirements at USD606 and 74.7% of our anticipated US Dollar requirements at USD1.35 for H2.

## Enquiries


**Flybe**
Ian Milne, Chief Financial Officer
Maja Gedosev, Director of Communications Tel: +44 (0)20 7379 5151

**Maitland**
Neil Bennett, Andy Donald, Finlay Donaldson Tel: +44 (0)20 7379 5151


There will be an analyst presentation at 10:00am on 14th November 2018 at Bryan Cave Leighton Paisner LLP, Adelaide London Bridge, London, EC4R 9HA.

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.

# Flybe Group plc
# Interim management report

## Responsibility statement

For the six months ended 30th September 2018

### Responsibility statement

The Directors' confirm that these condensed interim financial statements have been prepared in accordance with IAS 34, 'Interim Financial Reporting', as adopted by the European Union, and that the interim management report includes a fair review of the information required by DTR 4.2.7 and DTR 4.2.8, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions in the first six months and any material changes in the related party transactions described in the last annual report.

A list of current directors is maintained on the Flybe Group plc website: www.flybe.com.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board

| | |
|---|---|
| **Christine Ourmières-Widener** | **Ian Milne** |
| **Chief Executive Officer** | **Chief Financial Officer** |
| 14th November 2018 | 14th November 2018 |

## 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

# Detailed results for the six months ended 30th September 2018

## Prior period restatements

The prior period has been restated for the implementation of IFRS 15, IFRS 9 and the E195 onerous lease provision recognised in the prior year.

The adoption of IFRS 15 on a retrospective basis resulted in a prior period decrease to opening reserves of £2.5m. During H1 2017/18, £1.0m of this deferred revenue was released. This was primarily due to revenue relating to credit card charges levied by Flybe, which were previously recognised on the booking date, now being recognised on the date of travel. No equivalent deferral occurred in H1 2018/19 as credit card charges had been withdrawn.

In addition, there are three reclassifications that had no impact on operating profit: airport incentive income is now recognised in other operating income; certain codeshare revenue is now recognised gross and revenue has been reduced by passenger compensation claims.

The adoption of IFRS 9 was mandatory for Flybe for the period commencing 1st April 2018. The IFRS 9 restatement has resulted in a £0.6m increase to the retained deficit at 31st March 2018 and a £0.2m credit to the income statement for H1 2017/18.

The prior period has also been restated for the onerous lease provision recognised in the Group's 2017/18 financial statements. During H1 2018/19, £5.9m of the onerous E195 lease provision was utilised. A high proportion of the onerous lease is denominated in US Dollars which has caused a translation loss of £2.6m on the retranslation of the balance sheet provision at 30th September 2018. There was also a £0.8m impairment charge relating to E195 maintenance assets capitalised during the period. The total impact of the onerous lease on the income statement for the period was a credit of £4.1m (H1 2017/18: £0.2m).

All comparative figures throughout this report have been restated where necessary; see notes 2 and 20 for further information on all restatements.

## Headline results

| | **H1 2018/19**<br>**£m** | H1 2017/18<br>(restated)<br>£m | Change<br>£m |
|---|---|---|---|
| Group revenue | **409.2** | 419.2 | (10.0) |
| EBITDAR[1] | **83.8** | 90.0 | (6.2) |
| Adjusted profit before tax[2] | **14.0** | 9.4 | 4.6 |
| Profit before and after tax | **7.4** | 16.1 | (8.7) |
| Net cash outflow from operating activities | **(15.2)** | (0.7) | (14.5) |

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

# Flybe Group plc
# Interim management report

## Alternative performance measures

EBITDAR and adjusted profit before tax are non-GAAP measures which exclude amounts that are included in the most directly comparable measure calculated and presented in accordance with IFRS. The reconciliations below show how the alternative performance measures are determined from the most directly comparable measure. The non-GAAP measures described may not be directly comparable with similarly-titled measures used by other companies.

EBITDAR is a common airline performance measure which is used for making comparisons between airlines.

| | **H1 2018/19 £m** | H1 2017/18 (restated) £m | Change £m |
|---|---|---|---|
| **Operating profit** | **16.5** | 11.6 | 4.9 |
| Depreciation and amortisation | **25.5** | 22.6 | 2.9 |
| Aircraft rental charges | **41.8** | 55.8 | (14.0) |
| **EBITDAR** | **83.8** | 90.0 | (6.2) |

The reduction in EBITDAR reflects improvements in contribution more than offset by higher fuel and carbon prices together with the adverse currency impact from weaker sterling.

Adjusted profit or loss before tax is a performance measure used by Flybe to assess underlying 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. As this is not a cash transaction, it does not reflect the underlying performance of Flybe and therefore we measure adjusted profit or loss before tax and USD loan revaluations.

| | **H1 2018/19 £m** | H1 2017/18 (restated) £m | Change £m |
|---|---|---|---|
| **Profit before tax** | **7.4** | 16.1 | (8.7) |
| USD aircraft loan revaluation loss/(gains) | **6.6** | (6.7) | 13.3 |
| **Adjusted profit before tax and USD loan revaluations** | **14.0** | 9.4 | 4.6 |

Excluding the impact of the E195 onerous lease provision the adjusted profit before tax and USD loan revaluations is £9.9m (H1 2017/18: £9.2m).

# Flybe Group plc
# Interim management report

## Fleet

The profile of Flybe's fleet at 30th September 2018 and 31st March 2018 is summarised below:

| | | Number of aircraft | | |
|---|---|---|---|---|
| | Number of seats | At 31st March 2018 | Net movements in period | **At 30th September 2018** |
| Bombardier Q400 turboprop | 78 | 55 | (1) | **54** |
| Embraer E175 regional jet | 88 | 11 | - | **11** |
| Embraer E195 regional jet | 118 | 9 | (1) | **8** |
| ATR72 turboprop (SAS contract) | 70 | 5 | - | **5** |
| **Total** | | 80 | (2) | **78** |
| Held on operating lease | | 53 | (2) | **51** |
| Owned | | 27 | - | **27** |
| **Total** | | 80 | (2) | **78** |
| Total seats in fleet | | 6,670 | | **6,474** |
| Average seats per aircraft | | 83.4 | | **83.0** |
| Average age of fleet (years) | | 9.1 | | **9.6** |

During H1 2018/19, Flybe has returned one Bombardier Q400 turboprop and one Embraer E195 jet. A further two E195s are due to be redelivered during H2 which will bring the total fleet size to 76 at 31st March 2019. There are two Bombardier Q400 aircraft and five Embraer E195 aircraft contracted for redelivery in 2019/20.

There are four E175 aircraft that are contracted for delivery from July onwards in 2019/20.

As at 30th September 2018, Flybe leased five ATR72 aircraft on a wet lease to SAS in Scandinavia and two E195 aircraft, on a dry lease, to Stobart Air.

Flybe owns 27 aircraft, partially funded by bank loans. The mix of owned aircraft as a proportion of the total fleet has increased from 33.8% in March 2018 to 34.6% during the period due to the return of end-of-lease aircraft.

As previously announced, Flybe has extended the leases on five Q400 aircraft by a further five years on significantly reduced lease payment terms. The optimum fleet size (of 70 aircraft) is expected to be achieved in 2020/21.

## Operational statistics

| | **H1 2018/19** | H1 2017/18 (restated) | Change |
|---|---|---|---|
| Seat capacity (thousand) | **6,240** | 6,854 | (9.0)% |
| Passengers (thousand) | **5,241** | 5,210 | 0.6% |
| Load factor (%) | **84.0** | 76.0 | 8.0ppts |
| Passenger yield (£) | **71.65** | 73.34 | (2.3)% |

## Revenue

| | H1 2018/19 | | H1 2017/18 (restated) | |
|---|---|---|---|---|
| | **£m** | **£ per seat** | £m | £ per seat |
| Passenger revenue | **375.5** | **60.18** | 382.0 | 55.75 |
| White Label flying revenue | **16.2** | | 19.5 | |
| Other revenue | **17.5** | | 17.7 | |
| **Total revenue** | **409.2** | **65.59** | 419.2 | 61.16 |

Flybe's seat capacity reduced by 9.0% to 6,240 thousand (H1 2017/18: 6,854 thousand) with scheduled sectors falling by 8.4% to 76,300 (H1 2017/18: 83,300) reflecting increased utilisation of the reducing fleet. Flybe served 5,241 thousand customers on its network, which was up 0.6% year-on-year (H1 2017/18: 5,210 thousand). The reduced network resulted in a load factor increase from 76.0% in H1 2017/18 to 84.0% and a 7.9% increase in passenger revenue per seat from £55.75 to £60.18.

White Label revenue has fallen by 16.9% to £16.2m (H1 2017/18: £19.5m) due to the cessation of the Brussels Airlines contract in H1 2017/18.

Other revenue held broadly flat year-on-year with increased charter flying and franchise revenues offsetting the reduction in MRO revenues.

## Operating costs

| | H1 2018/19 | | | H1 2017/18 (restated) | |
|---|---|---|---|---|---|
| | **£m** | **£ per seat** | **£ per seat at constant currency[1]** | £m | £ per seat |
| Fuel and aircraft operations | **192.3** | **30.83** | **31.00** | 195.0 | 28.44 |
| Aircraft ownership and maintenance | **100.0** | **16.03** | **16.52** | 119.5 | 17.46 |
| Staff costs | **62.9** | **10.09** | **10.13** | 65.6 | 9.57 |
| Foreign exchange losses/(gains)[2] | **4.4** | **0.71** | **n/a** | (11.4) | (1.67) |
| Other net operating expenses | **33.1** | **5.30** | **3.42** | 38.9 | 5.67 |
| **Operating costs** | **392.7** | **62.96** | **61.07** | 407.6 | 59.47 |

Total operating costs have decreased by 3.7% to £392.7m (H1 2017/18: £407.6m).

CPS (including fuel) increased by 5.9% from £59.47 in H1 2017/18 to £62.96 and on a constant currency basis[1] increased by 2.6%.

CPS (excluding fuel) increased by 4.0% from £51.97 to £54.06 and on a constant currency basis[1] decreased by 0.1%.

[1] Individual account lines include transactions recorded at the spot rate at initial recognition. Hedging impacts and currency revaluations are included in foreign exchange losses and gains.
[2] Constant currency is calculated by applying the prior year effective rates (including hedging impacts) to the current year costs.

## Operating costs (continued)

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

Fuel and aircraft operations

- 8.0% (£4.1m) increase in fuel costs mainly due to market price increases of £4.5m for fuel and £2.9m carbon offset by savings from reduced flying of £3.3m;
- 7.3% (£6.6m) reduction in airport and en route charges primarily due to £2.6m of cost savings associated with reduced sectors and £4.3m due to improved pricing on airport rebates and passenger numbers offset by £0.3m of adverse foreign exchange impacts; and
- 0.4% (£0.2m) reduction in ground operations costs with a £2.5m increase in disruption costs (delay and diversion and EU261 compensation) and £1.2m of inflation-based price increases offset by volume and other efficiency benefits of £3.9m.

Aircraft ownership and maintenance

- 20.4% (£8.4m) reduction in maintenance costs largely attributable to volume reductions of £4.0m, OTP improvement investments of £4.3m and currency benefits of £1.0m offset by inflation driven adverse price impacts of £0.9m;
- 12.8% (£2.9m) increase in depreciation and amortisation which reflects £3.7m of additional depreciation on capitalised maintenance assets as the fleet reached certain trigger points. This is offset by a saving of £1.7m driven by reduced flying hours. In addition, there was £0.7m of additional tangible asset depreciation and £0.2m of additional amortisation of intangible assets brought into service; and
- 25.1% (£14.0m) reduction in aircraft rental charges reflecting a £4.3m saving from a reduction in leased aircraft and renegotiated lease costs, £8.2m of onerous lease provision utilisation and £1.5m savings on foreign exchange.

Staff costs

- 4.1% (£2.7m) decrease in staff costs mainly due to £4.3m reduced air crew costs following the reduction in fleet size offset by the inflation driven 2% pay award of £1.6m.

Foreign exchange losses/(gains)

- 138.6% (£15.8m) adverse impact of foreign exchange movements. This includes £10.7m reduction in hedging gains, £1.5m decrease in transactional foreign exchange and £6.6m adverse balance sheet retranslation of monetary items (including £2.6m relating to the E195 onerous lease).

Other net operating expenses

- 14.9% (£5.8m) saving in other net operating expenses due to a £5.2m onerous IT contract provision in the prior period and £3.8m increase to airport incentive income. Otherwise, there were £1.1m of added credit card costs (as customers now have no incentive to use debit cards given new legislation), £0.8m of dual running costs due to the cutover to the new digital platform and £1.3m of professional fees.

## Fuel

The following table shows the movement of market fuel prices and subsequent costs for Flybe:

| | **H1 2018/19** | H1 2017/18 |
|---|---|---|
| Brent crude, market price per barrel | | |
| High | **$83** | $59 |
| Low | **$67** | $44 |
| Average | **$75** | $51 |
| Jet fuel, market price per tonne | | |
| High | **$723** | $580 |
| Low | **$598** | $438 |
| Average | **$661** | $502 |
| Blended rate, per tonne | **$543** | $490 |
| All-in rate, per tonne | **$674** | $577 |
| Total fuel costs | **£55.5m** | £51.4m |
| Usage of jet fuel, kilo tonnes[2] | **98,700** | 111,200 |
| Fuel burn per seat[2] | **15.8kg** | 16.2kg |

[1] The all-in fuel rate includes costs incurred fuelling the aircraft and excludes carbon costs (see below).
[2] The prior year usage and fuel burn per seat has been restated to include scheduled flights only which reflects the definition used for CPS and RPS calculations.

Flybe 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. The table below sets out the hedging position at 30th September 2018:

| | **30th September 2018** | 31st March 2018 |
|---|---|---|
| Fuel requirement hedged, % | **90.8%** | 61.1% |
| Average hedged price, per tonne | **$663** | $518 |

## Foreign exchange

The Group currently has a relatively small exposure to the euro but has significant US dollar costs in relation to fuel, maintenance, aircraft operating leases and loan repayments. The table below sets out the hedging position for the 12 months from 30th September 2018:

| | **30th September 2018** | 31st March 2018 |
|---|---|---|
| USD requirement hedged | **58.2%** | 79.7% |
| Average exchange rate | **$1.36** | $1.33 |

For more details on the Group's foreign currency risk management see page 136 of the Group's 2017/18 financial statements.

## 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 2018** | Calendar year 2017 |
|---|---|---|
| | **Budget** | Actual |
| Anticipated carbon allowances required, tonnes | **585,677** | 624,001 |
| Free allowance allocation, tonnes | **222,778** | 222,778 |
| Proportion forward purchased | **74%** | 100% |
| Effective carbon rate | **€18.05** | €4.17 |

The market cost of carbon has quadrupled over the last two calendar years causing the large variance in the effective carbon rate.

## Profit before and after tax

The Group's profit before and after tax is £7.4m for (H1 2017/18: £16.1m). The Group's adjusted profit before tax and USD aircraft loans revaluation is £14.0m (H1 2017/18: £9.4m).

There was no tax impact on the income statement in either period. There was a deferred tax expense of £4.8m (H1 2017/18: credit of £2.7m) within the statement of comprehensive income reflecting the unrealised gains on financial instruments and actuarial gains arising on the pension scheme. The balance sheet position at 30th September 2018 is a deferred tax liability of £3.3m and deferred tax asset of £2.2m (31st March 2018: deferred tax asset of £3.8m).

## EPS and dividends

Basic earnings per share for H1 2018/19 was 3.5p (H1 2017/18: restated[1] to 7.6p).

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

[1] See note 7 for details on the restatement.

# Flybe Group plc
# Interim management report

## Cash flow

| | **H1 2018/19 £m** | H1 2017/18 £m | Change £m |
|---|---|---|---|
| **Net cash outflow from operating activities** | **(15.2)** | (0.7) | (14.5) |
| Net capital expenditure after disposal proceeds | **(5.6)** | (7.9) | 2.3 |
| Net repayment of borrowings | **(9.2)** | (11.1) | 1.9 |
| Net interest paid | **(2.5)** | (2.8) | 0.3 |
| **Net decrease in cash and cash equivalents** | **(32.5)** | (22.5) | (10.0) |
| **Cash and cash equivalents at beginning of period** | **86.7** | 115.1 | (28.4) |
| **Cash and cash equivalents at end of period** | **54.2** | 92.6 | (38.4) |
| Restricted cash | **16.4** | 8.7 | 7.7 |
| **Total cash** | **70.6** | 101.3 | (30.7) |

In H1 2018/19, there was an increase in reported net cash outflow from operating activities of £15.2m (H1 2017/18: £0.7m) reflecting an increase in restricted cash due to added credit card acquirer security and higher cash in transit given H1 closed on a Sunday.

Net capital expenditure totals £5.6m with £4.3m of intangible assets and £1.3m of other property, plant and equipment (H1 2017/18: net capital expenditure totalled £7.9m with £2.4m of IT intangibles, £2.8m of owned aircraft modifications and £2.7m of other property, plant and equipment). This excludes a net £19.4m of non-cash maintenance movements (H1 2017/18: £17.2m), predominantly arising from the timing and volume of engine overhauls which have been offset in operating activity provision movements.

Borrowings repayments reduced from £11.1m to £9.2m primarily due to two engine loans ending in the prior period.

## Balance sheet

| | **30th September 2018 £m** | 31st March 2018 (restated) £m | Change £m |
|---|---|---|---|
| Aircraft | **286.8** | 286.7 | 0.1 |
| Other property, plant and equipment | **20.2** | 21.5 | (1.3) |
| Intangibles | **12.8** | 11.8 | 1.0 |
| Net debt | **(82.1)** | (59.1) | (23.0) |
| Net derivative financial instruments | **17.8** | (0.9) | 18.7 |
| Provisions | **(136.2)** | (130.1) | (6.1) |
| Other working capital – net current liability | **(47.9)** | (97.3) | 49.4 |
| Deferred taxation | **(1.1)** | 3.8 | (4.9) |
| Defined benefit pension scheme deficit | **(11.6)** | (18.8) | 7.2 |
| Other non-current assets | **59.9** | 73.9 | (14.0) |
| **Net assets** | **118.6** | 91.5 | 27.1 |
| Net current liabilities | **(51.4)** | (80.8) | 29.4 |
| Net non-current assets | **170.0** | 172.3 | (2.3) |
| **Net assets** | **118.6** | 91.5 | 27.1 |

# Flybe Group plc

# Interim management report

### Balance sheet (continued)

The £286.8m net book value of aircraft represents owned aircraft, engines, aircraft modifications and capitalised maintenance assets (31st March 2018: £286.7m).

Net debt, representing total cash offset by borrowings, has increased in the period to £82.1m (31st March 2018: £59.1m) due mainly to the seasonal reduction in cash and the adverse revaluation impacts on USD loans. The net debt position at 30th September 2018 includes restricted cash of £16.4m (31st March 2018: £8.3m) which consists of cash deposits held as security in favour of aircraft lessors and credit card acquirers. The increase year-on-year mainly represents increased credit card acquirer security.

The mark-to-market valuation of derivative financial instruments improved from a net liability of £0.9m at 31st March 2018 to a net asset of £17.8m at 30th September 2018, reflecting the recognition of favourable foreign exchange and fuel hedges given adverse market rates during the first half of the year.

Provisions have increased by £6.1m to £136.2m (31st March 2018: £130.1m). The majority of this is due to an increase in maintenance provisions of £6.7m reflecting assets reaching maintenance trigger points and the weakening of sterling. This is offset by the utilisation of the E195 onerous lease provision which has reduced from £20.9m to £19.0m. The provision assumptions were assessed against the latest plan and no material changes were made. This will be reviewed again at the year end.

Other working capital has seen the net current liability position decrease from £97.3m to £47.9m mainly as a result of the movement in engine receivables linked to trigger points in maintenance cycles and a reduction in deferred income in line with normal seasonality.

Other non-current assets reduced from £73.9m to £59.9m due to a reduction of non-current maintenance assets which are now within 12 months and therefore included in other working capital above.

The IAS 19 defined benefit pension scheme deficit was £11.6m at 30th September 2018 (31st March 2018: £18.8m). The reduction in the deficit is primarily due to an increase in the discount rate assumptions.

### Related party transactions

There have been no material related party transactions since the last financial statements published.

### Going concern

The financial statements have been prepared on a going concern basis which assumes the Group is able to meet its obligations as they fall due for the foreseeable future. Flybe had total cash of £70.6m, and free cash of £54.2m, at 30th September 2018 and has met all its operating lease commitments and debt repayments as they have fallen due during the period. 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.

This forecast includes the committed acquisition of four Embraer 175 aircraft (based on a total cost of $114m before discounts) scheduled for delivery between July and December 2019. No financing has yet been secured on these aircraft though negotiations on potential financing structures are well advanced. If financing is not available to the Group, Flybe has the flexibility to cancel one or more of the orders triggering penalties (staggered rates up to a maximum of 20% of the aircraft cost), the amount depending on the timing of the cancellation to the delivery date.

## Going concern (continued)

Since September 2018, the Group has provided partial collateral to its two main card acquirers. As at 13th November Flybe has provided £16.2m total cash collateral thus lowering unrestricted cash available to the business. The level of the cash collateral is expected to rise and fall from the seasonality effect of our sales, with the highest cash collateral required in the spring leading up to the summer flying programme. In the normal cycle of business December and January have the lowest level of cash balances. There is a risk that card acquirers may seek greater protection and thus more cash collateral in the future or terminate with notice. Existing card acquirer contracts enable them to call for up to 100% cash collateral and additional card acquirers are actively being sought.

Flybe faces trading risks presented by the current economic conditions in the aviation sector, particularly in relation to passenger volumes and yields. In addition, the Group is exposed to fluctuations in fuel prices and foreign exchange rates. As at 12th November 2018, Flybe had purchased 90.0% of its anticipated fuel requirements and 52.6% of its anticipated USD requirements for the following 12 months.

As announced in the trading update on 17th October 2018, in line with other airlines, Flybe has seen a slowdown of revenue growth in Q3 leading to a revision to expected H2 performance. As a result of this, and the associated increase in card acquirer risk, the Board has prepared a revised cash flow forecast and applied appropriate sensitivities to this forecast.

This cash flow forecast includes several cash generating transactions over the next 12 months to provide further liquidity in addition to that arising from ordinary business trading. The Directors believe these transactions will provide sufficient liquidity for the Group's needs and to manage potential consequences of downside risks as noted above. The financing actions range from short-term actions that are currently at an advanced stage and relate to the sale or sale and leaseback of assets or disinvestment of non-core elements of the business, and further medium-term plans that are being prepared to be transacted during 2019.

After making appropriate enquiries and considering the assumptions and uncertainties described above, the Directors consider that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, the financial statements do not include any adjustments which would be required if the going concern basis of preparation were deemed to be inappropriate. If the Group's card acquirers were to choose to seek significantly higher cash collateral and the Group cannot access sufficient additional liquidity, this would give rise to a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

## Principal 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 faced by the Group remain those set out on pages 40 to 45 of the Group's 2017/18 financial statements which is available for download from the Flybe Group plc website at http://www.flybe.com/investors.

The key areas of risks, and specific examples, are as follows:

- Safety and security (major safety incidences and IT security);
- Commercial and operational (disruptions to operations and competition);
- Financial (hedging and availability of finance as articulated in the going concern commentary); and
- Regulatory (Brexit uncertainty and GDPR).

The Directors consider the principal risks and uncertainties that could have a material impact on the Group's performance in the second half remain the same as those laid out in the Group's 2017/18 financial statements.

# Flybe Group plc
# Independent review report to Flybe Group plc

## Our conclusion

We have reviewed Flybe Group plc's condensed consolidated financial statements (the 'interim financial statements') in the interim management report of Flybe Group plc for the six month period ended 30th September 2018. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

## Emphasis of matter– material uncertainty relating to going concern

Without modifying our conclusion on the interim financial statements, we have considered the adequacy of the disclosure made in note 2 to the interim financial statements concerning the Group's ability to continue as a going concern. Additional cash collateral has been provided to the Group's two main card acquirers. The level of the cash collateral is expected to fluctuate due to seasonality in sales but there is a risk that further cash collateral will be required in the future as the contracts enable the card acquirers to require up to 100% cash collateral. Management have outlined actions to increase unrestricted cash but the timing and outcome of these actions are uncertain as is the assessment as to whether card acquirers will require additional cash collateral. These conditions indicate the existence of a material uncertainty which may cast significant doubt over the Group's ability to continue as a going concern. The interim financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

## What we have reviewed

The interim financial statements comprise:

- the condensed consolidated balance sheet as at 30th September 2018;
- the condensed consolidated income statement and condensed consolidated statement of comprehensive income for the period then ended;
- the condensed consolidated cash flow statement for the period then ended;
- the condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the interim management report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

# Flybe Group plc
# Independent review report to Flybe Group plc

## Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors
The interim management report, including the interim financial statements, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim management report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the interim management report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves
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 enquiries, 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.

We have read the other information contained in the interim management report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

**PricewaterhouseCoopers LLP**
Chartered Accountants
Bristol
14th November 2018

# Flybe Group plc
# Condensed consolidated income statement (unaudited)
### For the six months ended 30th September 2018

| | Note | Six months ended 30th September 2018 Total £m | 2017 Total (restated) £m |
|---|---|---|---|
| **Group revenue** | 3 | **409.2** | 419.2 |
| Consisting of: | | | |
| Passenger revenue | | **375.5** | 382.0 |
| White Label flying revenue | | **16.2** | 19.5 |
| Revenue from other activities | | **17.5** | 17.7 |
| **Group revenue** | | **409.2** | 419.2 |
| Staff costs | | **(62.9)** | (65.6) |
| Fuel | | **(55.5)** | (51.4) |
| Airport and en route charges | | **(83.6)** | (90.2) |
| Ground operations | | **(53.2)** | (53.4) |
| Maintenance | | **(32.7)** | (41.1) |
| Depreciation, amortisation and impairment | | **(25.5)** | (22.6) |
| Aircraft rental charges | | **(41.8)** | (55.8) |
| Marketing and distribution costs | | **(15.1)** | (14.7) |
| Other operating (losses)/gains | | **(4.9)** | 10.3 |
| Other operating income | | **7.3** | 4.2 |
| Other operating expenses | | **(24.8)** | (27.3) |
| **Operating profit** | | **16.5** | 11.6 |
| Investment income | | **0.2** | 0.2 |
| Finance costs | | **(2.7)** | (2.4) |
| (Losses)/gains on USD loan revaluations | | **(6.6)** | 6.7 |
| **Profit before tax** | 3 | **7.4** | 16.1 |
| Tax charge | 5 | **-** | - |
| **Profit after tax** | | **7.4** | 16.1 |
| **Earnings per share:** | | | |
| Basic and diluted | 7 | **3.5p** | 7.6p |

**Prior period restatement:**
See notes 7 and 20 for details regarding the restatement.

# Flybe Group plc

# Condensed consolidated statement of comprehensive income (unaudited)

## For the six months ended 30th September 2018

| | Six months ended 30th September | |
|---|---|---|
| | **2018** **£m** | 2017 (restated) £m |
| Profit for the period | **7.4** | 16.1 |
| | | |
| Items that will not be reclassified to profit or loss: | | |
| Remeasurement of net defined benefit pension scheme | **7.0** | 2.5 |
| Deferred tax arising on defined benefit obligation | **(1.3)** | (0.5) |
| | **5.7** | 2.0 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Gains/(losses) arising during the period on cash flow hedges | **26.3** | (11.9) |
| Reclassification of losses on cash flow hedges included in the condensed consolidated income statement | **(9.2)** | (10.2) |
| Deferred tax arising on cash flow hedges | **(3.5)** | 3.2 |
| | **13.6** | (18.9) |
| | | |
| Other comprehensive income/(loss) for the period | **19.3** | (16.9) |
| **Total comprehensive income/(loss) for the period** | **26.7** | (0.8) |

**Prior period restatement:**
See note 20 for details regarding the restatement.

# Flybe Group plc
# Condensed consolidated statement of changes in equity (unaudited)
### For the six months ended 30th September 2018

| | Share capital £m | Share premium £m | Own shares £m | Hedging reserve £m | Other reserves £m | Retained deficit (restated) £m | Total equity £m |
|---|---|---|---|---|---|---|---|
| Balance at 1st April 2017 | 2.2 | 209.3 | (3.3) | 21.9 | 6.7 | (114.4) | 122.4 |
| Profit for the period | - | - | - | - | - | 16.1 | 16.1 |
| 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 | (96.3) | 121.6 |
| Loss for the period | - | - | - | - | - | (24.6) | (24.6) |
| Other comprehensive loss for the period | - | - | - | (5.6) | - | (0.4) | (6.0) |
| Equity settled share-based payment transactions | - | - | - | - | - | 0.5 | 0.5 |
| Balance at 31st March 2018 | 2.2 | 209.3 | (3.3) | (2.6) | 6.7 | (120.8) | 91.5 |
| Profit for the period | - | - | - | - | - | 7.4 | 7.4 |
| Other comprehensive income for the period | - | - | - | 13.6 | - | 5.7 | 19.3 |
| Equity settled share-based payment transactions | - | - | - | - | - | 0.4 | 0.4 |
| **Balance at 30th September 2018** | **2.2** | **209.3** | **(3.3)** | **11.0** | **6.7** | **(107.3)** | **118.6** |

**Prior period restatement:**
See note 20 for details regarding the restatement.

# Flybe Group plc
# Condensed consolidated balance sheet (unaudited)
## As at 30th September 2018

| | Note | **30th September 2018 £m** | 31st March 2018 (restated) £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Intangible assets | | **12.8** | 11.8 |
| Property, plant and equipment | 8 | **307.0** | 308.2 |
| Other non-current assets | | **67.2** | 81.4 |
| Restricted cash | | **8.9** | 8.3 |
| Deferred tax assets | | **2.2** | 3.8 |
| Derivative financial instruments | 17 | **1.1** | 0.1 |
| | | **399.2** | 413.6 |
| **Current assets** | | | |
| Inventories | | **8.5** | 7.6 |
| Trade and other receivables | | **115.1** | 89.9 |
| Cash and cash equivalents | | **54.2** | 86.7 |
| Restricted cash | | **7.5** | - |
| Derivative financial instruments | 17 | **16.8** | 10.5 |
| | | **202.1** | 194.7 |
| **Total assets** | | **601.3** | 608.3 |
| **Current liabilities** | | | |
| Trade and other payables | | **(116.1)** | (110.0) |
| Deferred income | | **(55.4)** | (84.8) |
| Borrowings | 9 | **(18.6)** | (17.7) |
| Provisions | 10 | **(63.3)** | (52.8) |
| Derivative financial instruments | 17 | **(0.1)** | (10.2) |
| | | **(253.5)** | (275.5) |
| **Non-current liabilities** | | | |
| Borrowings | 9 | **(134.1)** | (136.4) |
| Deferred tax liabilities | | **(3.3)** | - |
| Provisions | 10 | **(72.9)** | (77.3) |
| Other payables | | **(1.3)** | (1.3) |
| Deferred income | | **(6.0)** | (6.2) |
| Retirement benefits | 16 | **(11.6)** | (18.8) |
| Derivative financial instruments | 17 | **-** | (1.3) |
| | | **(229.2)** | (241.3) |
| **Total liabilities** | | **(482.7)** | (516.8) |
| **Net assets** | | **118.6** | 91.5 |
| **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 | | **11.0** | (2.6) |
| Merger reserve | | **6.7** | 6.7 |
| Retained deficit | | **(107.3)** | (120.8) |
| **Total equity** | | **118.6** | 91.5 |

**Prior period restatement:**
See note 20 for details regarding the restatement.

# Flybe Group plc
# Condensed consolidated cash flow statement (unaudited)
### For the six months ended 30th September 2018

| | Six months ended 30th September | |
|---|---|---|
| | **2018** | 2017 (restated) |
| | **£m** | £m |
| **Cash flows from operating activities** | | |
| Profit for the period | **7.4** | 16.1 |
| *Adjustments for:* | | |
| Depreciation, amortisation and impairment | **25.5** | 22.6 |
| Investment income | **(0.2)** | (0.2) |
| Interest expense | **2.7** | 2.4 |
| Losses/(gains) on USD loan revaluations | **6.6** | (6.7) |
| Loss on disposal of property, plant and equipment | **0.5** | 1.1 |
| Share-based payment expenses | **0.4** | - |
| | **42.9** | 35.3 |
| Cash paid for defined benefit pension funding | **(0.8)** | (0.7) |
| Cash settled on derivatives | **(0.5)** | (7.1) |
| (Increase)/decrease in restricted cash | **(8.1)** | 0.5 |
| (Increase)/decrease in trade and other receivables | **(10.8)** | 3.7 |
| Increase in inventories | **(0.9)** | (0.1) |
| Decrease in trade and other payables | **(23.3)** | (27.9) |
| Decrease in provisions and retirement benefits | **(13.7)** | (4.4) |
| | **(58.1)** | (36.0) |
| **Tax paid** | **-** | - |
| **Net cash flows from operating activities** | **(15.2)** | (0.7) |
| **Cash flows from investing activities** | | |
| Interest received | **0.2** | 0.2 |
| Purchases of property, plant and equipment | **(1.3)** | (5.5) |
| Capitalised computer software expenditure | **(4.3)** | (2.4) |
| **Net cash flows from investing activities** | **(5.4)** | (7.7) |
| **Cash flows from financing activities** | | |
| Interest paid | **(2.7)** | (3.0) |
| Repayment of borrowings | **(9.2)** | (11.1) |
| **Net cash flows from financing activities** | **(11.9)** | (14.1) |
| **Net decrease in cash and cash equivalents** | **(32.5)** | (22.5) |
| **Cash and cash equivalents at beginning of period** | **86.7** | 115.1 |
| **Cash and cash equivalents at end of period** | **54.2** | 92.6 |

**Prior period restatement:**
See note 20 for details regarding the restatement.

# Flybe Group plc
# Notes to the condensed set of financial statements (unaudited)
### For the six months ended 30th September 2018

## 1. GENERAL INFORMATION

The condensed interim financial statements have been prepared using accounting policies set out in the Group's 2017/18 financial statements and in accordance with IAS 34 'Interim Financial Reporting'. They are unaudited but have been reviewed by the Company's auditor. These condensed interim financial statements do not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 31st March 2018 were approved by the Board on 18th June 2018 and delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under sections 498 (2) or (3) of the Companies Act 2006.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### Basis of accounting

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union and therefore the Group's financial statements comply with Article 4 of the EU IAS Regulation. Following IAS 34, this interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the Group's 2017/18 financial statements and any public announcements made by the Group during the interim reporting period. More detailed information about the adoption of accounting standards and the Groups' accounting policies is available in notes 2 and 3 of the Group's 2017/18 financial statements. Critical accounting judgments and key sources of estimation uncertainty relevant to the Group are available in note 4 of the Group's 2017/18 financial statements and remain appropriate for the interim financial statements.

### Going concern

The financial statements have been prepared on a going concern basis which assumes the Group is able to meet its obligations as they fall due for the foreseeable future. Flybe had total cash of £70.6m, and free cash of £54.2m, at 30th September 2018 and has met all its operating lease commitments and debt repayments as they have fallen due during the period. 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.

This forecast includes the committed acquisition of four Embraer 175 aircraft (based on a total cost of $114m before discounts) scheduled for delivery between July and December 2019. No financing has yet been secured on these aircraft though negotiations on potential financing structures are well advanced. If financing is not available to the Group, Flybe has the flexibility to cancel one or more of the orders triggering penalties (staggered rates up to a maximum of 20% of the aircraft cost), the amount depending on the timing of the cancellation to the delivery date.

Since September 2018, the Group has provided partial collateral to its two main card acquirers. As at 13th November Flybe has provided £16.2m total cash collateral thus lowering unrestricted cash available to the business. The level of the cash collateral is expected to rise and fall from the seasonality effect of our sales, with the highest cash collateral required in the spring leading up to the summer flying programme. In the normal cycle of business December and January have the lowest level of cash balances. There is a risk that card acquirers may seek greater protection and thus more cash collateral in the future or terminate with notice. Existing card acquirer contracts enable them to call for up to 100% cash collateral and additional card acquirers are actively being sought.

Flybe faces trading risks presented by the current economic conditions in the aviation sector, particularly in relation to passenger volumes and yields. In addition, the Group is exposed to fluctuations in fuel prices and foreign exchange rates. As at 12th November 2018, Flybe had purchased 90.0% of its anticipated fuel requirements and 52.6% of its anticipated USD requirements for the following 12 months.

As announced in the trading update on 17th October 2018, in line with other airlines, Flybe has seen a slowdown of revenue growth in Q3 leading to a revision of the expected H2 performance. As a result of this, and the associated increase in card acquirer risk, the Board has prepared a revised cash flow forecast and applied appropriate sensitivities to this forecast.

### Going concern (continued)

This cash flow forecast includes several cash generating transactions over the next 12 months to provide further liquidity in addition to that arising from ordinary business trading. The Directors believe these transactions will provide sufficient liquidity for the Group's needs and to manage potential consequences of downside risks as noted above. The financing actions range from short-term actions that are currently at an advanced stage and relate to the sale or sale and leaseback of assets or disinvestment of non-core elements of the business and further medium-term plans that are being prepared to be transacted during 2019.

After making appropriate enquiries and considering the assumptions and uncertainties described above, the Directors consider that it is appropriate to adopt the going concern basis in preparing the consolidated financial statements. Accordingly, the financial statements do not include any adjustments which would be required if the going concern basis of preparation were deemed to be inappropriate. If the Group's card acquirers were to choose to seek significantly higher cash collateral and the Group cannot access sufficient additional liquidity, this would give rise to a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

### 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 other than for new and amended standards and interpretations which must be adopted for annual reporting periods commencing on or after 1st January 2018 under IFRS's rules. The Group has adopted IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments' from 1st April 2018. Other changes to accounting standards in the current year had no material impact to the reported figures or accounting policies. More information on the restatements is available in note 20.

**IFRS 9**
IFRS 9 has been applied from 1st April 2018. The standard changes the classification and measurement of financial assets and requires impairment of these assets to be recognised earlier than under IAS 39. The standard also introduces a new hedging model to align accounting treatment with the entity's business model and strategy.

The Group has identified the following considerations and changes on adoption of the standard:

- The classification model of financial assets has caused no material impact for the Group;
- An expected credit loss allowance ('ECL') has been calculated on financial assets; and
- Under IAS 39 'Financial Instruments: Recognition and Measurement', Flybe met the criteria for cash flow hedge accounting and therefore the changes to financial instruments are minimal.

Judgments and assumptions are required to determine an appropriate calculation of the ECL and the discount rate used for the measurement of financial instruments. These are not considered critical accounting judgements or key sources of estimation uncertainty given the range of results when sensitivity analysis is applied.

The Group has applied the standard on a fully retrospective basis to each period in which financial information is presented, according to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'. The Group is using the practical expedient to recognise an ECL on trade receivables using the provision matrix provided in IFRS 9.

The impact on the current and prior period is to recognise an ECL of less than £1.0m.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

**IFRS 15**
IFRS 15 has been applied from 1st April 2018. The standard establishes a five-step model that changes the timing of revenue recognition to reflect performance obligations in contracts with customers.

The Group has identified the following changes to revenue recognition on adoption of the standard:
- Passenger ticket revenue - revenue associated with ancillary services that were previously recognised when paid, such as administration fees, is now deferred and recognised at the transport date when performance obligations are satisfied;
- Other passenger revenue - revenue from specific contracts are now presented gross rather than net of related costs when Flybe is considered to be the principal rather than the agent in these transactions; and
- Other revenue - certain contracts are not covered by IFRS 15 as they do not meet the definition of a customer. Risk-sharing arrangements (i.e. airport incentive agreements) that generate income previously recognised as other revenue are now recognised as other operating income.

The accounting for other revenue streams is not materially impacted by the adoption of IFRS 15. The Group has applied the standard on a fully retrospective basis to each period in which financial information is presented, according to IAS 8. The Group is using the practical expedient to recognise the incremental costs of obtaining a contract immediately if the recognition period would have been less than one year. On adoption of the standard, the impacts were:
- A charge of £2.5m to the opening reserves as at 1st April 2017;
- A decrease to revenue for the year ended 31st March 2018 of £2.9m (H1 2017/18: increase of £0.7m);
- A decrease to operating costs for the year ended 31st March 2018 of £4.4m (H1 2017/18: £0.3m);
- An increase of £1.0m to the restated closing current liabilities at 31st March 2018; and
- A net charge to reserves of £1.0m for the year ended 31st March 2018.

### Standards not yet effective

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 ('ROU') asset for all leases unless exemption is taken for certain short-term or low-value leases.

The most material area of focus will be aircraft currently under operating leases. At 30th September 2018, the Group has £203.9m outstanding commitments arising from operating leases (see note 13) indicating that 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 until this detailed review has been completed. In line with the reducing fleet size as leases expire, the eventual ROU asset capitalised is likely to be less than the current outstanding lease commitment. The Group will adopt the standard from 1st April 2019 and is considering whether to use fully or modified retrospective application.

The Group is currently developing and documenting the areas that require judgment and estimations as a result of the adoption of IFRS 16. The most significant areas affected are:
- The definition of a lease has changed under IFRS 16 requiring a reassessment of contracts to determine whether they contain a lease;
- Estimations and assumptions will be required when calculating the incremental borrowing rate used to discount the lease liability; and
- Estimations on lease terms including termination and extension options.

The Group expects the following areas to be impacted by the implementation of the new standard:
- Increase in non-current assets when the ROU assets are recognised;
- Increase in current and non-current liabilities for leasing obligations;
- Reduction in aircraft rental costs and an increase in depreciation and finance costs;
- Volatility in foreign exchange movements as many of the lease liabilities are in US Dollars which will be revalued but the ROU asset will be measured at the exchange rate ruling at the measurement date; and
- Success measures such as operating profit, cost per seat, adjusted performance measures and balance sheet ratios will be impacted so the Group is considering the impact of this on share schemes and internal performance measurement.

## 3. BUSINESS SEGMENTS

The chief operating decision-maker responsible for resource allocation and assessing performance of operating segments has been identified as the Executive Committee. Operating segments are reported in a manner which is consistent with internal structures and reporting provided to the chief operating decision-maker. Segment assets and liabilities are not regularly provided to the chief operating decision-maker and are therefore not disclosed. The Group's reportable segments under IFRS 8 are as follow:

| | |
|---|---|
| **Flybe UK** | This business segment comprises the Group's scheduled passenger operations and the revenue ancillary to those services together with White Label flying and franchise revenues. |
| **FAS** | This business segment provides maintenance, repair and overhaul services to Flybe's own fleet and to third-party customers. |

### Segment revenues and results

| | Six months ended 30th September | |
|---|---|---|
| | **2018** **£m** | 2017 (restated)[1] £m |
| **Segment revenues:** | | |
| Flybe UK | **403.4** | 407.5 |
| FAS | **19.1** | 26.6 |
| Inter-segment sales | **(13.3)** | (14.9) |
| **Consolidated revenue** | **409.2** | 419.2 |
| **Segment results:** | | |
| Flybe UK (including net finance costs of £2.5m (H1 2017/18: £2.2m) | **6.9** | 14.3 |
| FAS | **0.5** | 1.8 |
| **Consolidated profit before tax** | **7.4** | 16.1 |

[1] See note 20 for details regarding the restatement.

The Flybe UK segment includes group costs of £3.7m (H1 2017/18: £2.6m) and loss on revaluation of USD aircraft loans of £6.6m (H1 2017/18: gains of £6.7m).

## 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 season.

## 5. TAX

There is no tax charge in the income statement. The £4.8m expense in the statement of comprehensive income reflects the unrealised movement in derivative financial instruments and the defined benefit scheme (H1 2017/18: credit of £2.7m).

As reported at 31st March 2018, no deferred asset is recognised on fixed asset temporary differences due to the length of time until they are expected to be utilised. £24.1m of deferred tax assets have not been recognised at 30th September 2018 (31st March 2018: £22.3m).

# Notes to the condensed set of financial statements (unaudited)
## For the six months ended 30th September 2018

### 6. DIVIDENDS

No dividends have been paid or proposed during the six months ended 30th September 2018 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 | |
|---|---|---|
| | **2018** **£m** | 2017 (restated)[1] £m |
| Earnings for the purposes of earnings per share, being net profit attributable to owners of the Group | **7.4** | 16.1 |

| | **2018** | 2017 (restated)[2] |
|---|---|---|
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **210,233,808** | 210,233,808 |
| Earnings per ordinary share – basic and diluted | **3.5p** | 7.6p |

Earnings per share calculations exclude 6,422,968 own shares held by the Company's Employee Benefit Trust.

The issue of certain shares, to employees, is contingent upon the achievement of conditions agreed within performance plans. These shares have been excluded from the diluted earnings per share calculation as they have not yet satisfied the conditions required under IAS 33 'Earnings per share'.

[1] See note 20 for details regarding the restatement.
[2] The weighted average number of shares has been restated to remove own shares.

### 8. PROPERTY, PLANT AND EQUIPMENT

| | **30th September 2018 £m** | 31st March 2018 £m |
|---|---|---|
| Opening cost as at 1st April | **445.7** | 425.6 |
| Additions | **21.7** | 58.5 |
| Disposals | **(8.7)** | (38.5) |
| Reclassifications to intangible assets | **0.7** | 0.1 |
| Closing cost at 30th September / 31st March | **459.4** | 445.7 |
| Accumulated depreciation and impairment | **(152.4)** | (137.5) |
| **Closing net book value as at 30th September / 31st March** | **307.0** | 308.2 |

See note 14 for capital commitments.

### 9. BORROWINGS

Repayments on bank loans amounting to £9.2m were made during the period and no additional amounts were drawn down (31st March 2018: repayments of £11.1m).

USD loan revaluations resulted in an income statement loss of £6.6m (H1 2017/18: gains of £6.7m).

# Notes to the condensed set of financial statements (unaudited)

**For the six months ended 30th September 2018**

## 10. PROVISIONS

| | 30th September 2018 £m | 31st March 2018 (restated)[1] £m |
|---|---|---|
| Leased aircraft maintenance | **109.2** | 102.4 |
| E195 onerous lease | **19.0** | 20.9 |
| Other | **8.0** | 6.8 |
| | **136.2** | 130.1 |
| Current | **63.3** | 52.8 |
| Non-current | **72.9** | 77.3 |
| | **136.2** | 130.1 |

The Group's provisions are as follows:

| | Leased aircraft maintenance (restated) £m | E195 onerous lease £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1st April 2018[1] | 102.4 | 20.9 | 6.8 | 130.1 |
| Additional provision | 18.2 | 4.1 | 2.7 | 25.0 |
| Utilisation of provision | (11.4) | (6.0) | (1.5) | (18.9) |
| **At 30th September 2018** | **109.2** | **19.0** | **8.0** | **136.2** |

[1] See note 20 for details regarding the restatement.

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. The additional provision in the period is included within maintenance charges shown in the income statement.

The E195 onerous lease provision includes the unavoidable costs of meeting the lease provision for remaining eight Embraer 195 jets before they exit the fleet. For further information see note 24 of the Group's 2017/18 financial statements.

Other provisions include passenger compensation claims (when the Group has an obligation to recompense customers under regulation EU261) and £5.6m relating to an onerous IT contract (31st March 2018: £5.2m).

## 11. SHARE CAPITAL AND RESERVES

| | 30th September 2018 £000 | 31st March 2018 £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 2018 no shares were issued. The Company has one class of ordinary shares which carry no right to fixed income.

# Flybe Group plc
# Notes to the condensed set of financial statements (unaudited)
## For the six months ended 30th September 2018

### 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 2018 £m** | 31st March 2018 £m |
|---|---|---|
| Bank guarantees and letters of credit issued | **12.3** | 11.4 |

### 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 2018 £m** | 31st March 2018 £m | **30th September 2018 £m** | 31st March 2018 £m |
| Less than one year | **1.6** | 1.7 | **74.4** | 73.9 |
| Between one and two years | **0.7** | 0.7 | **59.7** | 62.1 |
| Between two and five years | **1.5** | 1.6 | **69.0** | 79.3 |
| More than five years | **9.1** | 9.3 | **0.8** | 1.3 |
| | **12.9** | 13.3 | **203.9** | 216.6 |

The majority of aircraft operating leases are denominated in US dollars. The fall in obligations for aircraft operating leases reflects the redelivery of end-of-lease aircraft.

Included within aircraft operating lease commitments is £19.6m (31st March 2018: £26.1m) relating to E195 aircraft which has been provided for as an onerous lease (see note 10).

### 14. CAPITAL COMMITMENTS

The Group has, over time, contractually committed to the acquisition of aircraft (all due to be delivered in 2019/20 with the first arriving in July 2019).

| | **30th September 2018 £m** | 31st March 2018 £m |
|---|---|---|
| Embraer E175 regional jet | **89.0** | 81.6 |

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

### Existing schemes

The likelihood of awards being made under one of the Performance Share Plans ('PSPs') was re-assessed during the period and a credit to the income statement of £0.3m was recognised in respect of the EPS element that is no longer expected to vest (H1 2017/18: £0.5m).

### New schemes

Due to restricted dealing periods during the previous year, the Company was unable to fulfil the commitment to grant awards to the Executive Directors, as disclosed in the Directors' Remuneration Report for the 2017/18 financial year. One award was therefore granted retrospectively in June 2018 along with another PSP scheme for the current year.

Eligible employees were granted awards totalling 10,861,467 shares in the form of options over Flybe shares with a strike price of 1p per share. The performance period is over three years with 50% of the award vesting being subject to TSR exceeding the median of the constituents of the FTSE Small Cap Index (excluding investment trusts and Flybe Group plc) at the commencement of the performance period. 50% of the award is subject to the Company's EPS at the end of the performance period. To the extent the award vests, 50% of the shares under option will vest on the third anniversary of grant, 25% will vest on the fourth anniversary of grant, and the final 25% on the fifth anniversary of grant. The schemes have been valued using a Monte Carlo valuation model to calculate the charge taken each year which will be trued up at each reporting period-end for forfeitures.

## 16. RETIREMENT BENEFITS

### Defined benefit scheme

The defined benefit obligation as at 30th September 2018 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 2018 has been updated to reflect the scheme cash flows and asset valuation movements; the scheme's liabilities have been updated for the actuarial impact of market movements.

## 17. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | 30th September 2018 | | 31st March 2018 (restated)[1] | |
|---|---|---|---|---|
| | **Carrying value £m** | **Fair value £m** | Carrying value £m | Fair value £m |
| **Financial assets** | | | | |
| Cash, cash equivalents and restricted cash | **70.6** | **70.6** | 95.0 | 95.0 |
| Loans and receivables: | | | | |
| Trade and other receivables | **167.2** | **167.2** | 158.4 | 158.4 |
| Derivative instruments in designated accounting relationships | **17.9** | **17.9** | 10.6 | 10.6 |
| **Financial liabilities** | | | | |
| Liabilities held at amortised cost: | | | | |
| Trade and other payables | **(94.3)** | **(94.3)** | (89.3) | (89.3) |
| Debt | **(152.7)** | **(181.0)** | (154.1) | (179.6) |
| Derivative instruments in designated hedge accounting relationships | **(0.1)** | **(0.1)** | (11.5) | (11.5) |

[1] See note 20 for details regarding the restatement.

There has been no change to the determination method of the fair value of financial instruments which is 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; and
- 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.

Realised gains and losses on financial instruments are recognised in the income statement, unrealised gains and losses are recognised in the statement of comprehensive income. The following table provides an analysis of the balance sheet position of the Group's financial instruments, all of which are grouped into the Level 2 definition in the fair value measurement hierarchy:

| | **30th September 2018 £m** | 31st March 2018 £m |
|---|---|---|
| Foreign exchange derivatives | **4.7** | (11.5) |
| Fuel derivatives | **13.1** | 10.6 |
| **Total financial instruments** | **17.8** | (0.9) |

## 18. RELATED PARTIES

**Transactions with key management personnel**

Details of the compensation paid to the directors will be disclosed in the Group's 2018/19 financial statements.

## 19. POST BALANCE SHEET EVENTS

Since the period end Flybe has paid £9.4m to a credit card acquirer as security to cover their risk for unflown flight refunds.

## 20. HALF-YEAR RESTATEMENTS

The financial statements have been restated for:

- The E195 onerous lease prior period adjustment recognised in the Group's 2017/18 financial statements; and
- The adoption of IFRS 15 and IFRS 9 (see note 2).

The impact on the primary financial statements is as follows:

### Income statement (impacted line items):

| | H1 2017/18 (as reported) £m | E195 onerous lease £m | IFRS 15 impact £m | IFRS 9 impact £m | H1 2017/18 (restated) £m |
|---|---|---|---|---|---|
| Passenger revenue | 378.9 | - | 3.1 | - | 382.0 |
| Revenue from other activities | 20.1 | - | (2.4) | - | 17.7 |
| Group revenue | 418.5 | - | 0.7 | - | 419.2 |
| Ground operations | (55.0) | - | 1.6 | - | (53.4) |
| Depreciation, amortisation and impairment | (23.3) | 0.7 | - | - | (22.6) |
| Aircraft rental charges | (51.3) | (0.8) | (3.7) | - | (55.8) |
| Other operating gains | 10.0 | 0.3 | - | - | 10.3 |
| Other operating income | 1.8 | - | 2.4 | - | 4.2 |
| Other operating expenses | (26.5) | - | - | (0.8) | (27.3) |
| Operating profit | 11.2 | 0.2 | 1.0 | (0.8) | 11.6 |
| Finance costs | (3.0) | - | - | 0.6 | (2.4) |
| Profit before and after tax | 15.1 | 0.2 | 1.0 | (0.2) | 16.1 |

### 20. HALF-YEAR RESTATEMENTS (continued)

### Statement of changes in equity (impacted line items):

| | (as reported) £m | E195 onerous lease[1] £m | IFRS 15 impact £m | IFRS 9 impact £m | (restated) £m |
|---|---|---|---|---|---|
| Retained deficit 1st April 2017 | (111.9) | n/a | (2.5) | - | (114.4) |
| Retained deficit 30th September 2017 | (66.2) | (28.4) | (1.5) | (0.2) | (96.3) |
| Retained deficit 1st April 2018 | (119.2) | n/a | (1.0) | (0.6) | (120.8) |

[1] The E195 onerous lease's impact on retained deficit at 1st April 2017 and 1st April 2018 was reported in the Group's 2017/18 financial statements.

### Balance sheet (impacted line items):

| | 31st March 2018 (as reported) £m | IFRS 15 impact £m | IFRS 9 impact £m | 31st March 2018 (restated) £m |
|---|---|---|---|---|
| Other non-current assets | 84.0 | - | (2.6) | 81.4 |
| Current trade and other receivables | 90.7 | - | (0.8) | 89.9 |
| Current deferred income | (83.8) | (1.0) | - | (84.8) |
| Non-current provisions | (80.1) | - | 2.8 | (77.3) |

### Cash flow statement (impacted line items):

| | H1 2017/18 (as reported) £m | E195 onerous lease £m | IFRS 15 impact £m | IFRS 9 impact £m | H1 2017/18 (restated) £m |
|---|---|---|---|---|---|
| Profit for the period | 15.1 | 0.2 | 1.0 | (0.2) | 16.1 |
| Depreciation, amortisation and impairment | 23.3 | (0.7) | - | - | 22.6 |
| Interest expense | 3.0 | - | | (0.6) | 2.4 |
| Disposal of property, plant and equipment | 1.4 | (0.3) | - | - | 1.1 |
| Trade and other receivables | 2.9 | - | - | 0.8 | 3.7 |
| Trade and other payables | (26.9) | - | (1.0) | - | (27.9) |
| Provisions and retirement benefits | (5.2) | 0.8 | - | - | (4.4) |

# Flybe Group plc

## Glossary

| | |
|---|---|
| **adjusted (loss)/profit before tax and USD loan revaluation** | reported (loss)/profit before tax excluding USD loan revaluations |
| **Air Passenger Duty ('APD')** | An excise duty which is charged by the UK and other governments on the carriage of passengers flying from an airport within that government's territory |
| **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 |
| **cost per seat ('CPS')** | the total operating costs divided by seat capacity |
| **EBITDAR** | operating (loss)/profit after adding back depreciation, amortisation, impairment 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 |
| **EU261** | EU Regulation 261/2004, which provides for compensation and assistance to passengers in certain circumstances |
| **Flybe** | Flybe Group plc |
| **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** | the number of sold seats divided by the seat capacity |
| **MRO** | maintenance, repair and overhaul |
| **net (debt)/funds** | total cash less borrowings |
| **on-time performance ('OTP')** | percentage of aircraft which depart within 15 minutes of the scheduled departure time |
| **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 seat capacity |
| **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 |
| **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 |