Flybe

2013/14 H1 Results and Strategic Review

Analyst and Investor Presentation

11 November 2013

Agenda

Introduction and welcome
- Simon Laffin, Chairman

Financial Review

Strategic Review

Agenda

Introduction and welcome

Financial Review
– Andrew Knuckey, CFO

Strategic Review

H1 2013/14 – Overview

- Good progress in implementation of Flybe's turnaround plan
- UK airline
  - Capacity discipline – scheduled seats in UK airline flat
  - Growth in passenger revenue per seat
  - Reduction in costs per seat
  - 50.0% share for Flybe in UK regional domestic sector
- Flybe Finland moved to profitability
- 9.6% reduction in MRO costs
- £13.8m profit before tax
- Significant reduction in net debt

(1) CAA statistics

Financial highlights

Revenue and costs

- Revenue under Flybe management up 20.4% to £477.3m
- Group revenue also up at £351.1m
- UK Airline passenger revenue per seat improved to £50.35
- UK Airline costs per seat exc fuel(1) (at constant currency) down 3.9% to £39.98

Profit measures

- Adjusted EBITDAR(2) up 32.5% to £61.9m
- Total restructuring and surplus capacity costs of £4.1m in H1 2013/14
- Adjusted profit before tax(3) £12.2m vs. loss of £(2.3m) in H1 2012/13
- Profit before tax £13.8m vs. loss of £(1.6m) in H1 2012/13

Cash flow and balance sheet

- Adjusted operating cash inflow(4) of £10.5m vs. £1.6m in H1 2012/13
- Net debt of £34.0m vs. £66.3m at March 2013
- Net assets £50.6m vs. £48.1m at March 2013

Revenue under management (5) up 20.4%
£477.3m

UK Airline costs per seat exc fuel(1) (at constant currency) down 3.9%
£39.98

Adjusted EBITDAR up 32.5%
£61.9m

Profit before tax improvement of £15.4m
£13.8m

(1) Operating costs per seat, excluding restructuring and surplus capacity costs.
(2) Adjusted EBITDAR defined as operating profit/(loss) before joint venture results after adding back restructuring and surplus capacity costs of £4.1m, depreciation, amortisation and aircraft rental charges.
(3) Adjusted profit/(loss) before tax defined as profit/(loss) before tax, restructuring and surplus capacity costs of £4.1m (H1 2012/13: £nil) and revaluation gains/(losses) on USD aircraft loans of £5.7m (H1 2012/13: gain of £0.7m).
(4) Adjusted operating cash inflow is defined as Net cash outflow from operating activities before restructuring costs after adding back movement on restricted cash.
(5) Includes Flybe's joint venture, Flybe Finland.

Group results

	H1 2013/14 £m	H1 2012/13 £m	Change
UK Airline	11.6	2.2	427.3%
Flybe Finland	0.0	(2.4)	n/m
Other Flybe businesses	2.3	(0.3)	n/m
Operating results before restructuring	**13.9**	**(0.5)**	**n/m**
Group costs	(1.7)	(1.8)	(5.6)%
Revaluation gains on USD loans	5.7	0.7	714.3%
Total restructuring and surplus capacity costs	(4.1)	0.0	n/m
Profit/(loss) before tax - reported	**13.8**	**(1.6)**	**n/m**
Tax charge	(0.2)	0.0	n/m
Profit/(loss) after tax	**13.6**	**(1.6)**	**n/m**

Earnings/(loss) per share (basic), pence	18.1	(2.0)	n/m
Earnings/(loss) per share (adjusted), pence	14.9	(3.0)	n/m

Impact of Turnaround Plan bearing fruit

Restructuring well advanced - c£40m of cost savings and revenue enhancements targeted for 2013/14

UK Airline - Results

	H1 2013/14 £m	H1 2012/13 £m	Change
Revenue	328.2	324.0	1.3%
Fuel	(69.4)	(68.6)	(1.2)%
Operating costs excluding fuel	(199.9)	(207.8)	3.8%
Adjusted EBITDAR	**58.9**	**47.6**	**23.7%**
Margin	*17.9%*	*14.7%*	*3.3 pts*
Finance and ownership	(47.3)	(45.4)	(4.2)%
Adjusted profit before tax	**11.6**	**2.2**	**427.3%**
Margin	*3.5%*	*0.7%*	*2.9 pts*
Revaluation gains on USD loans	5.7	0.7	714.3%
Total restructuring and surplus capacity costs	(3.1)	0.0	n/m
Profit before tax	**14.2**	**2.9**	**389.7%**

Fuel cost per seat, £	-11.19	-11.06	(1.2)%
Other costs per seat before restructuring, £	-39.98	-40.89	2.2%
Other costs per seat at constant currency before restructuring, £	-39.98	-41.61	3.9%

Adjusted EBITDAR margin up 3.3 ppt to 17.9%

Includes £2.3m of IFRS compliant costs and £0.8m of surplus capacity costs

UK Airline - Revenue

	H1 2013/14	H1 2012/13	Change
Operational headlines			
Passengers (m)	4.3	4.0	5.6%
Load factor (%)	68.6%	65.0%	3.6 pts
Seats (m)	6.2	6.2	-
Sector length (km)	468	466	0.4%
Revenue			
Passenger revenue (£m)	312.3	310.3	0.6%
Passenger yield (£)	*73.36*	*76.79*	*(4.5)%*
Other revenue (£m)	15.9	13.7	16.1%
Total revenue (£m)	**328.2**	**324.0**	**1.3%**
Passenger revenue per seat (£)	50.35	49.92	0.9%

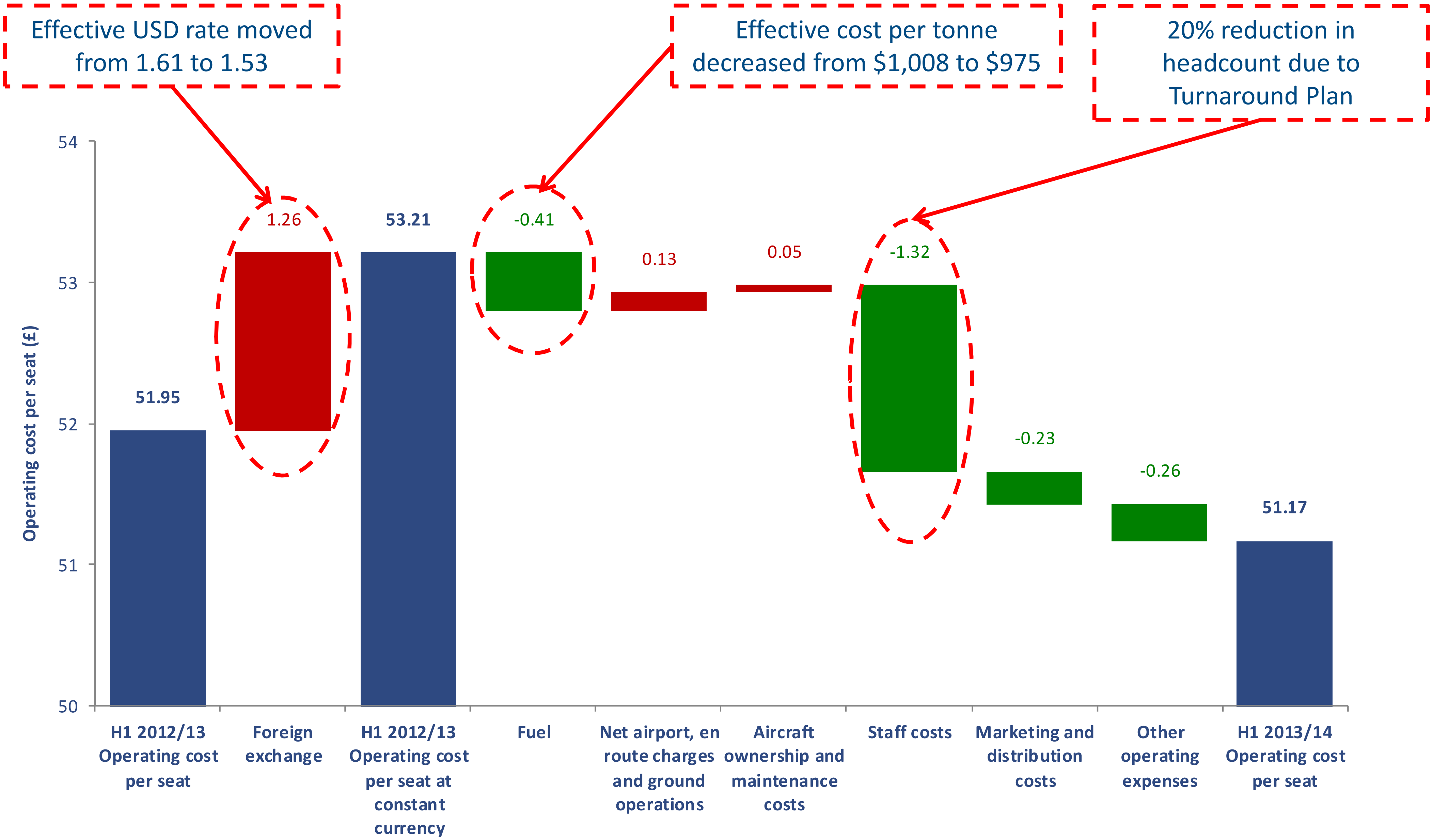
Load factor up 3.6ppt, passengers up 5.6%

Seat capacity flat

Passenger revenue up 0.6% - volume 5.6%, yield (4.5)%

flybe.

UK Airline – Operating cost per seat



Flybe Finland - Result

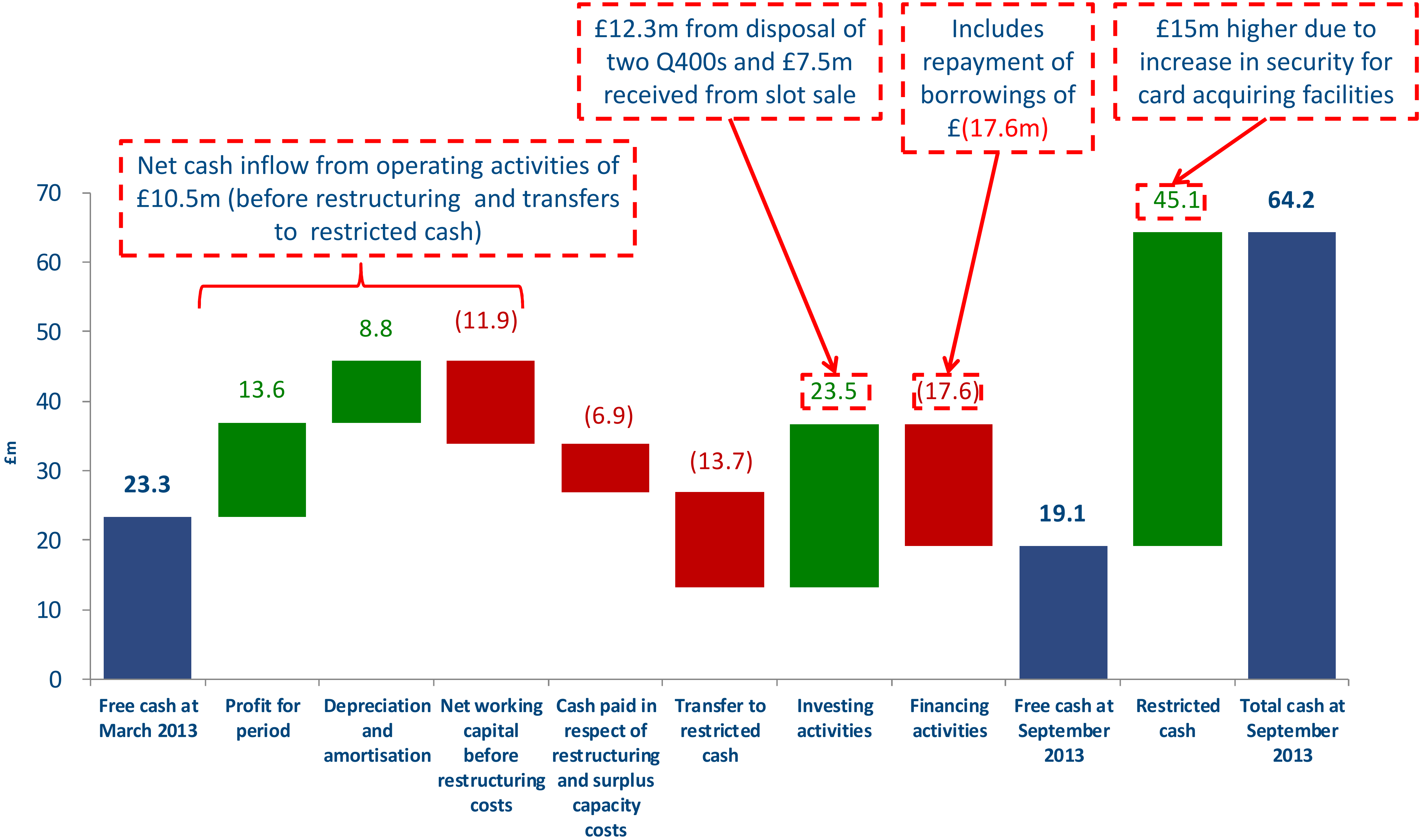
	H1 2013/14 £m	H1 2012/13 £m	Change
Revenue	126.2	55.5	127.4%
Fuel	(32.3)	(11.3)	(185.8)%
Operating costs excluding fuel and aircraft ownership costs	(72.8)	(40.4)	(80.2)%
EBITDAR [(1)]	**21.1**	**3.8**	**455.3%**
Margin	*16.7%*	*6.8%*	*9.9 pts*
Finance and ownership	(20.7)	(8.3)	(149.4)%
Flybe Finland - profit/(loss) before tax	**0.4**	**(4.5)**	**n/m**
Margin	*0.3%*	*(8.1)%*	*8.4 pts*
Tax (charge)/credit	(0.1)	1.1	n/m
Flybe Finland - profit/(loss) before tax	**0.3**	**(3.4)**	**n/m**
Flybe Group - 60% share of profit/(loss) after tax	**0.2**	**(2.1)**	**n/m**
Central management costs	(0.4)	(0.5)	20.0%
Interest received	0.2	0.2	-
Business result	**-**	**(2.4)**	**n/m**

Flybe 60% share of profit from JV of £0.2m

After central management costs and interest received, Flybe's share of the JV result was at break-even

(1) EBITDAR comprises PBT and adds back interest, depreciation (excluding maintenance assets), amortisation and aircraft rental charges

Group cash flow



Group balance sheet

	September 2013 £m	March 2013 £m	Movement £m
Fixed assets	156.1	165.4	(9.3)
Cash and restricted cash	64.2	54.7	9.5
Landing slots and other intangible assets	13.7	13.2	0.5
Joint ventures	13.2	13.2	-
Derivative financial instruments	0.4	5.7	(5.3)
Aircraft deposits	17.2	21.7	(4.5)
Other assets	123.5	131.9	(8.4)
Total assets	**388.3**	**405.8**	**(17.5)**
Debt	(98.2)	(121.0)	22.8
Derivative financial instruments	(8.4)	(1.5)	(6.9)
Other liabilities	(231.1)	(235.2)	4.1
Net assets and shareholders' funds	**50.6**	**48.1**	**2.5**

Net debt at 30 September 2013 of £(34.0)m, vs £(66.3)m at March 2013

Net assets of £50.6m

Agenda

Introduction and welcome

Financial Review

Strategic Review

Saad Hammad - CEO

Why I joined Flybe in August 2013

- **Extensive airline, outsourcing and turnaround experience**

- **Recognised Flybe's potential**
  - Well established UK brand and white label provider
  - Powerful niche positioning: regional connectivity

- **But identified immediate need to regroup to grow**
  - Short-term: immediate actions to make the business efficient and defensible
  - Medium-term: grow profitably

My first 100 days

- **Significant opportunity confirmed for a great niche business**
  - Centred around regional connectivity
  - Delivered via twin-engine business model

- **Immediate actions initiated in the UK:**
  - Optimise configuration
  - Reduce costs further
  - Improve commercialisation

- **Optimisation of Finland JV**

- **Building solid foundations for future growth**

Regional connectivity is an important niche

- **Regions too costly for most airlines**
  - Competitor risk is limited even from Low Cost Carriers ("LCC")
- **Our structural advantages:**
  - Smaller aircraft makes regional routes economic with higher frequencies
  - Access to more convenient, smaller airports
  - Hubbing attracts multiple Origin & Destination customers
  - Multiple airline partnerships
- **Structural advantages more than offset LCCs' lower unit costs**

Flybe can carve out a unique niche positioning

flybe.

Flybe – a twin-engined business

Flybe will deliver unrivalled regional connectivity

Regional branded airline

Bringing people together within a country

Connecting people in regions to international carriers at metropolitan airports

White label airline

Leading regional provider to mainstream European airlines

We will become the best local airline in Europe

Favourable market trends

- **Regional markets increasingly under-served by airlines across Europe**
  - Legacy carrier retrenchment only partially offset by LCC growth
  - There is limited investment in road and rail

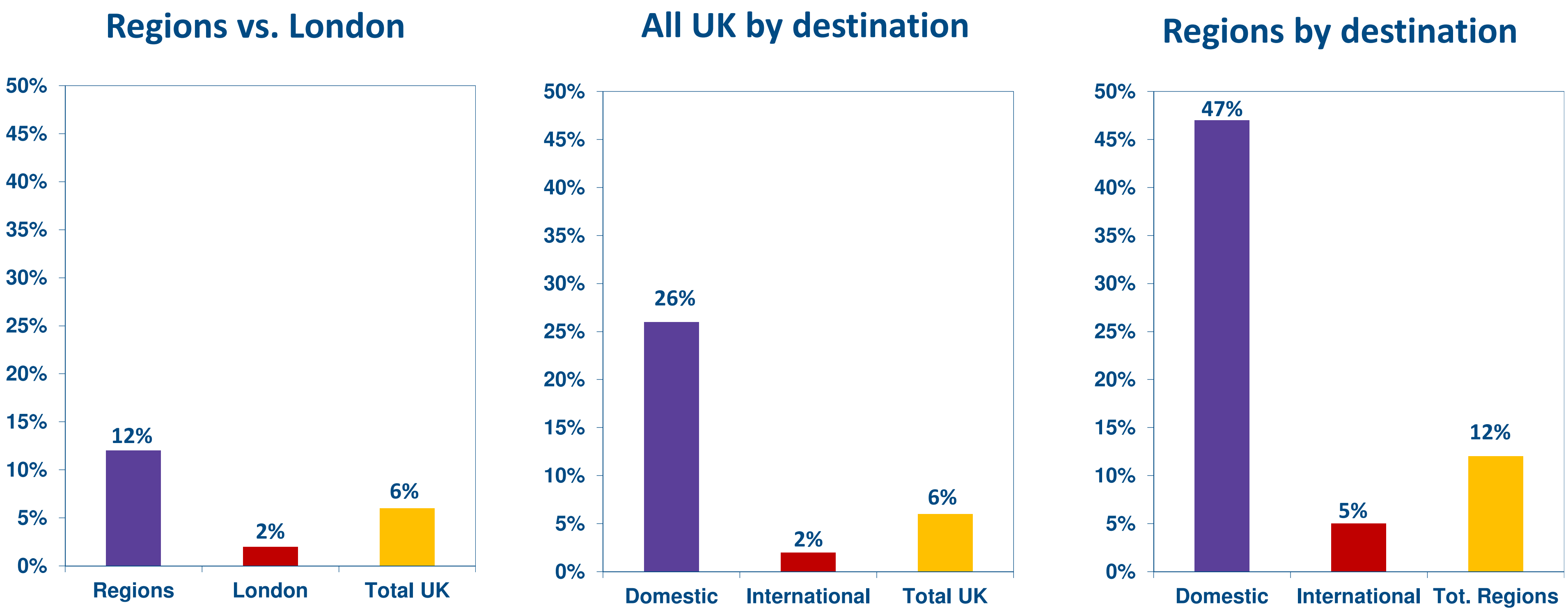
- **Outsourcing /partnerships expected to grow**
  - Feeder traffic will remain important to bigger carriers

We are fixing the UK core business first

Flybe in the UK

A regional airline with a domestic focus

Flybe's share of UK passengers 2012



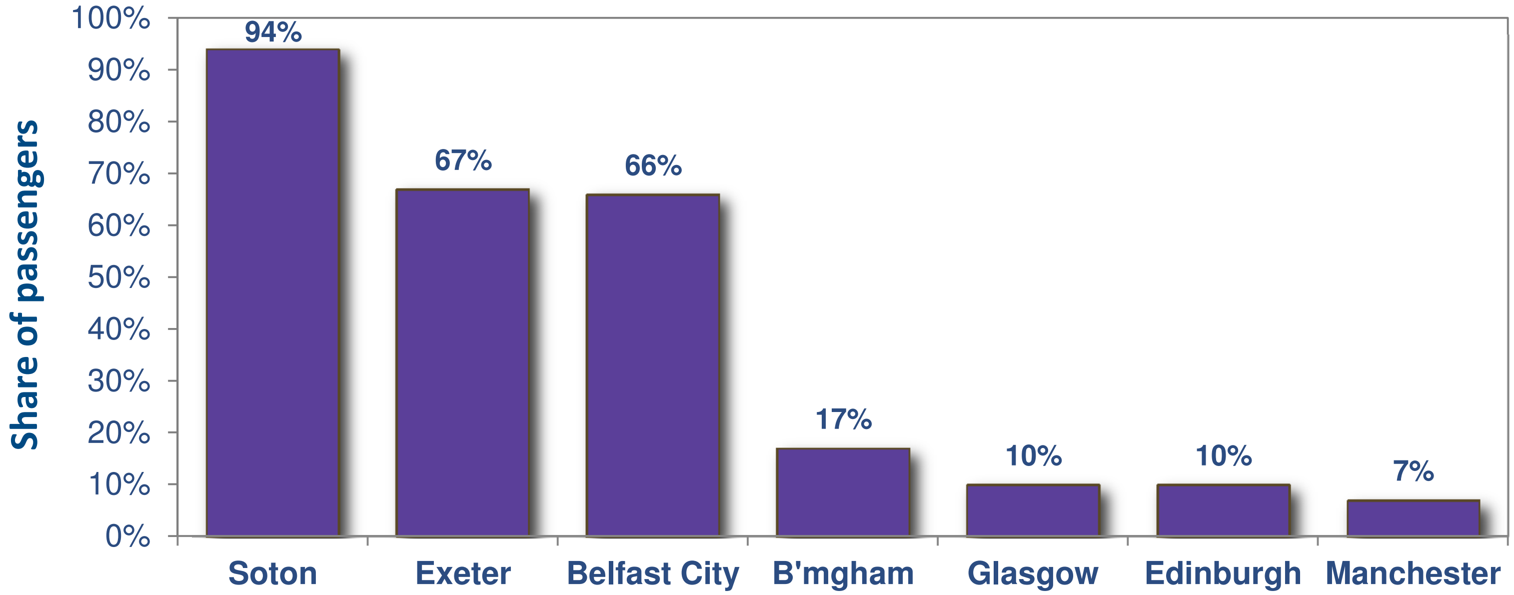
Strong foundations

Source: Flybe internal analysis

A strong niche position in regional airports

Flybe passenger and frequency share at UK regional airports (2012/13)

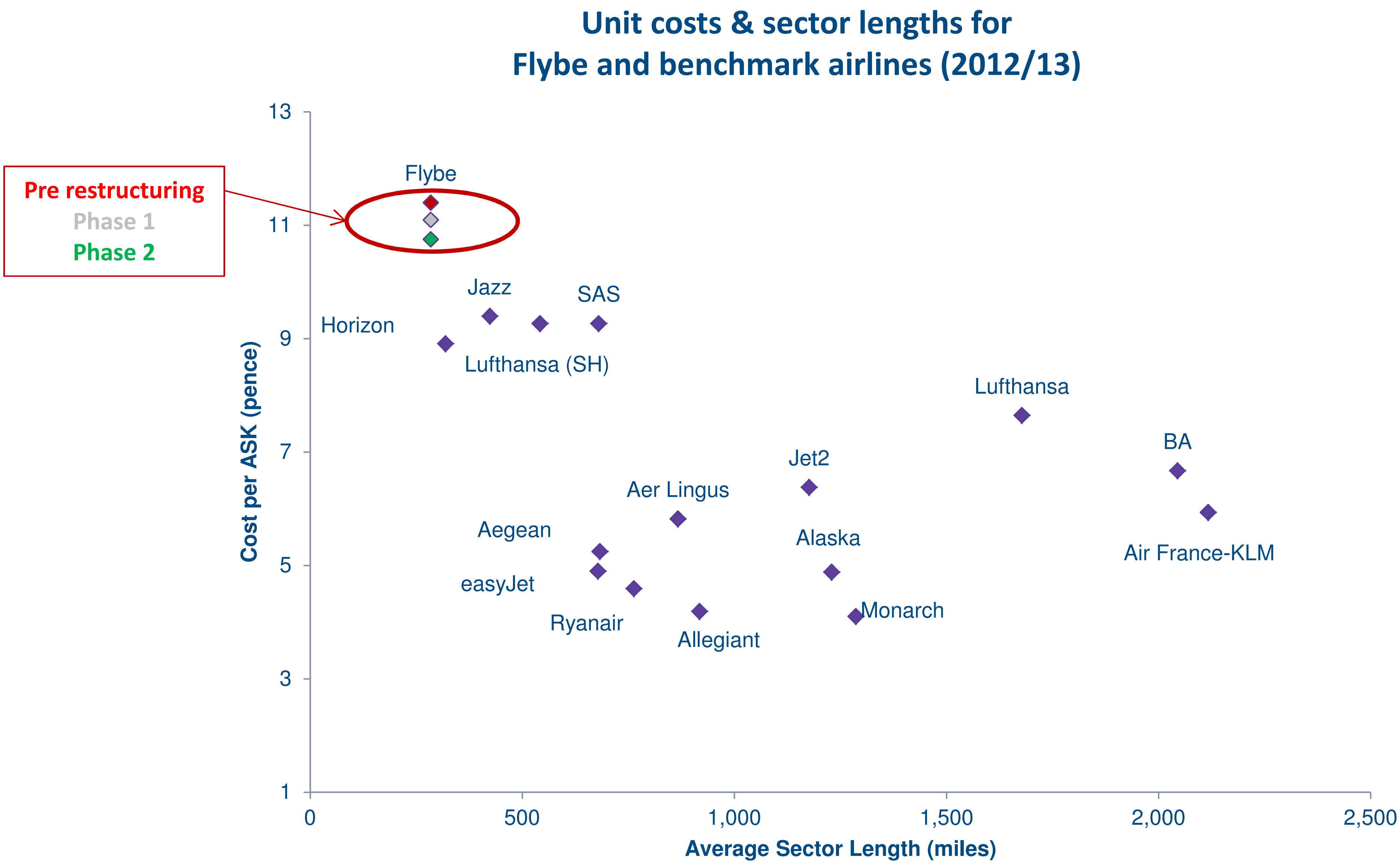
Frequency share:	No. 1	No. 1	No. 1	No. 1	No. 2	No. 2	No. 1



Flybe Passengers:	1.6m	0.5m	1.5m	1.5m	0.7m	0.9m	1.4m

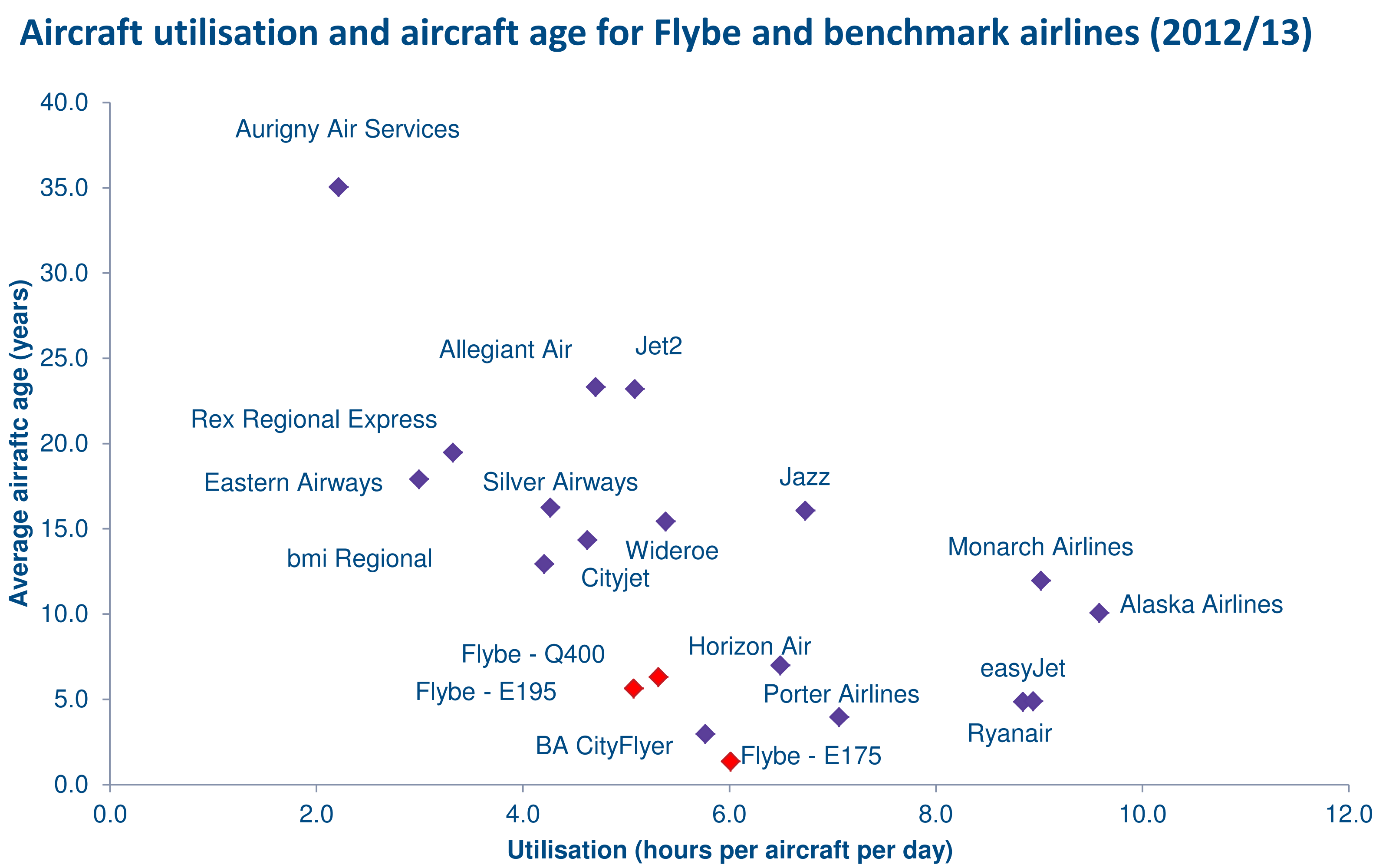
Source: CAA data Jul 2012-June 2013

Unit costs are a big opportunity…even after Phases 1 & 2



Source: ACAS –12 months to September 2013, ICF SH&E Analysis
CASK as reported by Airlines in their most recent annual reports, Sector Lengths estimated from OAG data

Fleet utilisation is another big opportunity

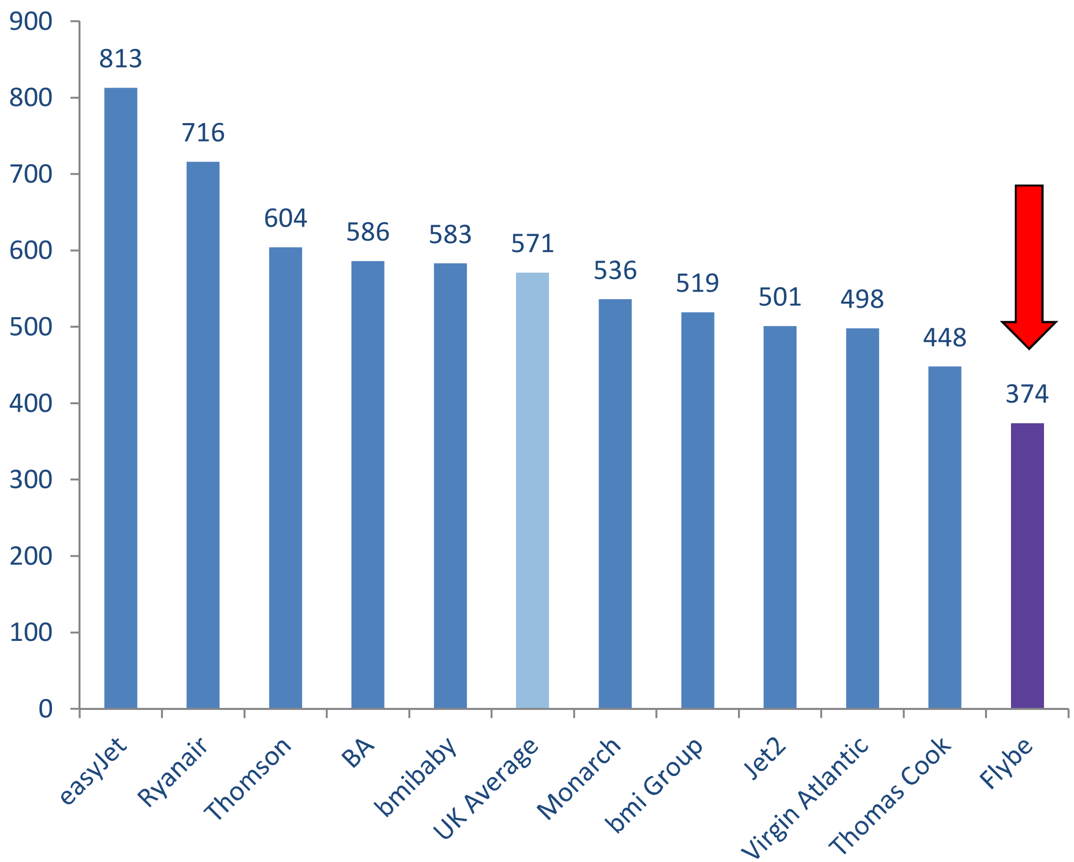


NB:
Utilisation = flight hours per aircraft per day
Overall utilisation for Flybe = 5.3 flight hours per a/c per day
ACAS = Aircraft Analytical Systems, a leading industry database

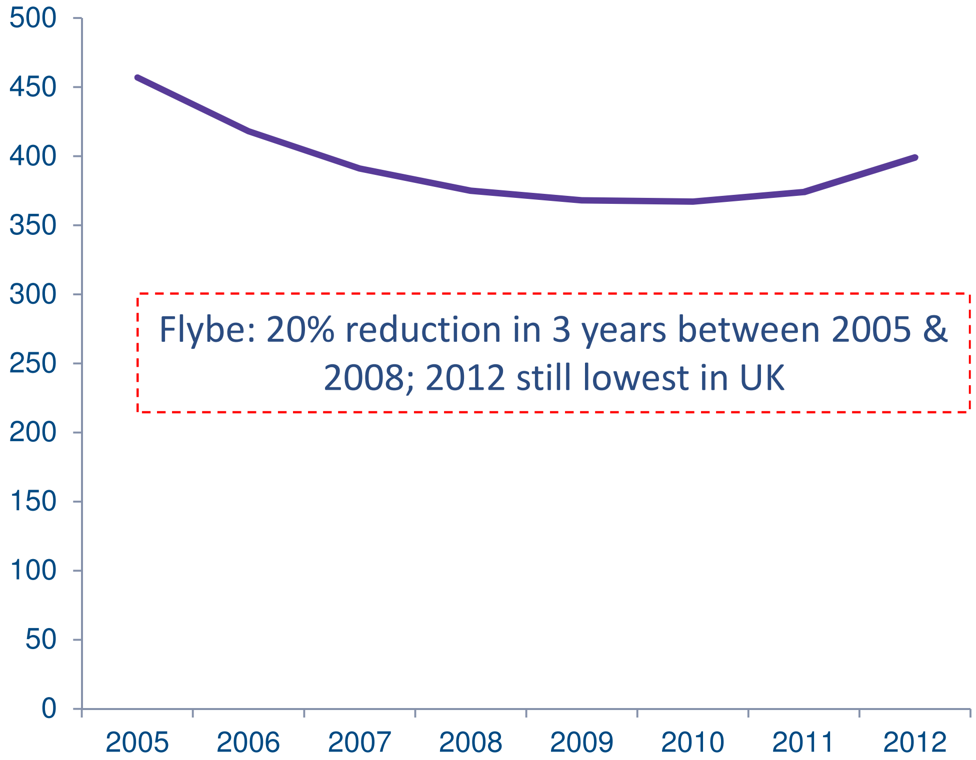
Source: ACAS –12 months to September 2013, ICF SH&E Analysis

There is scope for improved pilot utilisation

UK airlines: Average hours flown per pilot (2011)



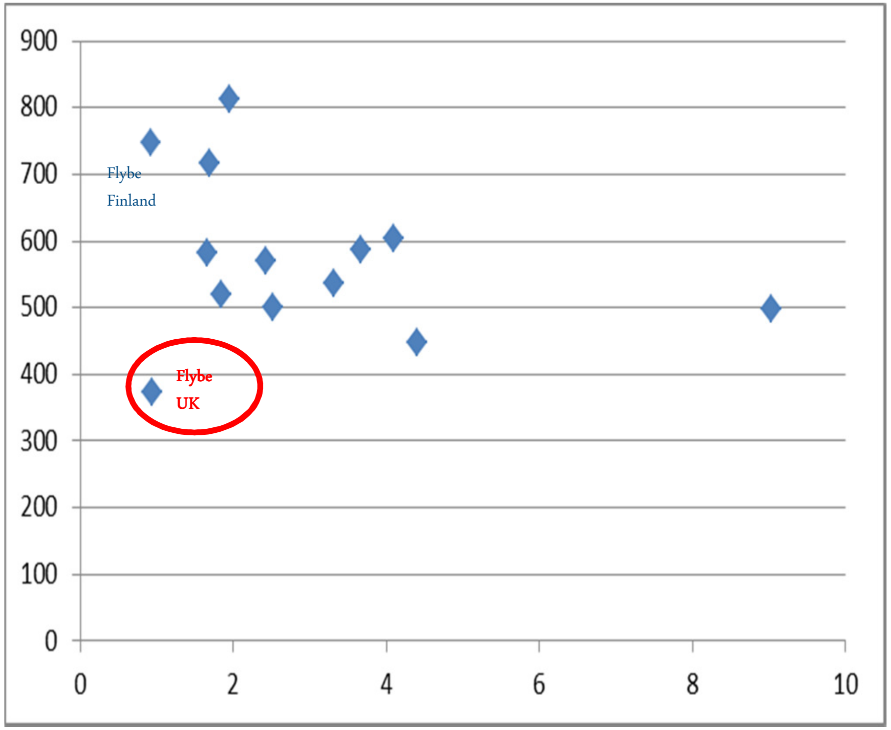
Flybe: Average hours Flown per pilot (2005-12)



Source: Cranfield Pilot productivity study 2013
UK average excludes Ryanair

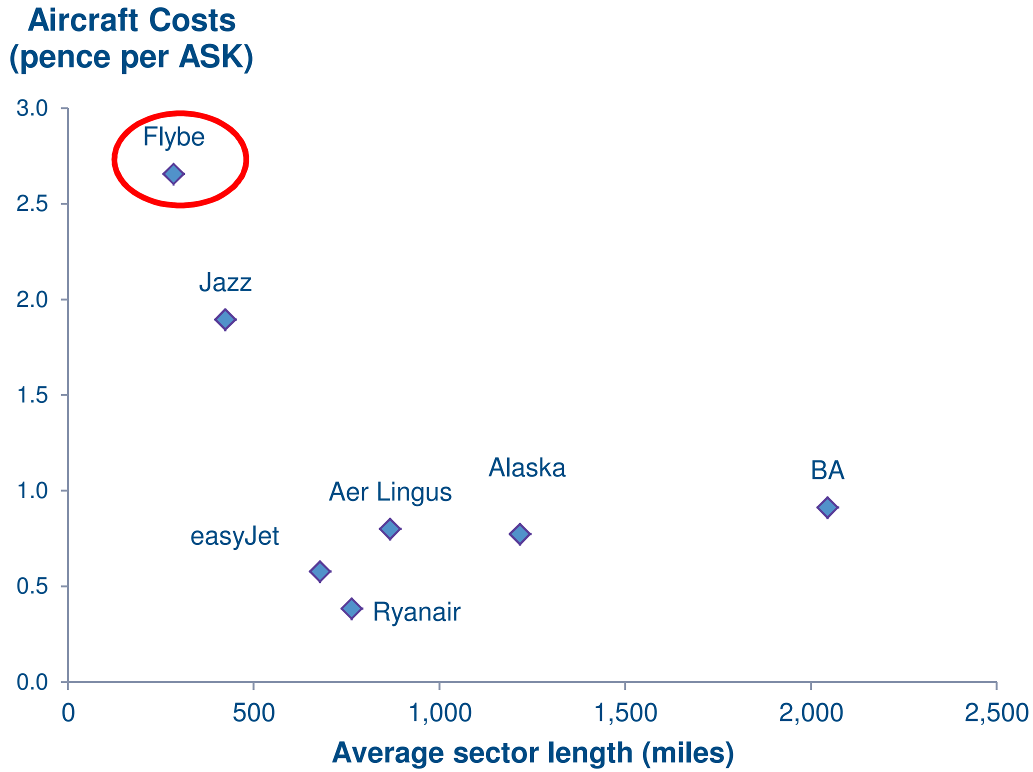
Short sectors should not be a constraint

Annual average pilot hours vs. flight duration for Flybe vs. other UK airlines (2011)



Flight duration hrs

Aircraft costs vs. sector length for Flybe & benchmark Airlines (2012/13)



Source: Cranfield Pilot productivity study 2013; ICF SH&E

Too many unprofitable routes even after Phases 1 & 2

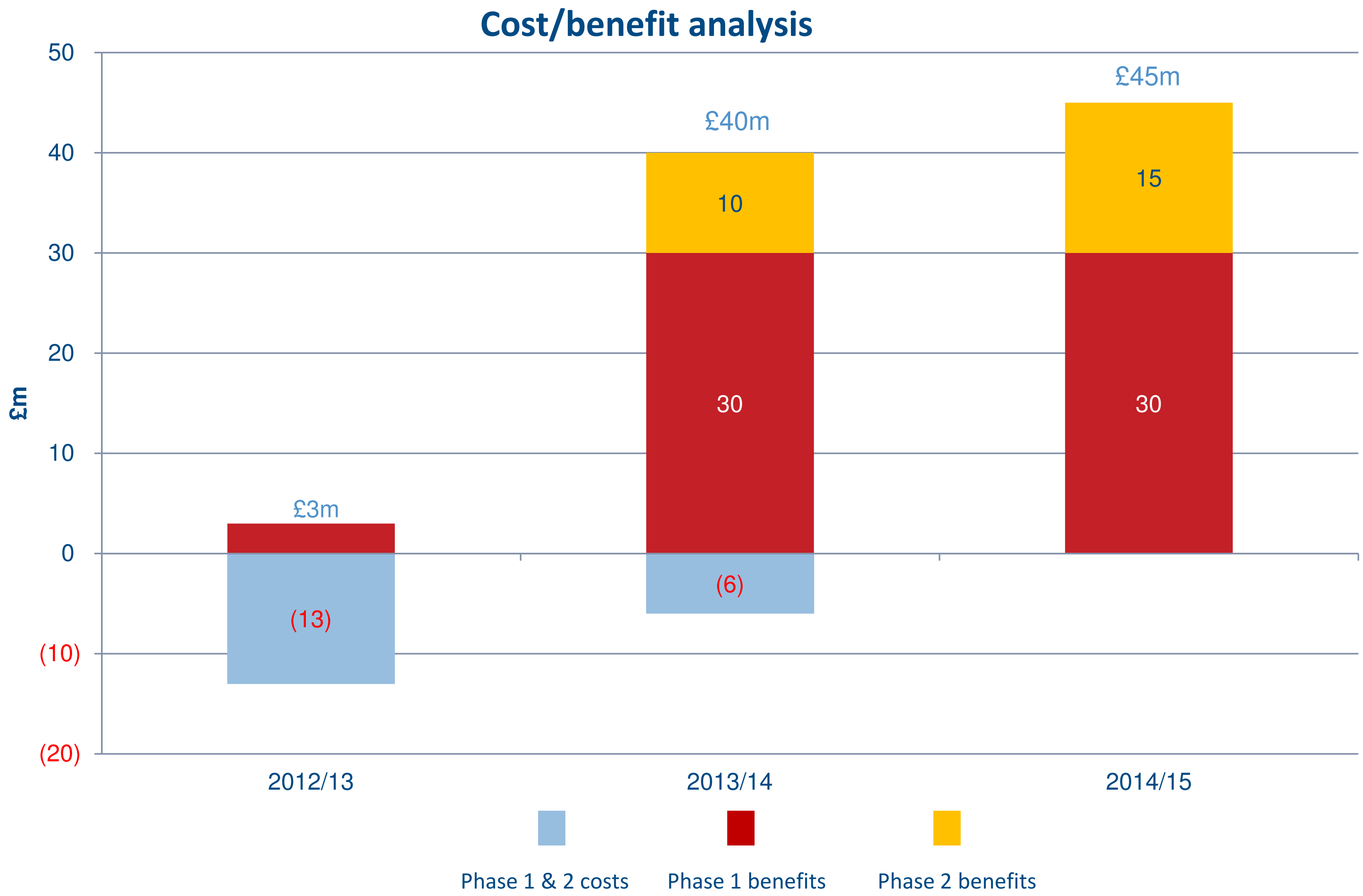
	No of routes (out of 158) after phases 1 and 2 - cumulative
Routes not covering direct operating costs (DOCs)	7
Routes not covering DOCs and crew costs	21
Routes not covering DOCs, crew costs & a/c costs	61

We are addressing these by improving efficiency as well as network rationalisation

Source: Flybe, ICF SH&E Analysis

flybe.

Initial restructuring is being delivered ….



…. but we must do even more

Immediate actions - UK

1. Optimise **configuration**

2. Reduce **costs further**

3. Improve **commercialisation**

Optimise configuration

- **Rationalise route network**
  - Too many loss making routes
  - Reviewing number of bases

- **Remove surplus aircraft capacity**

- **Review fleet mix**
  - Match fleet to reconfigured network
  - Right aircraft for the right route

- **Improve aircraft and crew utilisation**

Reduce costs further …. beyond Phases 1 and 2

• Simplified organisation: One Flybe	✓
• Streamlined senior management	✓
• Strengthened leadership team	In progress
• Complete remaining Phases 1 and 2 savings	Nearly complete
• Further cost reduction	In progress
• Maximise benefit from network reconfiguration – c500 proposed redundancies	Consulting unions and employees
• Engage with key suppliers (e.g. OEMs, lessors, airports)	In progress

Improve commercialisation

- **Optimise pricing and revenue management**
- **Refocus network development**
- **Strengthen route management**
- **Step-change marketing impact**
- **Develop trading partnerships**

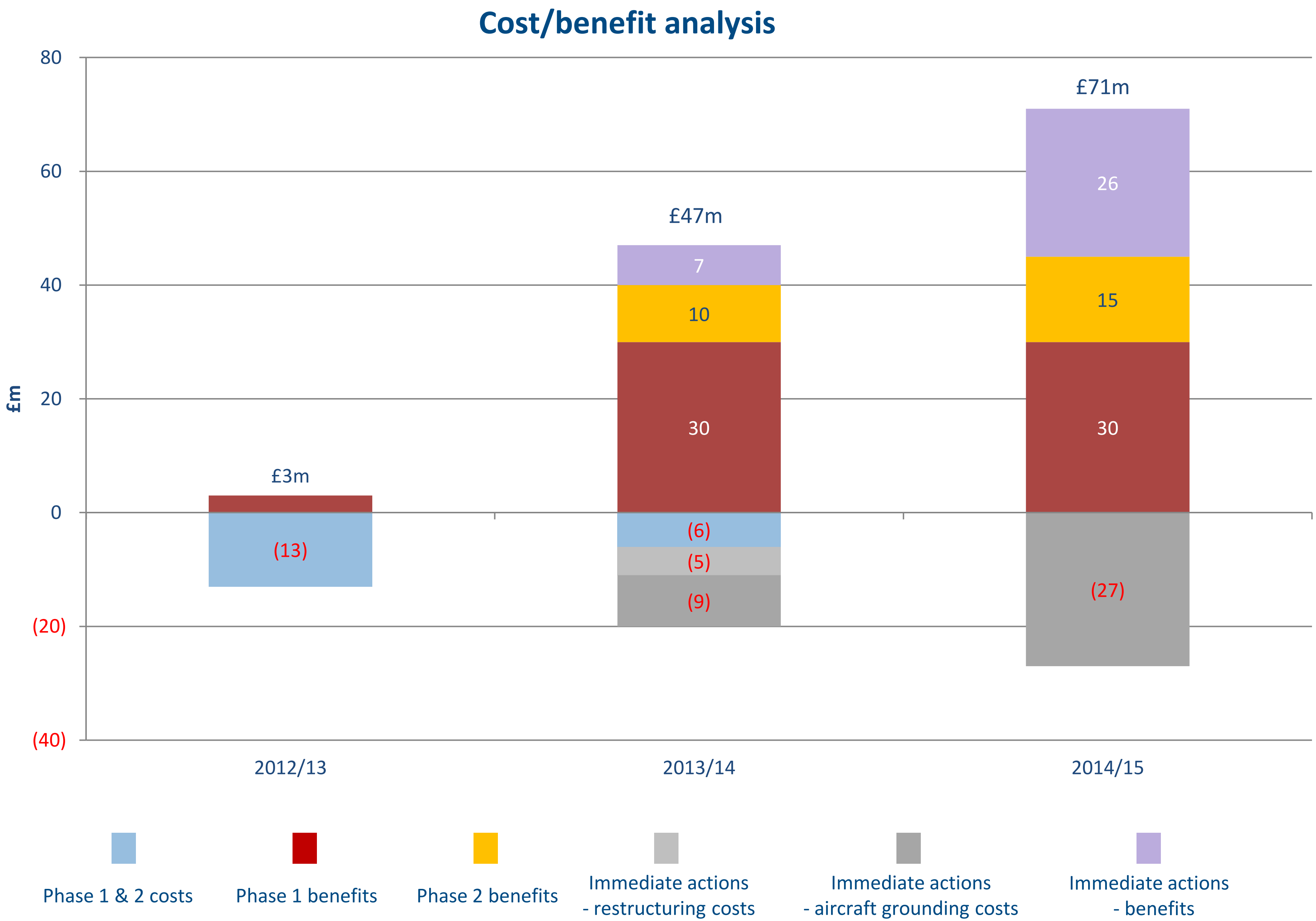
Finland – optimise Finnair JV

- Business profitable
- Further enhance operational delivery in white label flying
- Reduce/eliminate scheduled risk flying losses
- Embed "lean manufacturing"

Building a new leadership team to drive change across the Group

- **Identified critical gaps and appointed new talent including:**
  - Chief Commercial Officer – Paul Simmons, ex-easyJet
  - Director of Operations – John Palmer, in-house appointment
  - Director of Revenue Management – Ronnie Matheson , ex-easyJet
  - Director of Route Performance – Fred Kochak , in-house appointment
  - Director of Network Planning (search in final stages)

Restructuring with immediate actions



Medium term – Flybe's growth after UK is fixed

- **UK**
  - New routes at existing focus cities
  - New focus cities at key points of connectivity
  - Further consolidation of regional market

- **Mainland Europe**
  - White label expansion based on Finnish model
  - Branded potential

Summary

- **Significant opportunity confirmed for a great niche business**
  - Centred around regional connectivity
  - Delivered via twin-engine business model
- **Immediate actions initiated in the UK:**
  - Optimise configuration
  - Reduce costs further
  - Improve commercialisation
- **Optimisation of Finland JV**
- **Building solid foundations for future growth**

We will become the best local airline in Europe

Flybe

2013/14 H1 Results and Strategic Review

Analyst and Investor Presentation

11 November 2013

Appendices

Group revenues and EBITDAR

UK – Impact of fuel

UK – Hedging positions

Finland - Revenue

Other Flybe businesses

Fleet under management

Group revenues and EBITDAR

	H1 2013/14 £m	H1 2012/13 £m	Change
Revenues			
UK Airline	328.2	324.0	1.3%
Flybe Finland	126.2	55.5	127.4%
Other Flybe businesses	30.8	26.1	18.0%
Inter-segment sales	(7.9)	(9.3)	(15.1)%
Revenue under management	**477.3**	**396.3**	**20.4%**
Less: revenue from Flybe Finland joint venture	(126.2)	(55.5)	127.4%
Group revenue	**351.1**	**340.8**	**3.0%**

	H1 2013/14 £m	H1 2012/13 £m	Change
Adjusted EBITDAR			
UK Airline	58.9	47.6	23.7%
Flybe Finland	(0.4)	(0.5)	(20.0)%
Other Flybe businesses	5.1	1.4	n/m
Group costs	(1.7)	(1.8)	5.6%
Group	**61.9**	**46.7**	**32.5%**

Increase in white label has driven revenue growth in Finland

Group revenues up by 3.0%

Adjusted EBITDAR up 32.5% to £61.9m

UK Airline – Impact of fuel

	H1 2013/14	H1 2012/13	Change
Fuel, $ / metric tonne			
Market rate	$964	$1,008	$44
Effective price	$975	$1,008	$33
GBP:USD rate			
Market rate	$1.62	$1.58	$0.04
Effective price	$1.53	$1.61	$(0.08)
Actual cost of fuel, £ / metric tonne	**638**	**626**	**(12)**

UK Airline – Hedging positions

Jet fuel

- H2 2013/14 – 73% hedged at $992 per tonne
- H1 2014/15 – 76% hedged at $959 per tonne
- FY 2014/15 – 53% hedged at $960 per tonne

US Dollar

- H2 2013/14 – 73% hedged at $1.56
- H1 2014/15 – 68% hedged at $1.53
- FY 2014/15 – 37% hedged at $1.53

Euro

- Small net exposure of <€20m, no formal hedging

Flybe Finland - Revenue

	H1 2013/14 £m	H1 2012/13 £m	Change
Operational headlines			
Contract flying			
Block hours	31,614	12,081	161.7%
Scheduled flying			
Scheduled passengers ('000)	162	194	(16.5)%
Load factor (%)	44.7%	42.2%	2.5 pts
Scheduled seats ('000)	362	459	(21.1)%
Sector length (km)	397	401	(1.0)%
Revenue			
Contract flying revenue	110.6	36.7	201.4%
Passenger revenue	13.5	16.4	(17.7)%
Other revenue	2.1	2.4	(12.5)%
Total revenue	126.2	55.5	127.4%
Passenger yield (£)	83.47	84.55	(1.3)%
Passenger revenue per seat (£)	37.32	35.70	4.5%

21 aircraft out of total fleet of 28 aircraft contract flying for Finnair – eight at beginning of year, 12 further aircraft from October 2012, plus a spare aircraft

flybe.

Other Flybe businesses

	H1 2013/14 £m	H1 2012/13 £m	Change
Financial results			
Maintenance, repair and overhaul ('MRO')	20.0	19.1	4.7%
Training Academy	2.6	2.5	4.0%
Contract flying	8.2	4.5	82.2%
Total revenue	**30.8**	**26.1**	**18.0%**
Operating costs	(28.5)	(26.4)	(8.0)%
Profit/(loss) before tax	**2.3**	**(0.3)**	**n/m**

Four Q400s operating on white label flying with Brussels Airlines compared to two Q400s a year ago

Operational headlines

MRO

	H1 2013/14	H1 2012/13	Change
Third party man hours	139	179	(22.3)%
Flybe man hours	74	96	(22.9)%
Total man hours	**213**	**275**	**(22.5)%**

Decrease in hours reflect impact of restructuring and consequent reduction in headcount

Contract flying

	H1 2013/14	H1 2012/13	Change
Block hours	5,299	2,943	80.1%

Group – Fleet under management

	September 2013	March 2013	Movements
UK Airline			
Embraer 118-seat E195 regional jet	14	14	0
Embraer 88-seat E175 regional jet	9	9	0
Bombardier 78-seat Q400 turboprop	45	47	(2)
	68	**70**	**(2)**
Flybe Finland			
ATR 48-seat ATR42 turboprop	2	2	0
ATR 68- and 72-seat ATR72 turboprop	12	12	0
Embraer 76-seat E170 regional jet	2	2	0
Embraer E100-seat 190 regional jet	12	12	0
	28	**28**	**0**
Group fleet under management	**96**	**98**	**(2)**

Two Q400s sold in May 2013

Held on operating lease	88	88	0
Owned and debt financed	8	10	(2)
Group fleet under management	**96**	**98**	**(2)**

Fleet age remains low at 5.5 years

Total seats in fleet	8,234	8,390	(156)
Average seats per aircraft	85.8	85.6	0.2
Average age of fleet (years)	5.5	5.1	(0.4)

Legal disclaimer

This presentation has been prepared by Flybe Group plc (the “Company”). This presentation does not constitute or form part of any offer to sell or issue, or invitation to purchase or subscribe for, or any solicitation of any offer to purchase or subscribe for, any securities of the Company or in any other entity, nor shall this document or any part of it, or the fact of its presentation, form the basis of, or be relied on in connection with, any contract or investment decision, nor does it constitute a recommendation regarding the securities of the Company or any other company.

The information contained in this presentation has not been independently verified. This presentation does not purport to be all-inclusive or to contain all the information that a prospective investor in securities of the Company may desire or require in deciding whether or not to offer to purchase such securities.

No representation or warranty, express or implied, is made or given by or on behalf of the Company or any of its affiliates (within the meaning of Rule 405 under the US Securities Act 1933) (“Affiliates”), members, directors, officers or employees or any other person as to the accuracy, completeness or fairness of the information or opinions contained in this presentation or any other material discussed verbally. None of the Company or any of its Affiliates, members, directors, officers or employees nor any other person accepts any liability whatsoever for any loss howsoever arising from any use of this presentation or its contents or otherwise arising in connection therewith.

The information in this presentation includes forward-looking statements which are based on the Company's or, as appropriate, the Company's directors' current expectations and projections about future events. These forward-looking statements may be identified by the use of forward-looking terminology, including the terms "believes", "estimates", "plans", "projects", "anticipates", "expects", "intends", "may", "will" or "should" or, in each case, their negative or other variations or comparable terminology, or by discussion of strategy, plans, objectives, goals, future events or intentions. These forward-looking statements, as well as those included in any other material discussed at any analyst presentation, are subject to risks, uncertainties and assumptions about the Company and its subsidiaries and investments, including, among other things, the development of its business, trends in its operating industry, and future capital expenditures. In light of these risks, uncertainties and assumptions, the events or circumstances referred to in the forward-looking statements may differ materially from those indicated in these statements.

Forward-looking statements may and often do materially differ from actual results. None of the future projections, expectations, estimates or prospects in this presentation should be taken as forecasts or promises nor should they be taken as implying any indication, assurance or guarantee that the assumptions on which such future projections, expectations, estimates or prospects have been prepared are correct or exhaustive or, in the case of the assumptions, fully stated in the presentation. Forward-looking statements speak only as of the date of this presentation. Subject to obligations under the listing rules and disclosure rules made by the Financial Services Authority under Part VI of the Financial Services and Markets Act 2000 (as amended), neither the Company nor any of its affiliates, or individuals acting on its behalf, undertakes to publicly update or revise any such forward-looking statement, whether as a result of new information, future events or otherwise. As a result of these risks, uncertainties and assumptions, you should not place undue reliance on these forward-looking statements as a prediction of actual results or otherwise.

The information and opinions contained in this presentation and any other are material discussed verbally are provided as at the date of this presentation and are subject to verification, completion and change without notice.

In giving this presentation, neither the Company nor its advisers and/or agents undertakes any obligation to provide the recipient with access to any additional information or to update this presentation or any additional information or to correct any inaccuracies in any such information which may become apparent.