



Growth and Profitability

Full Year Results – Year ended 31 March 2016

Analyst and Investor Presentation
9 June 2016





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Introduction – Saad Hammad

Financial review – Philip de Klerk

Business review – Saad Hammad

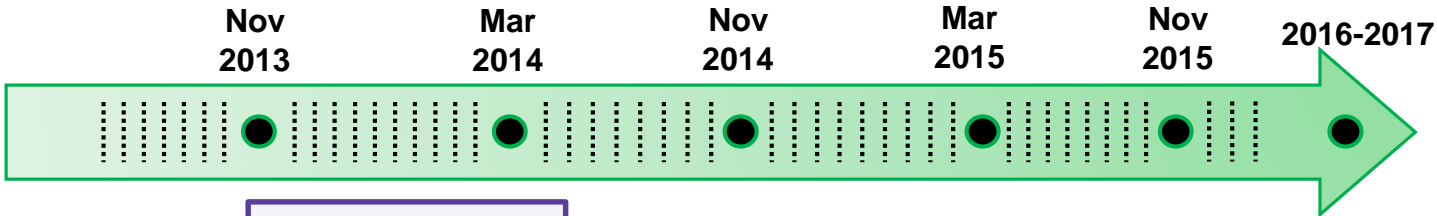
Summary & Q&A



- **In 2015/16, Flybe completed second full year of 3 year transformation with significant progress made**
 - Resolved final key legacy issue through re-deployment of remaining surplus E195 jets
 - Generated a profit after losses¹ in every year since IPO in 2010
- **Grew revenue through focused capacity growth and improved execution**
 - Despite industry significant headwinds
- **Drove year-on-year unit cost reduction after £20m of E195 cost**
- **Delivered strong year-end cash position with total cash of £171.4m at 31 March 2016**

¹ Reported losses before tax before adjusting for USD revaluations on aircraft loans

Introduction – We have moved at speed in transforming Flybe and are now in the final year of our turnaround



✓ **Chapter 1**
Restructuring

- Immediate Actions**
- Cash
 - Cost
 - Configuration
 - Commercialisation
 - Confidence

✓ **Chapter 2**
Rebirth

- £150m net capital raise
- Brand relaunch

✓ **Chapter 3**
Growth Platforms & Legacy Solutions

- Core UK revenue growth
- 50+ new routes & 4 bases
- Codeshares from 4 to 9
- Partnerships e.g. A400M, SAS White Label
- Cost base resizing
- Exit Finland JV
- Resolve fleet issues:
 - Q400 mods, E175 order
 - E195s (Project Blackbird)

5 consecutive quarters of growth

£750m of liabilities removed

Chapter 4
Profitable Growth





- **Flybe well placed**
 - strongest balance sheet in our history
 - disciplined organisation with a track record of delivery over the past 3 years
- **Current industry environment remains challenging due to:**
 - threat of terrorist activity
 - industrial unrest in France (which accounts for c12% of our seat capacity)
 - consumer uncertainty fuelled by macro-economic volatility and Brexit anxiety
 - highest level of seat capacity growth in European short-haul for six years.
- **Flybe reacting quickly to headwinds**
 - remaining disciplined in pricing, unit cost reduction, and capacity deployment
 - transaction with Nordic Aviation Capital (NAC) cancels obligations to lease nine used Q400 turboprops while taking ownership for c£86m of ten aircraft we are under contract to lease.
 - NAC deal moderates capacity growth, delivers £4m savings this year and £8m pa thereafter and provides flexibility with fleet deployment
- **H1 forward sales as at 5 June 2016:**
 - 17% capacity increase vs. prior year
 - 43% of capacity sold vs. 46% prior year
 - 8% more seats sold than last year
 - 5% decrease in yields
 - 12% decrease in passenger revenue per seat

FINANCIAL REVIEW



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- **Revenue**
 - **Group revenue up 8.7% from £574.1m to £623.8m driven by 8.2% passenger revenue growth**
- **Costs**
 - **Cost per seat (including fuel) down 4.2% in constant currency to £52.67**
- **Profit**
 - **Adjusted profit before tax¹ of £5.5m compared to a loss before tax of £13.4m in 2014/15**
 - **Reported profit after tax of £6.8m compared to loss after tax of £35.7m in 2014/15**
- **Cash at 31 March 2016**
 - **Strong balance sheet with net assets of £154.3m, net funds² of £62.2m and total cash of £171.4m after the purchase of three leased Q400 aircraft for a cash consideration of £24.4m**

1. Adjusted profit before tax is before revaluation gains or losses on USD loans and 2014/15 adjusted PBT is before discontinued operations

2. Net funds = Total cash less total borrowings



	2014/15	2015/16	YOY change
	£m	£m	£m
Flybe UK	(12.1)	8.8	20.9
FAS	2.3	2.5	0.2
Group costs	(3.6)	(5.8)	(2.2)
Adjusted profit/(loss) before tax	(13.4)	5.5	18.9
Revaluation gains/(losses) on USD loans	(10.2)	(2.8)	7.4
Reported profit/(loss) of continuing operations before tax	(23.6)	2.7	26.3
Tax charge	(0.1)	4.1	4.2
Profit/(loss) of continuing operations after tax	(23.7)	6.8	30.5
Discontinued Operations	(12.0)	0.0	12.0
Reported profit/(loss) after tax	(35.7)	6.8	42.5
EBITDAR	83.5	120.1	36.6
Earnings/(loss) per share (basic), pence	(16.5)	3.1	19.5

Group revenue increased by 8.7%



£m	2014/15	2015/16	YOY % change
Passenger revenue	528.6	571.7	8.2%
Contract flying revenue	11.6	13.9	19.8%
Other revenue	10.5	15.4	46.7%
FAS revenue (third party)	23.4	22.8	(2.6)%
Revenue	574.1	623.8	8.7%

- Revenue growth driven by 8.2% passenger revenue growth
- Supported by uplifts in Contract Flying (SAS) and Other revenue (Cardiff E195 flying)

Capacity growth delivered with total revenue per seat held in line with prior year



Flybe UK 2014/15 vs. 2015/16 Operational Headlines & Unit Revenue by Component

Operational Headlines

	2014/15	2015/16	YOY % change
Seats, m	10.3	11.3	9.7 %
Passengers, m	7.7	8.2	5.9 %
Load factor, %	75.2 %	72.6 %	(2.6) pts
Average passenger sector length, km	475	465	(2.1)%

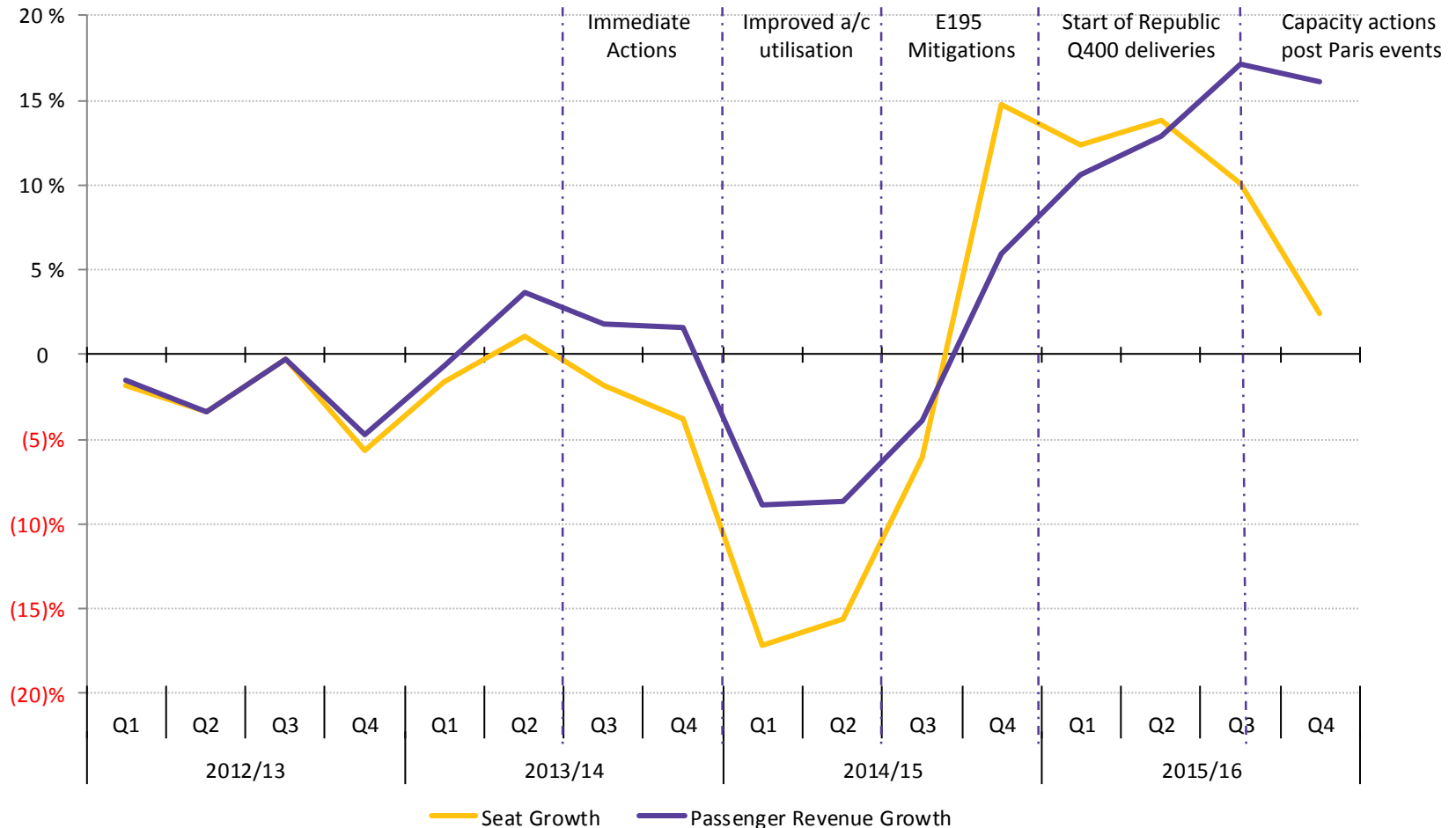
Unit Revenue by Component

£ per seat	2014/15	2015/16	YOY % change
Passenger revenue	51.35	50.64	(1.4)%
Other revenue, incl. contract flying	2.16	2.59	19.7 %
Total Flybe UK revenue	53.51	53.23	(0.5)%

We have delivered consistent top-line growth for 5 consecutive quarters



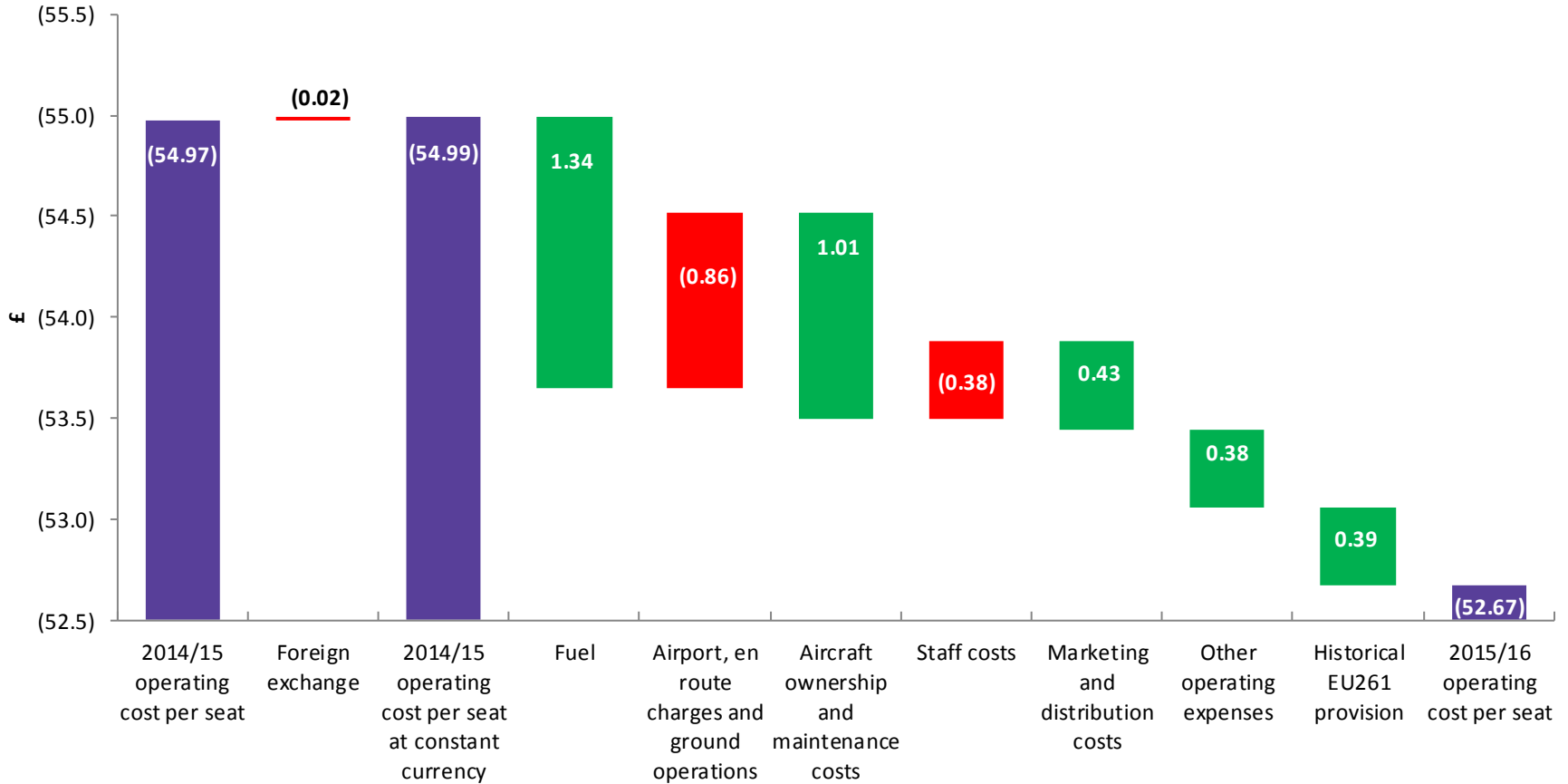
Flybe UK seat and passenger revenue growth, 2012 – 2016 by quarter



4.2% reduction in cost per seat (including fuel)



Flybe UK 2014/15 vs. 2015/16 Unit Cost Bridge

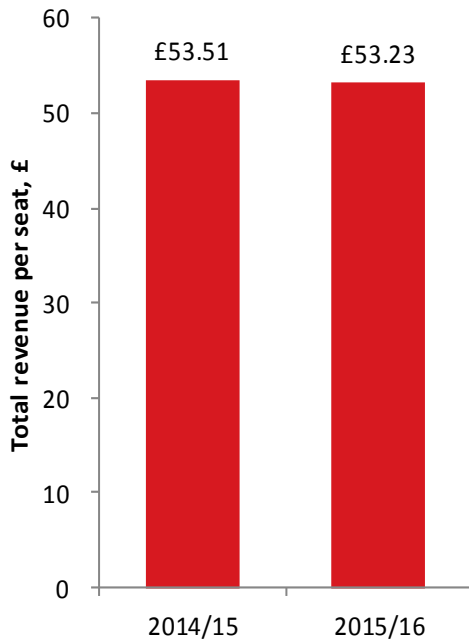


Costs exclude USD loan revaluation..

Profit per seat up in Flybe UK



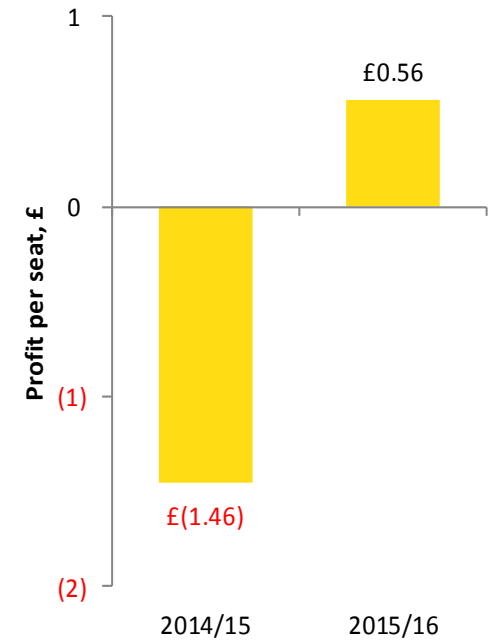
**0.5% decrease in
Total Revenue Per Seat**



**4.2% decrease in
Cost Per Seat (constant currency)**



**£2.02 improvement in
Profit Per Seat**



Cost per seat is Flybe UK costs excluding interest and FX
Profit per seat is Total Flybe UK revenue less Flybe UK cost excluding interest and FX

We continue to hedge to mitigate risk of fuel price and currency volatility



Fuel

Market price down by 42% in US dollars

But largely hedged, so effective price down 13.7% at USD 826 per mt

USD

Market rate adverse by 3%

Post hedge rate increased by 1% at USD 1.58

The cost of fuel reduced by £11m or 11%

Outlook as at 31st May 2016

Fuel: 90% hedged for 2016/17 at USD 566, 50% for 2017/18 at USD 473

USD: 90% hedged for 2016/17 at USD 1.51, 51% for 2017/18 at USD 1.45

Restricted cash released and pension scheme triennial actuarial valuation has commenced



Restricted cash of £7.8m as at March 2016

- A reduction of £10.2m since March 2015
- Remainder is related to aircraft deposits

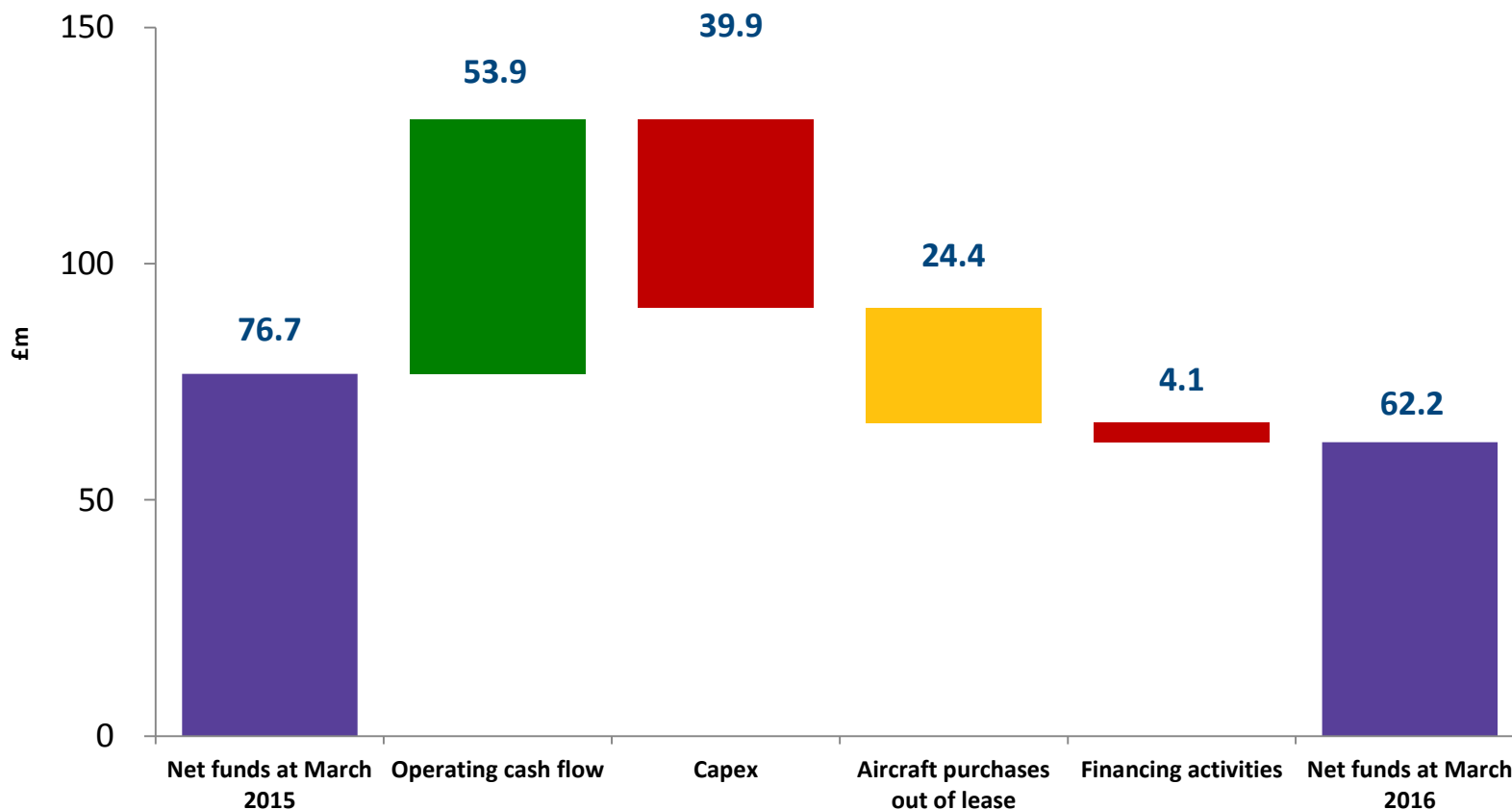
BRAL pension scheme – actuarial valuation at 31 March 2016

- Ex-BA Connect scheme, closed to future benefit accrual in October 2007
- The triennial actuarial valuation commenced in March 2016 expected to complete mid 2017
- Current contribution level is £0.5m p.a.

— We ended the year with Net Funds of £62.2m



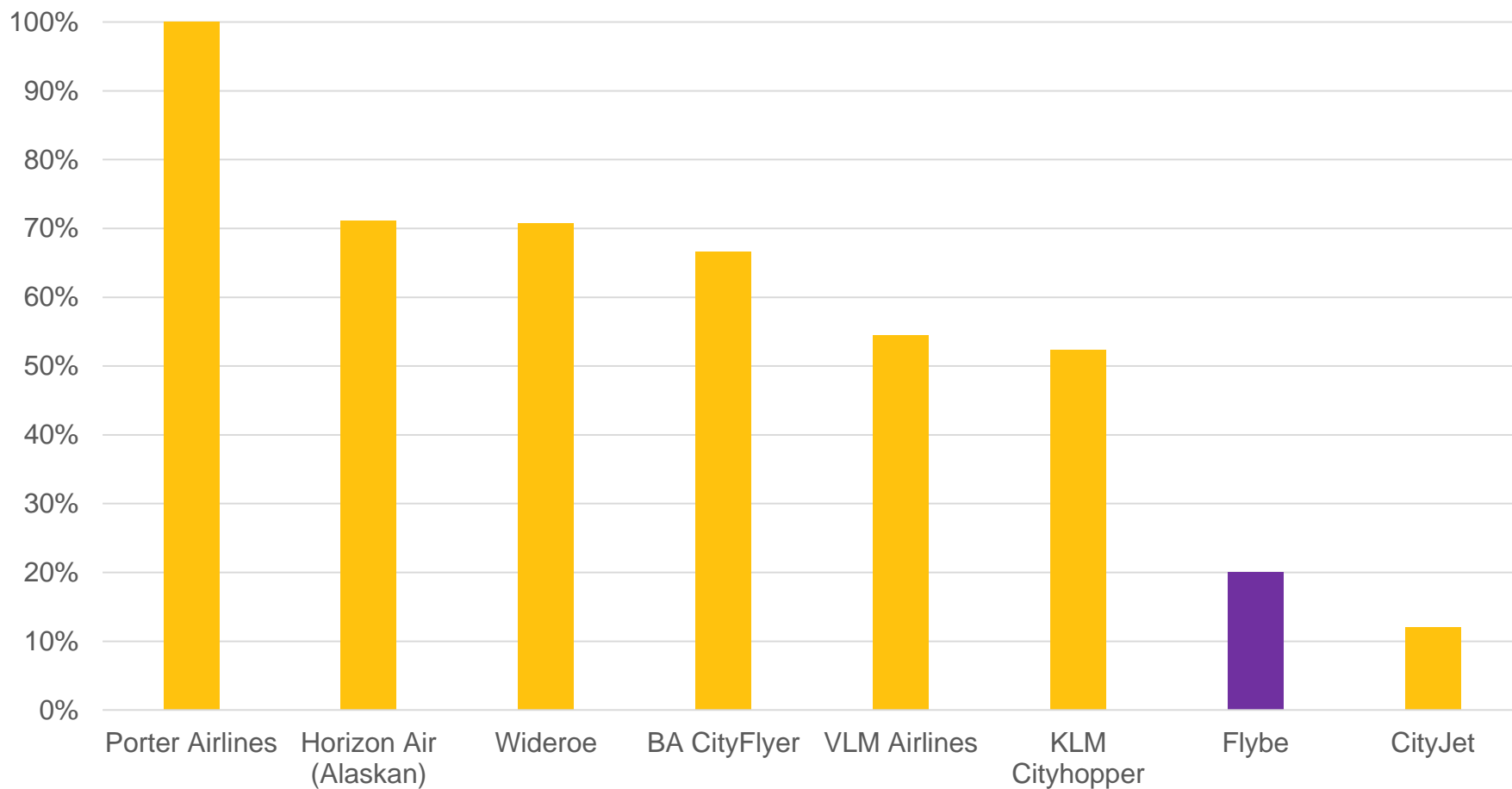
Group Net Funds bridge 2014/15 to 2015/16



Flybe UK is atypical for a regional airline in having a low % ownership of its fleet



Share of owned fleet



Aircraft transactions improve margins and align with more cautious capacity growth assumptions over next 2 years



- **Our strategy is to own 50% of our fleet in the medium term vs. 20% last year**
- **Took ownership in February 2016 of 3 leased Q400 aircraft for £24.4m**
- **Also taking ownership from Nordic Aviation Capital (NAC) for c£86m another 10 used Q400 aircraft which we are committed to sub-lease from Republic**
 - the contract has a number of conditions that still remain to be satisfied at this time.
 - as part of this transaction, nine committed Republic deliveries (for delivery in 2017/18) will be cancelled at no penalty.
- **The transactions on all thirteen aircraft purchased (the three in February and the ten from NAC) will deliver a net cost improvement of c£4m in 2016/17 and c£8m annually thereafter**
 - % of UK fleet owned goes from 20% to 34%
- **To maximise capacity discipline, recently also postponed for one year the delivery of 4 Embraer jet aircraft on firm order from the original date of Jan-April 2018 to Jan-April 2019**

Ownership of aircraft is profit enhancing



Indicative profit enhancement of a typical used Q400 owned vs. lease aircraft¹

	Leased £m	Owned £m	Benefits £m
Lease payments / Depreciation	1.20	0.38	
Interest assuming LTV of 70% and 4% interest rate		0.24	
Annual P&L cost	1.20	0.61	0.59
Incremental cost improvement over ten years			5.87

Delivers 12% ROCE

¹ Excludes lease restitution costs (est. £1m per aircraft)

Capacity growth over next 2 years also moderated by aircraft transactions



Flybe UK Seat Capacity Growth Pre and Post Transactions 2016-2018

YoY capacity growth	Pre-aircraft transactions	Post-aircraft transactions
Total capacity growth 2016/17	17%	15%
Of which E195 growth	7%	7%
Total capacity growth 2017/18	10%	6%
Of which E195 growth	0%	0%

Fleet profile numbers are at year end
Capacity is calculated monthly



Full year results for 2015/16

- Into profit
- Adjusted profit before tax of £5.5m compared to a loss before tax of £13.4m in 2014/15
- Reported profit after tax of £6.8m compared to loss after tax of £35.7m in 2014/15

Robust Operating Cash flow

- Our cash position remains strong
- £171.4m total cash at 31st March 2016 (31st March 2015: £195.9m)
- Net funds of £62.2m (31st March 2015: £76.7m)
- Financing in place for aircraft acquired

BUSINESS REVIEW



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2015/16, the second full year of transformation, has seen significant achievement

Resolved last major legacy issue, E195s (Project Blackbird)

Profit achieved despite significant external shocks and £20m E195 cost

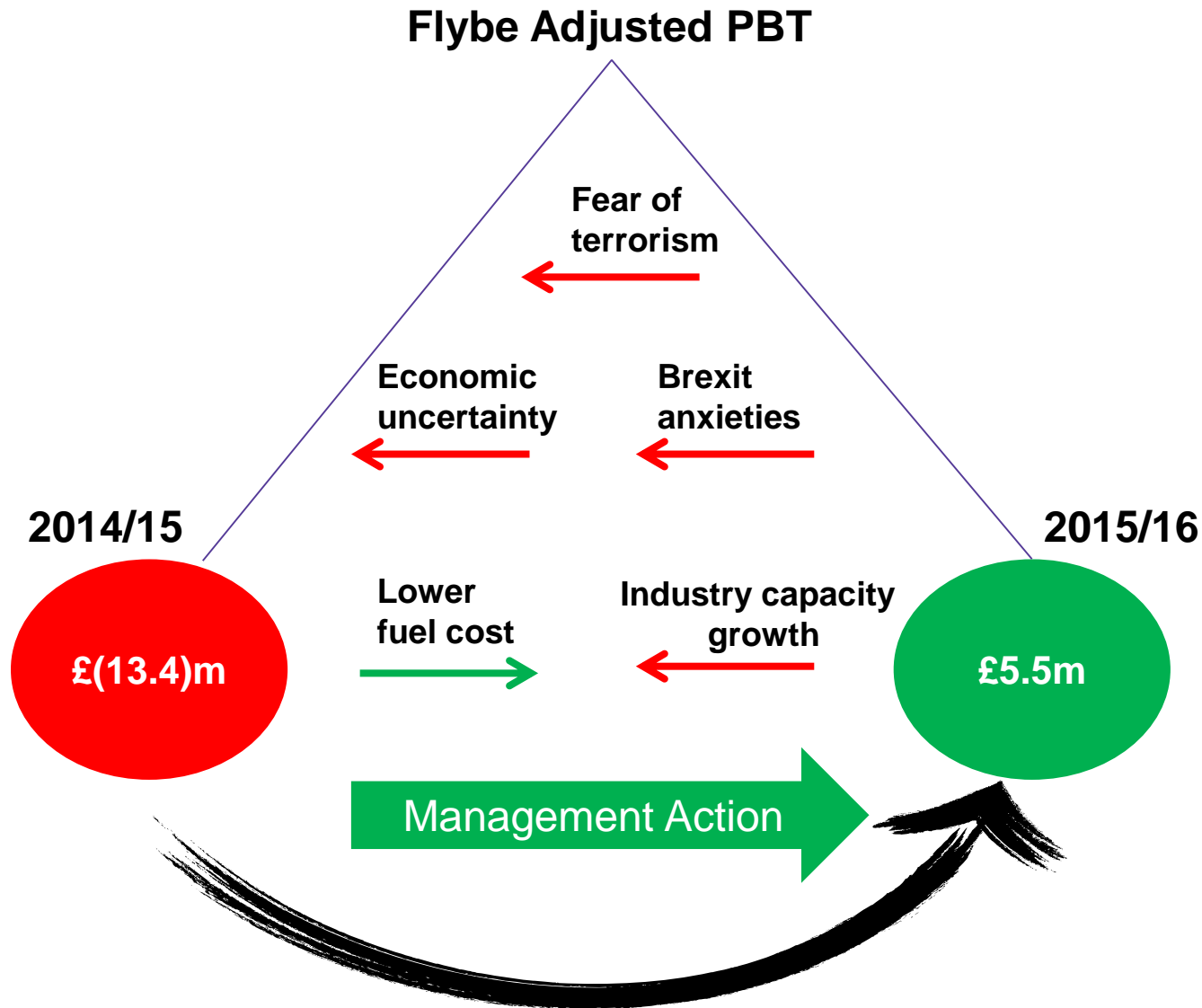
Continued progress in building a strong core airline business

- Sustained growth in revenue and reduction in unit costs
- Increased customer satisfaction and employee engagement
- Increasing external recognition of Flybe's distinctiveness

Continued white label progress although we will be opportunistic outside of SAS/Brussels Airlines, given market immaturity

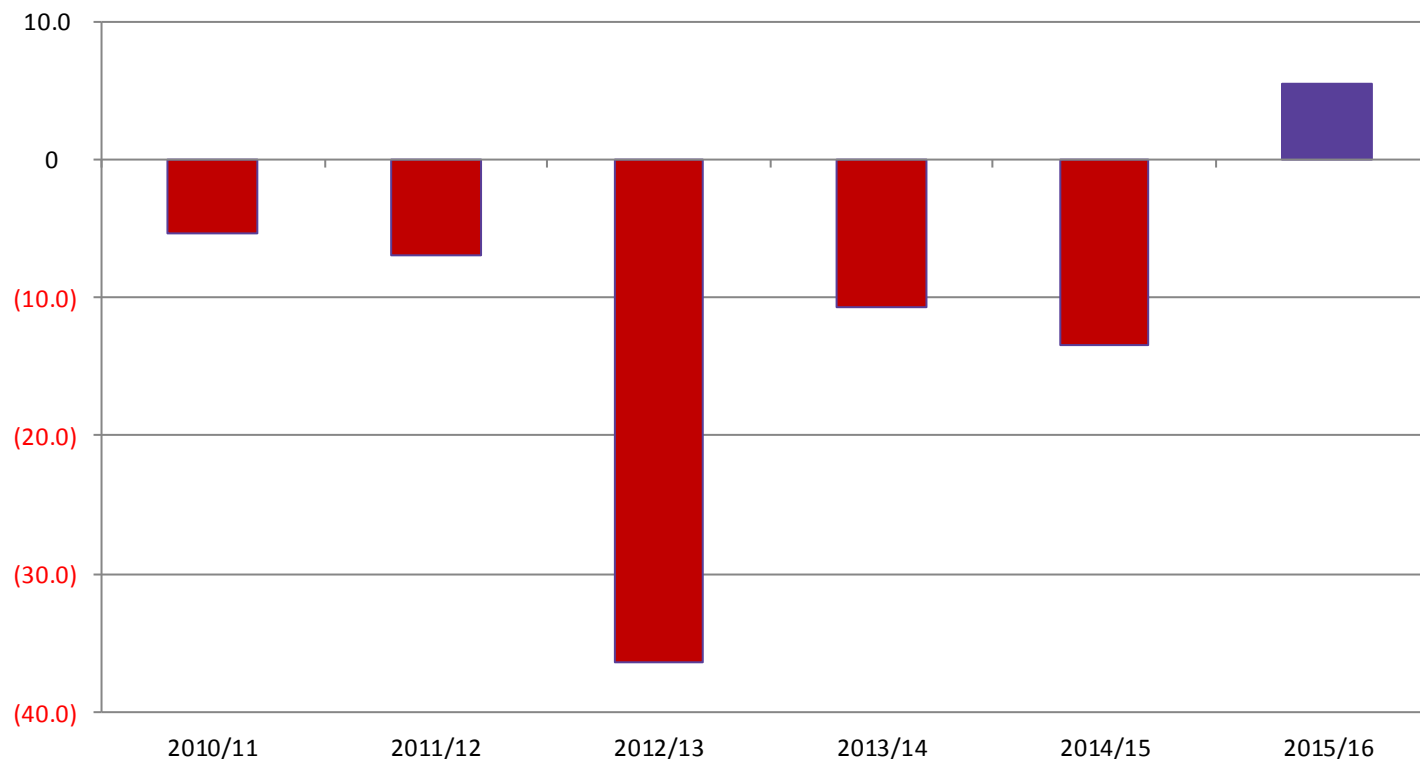
Good year in FAS

We took action to drive a c£20m positive swing into profits despite significant external shocks





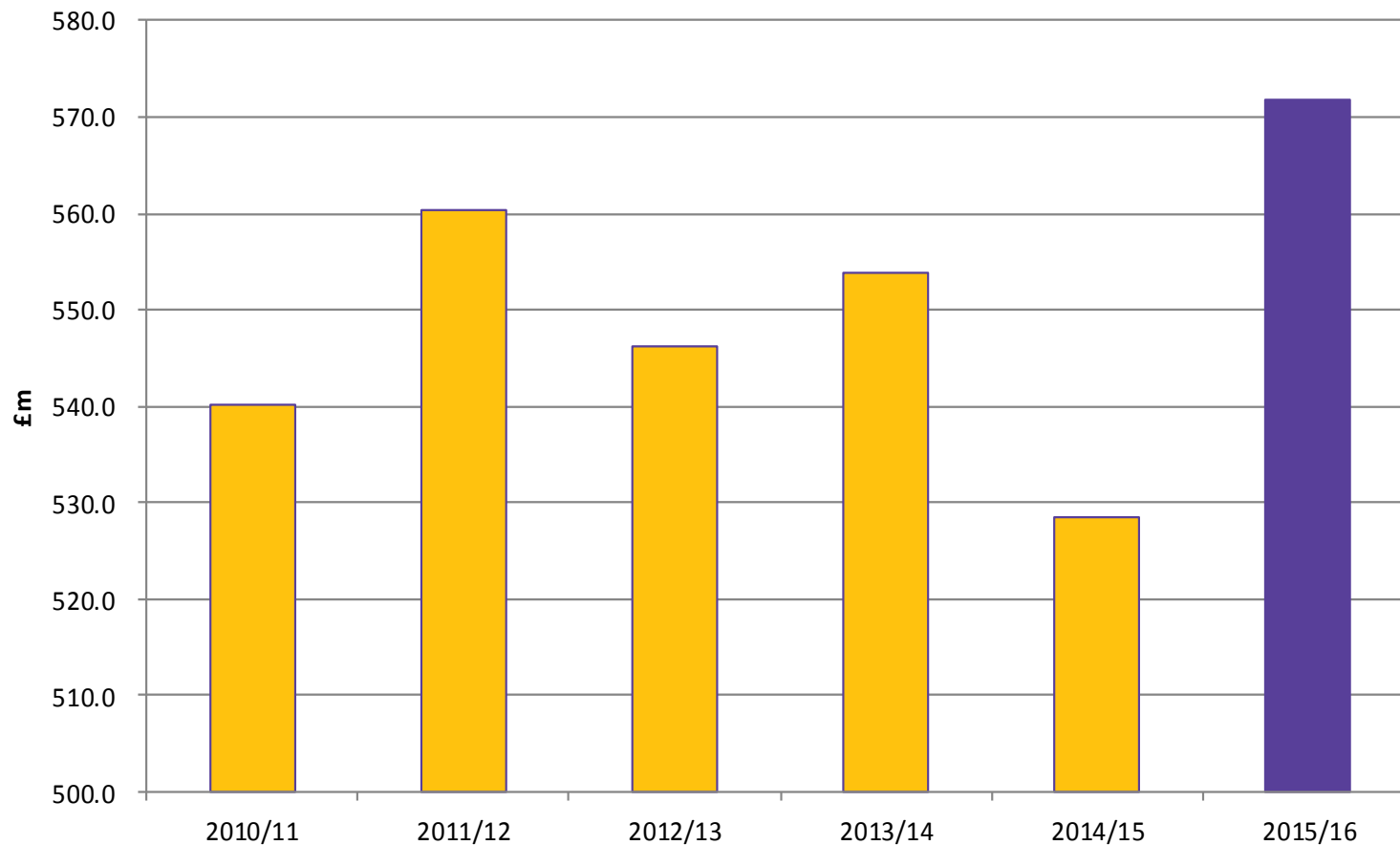
Flybe Adjusted PBT: 2010/11 through 2015/16



- Adjusted PBT is before revaluation gains or losses on USD loans
- 2014/15 adjusted PBT is before discontinued operations
- 2013/14 adjusted PBT is before profit from sale of landing slots



Flybe UK Passenger Revenue £m: 2010/11 through 2015/16



Improved commercial execution in Flybe UK has driven passenger volume and share performance



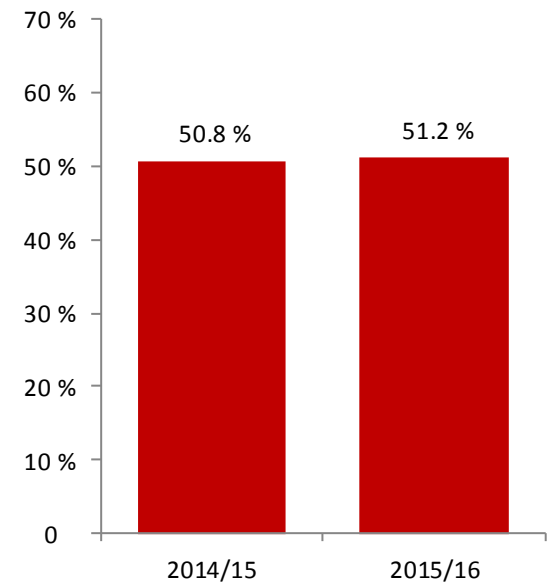
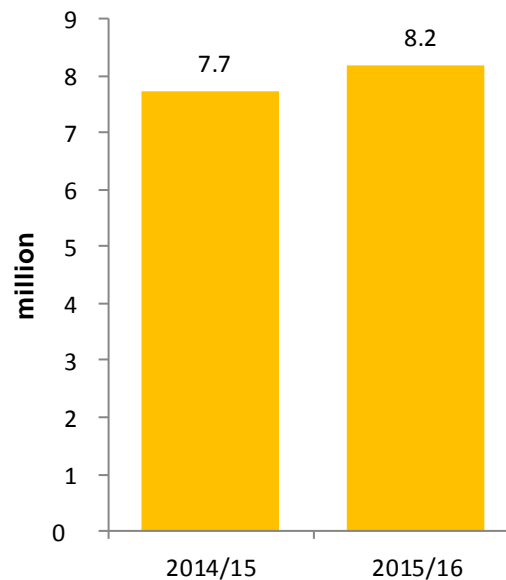
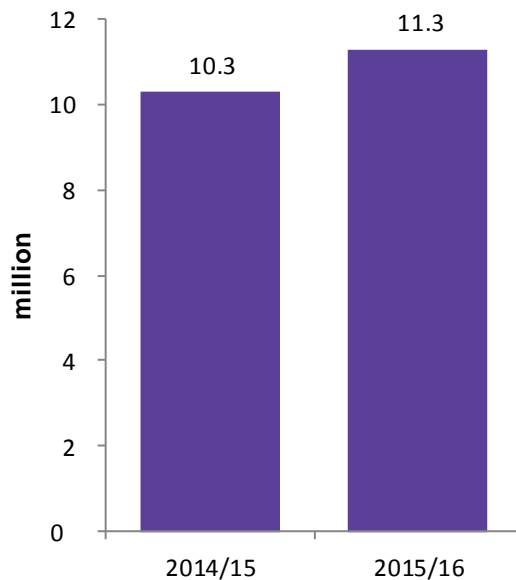
**9.7% increase in
Seat Capacity**



**5.9% increase in
Passenger
Volumes**



**0.4 ppts increase
in UK Regional
Domestic Sector
Share**



Source: CAA

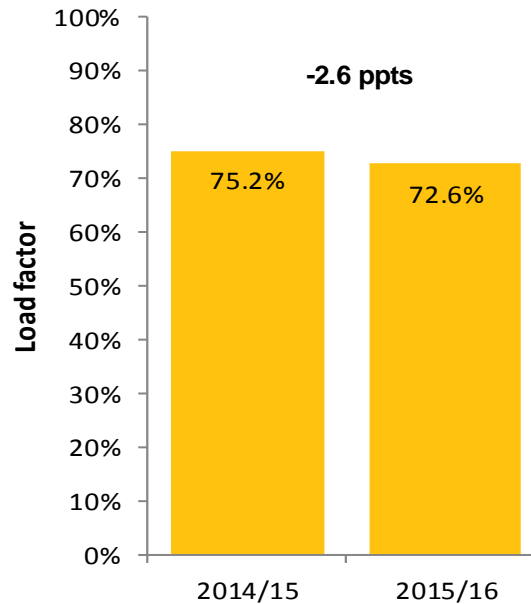
Despite capacity growth, we have improved yields with limited load factor and revenue per seat dilution



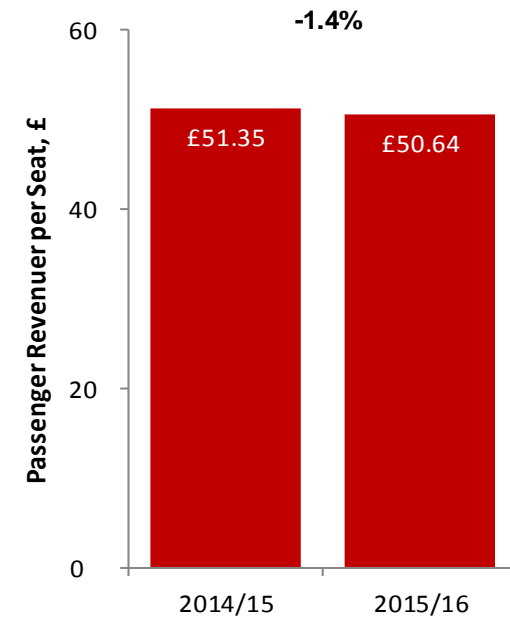
Increased yields



Decreased but still high load factor



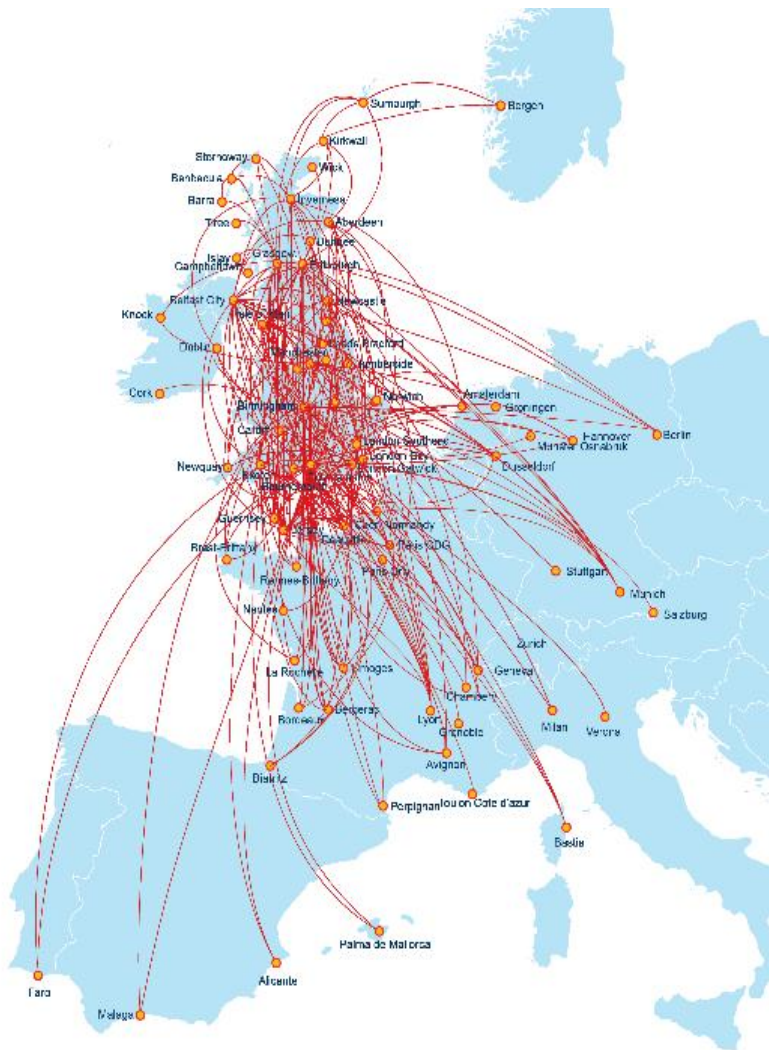
A small reduction in revenue per seat



RASK up 0.7% from 10.81 pence to 10.89 pence

RASK is passenger revenue divided by ASK's

We established new growth platforms in 2015/16

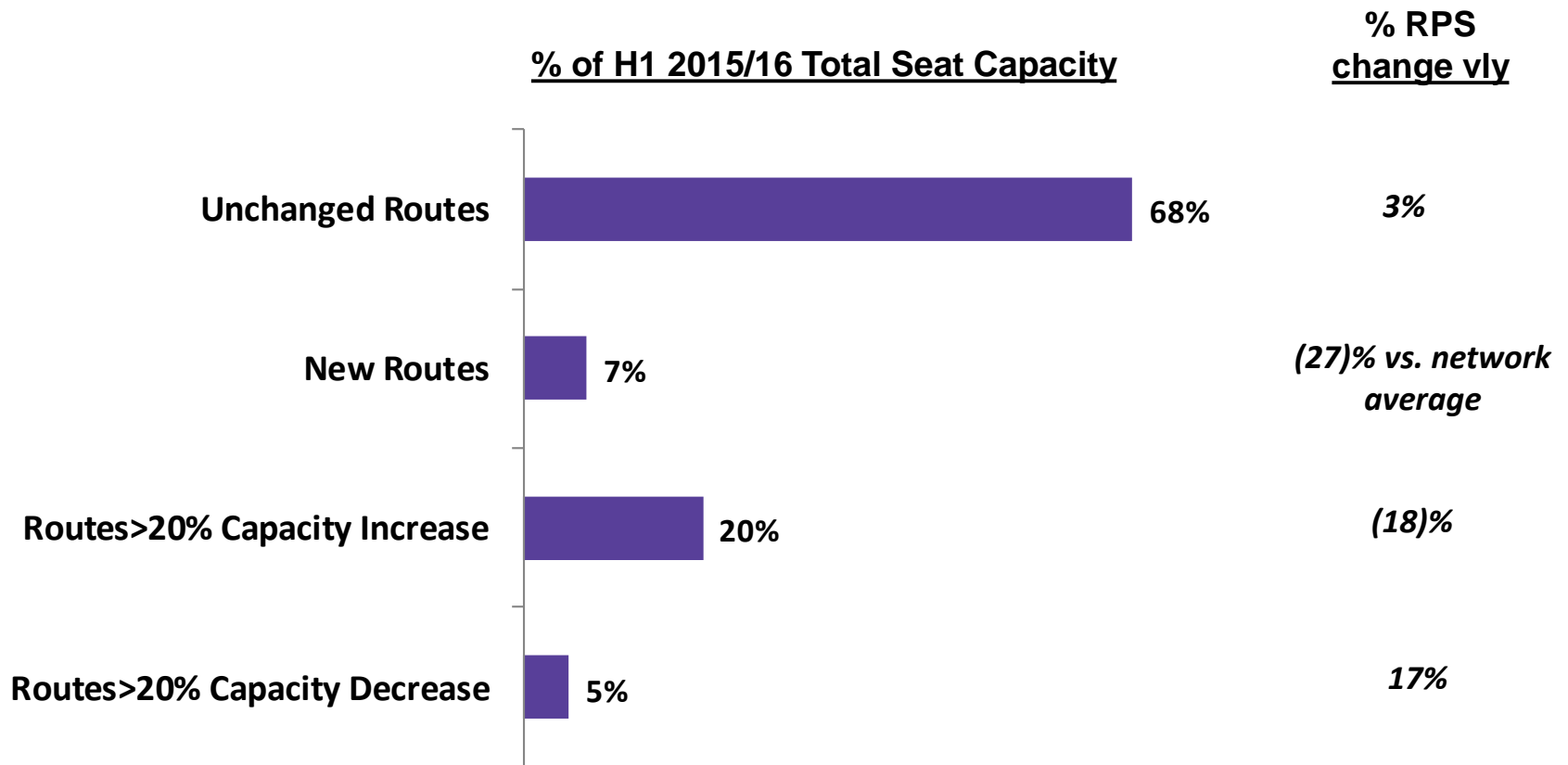


- **Strengthened existing business routes with additional daily frequencies on 47 routes**
- **Launched 52 new routes**
- **Established two new bases, Cardiff and Doncaster**
- **Signed new codeshares with Emirates and Virgin Atlantic**

Strong performance on unchanged routes has supported investment in new routes and frequencies



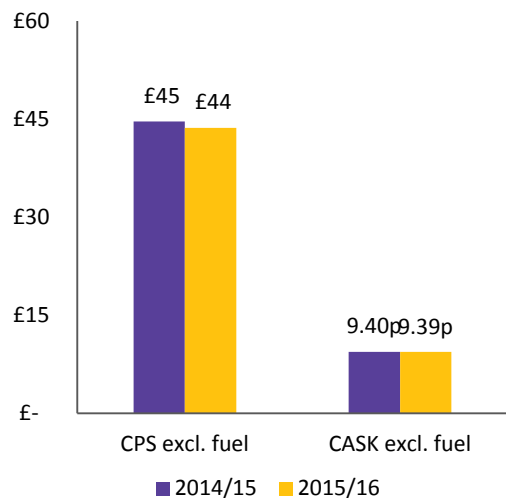
2015/16 % of Total Seat Capacity Route Category with RPS Change vs. Prior Year



Cost discipline accompanied by significant operational improvement



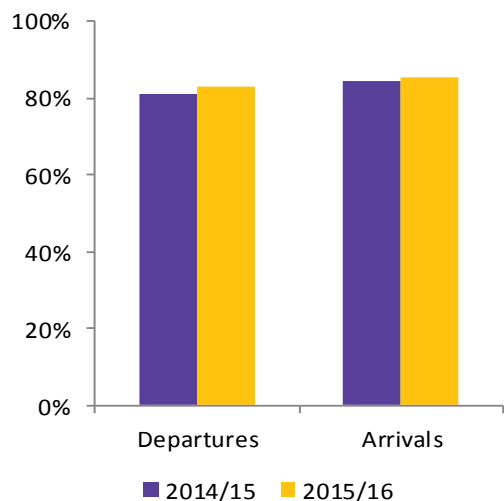
Unit Cost (excl. fuel) £



Areas of cost focus

- Aircraft ownership
- Aircraft maintenance
- Marketing
- Overheads

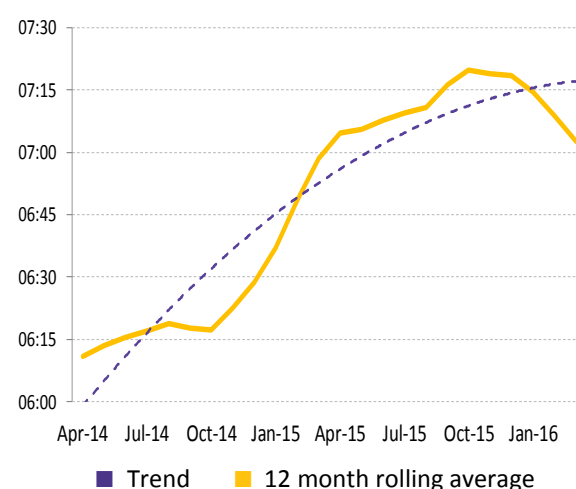
% Flights within 15 mins of scheduled time



Improvements

- New daily review and trouble-shooting process
- New contracts with ground handlers with clear SLAs
- Aircraft technical despatch reliability improved by 0.2ppts to 98.7%

Aircraft utilisation Daily block hours per a/c



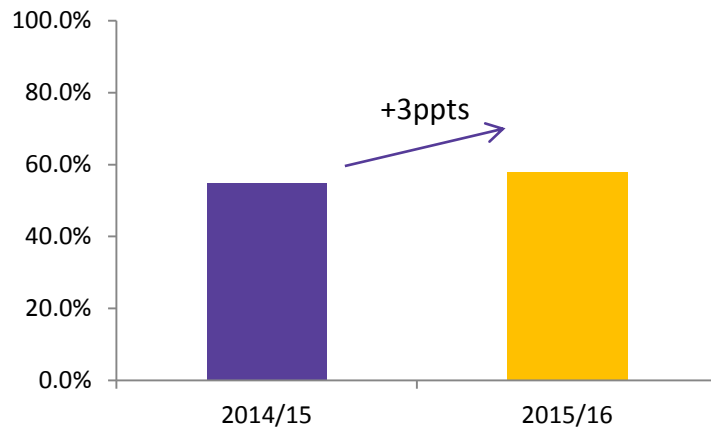
Key drivers

- More efficient flight schedules
- Reinforced by improved crew productivity

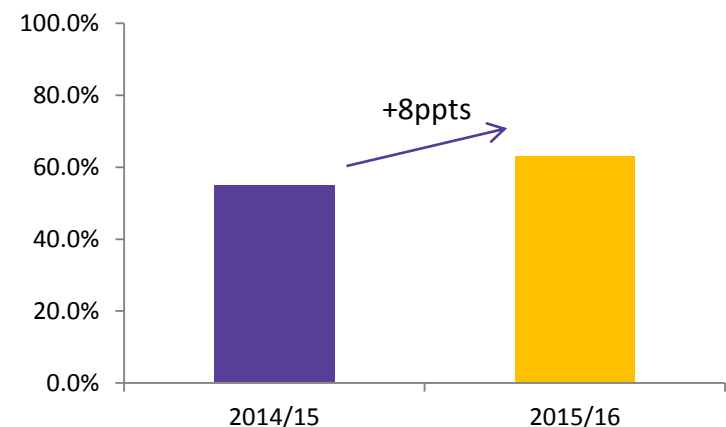
We have improved customer satisfaction and employee engagement



Customer Satisfaction (% completely or very satisfied)



Employee Engagement (% of total employees)



Key drivers:

- Improved customer service onboard and by contact centre
- Impact of commercial initiatives e.g. enhanced daily frequencies on key business routes
- Strong punctuality performance

Key drivers:

- Purple culture programme
- Recognition & appreciation focus
- Training initiatives
- 2 year pay-deal
- Ongoing CEO and senior management communication plus union engagement
- Crew lifestyle improvements



- **Regional footprint with high frequency service**
 - 79% coverage of CAA reporting airport in UK – Mar 16: larger than any other airline
 - Largest scheduled airline by traffic movements at most of our regional airports (UK CAA Mar 16)
- **Strong punctuality**
 - In Jan 2016, confirmed by OAG as in the top 20 airlines worldwide for punctuality in 2015
- **Strong business relevance (c50% business passengers)**
 - In Jan 2016, Flybe was named Best Short Haul Airline at the 2016 Business Travel Awards, beating amongst others easyJet and British Airways



- **Brussels Airlines contract extended by 2 years as of October 2015 with 2 Q400 aircraft**
- **SAS operations with two ATRs started in Stockholm**
 - collective bargaining agreements signed with pilot and cabin crew unions – enabling Flybe to scale the operation
 - operation has now grown to five ATRs from May 2016
- **Our stance remains opportunistic, given market immaturity in Europe**





- **Man-hours increased by 2% to 547,000 hours**
- **Revenue increased by 5% to £42.8m**
- **Profit before tax increased by 10% to £2.5m**
- **Overall, FAS continues to build its position as a leading regional aircraft maintenance specialist**
- **In addition, FAS is a leading MRO business in A400M maintenance services for the UK's RAF at Brize Norton through Airbus Military**

SUMMARY



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- **In 2015/16, Flybe completed second full year of 3 year transformation with significant progress made**
 - Resolved final key legacy issue through re-deployment of remaining surplus E195 jets
 - Generated a profit after losses¹ in every year since IPO in 2010
- **Grew revenue through focused capacity growth and improved execution**
 - Despite significant industry headwinds
- **Drove year-on-year unit cost reduction through cost discipline**
 - Despite £20m of E195 cost in the year
- **Delivered strong year-end cash position with total cash of £171.4m at 31 March 2016**

In 2016/17, we are taking decisive action early to mitigate impact of a more challenging environment, including fleet transactions

¹ Reported losses before tax before adjusting for USD revaluations on aircraft loans

Q&A



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APPENDIX



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Flybe as at May 2016

- **Number of aircraft:** 76 (51 Q400, 11 E175, 9 E195, 5 ATR72-600)
- **Number of routes:** 214 routes, 74 departure points (36 UK, 38 EU)
- **Number of bases:** 10
- **Codeshare partners:** 9 (+14 interline agreements)
- **Pax total:** c8m
- **Pax split:** c50% business, c25% VFR, c25% leisure
- **Bookings split:** 80% website, 20% indirect channels
- **Number of FTEs:** c. 2300
- **Culture:** Purple

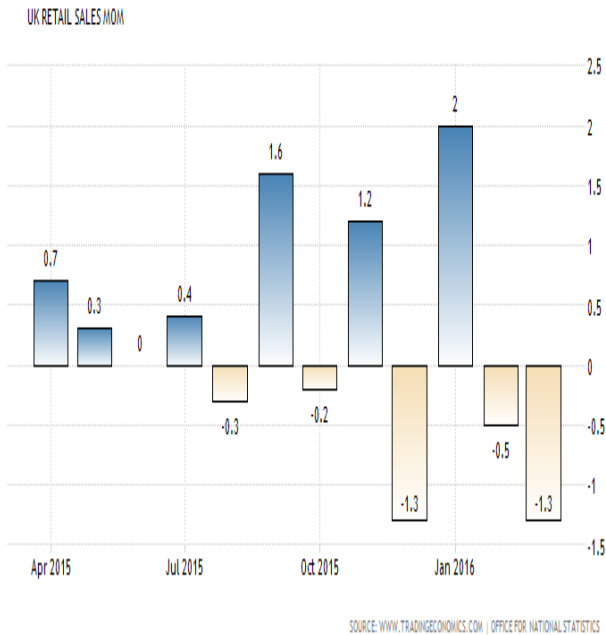


- **5 aircraft handed back to lessors**
- **5 redeployed in multi-year airport agreements in Flybe livery**
 - Cardiff (2), Exeter/Norwich (1), Doncaster Sheffield Airport (2)
- **1 at Newquay under a redefined Public Service Obligation (PSO)**
 - To satisfy increased demand for the Newquay-London Gatwick route
- **3 operating at Birmingham and Manchester airports**
 - Two to provide additional capacity on high demand routes
 - One to provide EJet standby cover for the 19 EJets flying
- **Results in c£40m mitigation vs. £80m lease obligations**
 - All the agreements commenced end of March 2016 as per plan (with Cardiff having started in June 2015)



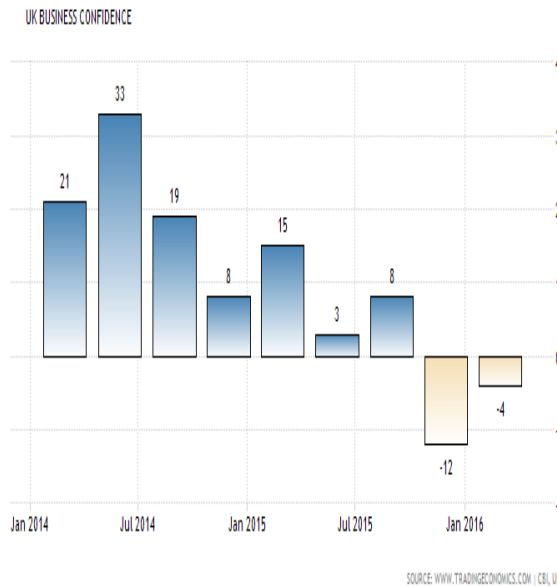
Decline in retail spending

UK Y-o-Y Monthly Retail Sales Progression
Apr 2015 – Mar 2016



Falling business confidence

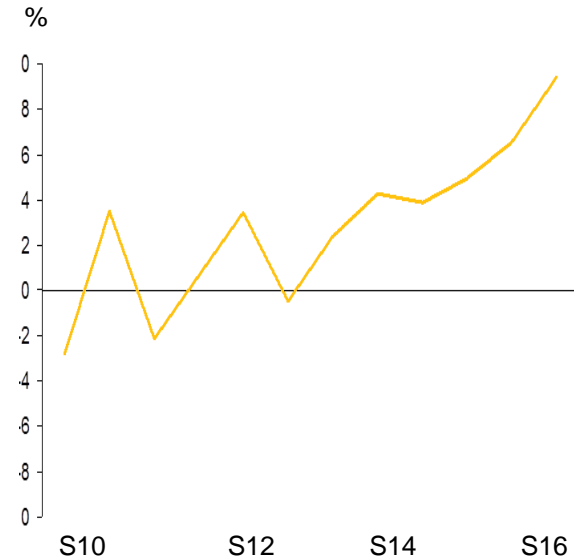
UK Business Confidence
Jan 2014 – April 2016



Acceleration in industry seat capacity growth

Intra Europe % Year-on-year Seat Capacity Growth 2010-2016

Source: OAG



Plus ongoing fear of terrorist attacks



	Mar-16	Mar-15	Movements
Embraer 118-seat E195 regional jet	9	10	(1)
Embraer 88-seat E175 regional jet	11	11	-
Bombardier 78-seat Q400 turboprop	50	45	5
ATR72-600 turboprop	4	-	4
Group fleet under management	74	66	8
Held on operating lease	57	52	5
Owned and debt financed	17	14	3
Group fleet under management	74	66	8
Total seats in fleet	6,210	5,658	
Average seats per aircraft	83.9	85.7	
Average age of fleet (years)	7.4	7.0	

Aircraft transactions moderate fleet growth near term and improve proportion of fleet owned to over 40%



Flybe UK Fleet Growth Pre and Post Transactions 2015-2021

	Pre-aircraft transactions				Post-aircraft transactions				Change
	E195	E175	Q400	Total	E195	E175	Q400	Total	
2015/16	9	11	50	70	9	11	50	70	-
2016/17	9	11	64	84	9	11	60	80	(4)
2017/18	9	14	69	92	9	11	60	80	(12)
2018/19	6	15	69	90	6	14	60	80	(10)
2019/20	1	15	69	85	1	15	60	76	(9)
2020/21	-	15	69	84	-	15	60	75	(9)

% Flybe UK Fleet owned Pre and Post Transactions 2015-2021

% owned	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Pre-aircraft transactions	24%	20%	22%	23%	25%	25%
Post-aircraft transactions	24%	34%	34%	38%	41%	41%

Assumptions:

- The table assumes that Q400 lease expiries are extended
- A 12 month delay has been negotiated on the four contracted future E175 deliveries, which will be purchased rather than leased
- E195 lease expiries are not extended
- Data excludes ATR fleet in Sweden operated for SAS

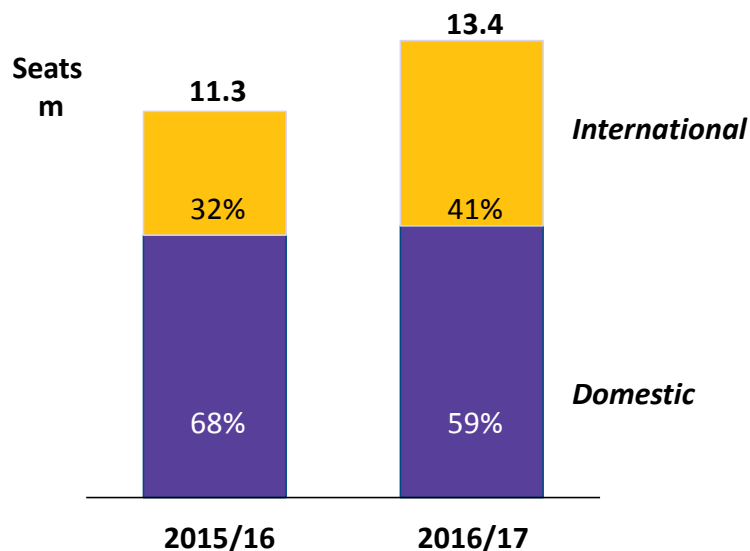


	March 2016	March 2015	YOY change
	£m	£m	£m
Aircraft	192.3	166.4	25.9
Other property, plant and equipment	21.4	22.7	(1.3)
Net funds	62.2	76.7	(14.5)
Derivative financial instruments	(9.9)	(7.2)	(2.7)
Other working capital	(123.5)	(115.6)	(7.9)
Deferred tax	11.3	8.5	2.8
Other non-current assets and liabilities	0.4	(11.5)	11.9
Net assets and shareholders' funds	154.2	140.0	14.2

— Flybe is cautiously building its density in mainland Europe

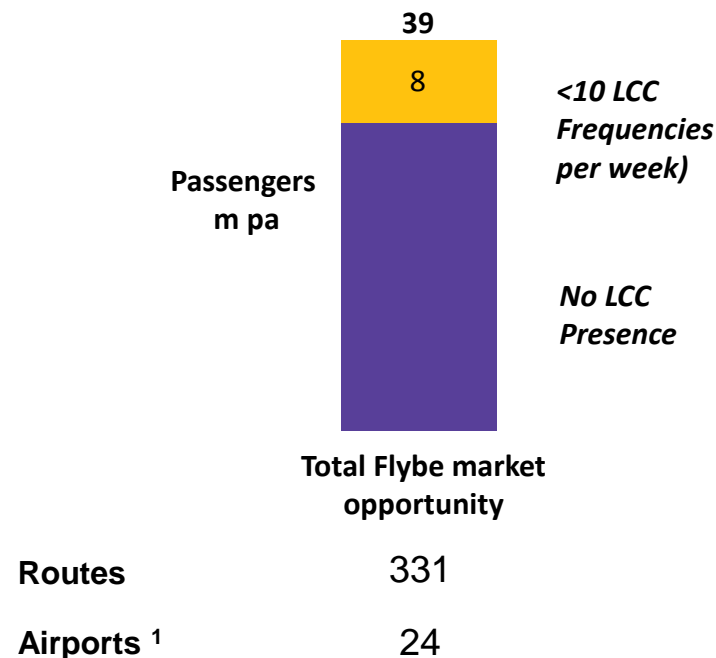
UK-Europe capacity share up 9 pts in FY17

Flybe's Seat Capacity FY16 and FY17



The intra-European opportunity for regional travel is significant longer term

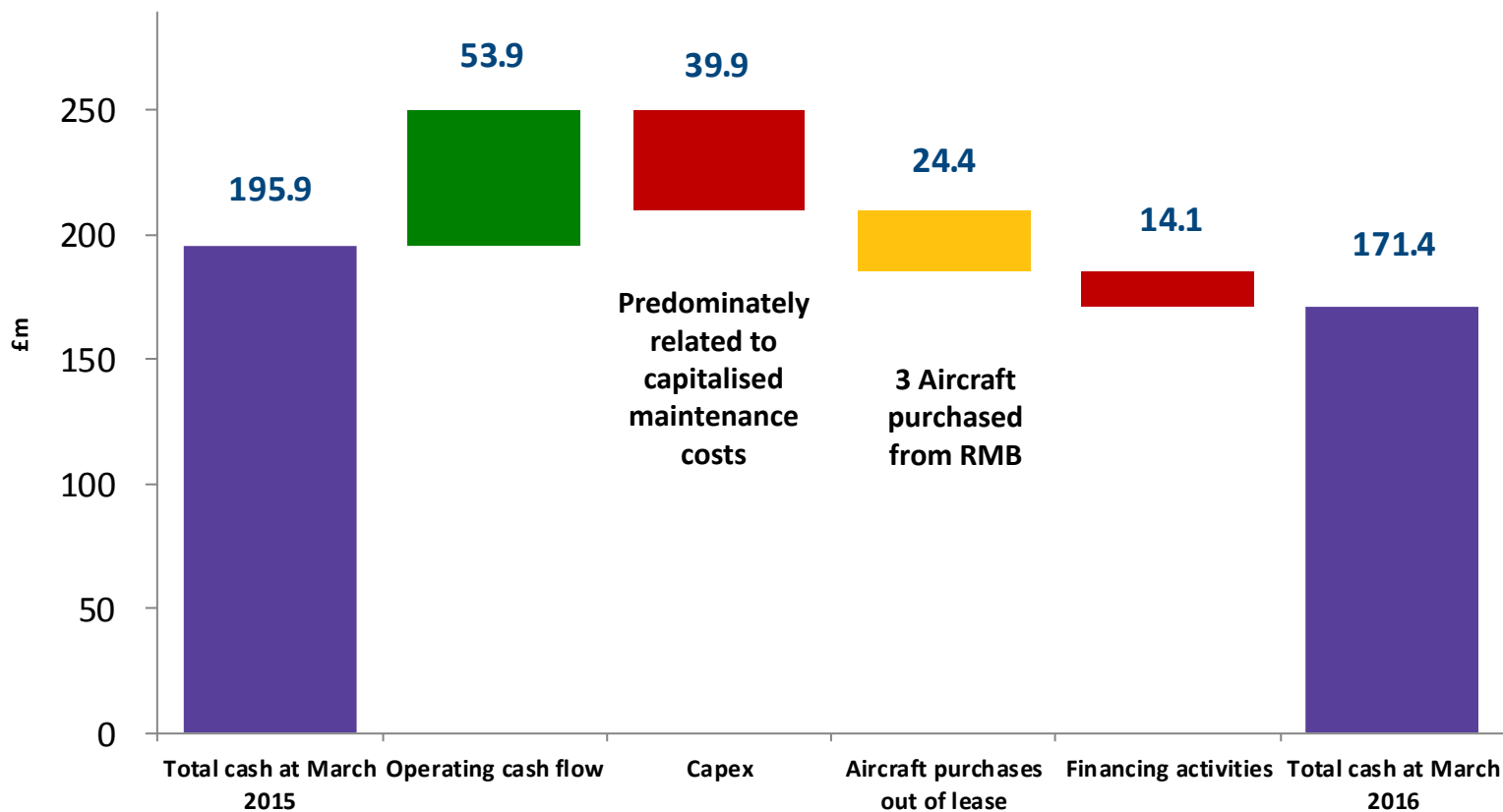
Annual Passengers on short, thin intra-European routes with minimal LCC presence (2015)



¹ with >300k passengers on international routes <400miles with minimal LCC presence



Group Cash Flow Bridge 2014/15 to 2015/16



• Total cash includes restricted cash of £7.8m