“Positive momentum continues”

2014/15 Interim results

Analyst and Investor Presentation
12 November 2014

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Agenda

Welcome – Saad Hammad

Financial review – Philip de Klerk

Business update – Saad Hammad

Q&A

Key headlines

- **Strong core UK business**
  - Unit revenue growth
  - Record load factor
  - Cost base realignment complete by the end of the financial year
  - Significantly improved underlying profit
  - Flight delay provision in place (EU 261 claims following Supreme Court decisions)
  - Cash generative, after a 51.2% reduction in restricted cash
- **Tackling legacy issues**
  - Embraer/Republic deal
  - Flybe Finland
  - Project Blackbird (grounded aircraft solution)
- **Building a pipeline for future growth**
  - Measured capacity growth driven by Route Assessment Model
  - New bases, routes, partnerships and codeshares

FINANCIAL REVIEW

Group financial highlights

- **Revenue**
  - Group revenue reduced by 12.3% to £307.8m
  - Flybe UK passenger revenue per seat up 8.7% to £54.75 as load factor reached 77.2%, up 8.6ppts, driven by planned passenger yield reduction by 3.4% to £70.89 and improved commercial execution with a planned 16.4% capacity reduction
- **Costs**
  - Adjusted for restructuring and surplus capacity costs, Group operating costs of £303.9m, a reduction of 10.2%
- **Profit measures**
  - Adjusted EBITDAR[1] down 43.2% to £34.8m after surplus capacity costs (£14.5m) (H1 2013/14: £0.8m), Finland JV write down (£9.9m) & flight delay claims provision (£6.0m)
  - Adjusted PBT[2] down 87.7% to £1.5m
  - £15.3m loss before tax
- **Cash flow**
  - £6.5m net cash inflow from operating activities after restructuring (H1 2013/14: outflow £9.9m)

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

Group financial highlights

- **Flight delay provision for claims under EU261**
  - £6.0m provision included in the first half year
  - Contingent liability
  - Up to £3m annual cost going forward
- **Flybe Finland**
  - Investment fully impaired, resulting in a net £9.9m (non-cash) charge in the period
- **Project Blackbird**
  - Grounded aircraft cost in H1 was £14.5m
  - The maximum exposure this year is c£26m

Group results

	H1 2014/15 £m	H1 2013/14 £m	*YOY change £m*
Operating results:			
Flybe UK	13.7	11.7	*2.0*
Flybe Finland	(11.9)	0.0	*(11.9)*
MRO	1.5	2.2	*(0.7)*
Operating result before restructuring and surplus capacity	**3.3**	**13.9**	***(10.6)***
Group costs	(1.8)	(1.7)	*(0.1)*
Profit before tax, restructuring and surplus capacity	**1.5**	**12.2**	***(10.7)***
Revaluation (losses)/gains on USD loans	(2.3)	5.7	*(8.0)*
Restructuring and surplus capacity costs	(14.5)	(4.1)	*(10.4)*
(Loss)/profit before tax - reported	**(15.3)**	**13.8**	***(29.1)***
Tax charge	(0.1)	(0.2)	*0.1*
(Loss)/profit after tax	**(15.4)**	**13.6**	***(29.0)***

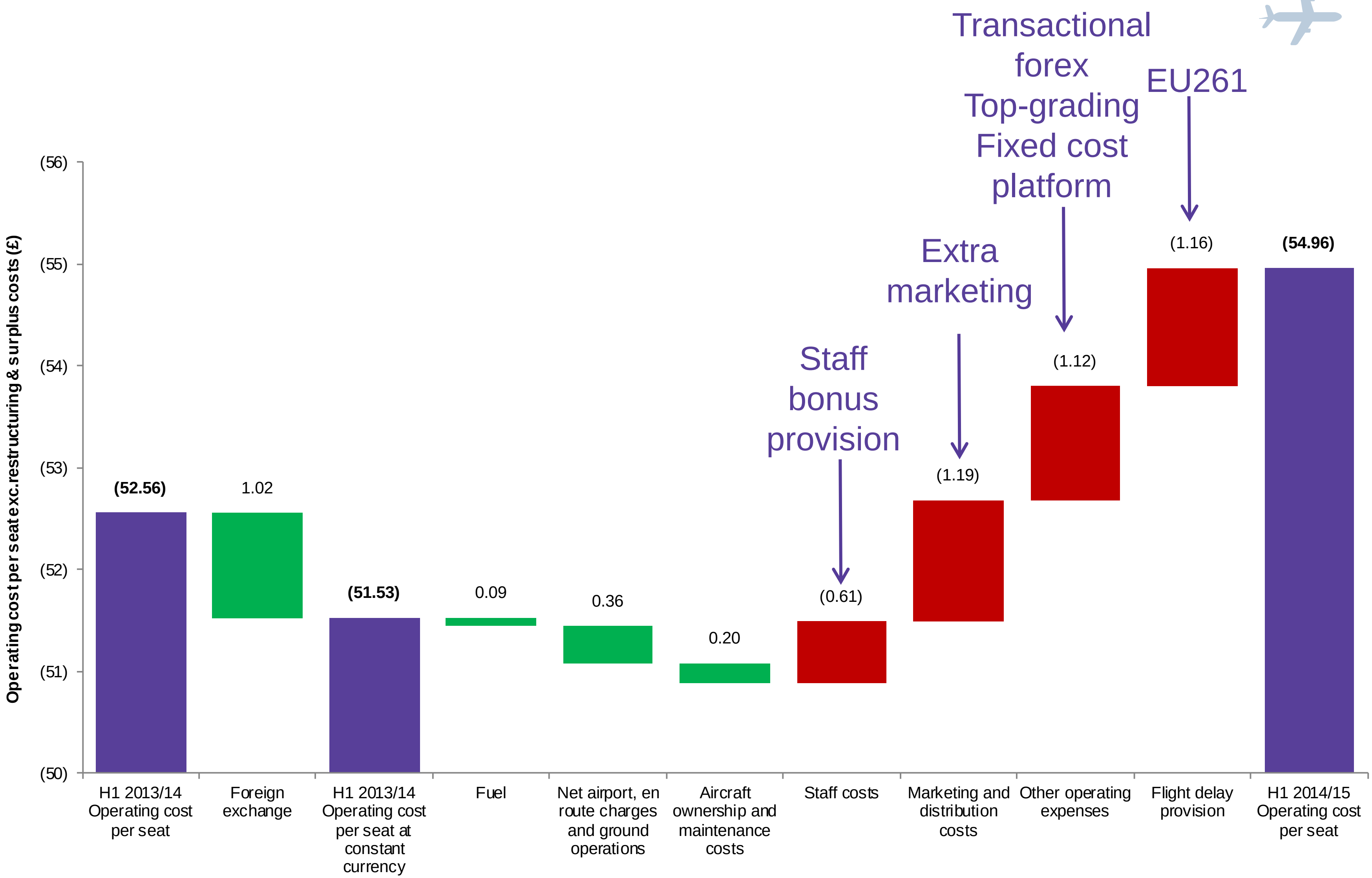
Adjusted EBITDAR	34.8	61.3	*(26.5)*

(Loss)/earnings per share (basic), pence	(7.1)	18.1	*(25.2)*

Flybe UK - revenue

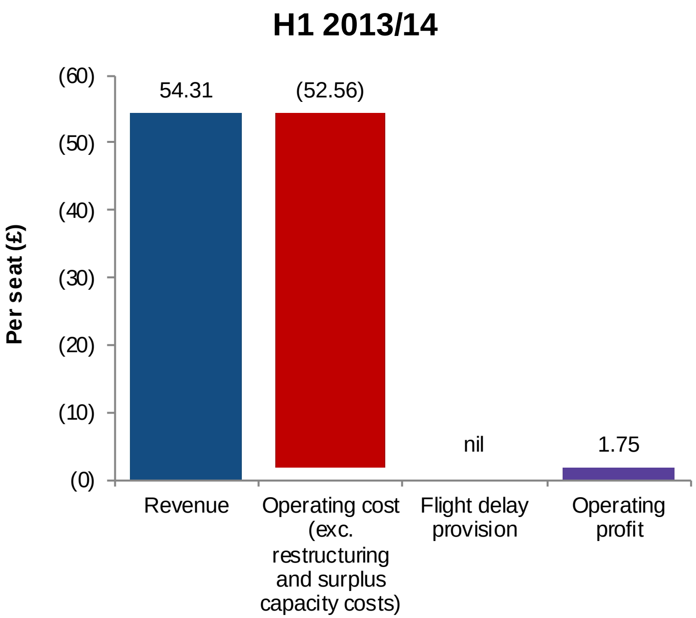
	H1 2014/15	H1 2013/14	*YOY change*
Operational headlines			
Passengers (m)	4.0	4.3	*(5.9)%*
Load factor (%)	77.2%	68.6%	*8.6 pts*
Seats (m)	5.2	6.2	*(16.4)%*
Sector length (km)	492	468	*5.2%*
Revenue			
Passenger revenue (£m)	283.9	312.3	*(9.1)%*
Passenger yield (£)	*70.89*	*73.36*	*(3.4)%*
Contract flying revenue (£m)	7.3	8.2	*(11.0)%*
Other revenue (£m)	6.3	16.4	*(61.6)%*
Total revenue (£m)	**297.5**	**336.9**	***(11.7)%***
Passenger revenue per seat (£)	*54.75*	*50.35*	*8.7%*

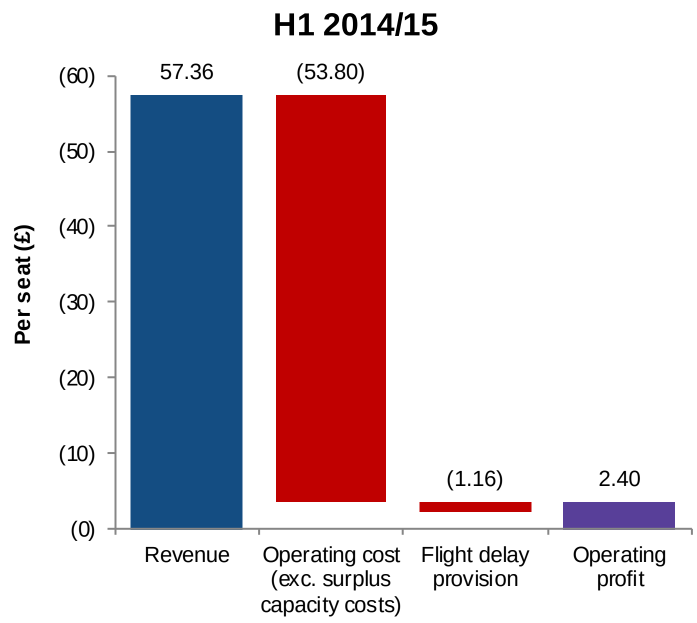
Flybe UK – costs per seat



Flybe UK – profit per seat

Flybe UK operating profit per seat
(exc. restructuring and surplus capacity costs)





Profit per seat increased 37.1% from £1.75 to £2.40 after flight delay provision of £1.16 per seat

Flybe UK - results

	H1 2014/15 £m	H1 2013/14 £m	*YOY change £m*
Revenue	297.5	336.9	*(39.4)*
Fuel	(55.5)	(69.4)	*13.9*
Operating costs excl. fuel, finance & ownership	(180.9)	(206.9)	*26.0*
Underlying EBITDAR	**61.1**	**60.6**	***0.5***
Margin	*20.5%*	*18.0%*	*2.6 ppt*
Finance and ownership	(47.4)	(48.9)	*1.5*
Underlying profit before tax	**13.7**	**11.7**	***2.0***
Margin	*4.6%*	*3.5%*	*1.1 ppt*
Revaluation (losses)/gains on USD loans	(2.3)	5.7	*(8.0)*
Restructuring and surplus capacity costs	(14.5)	(4.1)	*(10.4)*
(Loss)/profit before tax	**(3.1)**	**13.3**	***(16.4)***

Flybe UK - Impact of fuel and hedging positions

	H1 2014/15	H1 2013/14	Change
Jet fuel, $ / metric tonne			
Market rate	$959	$964	$(5)
Effective price	$959	$975	$(17)

Current hedge portfolio:
- *H2 2014/15 – 90% hedged at $950 per tonne*
- *H1 2015/16 – 81% hedged at $936 per tonne*
- *H2 2015/16 – 66% hedged at $912 per tonne*

	H1 2014/15	H1 2013/14	Change
GBP:USD rate			
Market rate	$1.62	$1.62	$0.00
Effective price	$1.59	$1.53	$0.06

Current hedge portfolio:
- *H2 2014/15 – 79% hedged at $1.64*
- *H1 2015/16 – 68% hedged at $1.66*
- *H2 2015/16 – 25% hedged at $1.62*

	H1 2014/15	H1 2013/14	Change
Actual cost of fuel, £ / metric tonne	**604**	**638**	**(34)**

Note: Euro - small net exposure of <€20m, no formal hedging

Flybe Finland

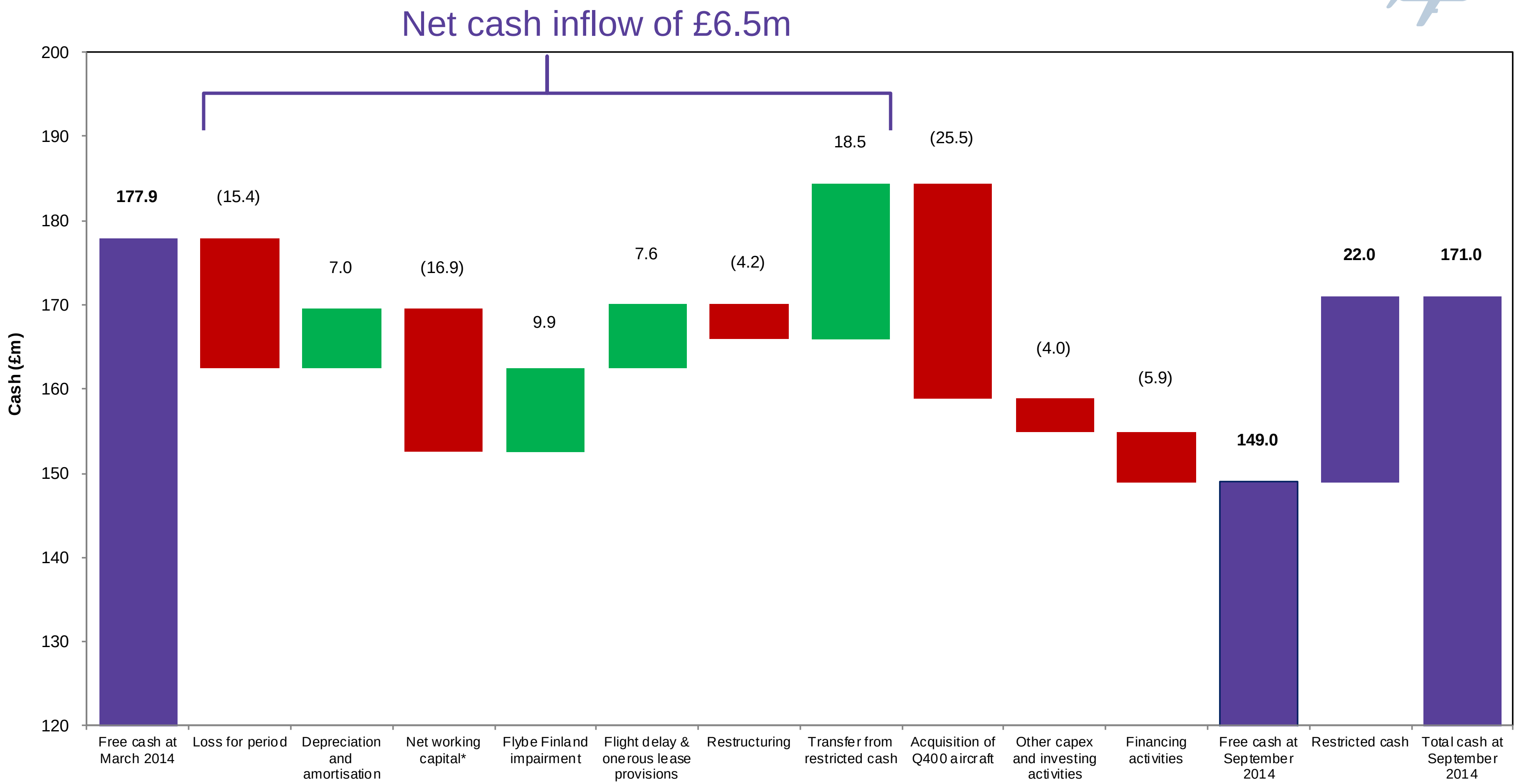
	H1 2014/15 £m	H1 2013/14 £m	*YOY change £m*
Contract flying	105.4	110.6	*(5.2)*
Passenger revenue	10.1	13.5	*(3.4)*
Other revenue	1.7	2.1	*(0.4)*
Total revenue	**117.2**	**126.2**	***(9.0)***
Fuel	(29.2)	(32.3)	*3.1*
Operating costs excluding fuel and aircraft ownership costs	(73.7)	(72.8)	*(0.9)*
EBITDAR [(1)]	**14.3**	**21.1**	***(6.8)***
Margin	*12.2%*	*16.7%*	*(4.5) ppt*
Finance and ownership	(18.8)	(20.7)	*1.9*
Profit/(loss) before tax			
White label	1.7	3.5	*(1.8)*
Scheduled flying	(6.2)	(3.1)	*(3.1)*
Total	**(4.5)**	**0.4**	***(4.9)***
Margin	*(3.8)%*	*0.3%*	*(4.2) ppt*
Tax credit/(charge)	0.8	(0.1)	*0.9*
(Loss)/profit after tax	**(3.7)**	**0.3**	***(4.0)***

Flybe Group - 60% share of (loss)/profit after tax	**(2.2)**	**0.2**	***(2.4)***
Other net costs including interest	0.2	(0.2)	*0.4*
Net impairment of assets	(9.9)	-	*(9.9)*
Flybe Finland result	**(11.9)**	**-**	*(11.9)*

Maintenance, Repair and Overhaul (MRO)

	H1 2014/15 £m	H1 2013/14 £m	*Change* *£m*
Revenue	19.3	20.5	*(1.2)*
Operating costs	(17.8)	(18.3)	*0.5*
Profit before tax	**1.5**	**2.2**	***(0.7)***

Group cash flow



* Net working capital is before Flybe Finland impairment, passenger compensation & onerous lease provisions and restructuring costs

Acquisition of five LCY aircraft (£25.5m)
Cash inflow of operating activities after restructuring £6.5m

BUSINESS UPDATE

Introduction

- Our Journey
- How Flybe creates value
- H1 update
- Progress vs. fund raise objectives
- H2 outlook

Our Journey

Chapter 1: Turnaround

Chapter 2: Strengthen balance sheet

Chapter 3: Rebirth of core business, while tackling legacy issues

Chapter 4: Profitable growth

Focus on our compelling USP for the regional customer

Time saving access to the world delivered through the Purple Way

How Flybe is creating value

WHAT WE DO

- **Branded airline in UK and white label regional services in Europe**
- **Flying thin regional routes, unservable by mainstream airlines with larger aircraft and seat capacity**
- **Connecting regional customers**
- **Faster than road and rail, which are the principal alternatives**
- **Translates into time-saving access to the world from the regions**

HOW WE DO IT

- **Purple people**
- **Safe operations**
- **Right aircraft on right routes**
  - Predominantly turboprops
  - Route Assessment Model
- **Neighbourhood airports, often with short runways**
- **High frequency schedule establishes local preference**
- **High punctuality, good service**
- **Codeshares to maximise access to outside world**
- **Competitive costs = competitive pricing vs. alternatives**
- **Best in class white label solution delivery**

VALUE CREATION

- **The Four Disciplines:**
  - Capital allocation
  - Revenue/customer
  - Cost
  - Organisation

↓

- **Margin expansion**
- **Improved asset turn**
- **Network development**

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Improved cash and shareholder returns

H1 update

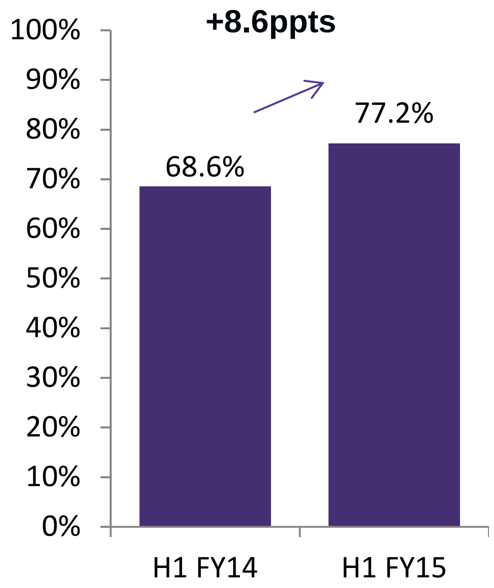
Progress

- **Core UK Business**
  - Unit revenue growth
  - Complete cost restructuring
  - Review non-airline assets
- **Tackle legacy issues**
  - Firm order for 24 E175 aircraft
  - Flybe Finland
  - Grounded aircraft
- **Build pipeline for future growth**
  - Deliver brand re-launch
  - New bases and new routes
  - Develop partnerships
  - Develop white label business

Strong core UK business: Unit revenue growth

Strong load factor performance

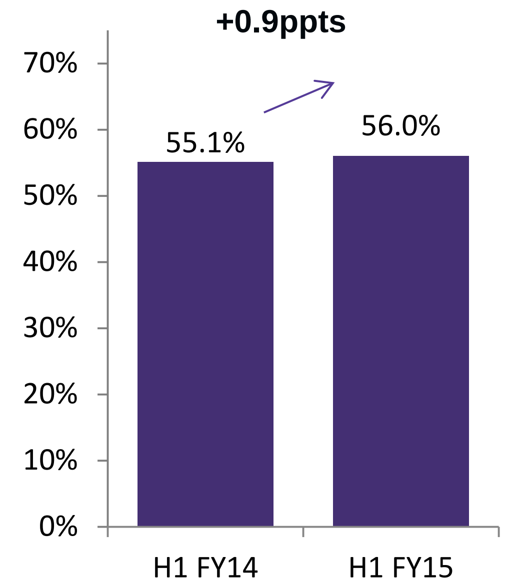
Flybe load factor H1 FY15 vs. H1 FY14



Yield reduction	**(3.4)%**
Passenger revenue per seat growth	**+8.7%**

Sustained leadership in UK regional travel

Airline share of passengers in Regional Domestic sector H1 FY15 vs. H1 FY14

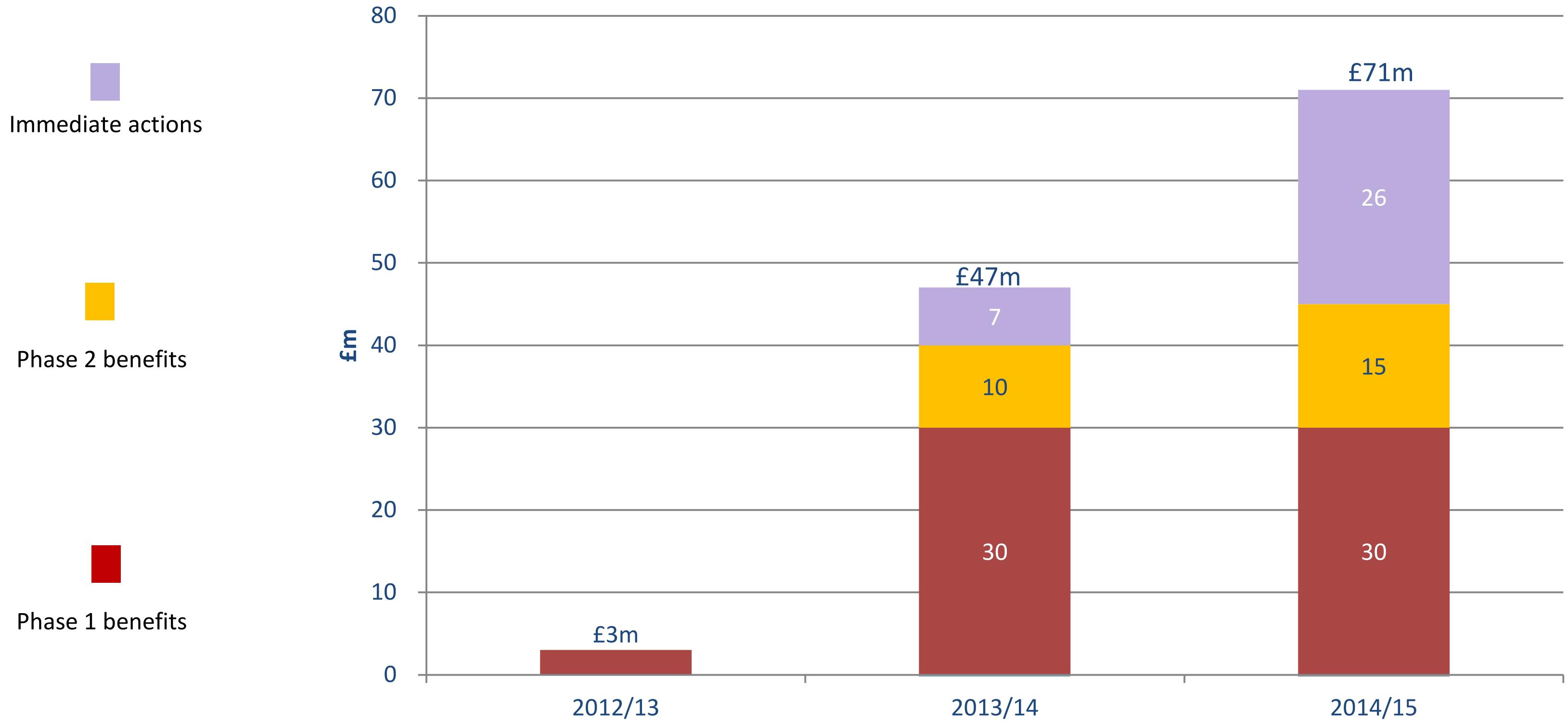


Source: CAA

Seat Capacity Change	**(16.4)%**
Excluding LGW	**(4.7)%**

Strong core UK business: Cost savings on track

- **Cost savings of £47m delivered in FY14**
- **On track with £24m expected in FY15 as previously announced**



Good progress on headcount, procurement and other cost saving initiatives

Legacy issues: Fleet realignment and upgrade

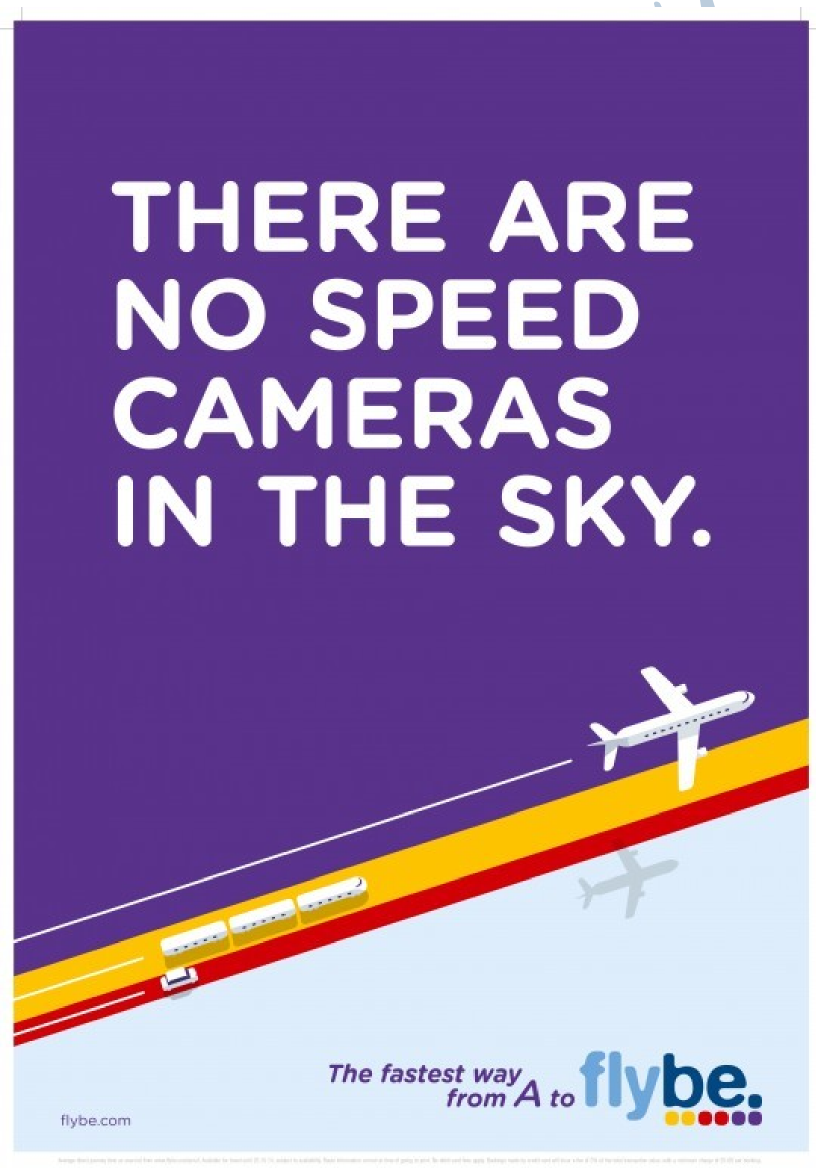
- **Embraer/Republic deal**
  - Removed $750m of future liabilities with Embraer
  - 24 Republic Q400: phased deliveries through December 2017
- **Bombardier funded Q400 modification programme**
  - Transforming our Q400 fleet into one of the most operationally efficient regional fleets in the world
- **Project Blackbird**
  - Flybe project specifically relating to the remaining nine E195s
  - Active dialogue continues with a number of airlines concerning individual aircraft and package transactions
  - Exit timing and costs will be dependent on the terms of each specific transaction

Legacy issues: Flybe Finland exit

- **Unacceptable and deteriorating losses**
- **Core issue is scheduled flying (white label is profitable)**
- **Decisive action taken with disposal to Finnair for €1 with no residual liabilities**
- **Transitional services agreement in place for 6 months post closing**
- **Codeshare with Finnair continues**

Pipeline to growth: Brand re-launch

- **“Purple-isation” ongoing**
- **Aircraft livery and staff uniform**
- **On-board look and feel**
- **Website**
- **Advertising**



Pipeline to growth: New routes and bases

- **New routes**
  - 11 new Summer routes performed ahead of Route Assessment Model projections
  - Additional 23 routes planned for Winter, including seven at London City
  - Flybe Shuttle launched: Aberdeen-Leeds-Southampton-Jersey

- **New bases**
  - Virtual new base at London City launched 27 October 2014
  - Aberdeen and Bournemouth launching in March 2015
  - We intend to launch one new base annually thereafter

Pipeline to growth: New partnerships

- **Codeshares**: Finnair, Aer Lingus

- **New partnerships:**
  - Airbus
  - Avios
  - Booking.com
  - Club Workspace
  - Parking
  - Paypal
  - STA
  - Stobart Air

Pipeline to growth: White Label development

- **Engagement programme with mainstream flag carriers**
- **A number of active discussions ongoing**
- **Letter of Intent signed with major European carrier**

We are on track with our fund raise objectives

		Progress	FY15 programme
Strength (£68m)	Working capital to strengthen the balance sheet	Well on track (green)	• FY15 H1 free cash of £149.0m • 51.2% reduction in restricted cash to £22.0m
Profitable Growth (£82m)	Branded scheduled commercial expansion	Well on track (green)	• New summer routes performed well • London City operations started 27 October 2014 • Significant number of new commercial partnerships
	White label flying expansion	Work in progress (yellow)	• Some mitigation of grounded aircraft costs through summer contracts with Aurigny and Helvetic • Number of proposals submitted for long-term white label solutions, LOI signed with European airline
	Reduce fleet ownership costs	Work in progress (yellow)	• Acquired five aircraft for London City use • Embraer/Republic deal completed • Project Blackbird
	Improve productivity	Work in progress (yellow)	• Commercial and operational projects under way • Electronic Flight Bag already delivered
	Enhance service to customers	Well on track (green)	• Brand re-launch in April 2014 • Two new codeshares launched

Well on track *Work in progress* *Behind schedule*

H2 outlook

- We enter the winter season with appropriate mix of caution and optimism
- Return to growth with moderate planned capacity increase
- Tackling remaining legacy issue decisively
- Structural attractions of regional airline sector remain compelling

Summary - Key headlines

- **Strong core UK business**
  - Unit revenue growth
  - Record load factor
  - Cost base realignment complete by the end of the financial year
  - Significantly improved underlying profit
  - Flight delay provision in place (EU 261 claims following Supreme Court decisions)
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Q&A

APPENDIX

Business update – Four Disciplines

Flybe's Four Disciplines

Capacity Discipline	Revenue Discipline	Cost Discipline	Organisation Discipline
• Right aircraft on right routes • Improved aircraft utilisation • Targeted growth	• Relentless customer focus • Route assessment model • On-time performance • Selective white label development	• Delivery on cost projects • Unit cost performance • Optimise productivity	• Purple safety • Right people in right roles • The Purple Way • Make Flybe a great place to work

Business update – H1 progress under the Four Disciplines

- **Capacity discipline – the right aircraft on the right routes in the right numbers**
  - Reduced capacity: 10 grounded E195s in UK, two ATRs in Finland returned to lessors
  - Embraer/Republic deal: removed order for 20 E175s and leased 24 attractively priced Q400s
- **Revenue discipline – growing Flybe UK passenger revenue per seat through higher load factors and robust route selection; selective European white label development**
  - 8.7% passenger revenue growth
  - Solid network development
  - New partnerships
- **Cost discipline – driving efficiency by reducing costs**
  - 12.6% reduction in Flybe UK operating costs (adjusted for surplus capacity)
  - £24m planned cost savings on track FY15, taking cumulative annualised savings to £71m
  - Solutions for E195 actively pursued
- **Organisational discipline – driving efficiency by employee engagement and operational excellence**
  - Purple Way, Flybe loves service, strengthening management
  - Two-year productivity-based pay programme

Financial calendar

- Capital Markets Day – 28 November 2014
- FY15 Q3 IMS – 30 January 2015
- FY15 results – 10 June 2015
- AGM – 27 July 2015

Group revenues and profits

	H1 2014/15 £m	H1 2013/14 £m	Change
Revenues			
Flybe UK	297.5	336.9	(11.7)%
Flybe Finland	117.2	126.2	(7.1)%
MRO	19.3	20.5	(5.9)%
Inter-segment sales	(9.0)	(6.3)	(42.9)%
Revenue under management	**425.0**	**477.3**	(11.0)%
Less: revenue from Flybe Finland joint venture	(117.2)	(126.2)	(7.1)%
Group revenue	**307.8**	**351.1**	(12.3)%

Adjusted profit/(loss) before tax

Flybe UK	13.7	11.7
Flybe Finland	(11.9)	0.0
MRO	1.5	2.2
Group costs	(1.8)	(1.7)
Group	**1.5**	**12.2**

Group balance sheet

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

Group – Fleet under management

	September 2014	March 2014	Movements
Flybe UK			
Embraer 118-seat E195 regional jet	14	14	-
Embraer 88-seat E175 regional jet	11	11	-
Bombardier 78-seat Q400 turboprop	45	45	-
	70	**70**	-
Flybe Finland			
ATR 48-seat ATR42 turboprop	-	2	(2)
ATR 68- and 72-seat ATR72 turboprop	12	12	-
Embraer 76-seat E170 regional jet	2	2	-
Embraer 100-seat E190 regional jet	12	12	-
	26	**28**	(2)
Group fleet under management	**96**	**98**	(2)

Held on operating lease	82	89	(7)
Owned and debt financed	14	9	5
Group fleet under management	**96**	**98**	(2)

Total seats in fleet	8,314	8,410
Average seats per aircraft	86.6	85.8
Average age of fleet (years)	6.3	5.9

THANK YOU