



Flybe Group plc  
Annual Report and Accounts 2017/18



**flybe**  
Close to you

# Close to you.

We fly from more UK airports than any other airline, so a Flybe flight is never far away.

We're passionate about connecting regional communities and our aim is to work tirelessly to be the airline of choice for our customers.



## Investor relations website

[www.flybe.com/investors](http://www.flybe.com/investors)  
see our investor relations home page for the latest results, presentations and webcasts.

The directors present the Annual Report and Accounts for the year ended 31<sup>st</sup> March 2018. References to 'Flybe', the 'Group', the 'Company', 'we' or 'our' are to Flybe Group plc (registered number 01373432) and its subsidiary companies, where appropriate. The Strategic Report contains statements that are forward looking. These statements are made by the directors in good faith based on the information available to them up to the time of approval of this report. Such statements should be treated with caution due to the inherent uncertainties and risks associated with forward looking information.

## Strategic report

- 01 Highlights 2017/18
- 02 Our strategy in action
- 12 Chairman's statement
- 14 Chief Executive Officer's statement
- 18 Our business model
- 20 Market overview
- 22 Strategy
- 24 Key performance indicators
- 26 Business review
- 28 Financial review
- 40 Principal risks and uncertainties
- 46 Corporate responsibility

## Corporate governance

- 55 Chairman's statement on corporate governance
- 56 Board of Directors
- 58 Executive Committee
- 60 Directors' report
- 63 Corporate governance
- 68 Safety and Security Committee report
- 69 Nomination Committee report
- 70 Audit Committee report
- 76 Directors' remuneration report
- 92 Statement of directors' responsibilities
- 93 Independent auditor's report to the members of Flybe Group plc

## Financial statements

- 103 Consolidated income statement
- 104 Consolidated statement of comprehensive income
- 104 Consolidated statement of changes in equity
- 105 Consolidated balance sheet
- 106 Consolidated cash flow statement
- 107 Notes to the consolidated financial statements
- 140 Company balance sheet
- 141 Company statement of changes in equity
- 141 Company cash flow statement
- 142 Notes to the Company financial statements
- 144 Five-year summary

## Other information

- 145 Glossary

# Highlights 2017/18

Strategic report

Governance

Financial statements

Other information

## ► Operational highlights

- The fleet reduction programme commenced with five aircraft being returned to lessors by year end.
- Investment in fleet reliability resulted in an increase in technical despatch reliability to 99.1%.
- Beginning of the transformation of Flybe's digital platform to improve the customer journey.
- Flybe's SBIP strategy was refined to focus on five strategic objectives for 2018/19 with a culture of safety underlying everything we do.
- Flybe launched a new brand strap line, 'Close to you'.
- Expansion of the Flybe network through a franchise agreement with Eastern Airways.

## ► Financial highlights

Passenger revenue per seat<sup>1</sup>

**£53.79**

2016/17: £48.84

Reported loss before tax

**£(9.4)m**

2016/17 (restated)<sup>4</sup>: £(48.5)m

Cost per seat (including fuel)<sup>2</sup>

**£59.69**

2016/17: £55.99

Net debt<sup>5</sup>

**£(59.1)m**

2016/17: £(64.0)m

On-time performance<sup>3</sup>

**79.5%**

2016/17: 81.6%

EBITDAR<sup>6</sup>

**£140.0m**

2016/17: £134.2m

1 Passenger revenue per seat is defined as passenger revenue generated divided by seat capacity.

2 Cost per seat is defined as the total operating costs divided by seat capacity.

3 On-time performance is defined as percentage of aircraft which depart within 15 minutes of the scheduled departure time.

4 2016/17 has been restated to be a loss before tax of £48.5m following the prior period adjustment for the non-cash £195 onerous lease provision and impairment of related assets (2016/17: previously published loss before tax of £19.9m).

5 Net debt is defined as total cash less borrowings.

6 EBITDAR is defined as operating loss after adding back depreciation, amortisation, impairment and aircraft rental charges.

# Flybe is uniquely positioned at the heart of regional travel...

---

Scheduled routes\*

**187**

---

Departure points in  
the UK and Europe\*

**65**

---

Countries served\*

**11**

\*For year ended 31<sup>st</sup> March 2018.

“We've built a network at Flybe that allows our customers to easily, quickly and affordably access air services from their local airports.”

Christine Ourmières-Widener  
Chief Executive Officer

► Providing regional connectivity across Europe



Being passionate about connecting regional communities is core to Flybe. Our range of routes and connection points is unique amongst European airlines. We provide air services between regional locations as well as to and from major hub airports. This allows people living in the regional areas to travel more efficiently and faster to their final destinations whether in Europe or further afield using the long-haul connections offered by our codeshare partners.

# ...bringing people and businesses closer...

Passengers in 2017/18

**9.5 million**

Aircraft at 31<sup>st</sup> March 2018

**80**

## ➤ Better choice, more frequency

With an extensive network of routes and flights, our services are used by both business and leisure passengers. The key is to provide services at convenient times throughout the day and at a price that works for our customers.

By serving local and regional airports we can bring our passengers closer to their homes, their loved ones and the businesses that they work with.



This saves them time and money compared to ending or starting their journey at a major hub airport and then having to take long surface transport connections to their final destinations.

**"We constantly look for ways to improve our route network and flight frequencies to offer our customers more choice and convenience."**

**Roy Kinnear**  
Chief Commercial Officer



...to family,  
friends, clients  
and colleagues...

---

Scheduled routes\*

**174**

---

Scheduled destinations

**63**

\*Summer season 2018.

“Our extensive network of airline partners gives Flybe a wider reach and gives our customers more choice.”

**Vincent Hodder**  
Chief Strategy Officer

#### ➤ Partnering to expand our reach



With 11 codeshare partners we are able to offer a greater reach in addition to our own network. By working with these partners, passengers can seamlessly book connecting flights to a much wider range of locations providing a straightforward service for onward connections such as checking luggage straight through to the final destination.

Our partnerships are an area of the business we are looking to expand and enhance. This will help drive additional revenue while at the same time giving our customers more choice and convenience to connect onto global points.

...quickly, safely  
and efficiently...



---

Load factor increase

**+6.0ppts**

---

Revenue per seat

**+10.1%**

**“Our customers will benefit from Flybe having a world leading digital experience.”**

**Peter Hauptvogel**  
Chief Information Officer

**> Investing in digital technology**



Flybe is investing in a new digital platform, with industry leader Amadeus, that will significantly enhance the digital experience for customers.

The move to overhaul our digital offering supports Flybe's continuing business improvement strategy which includes providing a highly personalised and interactive digital offering before, during and after travel.

Amadeus' mobile solutions will also offer passengers re-accommodation options during times of disruption, directly within Flybe's mobile app.

**> Optimising our fleet**



Flybe has concluded that the Bombardier Q400 is the best core aircraft for our current and future needs and will remain the backbone of the fleet.

The Q400 is faster than the alternative turboprops, with a performance close to a jet aircraft over the relatively short sectors that Flybe operates. Alongside the Q400, Flybe will continue to operate Embraer E175 jets for longer or busier routes.

With further planned handbacks of all nine Embraer E195 jets, the fleet is well on the way to reducing in size from 85 at its peak in May 2017, to around 70 aircraft in 2020.

...with a culture focused on delivering the best customer experience.

---

Number of employees at 31<sup>st</sup> March 2018

**2,346**

(31<sup>st</sup> March 2017: 2,388)

---

Our punctuality

**79.5%**

of our flights departed within 15 minutes of scheduled departure time in 2017/18

“Our frontline crews are committed to delivering the best possible product and service to our customers.”

Luke Farajallah  
Chief Operating Officer and Accountable Manager

#### ➤ We care about our customers

Our customers are at the heart of our business and we put considerable emphasis on ensuring our cabin crew provide the best possible service.

With an average sector time of less than one hour, on-time performance is a key priority for the Group. It is also an essential element in providing a seamless connection service for our passengers that use Flybe to transfer onto one of our codeshare partner flights.



Our recent investment in a new digital platform will allow our customers to interact better with us before, during and after a flight in a new and innovative way.

# Chairman's statement



**"Flybe is a crucial part of the UK's regional connectivity, which is in turn critical to our country's economic development, even more so post-Brexit."**

**Simon Laffin**  
Non-Executive Chairman

In many ways, this has been a frustrating year for Flybe. Our new Chief Executive Officer ('CEO'), Christine Ourmières-Widener, set out a new strategy for Flybe, the Sustainable Business Improvement Plan ('SBIP'), and has started to implement the plan as well as strengthening the senior executive team around her. We have finally started to bring down the fleet size, freeing ourselves from unwanted legacy aircraft orders, and setting a route network better fitted to customer demand. Yet a number of headwinds, particularly the fall in the value of sterling and investment in the new digital platform, have put our costs up. In addition, our desire to improve the technical reliability of our Bombardier Q400s contributed to an unbudgeted rise in maintenance costs. Our revenue per seat has grown by 10.1% in the year, but this has been offset by a 10.9% growth in cost per seat (when excluding the prior year E195 onerous lease provision and impairment of related assets adjustment cost per seat increased by 6.6%). As a result, we posted a loss before tax of £9.4m in this financial year (2016/17: loss before tax restated from £19.9m to £48.5m due to the non-cash E195 onerous lease provision and impairment of related assets).

The Board's confidence that Flybe is a crucial part of the UK's travel infrastructure and connectivity has never wavered. The improved revenue performance is a big part of the turnaround. We promised that this would improve as we started to reduce the fleet, and this has been achieved. However, addressing the high costs remains a key priority. We enter into hedging contracts to manage the volatility of the price of fuel and the value of sterling. We are looking at all other aspects of our supply chain to identify savings.

During the year, the Board discussed sector consolidation and the opportunities and threats that this might bring. The airline industry is becoming more concentrated in both flag carrier and low-cost airlines. The profitability of long-haul routes, especially transatlantic flying, means that carriers can see the importance of regional airlines to feed their hubs by bringing in long-haul connecting passengers. In the UK, Flybe is the pre-eminent regional connector. We have developed our interlines and codeshares better to tap into long-haul airline hub connectivity.

Our franchise agreements with Eastern Airways, Stobart Air and Blue Islands enable us to leverage our network. The Board looked at different ways to work with Stobart Air, with its contract to feed the Aer Lingus hub in Dublin. Stobart and a financial partner then took the initiative by launching an abortive bid for Flybe. The price offered for the Group was well below the Board's own valuation, as confirmed by our advisers. The Board continues to consider options for Flybe to leverage its regional connectivity.

Flybe has continued to engage with both the UK and Scottish governments to support regional aviation more effectively by providing a level playing field versus international air travel and other modes of transport. The UK government's Air Passenger Duty ('APD') is a major impediment to our business and is levied disproportionately on domestic flights.

A typical domestic flight can be charged up to 19 times the tax per mile of a long-haul one. This is doubled when a domestic flight is taxed twice, as APD is a UK departure tax, whereas a return international flight suffers this charge only once.

Regional aviation is a critical part of this country's infrastructure. Many business trips are not practical by road or rail due to their slowness. Growing tourism in the UK requires fast, reliable regional connectivity. Margins are very tight in regional aviation, for both airports and airlines, as our results amply demonstrate, so raising distortive taxes and penalties does not help either businesses or consumers. The government, for example, says that the proposed new runway at London Heathrow will facilitate more UK domestic routes. These will, however, not materialise until the economics of such routes improve, and the government will have to play its part in this.

### Brexit

Brexit poses many challenges for the industry. We are currently assuming that there will be a deal to ensure that flights can continue between the UK and the continent, and that we remain a full member of the European safety body, EASA, in the interest of maintaining common safety and operating standards. This is essential for both our airline operations and maintenance, repair and overhaul activities, and for our codeshare and White Label arrangements. Brexit has been captured as one of our principal risks and uncertainties – see page 45.

As members of the trade bodies Airlines UK and the European Regions Airline Association, we are actively lobbying the UK government on Brexit. The recent announcement of an agreement in principle on a transition period until 2020 gives some welcome breathing space to the UK and EU negotiating teams and we wait to see what final deal for aviation can be struck in the available time.

### Board

Philip de Klerk left the Board in September 2017 and has been replaced by Ian Milne as Chief Financial Officer ('CFO'). Ian has been a great addition to the Board and his forensic skills have been applied to the detail of our business with great effect. David Kappler has announced an intention to retire at the Annual General Meeting ('AGM') and I would like to thank him for his great service and attention to both the Board and in leading the Audit Committee. I'm delighted that Heather Lawrence joined the Board in May 2018, and she will bring the benefit of long experience of the aviation sector and the City.

### Results

Group revenue grew by 6.4% this year to £752.6m (2016/17: £707.4m) and due to the demand-led focus of the network team, passenger numbers have increased by 7.7% to 9.5 million (2016/17: 8.8 million). Fleet peaked at 85 aircraft in May 2017; however, since this point the fleet reduction programme commenced with five aircraft being returned to lessors by year end. Market conditions continue to be difficult which has subsequently contributed to an adjusted loss before tax and USD loan revaluation of £20.5m<sup>1</sup> (2016/17: restated from £6.7m to £35.3m following the prior period adjustment for the non-cash E195 onerous lease provision and impairment of related assets). The Group's reported loss before tax was £9.4m (2016/17: restated from £19.9m to £48.5m as a result of the prior period adjustment).

We finished the year with lower net debt of £59.1m but also lower total cash (including restricted cash) of £95.0m (2017: net debt £64.0m and total cash of £124.3m). See the Financial Review on page 35 for further information on the balance sheet position.

### General outlook

The Board wishes to create the best European regional airline, with an earnings stream that is resilient to consumer downturns and delivers value to our shareholders.

The general economic conditions remain difficult. We are, as ever, exposed to exogenous events that can disrupt regional air travel. With new leadership and impetus, we shall continue to drive costs lower and improve the profitability of our network.

Flybe plays a vital role in UK regional connectivity. The Board believes that our new leadership and differentiated competitive positioning, combined with a more customer-focused culture and control over our own fleet size, will deliver continued progress and position us well to drive sustainable profitable growth in the future.

### Simon Laffin

Non-Executive Chairman

18<sup>th</sup> June 2018

<sup>1</sup> Adjusted loss before tax and USD loan revaluations is calculated as reported loss before tax of £9.4m excluding USD loan revaluation gains of £11.1m (2016/17: restated loss before tax of £48.5m excluding USD loan revaluation losses of £13.2m).

# Chief Executive Officer's statement



"The role Flybe plays in regional connectivity has never been clearer. I am just as excited now as when I joined about the prospects for Flybe. Our strong commercial performance, fleet plans and cost actions will enable us to make the most of these opportunities."

**Christine Ourmières-Widener**  
Chief Executive Officer

## Overview

Flybe has made significant progress in my first full year as CEO. At the beginning of 2017/18 we embarked on our Sustainable Business Improvement Plan ('SBIP') and have seen significant improvements in a number of key areas. I am particularly pleased with our network decision-making, revenue management and commercial performance. The steps we have taken to improve our technology and the initial progress in our engagement with our employees have been instrumental within the SBIP in the 2017/18 financial year.

I also recognise that some changes we need to make will take longer to deliver. Improvements in both our operational performance and building a sustainable cost base will see greater progress in the coming year.

Our financial performance for the year was below our original expectations largely due to the higher maintenance costs involved in improving our Bombardier Q400 aircraft reliability to offset increasing disruption costs. In addition, we were hit late in the year by exceptionally poor weather in February and March.

## Safety

Safety underlies everything that we do at Flybe. During 2017/18 we restructured our safety and security departments to further improve their oversight and we relaunched our safety principles and safety policy – see page 46 to 47 in the Corporate responsibility section. Safety should be the first priority of any Flybe employee every day, every minute; the leadership team works to provide everyone with a framework and full support.

The development of a just, questioning, open and continuously learning culture that rewards improvement is in place and ultimately the only goal we should pursue.

## Strategy

At the heart of our strategy are our customers. This approach is encompassed in our new mission statement 'we are passionate about connecting regional communities'. Flybe flies more UK domestic flights than any other airline – 51% of all UK flights within mainland Britain (excluding London). Our unique local presence, with 10 UK bases, enables us to resonate with a wide variety of local communities from towns and cities, to businesses and social clubs, to families and friends.

In May 2017, we reached our peak fleet of 85 aircraft. Since then we have been implementing our fleet reduction programme to better balance our capacity to our customer demands across our network. Our regional focus is core to our approach when considering our customer expectations and demands. With modest capacity increases in the summer and reductions in the winter, our network development team has been able to optimise deployment of our fleet for business and leisure passengers ensuring that we operate at the right times of the day and the week to meet the demands of our customers. The positive results of this work have been demonstrated through the growth in our load factor, up six percentage points from 69.6% last year to 75.6%, while at the same time improving our revenue per seat ('RPS') by 10.1%.

We undertook a comprehensive review of our regional aircraft options and concluded that the Bombardier Q400 is still the best aircraft for Flybe's current and future needs. It will therefore remain as the backbone of the Flybe fleet for the foreseeable future. The Q400 is faster than alternative types of modern turboprops, with a performance close to jet aircraft over the relatively short sectors that Flybe operates.

In addition, with excellent operating economics including turboprop fuel efficiency, it is cheaper to operate than similar-sized jet aircraft, and has a much smaller noise footprint. Flybe will, however, continue to operate a number of Embraer E175 jets for longer or busier routes.

Our strategy remains to reduce the overall fleet size and to concentrate on profitable routes only. In the past 12 months, Flybe handed back six older end of lease Q400s (the sixth being returned in April 2018). With a further planned handback of all nine Embraer E195 jets, the overall fleet is well on the way to reducing in size from 85 at its peak in May 2017, to a target of around 70 aircraft in the 2020/21 financial year.

Flybe's Q400 fleet remains a relatively young one, with an average age of just over 10 years. Flybe has accordingly concluded that it will retain its remaining Q400 aircraft and, where economic, extend their service lives. This will save considerable capital expenditure over the next few years, by avoiding the requirement to acquire new aircraft, although some expenditure will be required to refresh the cabins.

Flybe still has an existing order for four Embraer E175s due in calendar year 2019. These will be delivered with new 'winglet technology' to help reduce fuel consumption. Apart from these, Flybe is not planning any additional new aircraft orders for the foreseeable future.

### **Our operational performance**

During the 2017/18 financial year we have refined the focus of the SBIP to concentrate strategically on:

- Improving Flybe's network to be the airline of choice for customers;
- Developing sales and marketing activities to continuously improve revenue;
- Creating a stable and reliable operation;
- Ensuring employees are engaged and motivated; and
- Delivering a sustainable cost base.

Safety remains the underlying principle of our business plan and culture. I am pleased to see that progress has been made in all areas of the business.

### **Airline of choice for customers**

The network team has focused on optimising our flying schedule including frequency, timing and route. This work, together with our sales and marketing drive, has resulted in an improved commercial performance and going forward we aim to further improve customer satisfaction:

- In the first half of the 2017/18 financial year, the network capacity grew by only 3.0% compared to 13.5% for the same period the previous year. The key measure of RPS grew by 8.8% compared to a decline in the previous year of 6.9%;
- In the second half of the 2017/18 financial year, the network capacity reduced by 5.2% compared to an increase of 11.4% for the same period the previous year. RPS grew by 11.4% compared to an increase the previous year of only 0.6%; and
- In March 2017, we commenced services from Edinburgh and Aberdeen to London Heathrow, which have proved to be more popular than initially forecast.

We aim to continue to optimise the network in line with customer demand and to improve RPS.

### **Continuously improving revenue**

A range of initiatives have been undertaken to improve sales and marketing, including:

- The appointment of a new Commercial Director, Roy Kinnear, who joined on 1<sup>st</sup> January 2018. He has over three decades of commercial airline experience at airlines including bmi, Gulf Air, Etihad and most recently as Chief Executive of Air Seychelles;
- A new media agreement was signed with McCann, consolidating activity which was previously spread across seven suppliers into a single supplier. McCann offers a more efficient integrated service for Flybe across advertising, media buying and production, providing better customer focus at a lower cost;
- We launched a new brand strap line, 'Close to you'; this signals to our customers that we are 'closer to them' than other airlines, because we fly from more UK airports than any other airline. One of our flights is therefore never far away and our smaller aircraft make it easier to deliver a friendly, personalised on-board service; and
- We have specified ancillary revenue opportunities that will be enabled by the new digital platform, 'e-Fly', including various seat and baggage charging options.

At the same time, we have kept pace with an ever-changing market through a renewed focus on alliances and partnerships. These include:

- 11 codeshares with other airlines, in most cases providing passengers to long-haul airlines such as Air France, Cathay Pacific and Virgin Atlantic;
- Franchise agreements with Blue Islands, Eastern Airways and Stobart Air whose aircraft operate in Flybe's livery;
- Airport partnership deals with Doncaster Sheffield Airport, Cardiff Airport, Exeter Airport and Norwich Airport; and
- Providing White Label flying for SAS, with five ATR aircraft operating in Sweden.

## Chief Executive Officer's statement continued

### A stable and reliable operation

We have continued to focus on two key measures of performance, on-time performance ('OTP') and technical despatch reliability ('TDR'). The former is a measure of how punctual Flybe is and the latter of how often our aircraft are available to operate.

OTP (defined as departure within 15 minutes of the scheduled departure time) is highly linked to customer satisfaction and is therefore a key operational focus. We believe that improving OTP will contribute to achieving our operational and financial potential by:

- Improving customer satisfaction and encouraging repeat business;
- Enhancing our customer proposition to drive incremental revenue; and
- Reducing inefficiencies and costs resulting from delays or sub-optimal OTP.

In the 2017/18 financial year, OTP fell to 79.5% from 81.6% (partly as a result of the exceptional adverse weather in February and March 2018). Nevertheless, we remain ranked the number one UK airline for OTP in an annual survey published by Which? in January 2018.

Over the next three years, a range of initiatives are planned to improve OTP and create an ongoing culture of continual improvement. We expect to see this start to translate into improved performance from this financial year.

TDR was 99.1% during the 2017/18 financial year compared to 99.0% in the prior year. Following a dip in performance in the early part of the year we invested in improving the Q400 TDR. This resulted in an improvement in the Q400 fleet to 99.0% from 98.9% in the prior year.

### Engaged and motivated employees

Under new leadership in our People team, we have taken significant steps to improve employee engagement. It is anticipated that this objective will take time to be fully developed but to date we have:

- Flattened our structure to reduce the employment pyramid to only six levels, from CEO to the most junior roles;
- Introduced a new absence policy and absence management system;
- Introduced new values and commenced work on embedding those into the Group's culture; and
- Reviewed the internal training programmes which included the re-launch of supervisor and manager training, and enhancements to the apprenticeship schemes.

### Sustainable cost position

Cost increases in recent years have negatively impacted profitability. In light of the decision to reduce the fleet size, we are focusing on reducing both absolute costs and achieving a sustainable cost per seat ('CPS'). In conjunction with driving RPS through a re-invigorated sales and marketing effort, this focus is expected to translate into a lower CPS and therefore improve overall group profitability. We aim to also create a culture of ongoing cost reduction, which will help sustain profitability beyond the currently identified initiatives.

Flybe's total operating costs are expected to fall as we optimise the network and reduce the number of routes and miles flown. As aircraft leave the fleet associated costs will reduce, particularly the nine Embraer E195 aircraft which are being handed back over the next three years.

Since the adoption of the SBIP, we have conducted an extensive review of costs across all areas of the business. The review identified the following main areas of focus:

- Suppliers: we have commenced discussions with our major partners (including airports, ground handlers and original equipment manufacturers) seeking ways to improve supplier performance at a reduced cost;
- Fleet: As well as exiting the E195 fleet, we are looking at reducing the monthly rates we pay for each non-owned aircraft and taking advantage of opportunities presented by extensions to operating leases. We have also delayed receipt of three of the four E175s to be received during 2018/19 by several months;
- Fuel efficiency: we have focussed on effective fuel usage techniques including optimal routing of flights and optimising ground power unit running;
- Maintenance: in December 2017 a new maintenance software application (AMOS) was introduced to record all maintenance activity (including spare parts and individual job records) in one place to drive greater productivity, lower staff costs and reduce turnaround times to create a more productive fleet and the ability to accommodate further third-party revenue generating work. The transition phase had been challenging, however efficiencies are expected once the system is fully embedded; and
- Digitalisation of tasks: we are investing in Electronic Flight Bags for our pilots to enable the digital filing of information and reduce the requirement for crew to complete administrative tasks at base, thereby reducing post-flight duty time and improving efficiency.

We are also merging the Flybe Aviation Services ('FAS') engineers into Flybe UK. We will retain FAS to focus on our military third-party requirements at Brize Norton. This change will simplify the planning and delivery of resources supporting both in-house and third-party maintenance work at Exeter; cost savings from removing duplicate work; increase the hangar productivity and reduce costs.

## Our focus for 2018/19

Our business model remains unchanged. We continue to focus on ensuring our network is the right size to meet demand. Market conditions and a stronger commercial focus will drive solid revenue performance which gives us the opportunity to re-phase our fleet plan while reducing our cost base through renegotiation of operating leases.

As part of our strategy on page 22, we are introducing a new balanced scorecard approach for 2018/19 to keep our focus on delivery and to measure the five key success factors behind our business model (as set out on page 18). With the strong network and commercial performance achieved in 2017/18 as a back drop, for 2018/19 we have narrowed our focus to be on the following key success factors:

**Operational excellence:** We are driving an operational excellence programme across all areas of the business, with in-depth analysis to diagnose and understand our challenges and targeted actions to improve performance. Improving OTP will ultimately drive customer loyalty, employee efficiency and therefore improve our financial performance. In addition, to drive maintenance efficiency, we will assess investment in the hangers following an external evaluation.

**Flybe culture:** Getting closer to our front-line staff and supporting the delivery of services to our customers is critical to motivating and improving the performance of our employees. We will undertake a company-wide employee survey and launch an appropriate change programme to improve engagement.

**e-Fly:** In October 2017, we selected Amadeus, the market-leading provider, as our partner to transform our digital platform. This is a major investment by us in order to improve RPS and customer experience and help drive cost reduction. We aim to transform the entire passenger booking (on-line and mobile) experience. The new system will cover inventory, reservations, ticketing, e-commerce, ancillaries, re-accommodation, payments and departure control and is planned to be operational in the second half of the 2018/19 financial year. We have called this programme 'e-Fly' and it is the cornerstone of our IT transformation, which also extends to a full network refresh as well as the implementation of new customer disruption tools.

**Focus on profit hunt:** There are a series of projects across the Group to either improve revenue or reduce costs. This cross-functional initiative was launched in the late 2017 calendar year and has already both identified and started to deliver benefits. We aim to link this into the culture change so that every employee feels empowered to suggest improvements.

## Outlook

I believe that Flybe has an exciting and transformational future in the next few years. Our commitment to meet our customers' expectations and demands remains at the heart of our strategy. We will modify our strategy as the business develops to ensure that we are focused on the most critical elements each year.

The fleet reduction plan is well under way, our revenue performance has exceeded our expectations and we have begun our digital transformation journey. We will put more focus on improving our operational performance and cost base in the coming year to enable us to be better positioned to achieve a sustainable future.

I was pleased to welcome Roy Kinnear, our new Chief Commercial Officer, to the Executive team in January 2018. Roy brings a wealth of industry experience and has already brought fresh thinking and improvement to many commercial areas. Ian Milne joined as CFO in November 2017, after a short period as interim CFO. Ian too brings an immense amount of experience from the industry and is starting to tackle many of our financial challenges.

I would like to thank all of our employees for their efforts during the past year. It has been a mixed year of strong revenue performance, with our crews seeing fuller planes, but one that has had its setbacks. The Executive Committee and I are focused on improving the Flybe customer experience and the financial performance to benefit customers, all employees and our shareholders. I believe 2018/19 will begin to show the full potential of Flybe.

**Christine Ourmières-Widener**  
Chief Executive Officer

18<sup>th</sup> June 2018

# Our business model

We have a clear business model which enables us to focus on our strengths and maximise the value of our unique position as a regional airline.

## Powering our business

Our business creates value by satisfying customers' needs for regional connectivity.

Our people, culture and brand differentiate us within our markets and the industry.

In 2017/18 we refreshed our brand with the launch of 'Close to you' – see [www.flybe.com/heroes](http://www.flybe.com/heroes).

Flybe is supported by a team which embraces the Group's values – see page 48 in our Corporate responsibility section 'Flybe cares'.

Our regional aircraft are best suited to serve our regional network.

## Enhancing our value proposition

Our network, schedule and prices attract over 9.5 million passengers a year<sup>1</sup>.

Our value proposition 'Close to you' means that a Flybe flight is never far away – fly from more UK airports than any other airline<sup>2</sup>.



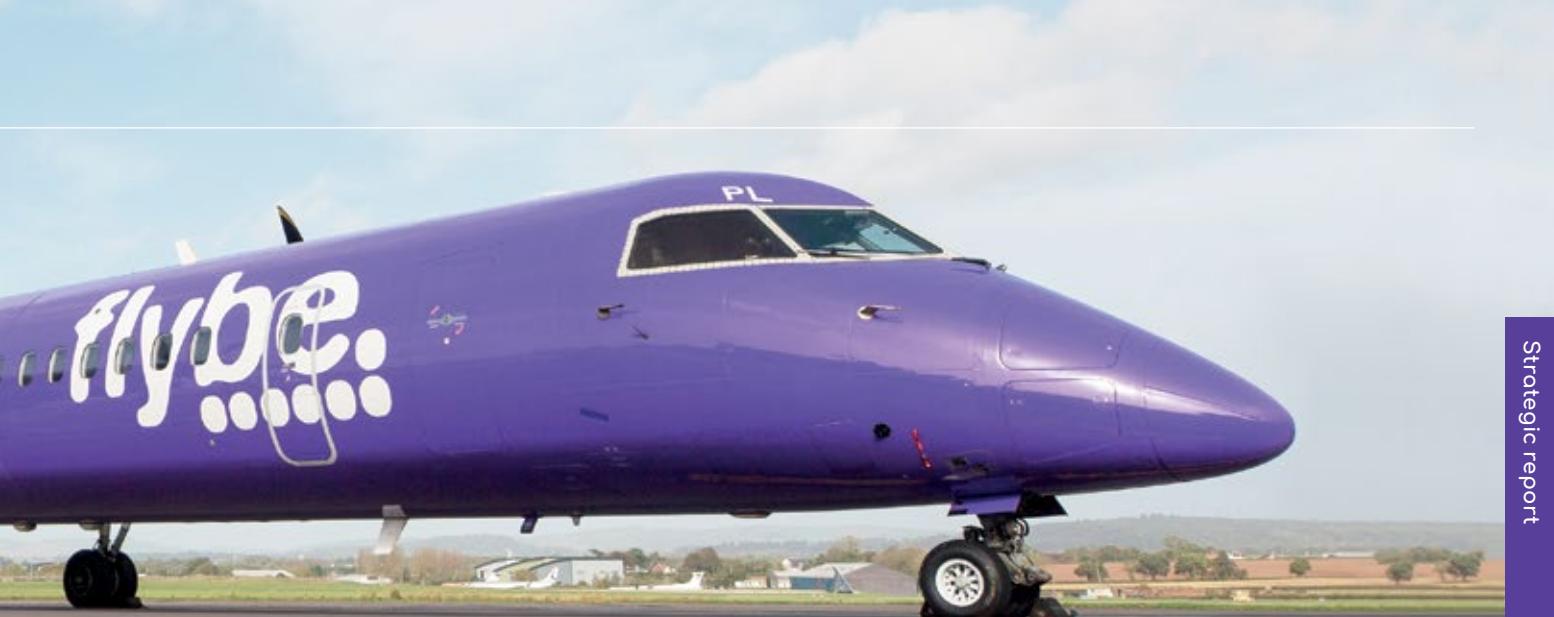
<sup>1</sup> 9.5 million passengers in financial year 2017/18.

<sup>2</sup> Source: OAG data April 2017 to March 2018.

<sup>3</sup> Source: UK CAA data April 2017 to March 2018.

<sup>4</sup> All routes on sale for Summer season 2018.

Underpinned by a culture of safety



## What this means for Flybe

We are passionate about connecting regional communities.

We have an unrivalled network of regional airports as we operate from 26 UK airports and have 10 bases.<sup>4</sup>

We bring people together in a way that no one else can, playing a vital role in the UK's connectivity and boosting local economies.

We aim to please our customers while motivating our teams to continually deliver great customer services.

## Our flight path to sustainable growth

We have a clear strategy to connect regional communities.

Our Sustainable Business Improvement Plan continues to focus on:

- Sales and marketing to drive revenue growth;
- Cost improvement programme;
- Operational excellence;
- Network, fleet & revenue optimisation;
- Organisational excellence; and
- Technology fit for Flybe.

> See page 14 for more information

## Our value creation

We will be well placed to meet our strategic objectives to:

Be the airline of choice for our customers;



Reach a sustainable cost position;



Ensure a stable and reliable operation;



Continuously improve revenue; and



Have an engaged and motivated Flybe team.



Our strategic focus areas for 2018/19 are set out in our strategy:

- e-Fly;
- Operational excellence;
- Profit hunt; and
- Flybe culture.

We wish to generate sustainable value and shareholder returns.

> See page 22 for more information

## and corporate responsibility

> See pages 46 to 53 for more information

# Market overview

The European airline market remains a highly competitive, fast-moving and fragmented industry that is affected by many external factors.

## ➤ Overcapacity has been driving down prices

An increasing aircraft order book held by airlines globally over the last decade has created a market where supply is often greater than demand – Europe is not immune to this trend. The effect has been varying levels of pressure on yields in airline markets. Between 2011 and 2017, scheduled airline capacity grew by 37.8%, while passenger yields have decreased 27.1% over the same period. This over-supply of capacity has required airlines to exercise greater cost control and network optimisation to maximise profitability. Europe has seen a move by some operators to do contract flying where they provide capacity to larger operators which is similar to the US regional model where airlines fly under the big US airline brands.

## ➤ Consolidation in a competitive market

The European airline industry was fully liberalised to a single market in 1992 resulting in a rapid growth in the number of operators in the market. Consolidation is a natural result of a maturing market, as airlines leverage scale economies. After 25+ years of a free market, it is an ever-present part of the business.

In the US the market share of the top three carriers went from 45% in 2008 to 65% in 2018. South America saw the statistics increase from 39% to 45%. In Europe we are still one of the less consolidated regions, where the market share of the top three grew from 27% in 2008 to 33% in 2018. Today the picture is still similar with the intra-European seat share of the top five airline groups amounting to 46.8%, which breaks down as: Lufthansa Group 11.8%; Ryanair 11.7%; IAG 9.8%; Easyjet 7.8%; and Air France KLM 5.7%.

Market share of the top three carriers from 2008 to 2018



## ➤ Impact of airline legislation

Flybe does however face regulatory challenges in the form of EU Regulation 261/2004 ('EU261') and Air Passenger Duty ('APD') regulation.

EU261 compensation and assistance in the event of long delays and cancellations continues to be one of Flybe's key regulatory challenges. The law needs urgent amendment with compensation rates (€250) running at more than three times our average fare. The burden of care has swung disproportionately in favour of the consumer and it is a significant burden to our business.

APD remains a major financial burden on customers adding £13 each way to every fare and for a domestic round trip it adds £26. For our lead in fares, APD can be as much as 50% of the fare and even on an average fare APD is more than 15% of the fare. The UK Government needs to urgently review this tax and Flybe continues to lobby strongly against it, especially for domestic routes.

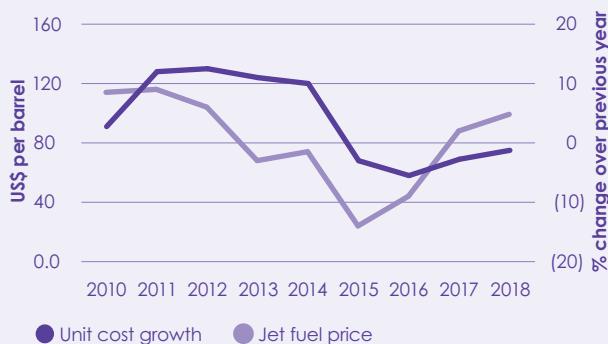
As the UK prepares to leave the EU, all UK airlines face uncertainty on access to EU markets and the application of existing EU rules and regulations in a post-EU environment. Flybe, along with the remainder of the industry, is actively lobbying and working with the government to ensure a workable and open relationship exists with the EU that allows a full and open market in the future as well as addressing issues such as EU261 and APD.



## > Fuel and foreign exchange effects

Airlines have benefitted from low fuel prices since a significant drop occurred between 2011 and 2014. Since 2015 this trend has been reversing with a steady increase year-on-year with an acceleration in recent weeks. As the price of oil increases, airlines will start to feel the effects of climbing US dollar fuel prices affecting their unit costs. The same applies to the performance of sterling, in particular against the US dollar. Both fuel and aircraft ownership costs are predominantly in US dollars and the effect of foreign exchange will likely have an impact on the industry. Many airlines, including Flybe, engage in fuel price and foreign exchange forward contracts to bring a level of certainty over these significant costs.

Fuel costs are one of the main components of an airline's cost structure. Increases in fuel price directly contribute towards cost increases, with a time-lag resulting from hedging policies:



Source: IATA: Economic performance of the airline industry – end-2017 update



## > What this means for Flybe

### The importance of a clear strategy

Overcapacity has led to greater competition as airlines aim to deploy their aircraft on more competing markets. Flybe is relatively well protected from competition with only 38.7% of its network competed directly. However, overcapacity has led to the market dynamics changing over the last decade. Existing airlines have had to adapt to the entrance of low-cost or hybrid airlines. Most airlines and other regional transport providers now compete across a range of areas including price, network and product.

A fundamental challenge for the industry, is that unit costs increase faster than unit revenues due to cost inflation, but increased capacity and competition prevents unit revenues from increasing in line with costs - this is what drives the need to improve revenue management and ancillary retailing, while also maintaining tight cost control and a continuous focus on achieving cost efficiencies.

Product diversification has enabled established operators to compete more effectively with low-cost carriers through revenue optimisation and an improved product offering with greater capture of the underlying market. The result has been full service carriers improving their ancillary revenue streams, increasing total ancillary revenue in the airline industry by over 160% from 2011 to 2017.

Responding to these challenges requires a clear strategy, with a focus on:

- > Disciplined cost control;
- > Operational excellence; and
- > Development of digital capabilities.

> See our strategy on page 22

# Strategy

We continue to deliver against our Sustainable Business Improvement Plan. For 2018/19, we have introduced a new balanced scorecard approach to keep our focus on delivery and to measure the success factors behind our business model.

## Strategic Business Improvement Plan

The SBIP pillars	Strategic objectives for 2018/19
➤ Sales and marketing to drive revenue growth	Airline of choice for our customers Leveraging investment in digital capability to improve customer experience
➤ Cost improvement programme	Sustainable cost position Improved profitability through sustainable cost reduction
➤ Operational excellence	A stable and reliable operation Improved operational delivery will increase customer and employee satisfaction and reduce costs
➤ Network, fleet and revenue optimisation	Continuously improving revenue An optimised fleet and network to meet customer demand and drive revenue performance
➤ Organisational excellence	Engaged and motivated employees Motivated, high performing employees will enhance business performance and reduce safety events
➤ Technology fit for Flybe	Technology has moved into the implementation phase
Underpinned by a culture	

- 1 Flybe UK passenger revenue generated per scheduled seat.
- 2 Flybe UK operating costs (including White Label costs) over scheduled seats (which excludes White Label capacity).
- 3 Percentage of flights which departed within 15 minutes of scheduled departure time.
- 4 An index that measures the willingness of customers to recommend Flybe to others.
- 5 An engagement rating determined by the independent all employee survey.

Success factors	Strategic focus for 2018/19	Link to risks see pages 40 to 45
<b>Net promoter score</b> Willingness of customers to recommend Flybe <sup>4</sup>	Fleet reduction programme in progress to balance our capacity to our customer demands across the network	1 2 3 4 7 8 12 17
<b>Cost per seat</b> Unit cost per scheduled seat <sup>2</sup>	<b>Profit hunt</b> Achieving a sustainable cost base	1 2 3 5 8 9 12 13 14 15 16 17
<b>On time performance</b> Departures within 15 minutes of schedule <sup>3</sup>	<b>Operational excellence</b> Delivering an operationally excellent environment	1 2 5 6 7 8 9 10 11 12 13 14 15 16
<b>Revenue per seat</b> Passenger revenue per scheduled seat <sup>1</sup>	Continued focus on driving revenue performance and utilising the enhancements offered by e-Fly when it goes live in H2 2018/19	1 2 3 4
<b>Employee engagement index</b> Engagement rating <sup>5</sup>	<b>Flybe culture</b> Improving Flybe culture to enhance employee engagement and embed the values	11 12 16
	<b>e-Fly</b> New digital platform to improve performance, revenue, customer insights, booking experience and customer satisfaction	3 6 7

# Key performance indicators

We track performance against our strategic objectives through a set of financial measures.

Strategic objective	Definition	Success factors						
<b>Continuously improving revenue</b> 	Flybe UK passenger revenue generated per scheduled seat	Revenue per seat <table> <tr> <td>2017/18</td> <td><b>£53.79</b></td> </tr> <tr> <td>2016/17</td> <td>£48.84</td> </tr> <tr> <td>2015/16</td> <td>£50.64</td> </tr> </table>	2017/18	<b>£53.79</b>	2016/17	£48.84	2015/16	£50.64
2017/18	<b>£53.79</b>							
2016/17	£48.84							
2015/16	£50.64							
<b>Sustainable cost position</b> 	Flybe UK operating costs (including White Label costs) over scheduled seats (which excludes White Label capacity) CPS presented here are including E195 onerous lease provision and impairment of related assets	Cost per seat (including fuel) <table> <tr> <td>2017/18</td> <td><b>£59.69</b></td> </tr> <tr> <td>2016/17</td> <td>£55.99</td> </tr> <tr> <td>2015/16</td> <td>£52.67</td> </tr> </table>	2017/18	<b>£59.69</b>	2016/17	£55.99	2015/16	£52.67
2017/18	<b>£59.69</b>							
2016/17	£55.99							
2015/16	£52.67							
	Flybe UK operating costs (including White Label costs and excluding fuel) over scheduled seats (which excludes White Label capacity) CPS presented here are including E195 onerous lease provision and impairment of related assets	Cost per seat (excluding fuel) <table> <tr> <td>2017/18</td> <td><b>£52.32</b></td> </tr> <tr> <td>2016/17</td> <td>£48.01</td> </tr> <tr> <td>2015/16</td> <td>£43.38</td> </tr> </table>	2017/18	<b>£52.32</b>	2016/17	£48.01	2015/16	£43.38
2017/18	<b>£52.32</b>							
2016/17	£48.01							
2015/16	£43.38							
<b>A stable and reliable operation</b> 	Percentage of aircraft which departed within 15 minutes of their scheduled departure time	On-time performance <table> <tr> <td>2017/18</td> <td><b>79.5%</b></td> </tr> <tr> <td>2016/17</td> <td>81.6%</td> </tr> <tr> <td>2015/16</td> <td>83.3%</td> </tr> </table>	2017/18	<b>79.5%</b>	2016/17	81.6%	2015/16	83.3%
2017/18	<b>79.5%</b>							
2016/17	81.6%							
2015/16	83.3%							

Performance	Goal	Link to risks see pages 40 to 45	Read more
During 2017/18 we have seen a 10.1% improvement in revenue per seat due to capacity reduction of 0.9%, passenger yield improvement of 1.4% and a six percentage point increase in load factor.	Our goal is for year-on-year improvement in passenger revenue per seat as we continue to reduce our fleet size and seat capacity. The new digital platform will be key in improving the customer journey and therefore increasing revenue.	4 5 7	p15
Cost per seat including fuel has increased by 6.6%, and on a constant currency basis increased by 3.8% reflecting inflationary pressures, an increase in maintenance investment to improve reliability and handback costs for end of lease aircraft.	Our goal is to extend focus on cost reduction across all cost lines by removing costs that don't add value and improving terms with key suppliers. Managing fuel costs through hedging is a fundamental part of this.	5 11 13 14	p16
Fuel costs fell by 8.3% due to hedging gains exceeding the rising price of fuel, helped further by fuel efficiency initiatives. Cost per seat excluding fuel has increased by 9.0% and on a constant currency basis increased by 5.5%.	Our goal is to extend focus on cost reduction across all cost lines by removing costs that don't add value and improving terms with key suppliers.	5 11 13 14	p16
We have seen a reduction in our on-time performance due to various reasons, including weather, technical and reliability issues, despite investment in technical despatch reliability.	We have invested in maintenance during 2017/18 in order to improve our on-time performance which will, in turn, improve customer advocacy.	8 10	p16

# Business review

**With our fleet now reducing we can focus on what we do best: connecting regional communities.**

## Flybe UK

Flybe's progress continues with load factors improving from 69.6% in 2016/17 to 75.6% in 2017/18. Passenger revenue per seat ('RPS') also strengthened to £53.79 (2016/17: £48.84) which reinforced the continued improvement in passenger yield which reached £71.15 (2016/17: £70.20).

In the financial year 2017/18, we served even more passengers – 9.5 million, an increase of 7.7% – and flew 187 routes serving 11 countries from 65 departure points in the UK and Europe (2016/17: 8.8 million passengers, 199 routes, 12 countries and 64 departure points). Flybe is the largest UK scheduled airline, measured by air traffic movements, at Aberdeen, Belfast City, Birmingham, Cardiff, Doncaster, Exeter, Glasgow, Isle of Man, Jersey, Manchester, Newquay and Southampton airports (excluding Loganair flying under the Flybe brand). Approximately 62% of passengers who flew with Flybe in 2017/18 did so on UK domestic routes. Flybe was recognised as the most punctual UK-based airline in the latest report on 'Best and Worst Airlines' issued by leading consumer watchdog Which? in January 2018.

There has been capacity management during the financial year 2017/18, to optimise the network and routes flown. In H1 2017/18, network capacity grew by only 3.0% compared to 13.5% in H1 2016/17. In H2 2017/18, network capacity reduced by 5.2% compared to an increase of 11.0% in the same period in 2016/17. In 2017/18 we launched only 9 new routes and ceased to fly 14 routes as we focused on profitable flying.

During the financial year 2017/18, we reduced the size of our fleet by handing back five end of lease Q400 aircraft. With this now completed, a further Q400 handed back in April 2018 and the planned handback of the E195 jets, the fleet is well on the way to reducing in size from 85 at its peak in May 2017, to an optimum number of around 70 aircraft in financial year 2020/21.

Flybe operates a rigorous aircraft maintenance programme, with continuous improvement in aircraft reliability through development of modifications to our fleet in partnership with Bombardier. Although this has led to total maintenance expenses of £71.3m in Flybe UK during 2017/18 (2016/17: £57.7m), it has resulted in an improvement in our technical despatch reliability to 99.1% (2016/17: 99.0%).

The extremely poor weather in February and March 2018 led to airport closures and flight cancellations across the UK and the near continent. This particularly affected Flybe as all our flying is within this area. We had to cancel 994 flights due to weather in Q4 2017/18 compared to 372 in Q4 2016/17.

Flybe optimises its network by entering into partnerships as this gives the airline its unique ability to connect regional communities. The franchise agreements with Stobart Air, Blue Islands and Eastern Airways means that Flybe is the only airline brand in the UK with c. 71% coverage of Civil Aviation Authority ('CAA') reporting airports therefore demonstrating the breadth of the network which Flybe operates (excluding Loganair flying under the Flybe brand). We regularly review our franchise agreements to ensure they generate a positive contribution to the Flybe brand and our performance.

We have codeshares with Aer Lingus, Air France, Air India, Alitalia, British Airways, Cathay Pacific, Emirates, Etihad, Finnair, Singapore Airlines and Virgin Atlantic. These codeshares increase the route options available via the 'One Stop to the World' programme. These partnerships give our customers greater access to long-haul destinations via our key hubs and in turn increase Flybe UK revenue as we connect our customers with our long-haul codeshare allies.



We also continued to evaluate our relationships with airport partners across our route network to optimise the utilisation of the Flybe fleet. The commercial arrangements with Cardiff, Doncaster Shefield, Exeter and Norwich to use the bigger E195 jets (and other aircraft types where more suitable) have continued in 2017/18.

We have recognised that there is more to be done to improve the customer experience throughout the journey from booking to arriving at their destination. This is the focus of our digital transformation programme 'e-Fly' which will deliver an improved customer experience as well as driving revenue opportunities. Customers booking through our Flybe.com website generated c. 80% of our passenger revenue (for the calendar year ended 31<sup>st</sup> December 2017) to book their flights which highlights the importance of an accessible, robust and reliable system.

Flybe's Training Academy (part of Flybe Limited) welcomes airline and business customers from all over the world. The building has 26 classrooms, a 150-seat conference suite, simulator facilities for pilot training, purpose-built practical training facilities for cabin crew and an engineering apprentice workshop with EASA Part 147 Approval. The quality training provided by the Training Academy team contributes to maintaining a workforce that is engaged and motivated.

All Flybe operational staff attend the Training Academy in Exeter for their initial and recurrent training. We also train third parties. During 2017/18, the number of pilot delegates increased by 10.2% to 651 and we trained 873 cabin crew delegates (2016/17: 868). Since 2008 the Training Academy has hosted the jointly-run Engineering Apprenticeship programme with Exeter College with 120 students currently across the academic years. Over 200 students have completed the four-year Flybe Diploma in Engineering since the course was first offered.

### Flybe Aviation Services

Flybe's maintenance repair and overhaul ('MRO') division, Flybe Aviation Services Limited ('FAS'), is dedicated to supporting regional aircraft operators worldwide, with a full range of base maintenance and support services. Focusing on civilian heavy maintenance activity, FAS provides third-party maintenance coverage for the BAE, ATR, Bombardier and Embraer aircraft types, as well as MRO services for Flybe's own fleet.

Workload in FAS, measured by man-hours, reduced by 8.5% from 519,400 in 2016/17 to 475,000 in 2017/18. Due to the added investment this year in Flybe UK aircraft reliability and workload for the end of lease handbacks, man-hours on third-party aircraft reduced to 35.2% of total FAS man-hours (2016/17: 58.1%). During 2017/18 FAS received more than 140 aircraft for maintenance in the Exeter facility which covered five different airframe types. The aircraft came from more than 13 different customers across five different continents.

During 2017/18, Flybe considered a Single Engineering Organisation ('SEO') concept to simplify the resource structure and prevent duplicated workloads for internal maintenance performed for Flybe Limited ('Flybe UK') by FAS, and to focus on efficient delivery and operational excellence. In April 2018, the next step of the SEO has taken place with the FAS engineers merging into the Flybe UK team. FAS as a legal entity remains to service the A400M contract at Brize Norton.

In December 2017, a new maintenance software application (AMOS) was introduced, replacing the Oracle MRO system. All maintenance activities, including spare parts and individual job records, are recorded on AMOS therefore aiding job efficiency and control of costs. Once the system is embedded, this will enable better manpower management in an area of the business where a high volume of contractors has traditionally been used, making it easier to monitor productivity and resulting in maintenance work being performed more efficiently.



# Financial review



**"Right-sizing the fleet is driving gains in load factors and revenue per seat. We must now increase our focus on improving our costs, to deliver our sustainable business improvement plan."**

**Ian Milne**  
Chief Financial Officer

Loss before tax

**£9.4m**

(2016/17: restated loss before tax £48.5m)<sup>1</sup>

Adjusted loss before tax  
and USD loan revaluations<sup>2</sup>

**£20.5m**

(2016/17: £35.3m)

<sup>1</sup> A non-cash E195 onerous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment therefore the 2016/17 loss before tax has been restated from £19.9m to £48.5m.

<sup>2</sup> Adjusted loss before tax and USD loan revaluations is calculated as reported loss before tax of £9.4m excluding USD loan revaluation gains of £11.1m (2016/17: restated loss before tax of £48.5m excluding USD loan revaluation losses of £13.2m).

## Structural revenue improvement validates strategy

### Overview

As we commenced our fleet reduction in the year, seat capacity has decreased by 0.9% to 12.6 million seats. By focusing on higher demand and profitable routes, passenger numbers have increased by 7.7% to 9.5 million resulting in a load factor increase of six percentage points to 75.6% (2016/17: 69.6%) and a 10.1% increase in passenger revenue per seat ('RPS') to £53.79. Passenger yield (on seats sold) improved by 1.4% to £71.15 (2016/17: £70.20) resulting in a passenger revenue increase of 9.1% to £675.8m (2016/17: £619.3m).

Total group revenue increased by 6.4% to £752.6m (2016/17: £707.4m) reflecting the increased passenger revenue offset partly by lower MRO revenue owing to the reduction in third-party work as internal maintenance activity increased.

The Sustainable Business Improvement Plan ('SBIP') presented to the Board in March 2017 contained a detailed network strategy and review of the fleet which gave the recommendation to exit the E195 fleet as there were unavoidable losses despite the mitigating actions (i.e. airport agreements) in place. In prior years, the entire fleet had been categorised as one CGU as decisions were made to generate cashflows when working the fleet collectively (as the aircraft were considered to be interchangeable) in order to fulfil network obligations.

The new three-year plan developed in 2017/18 continues to support the March 2017 findings confirming that an error had been made in the previous financial year as an onerous contract on the E195 leases should have been recognised as the unavoidable costs of meeting the lease obligations exceeded the economic benefits expected to be received.

A prior period adjustment has therefore been made to retrospectively reflect the non-cash E195 onerous lease and impairment of the related assets in accordance with IAS 8. The onerous lease provision will be released over the next three years to 2020/21 until the E195 leases expire and all aircraft have been handed back. Note 24 contains an analysis of the items that make up the E195 onerous lease provision and impairment of related assets. As a result of this adjustment, we have therefore restated 2016/17 which is reflected throughout the comparative period 2016/17 in the Annual report and financial statements.

Total group operating costs (after the E195 onerous lease provision and impairment of related assets) have increased by 3.9% from £738.4m to £767.4m. Before the E195 onerous lease provision and impairment of related assets entries, total group operating costs have increased by 7.9% from £709.8m to £766.1m as a result of adverse foreign exchange costs as hedging gains reduced; increased investment in fleet reliability and end of lease handbacks; inflation and a number of one-off factors including the £5.2m onerous contract charge relating to the digital platform investment.

Net group financing costs increased by 32.6% to £5.7m (2016/17: £4.3m) as a result of increased aircraft ownership, higher interest rates on floating rate borrowings and reduced interest receivable on lower cash deposits.

Before the E195 onerous lease provision and impairment of related assets, the Group made an operating loss of £13.5m (2016/17: £2.4m) which reflects increased maintenance expenses, the IT onerous contract provision, higher disruption costs and the decrease in the value of sterling. The operating loss after the E195 onerous lease provision and impairment of related assets was £14.8m (2016/17: restated from £2.4m to £31.0m).

Flybe's loss before tax of £9.4m compares to a restated loss before tax of £48.5m in 2016/17. The loss before tax has been restated from £19.9m to £48.5m for the non-cash E195 onerous lease provision and impairment of related assets totalling £28.6m that has been recognised as a prior period adjustment.

The Group's adjusted loss before tax and USD aircraft loans revaluation was £20.5m, excluding USD loan revaluation gains of £11.1m. After adding back the non-cash revaluation movement on USD aircraft loans and the E195 onerous lease provision and impairment of related assets entries, the adjusted loss before tax is £19.2m compared to £6.7m in 2016/17. The 2016/17 measure has been restated from an adjusted loss before tax of £6.7m to an adjusted loss before tax of £35.3m (excluding USD loan revaluation losses of £13.2m) as a result of the non-cash E195 onerous lease provision and impairment of related assets.

Net debt at 31<sup>st</sup> March 2018 has improved to £59.1m (2017: £64.0m) due to contractual loan repayments and foreign exchange revaluation gains on US dollar denominated loans. Net debt includes free cash balances totalling £86.7m at the end of March 2018 (2017: £115.1m) and restricted cash of £8.3m (2017: £9.2m).

EBITDAR, a profit measure used for comparisons between airlines, has improved by 4.3% to £140.0m from £134.2m in 2016/17.

### Adjusted profit measures

EBITDAR and adjusted loss before tax measures discussed in this section are non-GAAP measures<sup>1</sup>.

EBITDAR<sup>2</sup> is a common airline profit measure which is used for making comparisons between airlines. Set out below is a reconciliation from operating loss to EBITDAR:

	2018 £m	2017 (restated) <sup>3</sup> £m	Change %
<b>Operating loss</b>	<b>(14.8)</b>	(31.0)	
Depreciation, amortisation and impairment	<b>53.1</b>	42.8	
Aircraft rental charges	<b>101.7</b>	122.4	
<b>EBITDAR</b>	<b>140.0</b>	134.2	4.3

Adjusted profit or loss before tax<sup>4</sup> is an alternative profit 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.

## Financial review continued

A second adjusted profit or loss before tax measure has been presented to also adjust for the non-cash E195 onerous lease provision and impairment of related assets entries totalling £28.6m that has been recognised as a prior period adjustment and the movements in subsequent years.

The table below sets out a reconciliation from loss before tax to adjusted loss before tax measures:

	2018 £m	2017 (restated) <sup>5</sup> £m
<b>Unadjusted loss before tax</b>	<b>(9.4)</b>	<b>(48.5)</b>
USD loan revaluations	(11.1)	13.2
<b>Adjusted loss before tax and USD loan revaluations</b>	<b>(20.5)</b>	<b>(35.3)</b>
Aircraft onerous lease and impairment of related assets	1.3	28.6
<b>Adjusted loss before tax, USD loan revaluations and aircraft onerous lease and impairment of related assets</b>	<b>(19.2)</b>	<b>(6.7)</b>

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

2 EBITDAR is defined as operating loss after adding back depreciation, amortisation, impairment and aircraft rental charges.

3 Although the EBITDAR for 2016/17 remains unchanged at £134.2m, the figures used to calculate this measure have been restated due to the non-cash E195 onerous lease provision and impairment of related assets totalling £28.6m which has been recognised as a prior period adjustment. Operating loss was previously reported as £2.4m, depreciation and amortisation as £39.1m and aircraft rental costs as £97.5m. See note 24 for the entries which have impacted these line items.

4 Adjusted loss before tax is defined as the reported loss before tax adjusted for the revaluation of USD aircraft loans. A second adjusted loss before tax measure has been presented which includes an adjustment for the non-cash aircraft onerous lease provision and impairment of related assets.

5 A non-cash E195 onerous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment therefore the 2016/17 loss before tax has been restated from £19.9m to £48.5m.

6 EBITDAR is defined as operating loss after adding back depreciation, amortisation, impairment and aircraft rental charges.

### EBITDAR<sup>6</sup>

# £140.0m

(2016/17: £134.2m)

### Net assets

### Aircraft

# 80

(2016/17: 83 aircraft)

### Fleet

The profile of Flybe's fleet at 31<sup>st</sup> March 2018 and 2017 is summarised below:

	Number of seats	Number of aircraft		
		At 31 <sup>st</sup> March 2017	Net movements in period	At 31 <sup>st</sup> March 2018
Bombardier				
Q400 turboprop	78	58	(3)	<b>55</b>
Embraer E175	88	11	–	<b>11</b>
regional jet				
Embraer E195	118	9	–	<b>9</b>
regional jet				
ATR72 turboprop (SAS contract)	70	5	–	<b>5</b>
<b>Total</b>	83	(3)	<b>80</b>	
Held on				
operating lease	56	(3)	<b>53</b>	
Owned	27	–	<b>27</b>	
<b>Total</b>	83	(3)	<b>80</b>	
Total seats in fleet	6,904			<b>6,670</b>
Average seats per aircraft	83.2			<b>83.4</b>
Average age of fleet (years)	8.4			<b>9.1</b>

The final two aircraft from the Nordic Aviation Capital agreement were delivered during the first two months of 2017/18 so the fleet peaked at 85 aircraft in May 2017. Flybe has since started to return end of lease aircraft to its lessors. At 31<sup>st</sup> March 2018, five end of lease handbacks had been completed resulting in a fleet size of 80 aircraft. The handback of a further Q400 aircraft was completed in April 2018 and the first of the E195 handbacks was completed in June 2018.

As at 31<sup>st</sup> March 2018, Flybe leased five ATR72 aircraft on a wet lease (including staff and retaining maintenance obligations) basis to SAS in Scandinavia and two E195 aircraft to Stobart Air which are now on a dry lease (where Flybe retains only the lease obligations until the aircraft return in late 2018).

The mix of owned aircraft as a proportion of the total fleet has increased from 32.5% to 33.8% during the year due to the net movement of leased aircraft.

There are four E175 aircraft that are contracted for delivery as at 31<sup>st</sup> March 2018. These are scheduled for delivery from July onwards in 2019/20.

## Business results

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

	2018 £m	2017 (restated) £m
<b>Business revenues:</b>		
Flybe UK	<b>732.0</b>	675.6
FAS	<b>50.0</b>	50.1
Inter-segment sales	<b>(29.4)</b>	(18.3)
<b>Group revenue</b>	<b>752.6</b>	707.4
<b>Business adjusted loss before tax:</b>		
Flybe UK <sup>2</sup>	<b>(16.8)</b>	(5.8)
FAS	<b>3.1</b>	3.4
Group costs	<b>(5.5)</b>	(4.3)
<b>Adjusted loss before tax, USD loan revaluation and aircraft onerous lease<sup>3</sup></b>	<b>(19.2)</b>	(6.7)
Net expense on aircraft onerous lease and impairment of related assets	<b>(1.3)</b>	(28.6)
<b>Adjusted loss before tax and USD loan revaluation<sup>4</sup></b>	<b>(20.5)</b>	(35.3)
USD loan revaluations	<b>11.1</b>	(13.2)
<b>Group loss before tax</b>	<b>(9.4)</b>	(48.5)

- 1 Due to the £28.6m prior year adjustment for the non-cash E195 onerous lease provision and impairment of related assets, both adjusted loss measures have been restated for 2016/17.
- 2 Flybe UK adjusted loss before tax reports a segment loss of £16.8m (2016/17: £5.8m) after excluding group costs of £5.5m (2016/17: £4.3m), £1.3m of net E195 onerous lease costs and impairment of related assets (2016/17: £28.6m) and revaluation gains on USD aircraft loans of £11.1m (2016/17: losses of £13.2m).
- 3 Adjusted loss before tax, USD loan revaluation and aircraft onerous lease and impairment of related assets is defined as the reported loss before tax excluding revaluation gains on USD aircraft loans of £11.1m (2016/17: losses of £13.2m) and £1.3m of net E195 onerous lease costs and impairment of related assets (2016/17: £28.6m).
- 4 Adjusted loss before tax and USD loan revaluation is defined as the reported loss before tax excluding revaluation gains on USD aircraft loans of £11.1m (2016/17: losses of £13.2m).

## Flybe UK

### Operational statistics

	2018	2017	Change
Seat capacity (million)	<b>12.6</b>	12.7	(0.9)%
Passengers (million)	<b>9.5</b>	8.8	7.7%
Load factor (%)	<b>75.6</b>	69.6	6.0ppt
Passenger yield (£)	<b>71.15</b>	70.20	1.4%

### Revenue

	2018		2017	
	£m	£ per seat	£m	£ per seat
Passenger revenue	<b>675.8</b>	<b>53.79</b>	619.3	48.84
White Label flying revenue	<b>36.6</b>		33.0	
Other revenue	<b>19.6</b>		23.3	
<b>Total revenue</b>	<b>732.0</b>	<b>58.22</b>	675.6	53.28

Flybe UK's seat capacity decreased by 0.9% to 12.6 million (2016/17: 12.7 million) with scheduled sectors increasing by 1.1% to 153,800 (2016/17: 152,100) reflecting the increased utilisation of the reducing fleet. Flybe served 9.5 million customers on its network, a 7.7% increase year-on-year (2016/17: 8.8 million). The focus on high-demand routes and reduction in less popular flights resulted in a load factor increase from 69.6% to 75.6% and a 10.1% increase in RPS from £48.84 to £53.79.

White Label flying revenue increased by 10.9% from £33.0m to £36.6m. The SN Brussels contract, which commenced in March 2012, came to an end in October 2017 reducing revenue year-on-year by £3.0m. However, this was offset by a new contract with Stobart Air which started as a wet lease in May 2017 and then converted to a dry lease from November 2017.

Other revenues, which primarily reflect airport partnership agreements, fell by 15.9% to £19.6m on the back of reduced losses being passed back to the airports as the route networks have matured.

### Operating costs – including E195 onerous lease provision and impairment of related assets

Flybe UK operating costs have increased by 5.6% to £749.9m (2016/17: £710.0m). The prior period operating costs have been restated from £681.4 to £710.0m to reflect the £24.9m adjustment for the E195 onerous lease provision and the £3.7m impairment charge in relation to E195 assets.

In 2017/18, £10.2m of the onerous E195 lease provision was utilised. The closing provision was reviewed at 31<sup>st</sup> March 2018 against the new three-year plan which resulted in an additional provision charge of £9.3m. There also was a £2.2m impairment charge relating to E195 assets originally capitalised.

Cost per seat ('CPS') (including fuel, the E195 onerous lease position and impairment of related assets) increased by 6.6% from £55.99 to £59.69 and on a constant currency basis<sup>5</sup> increased by 3.8%.

CPS (excluding fuel, the E195 onerous lease position and impairment of related assets) increased by 8.9% from £48.02 to £52.32 and on a constant currency basis<sup>5</sup> increased by 5.5%.

5 Constant currency is calculated for the 2016/17 financial year by applying the exchange rates that prevailed for reporting the 2017/18 results of \$1.40 and €1.14.

## Financial review continued

### Operating costs – excluding E195 onerous lease provision and impairment of related assets

	2018		2017 (restated) <sup>1</sup>	
	£m	£ per seat	£m	£ per seat
Fuel and aircraft operations	<b>359.8</b>	<b>28.65</b>	343.6	27.10
Aircraft ownership and maintenance	<b>224.4</b>	<b>17.86</b>	194.0	15.30
Staff costs	<b>103.1</b>	<b>8.21</b>	101.2	7.98
Other net operating expenses	<b>61.5</b>	<b>4.88</b>	42.6	3.36
<b>Operating costs – excluding aircraft onerous lease and impairment of related assets</b>	<b>748.8</b>	<b>59.60</b>	681.4	53.74

<sup>1</sup> A non-cash E195 onerous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment.

Flybe UK operating costs – excluding the E195 onerous lease provision and impairment of related assets – have increased by 9.9% to £748.8m (2016/17: £681.4m). By operational cost line, the main variances are summarised below:

#### Fuel and aircraft operations

- > 8.4% (£8.5m) reduction in fuel costs mainly due to a large positive swing in hedging impacts, with a gain in the year of £7.9m compared to a loss in the prior year of £13.3m, and £1.4m of fuel burn efficiencies. This gain has been offset by an adverse price movement of c. \$90 per tonne resulting in an estimated price increase of fuel and carbon of £15.5m;
- > 6.3% (£9.4m) increase in airport and en route charges primarily due to £9.8m of increased costs associated with passenger volumes and mix effect of new airports.

#### Flybe UK passengers

# 9.5m

(2016/17: 8.8 million)

Flybe UK passenger revenue per seat

# £53.79

up 10.1% from £48.84 in 2016/17

In addition, there were adverse currency impacts of £3.3m offset by en route price reductions of £3.7m; and

- > 16.2% (£15.3m) increase in ground operations costs due to a £5.5m increase in disruption costs (delay and diversion, EU261 compensation and de-icing) reflecting increasing EU261 claim rates and more severe weather conditions this year. In addition there were volume increases of £1.8m from higher passenger numbers, price increases of £1.8m, adverse currency impacts of £1.3m and a new FAS cross-charge for line maintenance of £4.7m.

#### Aircraft ownership and maintenance

- > 23.5% (£13.6m) increase in maintenance costs largely attributable to a £10.7m increase in investment in the fleet to improve reliability as announced in October 2017. Otherwise, costs increased due to currency fluctuations of £0.7m and £2.2m of added cost mainly attributable to the Q400 handbacks;
- > 30.2% (£11.7m) increase in depreciation and amortisation which reflects £9.8m of added depreciation on capitalised maintenance assets as the fleet reached certain trigger points and £1.6m of added amortisation of intangible assets brought into service; and
- > 5.2% (£5.1m) increase in aircraft rental charges partly reflecting £1.9m of added costs for those aircraft received last year, £1.6m additional ad hoc aircraft hire charges and £0.7m of higher rentals relating to White Label flying. In addition, there was a £2.1m credit in the prior year from a lessor and adverse currency movements. These were partially offset by £2.4m of saving on end of lease handbacks.

#### Staff costs

- > 1.9% (£1.9m) increase in staff costs mainly due to the annual pay award of £2.6m. A £3.1m transfer of Flybe UK line maintenance staff to FAS was offset by a write-back of £0.5m in performance share plans no longer expected to vest and a £2.8m bonus credit in the prior year.

#### Other net operating expenses

- > 44.3% (£18.9m) increase in other net operating expenses which was predominantly due to a £5.2m provision for the one-off onerous IT contract and a £13.4m decrease in currency hedging gains.

Cost per seat ('CPS') (including fuel but excluding the E195 onerous lease provision and impairment of related assets) increased by 10.9% from £53.74 to £59.60 and on a constant currency basis<sup>1</sup> increased by 7.9%.

CPS (excluding fuel, the E195 onerous lease provision and impairment of related assets) increased by 14.1% from £45.76 to £52.22 and on a constant currency basis<sup>1</sup> increased by 10.4%.

<sup>1</sup> Constant currency is calculated for the 2016/17 financial year by applying the exchange rates that prevailed for reporting the 2017/18 results of \$1.40 and €1.14.

## Fuel

Flybe UK's results are impacted by movements in the price of fuel which forms a significant variable cost for the business. Aviation fuel prices remain capable of large and unpredictable movements due to a variety of external factors, such as changes in supply and demand for oil and oil-related products, and the role of speculators and funds in the futures markets.

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

	2018	2017
Brent crude, market price per barrel		
High	\$71	\$58
Low	\$45	\$37
Average	\$58	\$50
Jet fuel, market price per tonne		
High	\$674	\$550
Low	\$441	\$351
Average	\$560	\$470
Blended rate, per tonne <sup>1</sup>	\$499	\$556
All-in rate, per tonne <sup>2</sup>	\$610	\$637
Total fuel costs	<b>£92.6m</b>	£101.1m
Usage of jet fuel, kilo tonnes <sup>3</sup>	<b>198,092</b>	204,299
Fuel burn per seat <sup>3</sup>	<b>15.8kg</b>	16.1kg

1 The blended rate is the average rate paid, net of hedges.

2 The all-in fuel rate includes costs incurred during the process of fuelling the aircraft.

3 The prior year usage and fuel burn per seat have been restated to include scheduled flights only which reflects the definition used in the calculation of CPS and RPS.

Flybe UK's hedging policy in relation to fuel is detailed in note 35 'Financial instruments'. The table below sets out Flybe UK's hedging position at 31<sup>st</sup> March 2018 and the estimated impact of future movements based on forecast fuel requirements:

	2018	2017
Fuel requirement hedged	61.1%	83.2%
Average hedged price, per tonne	<b>\$518</b>	\$489
Increase in price, per tonne	\$50	\$50
Reduction to profit	<b>£0.9m</b>	£1.0m

The table below shows the hedged position at 14<sup>th</sup> June 2018 for the anticipated fuel requirements for 2018/19 and 2019/20:

	2018/19	2019/20
Percentage hedged	91.3%	26.4%
Hedged rate	\$572.7	\$727.0

## Net finance income

During 2017/18, Flybe's net finance income in the consolidated income statement was £5.4m (2016/17: £17.5m expense) mainly due to an £11.1m non-cash gain on the retranslation of US dollar denominated loans used to fund the acquisition of aircraft (2016/17: £13.2m loss). Under International Financial Reporting Standards, US dollar aircraft are non-monetary assets and are therefore held at the rate as at the date of acquisition, whereas the US dollar liability is a monetary item and is retranslated at each month end and therefore, in accounting terms, Flybe does not have a natural offset. This income statement gain of £11.1m has therefore been removed in arriving at adjusted loss before tax. Other net finance costs increased by £1.4m due to increased interest rates and reduced investment income.

## 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 Group's hedging policy in relation to foreign currency is detailed in note 35 'Financial instruments'. The table below sets out the hedging position at 31<sup>st</sup> March 2018 and the estimated impact of future movements based on forecast US dollar spend:

	2018	2017
USD requirement hedged, %	<b>79.7%</b>	85.8%
Average exchange rate, \$/£	<b>1.33</b>	1.42
Weakening of sterling	<b>\$0.05</b>	\$0.05
Reduction to profit	<b>£1.5m</b>	£1.1m

The table below shows the hedged position at 14<sup>th</sup> June 2018 for the anticipated USD requirements for 2018/19 and 2019/20:

	2018/19	2019/20
Percentage hedged	80.5%	27.5%
Hedged rate	1.34	1.37

# Financial review continued

## Carbon emissions

The Group is required to purchase carbon allowances for all flights departing from, and arriving into, the EU to offset its carbon footprint in each calendar year. Flybe UK 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 2017 and the budget for 2018:

Calendar year	2018 Budget	2017 Actual
Anticipated carbon allowances required, tonnes	<b>571,430</b>	624,001
Free allowance allocation, tonnes	<b>222,778</b>	222,778
Proportion hedged at beginning of period	<b>39%</b>	100%
Effective carbon rate	<b>€7.52</b>	€4.17

Hedged percentages are lower year-on-year because the decision was taken to pause the carbon hedging programmes while Flybe UK assessed how prices were moving given significant volatility.

## Flybe Aviation Services

### Business results

	2018 £m	2017 £m
Revenue	<b>50.0</b>	50.1
Operating costs	<b>(46.9)</b>	(46.7)
<b>Profit before tax</b>	<b>3.1</b>	3.4

Revenue decreased by 0.2% to £50.0m (2016/17: £50.1m), of which £20.6m was for third-party customers (2016/17: £31.8m) representing a 35.2% reduction due to the added investment this year on Flybe UK aircraft reliability and end of lease handbacks. Man-hours reduced by 8.5% from 519,400 in 2016/17 to 475,000 in 2017/18.

## Group costs

Group costs of £5.5m (2016/17: £4.3m) include Group Board and Executive Committee salary costs and group-related legal and professional fees. The increase year-on-year is primarily due to increased legal and professional fees and an increase in the number of Executive Committee members.

## Loss before and after tax

The Group's reported loss before tax was £9.4m. The reported loss before tax for 2016/17 was restated from £19.9m to £48.5m reflecting the non-cash E195 onerous lease provision and impairment of related assets.

The Group's adjusted loss before tax and USD aircraft loans revaluation was £20.5m. The 2016/17 measure has been restated from an adjusted loss before tax £6.7m to an adjusted loss before tax of £35.3m as a result of the non-cash E195 onerous lease provision and impairment of related assets entries.

The Group's adjusted loss before tax, USD aircraft loans revaluation and the non-cash aircraft onerous lease provision and impairment of related assets was £19.2m (2016/17: £6.7m).

The reported loss after tax was £9.4m (2016/17: restated from £26.7m to £55.3m as a result of the non-cash E195 onerous lease provision and impairment of related assets) with no tax impact to the consolidated income statement (2016/17: £6.8m deferred tax charge). There was a deferred tax credit of £4.4m within other comprehensive income reflecting the movement on financial instruments from an asset to a liability (2016/17: £5.1m credit).

## EPS and dividends

The loss per share for the year was 4.5 pence. The loss per share for 2016/17 has been restated from 12.3 pence to 26.3 pence as it has been recalculated following the prior period adjustment for the non-cash E195 onerous lease provision and impairment of related assets.

No dividends were paid or proposed in either 2016/17 or 2017/18.

## Cash flow

	2018 £m	2017 (restated) <sup>1,2</sup> £m	Change £m
<b>Net cash inflow from operating activities</b>	<b>13.8</b>	18.3	(4.5)
Net capital expenditure after disposal proceeds	(15.9)	(123.7)	107.8
Interest received	0.4	0.7	(0.3)
<b>Net cash outflows from investing activities</b>	<b>(15.5)</b>	(123.0)	107.5
Net (repayments of)/proceeds from loans	(20.6)	64.5	(85.1)
Interest paid	(6.1)	(5.0)	(1.1)
Cash paid for purchase of shares for employee benefit trust	–	(3.3)	3.3
<b>Net cash (outflows)/inflows from financing activities</b>	<b>(26.7)</b>	56.2	(82.9)
<b>Net decrease in cash and cash equivalents</b>	<b>(28.4)</b>	(48.5)	20.1
<b>Cash and cash equivalents at beginning of year</b>	<b>115.1</b>	163.6	(48.5)
<b>Cash and cash equivalents at end of year</b>	<b>86.7</b>	115.1	(28.4)
Restricted cash	8.3	9.2	(0.9)
<b>Total cash</b>	<b>95.0</b>	124.3	(29.3)
Net borrowing	(154.1)	(188.3)	34.2
<b>Net debt</b>	<b>(59.1)</b>	(64.0)	4.9

1 The prior period has been restated to reclassify maintenance assets arising as a result of the non-cash accounting transactions. As a result, £16.6m outflow has been reclassified from acquisition of property, plant and equipment within investing activities as a movement in provisions within net cash inflow from operating activities. There was no impact to the consolidated income statement or consolidated balance sheet nor any change in net decrease in cash and cash equivalents.

2 The prior period has been restated following the recognition of the E195 onerous lease provision and impairment of related assets. This is not visible in the summarised cash flow above as the restatements occurred within the operating activities section and therefore had no impact.

The Group generated a net cash inflow from operating activities of £13.8m (2017: restated from £34.9m to £18.3m due to the non-cash maintenance reclassification) with the reduction reflecting a lower loss before tax than the previous year. See the consolidated cash flow statement on page 106 for the breakdown of cash inflow from operating activities. Restricted cash decreased from £9.2m to £8.3m due to adverse foreign exchange rate impacts.

Net capital expenditure includes outflows of £11.8m on purchases of property, plant and equipment and £4.5m for intangible software additions offset by £0.3m proceeds received (2017: total capital expenditure of £118.0m plus £5.7m for intangible software additions with no proceeds).

Cash outflows on borrowings of £20.6m reflects the repayments of existing loans as there were no new loans during the year (2017: £84.3m of new borrowings was offset by £19.8m of repayments).

Total cash was £95.0m at the year-end (2017: £124.3m).

## Balance sheet

	2018 £m	2017 (restated) <sup>1</sup> £m	Change £m
Aircraft	286.7	283.6	3.1
Other property, plant and equipment	21.5	21.8	(0.3)
Intangibles	11.8	11.9	(0.1)
Net debt	(59.1)	(64.0)	4.9
Net derivative financial instruments	(0.9)	24.5	(25.4)
Other working capital – net current liabilities	(148.3)	(129.7)	(18.6)
Deferred taxation	3.8	(0.6)	4.4
Defined benefit pension scheme deficit	(18.8)	(20.8)	2.0
Other non-current liabilities	(3.6)	(1.8)	(1.8)
<b>Net assets</b>	<b>93.1</b>	124.9	(31.8)
Net current liabilities	(79.0)	(10.6)	(68.4)
Net non-current assets	172.1	135.5	36.6
<b>Net assets</b>	<b>93.1</b>	124.9	(31.8)

1 A non-cash E195 onerous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment.

## Financial review continued

The £286.7m of net book value of aircraft represents owned aircraft, engines, aircraft modifications and capitalised maintenance assets. The net book value of aircraft at 31<sup>st</sup> March 2017 has been restated by £3.7m following the impairment of E195 maintenance assets as a result of the prior period adjustment for onerous E195 leases. Otherwise, maintenance assets have increased during the year due to triggering obligations of the ATR fleet and the recognition of £5.2m of amended redelivery cost estimates on the Q400 fleet given the handback experience in 2017/18.

Net debt, representing total cash offset by borrowings, has reduced in the year to £59.1m (2017: £64.0m) due mainly to the positive revaluation impacts on USD loans. The net debt position at 31<sup>st</sup> March 2018 includes restricted cash of £8.3m (2017: £9.2m) which consists of cash deposits held as security in favour of aircraft lessors.

The mark-to-market valuation of derivative financial instruments reduced from a net asset of £24.5m at 31<sup>st</sup> March 2017 to a net liability of £0.9m at 31<sup>st</sup> March 2018, reflecting the unwinding of the favourable foreign exchange hedges which have matured during the year.

A non-cash onerous E195 lease provision of £24.9m has been recognised as a prior period adjustment (see note 24) with £13.3m within current and £11.6m within non-current provisions as at 31<sup>st</sup> March 2017. In 2017/18, £13.3m of the onerous E195 lease provision was utilised. The closing provision was reviewed at 31<sup>st</sup> March 2018 against the latest three-year plan which resulted in additional provision being charged of £9.3m. Other working capital (excluding the impact of financial instruments and net debt) has therefore been restated at 31<sup>st</sup> March 2017 from £116.4m to £129.7m and net other non-current assets and liabilities has been restated from £9.8m asset to a £1.8m liability.

**Net debt including restricted cash**

**£59.1m**

(2016/17: £64.0m)

**Net assets**

**£93.1m**

(2016/17: £124.9m<sup>1</sup>)

<sup>1</sup> A non-cash E195 onerous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment (see note 24) therefore the net assets at 31<sup>st</sup> March 2017 has been restated from £153.5m to £124.9m.

Other working capital (excluding the impact of financial instruments and net debt) has seen net current liabilities increase by £18.6m from £129.7m (restated as explained above) to £148.3m mainly as a result of the movement in engine maintenance receivables and maintenance provisions due within one year given the timing of maintenance events.

Net other non-current liabilities increased from £1.8m (restated as explained above) to £3.6m as non-current maintenance provisions increased mainly due to the timing of maintenance programmes in 2017/18.

The IAS 19 defined benefit pension scheme deficit was £18.8m at 31<sup>st</sup> March 2018 (2017: £20.8m). The year-on-year reduction in the deficit is primarily due to reduced inflation expectations. In the coming financial year, the Group will pay annual deficit contributions of £0.83m (2017: £0.83m). See note 34 'Retirement benefits' for further information on the defined benefit pension scheme.

Net current liabilities at 31<sup>st</sup> March 2018 were £79.0m (2017: £10.6m) reflecting the fall in cash and cash equivalents and the timing of maintenance events. See notes to the consolidated financial statements on pages 107 to 139 for further information on the ageing of assets and liabilities.

### Covenants

The Group has no financial covenants in place and has met all the terms tested at 31<sup>st</sup> March 2018. Flybe has credit support arrangements in place with most financial counterparties.

### Country and currency risk

Flybe operates in a global marketplace. Most of Flybe's customers are based in the UK and Continental Europe, although the MRO business also has customers from Africa, the Middle East and the central Asian republics. Most of Flybe's revenues are derived from UK-based customers (83.5% of group revenue). Aircraft are bought and sold in US dollars as are other key costs such as fuel, lease costs, maintenance and aviation insurance. Airport and en route charges are payable in a mix of sterling and euros. This is further considered in the principal risks and uncertainties section on pages 40 to 45 and note 35 'Financial instruments'.

## Viability statement

The directors have assessed Flybe's viability over a three-year period to March 2021. While the Board believes that the Company will be viable over a longer period, three years is the period considered most appropriate to form a reasonable expectation of the Company's viability. This period is supported by the three-year business plan enabling the forecasting assumptions to be aligned.

The Group continues to progress the Sustainable Business Improvement Plan ('SBIP') which aims to secure Flybe's profitability by reducing capacity, specifically through exiting the E195 fleet. Through the reduction in capacity and the revised aircraft mix, Flybe will focus on a more profitable route network with higher load factors at the same time as managing some challenging headwinds such as economic uncertainty, increasing fuel prices and the legacy commitment to acquire four E175 aircraft, all scheduled for the second half of the calendar year 2019. Additionally, there are cash outflows on maintenance and redelivery obligations for the E195 fleet totaling c. £22m that will fall due during 2018/19 and 2019/20.

In making their assessment, the directors took account of Flybe's current financial and operational position. They also assessed the potential financial and operational impacts, in severe but plausible scenarios, associated with the principal risks and uncertainties set out on pages 40 to 45 and the likely effect on the Company's prospects and viability. This analysis is a continuation of the downside scenarios and mitigations used to support our conclusion on going concern. See the going concern section below for more detail.

The types and reasons for each sensitivity that have been considered in the reasonable downside case are outlined below:

- The business plan includes the committed acquisition of four E175 aircraft (based on a cost of \$114m before discounts) scheduled for delivery between July 2019 and December 2019. No financing has been secured for these aircraft to date. Operating lease financing arrangements are being considered for these aircraft given positive interest shown from potential lessors. If no financing was 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. Such penalties, in combination with other downside scenarios, could require additional funding from investors to enable the business to continue;

- The Group is exposed to fluctuations in fuel prices and foreign exchange rates. As of 14th June 2018, the Company had purchased 80.6% of our anticipated fuel requirements and 73.1% of anticipated US dollar requirements for the following 12 months and beyond that period hedging extends for a further six months at between 25% and 30% in accordance with policy and normal practice. Fuel prices have been increasing in recent months and there remains volatility in the foreign exchange markets. There is a risk that costs on unhedged fuel and aircraft ownership costs, such as leases, loan repayments and maintenance, will be higher than planned;
- The Group principally operates out of the UK and is therefore susceptible to changes in the economic environment and consumer confidence in the UK and to a lesser extent in Europe. While Brexit negotiations are ongoing, the uncertainty as to how this will affect Flybe remains. It could have a significant operational and financial impact;
- The Group can be impacted from an event risk such as terrorism or adverse weather as was seen in February and March 2018. Therefore, it is appropriate to consider a downside scenario of the adverse impact of the fleet being grounded for a short but concentrated period due to adverse weather conditions, albeit these occur intermittently. The terrorism events in the UK in 2017 did not have a significant impact on consumer demand in the UK. If there was a longer more severe impact from a future event, the Group can reduce capacity to better match any temporary reduction in demand; and
- Under the terms of the provision of card acquiring services, collateral may be required from the Group to provide security against the amounts that would be repayable to ticket purchasers should the Group be unable to provide the relevant flights (see note 19 deferred income). These collateral arrangements are regularly reviewed with the card acquiring service providers using information on the trading performance of the Group. A significant increase in the level of collateral needed would require the Group to consider the need to either obtain additional finance or to take other mitigating actions such as seeking alternative or additional providers.

## Financial review continued

Following this assessment, alongside a reasonable downside case, the directors have a reasonable expectation that the Company and the Group will be able to continue to operate, meet all liabilities as they fall due and have a viable business model during the three-year period to March 2021.

In making this statement, the directors have also made the following key assumptions on the basis that it would not be meaningful to attempt to measure the impact of major events occurring in these areas:

- > Funding for capital expenditure in the form of capital markets debt, bank debt, or aircraft leases will remain available;
- > There will not be a prolonged grounding of the Flybe fleet or a substantial proportion thereof; and
- > There will neither be a significant change in government regulation or significant problems arising from Brexit.

### Going concern

Flybe's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's and Chief Executive Officer's statements on pages 12 to 17. The financial position of the Group, its cash flows and liquidity position, and events since the balance sheet date are described in note 38, and in the Financial Review on pages 28 to 39. In addition, note 35 covers Flybe's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

Flybe had free cash balances of £86.7m at 31<sup>st</sup> March 2018, and has met all its operating lease commitments and debt repayments as they have fallen due during the year. The Group meets its day to day working capital requirements through operating cash flows and free cash balances. Capital expenditure is generally financed, through a combination of operating and finance leases and loan finance. Operating lease commitments are described in note 31 and the maturity dates of loan facilities are described in note 21.

The directors have prepared a detailed base plan and cash flow forecast for a period which covers at least 12 months after the date of approval of these financial statements. The directors have taken into account the net current liability position in making this assessment. This base plan has been completed at a detailed level across the business and takes into account normal trading expectations including the normal positive working capital cycle, non-cash items within current liabilities and initiatives to protect profit and cash.

In addition to the trading assumptions within the Strategic Business Improvement Plan, the cash flow forecast includes net cash outflows on maintenance and redelivery obligations for three of the nine E195 aircraft, expected to total £14m, that will fall due during the year ending 31<sup>st</sup> March 2019 and which are in excess of recoveries of maintenance prepayments.

Flybe faces trading risks presented by current economic conditions in the aviation sector, particularly in relation to passenger volumes and yields and the associated profitability of individual routes. The risks faced by the business are set out in detail in the Principal risks and uncertainties section on pages 40 to 45 and the appropriate risks have been cross referenced in the going concern key sensitivities table opposite.

The directors, in assessing the going concern position, have applied sensitivities against the base plan to assess the situation on a reasonable downside case basis. The key sensitivities applied to the base plan are outlined below:

Risks	Sensitivities	Mitigating actions	Link to risks
Adverse fuel price	We have modelled a price which is 20% above plan and 10% above current spot rates.	See hedge position for FY19 and FY20 on page 33.  In addition, depending on market conditions, a fuel price surcharge may be applied to ticket price as has been done previously.	14
Adverse exchange rate (\$/£)	Assumed a reduction from the plan rate of \$1.36 to \$1.30 to £1.	See hedge position for FY19 and FY20 on page 33.	14
Lower consumer confidence	Results in a c. 3.5ppcts reduction to forecast load factors.	Flybe would look to reduce frequencies and possibly cease routes. We could also ground a portion of the owned fleet to minimise the impact over a short or prolonged period.  We also hold contingency within the base plan for shortfall to revenue targets.	13
Weather event	A presumed four day complete stoppage of the airline at the worst time of the year from a cashflow perspective.	Direct flying costs would not arise, but overheads, aircraft parking and disruption costs would continue.	8
Failure to meet SBIP cost savings:		We track the delivery of SBIP on a monthly basis with a focus on RPS, CPS, OTP and NPS.	5
Aircraft operating lease extensions	Non-achievement of assumed targets.	We hold a contingency within the base plan for risk of cost action failure.	
Maintenance efficiencies	Assumed a 6-month delay in achieving the targeted benefits.	Monthly management accounts help identify any shortfalls to target and consider opportunities to improve against budgetary targets.	
Credit card acquirer cash collateral	Assumes one of the two card acquirers requests cash collateral against forward sales (held as deferred income on the consolidated balance sheet).	Flybe is looking to re-balance and spread its credit card acquirer services between more providers to reduce the exposure held by any individual provider.	15

Having considered the forecasts, the downside case and potential mitigating actions along with making other enquiries, the directors have a reasonable expectation that Flybe has adequate resources to continue in operational existence for the foreseeable future. Thus, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Ian Milne**  
Chief Financial Officer

18<sup>th</sup> June 2018

# Principal risks and uncertainties

We continue to develop the risk management framework, employing best industry practices to assess, manage and mitigate risks.

The Board has carried out an assessment of the principal risks facing the Group during the year, including those that would threaten its business model and future performance. As part of the review, the Board also considered the risk appetite within Flybe for each item and the mitigating actions to reduce the impact of the risk. The Board has delegated the responsibility of monitoring risk management to the Audit Committee see pages 70 to 75 for more detail on the risk management process.

The following is a description of the principal risks and uncertainties and an explanation of how they are being mitigated or managed. The principal risks have not been presented in any particular order and have simply been listed according to category:

## Key

### Link to Strategy

Continually improving revenue

Sustainable cost position

A stable and reliable operation

Airline of choice for our customers

Engaged and motivated employees

### Inherent risk vs present year

Increase

Decrease

Stable

New

### Viability statement

Considered as a part of viability assessment

Safety and security	Commercial and operational	Financial	Regulatory
Our safety culture underlies everything we do and we do not tolerate regulatory and/or legal breaches.	We strive to continuously improve revenue, within the framework of a stable and reliable operation with engaged and motivated employees in order to be the airline of choice for our customers.	Clear financial leadership with a conservative risk management appetite is in place so we can reach a sustainable cost position.	We actively participate in discussions with the government and/or regulators that impact the Group and the airline industry.
<ul style="list-style-type: none"> <li> Major safety incident</li> <li> Health and safety or security-related incident</li> <li> Cyber-attack and information security</li> </ul>	<ul style="list-style-type: none"> <li> Competition</li> <li> Business opportunities</li> <li> IT resilience</li> <li> e-Fly project</li> <li> Disruption to operations</li> <li> Fleet decisions</li> <li> Technical despatch reliability ('TDR')</li> <li> Talent attraction and retention</li> <li> Industrial action</li> </ul>	<ul style="list-style-type: none"> <li> Macro-economic cycles</li> <li> Hedging</li> <li> Availability of suitable financing</li> </ul>	<ul style="list-style-type: none"> <li> BREXIT uncertainty</li> <li> General Data Protection Regulations ('GDPR')</li> </ul>

Risk description	Potential impact	Mitigation	Inherent risk trend
<b>Safety and security</b>			
<b>1 Major safety incident</b> <b>Link to Strategy</b>  <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px;">▼</span>	Failure to prevent a major safety incident such as significant damage or total loss of an aircraft could adversely affect Flybe's reputation, operational performance and financial results.	Our positive safety culture and safety management system underlies everything we do which minimises the risk of an incident occurring. The Safety and Security Review Committee is responsible for reviewing and monitoring formal policies and procedures, and providing assurance of performance in connection with the safe and secure operations of the Group. The Safety and Security teams identify, assess and mitigate safety issues and act on recommendations and guidance from the relevant authorities. Employees receive relevant training. An emergency response plan is in place including a full crisis management procedure. It is reviewed and tested monthly. Appropriate levels of insurance are in place.	
<b>2 Health and safety or security-related incident</b> <b>Link to Strategy</b>  <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px;">▼</span>	Failure to identify or prevent a health and safety or security-related incident including terrorist, internal or external attack, or appropriate response to a safety or security-related event could adversely affect Flybe's reputation, operational performance and financial results.	The importance of maintaining safe and secure operations is part of the Flybe culture and is regularly communicated to employees. The Safety and Security teams identify, assess and mitigate safety issues and emerging security risks, and act on recommendations and guidance from the relevant authorities. Employees receive relevant training. Appropriate levels of insurance are in place.	
<b>3 Cyber-attack and information security</b> <b>Link to Strategy</b>  <span style="border: 1px solid #ccc; border-radius: 50%; padding: 2px;">▼</span>	Breaches in IT security or incidences of fraud could adversely affect Flybe's operations and reputation, disrupt the ability to trade through e-commerce and potentially result in data loss and impact on the financial results.	Information security is an area of continuous review and improvement with the following controls in place: <ul style="list-style-type: none"> <li>&gt; System monitoring software to detect and prevent unauthorised access;</li> <li>&gt; Application firewalls;</li> <li>&gt; A dedicated information security team maintains the security framework, monitors for threats and oversees controls;</li> <li>&gt; Information security risks are considered within procurement processes and when new systems and IT services are introduced;</li> <li>&gt; Information security training and company-wide communications; and</li> <li>&gt; A read-and-sign security awareness policy and procedures.</li> </ul> In addition, the CIO has been appointed as Senior Information Risk Owner ('SIRO') to oversee all potential information risks to Flybe.	

## Principal risks and uncertainties continued

Risk description	Potential impact	Mitigation	Inherent risk trend
<b>Commercial and operational</b>			
<b>4 Competition</b> <b>Link to Strategy</b>   	<p>Flybe operates in a highly competitive aviation market. Competitors entering markets currently served by Flybe could result in loss of existing market share and diminished revenue.</p>	<p>Flybe has a strong position in the markets where it operates. Processes are in place to monitor and report on route-by-route performance and also to react rapidly to competitor activity whenever necessary. Flybe actively seeks to extend the reach of its brand through franchising, codeshares and other partnerships to continue to increase market share.</p>	
<b>5 Business opportunities</b> <b>Link to Strategy</b>   	<p>Failure to adequately plan, monitor and deliver identified business opportunities (internal or external) could result in failure to achieve group strategic goals. Inefficiencies could result in unrealised savings and increased costs, therefore impacting the Group financial results.</p>	<p>The Change Forum (major programmes), Capital Investment Committee (business and capital cases) and the Portfolio Review Board (all IT spend) are now in place to prioritise and plan all change initiatives and projects to ensure alignment with group strategy. This is a collaborative process with representatives from across the Group including IT, finance and strategy teams. Summaries of progress are presented to the Executive Committee on a monthly basis.</p> <p>There is an active Portfolio Management Office to oversee delivery of projects, track budgets and realise benefits. A project management framework, which sets out governance requirements, key processes and controls, is followed by all projects and programmes.</p> <p>Each major project or programme has its own steering group which provides challenge to the project, monitors progress and ensures that decisions are made at the appropriate level.</p>	
<b>6 IT resilience</b> <b>Link to Strategy</b> 	<p>Flybe is reliant on a number of IT systems across the Group. Lack of resilience of IT systems increases the risk of system outages and cyber-attacks.</p>	<p>Key operational IT systems have been identified and regularly backed-up.</p> <p>A combination of outsourcing arrangements and upgrading existing infrastructure through the network refresh project is improving the resilience of core systems.</p>	

Risk description	Potential impact	Mitigation	Inherent risk trend
<b>Commercial and operational</b>			
<b>7 e-Fly project</b> <b>Link to Strategy</b>  	Failure to implement the e-Fly digital transformation programme successfully across the business could impact anticipated revenue improvements and becoming the airline of choice for our customers.	To prevent the failure of implementation and resulting loss of reputation with our customers, employees, partners and competitors, an experienced project team has been appointed and a joint steering group formed with Amadeus. This reports to the Change Forum on a monthly basis and project summaries are discussed at the monthly Executive Committee.	
<b>8 Disruption to operations</b> <b>Link to Strategy</b>    	The business is susceptible to short and long-term disruption of varying scales. The ability to reinstate operations both efficiently and cost effectively is critical. Reputation could also be impacted.	An emergency response plan is in place which includes clear responsibilities and processes set out for the extensively trained emergency response team, including effective communication with all stakeholders. This is regularly reviewed and tested. Appropriate levels of insurance are in place. Most suppliers can be replaced by an alternative should an issue arise with a specific supplier. A Business Continuity Plan is in place across the Group to address potential long-term disruption events.	
<b>9 Fleet decisions</b> <b>Link to Strategy</b>   	Inappropriate aircraft fleet decisions could adversely impact the economics of the Flybe business model.	Long-term fleet decisions are core to the Flybe strategy. The Fleet and Strategy teams regularly assess opportunities regarding the optimal balance of owned/leased aircraft, the timing of re-deliveries of leased aircraft and the ability to negotiate extended operating lease terms where rates are favourable. A recent decision has been taken on the future fleet, further mitigating this risk.	
<b>10 Technical despatch reliability ('TDR')</b> <b>Link to Strategy</b> 	Technical or mechanical issues could result in a significant deterioration in TDR and consequently on-time performance ('OTP') which impacts customer perception, revenue and costs. Flybe's business model of flying short sectors and having multiple bases magnifies this risk.	Flybe operates a rigorous aircraft maintenance programme, with continuous investment in aircraft reliability through development of modifications in partnership with Bombardier and other original equipment manufacturers. TDR is tracked on a daily basis to enable management to react to trends. Flybe put additional effort and investment into TDR improvement on the Q400 fleet in 2017/18.	

# Principal risks and uncertainties continued

Risk description	Potential impact	Mitigation	Inherent risk trend
<b>Commercial and operational</b>			
<b>11 Talent attraction and retention</b> Link to Strategy 	Failure to have the appropriate talent and adequate levels of resources could adversely impact the performance of the business and delivery of strategy.	One of the strategic objectives for 2018/19 (see page 22) is to engage and motivate employees. This will be facilitated by a culture change programme to boost employee engagement. There is a recruitment strategy for pilots and cabin crew with dedicated in-house expertise to recruit, retain and develop talent.	
<b>12 Industrial action</b>			
Link to Strategy  	Industrial action by Flybe employees (due to the unionised nature of its workforce) or by the employees of key third-party service providers, could impact on Flybe's ability to maintain its flight schedule. This could have an adverse effect on Flybe's reputation, operational performance and financial results.	Flybe has well-developed consultation and negotiation processes with its employees and the unions. Formal negotiation practices, including collective bargaining where appropriate, are in place and are adhered to. Agreements are in place with employee groups relating to pay and conditions until the end of 2018/19. Flybe continues to ensure that employee remuneration and benefits reflect current market conditions.	
<b>Financial</b>			
<b>13 Macro-economic cycles</b> Link to Strategy  	The airline industry has historically been susceptible to global and regional macro-economic cycles. Significant economic downturns could have a substantial adverse impact on consumer demand and consequently Flybe's financial performance.	Flybe monitors route performance and adjusts flying patterns and pricing to customer demand. Flybe has a continuous focus on cost reduction in order to reach a sustainable cost position. This includes a planned fleet reduction strategy to reach the identified optimal fleet size of around 70 aircraft in financial year 2020/21.	
<b>14 Hedging</b> Link to Strategy  	Flybe is susceptible to adverse exchange rates and fluctuations in fuel price, which could significantly affect operational costs and the financial results.	While hedging cannot guarantee against significant long-term price changes, Flybe has a well-established hedging strategy in place which is designed to provide certainty over a significant proportion of Flybe's cost base in the coming 12 months.	

Risk description	Potential impact	Mitigation	Inherent risk trend
<b>Financial</b>			
<b>15 Availability of suitable financing</b> <b>Link to Strategy</b>   	<p>Unavailability of suitable fleet and counterparty financing could adversely impact relationships with suppliers which could in turn lead to operational disruption and impact the financial result.</p> <p>Misjudgement in the foreseen level of liquidity could result in the inability to meet contractual obligations or the inability to fund the business.</p>	<p>Flybe works with a number of counterparties, and continues to seek further counterparties, in order to reduce the risk of counterparty default or of an existing counterparty withdrawing credit.</p> <p>Flybe maintains detailed cash flow projections to forecast liquidity requirements, aims to maintain sufficient liquidity to meet all its obligations as they are expected to fall due and to fund the ordinary operation of the business through the seasonality of the year.</p>	
<b>Regulatory</b>			
<b>16 BREXIT uncertainty</b> <b>Link to Strategy</b>    	<p>While the BREXIT negotiations are ongoing, the uncertainty as to how this will affect Flybe remains. It could have a significant operational and financial impact.</p>	<p>An internal working group is in place and has reviewed all aspects of Flybe's operations and their risks in relation to Brexit.</p> <p>Management directly engages with the government and industry organisations.</p> <p>See pages 20 to 21 for our market overview of the factors driving the European airline industry.</p>	
<b>17 General Data Protection Regulations ('GDPR')</b> <b>Link to Strategy</b>   	<p>Failure to comply with GDPR in 2018 could have an adverse reputational and financial impact.</p>	<p>Flybe appointed an experienced Data Protection Officer in 2017 who is responsible for GDPR compliance. The team have conducted a review of different areas of the business and the data they hold to implement the necessary actions. GDPR training is mandatory for all employees exposed to personal data. During the transition phase, updates on GDPR are reported on a regular basis to the Executive Committee and the Audit Committee.</p> <p>In addition, the CIO has also been appointed as SIRO to oversee all potential information risks to Flybe.</p>	

# Corporate responsibility

Flybe cares.

We are passionate about connecting with our stakeholders across the regions we serve and strive to engage and motivate our employees and partners to build a profitable and sustainable business.

Our Corporate social responsibility ('CSR') activities cover a range of areas that are outlined here.

## Safety

Flybe's goal is to continually improve its safety performance and culture for the benefit of our customers and employees. This starts with the CEO and Executive Committee setting the company's safety goals. Day-to-day the Director of Safety and Security, whose remit is to operate independently across the Flybe Group, delivers these goals and reports directly to the Chief Operating Officer.

The Group's detailed quality assurance process (which also assesses contractors and service providers) is implemented by Flybe's independent Compliance Monitoring Team.

Overarching Flybe's safety management system is a set of prescriptive safety regulations overseen by the UK Civil Aviation Authority which licences and audits Flybe. As a member of IATA, Flybe also holds International Operational Safety Audit accreditation, an independent assessment of our safety capability.



**"Safety underpins everything we do. Every customer can be confident that their Flybe experience will be safe at every step of their journey with us. Our employees and contractors should work in a safe environment and this is embedded in Flybe's group safety principles."**

**Christine Ourmières-Widener**  
Chief Executive Officer



**Flybe Group Safety Principles\***

Safety must be embedded in everything we do and must be at the front of our mind every day.

Ultimately, the success of our business relies on us being a safe airline and we should strive to be a world leader in delivering a safe operation and never become complacent.

Our collective ambition should be to continue to improve our safety performance and culture every single day.

To meet this ambition we work according to the following 8 safety principles:

- We tell someone when we see something that is unsafe
- We are all responsible for safety
- We are all empowered to seek out, stop and eliminate unsafe situations
- We accept that mistakes happen and always maintain a just culture
- We allocate the right resources to keep us safe
- We give our staff the tools they need to keep us safe
- We measure how safe we are
- We ensure our partners work to the same standard of safety as us

\* This is a summary of the complete Flybe Safety and Health and Safety Policies found in the SMS and HSE Manuals

**flybe.**  
Close to you

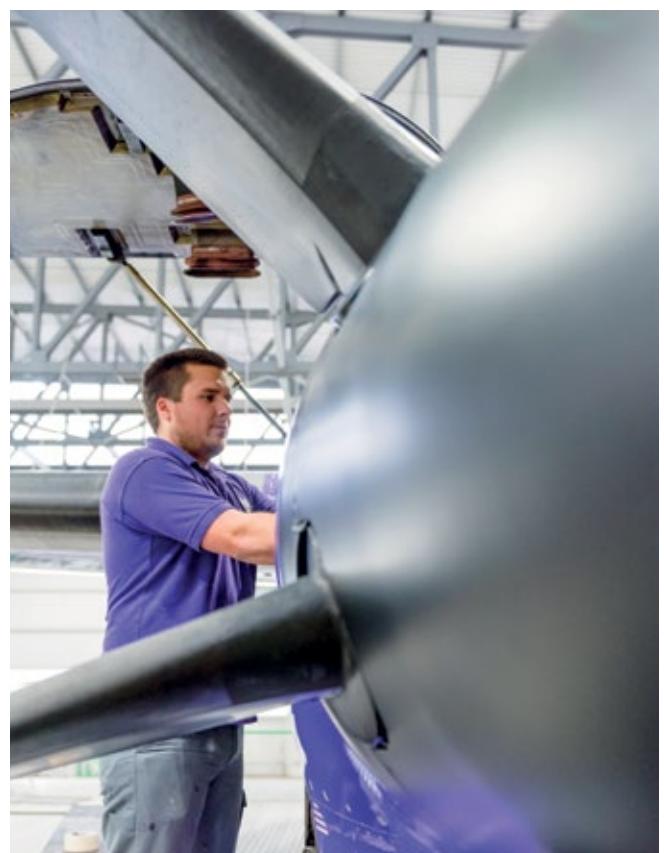
## Security

The Flybe Security Department works to ensure that the highest standards of security and security regulation are maintained across the Flybe network. Measures have been taken to protect personal and business data that includes continuous Payment Card Industry and General Data Protection Regulation ('GDPR') compliance.

Cyber security is a priority. In 2018, Flybe will establish its own dedicated Security Operations Centre to stay ahead of this growing threat.

## Health and Safety

The Health and Safety of customers, employees and contractors is the highest priority for Flybe. Governance of Health and Safety is managed through the Flybe Health and Safety Committee. Flybe strives for continuous improvement on all Health and Safety matters and works closely with employee groups and union representatives.



# Corporate responsibility continued

## ► Our values

Flybe is supported by a team which embraces the Group's new values and behaviours.

### Care and respect each other

Creating a positive and inclusive environment with all our working relationships

- > Listen actively to understand and empathise;
- > Respect the welfare and wellbeing of others;
- > Create a positive and optimistic environment; and
- > Confidentiality and integrity at all times.

### Own our actions

Being proactive and taking personal responsibility to achieve objectives

- > Take ownership for performance;
- > Drive to completion;
- > Be empowered and empower others; and
- > Focus on delivering results.

### Everyone together

Striving to find a better and more efficient way to operate

- > Give and receive feedback – motivational and developmental;
- > Be open and transparent;
- > Review, reflect and act; and
- > Innovate and challenge the status quo.



### Look after our customers

Putting the customer at the heart of everything we do

- > Consider the impact of decision-making on the customer;
- > Optimise the customer experience at every touch point;
- > Demonstrate passion for the customer; and
- > Seek ways to improve the customer experience.

### Strive for better

Working together effectively to create a team greater than the sum of its parts

- > Collaborate within and across functions;
- > Demonstrate belief in potential by supporting and enabling others;
- > Create a sense of belonging; and
- > Communicate, share and engage.

## Our People

### Regional employment

As at 31<sup>st</sup> March 2018, Flybe had 2,346 employees across 10 regional UK bases and one European base. By employing locally we contribute to regional economies. Our employees can live where they work which means they are in tune with what's happening in their region and can better know and understand our customers. This supports our customer service values and our ethos on working closely with the communities we serve. 24% of our UK employees work part-time or flexibly to balance their lifestyle needs.

### Wellbeing of our people

Looking after our people is important to us and we have a range of tools and policies to support this; our Employee Assistance Programme provides direct confidential services, support and advice at all stages of an employee's lifecycle.

### Developing our people

We know how important it is to have the right tools for the job and this also applies to training. We have our own specialist Training Academy that delivers first-class operational training. This facility features 26 classrooms, a simulator hall, cabin crew simulator hulls for safety and refresher training and an engineering workshop.

We have embraced the Apprenticeship programme as a vehicle to developing our people. Employees have had the opportunity to sign up for a variety of qualifications to develop their skills from legal executives to apprenticeships in leadership and management.

This year we have also developed our non-operational training, designing training to fit our internal requirements and have made good headway on bringing our training in-house with a range of short courses that employees can benefit from.

We have introduced a number of leadership courses to ensure compliance and enhance skills to support our employees and the business. We have also delivered tailored courses to develop our people and are extending this to a wider range of topics.

### Embedding our values

This year we have incorporated our values into all our training courses and embedded them into our company induction. Next year we are looking to embed the values and behaviours into our operating environments at every level and introduce evaluation measures.

### Engagement of our people

In addition to active engagement with our recognised trade union partners, Flybe uses its internal consultative forum, Open Channel, to engage and listen to our employees. Quarterly meetings are attended by the CEO and elected representatives from across the Company alongside members of the senior management team.

A live bi-monthly call with the CEO and Executive Committee responds directly to employees' questions. We have launched a weekly update email The 'Buzz' which highlights performance and news from around our network. Regular CEO updates and internal news are published on our intranet site which ensures employees are kept up to date and well informed.

Senior managers carry out base visits across the network and host monthly departmental stand-ups to ensure two-way employee communication. In addition, our senior management leadership team meets monthly to discuss, raise and then share information with their teams creating a further communication link between the Executive Committee and employees.

We have just launched an all employee survey using Great Place to Work to enable us to get feedback from our people and benchmark us against other employers.

### Rewarding our people

Flybe aims to provide fixed and variable pay, and short- and long-term benefits (including insured benefits) that are affordable, competitive in the marketplace, performance-led and flexible.

Flybe operates a group personal pension plan for our UK-based employees and operates salary sacrifice schemes including a bicycle purchase programme and a policy to buy extra-days-off-work. In addition, we offer a reward platform called 'Purple Take Off', an online employee benefits portal where attractive discounts and special offers give employees the opportunity to save money on a range of products and services.

We also offer discounted staff travel on Flybe and other airlines. This popular benefit is open to employees and their friends and families.

Our 'Purple Hero' recognition scheme celebrates employees who have demonstrated our company values by going above and beyond.

### Gender pay

Flybe has reported on its gender pay for 2017 in accordance with the new UK regulations. The report incorporates our two legal entities Flybe Limited and Flybe Aviation Services Limited.

Within Flybe, men and women are paid equally for doing the same jobs across the business. However, one of our employee categories is pilots, who are predominantly male. These roles attract higher salaries relative to other employees at Flybe, significantly increasing the average male pay. This is reflected across the aviation industry and is not unique to Flybe.

The difference in UK rate of pay between men and women is shown below:

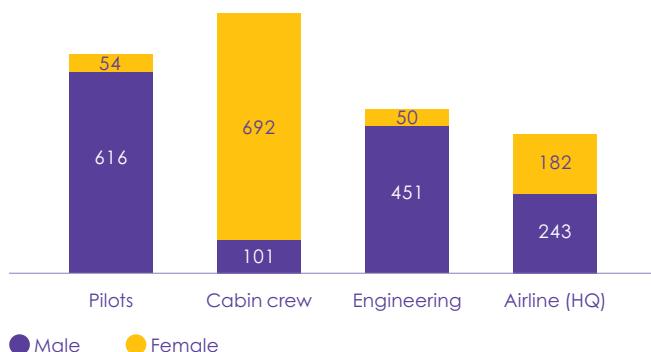
Flybe Group	Mean	Median
Hourly rates	41.8%	35.4%
Bonus payments	11.6%	8.2%

We are pleased to report that 7.9% of our pilots are female, which is above the UK average of 5.3%.



# Corporate responsibility continued

## Number of employees by profession



## Human rights

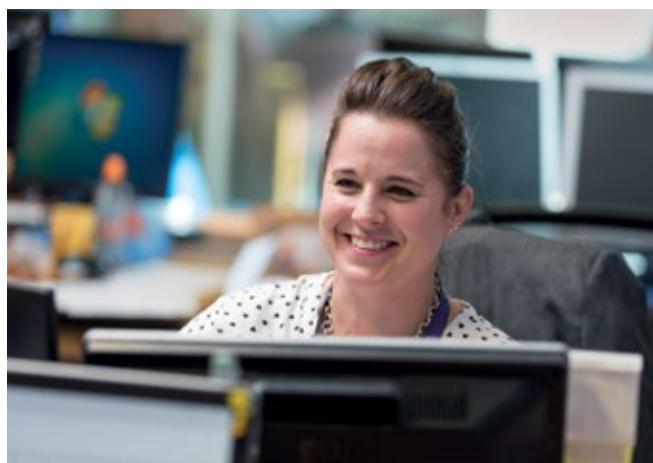
Flybe operates entirely with employees based in the EU under the European Convention on Human Rights. Detailed policies and procedures exist, including:

### Equality & diversity

Flybe recognises the value of a truly diverse workforce and is proud to have the highest percentage of female pilots of any UK-based airline. During 2017/18 we conducted an analysis of the distribution of men and women within pay quartiles, and the difference between men's and women's pay throughout the business, regardless of position. We reported our gender pay for 2017 – see earlier section. We are committed to discovering gaps, if they exist, in men's and women's pay in Flybe. By developing a thorough understanding of why these gaps exist we can implement a process to minimise them. We hope that this will improve our ability to attract, recruit and retain talented women in the business and reward all fairly. We welcome and encourage applications from candidates from all backgrounds and candidates with disabilities.

### Grievances

Our policy enables employees to raise any issues or concerns they may have about their work, the Group, clients or customers or suppliers, or fellow workers' actions that affect them.



## Disciplinary procedures

This procedure is designed to help and encourage all to achieve and maintain the required standards of conduct, behaviour, attendance or performance. Disciplinary matters will be dealt with and steps and/or actions taken. At all stages employees, will be advised in writing of the nature of the complaint against them and have the right to state their case.

## Whistle-blowing

Flybe is committed to conducting its business with honesty and integrity, and expects all employees to act accordingly. Flybe encourages employees to raise genuine issues of malpractice or impropriety at work so steps can be taken to safeguard employees and protect the Group. The Group's whistle-blowing policy was reviewed and updated during the year and the independent whistle-blowing hotline was promoted through a new poster campaign, emails to employees and raising awareness at team meetings.

## Harassment and bullying

Flybe is committed to promoting and aim to provide, a working environment where everyone is treated with respect and dignity, where no-one feels threatened or intimidated and where everyone can all do their work free from harassment and/or bullying. Unlawful harassment and/or bullying will not be tolerated. It will normally be dealt with under the disciplinary procedure with serious cases being treated as gross misconduct. In exceptional circumstances, it may also constitute a criminal offence.

## Anti-bribery and anti-corruption

Flybe will not tolerate any form of bribery by, or of, its employees, agents, consultants, or any person or body acting on its behalf. Everyone is responsible for maintaining the highest standards of business conduct and senior management is committed to implementing effective measures to prevent, monitor and eliminate bribery. The policy prohibits employees or associated persons from offering, promising, giving, soliciting or accepting any bribe. All corporate hospitality, entertainment, expenses or gifts accepted or offered must be recorded accurately and are subject to managerial review. Training was organised with senior managers during the year and the reporting processes have been reviewed and tightened.

## Modern slavery

Flybe is taking steps to combat slavery and human trafficking and is committed to improving our practices across our group to help achieve this. We expect high standards from the people that we engage with. Any new suppliers must sign-up to comply with all UK legislation including the Modern Slavery Act (2015), health and safety, environmental, anti-bribery and equality laws. Our anti-slavery statement is available online, see [www.flybe.com/corporate/governance/](http://www.flybe.com/corporate/governance/).

## Community & charitable activities

Flybe's passion and commitment is to connect regional communities. A key part of this is creating partnerships to make socially responsible investments into the regions we serve.

As a regional airline, we ensure that:

- > Chosen partnerships meet the criteria of benefitting communities themselves; and
- > Partnerships have the potential to engage employees throughout every department and help strengthen relationships with our customers.

All of us at Flybe are extremely proud of our heritage and the long-standing relationships we have nurtured. Sport is a major unifying element within communities, and our support of Exeter's leading football and rugby teams continues to thrive.

Our historic sponsorship of Exeter City Football Club, known locally as the Grecians, is now in its 15<sup>th</sup> consecutive year, making it one of the longest running corporate shirt sponsorships in football. For the first time, the team's new 'third' shirt, unveiled for its 2017/18 season, is in eye-catching Flybe purple.

**"Flybe has supported Exeter City through thick and thin for 14 years and we were delighted to mark this dedication by creating a kit that proudly displays our partnership."**

**Julian Tagg**  
Exeter City Chairman



Flybe has this year continued to work closely with the Exeter Chiefs rugby team which regularly charters flights from us and, of course, many of our customers and staff are avid fans. We extended our sponsorship of the team into an eighth consecutive year. Flybe's distinctive logo is prominently on the back of the team's black shirts and on signboards around the pitch at Sandy Park in Exeter, clearly visible during regular TV coverage of the high-profile Premiership matches. Our new pilots' uniform was also given its first airing at the Chiefs' home ground; one of Flybe's, Exeter-based, Senior First Officers took part in a lineout with three of the most prominent Chiefs players.

As our local rugby team, we are proud to have supported them for many years – that they have been so successful is an added bonus.

**"Since our promotion into the Premiership back in 2010, Flybe has supported us every step of the way. We continue to collaborate on our shared values, passion and commitment to the community."**

**Tony Rowe OBE**  
Exeter Chiefs Chairman and Chief Executive

Our charity partnership with Cancer Research UK is another long-standing commitment that, spanning almost ten years, has continued with wholehearted staff support encouraged by a team of dedicated staff Charity Champions across our bases. In September 2017, we celebrated passengers and staff having together raised £750,000 through on-board collections and general fundraising activity. Cancer Research UK's pioneering work into the prevention, diagnosis and treatment of cancer has helped save millions of lives. Today, two in four people survive their cancer for at least 10 years.

**"The dedication of Flybe's staff and customers helps to fund the charity's life-saving work to beat cancer and we look forward to continuing to develop our partnership together."**

**Ed Aspel**  
Cancer Research UK's Executive Director of Fundraising and Marketing

## Corporate responsibility continued

Our support of the local, brand new, Cranbrook Education Campus continued with supporting the development of its new library. This enabled the school to buy materials for a much-needed reading area. The project was also enthusiastically embraced by Flybe staff who generously donated almost 350 children's books to further fill the shelves.

**"The children will really benefit from Flybe's generosity. We very much hope they will have further opportunities to learn more about the work that Flybe does and find out more about the careers that are offered by the aviation industry."**

**Sam McCarthy**  
Head of Cranbrook Primary & Nursery Campus



### Commercial partners

Doing business with companies that take seriously their social responsibility is something that our procurement team will always take into consideration when awarding contracts. A tangible result of this is that there is now a water pump in Zimbabwe with Flybe's name on it courtesy of AquAid which provides us with water coolers and dispensers. They give on our behalf £20 per annum for every mains-fed water cooler installed plus a 30p donation to The Africa Trust for every bottle of water we take delivery of.

### Work experience

Working in the airline industry isn't just about being pilots, cabin crew or engineers. There are numerous departments which work behind the scenes to keep our fleet of aircraft flying day after day. This summer, the Flybe Work Experience Programme will welcome 14 students at the Exeter head office. We offer UK students in full-time education (aged 14-18 years) a fascinating insight into these areas.

### Environment

Flybe continues to demonstrate its role as an industry leader in minimising aviation environmental impact. We are proud of our commitment to environmental sustainability.

Flybe is the world's largest and most experienced operator of the Bombardier Dash 8 Q400, an extremely economical turboprop even when used in busy jet-dominated environments. An example of this is between October and December 2017, when Flybe was listed number one of over 50 airlines in London Heathrow's 'Fly Quiet and Green' league table. This is a set of metrics monitoring noise and carbon emissions, continuous descent operation and compliance with departure tracking within specific noise corridors.

### Fuel usage and emissions

Flybe adheres to a strong Flight Efficiency Strategy that, introduced in 2009, is continually being updated.

In 2017/18, a new fuel dashboard was introduced to support the airline and crew in further reducing our environmental impact primarily through reduced fuel burn.

Several key initiatives have been reinforced:

- Optimising and reducing unnecessary excess fuel carriage;
- Increasing opportunities and improving techniques to increase use of delayed engine start and single engine taxi procedures; and
- Working with airports, air traffic control and crews to increase the opportunity to fly continuous descents and reduce level segments of flight.

These initiatives are projected to save over 1 million kg of fuel in one year.

We continue to enhance our Electronic Flight Bag so there are no heavy manuals or charts on board. In 2018/19, all paper flight plans and weather briefing documentation will be removed from the flight deck, significantly reducing paper usage.

### Noise

The Q400 and the ATR72 are two of the quietest passenger aircraft in the world.

Flybe works closely with our airports, to ensure the highest levels of compliance with noise reduction while always maintaining high safety standards. This includes optimum flap selection to reduce drag and increase climb profiles, minimal use of auxiliary power units where possible and compliance with noise preferential routings.

## Waste

Flybe has implemented a 'Zero to Landfill' waste programme across our corporate offices and base maintenance facilities with the aim to divert approximately 140 tonnes of waste from landfill each year.

## Office carbon reduction

The Flybe Group Training Academy uses an energy-efficient Combined Heat and Power plant using natural gas to create electricity. The excess heat produced is used to heat our buildings. We are undertaking a programme to replace 'traditional' light sources with new LED fittings in our maintenance hangars. This has improved the light quality for our engineers while reducing energy use and costs. We are also reviewing further initiatives following an Energy Savings Opportunity Scheme audit as part of the EU Energy Efficiency Directive.

## Supply chain

Since 2015 Flybe has been enhancing its governance relating to CSR and sustainability within the inbound supply chain. This includes deployment of a new supplier e-Sourcing platform and associated supplier portal ('Fly-eBuy'), which is used to source goods and services for the business and manage CSR due-diligence relating to suppliers. Flybe is committed to procuring goods and services from suppliers who can demonstrate high levels of commitment to quality, safety, environmental responsibility, ethics and human rights.

## Emissions Trading Scheme ('ETS')

Since the introduction of aviation into the European ETS on 1<sup>st</sup> January 2012, Flybe has complied fully with the requirements of the scheme to submit an independently verified report of its CO<sub>2</sub> emissions and has purchased the equivalent carbon allowances under the scheme to offset its carbon footprint.

## Greenhouse Gas ('GHG') Emissions Report

The directors of Flybe Group plc present the greenhouse gas emissions report for the Group for the year ended 31<sup>st</sup> March 2018. Flybe's GHG emissions data is intended to comply with the reporting requirements of the Climate Change Act 2008. Emissions include all data reported from Flybe Limited and Flybe Aviation Services Limited (the trading subsidiaries of Flybe Group plc).

The information presented follows the 2013 UK government environmental reporting guidance. The Group has also adopted the GHG Protocol Value Chain (Scope 3) Standard, but Flybe is not, as yet, able to report on all categories that may be relevant. The figures relate to the required elements of each Scope 3 category and some of the optional elements. 2013 UK Government Conversion Factors for Company Reporting were used in converting activity data into carbon emissions.

## Greenhouse gas emissions data for 2016/17 and 2017/18:

	2016/17 tCO <sub>2</sub> e	2017/18 tCO <sub>2</sub> e
<b>Scope 1</b>		
Aviation fuel	640,504	658,409
Other fuels	2,026	2,480
<b>Total Scope 1</b>	<b>642,530</b>	<b>660,889</b>
<b>Scope 2</b>		
Electricity – UK	1,929	2,032
<b>Total Scope 2</b>	<b>1,929</b>	<b>2,032</b>
<b>Scope 3</b>		
Water supply and waste disposal	27	17
Business travel air/car	278	402
<b>Total Scope 3</b>	<b>305</b>	<b>419</b>
<b>Gross and net emissions</b>	<b>644,764</b>	<b>663,340</b>

1 Flybe fixed the base year as 2013/14 as this was the first year for which Flybe had reliable data and is typical in respect of its operations. The Group's policy on base year recalculation is to recalculate the base year and the prior year emissions for relevant significant changes which meet its significance threshold of base year emissions.

2 tCO<sub>2</sub>e is the number of tonnes of carbon dioxide equivalent and is the universal unit of measurement to indicate the global warming potential ('GWP') of each of the six greenhouse gases, expressed in terms of the GWP of one unit of CO<sub>2</sub>.

### Specific exclusions:

- > Emissions from air conditioning and refrigeration units in office buildings have been excluded due to unavailability of data. These are estimated to account for less than 0.5% of total of Scope 1 emissions; and
- > Emissions from taxi, bus and rail business travel have been excluded due to unavailability of data. These are estimated to account for less than 0.5% of total of Scope 3 emissions.

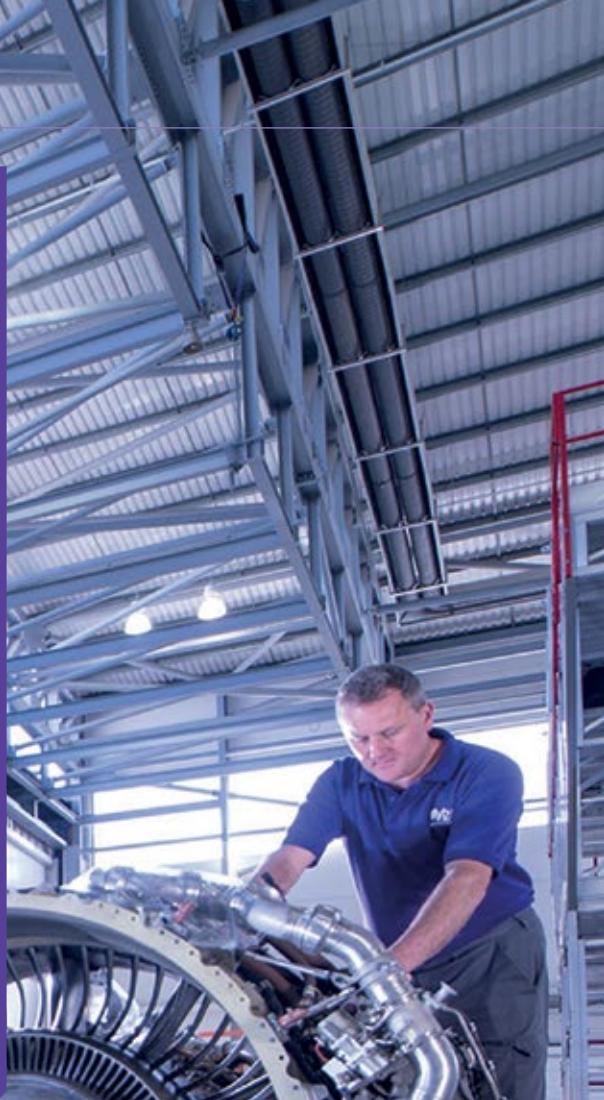
### Intensity measurements

The Group's carbon emissions are principally made up of emissions from flying activities. In order to allow comparison between its peers, the chosen measurement is emissions per passenger kilometre flown.

For 2017/18, the Group's total emissions per passenger kilometre were 135.8g/km (2016/17: 149.4g/km) due to a reduction in the amount of fuel used and a higher load factor on flights.

# Governance

- 55 Chairman's statement on corporate governance
- 56 Board of Directors
- 58 Executive Committee
- 60 Directors' report
- 63 Corporate governance
- 68 Safety and Security Committee report
- 69 Nomination Committee report
- 70 Audit Committee report
- 76 Directors' remuneration report
- 92 Statement of directors' responsibilities
- 93 Independent Auditor's report  
to the members of Flybe Group plc



# Chairman's statement on corporate governance



**"Good corporate governance enables the Group to focus on building the sustainable success of Flybe over the longer-term which will deliver shareholder value."**

**Simon Laffin**  
Non-Executive Chairman

## Dear Shareholder,

We believe that good corporate governance plays an important role in assisting the Group in organising itself, in setting the right culture and ultimately in delivering value to shareholders, while taking account of our responsibilities to the wider community. Although not yet in the FTSE 350, Flybe governs itself in line with the governance recommendations and requirements for those companies. For example, the Board evaluation is externally facilitated and at least half the Board (and the members of the Audit and Remuneration Committees), excluding the chairman, comprises independent Non-Executive directors.

As I explained in last year's report, in May 2017 we appointed an external consultant, Radojka Miljevic of Campbell Tickell, who has over 20 years experience, to conduct a full board and committee effectiveness evaluation. The evaluation was conducted last summer, reporting back in July and September 2017. It included reviews of each director's performance as well as a detailed review of how the Board works as a whole. It provoked some careful reflection about how we work as a board and how individuals contribute to both meetings and our general culture.

In particular, it was noted that there should be more Board involvement in strategy development and risk management. Enhanced risk management was therefore prioritised by the Audit Committee and we endeavoured to deploy best practice regarding safety and corporate risk management. The Board culture and dynamics were approved, but commercial aviation experience was relatively light. It was felt that there could be an

improvement in the quality and timeliness of board papers and I am pleased to note that this has already been seen.

In November 2017, we appointed Ian Milne as Chief Financial Officer on a permanent basis. Aside from his deep knowledge and experience of finance, he brings over 20 years of airline experience at British Airways and IAG, and he has significantly added to the Board's collective airline knowledge. When David Kappler indicated that he was thinking of retiring this year, we targeted the search company (Ridgeway Partners) with finding a Non-Executive with commercial airline sector knowledge. As a result, Heather Lawrence joined the board in May 2018. She has worked for many years with airlines in a role in the City.

Diversity remains an important aim for the Board. Following the AGM, we will have a 50:50 gender-mix of both our executive and Non-Executive board members. We shall continue to review board composition to ensure that we have the right team for the business for the future.

All shareholders are very much encouraged to attend the AGM where the Board will be available to meet shareholders directly and to discuss any matters of importance to them. Additional materials such as annual and interim reports, presentations and other announcements are available via Flybe's website at [www.flybe.com/investors](http://www.flybe.com/investors).

**Simon Laffin**  
Non-Executive Chairman  
18<sup>th</sup> June 2018

# Board of Directors

Group Board
Audit Committee
<ul style="list-style-type: none"> <li>&gt; David Kappler (Chair)</li> <li>&gt; Sir Timo Anderson</li> <li>&gt; Elizabeth McMeikan</li> <li>&gt; Heather Lawrence</li> </ul>
Remuneration Committee
<ul style="list-style-type: none"> <li>&gt; Elizabeth McMeikan (Chair)</li> <li>&gt; Sir Timo Anderson</li> <li>&gt; David Kappler</li> <li>&gt; Simon Laffin</li> <li>&gt; Heather Lawrence</li> </ul>
Nomination Committee
<ul style="list-style-type: none"> <li>&gt; Simon Laffin (Chair)</li> <li>&gt; Sir Timo Anderson</li> <li>&gt; David Kappler</li> <li>&gt; Elizabeth McMeikan</li> <li>&gt; Heather Lawrence</li> </ul>
Safety & Security Committee
<ul style="list-style-type: none"> <li>&gt; Sir Timo Anderson (Chair)</li> <li>&gt; Elizabeth McMeikan</li> </ul>

## Executive Directors

- 1. Christine Ourmières-Widener  
Chief Executive Officer**  
Appointed: 16<sup>th</sup> January 2017

Christine Ourmières-Widener has had a lengthy career in the aviation and travel sectors, having first started in the maintenance department of Air France before working her way up to become the airline's UK and Ireland General Manager and later Vice President in New York. She was Chief Executive of CityJet between 2010 and 2015 and then Chief Global Sales Officer for American Express Global Business Travel before joining Flybe as Chief Executive Officer in January 2017. She is a board member of the European Regions Airline Association. Christine was appointed to the IATA Board of Governors on 5<sup>th</sup> June 2018. Christine has a Masters in Aeronautics from the École Nationale Supérieure de Mécanique et d'Aérotechnique and an MBA from ESSEC Business School.

- 2. Ian Milne  
Chief Financial Officer**

Appointed: 1<sup>st</sup> November 2017

Prior to joining Flybe Ian Milne had a twenty-year career at British Airways/International Airlines Group, culminating in serving as IAG's Group Financial Controller and BA's Director of Integration. Earlier in his career, he worked in the London office of Ernst & Young. He joined Flybe as Interim CFO in August 2017 and became the permanent CFO in November last year.

## Non-Executive Directors

- 3. Simon Laffin  
Non-Executive Chairman**  
Appointed: 4<sup>th</sup> November 2013

Simon Laffin was appointed to the Flybe Board as Non-Executive Chairman. Simon is also Chairman of Assura Group plc (retiring in July 2018), a Non-Executive Director at Watkin Jones plc and an adviser to Dentsu Inc. Previously he was Group Finance and Property Director at Safeway plc between 1994 and 2004 and he has served as a Non-Executive Director at Quintain Estates & Development PLC, Aegis Group plc, Mitchells & Butlers plc and Northern Rock plc (as part of the rescue team), an adviser to CVC Capital Partners, and Chairman of Hozelock Group. Simon chairs Flybe's Nomination Committee and sits on the Remuneration Committee.



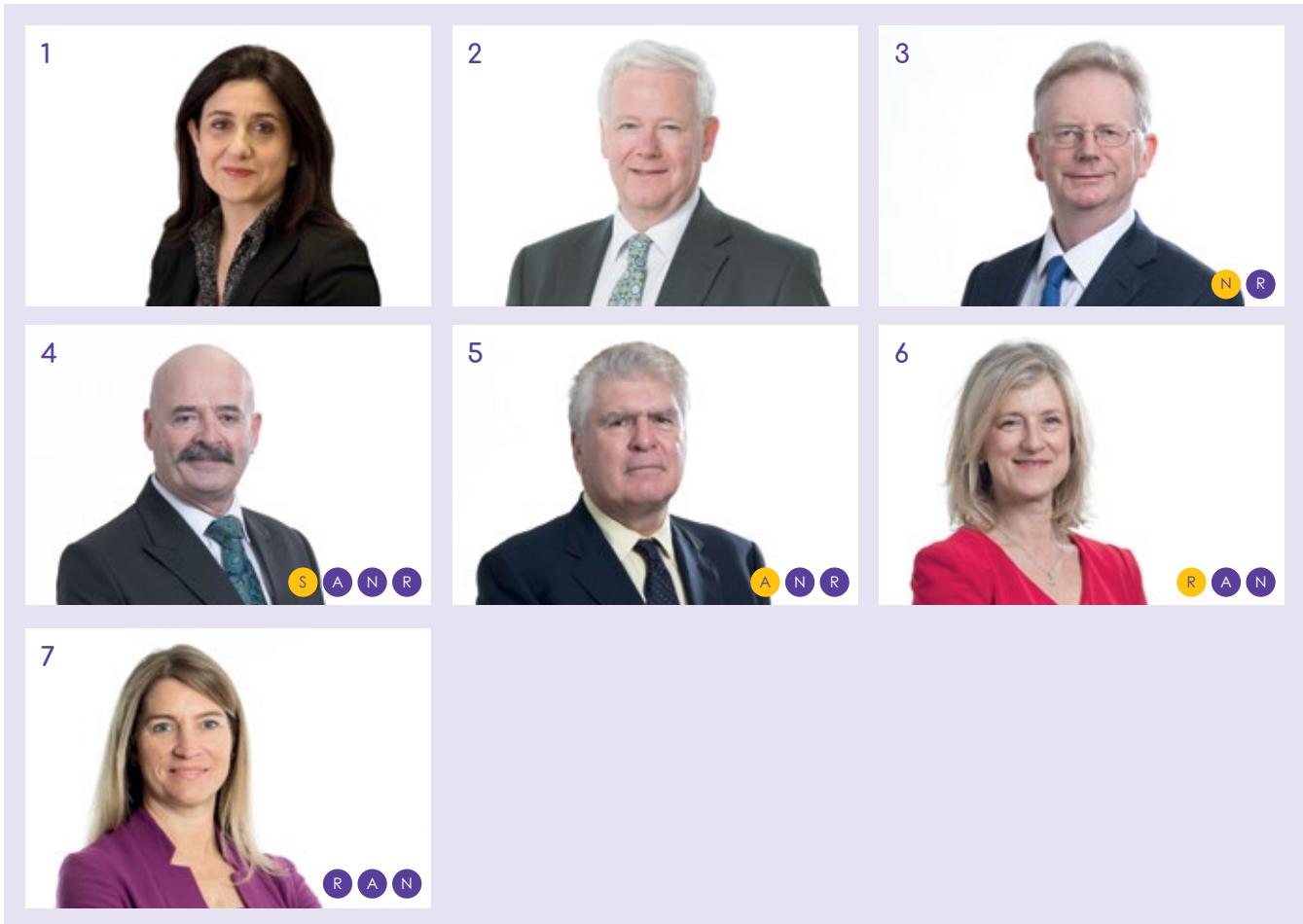
- 4. Sir Timothy (Timo) Anderson  
Independent Non-Executive Director**  
Appointed: 1<sup>st</sup> May 2014

Sir Timo Anderson is a senior advisor to international corporate and government clients, predominantly in the Aerospace, Defence and Security sector. He established the UK Military Aviation Authority (the body responsible for all military aviation regulation and safety), becoming its first Director General from 2010 to 2013. Prior to that Sir Timo was Assistant Chief of Air Staff, Royal Air Force. He served in the Royal Air Force from 1979 and held senior executive and operational command appointments, before going on to be responsible for the Royal Air Force's strategy and a member of the Air Force Board. Sir Timo chairs the Safety and Security Committee. He also sits on the Nomination, Remuneration and Audit Committees.



Directors who served but resigned during the period:

Philip de Klerk – Chief Financial Officer – resigned 30<sup>th</sup> September 2017



### 5. David Kappler

**Senior Independent Non-Executive Director**

Appointed: 3<sup>rd</sup> March 2015

David Kappler is a director of a number of private companies. He was previously Deputy Chairman and Senior Independent Director at Shire plc and a Non-Executive Director at InterContinental Hotels Group, Premier Foods, HMV and Camelot. He is a qualified accountant and between 1995 and 2004 he was CFO at Cadbury-Schweppes. David is the Senior Independent Director and Chair of the Audit Committee. He is also a member of the Remuneration and Nomination Committees. David has informed the Board that he intends to retire at this year's AGM.

A N R

### 6. Elizabeth McMeikan

**Independent Non-Executive Director**

Appointed: 1<sup>st</sup> August 2014

Elizabeth McMeikan is the Senior Independent Director at JD Wetherspoon plc and the Senior Independent Director at Unite Group plc where she also chairs the Remuneration Committee. Elizabeth is also a Non-Executive Director of two private companies, Fresca Group and CH&Co Group. She is a trustee of the charity Second Growth. Elizabeth spent her early career at Colgate-Palmolive and then at Tesco, establishing Tesco Express and being appointed Stores Board Director for Change Management and Human Resources. She chairs Flybe's Remuneration Committee, and sits on the Nomination Committee, Safety and Security Committee and Audit Committee.

R A N S

### 7. Heather Lawrence

**Independent Non-Executive Director**

Appointed: 11<sup>th</sup> May 2018

Heather Lawrence has spent 25 years in finance and investment banking. She worked for PWC, CS First Boston and Schroders/Citigroup Global Markets, where she was a Managing Director and led the aviation and travel business. She served as a Non-Executive director at WizzAir PLC between 2009 and 2014 and as a Non-Executive Director and Audit Chair of the South London NHS Trust. She is a qualified accountant and graduate of Exeter University. Heather sits on the Audit Committee, the Remuneration Committee and the Nomination Committee.

A N R

# Executive Committee

The Board is supported in its day-to-day running of the Group by the Executive Committee.



**1. Christine Ourmières-Widener**  
**Chief Executive Officer**  
See page 56 for biography

**2. Ian Milne**  
**Chief Financial Officer**  
See page 56 for biography

**3. Luke Farajallah**  
**Chief Operating Officer**  
Appointed: 1<sup>st</sup> April 2015

Luke Farajallah is responsible for the key operations functions (flight operations, crew planning, operational control centre, ground operations, engineering, and Flybe's maintenance and repair organisation). Luke joined Flybe from Bond Offshore Helicopters where he held the position of Managing Director. He has previously held senior operational roles with British Airways (where he spent 17 years), easyJet (where he was the Regional General Manager for the UK), Wizz Air (as Group Chief Operating Officer) and more recently, roles in Spain with Spanair and Volotea. Luke will be leaving Flybe in October 2018.

**4. Peter Hauptvogel**  
**Chief Information Officer**  
Appointed: 1<sup>st</sup> March 2017

Peter Hauptvogel joined Flybe last year to fulfil a critical role in developing the IT platform and to lead Flybe's investment in digital transformation. Peter has over 20 years of operational and IT experience in aviation and he joined Flybe from Thomas Cook Group Airlines where he was IT Director. Prior to that he was Chief Information Officer at Air Berlin.

**1****2****3****4****5****6****7**

### **5. Vincent Hodder**

#### **Chief Strategy Officer**

**Appointed:** 2<sup>nd</sup> December 2015

Vincent Hodder was previously the Chief Revenue Officer at Flybe with responsibility for driving revenue performance, and network and scheduling development. From 1<sup>st</sup> October 2017, he changed role to become Chief Strategy Officer. In this role, Vincent, is focused on reviewing new opportunities for the Company. Vincent was previously Chief Commercial Officer at VivaAerobus in Mexico, Executive Director and Senior Vice President of Operations in Tokyo for Jetstar, and Vice President for Strategic Development at Grupo TACA in El Salvador. He also spent three years at Bain & Co where he worked for airline clients in Australia and South Africa. Vincent holds a BA in Commerce and an MBA from Melbourne Business School, University of Melbourne. Vincent will be leaving Flybe in July 2018.

### **6. Roy Kinnear**

#### **Chief Commercial Officer**

**Appointed:** 2<sup>nd</sup> January 2018

Roy has overall responsibility for heading up the airline's commercial activities with its revenue management, network, scheduling, ancillary, sales, cargo sales marketing, e-commerce, customer care and loyalty teams all reporting to him. Roy possesses a wealth of commercial airline experience gained from over 30 years in the industry having previously held various senior management roles with carriers that have included bmi, Gulf Air and Etihad. He joined Flybe in January 2018 from Air Seychelles where he was Chief Executive Officer.

### **7. Catherine (Kate) Ledger**

#### **General Counsel and Company Secretary**

**Appointed:** 4<sup>th</sup> January 2016

Kate oversees the legal and company secretarial function. She has also had responsibility for the HR function since June 2017. She joined Flybe from London Heathrow Airport Holdings, formerly known as BAA, where she was Head of Legal for Operations, Corporate and Litigation. Kate trained in the City with Linklaters, qualifying into the firm's Commercial Litigation Department and then worked for two further London firms before moving in-house. She has a wealth of legal experience which includes corporate governance, regulatory and competition law (including health, safety and the environment), commercial dispute resolution, procurement and contracts, employment law and airport security. Kate has a BA (Hons) in Law from Durham University.

#### **Executive Committee members who served but left during the period:**

Philip de Klerk, Chief Financial Officer (30<sup>th</sup> September 2017)

Piers Robinson, Chief People Officer (30<sup>th</sup> September 2017)

# Directors' report

The Directors present their Annual Report on the affairs of the Group, together with the financial statements and auditor's report for the year ended 31<sup>st</sup> March 2018. The Corporate Governance Statement set out on pages 63 to 67 forms part of this report.

Details of significant events since the balance sheet date are contained in note 38 to the financial statements. An indication of likely future developments of the business is included in the Strategic Report.

## Content included in the Strategic Report and financial statements

The Companies Act 2006 (as amended) requires certain information to be included in either the Directors' Report, or where it is not, for that information to be included in the Strategic Report or financial statements and cross-referenced. The same has been done for non-financial and diversity information (the 'Non-Financial Reporting Directive') effective for financial years beginning on or after 1<sup>st</sup> January 2017. The items included in elsewhere in the Annual Report are:

Item	Page/note
Engagement of our people	Page 49
Gender pay	Page 49
Human rights – including equality, diversity and employment of disabled people, and policies on anti-bribery and anti-corruption	Page 50
Environmental – including greenhouse gas emissions reporting	Pages 52 to 53
Financial instruments and financial risk management <sup>1</sup>	Note 35

<sup>1</sup> Information about the use of financial instruments by the Group's subsidiary, Flybe Limited, is given in note 35 to the financial statements.

## Directors and Company Secretary

The Directors and Company Secretary who served during the year are shown on pages 56 to 59.

## Dividends

No dividends are declared or proposed for either 2016/17 or 2017/18.

## Share capital

Details of the movement in authorised and issued share capital during the year are provided in note 25 to the financial statements. As at 31<sup>st</sup> March 2018, the Company's share capital comprised a single class of ordinary share of one pence each. The issued share capital of the Company was £2.2m comprising 216,656,776 ordinary shares of one pence each.

The rights and obligations attaching to the Company's ordinary shares are set out in the Company's Articles of Association.

## Restrictions on share transfers

There are no restrictions on transfers of shares other than:

- Where the Company has a lien on a partly-paid share, unless to do so would prevent dealings in partly-paid shares from taking place on an open and proper basis;
- Where the transfer is in favour of more than four joint transferees;
- Where a transfer request is not accompanied by the relevant share certificate(s) and such other evidence as the directors may reasonably require to show the right of the transferor to make the transfer;
- Certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- Pursuant to the Company's code for securities transactions whereby the directors and designated employees require approval to deal in the Company's shares;
- In certain circumstances where the shareholder in question has been issued with a notice under s793 of the Companies Act 2006;
- Where a proposed transferee of the Company's shares has failed to furnish the directors with a declaration of nationality (together with such evidence as the directors may require) as required by the Company's Articles of Association; and
- The powers given to the directors by the Company's Articles of Association to limit the ownership of the Company's shares by non-UK nationals or non-EEA nationals and powers to enforce this limitation including the right to force the sale of any affected shares.

As at 31<sup>st</sup> March 2018, the Company is not aware of any arrangements between shareholders that may result in restrictions on the transfer of securities or voting rights.

#### **Shares with special rights**

There are no shares in the Company with special rights regarding control of the Company.

#### **Annual General Meeting**

The Annual General Meeting ('AGM') provides the Board with an opportunity to communicate with, and answer questions from, private and institutional shareholders. All members of the Board will be available at the meeting to answer shareholders' questions. The Notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting. After the AGM, details of the voting results are announced to the market through an RNS announcement and are published on the Group's website at [www.flybe.com/investors](http://www.flybe.com/investors).

#### **Restrictions on voting rights**

The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting. When, in the opinion of the Board, a significant proportion of votes have been cast against a resolution at any general meeting, the Company would explain when announcing the results of voting what actions it intends to take to understand the reasons behind the vote result.

#### **Employee share scheme**

The Trustee of the Flybe Share Incentive Plan ('the Plan') will, on receipt of any offer, compromise arrangement or scheme which affects ordinary shares held in the Plan, invite participants to direct the Trustee on the exercise of any voting rights attaching to the ordinary shares held by the Trustee on their behalf and/or direct how the Trustee shall act in relation to those ordinary shares. The Trustee shall take no action in respect of those ordinary shares for which it has received no directions or where ordinary shares are unallocated. Generally, on a poll, the Trustee shall vote in accordance with directions given by participants. In the absence of directions or on a show of hands the Trustee shall not vote.

The Trustee of the Flybe Employee Share Trust ('the Trust'), which is used for the Flybe long-term incentive plan, has the power to vote or not vote at its discretion in respect of any shares in the Company held in the Trust.

#### **Directors' indemnity and insurance cover**

In accordance with the Company's Articles of Association, throughout the year the directors have been, and continue to be, indemnified to the fullest extent permitted by law. Appropriate directors' and officers' liability insurance cover is arranged and maintained via the Company's insurance brokers, Willis Towers Watson, and its terms are reviewed annually.

#### **Political donations**

Flybe did not make any political donations during the year (2016/17: £nil).

#### **Substantial interests**

On 14<sup>th</sup> June 2018 the Company had been notified, in accordance with chapter 5 of the Disclosure and Transparency Rules, of the following voting rights as a shareholder of the Company:

Name of holder	Percentage of voting rights and issued share capital	Number of ordinary shares
Aberforth Partners	24.84	53,822,131
Hosking Partners	18.96	41,088,583
T Rowe Price Associates	8.63	18,690,764
Pelham Capital Management	8.37	18,127,663
Columbia Threadneedle Investments	4.52	9,801,115
Eden Alpha	3.00	6,500,000
Barclays Wealth Management	1.64	3,543,272
HSBC Global Wealth Management (UK)	1.03	2,234,259

#### **Listing Rule requirements**

In accordance with the Listing Rule requirements (LR 9.8), the applicable information has been included in the Directors' report for the year ended 31<sup>st</sup> March 2018:

Item	Page
Directors' remuneration report: long-term incentive schemes (LR 9.4.3R)	76 to 91

## Directors' report continued

### Financial calendar

Annual General Meeting 13<sup>th</sup> September 2018

Half-year results 2018/19 November 2018

Full-year results 2018/19 June 2019

The dates above are indicative and confirmation will be listed on our website at [www.flybe.com/investors](http://www.flybe.com/investors) and through RNS announcements.

### Company number

01373432

### Registered office

New Walker Hangar  
Exeter International Airport  
Exeter  
EX5 2BA  
United Kingdom

The Company is domiciled in the United Kingdom and is a public limited company.

### Company registrar

Link Market Services Limited  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

Telephone: 0871 664 0300  
(Outside the UK: +44 371 664 0300)

### Auditor

Deloitte LLP  
Rivergate  
Temple Quay  
Bristol  
BS1 6GD

Each of the persons who are directors of the Company at the date of approval of this annual report confirms that:

1. so far as each of the directors is aware, there is no relevant audit information of which the Company's auditor is unaware; and
2. each of the directors has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

A resolution to appoint a new external auditor will be put to shareholders at the 2018 Annual General Meeting.

By order of the Board

**Ian Milne**

Chief Financial Officer

18<sup>th</sup> June 2018

# Corporate governance

## Attendance at scheduled Board and Committee meetings

Directors in office as at 31<sup>st</sup> March 2018

Year ended 31 <sup>st</sup> March 2018	Board	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Security Committee
Number of scheduled meetings	8	7	3	4	4
<b>Executive Directors<sup>1</sup></b>					
Christine Ourmieres-Widener	8/8	n/a	n/a	n/a	n/a
Ian Milne <sup>2</sup>	4/4	n/a	n/a	n/a	n/a
<b>Non-Executive Directors</b>					
Simon Laffin <sup>3</sup>	8/8	7/7	3/3	4/4	n/a
Sir Timo Anderson	8/8	7/7	3/3	4/4	4/4
David Kappler	8/8	7/7	3/3	4/4	n/a
Elizabeth McMeikan	8/8	7/7	3/3	4/4	4/4
<b>Former Executive Director<sup>1</sup> who served during the year</b>					
Philip de Klerk <sup>4</sup>	4/4	n/a	n/a	n/a	n/a

1 The Executive Directors of the Company may attend meetings of the Committees as a guest at the invitation of the respective Chairmen.

2 Ian Milne was appointed on 1<sup>st</sup> November 2017.

3 Simon Laffin attends the Audit Committee meetings as a guest.

4 Philip de Klerk resigned on 30<sup>th</sup> September 2017.

The Company Secretary, Catherine Ledger, acts as secretary for the Board and all Committee meetings.

## Corporate governance statement

The Company is committed to the principles of corporate governance contained in the UK Corporate Governance Code ('the Code') that was issued in 2016 by the Financial Reporting Council. The Code can be found at [www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code](http://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code). This section of the Annual Report sets out how the Company has applied the main principles of the Code in the year to 31<sup>st</sup> March 2018.

## Statement of compliance

The Board is committed to maintaining the highest standards of corporate governance and has fully considered the provisions of the Code. The Board considers that the Company is a 'smaller company' for the purposes of the Code which defines this as a company which has been below the FTSE 350 throughout the year immediately prior to the reporting year. Throughout the year ended 31<sup>st</sup> March 2018, and up to the date of approval of this Annual Report, the Board considers that it and the Company have complied with the provisions and principles set out in the Code as it applies to 'smaller companies' other than the one exception detailed in the year immediately prior to the reporting year which has been detailed in section A.3 below.

# Corporate governance continued

## Statement of compliance continued

The following narrative explains how the Company has applied the main principles of the Code:

### A. Leadership

#### A.1 The role of the Board

At 31<sup>st</sup> March 2018, the Board comprised six directors, of whom four are Non-Executives (three of whom are independent) and two are executives. In May 2018, Heather Lawrence was appointed as an independent Non-Executive director. The Chairman was considered to be independent on appointment – see A.3. The directors' biographies on pages 56 and 57 illustrate the complementary range of airline, engineering, financial, commercial, operational and entrepreneurial experience which provides the Board and its committees with the necessary balance of skills, diversity, independence and knowledge of the Group. This enables the Board members to discharge their respective duties and responsibilities effectively in order to lead the Group. The table on page 63 sets out the directors' attendance at the scheduled board and committee meetings during the year.

The Company has arranged appropriate insurance cover in respect of legal action against its directors. This has been disclosed on page 61.

The Board held eight scheduled meetings during the year, which all directors attended. One of those occasions was incorporated within a two-day strategy session in September. In addition, there were a number of ad hoc meetings of the Board to deal with specific issues that arose during the year in particular dealing with the announcement by the Stobart Group of a potential offer for the Company's shares.

The Board has a formal schedule of matters reserved for decision by it. This schedule is available for inspection at the Company's registered office and on the Company's website at [www.flybe.com/corporate/governance](http://www.flybe.com/corporate/governance). The Board delegates specific responsibilities, with written terms of reference, to its Committees, details of which appear in later sections of this report.

The Board's key purpose is to provide the leadership and vision necessary to ensure the Company's prosperity by collectively directing the Company's affairs while meeting the appropriate interests of its shareholders and stakeholders. It has the ultimate responsibility for setting the Company's overall strategy and long-term direction and applies governance within a framework of effective controls which permit risk to be assessed and managed. The Board has responsibility for approving the financial statements, major capital expenditure, major non-recurring projects and any significant transactions.

Aside from day-to-day management issues including reviewing the work of its Committees and the actions of the Executive Committee and senior management, the Board has focused on and dealt with:

- Reviewing and developing a three-year strategic business plan and considering the appropriate balance of risk and shareholder returns to determine the long-term direction of Flybe;
- Major IT projects including: the implementation of AMOS, a comprehensive, fully-integrated software package to manage the maintenance, engineering and logistics requirements; and the agreement with Amadeus for a new integrated digital platform;
- Reviewing the future fleet requirements;
- The new relationship with Eastern Airways, through which Eastern became a Flybe franchisee and whereby Eastern operated a number of flights on behalf of Flybe in Scotland;
- Safety culture and reviewing the implementation of a safety action plan following the report from industry experts Baines Simmons;
- Cyber security and GDPR;
- The announcement by Stobart that it was interested in making an offer for the Company's shares; and
- An external board evaluation was conducted in summer 2017 by Radojka Miljevic, see section B.6 below.

Beneath the Board there are clear responsibilities among senior management designed to ensure that the business can be managed and monitored effectively. The Executive Committee is led by the Chief Executive Officer. It has responsibility for implementing on a day-to-day basis the strategy that has been agreed by the Board. The management structure of the Company as at 31<sup>st</sup> March 2018 was as below and the Executive Committee members' biographies are on pages 58 and 59.

#### A.2 Division of responsibilities

The division of responsibilities is agreed by the Board and set out in writing. The roles of Chairman and Chief Executive are separate and clearly established. The Chairman's role is to run the Board and ensure that it operates effectively. The Chief Executive's role is the day-to-day management of the Group businesses and the development and implementation of strategy.

### A.3 The Chairman

The Chairman, Simon Laffin, was considered to be independent on appointment; however, in the previous financial year, following the departure of the previous Chief Executive Officer, Simon Laffin acted as Executive Chairman, until the new Chief Executive Officer, Christine Ourmières-Widener, was in situ. Simon Laffin returned to his Non-Executive role on 20<sup>th</sup> January 2017. It was appreciated that combining the roles of the Chairman and Chief Executive Officer is not in line with governance best practice, but it was believed to be in the best interests of the Company to have the interim period overseen by someone who was already familiar with the Company and could therefore act as a caretaker for the period until a new Chief Executive Officer was appointed. A.3.1. states that the Chairman should, on appointment, meet the independence criteria set out in this provision, but thereafter the test of independence is not appropriate in relation to the Chairman.

### A.4 Non-Executive Directors

The Company has a Senior Independent Non-Executive Director, David Kappler, to provide a sounding board for the Chairman as required and to serve as an intermediary for the other directors if necessary. The Senior Independent Non-Executive Director is also available to shareholders if they have been unable to resolve concerns through the normal channels of communication with the Chairman, Chief Executive Officer or other Directors, or where such contact is inappropriate. No concerns were raised during the year.

The Chairman and the Non-Executive Directors meet regularly without the Executive Directors present. The Senior Independent Non-Executive Director meets at least annually with the Non-Executive Directors without the Chairman present to appraise the performance of the Chairman. In addition to this, in summer 2017 a formal board performance evaluation was carried out which included a section on the Chairman's performance. This is discussed further in the Nomination Committee section on page 69.

Where Non-Executive Directors have concerns, which cannot be resolved, about the running of the Company or a proposed action, they should ensure that their concerns are recorded in the Board minutes. No matters have been noted. On resignation, a Non-Executive Director should provide a written statement to the Chairman, for circulation to the Board, if they have any such concerns. There were no resignations in the year.

### B. Effectiveness

#### B.1 The composition of the Board

At 31<sup>st</sup> March 2018, the Board comprised four Non-Executive Directors (including the Chairman) and two Executive Directors.

The Board considers its Non-Executive Directors, excluding the Chairman, to be independent in character and judgement, and generally, to be free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

#### B.2 Appointments to the Board

The Nomination Committee leads the process for board appointments and makes recommendations to the Board. Non-Executive Directors are appointed for a specified three-year period subject to re-election and to statutory provisions relating to the removal of a director. Any term of service beyond six years for a Non-Executive Director would be subject to review and consideration of the need to progressively refresh board members.

The Board recognises that diversity, in its widest sense, is important for the Board's effectiveness. All the directors have been appointed on merit alone and specifically for the contributions that are brought from their knowledge and experience. Their wide-ranging experience and backgrounds ensure that they can debate matters in relation to both the development of strategy and performance against the objectives set by the Board. We believe that the diverse backgrounds of the individual directors ensure we have a board with the optimum combination of skills and experience needed to support the business. As a result, no targets have been established for the composition of the Board, whether in terms of racial background or gender. Overall information on the gender diversity of the Board and the Group is given on page 50. Following the AGM, we will have a 50:50 gender-mix of both our executive and Non-Executive board members.

The Nomination Committee report is set out on page 69 and provides further information on the main activities during the year.

#### B.3 Commitment

The Company's Articles of Association permit the Board to consider and, if thought fit, to authorise actual or potential conflicts of interest which may arise and to impose such limits or conditions as it thinks fit. The Board has a formal procedure whereby actual and potential conflicts of interest can be recorded by each director and authorised by the Board. The decision to authorise a conflict can only be made by non-conflicted directors (those who have no interest in the matter being considered) and in making such a decision the directors must act in a way they consider in good faith will be most likely to promote the Company's success.

# Corporate governance continued

## Statement of compliance continued

Any changes to the commitments of any director are always considered by the Board to ensure they will continue to have sufficient time to enable them to discharge their responsibilities effectively. These commitments and any changes to commitments are disclosed in the directors' biographies on pages 56 to 57. The Board is satisfied that all the directors continue to perform effectively and demonstrate commitment to their roles, including commitment of time for board and committee meetings and any other duties which may be undertaken by them from time to time.

The terms and conditions of appointment of Non-Executive Directors is available for inspection at the Company's registered office and at the AGM. Each letter of appointment sets out clearly what is expected in the role, the anticipated level of time commitment including, where relevant, additional responsibilities such as membership or chairmanship of board committees. A register of commitments is maintained by the Company Secretary.

## B.4 Development

The Chairman is responsible for ensuring that new directors receive a tailored induction on joining the Board. This would include introductions to major shareholders. Ian Milne joined the Board as Chief Financial Officer ('CFO'). He originally joined Flybe as an Interim CFO and worked alongside the former CFO for six weeks to enable him to be introduced to the key stakeholders and to the business systems and processes. Ian came from another airline and so benefitted from having strong industry knowledge which aided the transition.

The Chairman annually reviews the training and development needs of individual directors to ensure that the Directors continually update their skills and knowledge and improve their familiarity with the Company in order to fulfil their role. During the year, the September board meeting was held in Aberdeen. During their time at Aberdeen Airport the Board visited the base to meet the crews and further their understanding of the Group and its operations.

During the course of the year, all of the directors received updates on best practice, particularly in the context of the bid period of a potential takeover situation, as well as bringing knowledge and information gathered from their other business interests.

## B.5 Information and support

To enable the Board to function effectively, and to assist the directors to discharge their responsibilities, a comprehensive set of papers is provided by senior management in advance of each board and committee meeting. The Company Secretary facilitates the information flow to the Board and its Committees, and between senior management and Non-Executive Directors.

The directors may, at the Company's expense, take independent professional advice where necessary to discharge their responsibilities as directors. All directors have access to the advice and services of the Company Secretary, who is responsible to the Board on matters of corporate governance and compliance with board procedures.

Both the appointment and removal of the Company secretary is a matter for the Board to approve.

## B.6 Evaluation

The Board supports the Code's provisions on board performance evaluation. An annual evaluation of its own performance, its Committees and individual directors is undertaken. Although under the Code it meets the definition of a smaller company, the Board has opted for the evaluation to be externally facilitated at least every three years.

A full board evaluation by an external consultant, Radojka Milijevic, took place in summer 2017 and reported back to the Board in July and September. Radojka Milijevic had no other connection with the Company and was therefore independent.

The evaluation of the Board considered the balance of skills, experience, independence and knowledge of the Board members, its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness. A detailed questionnaire was completed by the directors and interviews were held individually with each director and the Company Secretary. A board meeting was observed and the board packs were reviewed alongside the Terms of References for each Committee.

The Chairman acted on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board. There had been the change of Chief Executive Officer the previous year and the Board recognised the impact of this and that all could benefit from improved communication and increased proactivity. The need to allow time for strategic discussion and thinking was highlighted, as was a need for more focus on risk and internal controls. Culture and business transformation were also flagged as matters for board focus and recommendations for improving board and committee papers were discussed.

The external evaluator also prepared a separate report on the Chairman's effectiveness, which was also discussed at the July board meeting.

#### **B.7 Re-election**

All directors will retire at the forthcoming AGM and, being eligible and other than David Kappler, they will offer themselves for re-election. David Kappler has informed the Board that he intends to retire at this year's AGM. None of the Non-Executive Directors has served more than nine years in office. A biography for each director, together with a description of their skills and experience, will be included in the 2018 AGM proposals to enable shareholders to make an informed decision on their re-election.

### **C. Accountability**

#### **C.1 Financial and business reporting**

Please refer to:

- Statement of Directors' responsibilities on page 92 for the Board's confirmation that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy;
- Independent auditor's report on pages 93 to 101 includes disclosures about the audit scope and responsibilities of the auditor;
- The Board has presented the business model and strategy for delivering the objectives of the Company on page 22; and
- Statement that it is appropriate to adopt the going concern basis of accounting on page 39.

#### **C.2 Risk management and internal control**

The Board has carried out a robust assessment of the principal risks facing the Group during the year, including those that would threaten its business model, future performance, solvency or liquidity. For a description of the principal risks and an explanation of how they are being managed or mitigated, please see pages 40 to 45. Considering the Group's current position and principal risks, the directors have explained their assessment of the prospects of the Group in the viability statement on page 37 to confirm their expectations that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of assessment.

The Board has delegated the responsibility for monitoring risk management and internal controls to the Audit Committee. Please see page 72 for a description of the main features of the internal control and risk management processes including the consolidation.

#### **C.3 Audit Committee and auditors**

The Audit Committee report is set out on pages 70 to 75 and provides further information on the Group's compliance with the Code relating to the Audit Committee and its auditors. This includes details of the activities of the Committee and its relationship with the internal audit team and the external auditor.

### **D. Remuneration**

The Remuneration Committee has been delegated responsibility from the Board for setting remuneration for the Executive Directors and the Chairman, including pension rights and any compensation payments. The Committee also recommends and monitors the level and structure of remuneration for senior management. The Directors' Remuneration report is set out on pages 76 to 91 and provides further information on the Group's compliance with the Code relating to remuneration.

### **E. Relations with shareholders**

#### **E.1 Dialogue with shareholders**

The Chairman and other directors have met major shareholders to listen to their views to develop a balanced understanding of the issues and concerns of shareholders. The Board also receives analyst and broker briefings.

The Chief Executive Officer and the Chief Financial Officer met regularly with analysts, brokers and key shareholders during the year.

#### **E.2 Constructive use of general meetings**

The Annual General Meeting ('AGM') provides the Board with an opportunity to communicate with, and answer questions from, private and institutional shareholders. Further details are set out in the Directors' Report on pages 60 to 62.

# Safety and Security Committee report



**"It is important that the Board is assured that safety priorities and performance is embedded in Flybe's culture therefore minimising the risk of a safety occurrence."**

**Sir Timo Anderson**  
Committee Chairman

The Safety and Security Committee's purpose is to review and monitor formal policies and procedures, and to provide a framework of assurance in connection with the safe and secure operation of the Group's business.

Membership of the Committee as at 31<sup>st</sup> March 2018:

- > Sir Timo Anderson (Committee Chairman)
- > Elizabeth McMeikan

The Chief Executive Officer has a permanent invitation to attend meetings and the Accountable Manager and individual post-holders are requested to attend as required.

The Committee held four scheduled meetings during the year. Meeting attendance is detailed on page 63.

Duties and authority to act can be found in the online terms of reference of the Committee on Flybe's website at [www.flybe.com/corporate/governance](http://www.flybe.com/corporate/governance).

Main areas of focus during the year:

- > Review progress on the actions from the Baines Simmons safety culture programme;
- > Review occurrence investigations and recommendations;
- > Fatigue management;
- > Consideration of EASA proposed legislation regarding psychological assessment, support programmes, and drug and alcohol testing;
- > Oversight of partnership operations concerning compliance and safety;
- > Review of crew experience, training and supervision; and
- > Review of Emergency Response Plan exercises.

**Sir Timo Anderson**  
Committee Chairman

18<sup>th</sup> June 2018

# Nomination Committee report



**"An appropriate balance of skills and experience on the Board is important to maintain effectiveness and ensure open-minded thinking."**

**Simon Laffin**  
Non-Executive Chairman

The Nomination Committee's purpose is to establish a formal, rigorous and transparent procedure for the appointment of new directors to the Board. The Committee leads the process for recruitment of board members and makes recommendations to the Board. The Nomination Committee evaluates the balance of skills, experience, independence and knowledge of the Board and, in the light of this evaluation, prepares a description of the role and capabilities required for an appointment.

Membership of the Committee as at 31<sup>st</sup> March 2018:

- > Simon Laffin (Committee Chairman)
- > Sir Timo Anderson
- > David Kappler
- > Elizabeth McMeikan

The majority of members of the Nomination Committee are Independent Non-Executive Directors. The committee is chaired by Simon Laffin, Non-Executive Chairman, who would not chair the Nomination Committee when dealing with the appointment of his own successor to the chairmanship.

The Committee held three scheduled meetings during the year. Meeting attendance is detailed on page 63.

Duties and authority to act can be found in the online terms of reference of the Committee on Flybe's website at [www.flybe.com/corporate/governance](http://www.flybe.com/corporate/governance).

Main activities during the year:

- > The recruitment of the new Chief Financial Officer which was handled by Odgers Bernstein who are not connected to Flybe and who conducted a thorough independent review of the market;
- > Engaging with the search for a new Non-Executive director to replace David Kappler, who had confirmed his intention to retire. Ridgeway Partners, who are independent and not connected to Flybe, were appointed to perform this search. Heather Lawrence was appointed as a Non-Executive Director in May 2018; and
- > Selection of the external board evaluator, Radojka Milijevic. The evaluation process has been discussed in the Corporate Governance Code review in section B.6 on page 66.

**Simon Laffin**  
Non-Executive Chairman  
18<sup>th</sup> June 2018

# Audit Committee report



**"Oversight of internal financials controls and risk management remains at the forefront of the Committee's agenda."**

**David Kappler**  
Chairman, Audit Committee

## Dear Shareholder,

In July 2017, following an Audit Committee review, Flybe appointed KPMG LLP to provide internal audit services. It was felt that an external provider would give access to specialists, ensure best practice and offer resource flexibility. On their appointment, the annual work plan was revised with a particular area of focus being placed on facilitating a review of the risk register to reflect the current strategic risks of the Group. An annual review of KPMG's work was considered in the March Audit Committee and the Committee was very pleased with the quality of the reports and the progress made to date.

Throughout the financial year, the Committee has reviewed and monitored the external auditor's independence and objectivity, and the effectiveness of the external audit. We have also taken into consideration regulatory requirements (such as length of tenure) and discussions with the Executive Directors and members of the senior finance team. With the 10 year tenure point approaching and Deloitte stepping down following this audit, Flybe Group plc announced in May 2018 that it will be holding a competitive tender for the selection and appointment of an external auditor for the year ending 31<sup>st</sup> March 2019. The tender process will be starting shortly.

As always, the Audit Committee has challenged management on the integrity of the financial statements to ensure that the information presented to shareholders is fair, balanced and understandable. The Committee reviewed the management assessment of the going concern period and also the three-year period which is considered appropriate for the viability outlook. The going concern and viability reviews were considered in parallel as both were based on the refreshed three-year plan. Following a rigorous process, during which the Committee challenged the relevance of the sensitivities applied, the mitigating actions in place and that the relevant risks had been addressed, the directors have a reasonable expectation that the Group will be able to continue to operate, meet all liabilities as they fall due within the 12 month period from date of signing these accounts and have a viable business model for the three-year period to March 2021.

There has been extensive discussion regarding the existence and timing of an onerous lease provision for the E195 aircraft and the related impairment of associated assets by the Audit Committee. The conclusions of the management team were reviewed and it was agreed that there was supporting evidence that there were unavoidable losses on the E195 fleet and that an onerous lease did exist at 31<sup>st</sup> March 2017. Therefore, given this should have been taken into account at that time, the Committee approved the correction of this prior period error.

The Committee reviewed the impact of the forthcoming changes in accounting standards. The Committee has also considered management's plans to deal with information security (including cyber security and GDPR) and business continuity planning.

In May 2018, it was announced that I will be stepping down as a Non-Executive Director and Chair of the Audit Committee at the 2018 AGM. Retiring as the Chair of the Audit Committee, I look back with pleasure on the good progress made at Flybe in the key areas of internal financial controls, risk management and finance capability. We have invested in improving systems, recruited a strong leadership team and outsourced internal audit to bring the specialist capabilities we required. As ever, further progress needs to be made, but the improvements are already clear.

#### **David Kappler**

Chairman, Audit Committee

18<sup>th</sup> June 2018

#### **Purpose of the Committee**

The purpose of the Audit Committee is to provide formal and transparent arrangements for considering how to apply the financial reporting, risk management and internal control principles set out in the Code to assist the Board in fulfilling its oversight responsibilities, and to maintain an appropriate relationship with the Company's auditor. The Committee also reviews the accounting and financial reporting processes, along with the roles and effectiveness of both the internal and external auditors. This includes reviewing the financial reports and other financial information before publication. The ultimate responsibility for reviewing and approving the annual, and other, accounts remains with the Board.

The Committee reviews internal controls on a continuing basis, with respect to finance, accounting, risk management, compliance and fraud. The Committee conducts regular reviews of the adequacy and effectiveness of the Company's risk management systems. This includes a detailed evaluation of the risk register to ensure that the risks are identified, accurately assessed and effectively managed through a robust risk assessment process.

The Committee agrees the internal audit planned workload for the forthcoming financial year. Working with internal audit, the Committee challenges and reviews the controls within the organisation, through internal audit reports and assessments, ensuring that any control issues are actioned.

The Committee also considers management's plans to deal with information security (including cyber security and GDPR) and business continuity planning.

#### **Committee membership and attendance at meetings**

Membership of the Committee as at 31<sup>st</sup> March 2018:

- > David Kappler (Committee Chairman)
- > Sir Timo Anderson
- > Elizabeth McMeikan

Since stepping down from the Audit Committee in the previous financial year, Simon Laffin has been invited to attend all Committee meetings. The Chief Executive Officer, Chief Financial Officer, Group Financial Controller, representatives from Internal Audit and representatives from the external auditor are invited to attend all meetings of the Audit Committee. Internal Audit and the external auditor may also request a meeting with the Audit Committee Chair or any other members.

David Kappler will be stepping down as a director at the 2018 AGM and Heather Lawrence, who was appointed as a Non-Executive Director in May 2018, has joined the Committee.

The Committee held seven scheduled meetings during the year. Meeting attendance is detailed on page 63.

#### **Terms of reference**

Duties and authority to act can be found in the online terms of reference of the Committee on Flybe's website at [www.flybe.com/corporate/governance](http://www.flybe.com/corporate/governance).

#### **Main responsibilities and activities during the financial year 2017/18**

##### **Integrity of financial statements**

The Audit Committee reviewed the financial reporting, including the Annual Report, Half-year Report and other formal announcements, relating to the performance of the Group during 2017/18:

- > Committee members reviewed the documents and discussed them with the Chief Executive and Chief Financial Officer, with particular focus on areas of subjectivity or application of judgement;
- > The Committee then advised the Board on whether the financial reporting presented was fair, balanced and understandable and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- > The ultimate responsibility for approving the Annual Report and other reporting remains with the Board.

The Audit Committee reviewed a report focused on specific aircraft maintenance accounting issues identified at half-year and progress reports on the forthcoming adoption of new accounting standards (IFRS 9, 15 and 16).

## Audit Committee report continued

### Internal financial controls and risk management

The Audit Committee reviewed the Group's internal financial processes and controls. This includes the consolidation process. In the last quarter, there was an exercise in finance to fully document the high-level financial process flows and supporting controls of the core processes. The initial findings have been reported to the Committee with an action plan to be agreed to strengthen financial processes and controls in specific areas during 2018/19.

Internal Audit facilitated an extensive review of the Group risk register (which contains identified risks, consequences and mitigating controls) during 2017/18. The Committee has reviewed the report and, collectively with the Executive Committee, agreed the strategic risks in March 2018. See the principal risks and uncertainties on pages 40 to 45.

### Internal audit

The Audit Committee made the decision in late 2016/17 to appoint an external provider to deliver internal audit services who would give independence, provide access to specialists, use best practices and offer resource flexibility. KPMG LLP was appointed in July 2017 as they were considered to have the tools, processes and appropriate Internal Audit expertise. The annual work plan was therefore revised.

The Committee reviewed reports presented by Internal Audit and considered senior management's responses to recommendations. This included facilitating a review of the Risk Register.

Internal Audit also reviewed payroll, HR and IT controls around starters, transfers and leavers as this was an area of concern following a period of high staff attrition with limited handover. Internal Audit reported back to the Committee in March 2018 and progress will continue to be reported during 2018/19. Management understand that the controls around starters, transfers and leavers are critical to any business and have therefore committed to an action plan with assigned ownership and timeframes. There was an immediate focus on ensuring HR reports of starters, transfers and leavers were complete to improve payroll accuracy and to allow IT to grant/stop access to systems. These findings were reiterated by the external audit team during their IT control environment testing regarding user access.

### External audit

The Audit Committee reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements. See the 'independence' section of this report for further detail. The Committee also approved the remuneration and terms of engagement of the external auditor for 2017/18.

### Non-audit services

It is the responsibility of the Audit Committee to develop and implement the policy on the engagement of the external auditor to supply non-audit services. See the 'non-audit services' section of this report for further detail.

### External audit tender cycle

The Committee has responsibility to the Board for recommending the appointment/reappointment and removal of the external auditor. The Board, in turn, will propose a resolution for consideration by the shareholders.

### Review of risk and its reporting in the financial statements

The Board has carried out a robust assessment of the principal risks facing the Group during the year, including those that would threaten its business model, future performance, solvency or liquidity. The Board has responsibility for determining the nature and extent of the risks that Flybe is willing to take in achieving the Group's strategic objectives and for oversight of the risk management process. The Board has delegated the responsibility for monitoring risk management and internal controls to the Audit Committee.

Internal Audit facilitated an extensive review of the Group risk register during 2017/18. Risk assessment workshops have taken place as part of the annual review of the Group risk register to ensure that the likely risks to strategy are understood. The key elements of the annual risk register review process are:

- Significant risks are identified by each function;
- An assessment of these risks is performed to consider the potential impact and the likelihood of occurrence to give an inherent risk rating. Identified mitigations are considered to score the residual risk rating;
- The residual risk rating is compared to the Board's risk appetite to determine whether further mitigations are required; and
- The Executive Committee review the risk register to select the principal and strategic risks to put forward to the Audit Committee and Board.

Identified risks have been recorded in an updated strategic risk register along with their cause, early warning indicators, potential consequences, mitigating controls currently in place and improvement actions for risk reduction.

The Board and Audit Committee have received regular updates throughout the process to give reassurance that a robust framework for risk management is in place. The Committee reviewed the final strategic risk register and, collectively with the Executive Committee, agreed the strategic principal risks in March 2018. The principal risks and uncertainties facing the Group are discussed on pages 40 to 45.

## Significant issues related to the financial accounting and the financial statements

At the request of the Board, the Committee reviewed the Annual Report to determine whether it was fair, balanced and understandable, and provided the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The Committee did this by:

- > Gaining an understanding of the drafting and preparation process and the level of internal review and challenge to ensure balance and accuracy;
- > Assessing whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements. This included review of accounting papers prepared by management which provided details on the main financial reporting judgements at both the half and full years; and
- > Reviewing reports by the external auditor on the half-year and full-year results which highlight any issues that have arisen during their work.

The Committee considered the following significant issues regarding financial accounting and the preparation of the financial statements:

- > Maintenance accounting – At the commencement of the half-year close process, accounting weaknesses were identified in our maintenance accounting, due to a combination of weaknesses relating to the balance sheet reconciliation process, variance analysis against budget and some aspects of the monthly close process. The Committee commissioned a third-party to perform an immediate review of maintenance accounting. The focus on improving the maintenance accounting continued into the second half of the year, when management performed further detailed reviews of the maintenance models to improve accuracy where weaknesses had been previously found.

At year end, the Committee also reviewed the appropriateness of assumptions applied by management. The Committee and the senior finance team continue to monitor this area closely and aircraft maintenance is considered to be a key estimation – see note 4;

- > Budgetary review and financial close process – in the second-half of the year, the new Chief Financial Officer introduced better daily management of the overall monthly close process with a particular focus on the timeliness of balance sheet reconciliations, and a more rigorous formal monthly review of the management accounts by the senior finance team. Progress continues to be reported to the Committee;
- > Budgeting and forecasting process – The new Chief Financial Officer, who has significant airline experience, introduced an improved budgeting and forecasting process. These changes were incorporated into the preparation of the 2018/19 budget and the refreshed three-year plan.

Improvements were made to reduce inaccuracies by collating inputs using a planning and forecasting tool, developing a more robust model to reduce mathematical inaccuracies and enable sensitivities to be applied more easily.

In addition, the Executive Committee were directly engaged in compiling the assumptions underpinning the plans for future trading and business development activities. This increased engagement with the Executive Committee has established greater understanding and accountability for reporting against budget as historically this has been a weakness. The Audit Committee have increased confidence in the plan and have used it to make informed decisions on onerous aircraft lease provisions, going concern and viability;

- > Onerous aircraft lease provision – When Christine Ourmières-Widener joined in January 2017, Flybe entered a new phase in its development. Christine reviewed the strengths and weaknesses of the business and presented the Sustainable Business Improvement Plan ('SBIP') to the Board in March 2017. The Board papers contained a detailed network strategy and review of the fleet which confirmed the recommendation to exit the E195 aircraft fleet as there were unavoidable losses despite the actions (i.e. airport agreements) in place to mitigate the losses. However, despite the information available in March 2017, the basis of the cash generating unit ('CGU') was not challenged or the onerous lease test performed for the E195 fleet.

In prior years, under the previous management team, the entire fleet had been categorised as one CGU as decisions were made to generate cashflows when working the fleet collectively (as the aircraft were considered to be interchangeable) in order to fulfil network obligations. This worked on the basis that the airport deals and related fleet interchangeability would mitigate the losses.

The refreshed three-year plan (refreshed in 2017/18 to cover the next three financial years) continues to support the original findings presented to the Board in March 2017 that the E195 fleet will continue to incur unavoidable losses. It showed that an error had been made in the previous financial year as an onerous contract on the E195 leases should have been recognised as the unavoidable costs of meeting the lease obligations exceeded the economic benefits expected to be received. A prior period error has therefore been adjusted for retrospectively in accordance with IAS 8 to be released over the next three years until lease expiry and all the aircraft have been handed back in 2020/21 – see note 24 for a breakdown of restatement. Throughout this decision-making process, there was extensive discussion regarding the existence and timing of the onerous lease provision and the related impairment of assets by the Committee. The assessment of the level of onerous lease provision is considered to be a key estimation – see note 4;

## Audit Committee report continued

> Going concern basis of accounting and assessment of Flybe's viability over a three-year period to March 2021 – The new three-year plan was also used by management to perform the going concern and viability review which was documented and presented to the Audit Committee. The Committee reviewed the management assessment of any material uncertainties in the Group's ability to continue to be a going concern for a period of at least 12 months from the date of approval of the financial statements and the mitigating actions which have been put in place. This included the relevance of the sensitivities applied to the three-year plan to stress test the going concern basis.

In making their assessment regarding viability, the Committee took into account Flybe's current financial and operational position, assessed the potential financial and operational impacts (in severe but plausible scenarios) and considered the principal risks and uncertainties set out on pages 40 to 45. The Committee then considered the likely effect of these on the Group's prospects and viability. Further detail on the going concern and viability assessment is in the Financial Review on pages 37 to 39;

- > Impairment review – The Committee assessed the impairment review conducted by management at the balance sheet date. This included consideration and agreement that it was appropriate to change the CGU basis in 2017/18 which was proposed following the identification of the prior period error regarding onerous leases. The fact that the E195s are unavoidably loss making for the remainder of their lease term has also led to an impairment of the related capitalised maintenance assets being recorded as part of the prior year adjustment. Further detail on the impairment review has been included in note 14;
- > Reviewing the fundamental changes as set out by management of the accounting for fuel and foreign exchange hedges under IFRS 9 from 1<sup>st</sup> April 2018;
- > Reviewing the assessment that management does not expect there to be a material impact to results on the adoption of IFRS 15 from 1<sup>st</sup> April 2018; and
- > Considering the future impact of the forthcoming adoption of IFRS 16 from 1<sup>st</sup> April 2019. An initial impact assessment has been conducted and there will be continued discussion on this topic during 2018/19.

After its review of the Annual report and financial statement process, consideration of management and auditor papers and the Committee's own review of the Annual Report, the Committee concluded that the Annual Report was fair, balanced and understandable and recommended that the Board approve it on those terms. The Committee is satisfied that the judgements made by management are reasonable, and that appropriate disclosures have been included in the accounts.

### External audit

During the year, the Audit Committee reviewed the effectiveness of the overall audit process including review of:

- > External auditor papers prepared by Deloitte LLP detailing their audit plans as well as the results of their full-year audit and half-year review. These papers include commentary on critical judgements and estimates, risk and internal control; and
- > The independence (see below detail on 'independence') and effectiveness of the external audit itself. Senior management monitors the auditors' performance, behaviour and effectiveness during the exercise of their duties, which informs the Committee's decision regarding reappointment.

It is standard practice for the external auditor to meet privately with the Audit Committee, without any member of management or the Executive Directors being present. This practice is made available at each of the Audit Committee meetings and is considered a standing agenda item.

The current audit partner is Sonya Butters who has held her role since Flybe's financial year 2015/16.

### Auditor rotation

Deloitte LLP have audited Flybe since the year ended 31<sup>st</sup> March 2007 and the IFRS Annual report and accounts as a plc since the year ended 31<sup>st</sup> March 2011. Under EU audit reform legislation, companies are required to enter into a tender process for the external auditor within 10 years from listing. With the 10 year tenure point approaching and Deloitte stepping down after this audit, Flybe Group plc announced in May 2018 that it will be holding a competitive tender for the selection and appointment of an external auditor for the year ending 31<sup>st</sup> March 2019.

An announcement will be made following the conclusion of the tender to confirm the auditors selected and a resolution to appoint the new auditors will be included in the notice for the AGM which will be held on 13<sup>th</sup> September 2018. The Audit Committee report for the year ending 31<sup>st</sup> March 2019 will include detailed narrative on the tender process which will follow the FRC guidance on best practice regarding audit tenders. The ultimate goal of the tender process is to appoint the audit firm that will provide the highest quality, most effective and efficient audit.

### High level indicative tender timetable

May 2018	> Announcement that Flybe Group plc will be starting a tender process
June 2018	> Start of tender process including access to data room and Q&A with management
July 2018	> Receipt of proposal > Review of proposals using transparent and non-discriminatory criteria > Presentations from two shortlisted audit firms > Selection of audit firm announced
August 2018	> AGM notice will include a resolution to appoint the new external auditor
September 2018	> AGM > Announcement regarding results of AGM

### Auditor independence

The Audit Committee is responsible for ensuring that an appropriate relationship is maintained between the Group and the external auditor. The external auditor provides some non-audit services, primarily advice on corporate transactions that may arise from time to time and advice to the Company in relation to the triennial valuation of the defined benefit pension scheme. To ensure that auditor objectivity and independence are safeguarded, the following controls are in place:

- A formal policy on the use of the external auditor for non-audit work has been agreed by the Audit Committee and is available on the Company's website at [www.flybe.com/corporate/governance](http://www.flybe.com/corporate/governance). In summary, this ensures that, usually, such work is only awarded when, by virtue of the auditor's knowledge, skills or experience, the external auditor is clearly to be preferred over alternative suppliers. Any fees charged by the Group's external auditor in respect of non-audit services over a set cumulative value of, currently, more than £50,000 require the prior approval of the Audit Committee. Under the policy, the external auditor is specifically excluded from providing any work that may impair their independence and from providing internal audit services to Flybe.
- The Audit Committee receives and reviews each year an analysis of all non-audit work awarded to the external auditor over the financial period. A breakdown of the fees paid to the Group's external auditor during the year is set out in note 6 to the consolidated financial statements and further detail is highlighted in the Audit fees – non-audit services section of this report.

- The Audit Committee receives each year a report from the external auditor as to any matters that the external auditor considers have, or may have, bearing on its independence and which need to be disclosed to the Audit Committee. The Audit Committee is satisfied that, notwithstanding non-audit work, Deloitte LLP have retained objectivity and independence during the year.

The Audit Committee will continue to monitor its policy in this regard and accepts that non-audit work should be controlled to ensure that it does not compromise the independence of the external auditor. The Committee believe the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong.

### Audit fees – non-audit services

The level of fees paid to the auditor for non-audit services is as follows:

	2017/18 estimate £'000	2016/17 actuals £'000
Audit fees (A)	593	375
Other non-audit services (B)	16	43
	609	418
Percentage (B/A)	2.6%	10.3%

Other non-audit services relate to all other services provided by the auditor which, in the current year, includes defined benefit pension scheme consultancy.

### Internal audit

As discussed earlier in this report, the Audit Committee made the decision in late 2016/17 to appoint an external provider to deliver internal audit services who would provide access to specialists, use best practices and offer resource flexibility. KPMG LLP were appointed in July 2017 as they were considered to have the tools, processes and appropriate Internal Audit expertise.

Internal Audit is independent of business operations and undertakes an ongoing work plan to provide assurance on the adequacy of internal control and risk management processes across the Group's operations. It is responsible for reviewing and reporting on the effectiveness of internal controls and risk management to the Audit Committee. The ongoing work plan is designed to provide effective risk-based coverage over the internal control environment, for the coming year. On a day-to-day basis, the team reports to the Chief Financial Officer, as well as having a direct line into the Chair of the Audit Committee.

# Directors' remuneration report

## Annual statement



**"An effective Directors' Remuneration Policy is an important factor in promoting the long-term success of the Group."**

**Elizabeth McMeikan**

Independent Non-Executive Director

### Dear Shareholder,

It has been a year of change at Flybe.

The Board has been impressed by Christine Ourmières-Widener since her appointment as Chief Executive Officer ('CEO'). Christine and the Executive Committee have developed and started to deliver the Group's strategic plan which is designed to generate sustainable profit and cash generation.

The business has made further progress in 2017/18 in implementing an optimised network as a result of reduced seat capacity and focusing on profitable flying which resulted in improvements in revenue per seat. Flybe also kicked off the e-Fly project which is a major investment.

There have been challenges, however, and cost control is an area of continued strategic focus in 2018/19 – see page 22. Flybe's longer-term strategy remains to reduce the fleet size to an optimum level for the number of identified profitable routes and to make the business demand-driven rather than capacity-led.

This is the context in which the Remuneration Committee reviewed the effectiveness of the Directors' Remuneration Policy. We concluded that the Policy should remain broadly unchanged, subject to some modernisations.

The three main changes which we are proposing are:

- scope to defer a portion of annual bonus into shares;
- a clawback provision in respect of awards under Performance Share Plans ('PSP'); and
- an increase in the share ownership guidelines to 200% of salary for both the Executive Directors.

The PSP was originally approved in 2010 and we shall ask shareholders to approve a new plan at the 2018 Annual General Meeting. We are proposing no changes of policy for the PSP for the Executive Directors. The new plan will, however, give us flexibility to make different types of awards to employees across the Group.

There were a number of potential projects in 2017/18 which we concluded were price sensitive. In combination with the standard results-led closed periods, this meant that there were no 'free-to deal' periods in which we could make awards under the PSP.

Accordingly we were unable to fulfil the commitment to Christine on her appointment and as disclosed in the Directors' Remuneration Report last year, to make an award to her under the PSP of 150% of salary in 2017/18. We therefore plan to make this award in 2018/19, if at all possible.

This means that we intend to make two awards in 2018/19 to all participants (including Christine Ourmières-Widener and Ian Milne) who were not able to receive a PSP award in 2017/18.

### A summary comparison of the current and proposed policy

Element of Policy	Proposed changes and implementation in 2018/19
Base salary	<ul style="list-style-type: none"> <li>&gt; Increases to be capped at 10% a year in normal circumstances</li> <li>&gt; CEO – £408,000 (2% increase from 1<sup>st</sup> April 2018 in line with the workforce at large)</li> <li>&gt; CFO – £250,000 (no increase for twelve months commencing 1<sup>st</sup> April 2018 in accordance with his contract)</li> </ul>
Benefits	<ul style="list-style-type: none"> <li>&gt; No change to Policy</li> <li>&gt; CEO receives no car allowance and will receive private medical cover as a French national for her and her family at a cost of €10,000 per annum</li> <li>&gt; CFO – receives £10,000 car allowance and private medical insurance</li> </ul>
Pension	<ul style="list-style-type: none"> <li>&gt; No change to Policy</li> </ul>
Annual bonus	<ul style="list-style-type: none"> <li>&gt; No change to Policy</li> <li>&gt; CEO's annual bonus maximum will be 150% of salary for 2018/19 and any bonus earned over 100% of salary (subject to a de minimis threshold) will be deferred into shares for one year</li> <li>&gt; CFO's annual bonus maximum will be 100% of salary for 2018/19</li> <li>&gt; Recent practice of applying a profit underpin to annual bonus earned in respect of personal/strategic targets continues and shall be by reference to underlying profit improvement rather than positive adjusted PBT</li> </ul>
Long-term incentives	<ul style="list-style-type: none"> <li>&gt; Introduction of clawback provision</li> <li>&gt; Awards in respect of 2017/18 will be made, if possible, in 2018/19. That award to the CEO will be 150% of salary and 100% of salary for the CFO</li> <li>&gt; Award to CEO in respect of 2018/19 will be 100% of salary<sup>1</sup> and 100% of salary for the CFO</li> <li>&gt; EPS will be adjusted to take account of gains and losses in respect of tax charge/credit, and currency gains/losses arising from USD loan revaluations on aircraft. This is to exclude currency movements on derivatives that are deployed solely to hedge against currency movements on loans and consistent with reported adjusted PBT</li> <li>&gt; EPS target range for the three-year performance period starting 1<sup>st</sup> April 2018 to end of March 2021 as shown on page 82</li> </ul>
Share ownership guidelines	<ul style="list-style-type: none"> <li>&gt; To be increased from 150% to 200% of salary for both the CEO and CFO</li> </ul>

<sup>1</sup> The CEO's PSP award will therefore reach the maximum allowed of 250% of salary in any one financial year. As it was the Committee's intention to grant a PSP award of 150% of salary to Christine for 2018/19, we have increased her annual bonus maximum exceptionally for 2018/19 to 250% of salary. In this way, the Remuneration Committee can honour its commitment to Christine within the limits of our Policy and without increasing her remuneration.

The Remuneration Committee has engaged with Flybe Group's major shareholders on the revised Policy and our implementation approach for 2018/19 and we are grateful for the feedback we have received. If you wish to contact me with any comments on our approach to executive remuneration, please feel free to e-mail me at [liz.mcmeikan@flybe.com](mailto:liz.mcmeikan@flybe.com).

On behalf of the Remuneration Committee and the Board

**Elizabeth McMeikan**

Chairman Remuneration Committee

18<sup>th</sup> June 2018

# Directors' remuneration continued

## Annual Report on Remuneration

In accordance with the Large and medium-sized companies and groups (Accounts and reports) (amendment) regulations 2013, the following sections of this report are subject to audit: the single total figure of remuneration for directors and notes (pages 78 and 80), scheme interests awarded during the financial year (page 82), payments to past directors (page 79), payments for loss of office (page 79) and the statement of directors' shareholdings and share interests (page 80).

### Single total figure of remuneration for the Executive Directors

	Year	Base salary <sup>4</sup> £	Taxable benefits <sup>5</sup> £	Annual bonus <sup>6</sup> £	PSP £	Pension £	Total £
Christine Ourmières-Widener <sup>1</sup>	2017/18	400,000	1,579	—	—	36,362	437,941
	2016/17	84,848	120,162	—	—	8,513	213,523
Philip de Klerk <sup>2</sup>	2017/18	145,400	7,118	—	—	14,124	166,642
	2016/17	290,750	14,267	—	—	29,193	334,210
Ian Milne <sup>3</sup>	2017/18	104,167	4,167	—	—	9,154	117,488

1 Christine's 2016/17 base salary was pro rata, from joining on 16<sup>th</sup> January 2017.

2 Philip de Klerk's resignation was announced on 18<sup>th</sup> April 2017 and he left the Company on 30<sup>th</sup> September 2017. Details of his termination arrangements can be found on page 79. Remuneration above is during his tenure in office.

3 Ian Milne's salary on his appointment was £250,000. His annual bonus maximum is 100% of salary and he is eligible for an award under the PSP on his appointment with a face value on grant of 100% of salary.

4 Base salary includes a loyalty increment of £50 for Philip de Klerk.

5 Taxable benefits comprise private health care, life assurance, permanent health insurance, car allowance and tax on certain of such benefits. In 2016/17, Christine Ourmières-Widener received a relocation payment of £120,000 relating to her recruitment. This was a one-off payment and repayable in full if Christine served notice to terminate her employment within six months of commencement (i.e. from 16<sup>th</sup> January 2017), 75% if she served notice to terminate between six and 12 months, 50% if she serves notice to terminate between 12 and 18 months and 25% if she serves notice between 18 and 24 months of commencement. Christine is responsible for settling the tax liability on the relocation allowance.

6 As explained on page 78, the annual bonus outturn for performance during the 2017/18 year was £Nil.

The aggregate emoluments (being salaries/fees, benefits, cash allowances in lieu of pension contributions) of all directors for the 2017/18 year was £1,030,071 (2016/17: £1,429,367). This is now shown in two tables for Executive Directors above and Non-Executive Directors on page 80.

### Base salary

Base salaries were reviewed with effect from 1<sup>st</sup> April 2017 and were not increased for either Christine Ourmières-Widener or Philip de Klerk.

Salaries as at 1<sup>st</sup> April 2017 were £400,000 for Christine Ourmières-Widener and £290,750 for Philip de Klerk.

### Annual bonus 2017/18

For the year ended 31<sup>st</sup> March 2018, the annual bonus opportunity for Christine Ourmières-Widener was 100% of salary. Philip de Klerk's annual bonus opportunity was also 100% of salary although he was not, as a result of his resignation, eligible for a bonus payment. On appointment as CFO, the annual bonus opportunity for Ian Milne was 100% of salary, pro rated for time served in year.

Bonuses are paid only if financial targets and personal/strategic targets are met. Adjusted profit before tax ('PBT') performance accounts for 70% of the maximum payable and personal or strategic objectives for 30%. The PBT targets, and related bonus pay outs, were as follows (with straight-line payouts between each hurdle):

2017/18 adjusted PBT	% of element of bonus that pays out
Less than £3m	0%
£3m	0%
£6m	50%
£10m or more	100%

Strategic objectives were set for each of the Executive Directors. For Christine, these were set at the start of the financial year and, for Ian, these were set on appointment as interim CFO, in August, before he was appointed to the Board. The strategic objectives for the year included meeting stretching targets on the reliability of both our flights and our IT systems, our safety performance and employee engagement. The objectives also focus on implementation of the Group's strategic plan, including undertaking a review of the fleet and implementing key improvements to our IT systems.

The Committee has discretion to scale back bonuses (to zero) if there has been an aviation safety event. The Committee has also deemed that no portion of the personal/strategic bonus should normally be payable unless adjusted PBT has increased over the prior year.

The financial targets were not met and, despite strong performance against the personal/strategic bonus objectives, the adjusted loss before tax, USD loan revaluation and aircraft onerous lease and impairment of related assets for the year was £20.5m, resulting in no portion of this element of bonus being payable. No bonuses were therefore payable.

## Performance share awards

Annual awards are normally made in June or as soon as possible after recruitment. For a variety of reasons, no awards could be made in 2017/18 to the Executive Directors – see page 82. The award levels for Christine Ourmières-Widener and Ian Milne would have been 150% of salary and 100% of salary respectively.

Christine's award level was, as disclosed in the 2016/17 Directors' Remuneration Report, fixed at 150% of salary with the intention that this should be reviewed.

## Payments to past Directors

Saad Hammad left the Board on 26<sup>th</sup> October 2016. The terms of his settlement agreement were fully disclosed in last year's Directors' Remuneration Report.

## Payments for loss of office

Philip de Klerk's resignation was announced on 18<sup>th</sup> April 2017 and he remained in service as CFO until the end of September 2017. As disclosed in the 2016/17 Directors' Remuneration Report, the one-off deferred share element of his 2015/16 bonus vested pursuant to its terms in July 2017. The unvested awards previously granted to Philip under the PSP have lapsed, as has his signing-on Long-Term Incentive Plan ('LTIP') award.

Philip did not participate in the 2017/18 annual bonus, nor was he eligible to receive a PSP or SIP award in respect of the financial year 2017/18.

## Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the CEO's remuneration from the prior year, calculated on the annualised salary of the new CEO, compared to the average percentage change in remuneration for all employees.

Percentage increase in remuneration between 2016/17 and 2017/18		
	CEO	All staff
Salary	0%	2%
Annual bonus <sup>1</sup>	n/a	n/a
All taxable benefits	(99.1)% <sup>2</sup>	(12.3)%

1 No annual bonuses were paid in 2016/17 or 2017/18

2 Taxable benefits were considerably lower due to a relocation payment of £120,000 paid to Christine Ourmières-Widener in the prior year.

## Relative importance of spend on pay

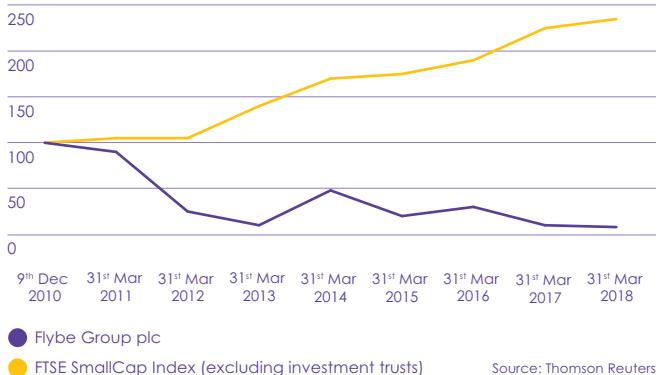
The table below shows shareholder distributions (i.e. dividends and share buybacks) and total employee pay expenditure for the financial years ended 31<sup>st</sup> March 2017 and 31<sup>st</sup> March 2018, along with the percentage change in both.

	2017/18 £m	2016/17 £m	Change %
Shareholder distribution	–	–	–
Total employee expenditure	126.6	120.2	5.3
Total of executive directors' single total figure <sup>1</sup>	0.7	1.1	(36.4)

1 The elements that make up this figure are set out in the single total figure of remuneration table on pages 78 and 80.

## Flybe's historical performance and the history of pay outs

### Total Shareholder Return Index (9<sup>th</sup> December 2010 = 100)



Source: Thomson Reuters

The chart above shows the value of a hypothetical £100 holding from the date Flybe's shares were priced immediately prior to IPO (on 10<sup>th</sup> December 2010) to 31<sup>st</sup> March 2018. The chart illustrates the TSR performance of the Group against the FTSE SmallCap Index (excluding investment trusts), which was chosen as it is a recognised broad equity market index of which the Group has been a member since Admission in December 2010 up until March 2018. It is also the comparator group used for assessing TSR under the PSP.

Year (Director)	Name	Single total figure (£)	Annual bonus outcome (% of max)	PSP vesting outcome (% of max)
2017/18	<b>Christine Ourmières-Widener</b>	<b>437,941</b>	<b>0%</b>	<b>n/a</b>
2016/17	Christine Ourmières-Widener	213,523	0%	n/a
2016/17	Saad Hammad	518,985	0%	n/a
2015/16	Saad Hammad	1,075,700	81%	n/a
2014/15	Saad Hammad	520,631	0%	n/a
2013/14	Saad Hammad	499,555	30%	n/a
2013/14	Jim French	212,395	0%	0%
2012/13	Jim French	600,401	0%	0%
2011/12	Jim French	606,785	0%	n/a
2010/11	Jim French	589,689	0%	n/a

# Directors' remuneration continued

## The Chairman and the Non-Executive Directors ('NEDs')

The table below shows the total remuneration paid to the Chairman and the NEDs during the financial year. The NEDs are not eligible for bonus, pension or PSP awards.

	Year	Total fee £
Simon Laffin <sup>1</sup>	<b>2017/18</b>	<b>153,000</b>
	2016/17	187,629
Sir Timo Anderson	<b>2017/18</b>	<b>49,000</b>
	2016/17	49,000
David Kappler	<b>2017/18</b>	<b>57,000</b>
	2016/17	57,000
Liz McMeikan	<b>2017/18</b>	<b>49,000</b>
	2016/17	49,000

<sup>1</sup> Simon Laffin served in an executive capacity as Chairman during the financial year 2016/17, following the departure of Saad Hammad until Christine Ourmières-Widener took up her duties, and received enhanced remuneration of £34,629 in addition to his fees as Company Chairman of £153,000. He was not eligible for bonus, pension or PSP awards during this period. He returned to his Non-Executive Chairman role on 20<sup>th</sup> January 2017.

## Shareholdings

A table setting out the beneficial interests of the Directors and their families in the share capital in the year under review can be found below:

Director	Holding at 31 <sup>st</sup> March 2018 <sup>1</sup>	Holding at 31 <sup>st</sup> March 2017 <sup>1</sup>
Christine Ourmières-Widener	219,760	119,760
Ian Milne <sup>2</sup>	–	–
Philip de Klerk <sup>3</sup>	120,250	120,250
Simon Laffin	479,404	479,404
Sir Timo Anderson	8,000	8,000
David Kappler	100,000	100,000
Liz McMeikan	10,000	10,000

<sup>1</sup> This excludes any shares held via share plans as disclosed below.

<sup>2</sup> Ian Milne did not purchase any shares as he was deemed an insider throughout his period of employment to-date.

<sup>3</sup> Philip de Klerk's resignation was announced on 18<sup>th</sup> April 2017 and he left the Company on 30<sup>th</sup> September 2017.

## Executive Directors' interests

The table below shows the shareholding of each Executive Director as at 31<sup>st</sup> March 2018:

	Christine Ourmières-Widener	Ian Milne	Philip de Klerk <sup>1</sup>
Owned outright or vested	219,760	–	120,250
Vested but subject to holding period	–	–	270,405
Unvested and subject to performance conditions	1,395,349	–	–
Unvested and subject to continued employment only	–	–	–

<sup>1</sup> Philip de Klerk's resignation was announced on 18<sup>th</sup> April 2017 and he left the Company on 30<sup>th</sup> September 2017. The PSP award of 964,859 lapsed on cessation of employment.

Executive Directors are required to retain 50% of any net vested shares received under any share plan until they meet the shareholding guidelines of shares worth 150% of salary (and increasing to 200% under the new Policy). Shares subject only to a holding period will count towards the guidelines. Neither of the Executive Directors has yet reached the guideline.

There have been no changes in the interests of any of the Directors between 1<sup>st</sup> April 2018 and 14<sup>th</sup> June 2018.

A summary of the outstanding awards under the PSP is shown on page 83.

There were no PSP awards granted in 2017/18. The awards granted in 2016/17 vest based on performance against the following targets, each with a 50% weighting:

2016/17	Threshold	Maximum
2018/19 Adjusted EPS	12.9p (0% vests)	15.9p (100% vests)
Three-year relative TSR	Median (20% vests)	Upper quartile (100% vests)

No vesting occurs for performance below threshold.

For performance between the threshold and maximum targets, vesting is pro rata on a straight-line basis.

In addition, an underpin applies under which the Committee can scale back vesting (to zero, if considered appropriate) if safety targets are not met. To the extent that awards vest, a holding period applies, such that 50% of the shares are receivable immediately, with the balance receivable in two equal tranches on the fourth and fifth anniversaries of grant.

## Deferred share bonus

On a one-off basis to reflect the circumstances at the time, a portion of the 2015/16 bonus payable to Philip de Klerk was deferred into shares which vested in July 2017, one year from the date on which the bonus was paid.

The table on page 83 shows the number of shares which vested to Philip de Klerk, and which were not subject to continued employment.

## Share Incentive Plan ('SIP')

The Executive Directors' interests in ordinary shares of the Company under the all-employee SIP (these shares held as 'free shares' pursuant to the rules of the plan) are shown in the table on page 83.

Neither Christine Ourmières-Widener nor Ian Milne has participated in the SIP to date.

### The members of the Remuneration Committee during the year ended 31<sup>st</sup> March 2018

The members of the Committee during the year were:

- > Liz McMeikan (Committee Chair)
- > Sir Timo Anderson
- > David Kappler
- > Simon Laffin

The Remuneration Committee includes three independent NEDs and the Chairman of the Board as he was considered independent on appointment. He is not eligible, however, to be the Chair of this committee.

During the year under review the Committee convened on four scheduled occasions in April, September, January, and March. The record of attendance is shown on page 63. An additional meeting was convened in July 2017 to set the remuneration for the new CFO who joined during 2017/18.

#### At the following meetings the Committee focused on:

April	<ul style="list-style-type: none"> <li>&gt; Directors' Remuneration for 2017/18</li> <li>&gt; Strategic objectives and PSPs</li> <li>&gt; 2016/17 DRR</li> </ul>
September	<ul style="list-style-type: none"> <li>&gt; Shareholders' views and the AGM</li> <li>&gt; Committee's performance</li> <li>&gt; Directors' Remuneration Policy</li> <li>&gt; Governance and market trends</li> <li>&gt; Gender pay gap reporting</li> </ul>
January	<ul style="list-style-type: none"> <li>&gt; Governance updated</li> <li>&gt; Directors' Remuneration Policy</li> <li>&gt; PSP awards</li> <li>&gt; 2018/19 salary review</li> <li>&gt; Gender pay gap reporting</li> </ul>
March	<ul style="list-style-type: none"> <li>&gt; Update on Flybe's approach to reward across the Group</li> <li>&gt; Committee's terms of reference</li> <li>&gt; Annual bonus and PSP parameters</li> </ul>

The Committee takes care to recognise and manage conflicts of interest when receiving views or consulting Executive Directors or senior management.

Duties and authority to act can be found in the online terms of reference of the Committee on Flybe's website at [www.flybe.com/corporate/governance](http://www.flybe.com/corporate/governance).

### Advisers

During the year, the Committee received material assistance and advice from the CEO and the General Counsel and Company Secretary. No individual is involved in decisions relating to their own remuneration.

FIT Remuneration Consultants LLP are the Committee's appointed independent advisers. FIT are also members of and signatories to the Code of Conduct for Remuneration Consultants, details of which can be found at [www.remunerationconsultantsgroup.com](http://www.remunerationconsultantsgroup.com). In 2017/18 FIT provided independent advice and data in connection with the Directors' Remuneration Policy, the drafting of this Directors' Remuneration Report and in respect of share schemes. FIT does not advise the Company on any matters other than remuneration and is considered objective and independent by the Committee. Their total fees (excluding expenses and VAT) for the provision of remuneration services to the Committee in 2017/18 were £77,356.

The fees are charged in accordance with FIT's standard terms of business.

During the year, Bryan Cave Leighton Paisner LLP provided advice on legal issues related to PSP awards.

### Summary of shareholder voting at the 2017 Annual General Meeting ('AGM')

The table shows the results of the advisory vote on the 2016/17 Annual Report on Remuneration at the 2017 AGM and the binding vote on the Directors' Remuneration Policy at the 2015 AGM:

	Approval of the Annual Report on Remuneration (2017 AGM)	Approval of the Directors' Remuneration Policy (2015 AGM)
# votes for	108,359,710	140,874,907
(%)	(99.94%)	(93.36%)
# votes against	66,031	10,017,586
(%)	(0.06%)	(6.64%)
# votes withheld	10,410,839	48,728

### Implementation of policy for the year commencing 1<sup>st</sup> April 2018

Shareholders will be asked to approve the new Directors' Remuneration Policy, on page 84, at the 2018 AGM in July when it will come into effect.

### Base salary

With effect from 1<sup>st</sup> April 2018, Christine Ourmières-Widener's salary will be increased by 2% to £408,000. Ian Milne's salary will remain at £250,000, as agreed on his appointment on 1<sup>st</sup> November 2017.

# Directors' remuneration continued

## Pension

Christine Ourmières-Widener has elected to divide her pension contribution of 10% of salary between a non-bonusable cash supplement and payment to a plan of her choice. Ian Milne's pension contribution is 8.79% of salary, payable as a cash supplement in lieu of pension. Cash supplements in lieu of pension contribution are reduced by the employer's NIC liability that arises to ensure the approach is cost-neutral to Flybe.

## Annual bonus

The maximum annual bonus opportunity will be 150% of salary for Christine Ourmières-Widener and 100% of salary for Ian Milne. Any bonus earned in excess of 100% of salary will be deferred into shares for one year.

The proposed performance measures will reflect the approach adopted last year, i.e. a mix of adjusted Group PBT targets (70% weighting, with PBT excluding any foreign exchange translation differences on US dollar loans), as well as the achievement of personal/strategic objectives (30% weighting) relating to a number of performance indicators. The bonus also includes an underpin that enables the Committee to scale back bonuses (to zero if considered appropriate) if safety performance targets are not met. Furthermore, no portion of the personal/strategic bonus will normally be payable unless there is underlying profit improvement.

Given the competitive nature of the Company's sector, performance targets are considered to be commercially sensitive and are not disclosed until the conclusion of the financial year, the Committee intends to adopt the same level of retrospective disclosure of bonus targets as has been applied in previous years.

## PSP awards

It was not possible to make any awards under the PSP in 2017/18. We are therefore proposing to make two awards in 2018/19. The first, in respect of 2017/18, will be made, if possible, in the financial year 2018/19. The performance period will continue to be effective from 1<sup>st</sup> April 2017 and the EPS performance range will be that agreed and disclosed in last year's Directors' Remuneration Report. It is proposed that awards will be made over shares worth 150% of 2017 salary for Christine Ourmières-Widener (as agreed on her recruitment) and 100% of salary at appointment for Ian Milne. The awards will vest on the third anniversary of the date of grant. The performance measures for these awards will be based on adjusted EPS and TSR growth (each with a 50% weighting) in the three financial years to 31<sup>st</sup> March 2020, summarised as follows:

2017/18	Threshold	Maximum
2019/20 Adjusted EPS	7.4p (0% vests)	11.1p (100% vests) Upper Median quartile (20% vests) (100% vests)
Three-year relative TSR		

No vesting will occur for performance below threshold. For performance between the threshold and maximum targets, vesting will be pro rata on a straight-line basis.

The EPS condition looks at the EPS achieved in the final year only based on the reported adjusted EPS (subject to such adjustments as the Committee considers appropriate) and the TSR condition compares the TSR over the three months prior to the start of 2017/18 with the three months prior to the end of the 2019/20 financial year. In addition, an underpin will apply under which the Committee can scale back vesting (to zero if considered appropriate) if safety targets are not met.

The second grant of awards, this in respect of 2018/19, will have a face value on the date of grant of 100% of salary for both Executive Directors. The awards will vest on the third anniversary of grant. The performance measures for these awards will be based on adjusted EPS and TSR growth (each with a 50% weighting) in the three financial years to 31<sup>st</sup> March 2021, summarised as follows:

2018/19	Threshold	Maximum
2020/21 Adjusted EPS	9.6p (0% vests)	13.4p (100% vests) Upper Median quartile (20% vests) (100% vests)
Three-year relative TSR		

No vesting will occur for performance below threshold. For performance between the threshold and maximum targets, vesting will be pro rata on a straight-line basis.

The EPS condition looks at the EPS achieved in the final year only based on the reported adjusted EPS (subject to such adjustments as the Committee considers appropriate) and the TSR condition compares the TSR over the three months prior to the start of 2018/19 with the three months prior to the end of the 2020/21 financial year. In addition, an underpin applies under which the Committee can scale back vesting (to zero if considered appropriate) if safety performance targets are not met.

To the extent that either of the awards vest, a holding period applies such that 50% of the shares are receivable immediately, with the balance receivable in two equal tranches on the fourth and fifth anniversaries of grant.

## The fees of the Chairman and the Non-Executive Directors ('NED')

The NEDs have waived any increase in fees this year:

	Fee £
Chairman's fee	153,000
Basic NED fee	43,000
Additional fee for Committee chairmanship	6,000
Additional fee for Senior Independent NED	8,000

### Summary of awards outstanding under share plans

#### PSP

Executive	Date of grant	Interests held at 1 <sup>st</sup> April 2017	Interests awarded during the year	Interests vested during the year	Interests lapsed during the year	Interests held at 31 <sup>st</sup> March 2018	Interests at face value £
Christine Ourmières-Widener	9 <sup>th</sup> Feb 2017 <sup>1</sup>	1,395,349	–	–	–	1,395,349	600,000
Philip de Clerk	30 <sup>th</sup> Sept 2016	487,206	–	–	(487,206)	–	–
Philip de Clerk	29 <sup>th</sup> July 2015	477,653	–	–	(477,653)	–	–

1 Christine Ourmières-Widener's award was granted at the average market price of 43.0p of the last three trading days prior to grant.

#### Deferred share bonus

Executive	Date of grant	Interests held at 1 <sup>st</sup> April 2017	Interests awarded during the year	Interests vested during the year	Interests lapsed during the year	Interests held at 31 <sup>st</sup> March 2018	Interests at face value £
Philip de Clerk	1 <sup>st</sup> August 2016	270,405	–	(270,405) <sup>1</sup>	–	–	–

1 270,405 relates to the deferred share element of the 2015/16 annual bonus. These were deferred for a year and vested in July 2017. The vesting was not subject to continued employment.

#### SIP

Executive	Interests held at 1 <sup>st</sup> April 2017	Interests awarded during the year	Interests lapsed during the year	Interests held at 31 <sup>st</sup> March 2018
Philip de Clerk	7,001	–	(7,001)	–

# Directors' remuneration continued

## Directors' Remuneration Policy

The Directors' Remuneration Policy below will, if approved by shareholders, take effect from the date of the 2018 AGM.

The Board and the Remuneration Committee's approach to the design of the Remuneration Policy remains the same. We want to ensure that our approach is straightforward, transparent and effective. The Policy must allow us to recruit talented individuals and to reward them for performance while ensuring that their interests are aligned to those of our shareholders. We also want the remuneration of the Executive Directors to be aligned with our approach to remuneration across the Flybe Group.

The main changes are summarised in Elizabeth McMeikan's annual statement on page 76.

Function	Operation	Opportunity	Performance metrics
<b>Basic salary</b>  This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution.	Basic salaries are payable monthly in cash and are reviewed annually, taking into account the size and nature of the role, individual skills, experience and performance, with reference to pay and conditions elsewhere in the Group, and external market data for comparable positions at companies in similar sectors and of similar size to Flybe.  Any increase in basic salary is normally effective 1 <sup>st</sup> April.	Salaries in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration.  Salary increases will generally be in line with those awarded to salaried employees as a whole. They will normally not exceed 10% a year except in certain circumstances (including, but not limited to, increases for other employees, changes in role and responsibilities, market levels, and individual and company performance), the Committee may make appropriate adjustments to salary levels to ensure they remain market competitive. The rationale for any such increase will be disclosed in the relevant Annual Report on Remuneration.	None.
<b>Pension</b>  To provide competitive retirement benefits or to contribute to longer-term savings.	Executive Directors are eligible to participate in a contributory scheme and may elect on a cost-neutral basis for the Group to receive a monthly non-bonusable cash supplement in lieu of pension above the pensions annual and lifetime allowances.  Salary is the only element of remuneration that is pensionable.	Executive Directors receive a contribution, or equivalent cash supplement in lieu thereof, of up to 15% of salary.	None.

Function	Operation	Opportunity	Performance metrics
<b>Benefits</b> To provide competitive benefits.	Executive Directors may receive benefits which may consist of car and car-related allowances (including tax on such benefit), private medical insurance and life assurance, although they can also include any such benefits that the Committee deems appropriate to ensure the benefits package is appropriately competitive and reflects the circumstances of the individual director including, but not limited to, accommodation/relocation allowances.	Benefits vary by role and individual circumstances. The items offered and their cost are reviewed periodically. Benefits in respect of the year under review are disclosed in the Annual Report on Remuneration. It is not anticipated that the cost of benefits will vary significantly year-on-year, although the Committee retains the discretion to approve a higher cost in exceptional circumstances (e.g. relocation) or in circumstances where factors outside the Company's control have changed materially (e.g. increases in insurance premiums).	None.
<b>SIP, SAYE</b> To align the interests of employees and shareholders by encouraging all employees to own Flybe shares.	SAYE – All-employee scheme under which all UK employees (including Executive Directors) may save up to the maximum monthly savings limit (as determined by legislation) over a period of three or five years. Options under the SAYE scheme are granted at a discount of up to 20% to the market value of shares at the date of grant, or such discount as the legislation permits.  SIP – All-employee scheme under which all UK employees (including Executive Directors) may (i) contribute up to the monthly maximum (as determined by legislation) to purchase shares monthly from pre-tax pay; and (ii) receive free shares up to the annual maximum value (as determined by legislation).	Savings, contributions and free shares are capped at the prevailing legislative limit or other such lower limit as the Committee may determine at the time UK employees are invited to participate.	None (reflecting HMRC rules).

## Directors' remuneration continued

Function	Operation	Opportunity	Performance metrics
<b>Annual bonus</b>  Incentivise and reward Executive Directors for the delivery of business strategy.	<p>The annual bonus is a discretionary scheme under which performance targets are agreed by the Committee at the start of each financial year. Payments (made following the end of each performance year) are based on the Committee's assessment of the performance against these targets.</p> <p>Once set, performance targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions where the Committee considers it to be necessary in its opinion to make appropriate adjustments.</p> <p>The Committee has the discretion to defer any bonus paid in excess of 100% of base salary into shares for at least one year.</p> <p>Where any bonus is deferred into shares, a payment equivalent to the dividends that would have accrued on the number of shares that vest may be made to participants on vesting, as cash or shares.</p> <p>Clawback provisions apply to future annual bonuses as described more fully in note 4 below.</p>	<p>Maximum annual bonus opportunity:</p> <p>CEO: 150% of base salary</p> <p>Other Executive Directors: 100% of salary</p>	<p>Performance is assessed on an annual basis, based on the achievement of objectives relating to financial performance, progress of strategic priorities and/or personal targets. The specific measures used in the bonus and their weighting may vary each year depending on business context and strategy.</p> <p>Attaining the threshold level of performance for any measure will not normally produce a pay-out of more than 20% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full pay-out for maximum performance.</p> <p>Further details on the bonus for the year under review and forthcoming year are provided in the Annual Report on Remuneration.</p>

Function	Operation	Opportunity	Performance metrics
<b>Long-term incentives</b>  Incentivise creation of long-term shareholder value and support alignment with shareholders' interests.	<p>The primary ongoing long-term incentive plan is the PSP. Awards can be granted as conditional shares or a nil/nominal cost option vesting subject to the achievement of three-year performance conditions. A post-vesting holding period also applies, such that vested shares are not receivable in full until the fifth anniversary of grant.</p> <p>A payment equivalent to the dividends that would have accrued on the number of shares that vest may be made to participants on vesting (including any holding period) as cash or shares.</p> <p>PSP awards are subject to malus and clawback provisions described more fully in note 4 below.</p>	<p>Awards of shares worth up to 150% of salary can be granted each year (or such higher number as the Committee considers appropriate in exceptional circumstances, up to a maximum of 250%). Details of any awards granted in a year will be disclosed in the relevant Annual Report on Remuneration.</p>	<p>The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual).</p> <p>Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to substitute, vary or waive the performance conditions in such manner as the Committee thinks fit.</p> <p>Performance periods may be over such periods as the Committee selects at grant, which will not be less than (but may be longer than) three years.</p> <p>No more than 20% of awards will normally vest for attaining the threshold level of performance for each condition. Further details of measures, their weighting and targets will be disclosed in the relevant Annual Report on Remuneration.</p>
<b>Chairman and NEDs' fees</b>  To attract and retain highly-experienced individuals with commercial skills.	<p>Fee levels are reviewed annually, with any adjustments normally effective 1<sup>st</sup> April in the year following review.</p> <p>The fees paid to the Chairman are determined by the Committee, while the fees of the NEDs are determined by the Chairman and the Executive Directors.</p> <p>Additional fees are payable for acting as Senior Independent NED and as Chairman of any of the Board's Committees (Audit, Remuneration, Nomination, Safety and Security).</p> <p>Fee levels reflect the skills and experience of the NEDs, the market practice adopted in similar sized organisations and anticipated time commitments.</p> <p>NEDs may also receive certain benefits from time to time.</p>	<p>Fee increases for the Chairman and NEDs are applied in line with the outcome of the annual fee review. Fees for the year under review (and the coming year) are set out in the Annual Report on Remuneration.</p> <p>It is expected that any increases to fee levels will be in line with salaried employees over the life of the Policy. However, in the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil the role, the Board has discretion to make an appropriate adjustment to the fee level. Aggregate fees (plus the value of any benefits) will not exceed the cap in the Company's Articles of Association (currently £500,000).</p>	None.

# Directors' remuneration continued

## Directors' Remuneration Policy continued

### Notes

#### 1. Stating maximum amounts for the Remuneration Policy

The Regulations and related investor guidance encourages companies to disclose a cap within which each element of the directors' Remuneration Policy will operate. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

#### 2. Travel and hospitality

While the Committee does not consider these to form part of benefits in the normal usage of that term, we have been advised that corporate hospitality (whether paid for by the Company or another) and product familiarisation through staff/business travel for directors (and partners) may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.

#### 3. Past obligations

In addition to the above elements of remuneration, any commitment made prior to, but due to be fulfilled after, the approval and implementation of this Directors' Remuneration Policy, or before an individual became an Executive Director, will be honoured even where it is not consistent with the policy prevailing at the time.

#### 4. Malus/clawback

A malus provision applies to the PSP, under which the Committee may lapse part/all of any unvested PSP award and/or any shares that are the subject of a post-vesting holding period in certain circumstances (e.g. if information used to determine vesting was materially inaccurate and resulted in an overpayment, gross misconduct, material reputational damage caused by mismanagement, failures of risk management etc.). There is a three-year time bar on this malus provision, i.e. it may only be applied if the circumstances occurred within the three years prior to vesting.

A clawback provision applies to the annual bonus, under which any future net bonus paid can be reclaimed in broadly the same circumstances as apply to the malus provision in the PSP (with a similar three-year time limit). A similar clawback provision applies in respect of any deferred bonus shares and vested awards under the PSP.

#### 5. Discretions

The Committee may exercise discretion in two broad areas for each element of remuneration:

- > To ensure fairness and align Executive Directors' remuneration with underlying individual and company performance, the Committee may adjust upwards or downwards the outcome of any short- or long-term incentive plan payment within the limits of the relevant plan. Adjustments to underlying performance may be made in exceptional circumstances to ensure outcomes are fair both to shareholders and participants; and
- > In the case of a non-regular event occurring, the Committee may apply its discretion to ensure fairness and seek alignment with business objectives. Non-regular events in this context include, but are not limited to: corporate transactions, changes in the Company's accounting policies, minor or administrative matters, internal promotions, external recruitment and terminations.

Any use of discretion by the Committee during the financial year will be detailed in the relevant Annual Report on Remuneration.

#### 6. Shareholding guidelines

Executive Directors are required to retain 50% of any net vested shares received under any share plan until they hold shares worth 200% of base salary. Shares subject only to a holding period will, consistent with institutional shareholder guidelines, count towards the guidelines.

#### 7. Remuneration policy for other employees

The remuneration policy for other employees is based on broadly consistent principles as described above. Annual salary reviews across the Group take into account company performance, local pay and market conditions and salary levels for similar roles in comparable companies.

Other members of the Group's Executive Committee and certain key management participate in similar annual bonus arrangements to the Executive Directors, although award sizes vary by organisational level. PSP awards are also granted to a broader population than the Executive Committee.

Under the proposed PSP which we are asking shareholders to approve at the AGM, we will have the flexibility to make awards over restricted shares (i.e. those which vest subject only to continued employment over the vesting period) to individuals below the Board.

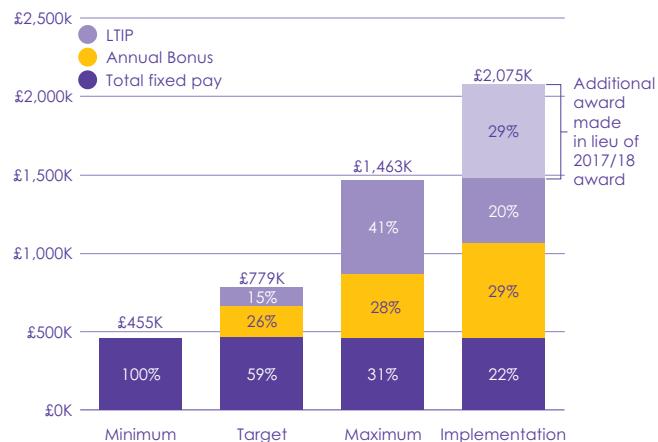
All other employees may be eligible to participate from time to time in an employee bonus scheme, under which a bonus is payable subject to the achievement of group profit targets. All eligible employees may participate in the Company's SAYE and SIP schemes on identical terms.

### Illustrations of application of remuneration policy

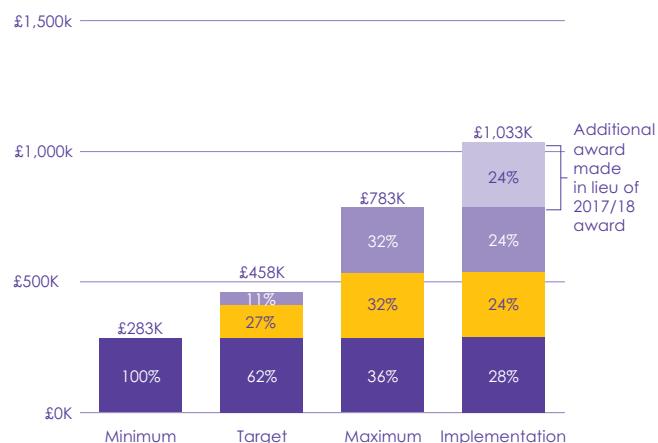
The charts and table below provide an illustration of the potential future reward opportunity for Christine Ourmières-Widener and Ian Milne and the potential split between the different elements of remuneration under three different performance scenarios: 'minimum', 'on-target' and 'maximum'. Additionally, we show a further scenario labelled 'implementation' which includes the awards which will be granted this year in lieu of those we were not able to make in 2017/18.

#### Pay for performance scenarios

Christine Ourmières-Widener



Ian Milne



#### Minimum

- > Consists of base salary, benefits and pension
- > Base salary effective from 1<sup>st</sup> April 2018
- > Estimated benefits for 2018/19
- > Value of pension contributions and cash in lieu for 2018/19

	Christine Ourmières-Widener £	Ian Milne £
Base salary	408,000	250,000
Benefits*	10,000	11,000
Pension	37,000	22,000
<b>Total fixed pay</b>	<b>455,000</b>	<b>283,000</b>

\*Medical, car and other.

#### Target

- > Consists of fixed pay (base salary, benefits and pension), the on-target bonus and threshold level of vesting under the PSP;
- > The on-target bonus level is 50% of maximum;
- > The threshold level of vesting under the PSP is 20% of maximum for these purposes; and
- > These values exclude share price appreciation and dividends.

#### Maximum

- > Consists of fixed pay (base salary, benefits and pension), the maximum bonus and maximum level of vesting under the PSP;
- > The maximum bonus level is 100% of salary for Christine and Ian;
- > The maximum PSP level is 150% of salary for Christine and 100% for Ian; and
- > These values exclude share price appreciation and dividends.

#### Implementation

- > Consists of fixed pay (base salary, benefits and pension), the maximum bonus and maximum level of vesting under the PSP awards anticipated to be made in 2018/19;
- > The maximum bonus level is 150% of salary for Christine and 100% of salary for Ian;
- > The maximum PSP level for awards in lieu of those we were not able to make in 2017/18 is 150% of salary for Christine and 100% for Ian;
- > The maximum PSP level for awards made in respect of 2018/19 is 100% of salary for Christine and Ian; and
- > These values exclude share price appreciation and dividends.

#### Approach to recruitment remuneration

The recruitment policy gives the Committee flexibility to secure the appointment and promotion of high calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to apply the general policy for Executive Directors as set out above and structure a package in accordance with that policy. Consistent with the regulations, any caps contained within the policy for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice. Where a new appointee's salary is initially set below market, the Committee may manage salary progression in a phased manner over a number of years, subject to the individual's development in the role.

The Annual Bonus Plan and PSP will operate (including the maximum award levels) as detailed in the general policy in relation to any newly appointed Executive Director.

## Directors' remuneration continued

Any recruitment-related PSP awards which are not buy-outs will be subject to the relevant plan terms, including performance conditions, and limits as stated in the general policy. Details of any recruitment-related awards will be appropriately disclosed.

For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment, as appropriate.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy-out awards forfeited by the individual on leaving a previous employer. For the avoidance of doubt, buy-out awards are not subject to a formal cap.

For any buy-outs the Company will not pay more than is, in the view of the Committee, necessary and will in all cases seek, in the first instance, to deliver any such awards under the terms of the Company's existing incentive arrangements. It may, however, be necessary in some cases to make buy-out awards on terms that are more bespoke than the existing arrangements.

All buy-outs, whether under the Company's existing incentive arrangements or otherwise, will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. However, the Committee may choose to relax this requirement in certain cases (such as where the service and/or performance requirements are materially completed, or where such factors are, in the view of the Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited) and where the Committee considers it to be in the interests of shareholders.

### **Service contracts, the treatment of leavers and change of control**

The Committee's policy is to provide service contracts for Executive Directors with notice periods of 12 months or less. The Committee reserves flexibility to alter these principles if necessary to secure the recruitment of an appropriate candidate and, if appropriate, introduce a longer initial notice period (of up to two years) reducing over time. Details of the service agreements of the Executive

Directors in post during the year are as follows:

Executive Director	Date of service agreement	Notice period
Christine Ourmières-Widener	19 <sup>th</sup> December 2016	12 months by either party
Ian Milne	10 <sup>th</sup> October 2017	6 months by either party

On termination, except in certain circumstances such as gross misconduct, Executive Directors are entitled to salary and benefits (inclusive of pension contributions/allowances) for the duration of their notice period. Each Executive Director has post-termination provisions which (among other things) restrict the Executive Director from competing with Flybe after the term of employment. Flybe may, at its discretion, pay in lieu of notice either by way of lump sum or in instalments in respect of salary only. Flybe has the ability to enforce the director's duty to mitigate loss.

The Executive Directors' service contracts are available at the Company's registered office.

In the event that a participant ceases to be an employee of Flybe, treatment of outstanding awards under the Group's long-term incentive plans will be determined based on the relevant plan rules. When considering any such payments, the Committee reviews all potential incentive outcomes to ensure they are fair to both shareholders and participants.

- Executive Directors will not normally be entitled to any bonus payment on termination of employment (or if notice of termination has been given) unless, for any period actually worked, the Committee considers it appropriate in its discretion;
- Under the rules for the PSP, awards lapse on cessation of employment other than in certain 'good leaver' circumstances at the discretion of the Committee (e.g. death, ill health, redundancy, retirement) in which case awards vest either on cessation or on the normal vesting date, typically subject to the performance conditions and pro rating (unless the Committee determines otherwise). In the event of a change in control, awards will normally be time pro rated and vest subject to the performance conditions. Awards are not forfeitable during any subsequent holding period (but may be available for the application of malus); and
- The Company has the power to enter into settlement agreements with directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the Policy does not include an explicit cap on the cost of termination payments.

### The contracts of the Chairman and the NEDs

Non-Executive Director	Date of service agreement	End of term
Simon Laffin	4 <sup>th</sup> November 2013	2019
Sir Timo Anderson	1 <sup>st</sup> May 2014	2020
David Kappler	3 <sup>rd</sup> March 2015	2021 <sup>1</sup>
Liz McMeikan	1 <sup>st</sup> August 2014	2020
Heather Lawrence	10 <sup>th</sup> May 2018	2021

1 In May 2018, David Kappler announced his intention to retire at the 2018 AGM.

The Chairman has a service contract which is subject to a six-month notice period (by either party). The services of the other NEDs are provided under the terms of a letter of appointment and are subject to a three-month notice period (by either party). Details of the terms of appointment of the current NEDs are provided above. Sir Timo Anderson and Elizabeth McMeikan's letter of appointment expired in 2017 but both agreed with the Company to extend their appointments for a further three-year period. All directors stand for election or re-election at the AGM.

The Chairman and the NEDs are not eligible for bonuses or participation in share schemes and no pension contributions are made on their behalf.

To assist with product familiarisation, all group board directors are entitled to four complementary pairs of return plane tickets per annum and the individual director pays any associated tax liability. No other benefits are envisaged for the NEDs (including the Chairman) but the Company reserves the right to provide benefits (including travel and office support) within the overall limits on fees set out in the Company's Articles of Association.

In recruiting a new NED, the Board will use the Policy set out in the table above. A basic fee in line with the prevailing market rates would be payable for board membership, with additional fees payable for acting as Senior Independent Director or as Chairman of the Board's Committees, where appropriate.

### External appointments

At the discretion of the Board, Executive Directors may be appointed as a NED at other companies. Before granting permission, the Board will take into account, inter alia, the time commitment of the new role, the competitive status of the other company, the Listing Rules and the UK Corporate Governance Code. Whether the Executive Director retains any associated fees, or whether they are remitted to the Company, will be considered on a case-by-case basis. There are no such appointments at present.

### Consideration of conditions elsewhere in the Company

The Group seeks to promote and maintain good relationships with employee representative bodies – including trade unions and employee representatives – as part of its employee engagement strategy and consults on matters affecting employees and business performance as required in each case by law and regulation in the jurisdictions in which the Group operates. The Committee is also mindful of the salary increases applying across the Group when considering salary increases for the Executive Directors. The Committee does not, however, consult with employees specifically on the effectiveness and appropriateness of the Directors' Remuneration Policy and framework.

### Consideration of shareholders' views

The Committee considers shareholder views received during the year and at each Annual General Meeting, as well as guidance from shareholder representative bodies more broadly, in shaping the Directors' Remuneration Policy. The Committee continues to keep its remuneration arrangements under regular review, to ensure the Directors' Remuneration Policy continues to reinforce the Company's long-term strategy and aligns closely with shareholders' interests. We will consult with, and seek approval from, shareholders before making any significant changes to our Directors' Remuneration Policy.

# Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare such financial statements for each financial year. Under that law the directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and Article 4 of the IAS Regulation. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss for that period.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- Make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

## Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- The strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

By order of the Board

**Christine Ourmières-Widener**  
Chief Executive Officer

**Ian Milne**  
Chief Financial Officer

18<sup>th</sup> June 2018

18<sup>th</sup> June 2018

# Independent auditor's report to the members of Flybe Group plc

## Report on the audit of the financial statements

### Opinion

In our opinion:

- > the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31<sup>st</sup> March 2018 and of the group's loss for the year then ended;
- > the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- > the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- > the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Flybe Group plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- > the consolidated income statement;
- > the consolidated statement of comprehensive income;
- > the consolidated and parent company balance sheets;
- > the consolidated and parent company statements of changes in equity;
- > the consolidated and parent company cash flow statements; and
- > the related notes 1 to 44.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

# Independent auditor's report to the members of Flybe Group plc continued

Summary of our audit approach	
Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>&gt; Going concern;</li> <li>&gt; Aircraft fleet changes and valuation;</li> <li>&gt; Aircraft maintenance provisions; and</li> <li>&gt; Revenue recognition and provisioning.</li> </ul> <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
Materiality	The materiality that we used for the group financial statements was £2.0m. In determining materiality we considered revenue and profit/loss before tax and derived a figure based on revenue.
Scoping	Consistent with our approach in the prior year, our group audit scope focused primarily on the audit work at the two components (both in the UK), being Flybe Limited (airline operations) and Flybe Aviation Services Limited (maintenance, repair and overhaul operations).
Significant changes in our approach	<p>As set out within the going concern statement and viability statement disclosures at pages 37 to 39, the Group's cash flow forecasts reflect management's Strategic Business Improvement Plan and include multiple assumptions about, among other matters: trading, consumer confidence and financing. These assumptions lead to uncertainty and we have therefore identified going concern as a key audit matter.</p> <p>We no longer consider deferred taxation to be a key audit matter due to a reduction in the extent of estimation and judgement in the calculation of the Group's deferred tax position.</p>

## Conclusions relating to going concern, principal risks and viability statement

### Going concern

We have reviewed the directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

### Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- > the disclosures on pages 40 to 45 that describe the principal risks and explain how they are being managed or mitigated;
- > the directors' confirmation on page 67 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity; or
- > the directors' explanation on pages 37 to 39 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions. We are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Going concern		New
Key audit matter description	<p>As set out in the going concern and viability statements at pages 37 to 39 and discussed in the Audit Committee Report on page 74, the Group's cash flow forecasts reflect management's Strategic Business Improvement Plan and their response to a range of uncertainties including, among other matters: consumer confidence, fuel prices, deposits required by card service providers and financing of aircraft purchases. In addition there are significant committed cash outflows in respect of end of lease maintenance and aircraft purchases in the coming two years. Management have used significant judgement to develop a number of assumptions in respect of these uncertainties, in order to conclude that the going concern basis of accounting is appropriate.</p> <p>In view of these factors, and the track record of variances to budget, we identified the risk that these assumptions, and hence the use of the going concern basis, are inappropriate, as a key audit matter.</p>	
How the scope of our audit responded to the key audit matter	<p>Our work in assessing management's adoption of the going concern basis of accounting, and whether these conditions constitute a material uncertainty related to going concern required the allocation of a significant part of our resources in the audit. Our detailed work included the following:</p> <ul style="list-style-type: none"> <li>&gt; Assessing the Group's future liquidity and cash headroom under the base case, reasonable worst-case and mitigated scenarios;</li> <li>&gt; Testing the mechanical accuracy of the models used to prepare the Group's forecasts, including understanding the data inputs, calculations and reporting of outputs;</li> <li>&gt; Challenging the judgements made in the Group's forecasts over the period to June 2019, with reference to variances from historical trading and market prices, and considering the impact of cancelled routes on the forecast revenue values;</li> <li>&gt; Confirming the revised delivery dates, to the second half of 2019, for the E175 aircraft to a signed OEM agreement;</li> <li>&gt; Considering the status of negotiations to obtain operating lease funding for the four Embraer E175 aircraft by reading the provisional financing offers received;</li> <li>&gt; Assessing the potential restricted cash deposits and covenants that could be imposed by credit card partners and other suppliers and comparing to past levels of cash collateral held;</li> <li>&gt; Assessing management's cash flow forecasts related to maintenance obligations on aircraft to be handed back to lessors in the period, comparing this to the current maintenance condition of the aircraft and recent experience of end of lease handback checks;</li> <li>&gt; Assessing the appropriateness of sensitivities applied to the forecast cash flows to evaluate whether liquidity and cash headroom had been subjected to appropriate stress tests, for example using forward curves for market price data or, where possible, looking at past volatility and forecasting accuracy as an indicator of likely future volatility;</li> <li>&gt; Assessing the reasonableness of the Group's mitigating actions, to determine the extent to which these actions are within its control and when the cash flow benefit would be realised;</li> <li>&gt; Assessing the appropriateness of risk factors disclosed in the Group's going concern statement for consistency with those risks and sensitivities considered by management and ourselves; and</li> <li>&gt; Challenging the sufficiency of the Group's disclosures over going concern.</li> </ul>	
Key observations	We concurred with management's judgement that the going concern basis of accounting is appropriate.	

# Independent auditor's report to the members of Flybe Group plc continued

## Aircraft fleet changes and valuation



Key audit matter description	<p>Changes in the fleet, whether related to aircraft or components such as engines, or to the associated loans and lease terms have material accounting impacts. Each instance could result in additional liabilities and obligations, with bespoke and potentially complex contract terms, as well as additional implications on maintenance accounting. There have been 2 (FY17: 9) new aircraft delivered, both financed by operating leases, and 5 (FY17: nil) aircraft returned in the year.</p> <p>Additionally, we have considered the valuation of the aircraft: for owned aircraft there is a risk of aircraft impairment; and for leased aircraft a risk of the lease being onerous.</p> <p>An onerous lease provision has been recorded relating to certain aircraft lease contracts and presented as a prior year adjustment on the basis that the factors indicating unavoidable losses were known to the Board at 31<sup>st</sup> March 2017 but were not previously minuted nor identified as the trigger for recording an onerous lease provision. The provision recorded at 31<sup>st</sup> March 2017 was £24.9m and at 31<sup>st</sup> March 2018 this had reduced to £20.9m. Refer additionally to disclosures on page 73 and note 24.</p> <p>In addition to the onerous lease provision, capitalised maintenance assets of £3.7m as at 31<sup>st</sup> March 2017 relating to the same leased aircraft were impaired as a prior year adjustment.</p> <p>The calculation of the onerous lease provision and impairment of related assets requires the use of estimates and judgement.</p> <p>As described in the Audit Committee Report on page 73 there have been deficiencies in the controls around maintenance accounting, financial close, budgeting and forecasting, including ownership of variances, which potentially impact accounting for the fleet and the identification of impairment and onerous contracts.</p> <p>Changes to the fleet and related risks are disclosed on page 43 and in notes 14 and 31.</p>
How the scope of our audit responded to the key audit matter	<p>For each aircraft and significant aircraft component delivered we have evaluated each lease to challenge the appropriateness of management's treatment as either an operating or finance lease. For owned aircraft, we evaluated the accuracy of useful economic lives and residual valuations, including assessing external source data for similar assets. We have challenged management's forecasts to support the carrying value of the owned fleet, including evaluating the reasonableness of underlying assumptions and historical accuracy of forecasting.</p> <p>For leased aircraft we have challenged the completeness and accuracy of maintenance provisions required under the lease. We have challenged the completeness and valuation of the onerous lease provision recorded with respect to certain aircraft lease contracts, including evaluating the reasonableness of underlying assumptions including forecast future cash flows.</p> <p>We challenged the appropriateness of the onerous lease provision relating to certain aircraft lease contracts presented as a prior year adjustment which included assessing the existence and accuracy of the unavoidable losses at 31<sup>st</sup> March 2017 based upon management information prepared at that time. As we were not previously aware of this information we have performed a completeness check this year for information provided to the Board but not covered by the Board minutes.</p> <p>In view of the deficiencies noted in the forecasting and budgeting process, we used a senior team to audit impairment and onerous leases. We challenged management's assessment of Cash Generating Units and the forecasts used for the impairment review and onerous lease assessment which are based on a 3 year plan used for the going concern assessment but extend beyond this:</p> <ul style="list-style-type: none"> <li>&gt; We involved a valuation specialist in the testing of the discount rate applied to forecast cash flows;</li> <li>&gt; We assessed the interchangeability of aircraft types across different routes and thus the extent to which the airline is a single CGU;</li> <li>&gt; We challenged management's estimate of the long-term growth rate;</li> <li>&gt; We challenged the consistency of the long-term cash flow model with the fleet plan;</li> <li>&gt; We tested the mechanical accuracy of the forecast models; and</li> <li>&gt; We considered the difference between the external and internal views of Enterprise Value and considered whether there were plausible explanations for the differences.</li> </ul>
Key observations	<p>Based on our procedures, we concluded that the classification and valuation of the new aircraft delivered in the year, is appropriate and that the carrying value of the owned fleet is reasonable. The onerous leases provision of £24.9m as at 31<sup>st</sup> March 2017 relating to certain aircraft lease contracts and presented as a prior year adjustment is appropriate. The closing onerous lease provision of £20.9m as at 31<sup>st</sup> March 2018 is reasonable.</p> <p>The Group continues to remediate associated control deficiencies relating to the Group's ownership and reporting of budget to actual variances and review of the financial closing process; refer additionally to disclosure on page 73.</p>

## Aircraft maintenance provisions



Key audit matter description	<p>Management continue to recognise provisions for maintenance obligations in relation to leased aircraft. Their approach to recognising the provision of £96.7m (2017: £80.9m) and detail is provided in note 24, as well as being included in the Audit Committee Report at page 73.</p> <p>The quantification of maintenance provisions requires complex judgements and estimates to be made including considerations of aircraft utilisation, expected maintenance intervals and associated costs, and any changes in terms with maintenance providers.</p> <p>As part of our half year review procedures we identified a significant deficiency in the controls relating to maintenance accounting which include weaknesses in the integrity of the maintenance models, the appropriateness of underlying assumptions, the timeliness of balance sheet reconciliations and reporting of budget to actual variances; refer additionally to disclosure on page 73.</p>
How the scope of our audit responded to the key audit matter	<p>We evaluated the methodology and key assumptions adopted by management in their calculation of the aircraft maintenance provisions and evaluated the design and implementation of the controls in this process. This work included:</p> <ul style="list-style-type: none"> <li>&gt; Testing the integrity and arithmetical accuracy of the models used to calculate the provisions; and</li> <li>&gt; Consideration and challenge of the consistency and reasonableness of the assumptions adopted, including: <ul style="list-style-type: none"> <li>– review of lease terms and conditions;</li> <li>– testing of source data for the provision model to information from lessors;</li> <li>– comparison of assumptions to contract terms;</li> <li>– assessment of recent interval and cost experience, including that arising from end of lease handbacks; and</li> <li>– inquiry of engineering management to challenge the assumptions adopted, in particular in relation to asset lives, the utilisation pattern of the aircraft and the consistency of the provisions with their assessment of aircraft condition.</li> </ul> </li> </ul> <p>We did not rely on controls as part of our audit approach in view of the deficiencies noted and additionally tested charges between the inhouse maintenance operation and the airline to test for correct recording.</p>
Key observations	<p>The provisions for maintenance obligations and assumptions are appropriate.</p> <p>The Group continues to remediate the identified control deficiencies including improving the models used to account for aircraft maintenance.</p>

# Independent auditor's report to the members of Flybe Group plc continued

## Revenue recognition and provisioning



Key audit matter description	<p>Group revenue includes £675.6m (2017: £619.3m) of passenger revenue for the year ended 31<sup>st</sup> March 2018. Further detail is set out in note 5.</p> <p>Management have recorded certain provisions against revenue where data derived from the revenue reporting systems have needed amendment to accurately reflect revenue in accordance with the Group's recognition criteria (as set out in note 3 to the financial statements).</p> <p>These provisions primarily arise from activities such as inter-airline and code-sharing agreements as well as ancillary revenue. Their quantification can involve complex data flows and in some cases judgment on the likely volume of rejected transactions; as a result, this is an area where potential fraud could occur.</p> <p>Much of the group's revenue is derived from complex, non-integrated systems. As part of our IT testing we identified deficiencies with respect to certain IT controls relevant to financial control.</p>
How the scope of our audit responded to the key audit matter	<p>We evaluated the design and implementation of the key controls over revenue recognition and performed substantive tests and analytical procedures of related revenue and revenue provisions. We have also challenged the judgements made in valuing the required revenue provisions which include challenging judgements with past experience to determine historical accuracy, as well as the consistency of judgements and assumptions applied between financial periods.</p> <p>IT specialist members of the audit team performed a reconciliation of data in the revenue reporting systems to the general ledger which was supplemented by further substantive audit procedures to test the completeness and accuracy of the data.</p> <p>No control reliance was placed on information derived from the Group's IT systems in our approach to testing. Instead we have tested the completeness and accuracy of reports derived from group systems by vouching to/from source documents. In addition we have performed a full reconciliation of passenger revenue from the reservation system to revenue.</p>
Key observations	The revenue provision estimates applied by management are appropriate.

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

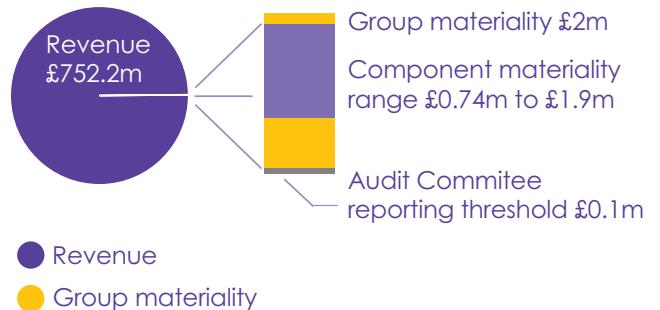
	Group financial statements	Parent company financial statements
Materiality	£2.0m (2017: £1.9m)	£1.8m (2017: £1.9m)
Basis for determining materiality	In determining materiality we considered profit/loss before tax and revenue and derived a figure based on a percentage of revenue (0.27% in both the current and prior years).	We determined materiality based upon 1% of the parent's net assets capped at 90% of group materiality.
Rationale for the benchmark applied	This measure provides a consistent basis to the prior year and its movement reflects the growth in the overall business. Having also considered the group's profitability and key movements in its financial position, such as fixed asset additions, disposals and maintenance accounting entries, we considered this level of materiality to be appropriate for the users of the financial statements.	We have capped the parent company's materiality relative to that of the Group's materiality in order to reflect the overall risks associated with the Group.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £100,000 (2017: £95,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

#### An overview of the scope of our audit

We obtained an understanding of the group and its environment, including group-wide controls, and assessed the risks of material misstatement at the group level. Based on that assessment, our group audit scope focused on the audit work at the two-UK based components, being Flybe Limited (airline operations) and Flybe Aviation Services Limited (maintenance, repair and overhaul operations).

All audit work was completed by the group audit team and comprised a full scope audit on both UK components where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations in that component being: Flybe Limited £1.90m (FY17: £1.81m) and Flybe Aviation Services Limited £0.74m (FY17: £0.63m). These components represent the principal business units and, together with head office, account for 100% of the Group's net assets, revenue and profit before tax.



#### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- > **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- > **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- > **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

# Independent auditor's report to the members of Flybe Group plc continued

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

This description forms part of our auditor's report.

## Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Report on other legal and regulatory requirements

### Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- > the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- > the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- > we have not received all the information and explanations we require for our audit; or
- > adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- > the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Other matters

#### Auditor tenure

Following the recommendation of the Audit Committee, we were initially appointed by the Board in 2007 to audit the financial statements for the year ending 31<sup>st</sup> March 2007 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 12 years, covering the years ended 31<sup>st</sup> March 2007 to 31<sup>st</sup> March 2018.

#### Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

#### Sonya Butters (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Bristol, United Kingdom

18<sup>th</sup> June 2018

# Financial statements

- 103 Consolidated income statement
- 104 Consolidated statement of comprehensive income
- 104 Consolidated statement of changes in equity
- 105 Consolidated balance sheet
- 106 Consolidated cash flow statement
- 107 Notes to the consolidated financial statements
- 140 Company balance sheet
- 141 Company statement of changes in equity
- 141 Company cash flow statement
- 142 Notes to the Company financial statements
- 144 Five-year summary
- 145 Glossary



# Consolidated income statement

Year ended 31<sup>st</sup> March 2018

	Note	2018 Before E195 oneroous lease and impairment impacts £m	2018 E195 oneroous lease and impairment impacts <sup>1</sup> £m	2018 Total £m	2017 Before E195 oneroous lease and impairment impacts <sup>2</sup> £m	2017 E195 oneroous lease and impairment impacts <sup>1</sup> £m	2017 Total (restated) £m
<b>Group revenue</b>	5	<b>752.6</b>	—	752.6	707.4	—	707.4
Consisting of:							
Passenger revenue		<b>675.8</b>	—	675.8	619.3	—	619.3
White Label flying revenue		<b>36.6</b>	—	36.6	33.0	—	33.0
Revenue from other activities		<b>40.2</b>	—	40.2	55.1	—	55.1
<b>Group revenue</b>		<b>752.6</b>	—	752.6	707.4	—	707.4
Staff costs	7	<b>(126.6)</b>	—	(126.6)	(120.2)	—	(120.2)
Fuel		<b>(92.6)</b>	—	(92.6)	(101.1)	—	(101.1)
Airport and en route charges		<b>(157.6)</b>	—	(157.6)	(148.2)	—	(148.2)
Ground operations		<b>(105.6)</b>	—	(105.6)	(94.3)	—	(94.3)
Maintenance		<b>(64.6)</b>	—	(64.6)	(61.3)	—	(61.3)
Depreciation, amortisation and impairment		<b>(50.9)</b>	(2.2)	(53.1)	(39.1)	(3.7)	(42.8)
Aircraft rental charges		<b>(102.6)</b>	0.9	(101.7)	(97.5)	(24.9)	(122.4)
Marketing and distribution costs		<b>(28.3)</b>	—	(28.3)	(27.1)	—	(27.1)
Other operating gains		<b>7.5</b>	—	7.5	18.8	—	18.8
Other operating expenses		<b>(44.8)</b>	—	(44.8)	(39.8)	—	(39.8)
<b>Operating loss</b>	6	<b>(13.5)</b>	(1.3)	(14.8)	(2.4)	(28.6)	(31.0)
Investment income	8	<b>0.4</b>	—	0.4	0.7	—	0.7
Finance costs	9	<b>(6.1)</b>	—	(6.1)	(5.0)	—	(5.0)
Gains/(losses) on USD loan revaluations	10	<b>11.1</b>	—	11.1	(13.2)	—	(13.2)
<b>Loss before tax</b>		<b>(8.1)</b>	(1.3)	(9.4)	(19.9)	(28.6)	(48.5)
Tax charge	11	—	—	—	(6.8)	—	(6.8)
<b>Loss after tax</b>		<b>(8.1)</b>	(1.3)	(9.4)	(26.7)	(28.6)	(55.3)

## Loss per share:

Basic	12	<b>(3.9)p</b>	(4.5)p	(12.7)p	(26.3)p
Diluted	12	<b>(3.8)p</b>	(4.4)p	(12.4)p	(25.8)p

## Prior year restatement:

1 A non-cash E195 oneroous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment (see note 24) therefore the consolidated income statement for 2016/17 has been restated to be a loss after tax of £55.3m (2016/17: previously published loss after tax of £26.7m).

2 £21.9m of Flybe Aviation Services Limited's cost of sales have been reclassified from the other operating expenses line to maintenance in the prior period in order to be consistent with a change in internal reporting. There has been no impact to the operating loss for the period.

## Consolidated statement of comprehensive income

As at 31<sup>st</sup> March 2018

	2018 £m	2017 (restated) £m
Loss after tax	<b>(9.4)</b>	(55.3)
Items that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit obligation	2.0	(4.9)
Deferred tax arising on net defined benefit obligation	<b>(0.4)</b>	1.0
	1.6	(3.9)
Items that may be reclassified subsequently to profit or loss:		
(Losses)/gains arising during the year on cash flow hedges	<b>(10.6)</b>	50.3
Reclassification of losses on cash flow hedges included in the income statement	<b>(18.7)</b>	(12.4)
Deferred tax arising on cash flow hedges	4.8	(6.1)
	<b>(24.5)</b>	31.8
Other comprehensive (loss)/income	<b>(22.9)</b>	27.9
<b>Total comprehensive loss</b>	<b>(32.3)</b>	(27.4)

**Prior year restatement:**

A non-cash £195 onerous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment (see note 24) therefore the loss after tax for 2016/17 has been restated to be £55.3m (2016/17: previously published loss after tax of £26.7m).

## Consolidated statement of changes in equity

Year ended 31<sup>st</sup> March 2018

	Share capital £m	Share premium account £m	Own shares £m	Hedging reserve £m	Merger reserve £m	Capital redemption reserve £m	Retained (deficit)/ earning £m	Total equity (restated) £m
Balance at 1 <sup>st</sup> April 2016	2.2	209.3	–	(9.9)	6.7	22.5	(76.6)	154.2
Loss after tax (restated)	–	–	–	–	–	–	(55.3)	(55.3)
Other comprehensive income/(expense)	–	–	–	31.8	–	–	(3.9)	27.9
Equity-settled share based payment transactions	–	–	–	–	–	–	1.4	1.4
Capital reduction	–	–	–	–	–	(22.5)	22.5	–
Purchase of shares for employee benefit trust	–	–	(3.3)	–	–	–	–	(3.3)
Balance at 31 <sup>st</sup> March 2017	2.2	209.3	(3.3)	21.9	6.7	–	(111.9)	124.9
Loss after tax	–	–	–	–	–	–	(9.4)	(9.4)
Other comprehensive (expense)/income	–	–	–	(24.5)	–	–	1.6	(22.9)
Equity-settled share based payment transactions	–	–	–	–	–	–	0.5	0.5
<b>Balance at 31<sup>st</sup> March 2018</b>	<b>2.2</b>	<b>209.3</b>	<b>(3.3)</b>	<b>(2.6)</b>	<b>6.7</b>	<b>–</b>	<b>(119.2)</b>	<b>93.1</b>

**Prior year restatement:**

A non-cash £195 onerous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment (see note 24) therefore the loss after tax for 2016/17 has been restated to be £55.3m (2016/17: previously published loss after tax of £26.7m).

# Consolidated balance sheet

As at 31<sup>st</sup> March 2018

	Note	2018 £m	2017 (restated) £m
<b>Non-current assets</b>			
Intangible assets	13	11.8	11.9
Property, plant and equipment	14	308.2	305.4
Other non-current assets	15	84.0	69.6
Restricted cash	18	8.3	9.2
Deferred tax asset	23	3.8	4.0
Derivative financial instruments	22	0.1	0.4
		<b>416.2</b>	400.5
<b>Current assets</b>			
Inventories	16	7.6	6.3
Trade and other receivables	17	90.7	108.0
Cash and cash equivalents	18	86.7	115.1
Derivative financial instruments	22	10.5	26.0
		<b>195.5</b>	255.4
<b>Total assets</b>		<b>611.7</b>	655.9
<b>Current liabilities</b>			
Trade and other payables	20	(110.0)	(116.9)
Deferred income	19	(83.8)	(83.5)
Borrowings	21	(17.7)	(20.6)
Provisions	24	(52.8)	(43.7)
Derivative financial instruments	22	(10.2)	(1.3)
		<b>(274.5)</b>	[266.0]
<b>Non-current liabilities</b>			
Borrowings	21	(136.4)	(167.7)
Deferred tax liabilities	23	-	(4.6)
Provisions	24	(80.1)	(64.5)
Other payables	20	(1.3)	-
Deferred income	19	(6.2)	(6.8)
Retirement benefits	34	(18.8)	(20.8)
Derivative financial instruments	22	(1.3)	(0.6)
		<b>(244.1)</b>	(265.0)
<b>Total liabilities</b>		<b>(518.6)</b>	(531.0)
<b>Net assets</b>		<b>93.1</b>	124.9
<b>Equity attributable to owners of the Company</b>			
Share capital	25	2.2	2.2
Share premium account	26	209.3	209.3
Own shares	27	(3.3)	(3.3)
Hedging reserve	28	(2.6)	21.9
Merger reserve	28	6.7	6.7
Retained deficit	28	(119.2)	(111.9)
<b>Total equity</b>		<b>93.1</b>	124.9

## Prior year restatement:

A non-cash £195 onerous lease provision and impairment of related assets totalling £28.6m has been recognised as a prior period adjustment (see note 24).

The financial statements of Flybe Group plc, registered number 01373432, were approved by the Board of Directors and authorised for issue on 18<sup>th</sup> June 2018.

**Christine Ourmières-Widener**  
Chief Executive Officer

**Ian Milne**  
Chief Financial Officer

# Consolidated cash flow statement

Year ended 31<sup>st</sup> March 2018

	2018 £m	2017 (restated) £m
<b>Cash flows from operating activities</b>		
Loss after tax	(9.4)	(55.3)
Adjustments for:		
Depreciation, amortisation and impairment	53.1	42.8
Investment income	(0.4)	(0.7)
Interest expense	6.1	5.0
(Gains)/losses on USD loan revaluations	(11.1)	13.2
Loss on disposal of property, plant and equipment	4.9	2.9
Loss on write-offs of intangible fixed assets	0.2	4.3
Share-based payment expenses	0.5	1.4
Deferred taxation	–	6.8
	<b>53.3</b>	75.7
 Cash paid for defined benefit pension funding	 (0.8)	 (0.5)
Cash settled on derivatives	(6.3)	4.9
Decrease/(increase) in restricted cash	1.0	(1.4)
Decrease/(increase) in trade and other receivables	2.8	(35.5)
(Increase)/decrease in inventories	(1.3)	0.1
(Decrease)/increase in trade and other payables	(5.8)	10.8
(Decrease)/increase in provisions and retirement benefits	(19.7)	19.5
	<b>(30.1)</b>	(2.1)
<b>Tax paid</b>	<b>–</b>	<b>–</b>
<b>Net cash flows from operating activities</b>	<b>13.8</b>	18.3
 <b>Cash flows from investing activities</b>		
Proceeds of property, plant and equipment	0.3	–
Interest received	0.4	0.7
Purchases of property, plant and equipment	(11.7)	(118.0)
Capitalised computer software expenditure	(4.5)	(5.7)
<b>Net cash flows from investing activities</b>	<b>(15.5)</b>	(123.0)
 <b>Cash flows from financing activities</b>		
Proceeds from new loans	–	84.3
Cash paid for purchase of shares for Employee Benefit Trust	–	(3.3)
Interest paid	(6.1)	(5.0)
Repayment of borrowings	(20.6)	(19.8)
<b>Net cash flows from financing activities</b>	<b>(26.7)</b>	56.2
 <b>Net decrease in cash and cash equivalents</b>	<b>(28.4)</b>	(48.5)
 <b>Cash and cash equivalents at beginning of year</b>	<b>115.1</b>	163.6
 <b>Cash and cash equivalents at end of year</b>	<b>86.7</b>	115.1

#### Prior year restatement:

The prior period has been restated to reclassify maintenance assets arising as a result of non-cash accounting transactions. As a result, £16.6m outflow has been reclassified from acquisition of property, plant and equipment within investing activities as a movement in provisions within net cash outflow from operating activities. There was no impact to the consolidated income statement or consolidated balance sheet nor any change in net decrease in cash and cash equivalents.

Items within operating activities have been restated to reflect the prior period non-cash £195 onerous lease and impairment of related assets adjustment (see note 24). It had no impact to net cash flows from operating activities.

# Notes to the consolidated financial statements

## 1. General information

Flybe Group plc is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 62. The nature of the UK Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 53.

These financial statements are presented in pounds sterling, the currency of the primary economic environment in which the Group operates.

## 2. Adoption of new and revised standards

### **Amendments to IFRSs that are mandatorily effective for the current year**

The Group has adopted the amendments to IAS 7 'Statement of cash flows' for the first time in the current year. The amendments require an entity to provide disclosures that enable the users of financial statements to evaluate changes in liabilities arising from financing activities. The Group has provided a reconciliation of net debt which includes all liabilities arising from financing activities. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 30, this amendment has had no impact on the Group's consolidated financial statements.

Other amendments effective for the current year have not resulted in a significant change to Group's consolidated financial statements.

### **New standards, amendments and interpretations not yet effective**

At the date of approval of these financial statements, the following new standards and interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 'Financial instruments' (effective for the Group's 2018/19 financial year);
- IFRS 15 'Revenue from contracts with customers' (effective for the Group's 2018/19 financial year);
- IFRS 16 'Leases' (effective for the Group's 2019/20 financial year);
- IFRS 2 (amendments) 'Classification and measurement of share-based payment transactions' (not yet endorsed – effective for the Group's 2018/19 financial year).

IFRS 9 'Financial instruments' is effective for periods beginning on or after 1<sup>st</sup> January 2018. The Group will adopt the standard from 1<sup>st</sup> April 2018 and does not expect there to be a significant change in the classification and measurement of its financial instruments or in its hedging activities on adoption. The impact on the non-interest bearing receivable due from Flybe Limited to Flybe Group plc is currently being reviewed.

IFRS 15 'Revenue from contracts with customers'; effective for periods beginning on or after 1<sup>st</sup> January 2018. The standard establishes a five-step model that will change the timing of revenue recognition to reflect performance obligations in the contracts with customers.

The Group has identified the following changes to revenue recognition on adoption of the standard:

- Flybe ticket revenue – revenue associated with ancillary services that is currently recognised when paid, such as administration fees, will be deferred and recognised at the transport date when performance obligations are satisfied;
- Other passenger revenue – certain revenues will be presented gross rather than net of related costs when Flybe is considered to be the principal rather than the agent in these transactions;
- Other revenue – certain contracts are not covered by IFRS 15 as they do not meet the definition of a customer. These will now be accounted for under IFRS 9 'Financial instruments' and the Group does not expect a change to the results for the year; and
- Costs – Incremental costs of obtaining contracts will be deferred and recognised in line with the revenue.

The Group expects to apply IFRS 15 retrospectively to each period in which financial information is presented, according to IAS 8 'Accounting policies, changes in accounting estimate and errors'. On adoption of the standard, the adjustments expected are:

- a charge of c. £2-3m to the opening retained earnings as at 1<sup>st</sup> April 2018;
- an increase of c. £1m to opening current liabilities;
- an increase to revenue for the year ended 31<sup>st</sup> March 2017 of c. £7m; and
- an increase to operating costs for the year ended 31<sup>st</sup> March 2018 of c. £5m.

The accounting of other revenue streams will not be materially impacted by IFRS 15.

# Notes to the consolidated financial statements continued

## 2. Adoption of new and revised standards continued

### New standards, amendments and interpretations not yet effective continued

IFRS 16 'Leases' introduces a single lessee accounting model and is effective for periods beginning on or after 1<sup>st</sup> January 2019. The new standard will require lessees to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for all leases unless exemption is taken for certain short-term leases or for leases of low-value assets. At 31<sup>st</sup> March 2018, the Group has £229.9m outstanding commitments arising from operating leases (see note 31) so the new standard will have a material impact on the Group. The Group is currently assessing the impact of the new standard and it is not practicable to quantify the effect of this standard until this detailed review has been completed. In line with the reducing fleet size and planned hand-back of leases, the eventual 'right of use' asset capitalised is likely to be less than the current outstanding lease commitment. The Group will adopt the standard from 1<sup>st</sup> April 2019 and is currently considering whether to use fully or modified retrospective application.

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

## 3. Significant accounting policies

### Basis of accounting

The financial statements are prepared in accordance with International Financial Reporting Standards ('IFRSs'). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are recorded at fair value. The principal accounting policies adopted, which have been applied consistently in the current and the prior financial year, are outlined below. Additional items are presented on the face of the Income Statement where they are of such importance as to be critical to the understanding of the results.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31<sup>st</sup> March each year. Control is achieved when the Company is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

### Going concern

The directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained in the Financial Review on pages 38 to 39.

### Revenue and revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes and comprises:

#### Passenger revenue

Scheduled and charter passenger ticket sales, net of passenger taxes and discounts, are recorded in a 'forward sales' account and are included in current liabilities, within deferred income, until recognised as revenue when transportation occurs. This also includes revenue derived from flights operated by the Group's codeshare partners.

Unused tickets are recognised as revenue when the right to travel expires and the Group's obligation to refund ceases, which is determined by the terms and conditions of these tickets.

Ancillary revenue, comprising principally baggage carriage, advanced seat assignment, commissions, change fees and credit and debit card fees due to the Group, is recognised as revenue on the date the right to receive consideration occurs. In respect of credit and debit card fees and hotel and insurance commission, this occurs when each flight is booked and paid for. For the remaining ancillary revenue, this occurs on the date of transportation, as this is when the service is generally provided.

#### **White Label flying revenue**

White Label flying revenue is accounted for as a long-term contract and is therefore recognised in the period when the service is delivered. Income is deferred when there is a possibility of service-related penalties and then later released when it has been confirmed that the service level agreement has been satisfied.

#### **Revenue from other activities**

These represent the amounts derived from the provision of goods and services to customers during the year, including aircraft maintenance, overhauls and the associated rotatable and consumable parts. The amount of profit attributable to the stage of completion of an engine and maintenance overhaul contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Revenue for such contracts is stated at the cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Other revenues, such as for cargo and franchise, are recognised in the period when the services are provided.

Other revenue includes operational support received under airport partnership agreements and is recognised in the period to which it relates.

#### **Customer loyalty programme**

Flybe has an agreement to enable Avios and BA Executive Club members to accrue Avios points when using Flybe's network, including partners. Flybe simply purchases points from Avios at a pre-agreed rate which is recorded as a liability against deferred income. At transportation, the cost of purchasing the points is charged against the passenger revenues.

In addition, Avios purchases passenger tickets from Flybe in order to include Flybe in its redemption network. Revenues from these tickets is accounted for as passenger revenue. Avios purchases the flights from Flybe on behalf of its customers and these are included in the deferred income and, once transportation has been provided, in the income statement revenues.

#### **Investment income**

Investment income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Investment income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Foreign currencies**

Transactions arising, other than in the functional currency, are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated using the rate of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not translated.

Exchange differences are recognised within other operating gains and losses line in the income statement in the period in which they arise.

#### **Property, plant and equipment**

Property, plant and equipment are stated at their cost, less accumulated depreciation and impairment losses. Aircraft and engines and other associated equipment are classified as aircraft. All other equipment is classified as plant and equipment.

An element of the cost of a new aircraft is attributed on acquisition to prepaid maintenance of its engines and airframe and is amortised from the date of purchase to the date of the next scheduled maintenance event for the component. Subsequent costs, such as long-term scheduled maintenance and major overhaul of aircraft, are capitalised and amortised over the length of period benefiting from these costs. All other costs relating to maintenance are charged to the income statement as incurred.

Advance payments and option payments made in respect of aircraft purchase commitments are recorded at cost in current or non-current aircraft deposits. On acquisition of the related aircraft, these payments are included as part of the cost of aircraft and are depreciated from that date.

# Notes to the consolidated financial statements

## continued

### 3. Significant accounting policies continued

#### **Property, plant and equipment** continued

Depreciation is provided by the Group to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Freehold land	Nil
Freehold and short leasehold buildings	2% to 10% per annum or lease term where shorter
Plant, equipment and motor vehicles	10% to 50% per annum
Aircraft	4% to 20% per annum

Estimated residual values are reviewed annually at each period-end with reference to current market conditions. Where estimated residual values are found to have changed significantly this is accounted for prospectively as a change in estimate and depreciation charges over the remaining useful life of the asset are adjusted to take account of the revised estimate of residual value.

#### **Intangible assets**

##### **Computer software**

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group intends to, and has the technical ability and sufficient resources to, complete development and if the Group can measure reliably the expenditure attributable to the intangible asset during its development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the consolidated income statement as an expense as incurred.

Computer software is carried at cost less accumulated amortisation. It is amortised on a straight-line basis over its useful economic life of five years.

#### **Disposals of property, plant, equipment and intangible assets**

The gain or loss on disposal of property, plant, equipment and intangible assets after deducting any costs associated with selling, disposing of or retiring the relevant asset is recognised in the consolidated income statement and reported under other operating gains or losses.

#### **Impairment of tangible and intangible assets**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

#### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Once such assurance exists, government grants are either recognised in the consolidated income statement or, where related to property, plant and equipment, are treated as deferred income and released to the consolidated income statement over the expected useful lives of the assets concerned.

Government assistance that is receivable as compensation for expenses or losses already incurred are recognised in profit or loss in the period in which they become receivable.

#### **Inventories**

Inventories are stated at the lower of cost and net realisable value.

#### **Aircraft deposits**

Aircraft deposits represent deposits made with aircraft manufacturers for future delivery of aircraft or deposits made with aircraft financiers or operating lessors to provide security for future maintenance work or lease payments.

## Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the relevant instrument.

### Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- > They include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- > Where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

### Derivative financial instruments and hedging

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and commodity prices. The Group uses forward foreign exchange contracts and commodity swaps to hedge these exposures but does not use derivative financial instruments for trading purposes.

Derivative financial instruments are initially recognised, and subsequently remeasured, at fair value.

The Group designates hedges of foreign exchange and commodity price risks on firm commitments as cash flow hedges. Hedge accounting is applied to these instruments.

### Cash flow hedges

Changes in the fair value of derivative financial instruments that are designated and are effective as hedges of future cash flows are recognised directly in other comprehensive income and any ineffective portion is recognised immediately in the consolidated income statement in the other operating gains and losses line.

Amounts deferred in other comprehensive income are recognised in the consolidated income statement in the same period in which the hedged item affects net income or loss. These amounts are recorded in the other operating gains and losses in the consolidated income statement as the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income at that time is accumulated in equity and is recognised when the forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated income statement.

### Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Initially they are measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ('FVTPL') or at fair value designated and effective as hedges, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at FVTPL, financial assets that are designated and effective as hedging instruments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group holds no 'available-for-sale' or 'held-to-maturity' financial assets.

# Notes to the consolidated financial statements continued

## 3. Significant accounting policies continued

### Financial assets continued

#### Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or is designated as at FVTPL. A fuel or foreign exchange hedging instrument is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement incorporates any dividend or interest earned on the financial asset and is included in the 'unrealised gains and losses on fuel and foreign exchange hedges' line item or 'other gains and losses' line item in the consolidated income statement depending upon the nature of the instrument.

#### Loans and receivables

Trade receivables, loans, maintenance receivables and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that the estimated future cash flows of the investment have been affected (for example significant financial difficulty of a counterparty).

#### Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

#### Cash and cash equivalents

Cash, for the purposes of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Cash equivalents are current asset investments which are readily convertible into known amounts of cash at, or close to, their carrying values or traded in an active market, without curtailing or disrupting the business.

#### Restricted cash

Restricted cash represents funds held by the Group in bank accounts which cannot be withdrawn until certain conditions have been fulfilled. The aggregate restricted funds balance is disclosed in note 18 and is classified as a current or non-current asset based on the estimated remaining length of the restriction.

#### Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or equity instruments according to the substance of the contractual arrangements.

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

#### Financial liabilities

Financial liabilities are recognised as either financial liabilities at FVTPL, financial liabilities that are designated and effective as hedging instruments, or other financial liabilities.

#### Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL. A fuel or foreign exchange hedging instrument is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'unrealised gains and losses on fuel hedges' line item or other operating gains and losses line item in the consolidated income statement. Fair value is determined in the manner described in note 35.

### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

### Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

### Leased aircraft maintenance provisions

The Group incurs liabilities for maintenance costs in respect of aircraft leased under operating leases during the term of the lease. These arise from the contractual obligations relating to the condition of the aircraft when it is returned to the lessor. To discharge these obligations, the Group will either need to compensate the lessor for the element of the life of the component or maintenance intervals used, or carry out the maintenance check before returning the aircraft to the lessor.

The provisions recorded and charged to the consolidated income statement are dependent on the life of the component or maintenance interval used and the individual terms of the lease:

- > No charge is recorded during the initial period of lease agreements where no compensation or maintenance is required prior to hand-back;
- > After a component or maintenance interval passes its half-life (or another measure depending on the individual lease) and compensation would be due to the lessor in accordance with the terms of the lease, a provision and matching consolidated income statement charge is recorded equal to the amount of compensation that would be required based on the hours or cycles flown at the balance sheet date; and
- > After a component or maintenance interval has passed the trigger point such that the Group is contractually obliged to carry out the specified work, a full provision for the cost of work is recorded. To the extent that this provision represents an increase to the half-life compensation provision already recorded, a maintenance asset is recorded within property, plant and equipment. The asset is depreciated over the expected period to the next half-life compensation point, or the end of the lease, whichever is sooner.

Where maintenance is provided under 'power by the hour' contracts and maintenance paid to maintenance providers to cover the cost of the work is deemed to be irrecoverable, these payments are expensed as incurred and maintenance provisions are reduced to reflect the fact that the Group has already paid for the related maintenance work. Maintenance deposits which are refundable are recorded as other receivables.

Estimates are required to establish the likely utilisation of the aircraft, the expected cost of a maintenance check at the time it is expected to occur, the condition of an aircraft and the lifespan of life-limited parts. The bases of all estimates are reviewed once each year and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services.

# Notes to the consolidated financial statements

## continued

### 3. Significant accounting policies continued

#### Provisions continued

##### EU261 passenger delay compensation

Provision is made for passenger compensation claims when the group has an obligation to recompense customers under regulation EU261 where technical issues have caused flights to be delayed. Provisions are measured based on known eligible flight delays and historic claim rates and are expected to unwind across the claim window, which is six years.

#### Leases

##### Operating leases

Rental charges on operating leases are charged to the consolidated income statement on a straight-line basis over the life of the lease. If lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis over the life of the lease term.

At 31<sup>st</sup> March 2018, 66.3% of Flybe's fleet was leased via operating leases from seven lessors (see page 30). The aircraft are owned by the lessor (or a special purpose company they manage) and Flybe and the lessor enter into an operating lease agreement. Operating leases are less cash-intensive at delivery – contrasted to a loan with an initial deposit requirement – and remove aircraft residual value risk.

During the lease term Flybe is responsible for paying rent to the lessor and for the operation, maintenance and insurance of the aircraft. At the end of the lease term the aircraft is redelivered to the lessor in a condition described in the lease. Some of the leases include extension rights which can be exercised to extend the lease by a further fixed term; the leases are not open-ended. Maintenance provisions are discussed in the accounting policy on page 113.

##### Sale and leaseback

The Group enters into sale and leaseback transactions whereby it sells aircraft, or rights to acquire aircraft, to a third party. Flybe subsequently leases the aircraft back, by way of an operating lease. Any profit or loss on the disposal, where the price that the aircraft is sold for is not considered to be fair value, is deferred and amortised over the lease term of the asset.

##### Finance leases

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the consolidated balance sheet as property, plant and equipment, and is depreciated over the estimated useful life to the Group. The asset is recorded at the lower of its fair value, less accumulated depreciation, and the present value of the minimum lease payments at the inception of the finance lease. Future instalments under such leases, net of finance charges, are included as obligations under finance leases. Rental payments are apportioned between the finance element, which is charged to the income statement, and the capital element, which reduces the outstanding obligation for future instalments. The finance charge is allocated to each period during the lease term to produce a constant periodic rate of interest on the remaining balance of the liability.

##### Onerous leases

Onerous lease provisions are made in respect of the present obligation arising under an onerous contract. The provision recognised is for any unavoidable net loss estimated to arise from the contract, being the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfil the contract.

#### Taxation

Current and deferred tax are recognised in the consolidated income statement, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

#### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the consolidated balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised, unless the deferred tax assets arise from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the consolidated income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

### Employee benefit costs

The Group operates defined contribution and defined benefit pension schemes.

For the defined contribution schemes, the assets of the schemes are held separately from those of the Group in independently administered funds. The amount charged to the income statement represents the contributions payable to the schemes in respect of the accounting period.

For the defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement comprising actuarial gains and losses, the effect of the asset ceiling and the return on scheme assets (excluding interest) are recognised immediately in the balance sheet with a charge to the statement of comprehensive income in the period in which they occur. Remeasurement recorded in the statement of comprehensive income is not recycled. Net-interest income (or expense) is recognised within finance costs and is calculated by applying a discount rate to the net defined benefit liability. The Group presents the administration costs of the scheme in other operating costs in its consolidated income statement.

The retirement benefit obligation recognised in the consolidated balance sheet represents the deficit in the Group's defined benefit schemes. If a surplus resulted from this calculation it would be limited to the present value of any economic benefit available in the form of refund from the schemes or reduction in future contributions to the schemes.

### Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

Save as you earn ('SAYE') share options granted to employees are treated as cancelled when employees cease to contribute to the scheme. This results in accelerated recognition of the expense that would have arisen over the remainder of the original vesting period.

For cash-settled share-based payments, a liability is recognised for the good or services required, measured initially at the fair value of the liability. At each balance sheet date until the liability is settled and at the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognised in profit or loss for the year.

# Notes to the consolidated financial statements

## continued

### 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### Critical judgements in applying the Group's accounting policies

The following are the critical judgements that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

##### Recognition of deferred tax assets

The Group recognises deferred tax assets and liabilities based on the temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Deferred tax assets are reviewed regularly to assess potential realisation, and where the directors believe that realisation is not probable, that portion of the asset is not recorded. In performing this review, Flybe makes estimates and assumptions regarding projected future taxable income and the expected timing of the reversals of existing temporary differences. A change in these assumptions could cause an increase or decrease in the amount recognised resulting in an increase or decrease in the effective tax rate, which could materially impact the results of operations. Deferred tax assets and liabilities are set out in note 23.

##### Employee benefits

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events including, but not limited to life expectancy and future pay inflation. Determination of the projected benefit obligations for the Group's defined benefit scheme is important to the recorded amount of benefit expense in the consolidated income statement and valuation of the scheme assets and defined benefit liability in the consolidated balance sheet. Details of the assumptions used are included in note 34. Any change in these assumptions could potentially result in a significant change to the pension assets/(liabilities), commitments and pension costs in future periods.

##### Key sources of estimation uncertainty

###### Aircraft maintenance

For aircraft held under operating leases, the Group has a commitment to return the aircraft in a specific maintenance condition at the end of the lease term. Estimating the provision for maintenance costs requires judgement as to the cost and timing of future maintenance events. The most critical estimates are based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations. It is reasonably possible that outcomes within the next financial year that are different from assumptions made could require a material adjustment to the carrying amount of the aircraft maintenance provision. Any change in these assumptions could potentially result in a significant change to the maintenance provisions and costs in future periods. The bases of all estimates are reviewed once each year and also when information becomes available that is capable of causing a material change to an estimate, such as renegotiation of end of lease return conditions, increased or decreased utilisation, or unanticipated changes in the cost of heavy maintenance services.

The carrying amount of maintenance provision as at 31<sup>st</sup> March 2018 is £105.2m (see note 24).

###### Onerous aircraft lease

Based on forecasts, the unavoidable costs of meeting the aircraft lease obligations for E195s exceeds the economic benefits expected to be received from the fleet. A non-cash onerous aircraft lease provision has therefore been recognised based on the latest three-year plan. The Group recognises that a plan/budget/forecast is an estimate of revenue and costs based on past, current and anticipated market conditions and the available capacity within the fleet. While the Group is able to manage both revenue and costs, it is recognised that all plans, budgets and forecasts are inherently uncertain especially as the airline industry is susceptible to macro-economic cycles (see risk 13 in the principal risk and uncertainty section on page 40 to 45) and there is the risk that identified business opportunities may not be delivered (see risk 5).

The provision will be utilised over the period of time until the leases expire and all the aircraft have been handed back. Related assets have also been impaired. It is reasonably possible that outcomes within the next financial year that are different from assumptions made in the three-year plan could require a material adjustment to the carrying amount of the onerous aircraft lease provision. Due to the associated uncertainty, E195 onerous lease estimates are reviewed once each year and also when a new Board approved plan, budget or forecast is available. The provision is then adjusted to reflect any changes.

The carrying amount of the non-cash E195 onerous lease provision as at 31<sup>st</sup> March 2018 is £20.9m (see note 24).

## 5. 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 follows:

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.
Flybe Aviation Services ('FAS')	This business segment provides maintenance, repair and overhaul services to Flybe's own fleet and to third-party customers.

### Segment revenues and results

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

	2018 £m	2017 £m
<b>Segment revenues:</b>		
Flybe UK	732.0	675.6
FAS	50.0	50.1
Inter-segment sales	(29.4)	(18.3)
<b>Consolidated revenue</b>	<b>752.6</b>	<b>707.4</b>
 <b>Segment results:</b>		
Flybe UK (including net finance costs of £5.7m (2016/17: £4.3m)) <sup>1</sup>	(12.5)	(51.9)
FAS	3.1	3.4
<b>Consolidated loss before tax</b>	<b>(9.4)</b>	<b>(48.5)</b>

<sup>1</sup> The prior period has been adjusted to reflect recognition of a non-cash E195 onerous lease and impairment of related assets (see note 24).

The Flybe UK segment includes group costs of £5.5m (2016/17: £4.3m) and gains on revaluation of USD aircraft loans of £11.1m (2016/17: £13.2m losses).

### Other segment information

	2018 £m	2017 (restated) <sup>1</sup> £m
<b>Depreciation, amortisation and impairment:</b>		
Flybe UK <sup>1</sup>	52.6	42.4
FAS	0.5	0.4
	<b>53.1</b>	<b>42.8</b>
 <b>Investment income:</b>		
Flybe UK	0.4	0.7
	<b>0.4</b>	<b>0.7</b>

<sup>1</sup> The prior period has been adjusted to reflect recognition of a non-cash E195 onerous lease and impairment of related assets (see note 24).

# Notes to the consolidated financial statements

## continued

### 5. Business segments continued

#### Geographical information

The Group's revenue from external customers by geographical location is detailed below:

	2018 £m	2017 £m
<b>Revenue from external customers:</b>		
United Kingdom	628.7	585.3
Europe excluding United Kingdom	111.9	108.2
Rest of world	12.0	13.9
<b>Consolidated revenue</b>	<b>752.6</b>	<b>707.4</b>

No non-current assets were based outside the United Kingdom for any of the periods presented.

### 6. Operating loss

	2018 £m	2017 (restated) <sup>1</sup> £m
<b>This has been arrived at after charging/(crediting):</b>		
Depreciation of property, plant and equipment	39.7	36.5
Amortisation of intangible assets	4.2	2.6
Impairment of property, plant and equipment <sup>1</sup>	9.2	3.7
Loss on disposal of plant, property and equipment	4.8	2.9
Loss on write-offs of intangibles	0.3	4.3
Impairment of trade receivables	0.4	0.2
Cost of inventories recognised as an expense	20.2	21.4
Government assistance/grants <sup>2</sup>	1.8	1.0
Operating leases:		
Land and buildings	1.8	2.7
Plant and machinery	0.4	0.4
Aircraft <sup>3</sup>	102.6	97.5
Foreign exchange gains	(12.6)	(26.0)

1 The prior period has been adjusted to reflect recognition of a non-cash E195 onerous lease and impairment of related assets (see note 24).

2 Government assistance includes £1.6m (2016/17: £0.9m) receivable for a Department for Transport scheme to support the operation of specific routes. These costs are recognised as a reduction to airport costs in the consolidated income statement and there were no unfulfilled conditions at the balance sheet date. The remaining £0.2m (2016/17: £0.1m) is for the Flybe Training Academy grant (see note 19).

3 Aircraft operating leases are stated before the impact of the E195 onerous lease recognised in the prior period (see note 24).

### Auditor's remuneration

	2018 £m	2017 £m
<b>The analysis of auditor's remuneration is as follows:</b>		
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	–	–
Audit of the financial statements of subsidiaries pursuant to legislation	0.6	0.3
<b>Total audit fees</b>	<b>0.6</b>	0.3
Other services	–	0.1
<b>Total audit and non-audit fees</b>	<b>0.6</b>	0.4

Details of the Group's policy on the use of auditors for non-audit services, the reasons why the auditor was used rather than another supplier and how the auditor's independence and objectivity was safeguarded are set out in the Audit Committee Report on page 75. No services were provided pursuant to contingent fee arrangements.

## 7. Staff costs

The average monthly number of employees (including executive directors) was:

	2018 No.	2017 No.
Flight and maintenance	1,314	1,331
Technical support services	411	385
Administration	434	415
	<b>2,159</b>	2,131

During 2017/18 49 employees were transferred from flight and maintenance in Flybe Limited to technical support services in Flybe Aviation Service Limited.

The Group's aggregate payroll costs in respect of those persons were as follows:

	2018 £m	2017 £m
Wages and salaries <sup>1</sup>	103.4	96.5
Social security costs	9.9	9.4
Other pension costs (see note 34)	5.5	5.4
Share-based payments (see note 33)	0.5	1.4
	<b>119.3</b>	112.7
Amounts payable to temporary staff	6.6	6.6
Redundancy costs	0.7	0.9
	<b>126.6</b>	120.2

<sup>1</sup> During 2016/17, the performance conditions for the 2015/16 bonus were assessed and £3.6m was determined not to be payable and was therefore released to the consolidated income statement.

In addition to the above, an actuarial gain of £2.0m (2017: £4.9m loss) was recognised in the consolidated statement of comprehensive income in respect of the defined benefit pension scheme.

## 8. Investment income

	2018 £m	2017 £m
Interest on bank deposits	0.4	0.7

## 9. Finance costs

	2018 £m	2017 £m
Interest expense on bank loans	5.6	4.4
Net interest cost on defined benefit obligation (see note 34)	0.5	0.6

## 10. Gains/(losses) on USD loan revaluations

	2018 £m	2017 £m
Gains/(losses) on USD loan revaluations	11.1	(13.2)

# Notes to the consolidated financial statements

## continued

### 11. Tax on loss on ordinary activities

	2018 £m	2017 £m
<b>Deferred tax</b>		
Origination of temporary differences	–	6.8
<b>Total deferred tax charge for the year</b>	<b>–</b>	<b>6.8</b>

The Group did not incur or pay any current corporation tax in this or the prior year.

The charge for the year can be reconciled to the loss in the consolidated income statement as follows:

	2018 £m	2017 (restated) <sup>1</sup> £m
Loss on ordinary activities before tax	(9.4)	(48.5)
Tax at the UK corporation tax rate of 19% (2016/17: 20%)	(1.8)	(9.7)
<b>Factors affecting tax charge for the year</b>		
Expenses not taxable <sup>2</sup>	0.2	6.6
Change in unrecognised deferred tax assets	1.6	10.0
Adjustments in respect of prior years	–	(0.1)
<b>Total deferred tax charge for the year</b>	<b>–</b>	<b>6.8</b>

1 The prior period has been adjusted to reflect recognition of a non-cash £195 onerous lease and impairment of related assets (see note 24).

2 Expenses not taxable primarily includes depreciation (net of allowable writing down allowances), loss on disposal of assets and adjustments for long-funded leases.

Reductions in the UK corporation tax rate to 19% (effective from 1<sup>st</sup> April 2017) and then 17% (effective from 1<sup>st</sup> April 2020) were substantively enacted on 6<sup>th</sup> September 2016. The deferred tax asset has been calculated based on the rate of 19%.

In addition to the amount charged to the consolidated income statement, the following amounts relating to tax have been recognised in the consolidated statement of comprehensive income:

	2018 £m	2017 £m
<b>Deferred tax</b>		
Items that will not be reclassified to profit or loss:		
Deferred tax arising on net defined benefit obligation	(0.4)	1.0
Items that may be reclassified subsequently to profit or loss:		
Deferred tax arising on cash flow hedges	4.8	(6.1)
<b>Total tax recognised in other comprehensive income</b>	<b>4.4</b>	<b>(5.1)</b>

There was no tax recognised directly in equity.

### 12. Loss per share

The calculation of the basic loss per share is based on the following data:

	2018 £m	2017 (restated) <sup>1</sup> £m
<b>Earnings</b>		
Loss for the purposes of loss per share, being net loss attributable to owners of the Group	(9.4)	(55.3)
Weighted average number of ordinary shares for the purposes of basic loss per share	<b>210,233,808</b>	210,233,808
Weighted average number of ordinary shares for the purposes diluted loss per share	<b>212,765,564</b>	214,168,983
Loss per ordinary share – basic	<b>(4.5)p</b>	(26.3)p
Loss per ordinary share – diluted	<b>(4.4)p</b>	(25.8)p

1 The prior period has been adjusted to reflect recognition of a non-cash £195 onerous lease and impairment of related assets (see note 24).

Loss per share calculations excludes own shares held by the Company's Employee Benefit Trust (see note 27).

The weighted average number of ordinary shares for the purposes diluted loss per share reflects potentially issuable shares under performance share plans where the exercise price is less than the average market price of the Company's ordinary shares during the year.

### 13. Intangible fixed assets

	Computer software £m	Computer software in the course of construction £m	Total £m
<b>Cost</b>			
At 1 <sup>st</sup> April 2016	14.9	7.1	22.0
Additions	2.1	3.6	5.7
Reclassifications <sup>1</sup>	3.6	(3.6)	–
Reclassification to property, plant and equipment <sup>2</sup>	–	(0.2)	(0.2)
Disposals <sup>3</sup>	(5.0)	(0.6)	(5.6)
At 31 <sup>st</sup> March 2017	15.6	6.3	21.9
Additions	1.8	2.7	4.5
Reclassifications <sup>1</sup>	6.1	(6.1)	–
Reclassifications to property, plant and equipment <sup>2</sup>	–	(0.1)	(0.1)
Disposals	(1.5)	(0.2)	(1.7)
<b>At 31<sup>st</sup> March 2018</b>	<b>22.0</b>	<b>2.6</b>	<b>24.6</b>
<b>Accumulated amortisation</b>			
At 1 <sup>st</sup> April 2016	8.7	–	8.7
Amortisation for the year <sup>3</sup>	2.6	–	2.6
Disposals <sup>3</sup>	(1.3)	–	(1.3)
At 31 <sup>st</sup> March 2017	10.0	–	10.0
Amortisation for the year	4.2	–	4.2
Disposals	(1.4)	–	(1.4)
<b>At 31<sup>st</sup> March 2018</b>	<b>12.8</b>	<b>–</b>	<b>12.8</b>
<b>Net book value</b>			
At 31 <sup>st</sup> March 2017	5.6	6.3	11.9
<b>At 31<sup>st</sup> March 2018</b>	<b>9.2</b>	<b>2.6</b>	<b>11.8</b>

1 Assets costing £6.1m (2017: £3.6m) were reclassified from software in the course of construction to computer software when the asset was brought into use. There was no impact on the consolidated income statement or consolidated balance sheet.

2 Assets costing £0.1m (2017: £0.2m) were reclassified to property, plant and equipment. This had no impact on the consolidated income statement or consolidated balance sheet.

3 In the prior year, as part of the new digital platform rollout, intangible assets with a total cost of £5.6m and associated accumulated amortisation of £1.3m were written off as these assets have no future economic value. The effect on the current year is an additional £0.9m accelerated amortisation charge (2017: £0.5m).

Included above is £2.5m relating to AMOS (Flybe's maintenance software application) which is being amortised over a five year period with five years remaining (2017: £0.8m amortised over a five year period with three years remaining).

# Notes to the consolidated financial statements

## continued

### 14. Property, plant and equipment

	Land and buildings £m	Plant, equipment and motor vehicles £m	Aircraft £m	Assets in the course of construction £m	Total £m
<b>Cost</b>					
At 1 <sup>st</sup> April 2016	22.0	9.4	273.3	–	304.7
Additions	–	0.5	132.9	1.2	134.6
Reclassifications <sup>1</sup>	(1.0)	0.9	–	0.1	–
Reclassifications from intangible assets <sup>2</sup>	–	–	0.2	–	0.2
Disposals	–	(0.3)	(13.6)	–	(13.9)
At 31 <sup>st</sup> March 2017	21.0	10.5	392.8	1.3	425.6
Additions	–	0.2	56.4	1.9	58.5
Reclassifications <sup>3</sup>	–	–	1.6	(1.6)	–
Reclassifications from intangible assets <sup>2</sup>	–	0.1	–	–	0.1
Disposals	–	(0.5)	(37.9)	(0.1)	(38.5)
<b>At 31<sup>st</sup> March 2018</b>	<b>21.0</b>	<b>10.3</b>	<b>412.9</b>	<b>1.5</b>	<b>445.7</b>
<b>Accumulated depreciation</b>					
At 1 <sup>st</sup> April 2016	3.1	6.9	81.0	–	91.0
Depreciation charge for the year	0.4	0.8	35.3	–	36.5
Reclassifications <sup>1</sup>	(0.1)	0.1	–	–	–
Impairment <sup>4</sup>	–	–	3.7	–	3.7
Disposals	–	(0.2)	(10.8)	–	(11.0)
At 31 <sup>st</sup> March 2017 <sup>4</sup>	3.4	7.6	109.2	–	120.2
Depreciation charge for the year	0.5	0.8	38.4	–	39.7
Impairment	–	–	9.2	–	9.2
Disposals	–	(1.0)	(30.6)	–	(31.6)
<b>At 31<sup>st</sup> March 2018</b>	<b>3.9</b>	<b>7.4</b>	<b>126.2</b>	<b>–</b>	<b>137.5</b>
<b>Net book value</b>					
At 31 <sup>st</sup> March 2017 <sup>4</sup>	17.6	2.9	283.6	1.3	305.4
<b>At 31<sup>st</sup> March 2018</b>	<b>17.1</b>	<b>2.9</b>	<b>286.7</b>	<b>1.5</b>	<b>308.2</b>

1 In the prior year assets with a net book value of £1.0m were reclassified between assets in the course of construction, plant, equipment and motor vehicles and land and buildings. There was no impact on the consolidated income statement or the consolidated balance sheet.

2 Assets costing £0.1m (2017: £0.2m) were reclassified from intangible fixed assets. There was no impact on the consolidated balance sheet or the consolidated income statement. There was no impact on the consolidated income statement.

3 Assets costing £1.6m (2017: £nil) were reclassified from assets in the course of construction to aircraft when the asset was brought into use. There was no impact on the consolidated income statement.

4 The prior period has been adjusted to reflect recognition of a non-cash E195 onerous lease and impairment of related assets (see note 24).

An impairment review was performed at the balance sheet date to determine whether these assets were impaired. Separate cash-generating units are established for Flybe UK and FAS. An impairment of £9.2m was recognised for assets relating to the E195 onerous lease (2017: £3.7m – see note 24). For Flybe UK, the recoverable amount was calculated using a value in use model. A load factor of 81.8% and a growth rate of 1.6% have been used in the long-term cash flows which resulted in the total recoverable amount of Flybe UK non-E195 assets being higher than the assets' carrying amount by £112.6m therefore no further impairment was required. A reasonably possible scenario would be for the long-term load factor to decline by 2% but the growth rate to be maintained which would result in a calculated headroom of £47.9m. The load factor would have to decline by 3% and growth rate to be at zero before an impairment would be incurred.

## 15. Other non-current assets

	2018 £m	2017 £m
Aircraft deposits	1.3	1.7
Aircraft security deposits	8.1	11.3
Aircraft operating lease prepayments	1.1	2.6
Other non-current assets	73.5	54.0
	<b>84.0</b>	<b>69.6</b>

Other non-current assets are primarily maintenance receivables relating to down payments on service and overhaul agreements.

## 16. Inventories

	2018 £m	2017 £m
Aircraft consumables	7.6	6.3

## 17. Trade and other receivables

	2018 £m	2017 £m
Amounts receivable	47.8	49.4
Allowance for doubtful debts	(0.4)	(0.2)
Trade receivables (net)	47.4	49.2
Amounts recoverable on contracts	1.7	1.7
Maintenance receivables	18.7	25.3
Other receivables	12.8	18.5
Prepayments	10.1	13.3
	<b>90.7</b>	<b>108.0</b>

Trade receivables (see below for aged analysis) include amounts which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful debts because there has not been a significant change in credit quality and the amounts are considered recoverable. See note 6 for impairments recognised in the year. All trade receivables are classified as loans and receivables and are therefore measured at amortised cost. Other receivables include maintenance debtors, VAT receivables under one year and other receivables.

### Ageing of trade receivables (net) that are not provided for:

	2018 £m	2017 £m
Not yet due	41.1	42.6
30 to 60 days	3.9	4.1
60 to 90 days	0.9	0.3
90+ days	1.5	2.2
	<b>47.4</b>	<b>49.2</b>

## 18. Cash, cash equivalents and restricted cash

	2018 £m	2017 £m
Cash and cash equivalents	86.7	115.1
Non current restricted cash	8.3	9.2
	<b>95.0</b>	<b>124.3</b>
Non-current restricted cash comprises:		
Aircraft operating lease deposits	6.8	7.5
Aircraft maintenance deposits	1.5	1.7
	<b>8.3</b>	<b>9.2</b>

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of cash, cash equivalents and restricted cash is approximately equal to their fair value.

# Notes to the consolidated financial statements

## continued

### 19. Deferred income

	2018 £m	2017 £m
Current	<b>83.8</b>	83.5
Non-current	<b>6.2</b>	6.8
	<b>90.0</b>	90.3

Deferred income includes government grants totalling £5.9m (2017: £6.1m) for capital financial support towards the capital costs of the Flybe Training Academy building, a national training centre for the airline industry. Government grants were provided by the South West of England Regional Development Agency and the Learning Skills Council (and its successor). These institutions may be entitled to claw back all or part of the grant up to 31<sup>st</sup> December 2020 if the Group ceases to operate the building as a training centre providing education and training to internal and external delegates.

During 2016/17 £4.2m was credited to the consolidated income statement following a review of the deferred income balance.

### 20. Trade and other payables

	2018 £m	2017 £m
Trade payables	<b>40.8</b>	43.6
Accrued expenses	<b>38.0</b>	39.3
Other payables	<b>32.5</b>	34.0
	<b>111.3</b>	116.9
Current other payables	<b>110.0</b>	116.9
Non-current other payables	<b>1.3</b>	–
	<b>111.3</b>	116.9

The carrying amount of trade payables approximates their fair value. The Group manages credit terms with its suppliers in a way to ensure payments are made to them on commercially acceptable terms.

Other payables includes passenger taxes and other cash liabilities. Non-current other payables includes deposits held from customers.

### 21. Borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, as well as the repayment profiles, see note 35.

	2018 £m	2017 £m
<b>Secured bank loans</b>		
Amount due for settlement within 12 months	<b>17.7</b>	20.6
Amount due for settlement after 12 months	<b>136.4</b>	167.7
	<b>154.1</b>	188.3

Fleet assets with a carrying amount of £209.1m (2017: £241.0m)<sup>1</sup> have been pledged to secure borrowing of the Group.

<sup>1</sup> The prior year has been restated to exclude fully owned aircraft. There was no impact to the consolidated income statement or consolidated balance sheet.

**Terms**

	2018	2017		
	Interest rate %	Amount £m	Interest rate %	Amount £m
Floating rate sterling loans	<b>3.7</b>	<b>14.2</b>	3.3	17.7
Floating rate USD loans	<b>3.0</b>	<b>74.1</b>	2.9	93.6
Fixed rate sterling loans	<b>3.1</b>	<b>42.2</b>	3.1	47.5
Fixed rate USD loans	<b>4.2</b>	<b>23.6</b>	4.2	29.5
	<b>154.1</b>		188.3	

The interest rates above relate to the weighted average for the year or period. Floating rates are based upon LIBOR and sterling base rate with margins of between 0.1% and 3.3%. The loans are repayable over a period to 31<sup>st</sup> March 2029. All loans are secured on specific aircraft assets or land and buildings. All of the covenants tested have been satisfied since inception of the agreements.

## 22. Derivative financial instruments

	2018 £m	2017 £m
<b>Current assets</b>		
Forward foreign currency contracts/options	–	21.6
Fuel contracts/options	<b>10.5</b>	4.4
Derivative instruments that are designated and effective as hedging instruments carried at fair value	<b>10.5</b>	26.0
Total derivative financial assets held as current assets	<b>10.5</b>	26.0
<b>Non-current assets</b>		
Forward foreign currency contracts/options	–	0.4
Fuel contracts/options	<b>0.1</b>	–
Derivative instruments that are designated and effective as hedging instruments carried at fair value	<b>0.1</b>	0.4
Total derivative financial assets held as non-current assets	<b>0.1</b>	0.4
<b>Total derivative financial assets</b>	<b>10.6</b>	26.4
<b>Current liabilities</b>		
Forward foreign currency contracts/options	<b>(10.2)</b>	(0.5)
Fuel contracts/options	–	(0.8)
Derivative instruments that are designated and effective as hedging instruments carried at fair value	<b>(10.2)</b>	(1.3)
Total derivative financial assets held as current liabilities	<b>(10.2)</b>	(1.3)
<b>Non-current liabilities</b>		
Forward foreign currency contracts/options	<b>(1.3)</b>	–
Fuel contracts/options	–	(0.6)
Derivative instruments that are designated and effective as hedging instruments carried at fair value	<b>(1.3)</b>	(0.6)
Total derivative financial assets held as non-current liabilities	<b>(1.3)</b>	(0.6)
<b>Total derivative financial liabilities</b>	<b>(11.5)</b>	(1.9)
<b>Net derivative financial (liabilities)/assets</b>	<b>(0.9)</b>	24.5

Further details of derivative financial instruments are provided in note 35.

# Notes to the consolidated financial statements continued

## 23. Deferred tax

The following movements in the major deferred tax liabilities and (assets) were recorded by the Group during the current and prior reporting period.

	Property, plant and equipment £m	Employee benefits £m	Financial instruments £m	Total £m
At 1 <sup>st</sup> April 2016	(6.8)	(3.0)	(1.5)	(11.3)
Recognised in the income statement	6.8	–	–	6.8
Recognised in other comprehensive income	–	(1.0)	6.1	5.1
At 31 <sup>st</sup> March 2017	–	(4.0)	4.6	0.6
Recognised in other comprehensive income	–	0.4	(4.8)	(4.4)
<b>At 31<sup>st</sup> March 2018</b>	<b>–</b>	<b>(3.6)</b>	<b>(0.2)</b>	<b>(3.8)</b>

There are no unused tax losses as at 31<sup>st</sup> March 2017 or 2018.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2018 £m	2017 £m	2018 £m	2017 £m
Employee benefits	3.6	4.0	–	–
Financial instruments	0.2	–	–	(4.6)
<b>Tax assets/(liabilities)</b>	<b>3.8</b>	<b>4.0</b>	<b>–</b>	<b>(4.6)</b>

Where carried forward losses or unclaimed capital allowances are available, they are recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. The directors have exercised judgement in determining the extent of the realisation of these losses based upon estimates of future taxable income. Deferred tax assets relating to unclaimed capital allowances have not been recognised in the current year due to the length of time expected until they are likely to be utilised.

£22.3m of deferred tax assets have not been recognised in the year (2017: restated for E195 onerous lease £21.8m). If actual events differ from the directors' estimates, or to the extent that these estimates are adjusted in the future, any recognition in the future of previously generated assets would have a material impact on the Group's effective tax rates.

## 24. Provisions

	2018 £m	2017 (restated) <sup>1</sup> £m
Leased aircraft maintenance	105.2	80.9
E195 onerous lease	20.9	24.9
Other	6.8	2.4
	<b>132.9</b>	108.2
Current	52.8	43.7
Non-current	80.1	64.5
	<b>132.9</b>	108.2

1 The prior period has been adjusted to reflect recognition of a non-cash E195 onerous lease and impairment of related assets (see note 24).

The Group's provisions are as follows:

	Leased aircraft maintenance £m	E195 onerous lease £m	Other £m	Total £m
At 1 <sup>st</sup> April 2017 (restated)	80.9	24.9	2.4	108.2
Utilisation of provision	(24.8)	(13.3)	(6.3)	(44.4)
Additional provision charged	49.1	9.3	10.7	69.1
<b>At 31<sup>st</sup> March 2018</b>	<b>105.2</b>	<b>20.9</b>	<b>6.8</b>	<b>132.9</b>

Aircraft maintenance provisions are made in respect of contractual obligations to maintain aircraft under operating lease contracts. The amount and timing of the maintenance costs are dependent on future usage of the relevant aircraft. Typically this will be utilised within two years. The additional provision in the year is included within maintenance charges shown in the consolidated income statement.

Other provisions include passenger compensation claims (when the Group has an obligation to recompense customers under regulation EU261) and onerous contracts, of which £5.2m relates to an onerous IT contract (2017: £nil).

During the year a prior period error was adjusted for retrospectively in accordance with IAS 8 'Accounting policies, changes in accounting estimates and errors'. The error concerned an onerous contract on lease agreements for nine E195 aircraft. Based on the Board papers in March 2017, the unavoidable costs of meeting the lease obligations exceed the economic benefits expected to be received from the fleet. The provision will be utilised over the next three years until the leases expire and all the aircraft have been handed back. Related assets have also been impaired. The impact is shown on the face of the consolidated income statement and each affected note has been restated. The entries made have been detailed below and narrative on the decision-making process is on page 73 of the Audit Committee report.

The correction of the prior period error resulted in the following entries being made in 2016/17:

	Impact of accounting for E195 onerous lease provision and impairment of related assets			
	E195 onerous lease provision based on March 2017 three-year plan		Impairment of related E195 assets	Restated line item
	As previously reported £m	March 2017 £m	£m	£m
<b>Consolidated income statement – extract<sup>1</sup></b>				
Depreciation, amortisation and impairment	39.1	–	3.7	42.8
Aircraft rental charges	97.5	24.9	–	122.4
<b>Impact on consolidated income statement</b>		<b>24.9</b>	<b>3.7</b>	<b>28.6</b>
<b>Consolidated balance sheet – extract<sup>1</sup></b>				
Property, plant and equipment	309.1	–	(3.7)	305.4
Current provisions	(30.3)	(13.4)	–	(43.7)
Non-current provisions	(53.0)	(11.5)	–	(64.5)
Retained deficit	(83.3)	(24.9)	(3.7)	(111.9)

As a result of the correction of the prior period error, the following entries were made in 2017/18:

	Impact of accounting for E195 onerous lease provision and impairment of related assets			
	E195 onerous lease provision reassessed based on March 2018 three-year plan		Net impairment of related E195 assets	Closing line item
	Unadjusted line item £m	Utilisation of E195 onerous lease provision during 2017/18 £m	£m	£m
<b>Consolidated income statement – extract<sup>1</sup></b>				
Depreciation, amortisation and impairment	50.9	–	–	2.2
Aircraft rental charges	102.6	(10.2)	9.3	–
<b>Impact on consolidated income statement</b>		<b>(10.2)</b>	<b>9.3</b>	<b>2.2</b>
<b>Consolidated balance sheet – extract<sup>1</sup></b>				<b>1.3</b>
Current provisions	10.2	(2.8)	–	(52.8)
Non-current provisions	–	(6.5)	–	(80.1)
Retained deficit	10.2	(9.3)	(2.2)	(119.2)

<sup>1</sup> Only impacted line items have been extracted from the consolidated income statement and consolidated balance sheet and presented in the above tables.

# Notes to the consolidated financial statements continued

## 25. Share capital

	2018 £'000	2017 £'000
<b>Authorised, issued and fully paid</b>		
216,656,776 ordinary shares of 1p each	<b>2,167</b>	2,167

The Company has one class of ordinary shares which carry no right to fixed income.

## 26. Share premium account

	£m
<b>Balance at 31<sup>st</sup> March 2017 and 31<sup>st</sup> March 2018</b>	<b>209.3</b>

## 27. Own shares

	£m
<b>Balance at 31<sup>st</sup> March 2017 and 31<sup>st</sup> March 2018</b>	<b>3.3</b>

The reduction of capital described in note 28 gave the Board the flexibility to proceed with a share grant of 5% of basic salary to all employees employed as at 31<sup>st</sup> July 2016, giving employees a stake in the Company (see note 33 on share-based payments). The shares to enable the grant were purchased in August and September 2016 by the Company's Employee Benefit Trust. The purchase of 6,422,968 shares for £3.3m was reflected in the consolidated statement of changes in equity for the year ended 31<sup>st</sup> March 2017.

## 28. Reserves

### Retained deficit

	£m
Balance at 1 <sup>st</sup> April 2016	(76.6)
Net loss for the year (restated) <sup>1</sup>	(55.3)
Other comprehensive loss arising from measurement of defined benefit obligation net of deferred tax	(3.9)
Credit to equity for equity-settled share-based payment transactions	1.4
Capital reduction	22.5
Balance at 31 <sup>st</sup> March 2017	(111.9)
Net loss for the year	(9.4)
Other comprehensive loss arising from measurement of defined benefit obligation net of deferred tax	1.6
Credit to equity for equity-settled share-based payment transactions	0.5
<b>Balance at 31<sup>st</sup> March 2018</b>	<b>(119.2)</b>

1 The prior period has been adjusted to reflect recognition of a non-cash £195 onerous lease and impairment of related assets (see note 24).

In 2016/17, shareholder and High Court approval was obtained on 27<sup>th</sup> July 2016 and 17<sup>th</sup> August 2016 respectively to a reduction of capital of Flybe. £22.5m was held in the capital redemption reserve as disclosed in the Company statement of changes in equity on page 141 of the Group's Annual Report for the year ended 31<sup>st</sup> March 2016. The approval released the full amount of £22.5m into the retained earnings reserve therefore eliminating the accumulated deficit on the retained earnings reserve and creating a positive balance of distributable reserves in the Company.

### Hedging reserve

	Hedging reserve £m
Balance at 1 <sup>st</sup> April 2016	(9.9)
Loss arising during the year on cash flow hedges	48.2
Reclassification of loss on cash flow hedges included in the income statement	(10.3)
Deferred tax arising on cash flow hedges	(6.1)
Balance at 31 <sup>st</sup> March 2017	21.9
Loss arising during the year on cash flow hedges	(18.7)
Reclassification of loss on cash flow hedges included in the income statement	(10.6)
Deferred tax arising on cash flow hedges	4.8
<b>Balance at 31<sup>st</sup> March 2018</b>	<b>(2.6)</b>

### **Merger reserve**

The merger reserve was created at the point of acquisition of BA Connect and there were no movements in the current or prior year.

## **29. 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:

	2018 £m	2017 £m
Bank guarantees and letters of credit issued	<b>11.4</b>	9.8

At 31<sup>st</sup> March 2018, the Group had £1.9m (2017: £3.5m) of unused facilities which could be used for guarantees.

## **30. Cash flow statement**

### **Changes in liabilities arising from financing activities**

The table below details changes in the Group's net debt position which includes liabilities arising from financing activities. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities. Cash and restricted cash are included here for illustrative purposes and are not classified as cash flows from investing activities.

	Bank loans £m	Cash £m	Restricted cash £m	Net debt £m
Balance at 1 <sup>st</sup> April 2017	(188.3)	115.1	9.2	(64.0)
Cash flows	20.6	(11.0)	0.1	9.7
Exchange movements <sup>1</sup>	13.6	(17.4)	(1.0)	(4.8)
<b>Balance at 31<sup>st</sup> March 2018</b>	<b>(154.1)</b>	<b>86.7</b>	<b>8.3</b>	<b>(59.1)</b>

1 Exchange movements include revaluation of foreign currency denominated loans plus hedging gains and losses.

## **31. 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	
	2018 £m	2017 £m	2018 £m	2017 £m
Less than one year	<b>1.7</b>	1.8	<b>73.9</b>	91.4
Between one and two years	<b>0.7</b>	0.9	<b>62.1</b>	78.0
Between two and five years	<b>1.6</b>	1.9	<b>79.3</b>	142.2
More than five years	<b>9.3</b>	9.8	<b>1.3</b>	6.9
	<b>13.3</b>	14.4	<b>216.6</b>	318.5

The majority of aircraft operating leases are denominated in US dollars.

The fall in obligations for aircraft operating leases reflects handbacks of aircraft and movements in foreign exchange rates.

Included within aircraft operating lease commitments is £26.1m relating to E195 aircraft which has been provided for as an onerous lease (see note 24).

# Notes to the consolidated financial statements

## continued

### 32. 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).

	2018 £m	2017 £m
Embraer E175 regional jet	81.6	118.8

It is intended that these aircraft will be financed partly through cash flow and partly through external financing and leasing arrangements. Prior period commitment was stated at a total list price before escalations and discounts. Current year has been stated at the latest estimated price. These commitments are US dollar denominated. At 31<sup>st</sup> March 2018 pre-delivery deposits of £1.7m have been paid towards this commitment (2017: £1.7m).

### 33. Share-based payments

#### Long-Term Incentive Plan ('LTIP')

##### Philip de Klerk's recruitment award

Philip de Klerk left on 30<sup>th</sup> September 2017 which resulted in this award lapsing. During the financial year an amount less than £0.1m was credited to the consolidated income statement (2016/17: less than £0.1m was credited to the consolidated income statement as a result of the valuation movement in the LTIP liability). The Group has no recorded liabilities in respect of this LTIP scheme at 31<sup>st</sup> March 2018 (2017: less than £0.1m).

##### Performance Share Plan ('PSP')

The Company has a share award scheme under which all employees of the Group may be granted awards. Awards are exercisable at nil consideration. The vesting period is three years and awards are forfeited if the employee leaves the Group before the awards vest.

The vesting of these awards is subject to the performance of a Flybe share price hurdle at the end of the three-year period. Awards will vest in full if Flybe's three-month average share price at the end of the three-year performance period has met the share price performance hurdle.

	2018		2017	
	Number of share awards	Weighted average exercise price (£)	Number of share awards	Weighted average exercise price (£)
Outstanding at beginning of year	<b>6,920,329</b>	<b>0.12</b>	3,574,501	0.26
Granted during the year	–	–	5,075,261	0.01
Forfeited during the year	<b>(2,732,711)</b>	<b>0.10</b>	(1,729,433)	0.05
Expired during the year	<b>(494,922)</b>	<b>1.17</b>	–	–
<b>Outstanding at end of year</b>	<b>3,692,696</b>	<b>0.01</b>	6,920,329	0.12

Shares awarded under the PSP have been valued using a stochastic simulation valuation methodology. The unexercised PSP schemes at the balance sheet date are set out below:

	2016 Grant	2016 Grant	2016 Grant	2016 Grant	2016 Grant	2017 Grant
Grant and measurement date	29 <sup>th</sup> Jul 15	29 <sup>th</sup> Sep 15	28 <sup>th</sup> Jan 16	29 <sup>th</sup> Sept 16	30 <sup>th</sup> Sept 16	9 <sup>th</sup> Feb 17
No. shares under scheme	2,430,337	92,879	529,083	233,188	3,446,724	1,395,349
Share price on measurement date (p)	93.5	73	80	49.75	49.75	44.00
Exercise date	28 <sup>th</sup> Jul 18 <sup>1</sup>	28 <sup>th</sup> Sep 18 <sup>1</sup>	27 <sup>th</sup> Jan 19 <sup>1</sup>	29 <sup>th</sup> Sept 19	30 <sup>th</sup> Sep 19 <sup>1</sup>	31 <sup>st</sup> Mar 19 <sup>1</sup>
Exercise price (p)	1	1	1	1	1	1
Performance conditions	TSR/EPS <sup>2</sup>	TSR/EPS <sup>2</sup>	TSR/EPS <sup>2</sup>	3	TSR/EPS <sup>2</sup>	TSR/EPS <sup>2</sup>
Risk-free rate of interest (% p.a.)	0.9	0.65	0.46	n/a	0.05	0.13
Flybe volatility (%)	45	45	45	n/a	45	45
Dividend yield (%)	nil	nil	nil	nil	nil	nil
Weighted average contractual life at 31 <sup>st</sup> March 2018 (years)	1.1	1.2	1.6	1.5	2.3	1.8
Shares forfeited in this financial year	1,038,460	–	34,389	20,337	1,403,419	–

1 50% will vest on third anniversary of grant, 25% on fourth anniversary of grant and 25% on fifth anniversary of grant.

2 Options vest subject to total shareholder return ('TSR') and earnings per share ('EPS') performance conditions. The performance period is three years from date of grant. 50% of the award vesting is subject to TSR exceeding the median of the constituents of the FTSE SmallCap Index (excluding investment trusts and Flybe Group plc) at the commencement of the performance period. 50% is subject to the Company's EPS at the end of the performance period.

3 SIP top-up for eligible employees. Shares will vest if employees still work for the Company or are classed as 'good leavers'.

The likelihood of awards being made under a number of performance share plan schemes was re-assessed during the year and a credit to the consolidated income statement of £0.5m was made in respect of the EPS element of schemes no longer expected to vest. Two schemes reached the end of their performance period during the year and did not meet the vesting criteria. The options therefore expired. As a result of the write-backs and increased forfeitures there was a net credit to the consolidated income statement in relation to PSPs of £0.6m (2016/17: £0.6m charge).

#### **Save As You Earn ('SAYE')**

The Flybe Sharesave SAYE scheme was offered to all employees with a length of service more than three months at 14<sup>th</sup> April 2014 and provided for an employee to be granted an option when entering into a savings contract. On 8<sup>th</sup> August 2014, 1,659,467 options over ordinary shares were issued by the Company for this purpose. The scheme ended during the year and no options were exercised. All remaining options have now expired.

	2018	2017
Outstanding at the beginning of the year	962,552	1,279,306
Forfeited during the year	(40,343)	(316,754)
Expired	(922,209)	-
<b>Outstanding at the end of the year</b>	<b>-</b>	<b>962,552</b>

The Group recognised expenses of less than £0.1m in relation to this award in the year to 31<sup>st</sup> March 2018 (2016/17: £0.1m).

#### **Share Incentive Plan ('SIP')**

During 2016/17, eligible employees were able to participate in the Group's SIP and were awarded shares to the value of 5% of their basic salary up to a maximum of £3,600. The shares are held in Trust by Capita IRG Trustees Limited in a plan called the 'Flybe Share Incentive Plan'. If during the three-year vesting period an individual ceases to be an employee, the shares will be forfeited.

If 5% of their basic salary exceeded £3,600, then additional shares have been awarded separately as a 'Top-up award' in the PSP (see above). These top-up shares are held in a separate employee trust.

The movements in the SIP awards are as follows:

	2018	2017
Outstanding at the beginning of the year	6,142,013	-
Awarded during the year	-	6,422,968
Forfeited during the year	(541,308)	(280,955)
<b>Outstanding at the end of the year</b>	<b>5,600,705</b>	<b>6,142,013</b>

The Group recognised expenses of £0.9m in relation to this award in the year to 31<sup>st</sup> March 2018 (2016/17: £0.5m).

#### **Deferred bonus scheme for 2015/16**

As disclosed in the Directors' remuneration report on page 84 of the Group's Annual Report for the financial year ended 31<sup>st</sup> March 2017, Saad Hammad and Philip de Clerk were still eligible to receive the deferred share element of the bonus granted in 2015/16. This vested in July 2017 and the Group recognised expenses of £0.1m in the year to 31<sup>st</sup> March 2018 (2016/17: £0.2m).

#### **Summary**

The Group recognised total expenses of £0.5m in relation to share-based payments in the year ended 31<sup>st</sup> March 2018 (2016/17: £1.4m). In addition, less than £0.1m was credited to the consolidated income statement as a result of movement on valuation of LTIPs (2016/17: less than £0.1m).

### **34. Retirement benefits**

#### **Defined contribution schemes**

The Group operates defined contribution retirement schemes for all qualifying employees in the United Kingdom. The assets of the schemes are held separately from those of the Group in funds under the control of trustees.

The total cost charged to the income statement of £5.5m (2016/17: £5.4m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans.

# Notes to the consolidated financial statements

## continued

### 34. Retirement benefits continued

#### Defined benefit scheme

The defined benefit scheme operated by the Group was acquired on 5<sup>th</sup> March 2007 as part of the acquisition of BA Connect. The scheme was closed to contributions during that year and most members who are still employed now participate in the Group's defined contribution scheme.

The triennial valuation is carried out for the Trustee by a professionally qualified independent actuary. The purpose of the valuation is to design a funding plan to ensure that the scheme has sufficient funds available to meet future benefit payments. The latest funding valuation was performed as at 31<sup>st</sup> March 2016 and showed a deficit of £12.2m which has resulted in a revised funding plan being agreed between the Group and the Trustee. As a result of this agreement, the Group will pay annual deficit contributions of £0.83m. The recovery plan payments, along with the investment returns from return-seeking assets, is expected to make good this shortfall by 31<sup>st</sup> March 2027.

At 31<sup>st</sup> March 2018, the IAS 19 net accounting deficit has been recognised on the consolidated balance sheet.

The principal assumptions used for the purpose of the IAS 19 actuarial valuations were as follows:

	Valuation at	
	2018 %	2017 %
<b>Key assumptions used:</b>		
Discount rate	2.6	2.7
Future pension increases	3.5/2.0	3.6/2.2
RPI inflation	3.1	3.3

The post-retirement mortality rate assumed at 31<sup>st</sup> March 2018 was based on the Self-Administered Pension Scheme ('SAPS') tables and the Continuous Mortality Investigation ('CMI') 2017 long-term rate projections of 1.5% p.a. (males) and 1.25% (females), weighted by 97.5% (males) and 87.5% (females) (2017: the mortality rate was based on SAPS minus one year with a long-term rate of improvement of 1.5%).

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

<b>Assumption</b>	Change in assumption	2018 £m		2017 £m	
		(2018 £m)	(2017 £m)	(2018 £m)	(2017 £m)
Discount rate	Increase by 0.1%	(3.3)	(3.5)	(3.3)	(3.5)
Rate of inflation	Increase by 0.1%	2.0	2.1	2.0	2.1
Life expectancy	Increase by one year	5.4	5.2	5.4	5.2

The amount included in the consolidated balance sheet arising from the Group's obligations in respect of its defined retirement benefit scheme is as follows:

	2018 £m	2017 £m
Present value of defined benefit obligations	(169.5)	(174.0)
Fair value of scheme assets	150.7	153.2
<b>Recognised net liability from defined benefit obligation</b>	<b>(18.8)</b>	<b>(20.8)</b>

Amounts recognised in the consolidated income statement in respect of the defined benefit scheme are as follows:

	2018 £m	2017 £m
Administration costs	0.3	0.5
Net interest payable	0.5	0.6
<b>Charge to loss before tax</b>	<b>0.8</b>	<b>1.1</b>

Re-measurements recognised in the consolidated statement of comprehensive income are as follows:

	2018 £m	2017 £m
(Losses)/returns on scheme assets in excess of interest	(0.8)	15.5
Gains/(losses) arising from changes in financial assumptions	0.6	(37.2)
Gains arising from changes in demographic assumptions	2.8	10.0
(Losses)/gains arising from experience adjustments	(0.6)	6.8
<b>Total re-measurements</b>	<b>2.0</b>	<b>(4.9)</b>

Movements in the present value of defined benefit obligations were as follows:

	2018 £m	2017 £m
Opening defined benefit obligation	(174.0)	(153.6)
Interest cost	(4.5)	(5.6)
Benefits paid	6.2	5.6
Actuarial gains/(losses) arising from changes in financial assumptions	0.6	(37.2)
Actuarial gains arising from changes in demographic assumptions	2.8	10.0
Actuarial (losses)/gains arising from experience adjustments	(0.6)	6.8
<b>Closing defined benefit obligation</b>	<b>(169.5)</b>	<b>(174.0)</b>

Movements in fair value of scheme assets were as follows:

	2018 £m	2017 £m
Opening fair value of scheme assets	153.2	138.3
Interest income	4.0	5.0
Benefits paid	(6.2)	(5.6)
Administration costs	(0.3)	(0.5)
Employer contributions	0.8	0.5
Actuarial (losses)/gains on scheme assets	(0.8)	15.5
<b>Closing fair value of scheme assets</b>	<b>150.7</b>	<b>153.2</b>

The analysis of the scheme assets and the return on those assets at the balance sheet date were as follows:

	2018 £m	2017 £m
<b>Fair value of assets:</b>		
Equities	50.6	54.4
Bonds and gilts	97.6	97.4
Cash	2.5	1.4
	<b>150.7</b>	<b>153.2</b>
<b>Actual return on scheme assets</b>	<b>3.2</b>	20.5

## 35. Financial instruments

### Significant accounting policies

Details of significant accounting policies and methods adopted, including the criteria for recognition, the basis for measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

### Categories of financial instruments

	2018		2017	
	Carrying value £m	Fair value £m	Carrying value (restated) £m	Fair value (restated) £m
<b>Financial assets</b>				
Cash, cash equivalents and restricted cash	95.0	95.0	124.3	124.3
Loans and receivables:				
Trade and other receivables	155.8	155.8	156.2	156.2
Derivative instruments in designated hedge accounting relationships <sup>1</sup>	10.6	10.6	26.4	26.4
<b>Financial liabilities</b>				
Liabilities held at amortised cost:				
Trade and other payables <sup>2</sup>	(86.1)	(86.1)	(92.6)	(92.6)
Debt <sup>3</sup>	(154.1)	(179.6)	(188.3)	(212.3)
Derivative instruments in designated hedge accounting relationships <sup>1</sup>	(11.5)	(11.5)	(1.9)	(1.9)

1 Master netting agreements are signed with all counterparties.

2 The prior year has been restated to include accruals in trade and other payables. There has been no impact to the consolidated income statement or consolidated balance sheet.

3 The fair value of debt for the prior year has been restated to show the correct value of future finance lease charges. There has been no impact to the consolidated income statement or consolidated balance sheet. The fair value of debt is measured by level 2 inputs (see below).

# Notes to the consolidated financial statements

## continued

### 35. Financial instruments continued

#### Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optimal derivatives, and option pricing models for optimal 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.

#### Financial instruments recorded at fair value at 31<sup>st</sup> March 2018

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	2018 £m	2017 £m
Foreign exchange derivatives	(11.5)	21.5
Fuel derivatives	10.6	3.0
<b>At 31<sup>st</sup> March</b>	<b>(0.9)</b>	<b>24.5</b>

The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

#### Financial risk management objectives

The Group is exposed to financial risks in respect of:

- Liquidity and management of working capital;
- Foreign currency;
- Interest rates;
- Credit risk; and
- Commodities.

A description of each risk, together with the policy for managing risk, is given below. To manage these risks, the Group uses various derivative financial instruments, including foreign currency forward contracts and commodity contracts. These derivative financial instruments are generally held to maturity and are not actively traded. The Group enters into these arrangements with the goal of hedging its operational, balance sheet, income statement and cash flow risk. However, the Group's exposure to commodity price and currency exchange fluctuations cannot be neutralised completely.

#### Liquidity and working capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, which includes the borrowings (see note 21), cash and cash equivalents (see note 18) and equity attributable to equity holders of the parent, comprising issued capital, own shares, reserves and retained earnings as disclosed in the consolidated statement of changes in equity and notes 25 to 28.

## Capital management and gearing ratio

The Group Board reviews the capital structure on a regular basis. As part of this review, the Board considered the cost of capital and the risks associated with each class of capital. The gearing ratio at the year end is as follows:

	2018 £m	2017 (restated) £m
Debt	(154.1)	(188.3)
Cash, cash equivalents and restricted cash	95.0	124.3
<b>Net debt</b>	<b>(59.1)</b>	<b>(64.0)</b>
<b>Equity</b>	<b>93.1</b>	<b>124.9</b>
<b>Net debt to equity ratio</b>	<b>63.5%</b>	<b>51.2%</b>

1 The prior period has been adjusted to reflect recognition of a non-cash £195 onerous lease and impairment of related assets (see note 24).

Debt is defined as long-term and short-term borrowings as detailed in note 21. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

## Liquidity risk management

The directors believe that the Group has adequate cash holdings to meet its short-term payables as they fall due. The Group also arranges to borrow funds in order to finance purchase of aircraft and engines. The following table, which does not take into account the discounting of cash flows and includes forecast interest payments, shows the contractual maturity of the Group's non-derivative financial instruments:

	Weighted average effective interest rate %					Total £m		
		Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m			
<b>2018</b>								
<b>Financial assets:</b>								
Cash, cash equivalents and restricted cash (variable interest rates)	0.2	86.7	0.8	7.5	–	95.0		
Loans and receivables	–	77.8	39.4	27.2	11.4	155.8		
<b>Financial liabilities:</b>								
Trade and other payables	–	(84.8)	–	(1.3)	–	(86.1)		
Borrowings:								
Variable interest rates	3.1	(13.7)	(15.1)	(34.9)	(38.6)	(102.3)		
Fixed interest rates	3.5	(9.2)	(9.1)	(27.3)	(31.7)	(77.3)		

2017

Restated

## Financial assets:

Cash, cash equivalents and restricted cash (variable interest rates)	0.5	115.1	–	5.0	4.2	124.3
Loans and receivables	–	91.1	56.7	6.7	1.7	156.2

## Financial liabilities:

Trade and other payables <sup>1</sup>	–	(91.8)	–	(0.8)	–	(92.6)
Borrowings <sup>1</sup> :						
Variable interest rates	3.0	(9.6)	(9.0)	(26.8)	(40.1)	(85.5)
Fixed interest rates	3.5	(15.7)	(14.5)	(42.7)	(53.9)	(126.8)

1 The fair value of trade and other payables and borrowings for the prior year have been restated to show the correct value of future finance lease charges and other payables. Trade and other payables have also been restated to include an accrual made for fuel invoices to be received. The total value of the accrual for this financial year was £36.7m (2016/17: £38.7). There has been no impact to the consolidated income statement or consolidated balance sheet.

All financial assets and financial liabilities are non-interest-bearing unless otherwise stated.

# Notes to the consolidated financial statements continued

## 35. Financial instruments continued

The following table, which is based on market pricing in place at the end of each reporting period, shows the maturity of the Group's derivative financial instruments:

	Within 1 year £m	Within 2 years £m	Total £m
<b>2018</b>			
<b>Net settled derivatives:</b>			
Fuel derivatives	10.5	0.1	10.6
<b>Gross settled derivatives:</b>			
Foreign currency inflows	179.4	31.8	211.2
Foreign currency outflows	(189.6)	(33.1)	(222.7)
	0.3	(1.2)	(0.9)
<b>2017</b>			
<b>Net settled derivatives:</b>			
Fuel derivatives	3.6	(0.6)	3.0
<b>Gross settled derivatives:</b>			
Foreign currency inflows	186.7	17.4	204.1
Foreign currency outflows	(165.6)	(17.0)	(182.6)
	24.7	(0.2)	24.5

### Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, primarily the leasing and purchase of aircraft, spare parts and fuel in US dollars. Hence, significant exposures to exchange rate fluctuations arise to US dollars. In addition, certain sales and airport costs are incurred in euros.

Exchange rate exposures are managed within approved parameters by entering into a series of foreign exchange forward contracts. These contracts are used in conjunction with fuel derivatives to mitigate fuel procurement price risk. In addition, foreign exchange forward contracts are matched to planned purchases of aircraft, spare parts and lease costs. It is the policy of the Group to enter into forward foreign exchange contracts to cover specific US dollar payments to cover up to 100% of the exposure generated.

The Group does not enter into significant euro foreign exchange forward contracts as the euro payment exposure is largely, though not entirely, offset by euro revenue receipts. There were no euro contracts at 31<sup>st</sup> March 2018 or 31<sup>st</sup> March 2017.

The following table summarises the Group's derivative financial instruments that are used to mitigate the exposures described above:

	Average exchange rate	Foreign currency USDm	Contract value £m	Fair value of asset/ (liability) £m
At 31 <sup>st</sup> March 2017	USD 1.40	261.5	186.6	21.5
<b>At 31<sup>st</sup> March 2018</b>	<b>USD 1.34</b>	<b>293.5</b>	<b>218.8</b>	<b>(11.5)</b>

It is estimated that a general strengthening/weakening of sterling against the US dollar and the euro would improve/(worsen) both the Group's result before tax and increase its equity by approximately:

	2018	2017
Percentage increase	1%	1%
US dollar (£m)	0.4	0.7
Euro (£m)	0.2	0.2

In addition to the above, Flybe will continue to be exposed to significant non-cash revaluation gains/(losses) on its US dollar denominated aircraft loans, which will be adjusted in arriving at the Group's adjusted results.

The carrying value of the Group's foreign currency denominated non-derivative monetary assets and liabilities at the balance sheet date is as follows:

	2018 £m	2017 £m
<b>Assets</b>		
Euro:		
Cash and cash equivalents	1.3	4.9
Trade receivables	6.5	7.5
US dollar:		
Cash and cash equivalents	8.3	8.8
Restricted cash	8.3	9.2
Trade receivables	104.4	105.9
	<b>128.8</b>	136.3
<b>Liabilities</b>		
Euro:		
Trade and other payables	(4.3)	(3.5)
US dollar:		
Trade and other payables	(11.5)	(11.4)
Debt	(97.7)	(123.2)
	<b>(113.5)</b>	(138.1)

### Commodity price risk management

The Group purchases fuel on the open market from recognised fuel suppliers in order to operate its fleet of aircraft and this constitutes a substantial portion of the Group's activities (approximately 12.4% and 14.8% of Flybe UK segment costs in the years ended 31<sup>st</sup> March 2018 and 2017 respectively). The Group engages in fuel price hedging and foreign exchange transactions from time to time to meet its policy of entering into forward fuel price exchange contracts and other related financial instruments to cover a significant percentage of its anticipated requirements for fuel over a 12-month period.

Aviation fuel is a variable cost which has had a material impact on the Group's results during the period under review. A variety of external factors, such as changes in supply and demand for oil and oil-related products and the increasing role of speculators and funds in the futures markets, have played their part in making aviation fuel prices highly volatile. It is fuel price volatility which is the main driver of variances in the Group's overall fuel costs.

The Group operates a policy during normal trading conditions of managing this volatility by entering into derivative contracts representing a portion of its aviation fuel requirements a minimum of 12 months forward.

The actual amount covered by such contracts amounted to 61.1% of the following year's budgeted fuel consumption as at 31<sup>st</sup> March 2018 (2017: 83.2%).

The actual number of emissions credits purchased for calendar year 2017 amounted to 624,001 tonnes, including free allowances of 222,778 tonnes; the average price of the purchased allowances was €6.48.

Carbon emissions requirements for calendar year 2018 are currently expected to amount to 571,430 tonnes including free allowances of 222,778 tonnes. So far the Group has not purchased any of its requirement for 2018.

The following table details the fair values of forward fuel price contracts outstanding at each balance sheet date:

	2018 £m	2017 £m
<b>Fair value of contracts to buy fuel expiring</b>		
In less than 3 months	0.3	1.4
Between 3 and 6 months	3.4	1.0
Between 6 and 12 months	3.2	1.4
More than 12 months	3.7	(0.8)
	<b>10.6</b>	3.0

# Notes to the consolidated financial statements

## continued

### 35. Financial instruments continued

The highs and lows recorded in each period for jet fuel prices were as follows:

	2018		2017	
	Price per tonne USD	Date	Price per tonne USD	Date
High	674	26 <sup>th</sup> January 2018	550	3 <sup>rd</sup> January 2017
Low	441	21 <sup>st</sup> June 2017	351	5 <sup>th</sup> April 2016

The Group uses fuel derivatives to mitigate those exposures. It is estimated that an increase in the market price of aviation fuel would increase both the Group's loss before tax and decrease its equity by approximately:

	2018	2017
Percentage increase in cost of fuel	10%	10%
Impact on loss before tax and equity (£m)	(2.9)	(1.1)

#### Cash flow hedge effectiveness

The Group designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges. At 31<sup>st</sup> March 2018, the Group has identified 117 (2017: 132) contracts for foreign exchange purchases and 55 (2017: 125) contracts for fuel purchases which have been designated as cash flow hedges. For these hedges, the changes in the fair value of the financial instruments were compared to market movement in the underlying hedged items and were found to be an effective offset. As a result, there was a decrease in the fair value of these financial derivative instruments of £18.7m (2017: increase of £48.2m) which was recognised in other comprehensive income and £10.6m (2017: £10.3m) was reclassified from hedging reserve to profit or loss.

#### Interest rate risk management

The Group is exposed to interest rate risk as the Group borrows funds in order to finance the purchase of aircraft and engines at both fixed and floating interest rates. The risk is managed by the Group maintaining an appropriate mix that varies from time-to-time between fixed and floating rate borrowings based on current year conditions and debt levels.

The Group's exposure to interest rates in financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

It is estimated that a general increase/(decrease) in interest rates would (worsen)/improve the Group's result before tax and (decrease)/increase its equity by approximately:

	2018	2017
Increase in interest rates	1%	1%
Impact on loss before tax and equity (£m)	(0.9)	(1.1)

#### Credit risk management

The Group is exposed to credit risk arising from cash and deposits, derivative financial instruments and trade and other receivables. The risk of loss of value due to a counterparty default is minimised by entering into transactions with counterparties that have a minimum credit rating of A (or equivalent) as awarded by Moody's, Fitch or Standard and Poor's. In addition, counterparties with a credit rating of B or above can be used provided the exposure to that institution does not exceed £5.0m.

The maximum exposure to credit risk is all financial assets plus any financial guarantees.

## 36. Related parties

The Group companies did not enter into any transactions with related parties which are not members of the Group.

### Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 0.4% of the voting shares of the Company (2017: 0.5%).

The remuneration of the directors, who are the key management personnel of the Group, is set out below. Further information about the remuneration of individual directors is provided in the audited part of the Directors' Remuneration Report and forms part of these audited financial statements.

	2018 £m	2017 £m
Key management emoluments	1.0	1.1
Company contributions to personal pension schemes	0.1	0.1
Exit payments	0.3	0.3
	<b>1.4</b>	1.5

There are no other transactions or balances with key management.

## 37. Cross-guarantees

	2018 £m	2017 £m
Cross-guarantees	<b>395.4</b>	531.0

The maximum amount that the Company could be forced to settle under the arrangements to its operating subsidiaries is £395.4m (2017: £531.0m).

## 38. Post balance sheet event

On 18<sup>th</sup> April 2018, Flybe signed a letter of intent to extend the lease period of five Q400 aircraft previously expected to be returned in the 2018/19 financial year. If agreed before the year end, the lease extension would have increased Flybe's operating lease commitments by c. £18.0m.

On 15<sup>th</sup> June 2018, Flybe signed an amendment to the legacy purchase agreement for four E175 aircraft so these are now all scheduled to be delivered in the second half of calendar year 2019. There were no other changes to terms.

# Company balance sheet

At 31<sup>st</sup> March 2018

## Flybe Group plc

	Note	2018 £m	2017 £m
<b>Non-current assets</b>			
Investments in subsidiaries	40	<b>60.4</b>	60.4
Other non-current receivables	41	<b>178.2</b>	–
		<b>238.6</b>	60.4
<b>Current assets</b>			
Other receivables	41	–	178.2
<b>Total assets</b>		<b>238.6</b>	238.6
<b>Current liabilities</b>			
Other payables	42	(2.7)	(3.2)
<b>Total liabilities</b>		<b>(2.7)</b>	(3.2)
<b>Net assets</b>		<b>235.9</b>	235.4
 <b>Equity attributable to owners of the Company</b>			
Share capital		<b>2.2</b>	2.2
Share premium account		<b>209.3</b>	209.3
Own shares		(3.3)	(3.3)
Merger reserve		6.7	6.7
Retained earnings		<b>21.0</b>	20.5
<b>Total equity</b>	43	<b>235.9</b>	235.4

There were no income statement or statement of comprehensive income movements in the Company for the financial years ended 31<sup>st</sup> March 2018 and 31<sup>st</sup> March 2017.

The financial statements of Flybe Group plc, registered number 01373432, were approved by the Board of Directors and authorised for issue on 18<sup>th</sup> June 2018.

**Christine Ourmières-Widener**  
Chief Executive Officer

**Ian Milne**  
Chief Financial Officer

# Company statement of changes in equity

Year ended 31<sup>st</sup> March 2018

	Share capital £m	Share premium account £m	Own shares £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Total equity £m
Balance at 1 <sup>st</sup> April 2016	2.2	209.3	–	6.7	22.5	(3.4)	237.3
Equity settled share based payment transactions	–	–	–	–	–	1.4	1.4
Capital reduction (see note 28)	–	–	–	–	(22.5)	22.5	–
Purchase of shares for employee benefit trust (see note 27)	–	–	(3.3)	–	–	–	(3.3)
Balance at 31 <sup>st</sup> March 2017	2.2	209.3	(3.3)	6.7	–	20.5	235.4
Equity settled share based payment transactions	–	–	–	–	–	0.5	0.5
<b>Balance at 31<sup>st</sup> March 2018</b>	<b>2.2</b>	<b>209.3</b>	<b>(3.3)</b>	<b>6.7</b>	<b>–</b>	<b>21.0</b>	<b>235.9</b>

# Company cash flow statement

Year ended 31<sup>st</sup> March 2018

	2018 £m	2017 £m
<b>Operating profit</b>		
Credit to equity for share-based payments	0.5	1.4
Increase in receivables	–	(1.3)
(Decrease)/increase in payables	(0.5)	3.2
<b>Net cash flows from operating activities</b>	<b>–</b>	<b>3.3</b>
<b>Cash flows from investing activities</b>	<b>–</b>	<b>–</b>
<b>Net cash flows from investing activities</b>	<b>–</b>	<b>–</b>
<b>Financing activities</b>		
Cash paid for purchase of shares for employee benefit trust	–	(3.3)
<b>Net cash flows from financing activities</b>	<b>–</b>	<b>(3.3)</b>
<b>Net movement in cash and cash equivalents</b>	<b>–</b>	<b>–</b>
<b>Cash and cash equivalents at beginning and end of year</b>	<b>–</b>	<b>–</b>

# Notes to the Company financial statements

## 39. Significant accounting policies

The separate financial statements of the Company are presented as required by the Companies Act 2006. As permitted by the Act, the separate financial statements have been prepared in accordance with International Financial Reporting Standards adopted by the European Union.

The financial statements have been prepared on the historical cost basis. The principal accounting policies are the same as those set out in note 3 to the consolidated financial statements except as noted below.

In accordance with section 408 of the Companies Act 2006, the Company is exempt from the requirement to present its own income statement. There was no profit in the Company for the financial year ended 31<sup>st</sup> March 2018 or 31<sup>st</sup> March 2017.

The key estimate for the Company relates to future cash flows in the subsidiary companies and the recoverability of amounts due (see note 41).

## 40. Subsidiaries and related companies

	£m
<b>Cost of investment</b>	
<b>At 1<sup>st</sup> April 2017 and 31<sup>st</sup> March 2018</b>	<b>60.4</b>
<b>Net book value</b>	
<b>At 31<sup>st</sup> March 2017 and 31<sup>st</sup> March 2018</b>	<b>60.4</b>

Investments and amounts due from intercompany receivables have been tested for impairment using forecast cash flows of Flybe Limited. Changes in discount rate or forecast cash flows could impact the recoverability of the investments and amounts due from group undertakings. An impairment review was performed at the balance sheet date to determine whether these assets were impaired. A growth rate of 1.6% has been used in the long-term cash flows. A reasonably possible scenario would be for no growth to be achieved (i.e. 0%) which would result in a calculated headroom of £16.2m. The growth rate would then need to decline by 1.5% per annum before an impairment would be incurred. Over the next three years, cash flows for Flybe Limited are forecast to increase at greater rates in accordance with the Sustainable Business Improvement Plan ('SBIP'). There is a risk to the valuation of the investment if the SBIP is not delivered according to plan.

Details of the Group's subsidiaries and related companies at 31<sup>st</sup> March 2018 are as follows:

	Registration Number	Proportion of ownership interest <sup>3</sup> %	Proportion of voting power held %
Flybe Limited	2769768	100	100
Flybe Aviation Services Limited <sup>1</sup>	3951235	100	100
Flybe.com Limited <sup>2</sup>	4252085	100	100

1 Indirectly held by Flybe Group plc.

2 Dormant entity – the Company is exempt from the requirement to prepare individual accounts in line with s394A of The Companies Act 2006.

3 Ordinary shares.

The registered office of all the subsidiaries and related companies is New Walker Hangar, Exeter International Airport, Clyst Honiton, Exeter, EX5 2BA, United Kingdom.

Flybe Leasing Cayman 1 Limited, a company registered in the Cayman Islands, is an orphan company which was established to secure financing arrangements of six E175 aircraft.

## 41. Other receivables

### Amounts due from Group undertakings

Amounts due from Group undertakings are £178.2m (2017: £178.2m). At 31<sup>st</sup> March 2018 the balance was reclassified to non-current as the cash flows for the Group undertakings were reassessed and it was determined that it will now be recoverable in more than 12 months from the balance sheet date. The carrying amount of other receivables, whether classified as non-current or current, approximates to their fair value. The impact of IFRS 9 on the non-interest bearing receivable due from Flybe Limited to Flybe Group plc is currently being reviewed.

There is no allowance for doubtful debts as there are no intercompany balances that are not viewed as recoverable (see note 40).

## 42. Other payables

### Amounts due to Group undertakings

Amounts due to Group undertakings are £2.7m (2017: £3.2m). The carrying amount of other payables approximates to their fair value.

## 43. Equity and reserves

These are disclosed in notes 25 to 28 in the consolidated financial statements.

## 44. Related parties

The Company has provided cross-guarantee arrangements to its operating subsidiaries in the following areas:

- > suppliers of fuel and other services to the principal operating company;
- > operating lease and loan repayments for aircraft used in the business; and
- > derivative instruments used to secure fuel and foreign exchange purchases.

Based on expectations at the end of the reporting period, the Company considers that it is more likely than not that no amount will be payable under these arrangements. The maximum amount that the Company could be forced to settle under the above arrangements is £395.4m (2017: £531.0m).

# Five-year summary

Annual Report and Accounts 2017/18

	2014 £m	2015 £m	2016 £m	2017 £m	2018 £m
<b>Financial measures</b>					
Group revenue	620.5	574.1	623.8	707.4	<b>752.6</b>
EBITDAR	98.7	83.5 <sup>1</sup>	121.9 <sup>2</sup>	134.2 <sup>3</sup>	<b>140.0</b>
Operating profit/(loss)	0.8	(12.4)	8.7	(31.0) <sup>3</sup>	<b>(14.8)</b>
Profit/(loss) before tax	8.1	(35.6)	2.7	(48.5) <sup>3</sup>	<b>(9.4)</b>
Earnings/(loss) per share (basic)	9.6p	(16.5)p	3.1p	(26.3)p <sup>3</sup>	<b>(4.5)p</b>
Aircraft (at net book value)	147.0	166.4	192.3	283.6 <sup>3</sup>	<b>286.7</b>
Net funds/(debts)	116.9	76.7	62.2	(64.0)	<b>(59.1)</b>
Operating cash flows <sup>2</sup>	7.3 <sup>4</sup>	30.1	47.8 <sup>5</sup>	18.3 <sup>5</sup>	<b>13.8</b>
	2014	2015	2016	2017	2018
<b>Operating measures</b>					
Average number of operating aircraft	56.6	58.7	59.0	64.4	<b>65.4</b>
Scheduled sectors flown <sup>4</sup>	130,200	127,000	139,000	152,100 <sup>6</sup>	<b>153,800</b>
Scheduled seats flown	11,144,400	10,293,600	11,290,600	12,679,900	<b>12,563,925</b>
Scheduled sold seats	7,742,100	7,743,633	8,202,443	8,822,050	<b>9,498,878</b>
Passenger revenue per seat	£49.70	£51.32	£50.64	£48.84	<b>£53.79</b>
Scheduled load factor	69.5%	75.2%	72.6%	69.6%	<b>75.6%</b>

1 2015 EBITDAR has been restated to show the gross depreciation on maintenance assets which were previously reported as net.

2 2016 consolidated income statement has been restated to show each cost line at the transactional spot rate therefore EBITDAR for 2016 has been restated.

3 2017 has been adjusted to reflect recognition of a non-cash £195 onerous lease and impairment of related assets (see note 24).

4 2014 operating cash flows are before restructuring costs. There are no restructuring costs in subsequent years.

5 2016 and 2017 operating cash flows have been restated to reclassify maintenance assets arising as a result of non-cash accounting transactions.

6 In 2018, sectors now exclude training, positioning and charter. The 2017 figure has been restated.

# Glossary

<b>adjusted (loss)/profit before tax and USD loan revaluation</b>	reported (loss)/profit before tax excluding USD loan revaluations
<b>adjusted (loss)/profit before tax, USD loan revaluation and E195 onerous lease</b>	reported loss before tax excluding USD loan revaluations and net E195 onerous lease costs
<b>Air Passenger Duty ('APD')</b>	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
<b>Civil Aviation Authority ('CAA')</b>	the civil aviation regulatory authority of the UK, the Channel Islands and the Isle of Man
<b>codeshare</b>	an arrangement whereby multiple airlines sell seats on the same flights and multiple flight designators and flight numbers are used for the same flight
<b>cost per seat ('CPS')</b>	the total operating costs divided by seat capacity
<b>domestic</b>	passengers from one UK airport (including the Channel Islands and the Isle of Man) travelling to another UK airport (including the Channel Islands and the Isle of Man) as appropriate
<b>effective exchange rate</b>	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 markets
<b>EASA</b>	European Aviation Safety Agency
<b>EBITDAR</b>	operating (loss)/profit after adding back depreciation, amortisation and aircraft rental charges
<b>ETS</b>	Emissions Trading Scheme
<b>EU261</b>	EU Regulation 261/2004, which provides for compensation and assistance to passengers in certain circumstances
<b>FAS</b>	Flybe Aviation Services Limited
<b>Flybe</b>	Flybe Group plc
<b>Flybe UK</b>	Flybe Limited
<b>Fuel burn per seat</b>	jet kerosene used on scheduled flights, divided by seat capacity
<b>GDPR</b>	General Data Protection Regulations
<b>GHG</b>	greenhouse gas
<b>the Group</b>	Flybe Group plc
<b>GWP</b>	global warming potential
<b>IATA</b>	International Air Transport Association
<b>load factor</b>	the number of sold seats divided by the seat capacity
<b>MRO</b>	maintenance, repair and overhaul
<b>NEDs</b>	Non-Executive Directors
<b>net (debt)/funds</b>	total cash less borrowings
<b>on-time performance ('OTP')</b>	percentage of aircraft which depart within 15 minutes of the scheduled departure time

## Glossary continued

<b>passenger</b>	a person with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable)
<b>passenger revenue</b>	total ticket and ancillary revenue (including unflown APD less refunds) plus revenue from hardblock codeshare arrangements
<b>passenger revenue per seat</b>	passenger revenue generated divided by seat capacity
<b>passenger yield</b>	total passenger revenue per passenger (after the deduction of government taxes and levies)
<b>regional aircraft</b>	turboprop aircraft and regional jets of 120 seats or fewer
<b>regional airline</b>	an airline that flies predominantly regional aircraft
<b>regional UK</b>	an airport or destination in the UK (including the Channel Islands and the Isle of Man) but excluding London
<b>route</b>	a scheduled service flown by an airline excluding any franchise routes
<b>SBIP</b>	Sustainable Business Improvement plan
<b>scheduled sectors flown</b>	the total number of aircraft flights per annum, excluding positioning, charter and training flights
<b>seat capacity</b>	the average number of seats per aircraft multiplied by the number of scheduled sectors flown
<b>sector</b>	a flight between an originating airport and a destination airport, typically with no intervening stops
<b>sold seats</b>	Flybe ticketed passengers on either Flybe operated scheduled services or hardblock routes operated by the codeshare partner
<b>Summer season</b>	the last Sunday in March until the last Saturday in October in any particular year
<b>technical despatch reliability ('TDR')</b>	percentage of aircraft which departs within 15 minutes of scheduled departure time without a technical fault
<b>tCO<sub>2</sub>e</b>	the number of tonnes of carbon dioxide equivalent; the universal unit of measurement to indicate the global warming potential ('GWP') of each of the six specified greenhouse gases, expressed in terms of the GWP of one unit of CO <sub>2</sub>
<b>UK domestic routes</b>	routes where both the departure and destination airports are within the United Kingdom, the Channel Islands or the Isle of Man
<b>White Label</b>	flying operated by Flybe on behalf of another airline, on which Flybe takes cost and operational risk, but the revenue risk remains with the airline for whom Flybe is operating
<b>Winter season</b>	the last Sunday in October to the last Saturday in March in any particular year

# Notes

Strategic report

Governance

Financial statements

Other information

---

## Notes



**Flybe Group plc**

New Walker Hangar  
Exeter International Airport  
Exeter  
EX5 2BA  
United Kingdom

[www.flybe.com/investors](http://www.flybe.com/investors)