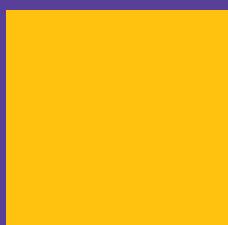
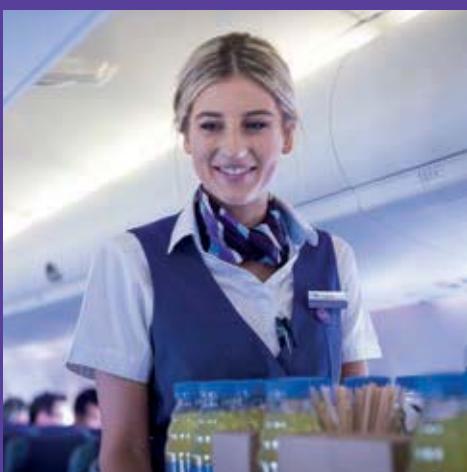
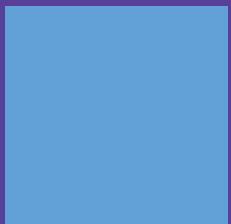


flybe

SHAPING A SUSTAINABLE FUTURE



ABOUT FLYBE

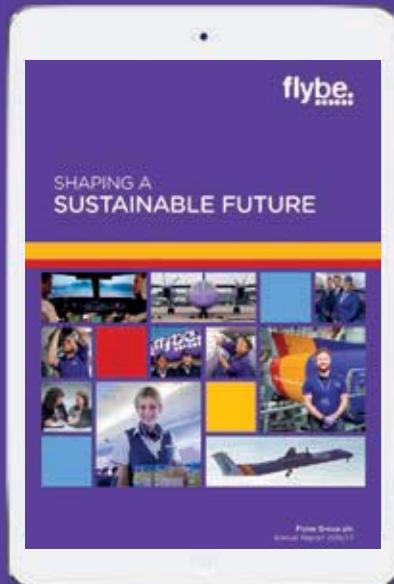
After resolving the major legacy issues, we can now focus all of our resources on making the business more resilient and customer-focused.



We bring people together

Flying from 85 airports, Flybe is everyone's local airline providing a service that is faster than road and rail.

Read more on page 04



One Stop to the World

Our route network opens up a wealth of UK and worldwide destinations with the convenience of travelling from a local airport.

Read more on page 06



Supported by a great team

All our employees share the same values to deliver a consistent, high quality, customer experience.

Read more on page 08



www.flybe.com/corporate/investors/

See our investor relations home page for the latest results, presentations and webcasts.

Highlights

Financial highlights

Passenger revenue per seat

16/17	£48.84
15/16	£50.64
14/15	£51.35

Total passenger revenue

16/17	£619.3m
15/16	£571.7m
14/15	£528.6m

Load factor

16/17	69.6%
15/16	72.6%
14/15	75.2%

Passenger numbers

16/17	8.8m
15/16	8.2m
14/15	7.7m

Reported (loss)/profit before tax¹

16/17	£(19.9)m
15/16	£2.7m
14/15	£(35.6)m ¹

Adjusted (loss)/profit before tax¹

16/17	£(6.7)m
15/16	£5.5m
14/15	£(25.4)m ¹

Total cash

Mar 17	£124.3m
Mar 16	£171.4m
Mar 15	£195.9m

Net (debt)/funds

Mar 17	£(64.0)m
Mar 16	£62.2m
Mar 15	£76.7m

Operational highlights

- An improvement in our technical despatch reliability to 99.0%.
- Flybe was named as the best UK airline for punctuality by OAG in January 2017, placing us sixth worldwide.
- More choice for passengers flying from Edinburgh and Aberdeen when Flybe became the first regional airline to operate into London Heathrow since 2013.
- New codeshare agreements with Virgin Atlantic, Air India, Air Berlin and Singapore Airlines and a new franchise agreement with Blue Islands further expanding the destinations available to our customers.
- Heads of Terms have been signed for a new franchise and joint venture alliance with Eastern Airways which enhances services to and from Scotland.

¹ 2014/15 includes discontinued operations.

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At a glance**Key figures for 2016/17**

2,388
employees

8.8m
passengers

199
scheduled routes

83
aircraft

64
scheduled destinations



EUROPE'S LEADING REGIONAL AIRLINE

On course for a sustainable future

Flybe UK

After resolving the major legacy issues, we can now focus all of our resources on growing a sustainable regional airline.

This year we served more passengers – 8.8 million in total. And we got them to their final destination on time more often. For the second year running, Flybe was named the UK's most punctual airline and ranked sixth worldwide.

Capacity was higher than we would have liked, therefore this has been deployed on 33 new scheduled routes and we have increased frequency on existing routes. We reached 64 scheduled destinations in 12 different countries.

We reviewed and optimised our franchise partnerships. We also expanded our codeshare partnerships, adding to the 'One Stop to the World' programme and giving our customers greater access to long-haul destinations via our key hubs.

We've made good progress in a number of areas, but there is still work to be done. One of our key points of focus now is delivering the best possible customer experience – from making a booking to arriving at the final destination. Our digital transformation is a key enabler to improve the customer journey.

By continuing to strive for the highest quality customer service, getting our customers to their destination safely and on time, providing regional connectivity unlike any other airline, and improving profitability, we will continue to build a sustainable Flybe for the future.

 [Read more on page 22](#)



Flybe Aviation Services

This year our maintenance, repair and overhaul (MRO) business has retained its position as a leading provider in Europe by increasing its output and continuing to focus on safety, quality and efficiency.



Flybe Training Academy

The Flybe Training Academy continues to lead the way in developing talent within the aviation industry. This year, in addition to delivering all Flybe operational staff training, we expanded training for third party businesses. Our jointly run apprenticeship with Exeter College continues to produce and promote the next generation of engineers.

 [Read more on page 27](#)

 [Read more on page 26](#)

WE BRING PEOPLE TOGETHER

Flying from 85¹ airports across the UK and Europe, we are everyone's local airline.



We care about our customers

Getting passengers to their destinations safely is our top priority. Alongside that, we strive to deliver the highest quality customer service in everything we do. Our crew are friendly and always happy to help, providing outstanding in-flight service. Our customers are the best people to tell us what we do well and what we can improve on, which is why we're always listening.



We save our customers time

As one of the UK's most punctual airlines, we give our customers the gift of time. We provide a service that is faster than road and rail and we offer flight times that work for both business and leisure. We believe getting from A to B should be stress-free. Operating from smaller, more accessible airports, we can get passengers into the skies with less hassle and more ease.



We bring people together

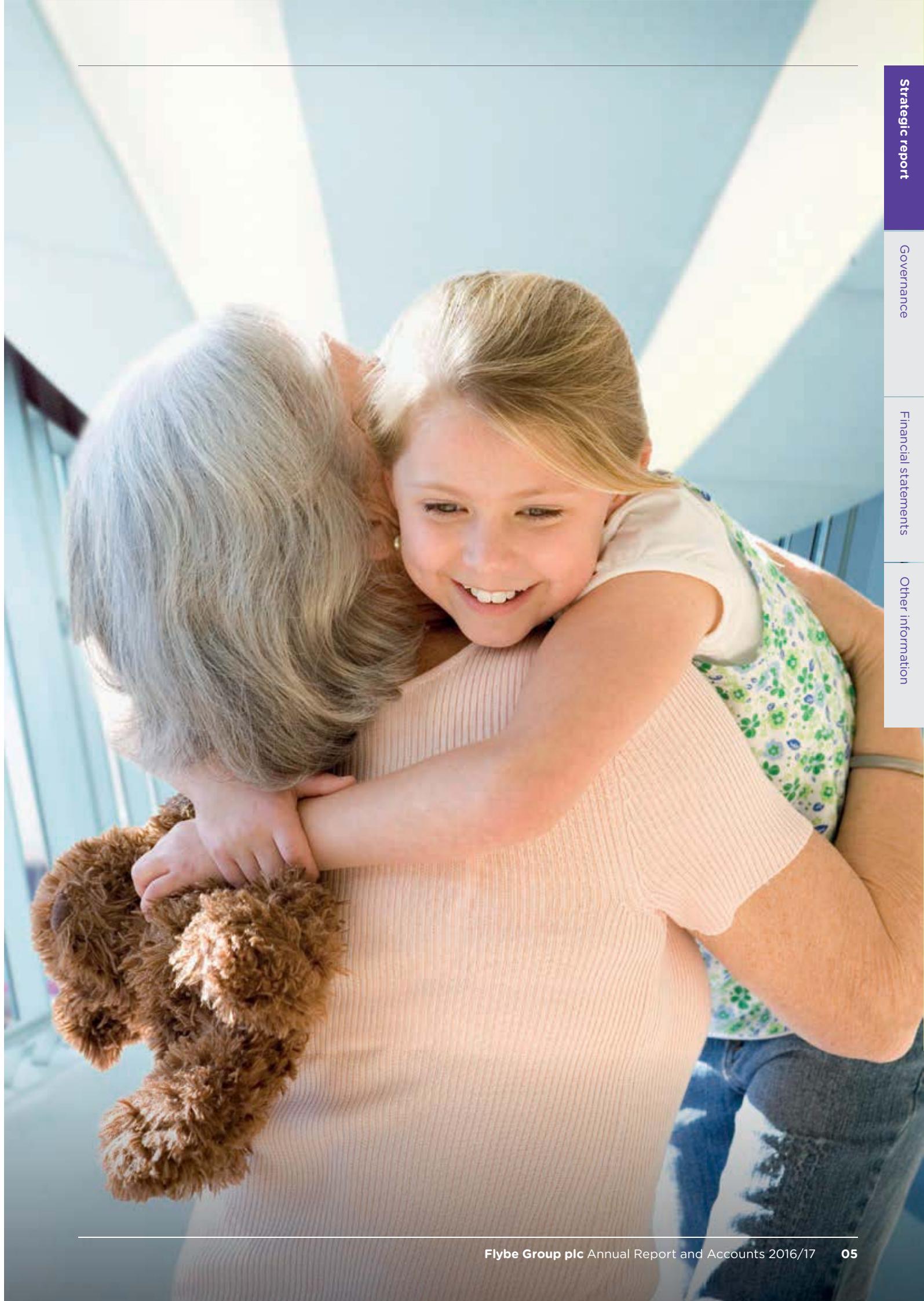
Our unrivalled network of regional airports means that we bring people together in a way no one else can. With over 50% of the UK domestic market share, we are the local airline that connects the UK and Europe, region by region. But the journey doesn't end there. We also connect those regions to the rest of the world.



Better value, better business

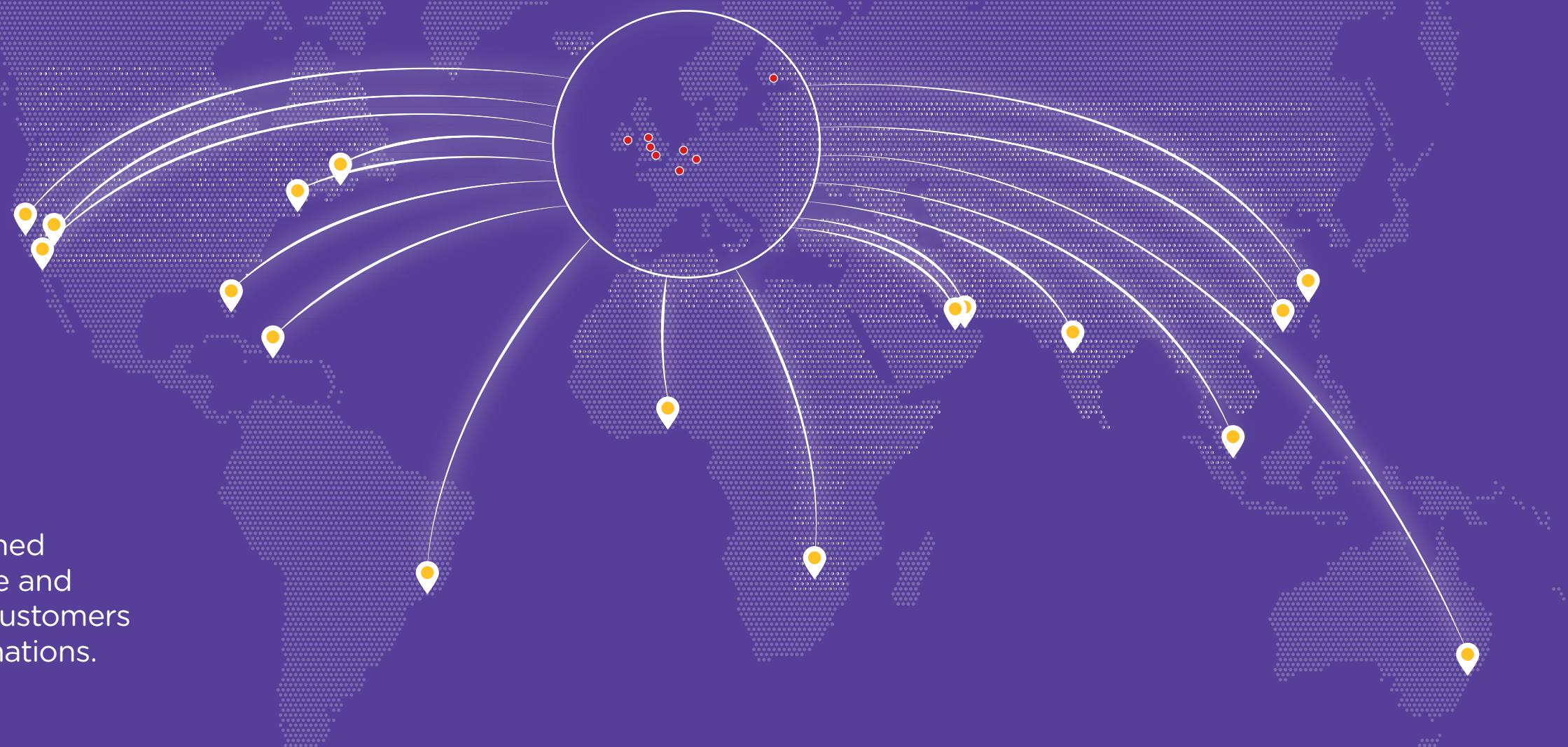
We offer high frequency flights from 85¹ airports across the UK and Europe, so our customers can quickly and conveniently go wherever business takes them. Our smooth service means they can simply focus on the job in hand. Getting there faster doesn't mean paying a small fortune – our flexible and competitive fares are designed with everyone in mind, from early planners to spontaneous types.

¹ Routes flown under the Flybe brand on sale at the end of May 2017.



ONE STOP TO THE WORLD

Our extensive route network, combined with routes offered by our codeshare and franchise partnerships, gives Flybe customers a wealth of UK and worldwide destinations.



Codeshares



Our strong network

One Stop to the World. It is not just an idea, it is a statement of intent; and it's one that we are working hard to fully realise. Our customers already benefit from our partnerships, and with our commitment to strengthening relationships with existing partners and launching new ones in the future, Flybe customers are on course to benefit even further.

Working with our airline partners we are able to offer our customers unrivalled regional network connectivity and the convenience of travelling from local airports to global destinations. Our regional services into major hubs around Europe, including

London Heathrow, Birmingham, Manchester, Amsterdam, Dublin, Paris, Düsseldorf and Helsinki, enable customers to fulfil their global travel needs. In turn these partnerships deliver sustainable growth by maximising our revenue opportunities.

The breadth of Flybe's partners reflects our ability to adapt to the needs of our customers and to work tirelessly in achieving the best solutions for them now and in the future.

Codeshares

Flybe offers access to a wealth of worldwide destinations by combining our own extensive route

network with those offered by our increasing number of codeshare partners. Some of the most popular global destinations are only one stop away.

From Aberdeen to Houston or Singapore, Belfast to New Delhi or New York, Edinburgh to Los Angeles or Shanghai, Exeter to Dubai or Sydney, the choices are endless. A world of opportunity is within easy reach of the regions.

By travelling with our codeshare partners, our customers can board their Flybe flight at their local airport and be seamlessly checked through to their final destination.

Flybe is becoming the 'go to' partner of international airlines wishing to extend their network to the regions of the UK and Europe.

Franchise

Flybe can offer a truly regional service to our customers through our franchise partners Blue Islands, Loganair and Stobart Air. Heads of Terms have been signed for a new franchise and joint venture alliance with Eastern Airways which enhances services to and from Scotland.



To our customers each franchise partner expands the Flybe network, allowing them to easily and conveniently connect to regions otherwise hard to reach. From the Shetland Islands in the North to the Channel Islands in the South, we bring people together and serve communities in a way no other airline can.

Connecting the regions of the UK with each other, Europe and the world, Flybe offers a vital link to smaller communities. We help businesses work more efficiently, families to spend more time together and people to go on holiday and relax.



[Read more on page 22](#)

SUPPORTED BY A GREAT TEAM

To deliver a consistent, high quality customer experience, we believe that all our employees need to share the same values and objectives, and need to be empowered and equipped to deliver excellent service.



Building from the ground up

Great organisations must be built on strong foundations. We therefore focus on:

> Culture

Establishing and embedding with our employees a clear set of values and behaviours to build a culture of excellence.

> Fairness and transparency

Creating a fair and transparent reward structure.

> Organisational structure and capability

Shaping the organisation to deliver our strategic objectives, and creating work levels with job descriptions, salary bands and a range of training opportunities for each role.

> Getting the basics right

Implementing new systems and processes that deliver information services to the organisation, such as our new HR system, iTrent.

From these foundations, we have developed a number of programmes to **support**, **enable** and **engage** our employees, all of which are described in detail in the Corporate Responsibility section.

 [Read more on page 45](#)

Our values

Shared values are really important to drive sustainable, long-term business performance. They need to be led from the top to ensure that they are embedded in everything we do. In April 2017 all our employees were invited to complete a survey, asking what they believe are the most important values in order to achieve success in the future. Their feedback has led to the establishment of five values, as follows:

→ Care and respect

Creating a positive and inclusive environment with all our working relationships

→ Customer-focused

Putting the customer at the heart of everything we do

→ Teamwork

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

→ Continuous improvement

Striving to find a better and more efficient way to operate

→ Accountability

Being proactive and taking personal responsibility to achieve objectives

At our April leadership meeting, 'be.Inspirational', we worked with 150 members of our senior team to agree a set of behaviours that embody these five values. These carefully selected values and behaviours are embedded in everything we do and are championed at all levels.

Chairman's statement

Flybe needed a new way forward and a different culture



"Regional aviation is a critical part of this country's infrastructure."

Simon Laffin
Non-Executive Chairman

Since the start of the turnaround in 2013, much has been achieved. However, the market remains highly competitive and the results of the turnaround need to be assessed against this background. The business has succeeded in managing great change, in focusing the business into being a regional airline, fulfilling the needs of regional customers and competing on thin routes. We compete with all forms of transport – road, rail and ferry – as well as other airlines with 18.9% of our routes having a direct airline competitor.

Consumer demand has continued to be fragile, subdued by tragic events in Paris in November 2015 and Brussels in March 2016; and then by uncertainty arising from the Brexit vote in June 2016. Despite this backdrop, our continued growth in fleet size, the result of an aircraft order placed at the time of the IPO in 2010, forced us to grow the route network with new routes being launched, principally to utilise the aircraft we had. The result has been lower load factors and yields.

The Board took the view last Autumn that much of the initial turnaround had been completed and that the Company needed a fresh look at its future and a different culture. As the historic aircraft order works its way out, this Summer will see the size of the fleet peak. From the Autumn, the fleet will reduce in number, as six end-of-lease handbacks will be returned to lessors. This gives us the opportunity to refocus the business on truly profitable routes and being really customer-oriented.

Becoming truly customer-focused is an essential part of our strategy. The Board decided that the 'command and control' culture that had been prevalent in Flybe had to change. We need to listen more to our customers, and importantly listen to our own employees who work with customers every day. Communication needs to flow up the organisation from customers and employees, as much as flow down from senior executives. Flybe needed a new way forward and a different culture.

Given that Flybe was entering a new phase in its development, we agreed that it was time for a new Chief Executive Officer to lead the Company. Saad Hammad stepped down and left the business by mutual consent in October last year. The Board began the search for a new CEO and in the interim, I took on the role of Executive Chairman. The search proved successful and in January 2017, Christine Ourmieres-Widener took up the role of CEO.

Christine brings a lifelong experience in aviation, having started her career in the maintenance department of Air France with a Masters degree in aeronautical engineering. She progressed in Air France (later Air France KLM), with stints in IT, sales and marketing, as well as general management in both the UK and USA, culminating in being CEO of CityJet, both as a subsidiary of Air France KLM and later as an independent private company. Before joining us, Christine was Chief Global Sales Officer for American Express Global Business Travel. We are very pleased to have attracted such a talented executive to lead our business. Christine has made a very strong start to her Flybe career, and gives her perspective on Flybe later in this report.

Over the past 12 months, 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. We agree that penalties for excessive flight delays within an airline's control are an important protection for passengers, but believe that compensation needs to have some relationship to the value of the ticket price, and not be, as is currently the case for regional airlines, often three times the ticket price or more. No such punitive regime exists for rail, road and ferry operators, nor indeed for long-haul airlines.

Corporate governance

Compliance

There is a commitment to maintaining the highest standards of compliance with corporate governance so wherever possible best practice is followed.

Culture

High standards of corporate governance play an important role in achieving organisational excellence and in setting the right culture.

Leadership

A small, high quality and well-balanced Board to provide effective leadership and vision.

Communication

Consulting with stakeholders on key issues like remuneration.

Committees

An established committee structure to assist the Board discharge its responsibilities:

- Audit Committee – review of the effectiveness of internal controls, financial reporting and risk management.
- Remuneration Committee – recommendation of executive performance-based remuneration based on non-financial metrics.
- Nomination Committee – ensure a rigorous and transparent process is followed for new directors to the Board.
- Safety and Security Committee – review and monitor policies and procedures to provide a framework of assurance for safe and secure operations.

Read more on page 65

See more on our governance at
www.flybe.com/corporate/governance/

Chairman's statement continued

The UK government's Air Passenger Duty (APD) is also 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.

The Scottish government is legislating to introduce its equivalent, Air Departure Tax (ADT), but, while the Scottish National Party has promised to halve the cost, it has not as yet announced the rate structure. Four times more business in Scotland is conducted with the rest of the UK than Europe, and more than 80% of visitors to Scotland are from Great Britain, so reducing domestic ADT rates would produce significant benefits for the Scottish economy. Flybe earns just under 30% of its revenue from Scottish routes and would be keen, if ADT were reduced, to introduce new routes and more rotations to serve more Scottish customers.

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 charges 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. We have recently started routes from Aberdeen and Edinburgh into London Heathrow, offering more choice and lower fares, but the economics of even these popular domestic routes are tough.

Brexit

The government has not yet laid out any industry-specific Brexit objectives so the exact implications on airlines following the UK leaving the EU are difficult to predict. In the worst case, if there is no agreement between the UK and the EU, this would mean that we may no longer be able to fly between the UK and Continental Europe. We are currently assuming that there will be a deal to ensure that we remain a full member of the European safety body, EASA, in the interest of maintaining common safety and operating standards.

We have, however, now discontinued all our intra-European routes and the situation remains unclear on our codeshare and White Label arrangements as well as any regulatory and supply chain impacts on the FAS operations. It is difficult to plan as a business when the regulatory environment is so uncertain. However, the predominance of our business in UK domestic routes provides some protection.

Board

Aside from the change to our CEO, discussed earlier, there were no other changes to the Board during 2016/17. As announced on 18th April 2017, Philip de Klerk will leave us at the end of September 2017, primarily for personal reasons. We very much wish Philip well for the future and would like to thank him for his sterling work over the last three years. The recruitment process for his successor is well underway.

Corporate governance

In line with the standards of best practice and regulations, we have made a separate statement on page 65.

Results

Revenue grew by 13.4% this year, compared to 8.7% last year. With the growing fleet commitments in difficult market conditions, Flybe showed an adjusted loss before tax of £(6.7)m (2015/16: £5.5m adjusted profit), excluding USD loan revaluation losses of £(13.2)m (2015/16: £(2.8)m). The Group's reported loss before tax was £(19.9)m (2015/16: profit of £2.7m).

We finished the year with net debt of £(64.0)m and total cash of £124.3m (2016: net funds £62.2m and cash of £171.4m).

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 route network.

Flybe plays a vital role in UK regional connectivity. The Board believes that our new leadership, differentiated competitive positioning, reducing cost base, strong balance sheet and disciplined growth strategy, will now be combined with a more customer-focused culture and control over our own fleet size. This will enable us to deliver continued progress in 2017/18 and position us well to drive sustainable profitable growth in the future.

Simon Laffin

Non-Executive Chairman

7th June 2017

Chief Executive Officer's statement

Becoming a customer-centric business



"I am truly passionate about the airline industry. I see tremendous opportunities for Flybe to connect and engage with communities and to establish a reputation for excellence in serving our customers."

Christine Ourmieres-Widener
Chief Executive Officer

Flybe has achieved many significant changes: a capital raise, a relaunched brand, the cessation of the Finland joint venture, the strategic project addressing legacy fleet issues and a strong cost-conscious culture was introduced to drive effective unit cost reductions.

Despite the substantial progress in reducing the size of legacy fleet orders in 2015/16, Flybe has still seen significant capacity growth in a market where we witnessed slower growth in consumer demand. The Company has deployed its additional capacity on new routes and increased frequencies on existing routes, solely where these deployments could deliver at least a contribution to direct costs. New routes and increased frequencies were targeted to cover marginal costs in the early years of operation, but do not contribute significantly to overall profitability. The capacity growth therefore had a negative effect on profitability.

Flybe reached its peak fleet size of 85 in May 2017. Reduction in the fleet size will start by returning six end-of-lease Q400s in 2017/18. This will enable Flybe to become a more customer centric business and for the first time concentrate the business on profitable routes. Becoming a truly demand and customer-focused business is the key plank of our strategy.

During my first hundred days, I have met many stakeholders, customers, shareholders and investors. I had the pleasure to meet our employees and unions and visited many of our bases in the UK. I have thoroughly reviewed the strengths and weaknesses of the business, identified what the threats and opportunities are with the management team and developed the agenda for the coming year.

Implementing a clear strategy is about returning to the core of what really works for the airline. We will make Flybe a sustainable business that operates the best routes and at the best times to suit the needs of our customers. We will stay true to our mission to connect people and businesses with safe, reliable and affordable travel.

Flybe is a regional airline with 53.7% of the UK domestic flights outside of London, connecting people and regions with one another throughout the UK and to and from Continental Europe, for both business and leisure. In many markets, we provide a true 'lifeline' transport service. We must fly the right routes, at the right times of the day and at the right times of the week according to the demands of the market. Our top eight departure points are all in the UK and represent 62.2% of our customers, and our top four represent 42.9% with Birmingham, Manchester, Belfast City and Southampton leading the way.

Our strength is not only in the point-to-point network but also in the connection opportunities for regions via Manchester, Birmingham and now London Heathrow with our increasing number of partners.

Our maintenance, repair and overhaul (MRO) business, Flybe Aviation Services, and our Training Academy are core to our success. These two distinct but key support areas, with their own expertise, need to be managed effectively to support the future profitability of the Group.

Looking beyond the UK at this stage it is neither the right moment, nor do the markets currently support, an expansion of intra-European activity (leaving aside Brexit uncertainty).

Our fleet size will start to decrease during 2017/18 which allows us to enter a phase of stabilisation and consolidation. We need to ensure we are executing what we are best at and making sure everyone knows who Flybe is. We will deliver a controlled expansion mainly via the optimisation of our partnerships.

Organisation and safety culture

The Sustainable Business Improvement Plan is underpinned by a strong organisation and safety culture, aiming to ensure that every employee believes they can and will contribute to Flybe's success.

Improved employee engagement will be key to delivering the strategy. We will regularly survey our employees to measure progress and adapt our approach as appropriate. To support the delivery of our 2017/18 objectives, we will drive the right behaviours through the following balanced values:

- Care and respect;
- Customer-focused;
- Teamwork;
- Continuous improvement; and
- Accountability.

Chief Executive Officer's statement continued

Sustainable Business Improvement Plan

The Sustainable Business Improvement Plan was launched in April 2017 to all the key leaders and influencers in Flybe. The plan is based on the following six pillars:

1 The customer

The customer will be put at the heart of everything we do. Sales and marketing will deliver sustainable revenue growth to maximise profitability while optimising the customer experience and improving the customer interface at every touch point. Flybe's digital proposition will be enhanced through a strong digital e-commerce platform and the Flybe product will be developed in line with insights gathered from a better understanding of Flybe customers. This requires significant investment and will take several years to deliver in full.

2 Network and fleet optimisation

We will deliver an optimised network focusing on positive route contribution based on customer and financial analytics starting from Winter 2017. The delivery of the tighter network will follow a structured process with minimal changes once the schedule is published.

We intend to make a decision during this financial year on the long-term fleet configuration.

3 Operational excellence with reliability and on-time performance

With a better understanding and knowledge of our customers and a demand-driven network, we need to improve reliability and on-time performance and always seek continuous improvement. We also plan to re-design and implement a new structure for our engineering organisation which remains core to our business. The expert support offered by our Training Academy will be important to plans to drive customer service and profitability.

4 Organisational excellence

We shall design and implement a cost-effective organisation structure with clear and aligned KPIs cascaded and embedded in every role profile and annual performance measurement. The basics need to be in place combined with a strong backbone of policies, processes and a transparent remuneration policy.

5 Technology

We will build further resilience into our IT platform during 2017 and invest in the core operational platforms as we move towards improving the digital experience for passengers and implementing industry leading support systems for our engineering platforms.

In 2018, we will move towards offering our customers a truly digital online experience as we invest in a new platform. The new platform will not just benefit our customers. The first phase will commence this summer when we will launch the Electronic Flight Bag which will bring paperless working to our flight deck, enabling operational data to flow more efficiently into our operations team.

A principal reason for customer dissatisfaction is the quality of our website and their interaction with it. Over 80% of our customers are booking online via our website, with the majority being repeat customers. Our new digital platform, backed by our sales and marketing action plan, will enable us to attract new customers and enhance our customer relationship management.

6 Costs

We will continue to look for ways to reduce costs at all levels of our business without hindering our performance and the quality service we deliver to our customers.

Sustainable Business Improvement Plan



Organisation and safety culture to ensure success

Strategy

Flybe is well placed as it enters 2017/18 as it will be in control of its capacity going forward. Flybe has a clear business plan, which will form the foundation of a longer term plan to become the best regional airline in Europe. As part of this plan, we will optimise our fleet and network, expand our partnerships, improve our distribution approach and optimise our customer proposition in the coming years.

Moving forward we will have additional opportunities to optimise our route network and our fleet:

- Our route network will be optimised by focusing on domestic UK and UK to Europe routes, eliminating underperforming routes and exploring opportunities through partnerships; and
- Regarding our fleet, we will continue our discussions with the regional original equipment manufacturers (OEMs), both to further improve the reliability of the existing fleet and to explore opportunities to replace our existing fleet with new aircraft over time.

The three year project to digitalise Flybe commences this year. Our digital transformation will empower us

with industry standard solutions to attract more passengers, improve the customer journey and optimise our revenue per seat. The proximity to our customers and our ability to serve them will be improved through the implementation of a long awaited customer relationship management suite.

I am truly passionate about the airline industry and I see tremendous opportunities for Flybe to connect and engage with communities and to establish a reputation for excellence in serving our customers. We will be successful in delivering by continually focusing on our costs, increasing our knowledge about who our customers are and what makes them tick, achieving industry-leading operational excellence and implementing a great digital platform.

Flybe has a great future as Europe's largest regional airline. My team is focussed on delivering an exceptional customer experience and building value for shareholders.

Christine Ourmieres-Widener

Chief Executive Officer

7th June 2017

Key performance indicators

Measuring our progress

Revenue optimisation

We measure passenger revenue performance in two ways: passenger revenue per seat and total passenger revenue.

Passenger revenue per seat

Passenger revenue per seat is a combination of passenger yield and load factor.

Passenger revenue per seat

16/17		£48.84
15/16		£50.64
14/15		£51.35

Performance

During 2016/17 we have seen a 3.6% reduction in passenger revenue per seat, as our capacity grew 12.3% in a competitive marketplace. We managed to maintain our yield, which measures our passenger yield per sold seat, at £70.20 (2015/16: £70.23).

Goal

Our goal is for year-on-year improvement in passenger revenue per seat now that we are in control of our fleet and capacity.

Total passenger revenue

Total passenger revenue is ticket revenue plus ancillary revenues.

Total passenger revenue

16/17		£619.3m
15/16		£571.7m
14/15		£528.6m

Performance

During 2016/17 the increase in sold passenger numbers resulted in an increase in passenger revenue of 8.3%. This increase was partially due to the 12.3% growth in capacity.

Goal

Our goal is to optimise total passenger revenue to maximise profits.

Read more on page 31

Read more on page 31

Operational excellence

We track three measures of operational performance: load factor, reliability and on-time performance.

Load factor

Load factor is measured as sold seats as a percentage of available seat capacity.

Load factor

16/17		69.6%
15/16		72.6%
14/15		75.2%

Performance

Load factor has decreased by 3.0pps due to a capacity increase of 12.3% and tough competition within the market.

Goal

Raising load factor is a key driver to improve passenger revenue per seat. Our Sustainable Business Improvement Plan aims to deliver a 75% load factor.

Read more on page 31

Reliability

A key enabler for operational excellence is the reliability of our fleet. This is measured as the percentage of aircraft which depart within 15 minutes of scheduled departure time without a technical fault.

Reliability

16/17		99.0%
15/16		98.8%
14/15		98.6%

Performance

Investment in reliability modifications for the Q400 has contributed to an improvement in our technical despatch reliability to 99.0% across our fleet.

Goal

Our business plan includes further improvements to improve reliability above 99.0%.

Read more on page 25

On-time performance

A key measure for our customers is on-time performance, measured as the percentage of flights which arrive within 15 minutes of their scheduled arrival time.

On-time performance

16/17		82.7%
15/16		85.4%
14/15		84.5%

Performance

We have seen a significant reduction of our on-time performance due to various reasons, including weather, technical issues and French air traffic control strikes. Despite this reduction, Flybe was named as the best UK airline for punctuality by OAG in January 2017, placing us sixth worldwide.

Goal

We will continue to improve our on-time performance in order to achieve our goal of operational excellence.

Read more on page 25

Key performance indicators continued

Cost reduction

We measure our cost reduction effectiveness by tracking unit cost performance via two cost per seat indicators.

Cost per seat including fuel¹

Due to the proportion of our costs that are driven by fuel, we therefore measure cost per seat including fuel and also excluding fuel. We also look at the impact of currency through application of constant currency rates.

16/17		£53.74
15/16		£52.67
14/15		£54.97

Cost per seat excluding fuel¹

Due to the proportion of our costs that are driven by fuel, we therefore measure cost per seat including fuel and also excluding fuel. We also look at the impact of currency through application of constant currency rates.

16/17		£45.76
15/16		£43.38
14/15		£44.72

Performance

Cost per seat including fuel has increased by 2.0%, however on a constant currency basis it reduced by 5.2%. The growth of the SAS White Label business adds costs, which are included in the cost per seat calculation, whereas the additional seats are excluded from the seats, which is adversely impacting the cost per seat.

Fuel costs fell by 3.6% due to falling fuel prices offsetting higher costs associated with increased sectors flown. Cost per seat excluding fuel has increased by 5.5%, however on a constant currency basis it reduced by 0.6%.

¹ Cost per seat includes White Label costs however White Label capacity is excluded from seats.

Goal

Flybe will continue to focus on cost reduction across all cost lines as well as optimising the use of its resources.

Read more on page 32

Profitability and cash

We use two indicators to measure each of these.

Adjusted profit before tax (PBT)

Adjusted PBT is reported PBT excluding the impact of USD aircraft loan revaluation, which is a non-cash item. This is the adjusted profit measure used by Flybe (as defined in the Financial Review).



Performance

The adjusted loss is as a direct result of the fleet being at its peak size, which will start to decrease next year, and passenger revenue per seat falling.

Goal

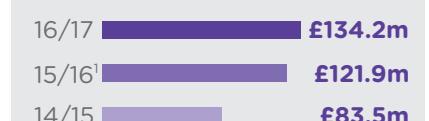
We aim to grow our profit sustainably.

Read more on page 31

For profitability, we use adjusted profit before tax to exclude the non-cash impact of USD aircraft loan revaluation and we use EBITDAR which enables comparison across the airline industry as this measure excludes aircraft ownership costs. To measure our progress on use of cash we track total cash and net funds/(debt).

EBITDAR

EBITDAR is a key metric to compare profitability across the airline industry. It measures operational profitability as it excludes items relating to aircraft ownership (whether owned or leased).



Performance

EBITDAR increased by 10.1% showing positive operational cash flow movements.

¹ The consolidated income statement has been restated to show each cost line at the transactional spot rate therefore EBITDAR for 2015/16 has been restated.

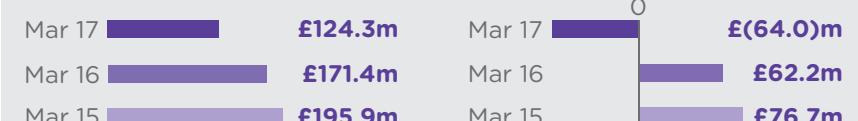
Goal

We aim to continue to improve EBITDAR.

Read more on page 29

Total cash

Total cash is a combination of free cash and restricted cash.



Performance

Total cash has reduced due to capital expenditure on fleet during the financial year with net debt increasing due to the debt financing of aircraft acquisitions in 2016/17.

Goal

Maintaining and generating cash is a priority for Flybe alongside reducing debt to give a more favourable net debt and ultimately net funds position.

Read more on pages 33 and 34

Business review

Focusing on the customer

Our major legacy issues have been resolved, enabling us to now focus on making the business more resilient and customer-focused.

“ Flybe – Europe’s leading regional airline has a long relationship with Birmingham Airport and continues to be one of our largest customers. The airline fulfils a number of market roles for the midlands providing frequent connectivity between Birmingham and key UK and European cities and off-peak travel to leisure destinations. It brings real competitive tension to the market which means that our passengers and midlands consumers get great choice and value for money.”

Paul Kehoe
CEO, Birmingham Airport



Flybe UK

The legacy fleet deliveries of Q400 aircraft plus increased flying of the E195 jets (which contributed approximately half of the additional seats) lead to an increase in capacity of 12.3%. The additional capacity was deployed on 33 new routes and an increase in frequency on existing routes.

This year we served more passengers – 8.8 million, an increase of 7.6% – and reached 64 scheduled destinations. Increased competition from other airlines and train operators, and overcapacity of the market, put pressure on our yield and load factor. Both declined, but this reduction was partially offset by significant cost savings made elsewhere.



In 2016/17 Flybe UK made an adjusted loss before tax of £(5.8)m (2015/16: profit of £8.8m). This loss excludes Group costs of £(4.3)m (2015/16: £(5.8)m) and USD loan revaluation losses of £(13.2)m (2015/16: £(2.8)m). The adjusted loss includes the following one-off items:

- £4.3m intangible assets write-off;
- £0.5m accelerated amortisation for intangible assets with a reduced useful economic life;
- £(3.6)m bonus accrual released on assessment of 2015/16 performance conditions; and
- £(4.2)m deferred income released following a detailed review of historic balances.

Further detail can be found in the Financial Review on pages 28 to 35.

Flybe continued to review and optimise its partnerships. We extended our franchise partnerships by bringing in Channel Islands-based operator, Blue Islands. During the year we also announced that the franchise arrangement with Scotland-based operator, Loganair, will end in Autumn 2017. In June 2017 we signed Heads of Terms for a new franchise and joint venture alliance with Eastern Airways. We will continue to review our franchise opportunities to ensure they generate a positive contribution to the Flybe brand and our profitability.

8.8 million

Flybe UK passengers
(2015/16: 8.2 million)

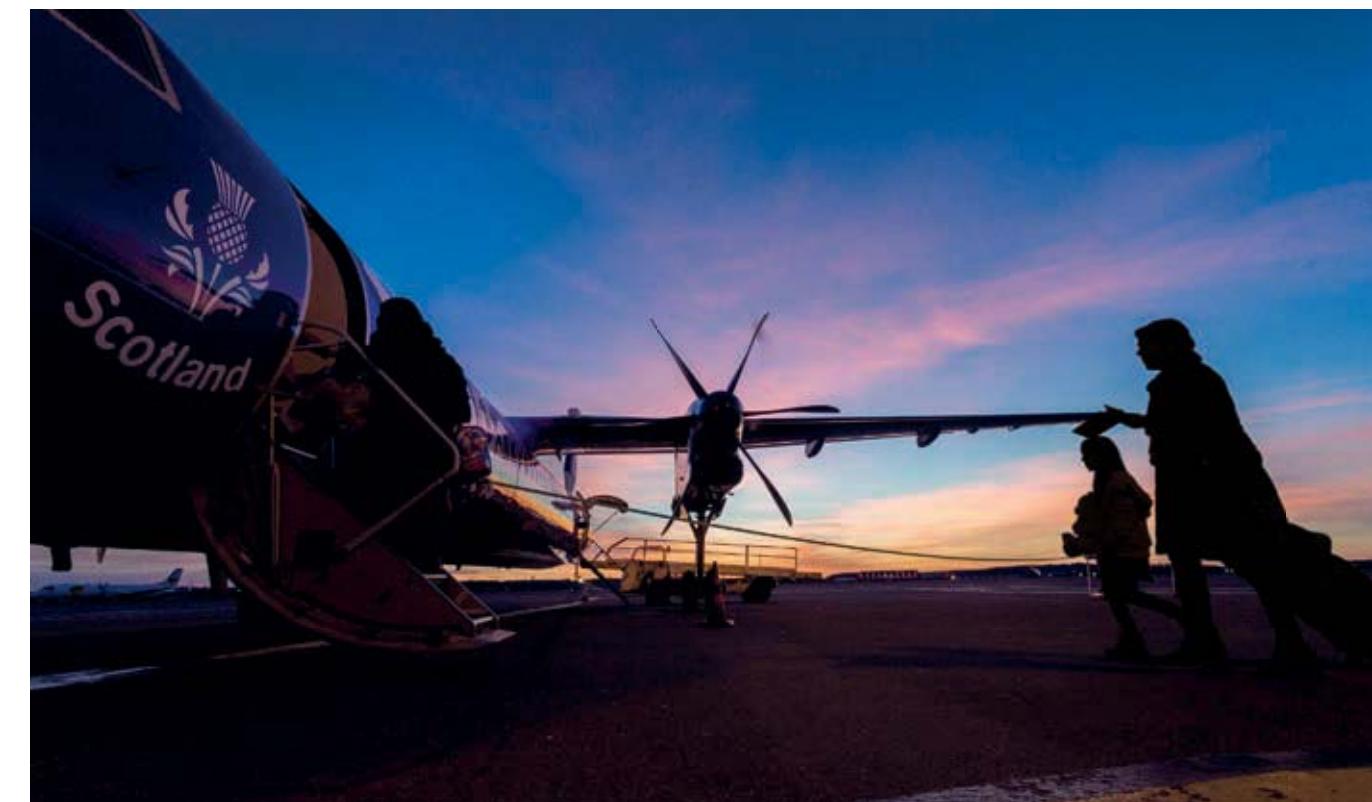
In addition to our existing codeshares with Aer Lingus, Air France, British Airways, Cathay Pacific, Emirates, Etihad and Finnair, we signed new codeshare agreements with Virgin Atlantic, Air India, Air Berlin and Singapore Airlines, adding to the ‘One Stop to the World’ programme and giving our customers greater access to long-haul destinations via our key hubs.

We also continued to review our relationships with airport partners. The commercial arrangements with Cardiff, Doncaster Sheffield, Exeter and Norwich to use the bigger E195 jets have all been fully implemented and are being continuously optimised. We maintained a strong presence at regional airports with the highest frequency share at airports including Manchester, Birmingham, Belfast City, Exeter and Southampton.

“ As the largest carrier linking Wales to major markets in the UK and Europe, Flybe brings a unique dynamic that allows us to explore new opportunities to offer our customers a wider choice of destinations that are priced competitively and offered at convenient times – and the airline’s ever-growing network of routes at Cardiff is testament to this.

As the national airport of Wales, we are committed to promoting both Wales as a tourism destination and accessible air travel from Wales across the UK, Europe and beyond. Flybe’s provision of routes to key capital cities and hubs makes the airline an important factor in more and more of our customers deciding to fly from Cardiff.”

Deb Barber
CEO, Cardiff Airport



Business review continued

From Scotland to London Heathrow

Passengers benefitting from more choice of flights between London Heathrow and Scotland following the launch of new Flybe flights from Edinburgh and Aberdeen

In March 2017 Flybe became the first regional airline to begin operating at London Heathrow since 2013. This was following a European Commission ruling on redeploying slots from British Airways following its merger with Aer Lingus. London Heathrow also introduced a £10 reduction in domestic passenger charges in January in an effort to boost domestic connections at the airport.

Passengers flying from Edinburgh and Aberdeen into London Heathrow will benefit from more choice on these key routes. The new routes offer convenient transfers with Flybe's codeshare partners – Emirates, Virgin Atlantic, Etihad Airways and Singapore Airlines – plus connections onto the extensive Star Alliance network serving 44 global destinations directly from London Heathrow.

With our unrivalled network of regional airports, we continue to develop routes and codeshare relationships to connect our customers to destinations in the UK, Europe and the rest of the world.

Emphasising the role London Heathrow plays in boosting communities and businesses across the UK, the Government Minister for Aviation Lord Ahmad of Wimbledon commented: "Flybe's flights from both Edinburgh and Aberdeen to London Heathrow will offer competition, choice and vital trading opportunities for people and businesses in Scotland. These routes are good news for Scotland, and for Britain as a whole, in delivering better regional connectivity to important global markets."

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Aberdeen flights from **£34.99** one way*

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*Fares are one way including taxes and charges. Subject to availability. London Heathrow to Aberdeen available for travel between 26.03.17 until 28.10.17. London Heathrow to Edinburgh available for travel between 26.03.17 until 28.10.17. No debit card fees apply. Bookings made by credit card or PayPal will incur a fee of 3% of the total transaction value, with a minimum charge of £5 per booking.

400+

daily flights

“ I travel most weeks to our factory in the north west from the south and have been doing so for six years. The most efficient way to travel is by taking advantage of Flybe's Southampton to Manchester route. Flying is by far the most cost-effective, quickest and hassle-free way to make this journey on a regular basis.

Your slogan 'faster than road or rail' is very true; it is also a great deal less stressful. Flybe's convenient timetable allows me to travel up and back in a day or the flexibility to return at an appropriate day and time to suit my business agenda.

I would also compliment Flybe on the professionalism of the call centre and cabin crew, in particular their approachable manner and helpful attitude. I would recommend Flybe whether travelling for business or pleasure without any hesitation.”

Chris Arthur
Organica (UK) Limited

Organica

Customer satisfaction levels were maintained with over 57% of responses being in the top two 'satisfied' categories in our survey. We recognise there is more to be done to improve the customer experience throughout the journey, from booking to arriving at the final destination, and this will be a key focus in the year ahead. More and more people are using our Flybe.com website to book their flights, increasing by 2ppts to 83.7%. Investing in digital transformation and delivering the best possible experience for our customers are key elements of Flybe's strategic plan.

Flybe was named again as the best UK airline for punctuality, placing us sixth worldwide (up from 17th last year), in the comprehensive, globally-renowned 2016 Punctuality League report published by OAG, the air travel intelligence specialist. Flybe operates a rigorous aircraft maintenance programme, with continuous improvement to aircraft reliability through development of modifications to our fleet. This has resulted in an improvement in our technical despatch reliability to 99.0%.

Operating on average more than 400 daily flights in crowded airspace, busy airports and in often challenging weather conditions means that such official, independent OTP recognition is especially important. We understand that time is of the essence for all of our customers, whether they are travelling for business or leisure. Travelling with a reliable, punctual operator remains a key consideration for customers when deciding which airline to choose.

We are a truly regional airline. Most of our customers prefer to fly from local airports as it offers them convenience, easy access and a time saving opportunity. We have a balanced split between male and female passengers. We have been able to attract more leisure passengers last year. This year we will focus on understanding our customers so we can fulfil the needs of both leisure and business travellers.

The Online Regional Travel Group Ltd (ORTG) remains a key customer of Flybe for business travel, leisure and inbound tour operations for Jersey, Guernsey and the Isle of Man. Chairman of the group Brian Kelly, who celebrates 35 years in business in 2017, states Flybe is a crucial UK regional and short-haul European carrier.

“ Providing reliable, competitively priced, commercial and leisure links to our islands remains vital for the communities that live there. The importance of Flybe in the UK domestic market has been highlighted in recent years with the continued demise/consolidation of other regional airlines due to their use of planes that are unsuitable for multi-daily rotations. The link Flybe provides is so important in allowing tourists and leisure travellers to fly to and from the islands; but also for business purposes, to enable effective trade with the rest of the UK.”

Brian Kelly
Chairman, Online Regional Travel Group Ltd (ORTG)

 **Online Regional Travel Group**

Business review continued

Flybe Training Academy

Flybe continues to develop and promote talent within the aviation industry through the training programmes it provides at its Exeter Training Academy. The state-of-the-art building has 26 classrooms, a simulator hall with two full flight Level D simulators, Embraer 170/190 cabin door trainer and aircraft mock-up, and an engineering apprentice workshop.

The Training Academy is a fully approved EASA part 147 facility for technical engineering training and is purpose-built for delivering pilot and cabin crew training programmes. During 2017/18, the number of cabin crew delegates increased by 10.4% to 868.



All Flybe operational staff attend the Training Academy in Exeter for their initial and recurrent training. It also offers training for third party businesses for engineering (c87% of engineering delegates were third party) and ground operations, and can also provide hire of time in flight simulators. The building also provides an impressive and unique setting for the training and conferencing requirements of local businesses.

Since 2008 the Training Academy has hosted the jointly-run Engineering Apprenticeship programme with Exeter College with 180 students across the academic years.



£50.1m

FAS revenue
(2015/16: £42.8m)

£3.4m

FAS profit before tax
(2015/16: £2.5m)



Flybe Aviation Services (FAS)

Based in Exeter, Flybe Aviation Services Limited (FAS), is a stand-alone entity containing our maintenance, repair and overhaul (MRO) business. 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.

During 2016/17 FAS received more than 125 aircraft for maintenance in the Exeter facility which covered over 10 different airframe types. Aircraft came from more than 20 different customers across five different continents. The greater part of aircraft which were maintained came from repeat customers Finnair, Air Baltic and Aegean. During the period FAS also signed agreements with three worldwide aircraft leasing companies, GECAS, Falko and NAC, all of whom put aircraft through the facility in 2016/17.

Workload in FAS, measured by man-hours, delivered 519,400 hours in 2016/17. Man hours on third party aircraft saw an increase of 7.4ppts to 58.1% of total FAS work (2015/16: 50.7%) with the balance being work on behalf of Flybe. The business delivered revenue of £50.1m and a profit before tax of £3.4m (2015/16: revenue £42.8m; profit before tax £2.5m).

FAS continues to take steps to retain its position as a leading regional aircraft maintenance provider in Europe, with the focus strongly placed on quality and timely outputs delivered through a safe environment and an efficient cost base.

In addition, FAS is the leading supplier of MRO services to the UK's Royal Air Force through Airbus Military. The Brize Norton base has continued to grow and leads the way globally in base maintenance activities of this type.

“ Airbus, through its Defence and Space division, has been contracted by the UK Ministry of Defence (MOD) for the servicing and maintenance of the Royal Air Force's (RAF) new A400M Atlas strategic and tactical transport aircraft. Flybe Aviation Services Limited (FAS) was selected by Airbus as the MRO for the base maintenance of the fleet, and has been working with Airbus in support of the Royal Air Force on-site at RAF Brize Norton, the fleet's home base in Oxfordshire, since 2015.

FAS is providing an agile and flexible service for the base maintenance of the A400M fleet, bringing competitive commercial practice, while responding to the demands of introducing a new military aircraft type into service. As a valued partner, FAS has been successfully working with Airbus alongside the MOD and the RAF to ensure the delivery of military capability. As well as establishing a benchmark level of performance for the initial A400M scheduled C checks, FAS has played a key part in developing innovative procedures for complex maintenance tasks, such as the on-wing change of the aircraft's Propeller Gear Boxes. We look forward to strengthening and broadening the relationship with FAS in the coming years.”

Paul Griffith
Airbus Military UK



Financial review

Continuous focus on cost per seat to drive efficiency



“With capacity under control, and a strong balance sheet and cash position we have the foundations for a sustainable future.”

Philip de Clerk
Chief Financial Officer

£134.2m

EBITDAR¹

(2015/16: £121.9m)

Overview

Through deploying the added legacy fleet commitments along with an evolving route network and improved customer offering, total revenue increased by 13.4% to £707.4m (2015/16: £623.8m). Seat capacity increased by 12.3% to 12.7 million seats, and passenger numbers increased by 7.6% to 8.8 million. Passenger yield (on seats sold) has been resilient, holding broadly flat at £70.20 but revenue per seat has fallen by 3.6% to £48.84, reflecting the increased capacity and competitive market conditions.

Our cost base is predominantly driven by the 12.3% capacity growth with operating costs increasing by 15.4% from £615.1m to £709.8m. Costs this year are adversely affected by the fall in the value of sterling but as we hedged most of our currency requirements there is a total (spot and hedged) currency gain of £26.0m within other operating gains. At a line level, the main cost variances can be summarised as follows:

- Fuel costs fell 3.6% from £104.9m to £101.1m with a gain of £16.0m (15.8%) arising from falling fuel prices (net of £7.1m of adverse US dollar movements) offset by c£(12.2)m (12.1%) of higher costs arising due to increased flying;
- Net airport and en route charges increased by 26.0% to £148.2m due to a combination of higher airport charges, currency and increased flying;
- Ground operations costs increased by 16.1% to £94.3m due to increased flying and currency impact;
- Staff costs increased 15.8% to £120.2m mainly due to the increase in capacity and the 2.0% salary increase awarded as part of the three-year pay deal;
- Aircraft rental costs increased 20.2% to £97.5m due primarily to the fall in sterling as most agreements are denominated in US dollar, and the increase in capacity. At constant currency, aircraft rental costs numbers were c8% higher;

£(19.9)m

reported loss before tax
(2015/16: profit of £2.7m)

£(6.7)m

adjusted loss before tax² and USD loan revaluations
(2015/16: profit of £5.5m)

→ Maintenance costs increased by 73.6% to £39.4m. Capacity increased by 12.3%, which along with the disproportionate impact of the increased flying of E195s which have substantially higher maintenance costs per hour, resulted in an increase of £7.4m on underlying maintenance costs. Approximately 70% of maintenance costs are spares purchased in US dollars, and the fall in the value of sterling contributed to an increase of c£6m in costs. The remaining increase is largely driven by increased flying in our White Label operation, which is offset by a corresponding increase in revenue;

- Depreciation and amortisation increased 21.8% to £39.1m due to more aircraft being owned rather than leased. Included within the amortisation cost is £0.5m of accelerated amortisation on an identified group of intangible assets where the useful economic life has been reduced due to the planned implementation of a digital platform; and
- Net other operating gains totalled £18.8m (2015/16: £7.0m) resulting from the aforementioned £26.0m of currency gains offset by £7.2m of losses on disposal of assets including £4.3m related to the one-off write-down of IT intangibles arising from the new digital platform.

The MRO business, Flybe Aviation Services (FAS) generated a profit before tax of £3.4m (2015/16: £2.5m) as third party revenues increased 39.5% to £31.8m. The A400M facility in Brize Norton maintained its strong contribution to the FAS result. In 2017/18 it is anticipated that there will be a reduced contribution from the A400M service contract as FAS moves from the start-up phase into business as usual.

Flybe made an adjusted loss before tax² of £(6.7)m (2015/16: profit of £5.5m). This is adjusted by non-cash revaluations on our US dollar loans that are intended to be natural hedges against the value of each aircraft, whose value is denominated in the dollar rate prevailing when acquired. Including these non-cash revaluations, Flybe made a loss before tax of £(19.9)m (2015/16: profit of £2.7m).

Flybe continues to have a strong balance sheet with free cash of £115.1m at the end of March 2017 (2016: £163.6m) net of restricted cash of £9.2m (2016: £7.8m). Net debt at 31st March 2017 was £(64.0)m (2016: net funds of £62.2m). This change was mainly due to £140.3m of capital expenditure primarily reflecting the cost of buying more owned aircraft (£98.4m) and other capital expenditure relating to components (£17.8m), capitalised maintenance (£16.7m), plus IT and other items (£7.4m).

EBITDAR, a profit measure used for comparisons between airlines, has improved by 10.1% from £121.9m in 2015/16 to £134.2m.¹

EBITDAR and adjusted (loss)/profit

EBITDAR and adjusted (loss)/profit before tax measures discussed in this section are non-GAAP measures.³

Set out below is a reconciliation from operating (loss)/profit to the EBITDAR figures:

	2017 £m	2016 Restated ¹ £m	Change %
Operating (loss)/profit	(2.4)	8.7	
Depreciation and amortisation	39.1	32.1	
Aircraft rental charges	97.5	81.1	
EBITDAR	134.2	121.9	10.1

¹ EBITDAR is defined as operating (loss)/profit after adding back depreciation, amortisation and aircraft rental charges. The consolidated income statement has been restated to show each cost line at the transactional spot rate therefore EBITDAR for 2015/16 has been restated.

² Adjusted loss before tax is calculated as reported loss before tax of £(19.9)m excluding US dollar loan revaluation losses of £(13.2)m (2015/16: profit before tax of £2.7m excluding US dollar loan revaluation losses of £(2.8)m).

³ 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 measure is determined from the most directly comparable measure 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.

Financial review continued

The table below sets out a reconciliation from (loss)/profit before tax to adjusted (loss)/profit before tax which adjusts the result for USD loan revaluations:

	2017 £m	2016 £m	Change %
(Loss)/profit before tax - unadjusted	(19.9)	2.7	
USD loan revaluations	13.2	2.8	
Adjusted (loss)/profit before tax and USD loan revaluations	(6.7)	5.5	n/m

The adjusted loss includes the following one-off items:

- Write-off of intangible assets totalling £4.3m (note 13);
- £0.5m of accelerated amortisation on a group of intangible assets where the useful economic life has been reduced due to the planned implementation of a digital platform (note 13);
- The performance conditions for the 2015/16 bonus were assessed and £3.6m was credited to the income statement (note 7); and
- £4.2m has been credited to the income statement following a detailed review of historic deferred income balances (note 19).

Aircraft fleet

The profile of Flybe's fleet at 31st March 2017 and 2016 is summarised below:

	Number of seats	Number of aircraft		
		At 31 st March 2016	Net movements in period	At 31 st March 2017
Bombardier Q400 turboprop	78	50	8	58
Embraer E175 regional jet	88	11	-	11
Embraer E195 regional jet	118	9	-	9
ATR72 turboprop (SAS contract)	70	4	1	5
Total	74	9	83	
Held on operating lease	57	(1)	56	
Owned	17	10	27	
Total	74	9	83	
Total seats in fleet	6,210	694	6,904	
Average seats per aircraft	84.0	(0.8)	83.2	
Average age of fleet (years)	7.4	1.0	8.4	

In 2014/15 Flybe entered into agreements with Embraer S.A. ('Embraer') and Republic Airline Inc. ('Republic') whereby the contractual commitment to acquire 20 (of a backlog of 24) new Embraer E175 jet aircraft was removed and in return Flybe committed to sub-leasing 24 smaller used Republic Q400 aircraft between 2015 and 2019. In 2015/16 Flybe took delivery of five Republic aircraft.

Flybe subsequently entered into a contract in March 2016 with Nordic Aviation Capital ('NAC'), to cancel obligations to lease nine of the 24 used Bombardier Q400 turboprop aircraft it was committed to under the terms of the Embraer and Republic agreement, and in return to take ownership of 10 Q400 aircraft it was under contract to lease, for a cash consideration of USD131.8m (£103.0m). This earned Flybe a return on capital employed of c12% and provided much greater flexibility for aircraft deployment or divestment. Of the 10 aircraft, five were delivered in 2015/16, and another five Q400 have been delivered in 2016/17. As at 31st March 2017, eight aircraft were delivered from NAC, three of which remain under operating lease. The final two aircraft were delivered during the first two months of 2017/18 on operating lease agreements.

83

aircraft
(2015/16: 74 aircraft)

£70.20

Flybe UK
passenger yield maintained (£70.23 in 2015/16)

In support of White Label operations in Sweden, Flybe leased one additional ATR72 aircraft as per the original agreement (increasing the total to five), which was delivered in May 2016.

The following table shows the number of aircraft that are contracted for delivery (either acquired or leased) to the Group as at 31st March 2017:

	E175s	Q400s
2017/18	-	2
2018/19	3	-
2019/20	1	-
Total	4	2

The fleet will peak in May 2017 before Flybe starts to return end-of-lease aircraft to its lessors. Six Bombardier Q400 aircraft will be handed back later in 2017 at, or slightly ahead of, lease expiry. The number of owned aircraft moved from 17 to 27 year-on-year with owned aircraft now representing 32.5% (2015/16: 23.0%) of the fleet.

Business results

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

	2017 £m	2016 £m
Business revenues:		
Flybe UK	675.6	601.0
FAS	50.1	42.8
Inter-segment sales	(18.3)	(20.0)
Group revenue	707.4	623.8

Business adjusted (loss)/profit before tax:

Flybe UK ¹	(5.8)	8.8
FAS	3.4	2.5
Group costs	(4.3)	(5.8)

Adjusted (loss)/profit before tax and USD loan revaluations²

Revaluation losses on USD aircraft loans	(13.2)	(2.8)
Group (loss)/profit before tax	(19.9)	2.7

1 Flybe UK adjusted (loss)/profit before tax reports a segment loss of £(5.8)m (2015/16: profit of £8.8m) after excluding Group costs of £(4.3)m (2015/16: £(5.8)m) and revaluation losses on USD aircraft loans of £(13.2)m (2015/16: £(2.8)m).

2 Adjusted (loss)/profit before tax is defined as (loss)/profit before tax excluding losses on US dollar aircraft loans of £(13.2)m (2015/16: £(2.8)m).

Flybe UK Revenue

	2017		2016	
	£m	£ per seat	£m	£ per seat
Passenger revenue	619.3	48.84	571.7	50.64
White Label flying revenue	33.0		13.9	
Other revenue	23.3		15.4	
Total revenue	675.6	53.28	601.0	53.23

Flybe UK's seat capacity increased by 12.3% to 12.7 million (2015/16: 11.3 million) with scheduled sectors increasing by 10.1% to 153,000 (2015/16: 139,000). The increased flying of the E195 fleet contributed approximately half of the additional seats. Flybe served 8.8 million customers on its network, a 7.6% increase (2015/16: 8.2 million). The combination of overcapacity in the market, fragile consumer confidence and tough competition resulted in a load factor decrease from 72.6% to 69.6%. Passenger yield held broadly flat at £70.20 (2015/16: £70.23) though revenue per seat fell from £50.64 to £48.84, reflecting the additional capacity and a highly competitive market.

White Label flying increased from £13.9m to £33.0m, reflecting the annualisation of the White Label operation on behalf of SAS in Sweden. The SN Brussels contract which commenced in March 2012 comes to an end in October 2017.

Operating costs (on a Flybe UK basis)

	2017		2016	
	£m	£ per seat	£m	£ per seat
Fuel and aircraft operations	343.6	27.10	303.7	26.90
Aircraft ownership and maintenance	194.0	15.30	155.7	13.80
Staff and other net operating expenses	143.8	11.34	135.3	11.97
Operating costs	681.4	53.74	594.7	52.67

Operating costs have increased by 14.6% to £681.4m, substantially driven by the increase in capacity of 12.3% along with higher flying-related airport and maintenance costs. At constant currency, the increase in total operating costs is 6.5%.

Financial review continued

Cost per seat including fuel increased by 2.0% to £53.74, though on a constant currency basis reduced by 5.2%. Excluding fuel, cost per seat increased 5.5% to £45.76 but fell 0.6% on a constant currency basis.

Fuel

Flybe UK's results are impacted by movements in the price of fuel which forms a significant variable cost for the business. Brent crude per barrel has been in the USD37 to USD58 range (2016: USD27 to USD68) for the period, with the average price over the period being USD50 (2016: USD49). The price of jet fuel has traded between USD351 and USD550 (2016: USD271 and USD645) per tonne. 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.

During 2016/17, Flybe UK used some 206,897 tonnes of jet fuel, an increase of 19.4% on the 173,254 tonnes used in the prior year. Fuel burn decreased to 14.9kg per seat for 2016/17 (2015/16: 15.2kg). The average market price during the period was USD470 per tonne (2015/16: USD470), with the Group paying a blended rate (net of hedges) of USD556 per tonne (2015/16: USD826). Including 'into plane' costs, Flybe's fuel costs in 2016/17 of £101.1m (2015/16: £104.9m) represent an all-in cost of USD637 per tonne (2015/16: USD911).

Flybe UK operates a policy of managing fuel price volatility by entering into derivative contracts representing a portion of its aviation fuel requirements a minimum of 12 months forward from the current date. The intention of this programme is to provide a significant element of certainty over its forthcoming fuel costs. As at 31st March 2017, 83.2% of the fuel requirement for 2017/18 was hedged at an average price of USD489 per tonne. Taking into account our hedged position, each USD50 increase/decrease in the price of jet fuel reduces/improves Group profits in 2017/18 by £1.0m.

Net finance costs

Net finance costs increased from £6.0m to £17.5m mainly due to a £(13.2)m non-cash, non-underlying loss on the retranslation of US dollar-denominated debt used to fund the acquisition of aircraft (2015/16: £(2.8)m). 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 Flybe does not have a natural offset. This income statement loss of £(13.2)m has therefore been removed in arriving at adjusted (loss)/profit before tax. Other net finance costs increased by £1.1m due to the increase in aircraft loan financing.

Foreign exchange

The Group foreign currency hedging policy has an objective to reduce the volatility of costs. Flybe manages its foreign exchange positions based on its net foreign currency exposure, being foreign currency expenditure less associated revenue. Historically treasury policy capped hedging at 90%, though treasury policy now allows hedging up to 100% to protect against increased risks to profit. The Group currently has a relatively small net exposure to the euro, but has significant US dollar costs in relation to fuel, maintenance, aircraft operating leases and loan repayments. The Group generates no significant US dollar revenue and actively manages its US dollar position through a foreign exchange forward purchase programme similar to that outlined for fuel. The post-Brexit deflation of sterling has been largely mitigated due to hedging levels.

As at 31st March 2017, 85.8% of Flybe's anticipated US dollar requirements for 2017/18 were hedged at an average exchange rate of USD1.42. All existing derivative financial instruments are cash flow hedges. Taking into account our hedged position, each USD 0.05 reduction/improvement in the US dollar exchange rate has the effect of reducing/increasing Flybe UK's profits in 2017/18 by approximately £1.1m.

£34.9m

net cash inflow from operating activities
(2015/16: £64.1m)

£(64.0)m

net debt including restricted cash
(2016: £62.2m net funds)

(Loss)/profit before and after tax

The Group's reported loss before tax was £(19.9)m (2015/16: profit of £2.7m).

The Group's adjusted loss before tax and USD aircraft loans revaluation was £(6.7)m (2015/16: profit of £5.5m).

The reported loss after tax was £(26.7)m (2015/16: profit of £6.8m). The deferred tax charge was £(6.8)m (2015/16: tax credit of £4.1m) reflecting the non-recognition of temporary timing differences on capital allowances.

EPS and dividends

The loss per share for the year was (12.3) pence (2015/16: earnings per share of 3.1 pence).

No dividends were paid or proposed in either 2016/17 or 2015/16.

Cash flow

	2017 £m	2016 £m	Change %
Net cash inflow from operating activities	34.9	64.1	(29.2)
Net capital expenditure after disposal proceeds	(140.3)	(64.3)	(76.0)
Interest received	0.7	0.8	(0.1)
Net cash flows from investing activities	(139.6)	(63.5)	(76.1)
Net proceeds/(repayments) from/of loans	64.5	(12.8)	77.3
Interest paid	(5.0)	(2.1)	(2.9)
Cash paid for purchase of shares for employee benefit trust	(3.3)	-	(23.3)
Net cash flow from financing activities	56.2	(14.9)	71.1
Net decrease in cash and cash equivalents	(48.5)	(14.3)	(34.2)
Cash and cash equivalents at beginning of year	163.6	177.9	(14.3)
Cash and cash equivalents at end of year	115.1	163.6	(48.5)
Restricted cash	9.2	7.8	(1.4)
Total cash	124.3	171.4	(47.1)
Net borrowing	(188.3)	(109.2)	(79.1)
Net (debt)/funds	(64.0)	62.2	(126.2)

Financial review continued

The Group generated £33.5m from operating activities excluding the increase in restricted cash of £1.4m to give a net cash inflow from operating activities of £34.9m (2016: £53.9m excluding the £10.2m fall in restricted cash to give a net cash inflow from operating activities of £64.1m). See the cash flow statement on page 116 for the breakdown of cash inflow from operating activities. Restricted cash increased from £7.8m to £9.2m almost entirely due to the adverse foreign exchange impact of sterling against the US dollar.

Net capital expenditure included outflows of £(134.6)m on purchases of property, plant and equipment plus an outflow of £(5.7)m for intangible software additions (2016: total capital expenditure of £(65.6)m plus a reduction on pre-delivery deposits of £1.3m to give a net outflow of £(64.3)m).

Net inflow on borrowings of £64.5m was as a result of £84.3m of new borrowings offset by £(19.8)m of repayments (2016: repayments of £(12.8)m). In the year there was a £3.3m outflow of cash to acquire shares, which are held by the Employee Benefit Trust, to cover the Flybe Share Incentive Plan.

Total cash was £124.3m at the year-end (2016: £171.4m).

Balance sheet

	2017 £m	2016 £m	Change £m
Aircraft	287.3	192.3	95.0
Other property, plant and equipment	21.8	21.4	0.4
Intangibles	11.9	13.3	(1.4)
Net (debt)/funds	(64.0)	62.2	(126.2)
Net derivative financial instruments	24.5	(9.9)	34.4
Other working capital - net current liabilities	(116.4)	(123.5)	7.1
Deferred taxation	(0.6)	11.3	(11.9)
Defined benefit pension scheme deficit	(20.8)	(15.3)	(5.5)
Other non-current assets and liabilities	9.8	2.4	7.4
Net assets	153.5	154.2	(0.7)

The £287.3m of net book value of aircraft represents owned aircraft, engines and aircraft modifications. The increase of £95.0m is mainly due to the increase in owned aircraft complemented by the capital expenditure on new components and capitalised maintenance.

Net debt, representing total cash offset by borrowings, totals £(64.0)m at 31st March 2017 compared to net funds of £62.2m at 31st March 2016. Debt is greater due to the increase in owned aircraft from 17 owned at 31st March 2016 to 27 owned at 31st March 2017. The net debt calculation at 31st March 2017 includes restricted cash of £9.2m (2016: £7.8m) which represents predominantly cash deposits held as security in favour of aircraft lessors.

The mark-to-market valuation of derivative financial instruments improved from a net liability of £(9.9)m at 31st March 2016 to a net asset of £24.5m at 31st March 2017, reflecting positive moves in Flybe's portfolio of net currency and fuel hedging contracts. Net current liabilities decreased from £(123.5)m to £(116.4)m largely due to increased trade and other payables.

The balance sheet also includes the impact of the defined benefit pension scheme deficit of £20.8m (2016: £15.3m) which is included in other non-current assets and liabilities above. This scheme is closed to future benefit accrual. The year-on-year increase in the deficit is primarily due to the fall in the discount rates arising since the Brexit referendum.

The triennial valuation at 31st March 2016 has now been agreed with the Trustees at a deficit of £(12.2)m. The revised recovery plan will result in Flybe making contributions of £0.83m per annum (previously £0.5m per annum). The next valuation will be at 31st March 2019.

Covenants

The Group has no significant financial covenants in place and has met all the terms tested at 31st March 2017. Flybe has credit support arrangements in place with most financial counterparties.

£287.3m

net book value of aircraft
(2016: £192.3m)

£153.5m

net assets
(2016: £154.2m)

Having considered the forecasts and 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.

Viability statement

The directors have assessed Flybe's viability over a three-year period to March 2020. 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.

In making their assessment, the directors took account of Flybe's current financial and operational positions. 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 36 to 41 and the likely effect on the Company's prospects and viability.

Based on this assessment, the directors have a reasonable expectation that the Company and the Group will be able to continue to operate, meet all their liabilities as they fall due and have a viable business model during the three-year period to March 2020.

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 nor significant problems arising from Brexit.

Philip de Klerk

Chief Financial Officer

7th June 2017

Principal risks and uncertainties

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

Risk description	Potential impact	Inherent risk trend	Mitigation
Safety and security			
Failure to identify or prevent a health and safety or security-related incident including terrorist, or internal or external attack, or to respond appropriately to a safety or security-related event. V 1 2 3	Significant adverse effect on Flybe's reputation, financial results and operational performance regardless of location or target. ↔	A Safety and Security Review Board, chaired by Sir Timo Anderson, is responsible for assuring all policy and governance, along with reviewing information and acting on recommendations and guidelines provided by the relevant authorities. The Safety and Security teams identify, assess and mitigate safety and emerging security risks. Safe and secure operations are inherent in the culture for all of Flybe's management and staff. An emergency response plan is in place and is reviewed and tested, including full crisis management, and the appropriate levels of insurance are in place.	

Key

V Considered as part of viability assessment

Inherent risk trend vs present year

↑ Increase

↓ Decrease

↔ Stable

Link to Sustainable Business Improvement Plan

- | | |
|---|--|
| <p>1 Sales & Marketing</p> <p>2 Network, Fleet & Revenue Optimisation</p> <p>3 Operational Excellence</p> | <p>4 Organisational Excellence</p> <p>5 Technology fit for Flybe</p> <p>6 Cost Improvement Programme</p> |
|---|--|

Risk description	Potential impact	Inherent risk trend	Mitigation
Safety and security continued			
Information security and cyber threats remain a key focus for the Group. The incidence of cyber-attacks has increased worldwide and Flybe is exposed to this as a result of its reliance on the internet for a high proportion of delivery of its sales. V 4 5	Loss of systems or connectivity to the internet, as a result of internal or external threat, could lead to disruption and lost revenue with an adverse impact on Flybe's financial condition. Breaches in IT security, or fraud, could adversely affect Flybe's brand and reputation, and have an adverse impact on revenue.	↔	While a continuous review and improvement in relation to information security risk takes place, the following controls are in place: → Information Security Committee oversees the security framework to ensure there are appropriate controls; → Security awareness policy and procedures, including a policy read-and-sign; → Information security training; → The use of third party experts to assess risk and recommend mitigating actions; → Robust security procedures which are tested and reviewed by independent third parties; and → The deployment of system monitoring software to detect and prevent unauthorised access.
Commercial and operational			
Flybe is exposed to sustained deterioration in general economic conditions, and reduction in domestic and regional air travel, particularly in the UK. V 1 2 6	Adverse pressure on revenue and load factors, and negative impact on Flybe's future plans and profitability.	↔	Flybe monitors route performance constantly and adjusts flying patterns and pricing to customer demand. Flybe has a continuous focus on cost reduction and optimising its fleet size. Flybe will reduce its fleet and capacity by handing back leased aircraft at the end of the lease term.

Principal risks and uncertainties continued

Risk description	Potential impact	Inherent risk trend	Mitigation
Commercial and operational continued			
Flybe operates in a highly competitive aviation market.	Adverse effect on market share leading to reduced revenue and profits.	↔	<p>Flybe has a strong position in the markets where it operates and extends the reach of its brand through franchising and alliances. Processes are in place to monitor and report on route-by-route performance and competitor activity and to react rapidly where necessary.</p> <p>The increasing number of codeshare partners helps Flybe to offer a greater level of service to its customers.</p>
Flybe is exposed to the effects of extraneous events, such as epidemics or natural disasters (e.g. severe weather or ash cloud disruption).	Reduced demand, market share and revenue, any of which may adversely affect Flybe's financial results or operational performance.	↔	<p>Flybe has procedures in place to respond to such events, and to communicate effectively with all stakeholders, including customers, shareholders and employees.</p>
Flybe is becoming increasingly reliant on the Bombardier Q400 aircraft, with dispatch reliability being a key factor in the performance of the airline.	Technical or mechanical issues could result in a grounding of the fleet which would impact the flying programme and negatively impact the reputation of the aircraft type.	↑	<p>Flybe operates a rigorous aircraft maintenance programme, with continuous improvement to aircraft reliability through development of modifications through Bombardier.</p> <p>Standby aircraft within the programme allows some flexibility in aircraft availability.</p>

Risk description	Potential impact	Inherent risk trend	Mitigation
Commercial and operational continued			
Flybe is heavily dependent on its IT systems, the ongoing development of those systems, and the internet to operate its business. Resilience of such key systems is an issue to the business maintaining a competitive advantage.	Inability to implement successful development and ongoing improvement in resilience could lead to Flybe's business plans not being fully fulfilled.	↑	<p>Major projects or programmes have their own steering group which provides challenge to the project, monitors progress and ensures that decisions are made at the appropriate level.</p> <p>A portfolio management office is in place to oversee delivery of projects, and track budgets and realisation of benefits.</p> <p>A project management framework, which sets out governance requirements, key processes and controls, is followed by all projects and programmes.</p> <p>A combination of outsourcing and upgrading existing infrastructure is improving the resilience of core systems.</p>
Flybe depends on good industrial relations, across all its regions, with a workforce that is, in significant part, unionised, and is exposed to shortages of key personnel.	Adverse effect on Flybe's reputation, financial results and operational performance.	↓	<p>Flybe has well-developed consultation and negotiation processes with its employees and the unions and continues to ensure its employment remuneration reflects current market conditions and practices that are supported by succession planning policies.</p> <p>Agreements are in place with employee groups relating to pay and conditions until the end of 2018/19.</p>

Principal risks and uncertainties continued

Risk description	Potential impact	Inherent risk trend	Mitigation
Financial			
Flybe is exposed to the failure or non-performance of commercial counterparties as well as requiring the services of key suppliers such as airports, air traffic control systems, fuel supply companies, and single-source suppliers.	Adverse effect on Flybe's reputation, financial results or operational performance.	↔	Most suppliers can be replaced by an alternative suitable supplier. Contract negotiation teams are highly experienced and knowledgeable of the industry with a strong track record of delivering value for Flybe.
Fluctuations in fuel prices and foreign exchange rates.	Adverse movements in these areas can adversely affect both Flybe's profit and financial position.	↔	While hedging cannot guarantee against significant long-term price changes, a well-established hedging strategy is in place that is designed to provide certainty over a significant proportion of Flybe's cost base in the coming 12 months.
Unavailability of suitable financing.	Lack of adequate liquid resources could disrupt and adversely affect Flybe's financial results.	↔	Flybe's policy seeks to maintain appropriate levels of free cash which will be available to meet costs in the event that our normal activities are temporarily disrupted by, for example, severe weather, volcanic ash, extended industrial dispute or fleet grounding.

Risk description	Potential impact	Inherent risk trend	Mitigation
Regulatory			
The UK decision to leave the European Union introduces risks relating to the free movement of workers between the UK and European nations as well as risks around what the regulatory landscape will be post-Brexit.	Potential adverse effect of growth opportunities into EU countries, along with the inability to attract and retain a sufficient operational workforce.	New	An internal working group has been established to review all aspects of Flybe's operations. Management engages with governments through direct contact and membership of industry organisations.
Airlines may be adversely affected by increases in Air Passenger Duty in the UK and its equivalent in other countries, and by any future amendment with regard to regulation of emissions trading and other environmental laws and regulations, or negative environmental perception of the airline industry.	Increased costs and reduced demand across the airline industry which may result in reduced profitability for Flybe. Reduced demand for aviation across the industry.	↔	Management monitors governments' proposals with regard to changes in planned approach to aviation taxation and engages with governments through direct contact and membership of industry organisations. Flybe seeks to pass on additional duties to its passengers through its pricing approaches. Flybe continues to be compliant with the ETS regime. Flybe operates fuel-efficient aircraft for its flying pattern and seeks to develop further fuel efficiencies through changes in its practices.

Corporate responsibility

Flybe cares



We have a strong commitment to the well-being of our customers, employees and communities.

Safety and security management

Flybe continues to demonstrate its commitment to developing, implementing and constantly improving strategies and processes aiming to deliver our aviation activities to the highest level of safety and security performance, while delivering our services against the corporate goals.

THE FLYBE SAFETY PROMISE

Safety with no compromise is one of core values.

Everyone at Flybe promises to:

- Identify and report risks, 'near misses' and hazards before they become incidents.
- Report openly any safety event.
- Understand the risk to themselves and others before engaging in a task.
- Work as one Purple team to improve continuously our safety culture and performance.



Flybe's Safety Promise recognises that safety and security are everyone's personal responsibility whether a colleague, customer, contractor, visitor or supplier. All employees are accountable for the Group's safety and security performance. In addition, managers ensure that our Safety Policy is implemented and understood by all employees and contractors.

Reporting processes and systems that were implemented in 2015, along with company-wide encouragement given to all Group members and service partners to further increase hazard and near-miss safety reporting, has led to overall safety reporting levels near doubling. This increase in reporting has led to improved information in identifying hazards, quantifying the risks associated with these and taking actions to eliminate or mitigate these risks to acceptable levels.

All personnel are encouraged to report any safety or security issue, irrespective of the cause, in the knowledge that Flybe operates in an open, fair and balanced way with all incidents investigated objectively and thoroughly.

The Safety and Security Department is independent of all functional areas and this team provides safety investigation, compliance monitoring (auditing), security management, flight data monitoring and health and safety expertise. Key safety and security interfaces include the safety and quality management processes within the Flybe Aviation Services maintenance organisation, as well as other service providers.

The Flybe Safety Management System (SMS) co-ordinates all safety activity across the Flybe operation. This allows safety data derived from both normal operations and safety events to be used in the review of operational procedures and training. The SMS is reviewed on a monthly basis at the Safety and Security Review Board chaired by the Accountable Manager, Flybe's Chief Operations Officer, Luke Farajallah.

Flybe, as a member of IATA, is required to maintain International Operational Safety Audit (IOSA) accreditation. The airline underwent its last IOSA renewal audit during May 2015 and is accredited through to September 2017, having been on the registry since 2007. IOSA utilises internationally recognised standards and recommended practices (totalling more than 900) against which the airline is audited to demonstrate Flybe has both documented procedures and implemented practices. Preparation is under-way for the next renewal audit, scheduled for May 2017.



Compliance monitoring (quality assurance) management

The establishment and maintenance of an effective compliance monitoring function ensures not only an effective and efficient operation, but also a safe one. The internal compliance monitoring function oversees all operational activity and consists of two teams.

The first is dedicated to the airline, covering:

- The Air Operator's Certificate;
- Approved Training Organisation;
- EASA Part M, aircraft continuing airworthiness; and
- Part 21J, for a design organisation.

The second team is dedicated to the Flybe Aviation Services (FAS) maintenance organisation and covers:

- Part 145, for an aircraft maintenance organisation;
- Part 147, for an engineering licence type training organisation; and
- Part 21G, for a production organisation.

Both the airline compliance monitoring manager and the FAS quality manager have a direct line of report to their respective accountable managers who have overall responsibility for the safe operation of Flybe and FAS activities under civil aviation legislation in the UK.

Corporate responsibility continued

Health and safety management

The health and safety of customers, employees and contractors of Flybe receives equal focus, and as much attention as any other aspect of the business operations. Flybe has a commitment to deliver the highest level of quality in health and safety management. Flybe's goal is for zero avoidable accidents to its workforce and customers. The Flybe management team continues to demonstrate its commitment to health and safety through proactive initiatives and close liaison with staff and union safety representatives.

Health and safety is incorporated into the Flybe SMS and overseen by the Flybe Health and Safety Committee, which itself reports ultimately into the Safety and Security Committee. Flybe's policy for health and safety is defined in the Health, Safety and Environment manual. In turn this shapes the procedures throughout the organisation which define how the policy is implemented within each department. The policies and procedures are drawn up with the involvement of union safety representatives and Flybe's People team, and are subject to oversight by the Flybe Health and Safety Committee. As part of this drive for continuous improvement the Health, Safety and Environment manual, which details all of the Company's systems and procedures for safe working, has been reviewed and improved.

Over the last year, Flybe employees have been undertaking 'Do The Right Thing' training. This is an in-house training course, which is the next stage in our strategy for health and safety training. The Flybe Safety Promise sets out our commitment to health and safety and leads everything we do. Purple Safety Training then incorporates the promise into everyday working life by heightening the awareness of hazards and the risks they pose. 'Do The Right Thing' then moves the strategy directly into the workplace by focusing on behaviours and the day-to-day application of safe working practices, all part of our co-ordinated approach to all aspects of safety, security and health and safety management processes across the Group.



Our people

As at 31st March 2017, Flybe employed 2,388 employees across 11 regional UK bases. More than 20% of our UK employees worked part-time or flexibly to balance their lifestyle needs and now more than 53% of our employees have more than five years' service, with an average attendance rate of more than 95%. Information on the gender distribution of our employees can be seen below in the Equality and diversity section.



2,388

Flybe employed employees, as at 31st March 2017,
across 11 regional UK bases

20%

percentage of our UK employees
working **part-time or flexibly**

Creating a fair, transparent and consistent working environment

Fairness and transparency

Flybe is committed to creating a working environment in which our employees feel valued and fairly treated. We understand the importance of fairness and transparency and as such we are implementing a review of salary and benefits for all head office employees.

This review will result in the development of defined work levels that will be assigned a salary range and suite of benefits, including a tailored programme of learning and development. This will ensure that each employee has clarity on how they will be remunerated and what their progression pathway opportunities are.

Support

The welfare of our employees is of ultimate importance to Flybe and we pride ourselves on the breadth of support services that we offer to all employees, ranging from our Employee Assistance Programme to childcare vouchers. In order to ensure our employees are supported and enabled effectively, we have established the Employee Welfare Forum, consisting of key operational stakeholders from across the business. The objective of the forum is to align the support services we offer our employees into one central hub to evaluate their effectiveness and to align and strengthen the suite of policies that underpin them.

Enable

Creating learning and development opportunities to cultivate our greatest resource, our people, is a priority as we move into the next financial year. Our learning and development plan includes bringing non-operational training in-house at our Training Academy in Exeter. We are designing training which will be aligned to the work levels created by our benchmarking programme to ensure development of our employees so they have the right skills for their role and a pathway of future learning opportunities.

This is an ambitious project which will be phased in over the next two years. Our first focus will be developing our range of management training to ensure that all of our managers are fully equipped to support and enable their employees to succeed. Our learning and development programme will produce consistency in the training available as well as a great range of opportunities for Flybe employees to develop their skills.

We are embracing the forthcoming Apprenticeship Levy for internal development, meaning we are able to offer training and development through tailored apprenticeship programmes.

We have a revitalised Performance Development Review ('PDR') process to ensure that every employee fully understands, and is aligned to, our strategy, operational plan, their department objectives and the requirements of their role. This will ensure complete organisation-wide alignment to a suite of metrics, enabling all employees to contribute to the overall success of the business. This is also the opportunity to review employees' progress, future development, career opportunities and any training needs. PDRs are undertaken annually, supported by mid-year reviews, regular one-to-ones and departmental briefings.

Evolution of our values

At the start of the 2017/18 financial year, we invited all of our employees to take part in a survey to select the top five values to become the foundation of a high-performance environment and culture. The survey feedback was shared and discussed with the top 150 managers at our April Leadership event, be.Inspirational, where the values were refined into defined behaviours and ways of working. These values are being embedded in all HR-related tools and processes, from recruitment and induction to training, PDRs and rewards. This will ensure that the entire organisation is aligned to a defined, high-performance culture and agreed ways of working at every step.

Corporate responsibility continued

Engage

We are implementing our next employee engagement survey in Q2 2017/18, to ensure we have a clear picture of the motivations, needs and expectations of our people. From this survey we will produce our Engagement Plan.

In the UK, in addition to active engagement with its recognised trade union partners, Flybe uses its internal consultative forum Open Channel to engage and listen to our employees. Open Channel meets quarterly, is chaired by a member of the Executive Committee and is attended by up to 15 elected representatives from different departments and locations and members of the management team.



Our new communications plan will include 'Town Hall' live-streamed call-ins from employees. The Executive Committee will answer questions in real time over the phone, without pre-preparation, enabling employees to get open and authentic responses to their questions. This forum is a good example of how we are promoting a listening and empowering culture.

Senior management has continued with regular base visits across our network to engage with our people. In addition to this, our Purple Leadership Team meets on a regular basis to discuss, share and agree on the dissemination of information and key messages to our people.

Regular updates from our CEO and news stories are published on our intranet PurpleNet ensuring employees are kept up to date and well informed.

Equality and 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. However, we are always striving to do more to promote diversity, and welcome and encourage applications from candidates from all backgrounds and candidates with disabilities.

We are developing a diversity strategy, supported by a leading, global aviation network. Additionally, in 2017/18 we are conducting 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. The results of the analysis will be published on the Flybe website and a government-sponsored website. This will comply with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. 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.



The breakdown of employees by gender is as follows:

	31 st March 2017				31 st March 2016			
	Male No.	Male %	Female No.	Female %	Male No.	Male %	Female No.	Female %
Board and Executive Committee ¹	8	80	3	27	8	80	2	20
Senior management (Purple Leadership Team)	25	74	9	26	18	75	6	25
All other employees of the Group ²	1,358	58	985	42	1,266	57	962	43
	1,391	58	997	42	1,292	57	970	43

¹ The 2016 figures have been restated to include the Executive Committee together with the Board.

² Saad Hammad and Amy Valcik were serving notice at 31st March 2017 and were still receiving remuneration, and therefore they are included here as part of the 'Other' total and not in the Board.

Human rights

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

- Equality and diversity;
- Grievances;
- Disciplinary procedures;
- Whistle-blowing;
- Harassment and bullying;
- Bribery; and
- Modern slavery.

In addition, Flybe uses its relationship with its employees to raise, air and resolve issues, whether this is through 'Town Halls', Open Channel or its established, recognised trade unions.

Flybe also provides the Employee Assistance Programme with a confidential helpline available with free help and support available for every stage on the employee's journey through life.

Benefits

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.

UK employees have been able to participate in the Group's Share Incentive Programme ('SIP') under which all eligible employees were awarded 100 free shares shortly after Flybe's IPO. In August 2016, all eligible employees were awarded 5% of their salary in shares under the same scheme.

Flybe operates a group personal pension plan and more than 90% of employees have elected to participate and benefit from employer's contributions to their personal fund. Flybe has salary sacrifice schemes including the Cycle Scheme, buying extra days off work and childcare vouchers.

In addition to this, we also offer a rewards platform called 'Purple Take Off', which is an online employee benefits portal where our employees can find attractive discounts and offers to help them save money on a range of products and services.

PURPLE TAKE OFF

Corporate responsibility continued

Community and charitable activities

Flybe undertakes a number of community and charitable activities. These are focused on supporting the local communities where the Company is based, as well as harnessing the fundraising power of employees and customers.

Sponsorship of local sporting teams



Flybe has partnerships with both the Exeter Chiefs Rugby Club (the Chiefs) and Exeter City Football Club (the Grecians). Both teams excelled in their respective leagues this season.

The Flybe brand is communicated through the Chiefs and Grecians both in terms of the games played, but also through their off-field activities in and around the community. We are proud to be associated with both clubs.

Flybe has sponsored a number of local community events and activities. These include:

- Shirt sponsor, Exeter City FC, now believed to be the longest-standing shirt sponsorship in the English Football League;
- Flybe extended its long-standing sponsorship of the Exeter Chiefs Rugby Football Club, and its logo is featured on the back of the Premiership top division team's shirts, as well as on signboards around the pitch;

Football in the Community Charity



One of the benefits to Flybe's partnership with Exeter City Football Club is that our sponsorship helps the club's multi-award winning Football in the Community Charity continue its inspiring work, which touches the lives of over 50,000 people per year.

The club's community team works across the region and centres its efforts into the four main areas of Health and Wellbeing, Sports Participation, Education and Social Inclusion. The Football in the Community Charity is the fifth largest charity in the region, with over 30 full time staff employed and turnover greater than £1m for community activity.

→ Running 'Tiny Tots' classes aimed at introducing the very young to not just core balance, but integrating into groups and taking instructions from other adults and not just parents; and

→ The team also provides wheelchair football, football for the blind and visually impaired and runs teams for those with learning difficulties and low-level mental health issues.

Exeter City's Football in the Community Charity team is used and endorsed by a wide range of civic and educational bodies to deliver social, health and fitness projects across the area. The programme has a close working relationship with both Exeter College and University, which provide educational and facilities resources, furthering the team's reach into the community. The team also links with key partners across the area's professional spectrum.

The Flybe brand is carried in a variety of ways into much of this work of course, but the real value is in the work and projects carried out by the charity, meaning that by association with them, Flybe is also recognised as being part of the community, rather than just a name on an aircraft.

Corporate responsibility continued

“ Cancer Research UK and Flybe have worked in partnership since 2008, raising over £725,000 for life-saving research to beat cancer sooner. Each year, Flybe has held at least two dedicated months of on-board collections in aid of Cancer Research UK as well as supporting the charity through employee fundraising, gifts in kind and joint PR initiatives. In 2016/17, Flybe's staff and passengers generously donated over £97,000 through key initiatives including Cancer Research UK's Kids and Teens campaign, which raises money for research into cancers affecting children, teens and young adults.

We're delighted that Flybe has taken the decision to begin collections on every Flybe-operated flight throughout the year. Cancer Research UK receives no government funding, so funds raised through partners like Flybe are crucial to the work of doctors, nurses and scientists who work day and night to fight cancer on all fronts. We are very grateful for Flybe's longstanding commitment to Cancer Research UK and support of our ambition to bring forward the day when all cancers are cured.”

Ed Aspel
Executive Director of Fundraising and Marketing,
Cancer Research UK



→ Flybe has been a charity partner of Cancer Research UK since 2008 and on-board and staff collections during 2016/17 raised £97,250. Every penny donated helps bring forward the day when all cancers are cured. Month-long on-board collections were held in June and December and on World Cancer Day in February. From April 2017, on-board collections will be ongoing, becoming a regular feature of every flight;



→ Six SMEs from across Northern Ireland have been given a boost to their managerial development at the Ulster University Business School thanks to the awarding of a bursary package provided by Flybe. All six have enrolled in the Developing Managers Programme which will provide them with an Advanced Diploma in Management following successful completion of a 12-month programme, including residential induction, a regional study visit and six study modules; and

→ Sponsoring the establishment of a new local Cranbrook School Library.

£97,250

on-board and staff collections
during 2016/17 for Cancer Research UK

Cranbrook Education Campus



Flybe was approached by the Primary Division of the new local Cranbrook Education Campus with a request to sponsor the establishment of a school library.

This is the airline's closest school and it is being populated by learners moving into the new-build town of Cranbook, located adjacent to Exeter Airport. Opportunities to nurture a closer relationship both with learners and with the wider school community will be progressed through visits to Flybe's HQ and vice versa, staff taking part in activities during Open Days and careers' awareness days etc.

The school has already been delighted to acquire some much-needed items of used furniture; and, to mark International Women's Day, a group of Year Six girls enjoyed an in-depth tour of the Flybe Training Academy and New Walker Hangar, meeting female engineers, pilots and key office staff as well as speaking with the CEO Christine Ourmieres-Widener.



Single-engine taxiing is used on all fleets as an environmental and cost saving measure to reduce pollution and fuel usage while on the ground.

Environment

Flybe has always made a commitment to environmental sustainability and operates one of the most environmentally-sensitive fleets in aviation. Our goal is to reduce both noise and emissions for each flight.

According to the intergovernmental panel on climate change, aviation accounts for around 2% of global CO₂ emissions. Flybe is therefore committed to being an industry leader in minimising its environmental impact, while continuing to provide a safe and punctual product to our customers. We are proud of our multi-million-dollar investment in the aircraft fleets in recent years, which has modernised our operations and given us the ability to take advantage of the extra flight efficiency features that these aircraft have.

Flybe is among one of the world's largest operators of the Bombardier Q400, which is one of the most economic turboprop passenger aircraft. Flybe is able to take advantage of its extensive knowledge of this aircraft type having operated it for over 15 years.

The Embraer E-Jet is one of the most modern regional aircraft available on the market. It is designed to operate in the short-haul, low-cost environment and sets new standards in operating costs, fuel efficiency, environmental performance, and in-flight cabin services. This complements the Q400 which can be utilised on shorter routes.

The ATR72-600 is the newest aircraft in the Flybe fleet and is used for the Swedish SAS White Label operation in Sweden. It is also the current ATR derivative and has many enhanced features which reduce its environmental impact.

Flybe's policy is to continue to commit to a system for managing the environmental impact of its fleet in order to comply with all applicable current legislation and, where practical, seek to meet future legislative requirements ahead of relevant deadlines.

Fuel usage and emissions

The airline has a very strong Flight Efficiency Strategy across all of its fleets which was introduced in 2009 and is continually being updated. The flight efficiency initiatives derived from this strategy are being constantly reviewed to ensure that the consumption of fuel is a major focus. All Flybe crews are aware of these initiatives and they are reinforced through standard operating procedures.

Some of the initiatives that have been successful in reducing fuel burn are:

- Optimal flight planning with accurate fuel predictions for all phases of flight: climb, cruise and descent; and
- Techniques to operate each aircraft to achieve maximum efficiencies which include: calculating and flying most efficient cruise speeds to optimise performance with best fuel consumption; low power/low drag continuous descent approaches; delayed engine start and single-engine taxi on all fleets.

In addition, all the aircraft are now nearly paperless which means no heavy manuals or charts and the ability to use more intuitive information to assist the Flight Efficiency Strategy through the medium of the Electronic Flight Bag.

With all these techniques to hand, which in isolation only provide small efficiencies, given the size of the fleets and the number of rotations per day this soon adds up to operational fuel savings. The reduced fuel burn directly correlates to reduced CO₂ emissions.

Noise

The Q400 and the ATR72 are two of the quietest passenger turboprop aircraft in the world. Inside both, Active Noise and Vibration Suppression systems significantly reduce noise and vibration, making them as quiet and comfortable as a jet. Outside, they are also considerably quieter than jets with a similar number of seats.

Flybe understands that noise from any aircraft can have a major impact on local communities living and working close to airports. It is committed to doing everything it can to ensure the operation of the aircraft fleets is done in such a way to minimise unnecessary noise. This includes ensuring Noise Preferential Routings are flown, the prescribed climb techniques are followed and low power/low drag approaches are practised. The use of auxiliary power units is also assessed to reduce noise at airports. To ensure that Flybe can achieve this, it works very closely with the airport authorities and also the air traffic service providers to ensure the most efficient techniques can be facilitated safely at each airport.

Corporate responsibility continued

Energy Savings Opportunity Scheme ('ESOS')

As part of the EU Energy Efficiency Directive (EED) the UK government introduced the ESOS which is a mandatory scheme for large organisations. The scheme is administered by the Environment Agency and applies throughout the UK and focuses on energy assessment and energy-saving identification.

As part of the scheme Flybe has contracted a third party 'ESOS Energy' which has conducted a two-stage audit of Flybe's energy use and identified opportunities for potential energy saving. These opportunities are being assessed by an in-house team for their potential implementation.

Environmentally-friendly techniques

Management of buildings have incorporated, wherever possible, environmentally-friendly techniques such as rainwater harvesting and a 'living' roof on part of the Flybe Training Academy site. The facility, which is powered by its own combined heat and power unit, uses an eco-friendly ventilation system to heat and cool the building.

Emissions Trading Scheme ('ETS')

Since the introduction of aviation into the European ETS on 1st January 2012, Flybe has complied fully with the requirements of the scheme to submit an independently verified report of its CO₂ emissions and purchase equivalent carbon allowances under the scheme to offset its carbon footprint.

Flybe supports initiatives which provide for an international framework for governing aviation emissions so long as this is consistent with, and not supplementary to, the European ETS. It remains concerned about the imposition of specific aviation taxes, some of which purport to be linked to environmental objectives. Flybe has campaigned for some time for the reform of UK Air Passenger Duty and for the per passenger tax to be replaced with a per plane tax which is linked to aircraft emissions and deployment.

Greenhouse Gas ('GHG') Emissions Report

The directors of Flybe Group plc present the greenhouse gas emissions report for the Group for the year ended 31st March 2017. 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 2015/16 and 2016/17¹

	2016/17 tCO ₂ e	2015/16 tCO ₂ e ²
Scope 1		
Aviation fuel	658,409	551,346
Other fuels	2,480	2,319
Total Scope 1	660,889	553,665
Scope 2		
Electricity - UK	2,032	4,027
Electricity - overseas	-	-
Total Scope 2	2,032	4,027
Scope 3		
Water supply and waste disposal	17	67
Business travel air/car	402	457
Total Scope 3	419	524
Gross and net emissions	663,340	558,216

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 tCO₂e 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 CO₂.

Specific exclusions:

→ Emissions from air conditioning and refrigeration units in office buildings excluded due to unavailable data. These are estimated to account for less than 0.5% of total of Scope 1 emissions.

→ Emissions from taxi, bus and rail business travel are excluded due to unavailable 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 2016/17, the Group's total emissions per passenger kilometre were 149.4 g/km (2015/16: 144.9 g/km) due to the reduction in load factor in 2016/17.

CORPORATE GOVERNANCE

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Chairman's statement on corporate governance



"High standards of corporate governance play an important role in setting the right culture and ultimately in delivering value to shareholders."

Dear Shareholder,

We believe that high standards of corporate governance play an important role in assisting a company 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 250, Flybe governs itself in line with the governance recommendations and requirements for those companies. This includes all directors submitting themselves for re-election at the 2017 Annual General Meeting (the 'AGM').

The Board has once again reviewed its own structure and performance. We continue to believe that a small well-balanced Board, with a high quality management team and a majority of committed, diverse, informed and energetic Non-Executive Directors, is the most effective leadership team for this Company. We expect all Board members to contribute to general discussion and strategy, as well as bringing specialist knowledge and experience.

Last year's Board evaluation suggested that the Board would benefit from more diversity, particularly another female member, as well as more marketing and IT experience. A search was started but did not succeed in identifying a suitable candidate. Meanwhile the recruitment of Christine Ourmieres-Widener as CEO has, in the opinion of the Board, satisfied this need. The Board will continue to review its composition to ensure that we have the right composition for the business for the future.

Following a selection process, in May 2017 an external consultant, Radojka Miljevic (who has no other connection with Flybe) of Campbell Tickell, was appointed to conduct a full board and committee effectiveness evaluation. Initially this was scheduled for early 2017, but the change of Chief Executive Officer meant that the process was put on hold pending Christine's appointment. The evaluation will be conducted over the Summer and will include reviews of each director's performance as well as a review of how the Board works as a whole.

We will continue to review our remuneration policies in the light of best practice and our shareholders' views. Changes to our remuneration are listed in full in the Directors' Remuneration Report.

All shareholders are very much encouraged to attend the AGM in July where the directors will be available to meet shareholders directly and to discuss any matters of importance to them. Additional materials such as annual and interim reports, results and other announcements are available via Flybe's website at www.flybe.com/corporate/investors.

Simon Laffin
Non-Executive Chairman
7th June 2017

Board of Directors

Executive Directors



Christine Ourmieres-Widener
Chief Executive Officer
(aged 52)



Philip de Klerk
Chief Financial Officer
(aged 49)

Non-Executive Directors



Simon Laffin
Non-Executive Chairman
(aged 58)



Appointed 4th November 2013

Appointed 16th January 2017

Christine Ourmieres-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 CEO in January 2017. Christine has a Masters in Aeronautics from the École Nationale Supérieure de Mécanique et d'Aérotechnique (ENSMA) and an MBA from ESSEC Business School.

Appointed 19th August 2014

Philip de Klerk joined Flybe from SABMiller, where he was Global Head of Financial Planning and Analysis and Finance Director of the Business Capabilities Programme and Global Finance Business Partner for Technical, Marketing and IT. Prior to this he was Chief Financial Officer of Ineos Olefins & Polymers Europe and spent 16 years at Unilever in a variety of finance roles in a number of countries including Benelux and Switzerland. Philip has Masters degrees in Business Economics (Rotterdam) and Law (Heerlen). He has tendered his resignation and will be leaving Flybe and the Board in September 2017.

Following the departure of the previous Chief Executive Officer, Saad Hammad on 26th October 2016, Simon Laffin acted as Executive Chairman, until the new Chief Executive Officer, Christine Ourmieres-Widener was in situ. Simon returned to his Non-Executive role on 20th January 2017.

Directors who served but resigned during the period:

→ Saad Hammad – Chief Executive Officer – resigned 26th October 2016

Key

- A** Audit Committee
- N** Nomination Committee

- R** Remuneration Committee
- S** Safety & Security Committee

Committee Chair



Sir Timothy (Timo) Anderson
Independent Non-Executive Director
(aged 60)



Appointed 1st May 2014



David Kappler
Senior Independent
Non-Executive Director (aged 70)



Appointed 3rd March 2015



Elizabeth McMeikan
Independent Non-Executive
Director (aged 55)



Appointed 1st August 2014

Sir Timo Anderson provides management consultancy services to corporate and government clients in the Aerospace, Defence and Security sector. He established the UK Military Aviation Authority (the body responsible for 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, going on to hold senior command appointments. Sir Timo chairs the Safety and Security Committee. He also sits on the Nomination, Remuneration and Audit Committees.

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 Senior Independent Director and Chair of the Audit Committee. He is also a member of the Remuneration and Nomination Committees.

Elizabeth McMeikan is the Senior Independent Director at JD Wetherspoon plc and chairs the Remuneration Committee at Unite Group plc. Elizabeth is also a Non-Executive Director at Fresca Group, a £365m private business, Chairman of the Moat Housing Association, Non-Executive Director at CH&Co Group, a £200m private company, and a director 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.

Board structure

Board balance

- | | |
|-------------------------------------|---|
| Chairman | 1 |
| Executive Directors | 2 |
| Independent Non-Executive Directors | 3 |
| Non-Executive Directors | 4 |

Board diversity

- | | |
|--------|---|
| Male | 4 |
| | |
| Female | 2 |
| | |

Executive Committee



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

1 Christine Ourmieres-Widener

Chief Executive Officer

See page 58 for biography

2 Philip de Klerk

Chief Financial Officer

See page 58 for biography

3 Piers Robinson

Chief People Officer
(aged 47)

Appointed 30th August 2016

Piers Robinson is responsible for Flybe's People and organisational strategy. He has a strong commercial background in consumer-focused businesses and, prior to joining the airline, held several senior HR roles including four years at global market-leading gym chain, Fitness First Group where he was Global HR Director. Piers has also worked as a senior consultant, leading organisation-wide culture change projects with a range of blue chip clients. He has a BA (Hons) in Economic History from the University of Bristol and an MBA from Imperial College Business School, London, where he also spent 10 years as a Visiting Fellow.

4

Luke Farajallah

Chief Operations Officer and Accountable Manager (aged 49)

Appointed 1st 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 Operations General Manager for the UK), Wizz Air, as Chief Operations Officer, and more recently, roles in Spain with Spanair and Volotea.

5

Peter Hauptvogel

Chief Information Officer
(aged 51)

Appointed 1st March 2017

Peter Hauptvogel recently joined Flybe to lead the IT function and to fulfil a critical role in developing the IT platform and building a digital strategy. Peter has over 20 years of operational and IT experience in aviation and he joins Flybe from Thomas Cook Group Airlines where he was IT Director. Prior to that he was Chief Information Officer at Air Berlin.

6

Vincent Hodder

Chief Revenue Officer
(aged 46)

Appointed 2nd December 2015

Vincent Hodder is responsible for driving revenue performance with direct responsibility for network and schedule development and route performance management. He is also responsible for revenue management and pricing. 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.

7

Catherine (Kate) Ledger

General Counsel and Company Secretary (aged 49)

Appointed 4th January 2016

Kate Ledger 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:

→ Saad Hammad, Chief Executive Officer (26th October 2016)

→ Amy Valcik, Chief Sales and Marketing Officer (9th February 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 31st March 2017. The Chairman's Statement on corporate governance on page 57 forms part of this report. An indication of likely future developments of the business is included in the Strategic Report.

Content included in the Strategic Report

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 and cross-referenced. The items included in the Strategic Report are:

Item	Page number
Greenhouse gas emissions	54
Employee engagement	46
Employment of disabled people	46
Diversity policy and reporting	46

Directors and Company Secretary

The directors and company secretary who served during the year are shown on pages 58 to 61.

Dividends

No dividends are declared or proposed for either 2016/17 or 2015/16.

Share capital

Details of the movement in authorised and issued share capital during the year are provided in note 25 to the consolidated financial statements. As at 31st March 2017, the Company's share capital comprised a single class of ordinary share of 1 pence each. The issued share capital of the Company was £2.2m comprising 216,656,776 ordinary shares of 1 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 31st March 2017, 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 with regard to control of the Company.

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.

Annual General Meeting

The Annual General Meeting (the 'AGM') provides the Board with an opportunity to communicate with, and answer questions from, private and institutional shareholders and the majority of the Board will be available at the meeting to answer shareholders' questions. The Chairmen of each of the Board Committees will be available at the Annual General Meeting to answer questions. 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/corporate/investors.

The Company's standard procedure is to ensure that the Notice of AGM and related papers are sent to shareholders at least 20 working days before the meeting.

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 ordinary shares which 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 in connection with 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.

Political donations

Flybe did not make any political donations during the year (2015/16: nil).

Financial instruments

Information about the use of financial instruments by the Group's subsidiary, Flybe Limited, is given in note 33 to the financial statements.

Listing Rule requirements

The directors and company secretary have considered the Listing Rule requirements and none of the disclosures are applicable to the Company for the year ended 31st March 2017.

Substantial interests

On 5th June 2017 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	13.2%	28.5m
Pelham Capital	7.0%	15.1m
UBS Investment Bank	6.9%	14.9m
Wellcome Trust	6.2%	13.5m
Hosking Partners	5.3%	11.6m
T Rowe Price Associates	5.0%	10.9m

Financial calendar

Item	Date
Annual General Meeting	26 th July 2017
Half-year results 2017/18	November 2017
Full-year results 2017/18	June 2018

The dates above are indicative and confirmation will be listed on our website at www.flybe.com and through RNS announcements.

Directors' report continued

Registered office

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

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

Company registrar

Capita Registrars Limited
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU
Telephone: 0871 664 0300
Outside the UK: +44 20 8639 3399

Company number

01373432

Auditor

Deloitte LLP
Rivergate
Temple Quay
Bristol
BS1 6GD

In the case of each of the persons who are directors of the Company at the date when this report is approved:

- (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 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.

Deloitte LLP have expressed their willingness to continue in office as the Company's auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Philip de Clerk
Chief Financial Officer

7th June 2017

Corporate governance

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

This report sets out how the Company applied the principles of the UK Corporate Governance Code issued by the Financial Reporting Council in September 2012 (the 'Code') in the year to 31st March 2017. The Financial Conduct Authority's Listing Rules require the Company to set out how it has applied the main principles of the Code and to explain any non-compliance. A copy of the Code can be found at www.frc.org.uk/corporate/ukcgcode.

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 31st March 2017, and up to the date of approval of this Annual Report, the Board considers that it and the Company have complied with the best practice provisions set out in the Code as it applies to 'smaller companies' other than the one exception detailed in the independence section below.

The following paragraphs explain how the Company has applied the principles of good governance and the code of best practice set out in the Code.

The Board

Structure and leadership

At 31st March 2017 the Board comprised six directors, of whom four are non-executive and two are executive.

Executive Directors

Christine Ourmieres-Widener
Chief Executive Officer
Philip de Clerk
Chief Financial Officer

Non-Executive Directors

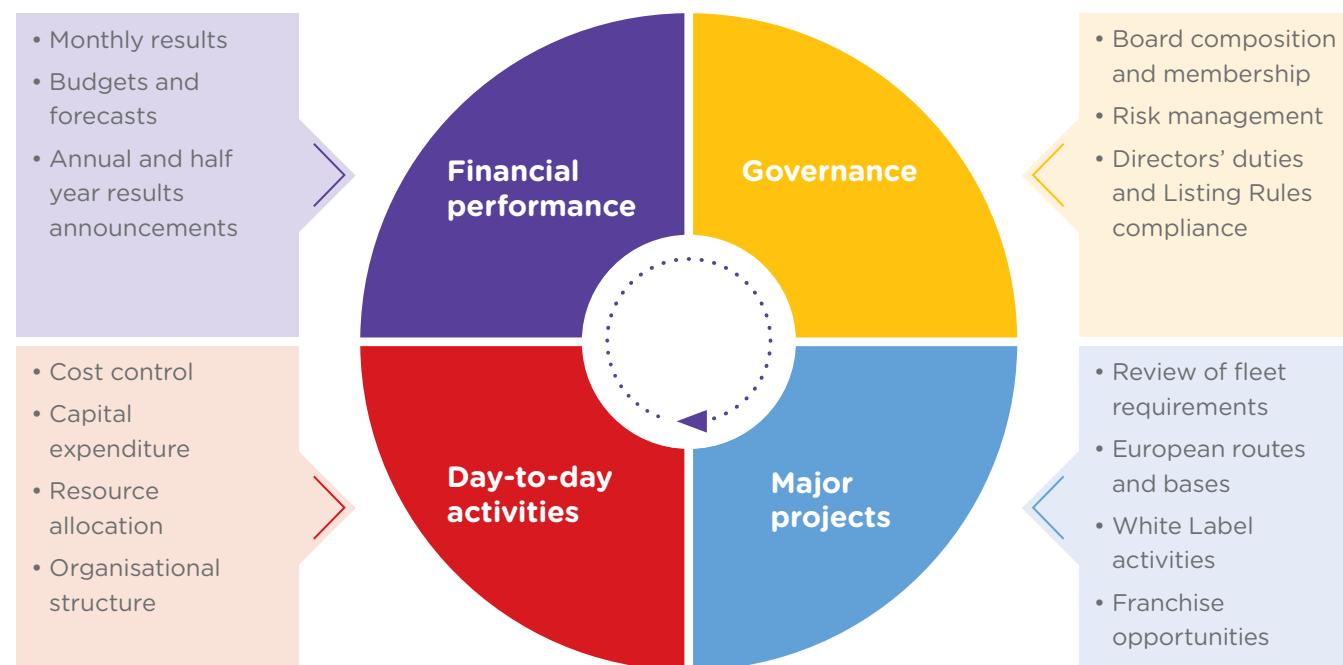
Simon Laffin
Non-Executive Chairman
Sir Timo Anderson
Independent Non-Executive Director
David Kappler
Senior Independent Non-Executive Director
Elizabeth McMeikan
Independent Non-Executive Director

Corporate governance continued

The Board is led by the Chairman, Simon Laffin, who is responsible for ensuring its effectiveness in all aspects of its role. 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. The Chief Executive Officer and the Chief Financial Officer meet regularly with analysts, brokers and key investors. The Chairman and non-executive directors have met key shareholders and the Board receives analyst and broker briefings. The Board has consulted shareholders on remuneration issues. In addition to business and financial issues, the Board of Directors deals with challenges and issues relating to corporate governance, corporate social responsibility and corporate ethics. 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, significant acquisitions and disposals, major non-recurring projects and major capital expenditures.

The directors' biographies appear on pages 58 and 59 and illustrate the range of experience which ensures an effective board to lead and control the Group. Further details of changes to the membership of the Board are given on page 68. We continue to believe that a small well-balanced board, with a high quality management team and a majority of committed, diverse, informed and energetic non-executive directors, is the most effective leadership team for this Company. The directors have a complementary range of financial, commercial, operational and entrepreneurial experience which, in the opinion of the Board, provides it and its committees with the necessary balance of skills, diversity, independence and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively.

The Company has governance procedures in place to ensure that concerns can be raised with the Chairman or the Senior Independent Director. No concerns were raised during the year.



Key activities of the Board

Aside from day-to-day management issues, the Board has focused on:

- Reviewing and developing a five-year strategic business plan, alongside the more immediate Sustainable Business Improvement Plan, and considering the appropriate balance of risk and shareholder returns to determine the long-term direction of Flybe;
- Continuing White Label activity, operating aircraft on routes for SAS and Brussels Airlines;
- With the Loganair franchise ending in August 2017, there has been a strengthening of the relationship with Stobartair including the new commercial agreement announced on 2nd May 2017 to provide two aircraft to Stobart. In addition, the new relationship with Blue Islands has been operating well;
- A review of future fleet requirements was undertaken and the decision made to hand back six Q400 aircraft at the end of their leases in 2017/18;
- IT strategy: with the recruitment of a new Chief Information Officer, there is a focus on developing an integrated digital platform to improve the customer interface and booking experience and improve the resilience and performance of the Company's IT systems;
- Network development strategy;
- People engagement, in particular a new share incentive scheme was launched in September 2016; and
- Safety culture, with a survey and report from industry experts Baines Simmons commissioned and reviewed with changes in the process of implementation.

In addition, the Board supported the management team in its final full year of the three-year turnaround, during which the business gained stability and has moved its focus to an alignment of its fleet capacity with passenger demand.

Operation of the Board

In carrying out its work, the Board focuses on key tasks, which include receiving reports on safety, security and health, business risks, long-term strategy, the Group's trading performance, the work of its Committees and the actions of the Executive Committee and senior management. The Board delegates specific responsibilities, with written terms of reference, to its Committees, details of which appear below. The executive directors of the Company may attend meetings of the Committees at the invitation of the respective Chairmen.

The executive directors review and discuss with the Board all strategic projects and all material matters currently or prospectively affecting the Group and its performance. The Board delegates its authority for executive management to the Chief Executive Officer, who leads the Executive Committee, subject to monitoring by the Board and those items referred to above.

To enable the Board to function effectively, and to assist the directors to discharge their responsibilities, a comprehensive set of papers is provided in advance of each Board and Committee meeting. These include regular business progress reports, budgets, financial statements and business cases for review. The Company Secretary manages the provision of information to the Board in consultation with the Chairman.

The Board held nine 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 and the Remuneration Committee to deal with the circumstances surrounding the resignation of Saad Hammad and the appointment of Christine Ourmieres-Widener.

The Board requires all directors to devote sufficient time to their duties and to use their best endeavours to attend meetings. The table on page 68 details the directors' attendance at the scheduled Board and Committee meetings during the year.

Corporate governance continued

Attendance at Board and Committee meetings

Directors in office as at 31st March 2017

Year ended 31 st March 2017	Board	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Security Committee
Number of scheduled meetings	9	6	3	4	3
Executive Directors					
Christine Ourmieres-Widener	2/2	n/a	n/a	n/a	n/a
Philip de Clerk	9/9	n/a	n/a	n/a	n/a
Non-Executive Directors					
Simon Laffin ¹	9/9	3/3	3/3	4/4	n/a
Sir Timo Anderson	9/9	6/6	3/3	4/4	3/3
David Kappler	9/9	6/6	3/3	4/4	n/a
Elizabeth McMeikan	9/9	6/6	3/3	4/4	3/3

Former Director who served during the year

Year ended 31 st March 2017	Board	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Security Committee
Executive Director					
Saad Hammad	5/5	n/a	2/2	n/a	n/a

¹ Simon Laffin stood down from the Audit Committee when he became Executive Chairman and was not reinstated once the executive role came to an end.

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

Independence

The Board considers each of its non-executive directors to be independent in character and judgement and no one individual, or group of individuals, dominates the Board's decision-making.

Each of the non-executive directors who served during the year has been identified as independent on the basis of the criteria specified in paragraph A.3.1 of the Code and, generally, is free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

Following the departure of the previous Chief Executive Officer, Saad Hammad on 26th October 2016, Simon Laffin acted as Executive Chairman, until the new Chief Executive Officer, Christine Ourmieres-Widener was in situ. Simon Laffin returned to his Non-Executive role on 20th January 2017. It was appreciated that combining the roles of the Chairman and CEO is not in line with governance best practice (paragraph A.2.1 of the Code), but it was believed to be in the best interests of the Company to have the interim period overseen by someone who was already very familiar with the Company and could therefore act as a caretaker for the period until a new CEO was appointed.

Diversity

All recruitment for the Board is led by the Nomination Committee. There has been the appointment of a new Chief Executive Officer this year, and now a third of the Company's directors are women. 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 as a whole is given on page 47.

Conflicts of interest

In accordance with the Companies Act 2006, 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 established 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.

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.

Matters reserved for the Board

The Board has approved a 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. The matters reserved for specific approval by the Board can be subdivided into a number of key areas including but not limited to:

- Reviewing the Group's overall safety and security arrangements;
- Approving the Group's long-term objectives and strategy;
- Approving the Group's annual operating and capital expenditure budget;
- Group financial reporting and controls including the approval of interim and final financial statements, trading statements and dividends;
- Ensuring a sound system of internal controls and risk management;
- Identifying, evaluating and managing the principal risks faced by the Company;
- Decisions relating to acquisitions, disposals and major items of capital expenditure;
- Board and Committee membership and succession planning;
- Remuneration;
- Corporate governance matters; and
- Approving certain Group policies including tax and treasury.

Matters requiring Board approval are generally the subject of a proposal by the executive directors submitted to the Board, together with supporting information, as part of the Board or Committee papers circulated prior to the relevant meeting.

Corporate governance continued

Board performance and evaluation

The Board supports the Code's provisions on Board performance evaluation. A self-evaluation of the Board took place in 2015/16 assisted by an external consultant, who conducted interviews with all of the directors. A full Board evaluation by an external consultant is currently underway with an expectation that it will report back to the Board in Summer 2017. The non-executive directors meet regularly without the executive directors present. The Senior Independent Director received informal feedback on the performance of the Chairman and discussed that with him. A formal performance evaluation was not carried out due to the scheduled full board effectiveness review that is taking place Summer 2017 and which includes a section on the Chairman's performance.

Induction and continuing development of directors

Christine Ourmieres-Widener was appointed to the Board during the year. Her induction included meetings with key external stakeholders, including major shareholders, trade bodies, regulators, brokers, airports, suppliers and franchise partners. Within Flybe, Christine has visited a number of bases and met with employee and union representatives. The Chairman and Chief Executive Officer are responsible for reviewing the development needs of individual directors. All of the non-executive directors have, during the course of the year, received updates on best practice, as well as more formal training sessions on directors' duties, disclosure obligations and share dealing compliance, as well as bringing knowledge and information gathered from their other business interests.

All directors have access to the advice and services of the Company Secretary who is responsible to the Chairman on matters of corporate governance and provides the Board with updates on relevant legislation, regulations and governance best practice. The directors may, at the Company's expense, take independent professional advice where necessary and appropriate to do so.

Directors' election and re-election

All directors will retire at the forthcoming AGM and, being eligible, will offer themselves for re-election. A biography for each of these directors, together with a description of the skills and experience they possess that the Company considers relevant, will be included in the proposals put to shareholders at the 2017 AGM.

None of the non-executive directors has served more than nine years in office.

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 fulfil their duties to the Company. The Board is satisfied that all of 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.

Operational management of the Group

Beneath the Board there is in place a clear and appropriate apportionment of responsibilities among the senior managers designed to ensure that the business can be managed and monitored effectively. Senior managers report to the Executive Committee which in turn reports to the Board. The Executive Committee is led by the Chief Executive Officer and comprises the Executive Directors together with the Chief Operations Officer, Chief Revenue Officer, Chief People Officer, Chief Information Officer and the General Counsel and Company Secretary. It has responsibility for implementing on a day-to-day basis the strategy that has been agreed by the Board. Executive Committee members report regularly to the Board on key issues. The management structure of the Company as at 31st March 2017 was as below:

Group Board Chaired by Simon Laffin					
Executive Committee Chaired by Christine Ourmieres-Widener					
Operations	Revenue	Finance	People	IT	Legal
Luke Farajallah	Vincent Hodder	Philip de Klerk	Piers Robinson	Peter Hauptvogel	Catherine Ledger

Board Committees

In accordance with the principles laid down in the Code, the Board has established a committee structure to assist in the discharge of its responsibilities. Details of each of the Audit, Remuneration, Nomination, and Safety and Security Committees, and the members, roles and activities thereof are detailed below. Each committee reports to, and has terms of reference approved by, the Board, which are available for review on Flybe's website at www.flybe.com/corporate/governance or on request from the Company Secretary. The minutes of the meetings of the committees, where appropriate, are circulated to, and reviewed by, the Board. Biographies of each Board member are set out on pages 58 and 59.

Audit Committee

The role 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, and to maintain an appropriate relationship with the Company's auditor.

The Audit Committee conducts regular reviews of the adequacy and effectiveness of the Company's risk management systems and internal control systems, including a detailed evaluation of the risk register and internal audit's assurance plans, all internal audit reports and the plans dealing with information security and business continuity.

Membership of the Committee as at 31st March 2017:

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

David Kappler, a Chartered Accountant, chaired the Audit Committee throughout the year. The Board considers he has the appropriate recent and relevant experience to enable him to fulfil this role. The Board is satisfied that the members of the Audit Committee are those who are best able to contribute to its objectives. Members of the Audit Committee can, where they judge it necessary to discharge their responsibilities, obtain independent professional advice at the Company's expense.

Corporate governance continued

Membership changes

Simon Laffin resigned during the year, when he became Executive Chairman, and given his role as Non-Executive Chairman, has not sought re-appointment, but still attends the Committee meetings as a guest.

The Committee held six scheduled meetings during the year. Meeting attendance is detailed on page 68.

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.

Further details including the main activities during the year can be found in the Audit Committee Report on pages 74 to 78.

Remuneration Committee

The Remuneration Committee's purpose is to advise the Board and make recommendations to it about all elements of the remuneration packages of the executive directors, Company Secretary and the Chair of the Board and to consult, with the CEO, on the remuneration of Executive Committee members. Any major changes in employee benefit structures throughout the Group are also considered by the Committee.

Membership of the Committee as at 31st March 2017:

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

The Remuneration Committee may request relevant executive directors and senior management to attend meetings by invitation. During the year under review, the Committee received material assistance from the Chief Executive Officer and the Chief People Officer. No director is involved in decisions relating to their personal remuneration package.

Membership changes

Simon Laffin stepped down from the Committee when he was appointed Executive Chairman and was re-appointed in January 2017 when he ceased his Executive role.

The Committee held four scheduled meetings during the year. Meeting attendance is detailed on page 68.

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.

The Committee carries out duties for the Company, major subsidiary undertakings and the Group as a whole, as appropriate.

The Chief Executive Officer also consults with the Chairman of the Committee on the levels of remuneration of members of the Executive Committee, other than the Executive Directors and the Company Secretary.

The Remuneration Committee and the Group also received advice from FIT Remuneration Consultants, a firm of independent remuneration consultants who did not provide any other services to the Group.

Further details including the Group's compliance with the provisions of the Code relating to directors' remuneration and the main activities during the year can be found in the Directors' remuneration report on pages 79 to 100.

Nomination Committee

The Nomination Committee's purpose is to establish a formal, rigorous and transparent procedure for the appointment of new directors to the Board.

Membership of the Committee as at 31st March 2017:

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

The Nomination Committee complies with the Code recommendations that the majority of members of the Nomination Committee should be independent non-executive directors. Throughout the period the Nomination Committee has included Elizabeth McMeikan, Sir Timo Anderson and David Kappler, who are all independent non-executive directors. The Board is satisfied that the members of the Nomination Committee are those who are best able to contribute to its objectives.

Membership changes

Saad Hammad was a member of the Nomination Committee until his resignation as a director during the period.

The Committee held three scheduled meetings during the year. Meeting attendance is detailed on page 68.

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.

Main activities during the year

- Considering the possible addition of a Non-Executive Director (no appointment made);
- Reviewing succession planning for the Board; and
- Handling the recruitment of the new Chief Executive Officer. The recruitment of the new Chief Executive Officer was handled by Odgers Berndtson, who are not connected to Flybe and who conducted a thorough independent review of the market. Christine Ourmieres-Widener was selected from the candidates proposed following a detailed selection process.

Appointments

The terms and conditions of appointment of all of the non-executive directors are available for inspection at the Company's registered office during normal business hours, 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 derived from involvement in Board Committees. Details of other material commitments are disclosed to the Board and a register is maintained by the Company Secretary.

Safety and Security Committee

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 31st March 2017:

- Sir Timo Anderson (Committee Chairman)
- Elizabeth McMeikan

The CEO has a permanent invitation to attend meetings and the Accountable Managers and individual post-holders are requested to attend as required.

The Committee held three scheduled meetings during the year. In addition, as the fourth scheduled meeting did not take place, papers were instead circulated out-of-committee and the Committee provided correspondence responses. Meeting attendance is detailed on page 68.

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.

Main activities during the year

- Oversight of the appointment of Baines Simmons to conduct a safety diagnostic of the Company and reviewing the outcome;
- Reviewing and questioning the reports of the safety post-holders;
- Understanding more about the interaction with the CAA and the outcomes of the CAA audits; and
- A focus on pilot experience levels and peer support.

Audit Committee report



David Kappeler
Chairman, Audit Committee

Dear Shareholder,

The Audit Committee has been particularly focused during the year on reviewing risk management effectiveness, financial and operational controls of the Group and audit effectiveness.

Role

The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities. This includes reviewing the financial reports and other financial information before publication. In addition, the Committee also reviews the systems of internal controls on a continuing basis, with respect to finance, accounting, risk management, compliance, fraud and audit that management and the Board have established.

The Committee also reviews the accounting and financial reporting processes; along with the roles and effectiveness of both the internal and external auditors. The ultimate responsibility for reviewing and approving the annual and other accounts remains with the Board.

Working with the internal audit function the Committee challenges and reviews the controls within the organisation, ensuring that any control issues are actioned through the risk management process. This risk management process is reviewed by the Committee ensuring that the risks are identified, accurately assessed and effectively managed through a robust risk assessment process.

Responsibilities

The responsibilities of the Audit Committee, further details of which can be found in its terms of reference at www.flybe.com/corporate/governance include monitoring and reviewing:

- The integrity of the Group's financial statements and any formal announcements relating to Flybe's performance;
- Management's response to any major external or internal audit recommendations;
- The effectiveness of the Group's internal financial and operational controls and risk management systems;
- The effectiveness of the external audit process including their independence, objectivity and cost - see Auditor Independence on page 78;

- Policy on the engagement of the external auditor to supply non-audit services;
- Key areas of risk management to support the Board's role in overseeing an enterprise-wide approach to risk identification, management and mitigation; and
- The effectiveness of communication between the external auditor and both the Audit Committee and the Group's financial and senior management.

The Audit Committee undertakes its activities in line with an annual work plan designed to ensure that it meets its responsibilities under its terms of reference set by the Board. The Audit Committee agrees the scope of the external audit work and discusses the results of the half-year review and the full-year audit with the external auditor, the Chief Financial Officer and Chief Executive Officer. The ultimate responsibility for reviewing and approving the annual and other accounts remains with the Board; however, the Audit Committee reviews these documents and discusses them with the Chief Executive and Chief Financial Officers, particularly areas where there is subjectivity or the application of judgement, before making recommendations to the Board.

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

Membership and attendees

The Audit Committee met on six occasions during 2016/17. Details of the attendance at its meetings are set out in the table on page 68.

During the year Simon Laffin stepped down from the Committee upon taking up the role of Executive Chairman. Simon will not be re-joining the Committee despite now moving back to Non-Executive Chairman in order to maintain good Corporate Governance practices.

The Chief Executive Officer, Chief Financial Officer, Group Financial Controller, Head of Internal Audit and Risk and representatives from the external auditor are invited to attend all meetings of the Audit Committee. Since stepping down from the Audit Committee,

Simon Laffin has been invited to attend all Committee meetings. The external auditor has a private session with the Committee at the end of each meeting.

The Head of Internal Audit and Risk and the external auditor may also request a meeting with the Audit Committee Chair or any other members.

Main activities of the Committee during the year

During the year the Audit Committee's business has included the following items:

- Reviewing trading updates and interim management statements;
- Reviewing the effectiveness and terms of reference of the Committee;
- Monitoring and reviewing the integrity of financial reporting, including reviewing the Annual Report and related formal announcements ensuring that they are fair, balanced and understandable;
- Principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditor;
- Monitoring external audit plans, audit papers and the statutory audit of the Annual Report and consolidated accounts;
- Monitoring the independence of the statutory auditor, and in particular the provision of additional services;
- Responsibility for setting the remuneration of the external auditor;
- Reviewing reports from the Head of Internal Audit and Risk;
- Monitoring internal audit including the approval of the annual Internal Audit and Risk Plan;
- Risk management and mitigation reviews;
- Reviewing internal controls, policies and procedures;
- Review of compliance with the Bribery Act 2010;
- Approval of the Treasury Policy;
- Reviewing changes in accounting policy;
- Reviewing the deferred tax position; and
- Reviewing the changes to Corporate Governance.

Audit Committee report continued

Review of the Annual Report

The Committee examined, at the request of the Board, the Annual Report to determine whether it was fair, balanced and understandable. The Committee did this by gaining an understanding of the drafting and preparation process and the level of review and challenge introduced to ensure balance and accuracy. After its review of the process, consideration of management and auditor papers on the financial statements and the Annual Report and its own review of the Annual Report, the Audit Committee concluded that the Annual Report was fair, balanced and understandable and recommended that the Board approve it on those terms.

Review of business risk and its reporting in the financial statements

The principal risks and uncertainties facing the business are discussed on pages 36 to 41. The Board has responsibility for determining the nature and extent of the risks it is willing to take in achieving its strategic objectives and for oversight of the risk management process. Flybe has used the experience gained over many years to develop structures and processes to identify, evaluate, manage and report on the significant risks faced by the Group. These structures and processes, which are embedded within Flybe's operations, have been in place throughout the year and up to the date of approval of this Annual Report. The Board is satisfied that these structures and processes ensure that risks are adequately and appropriately addressed and corrective actions taken.

A process of Risk Management Self-Assessment has been introduced, where management responsible for the risk report on the effectiveness and operation of mitigating controls. Risks are formally self-assessed on a quarterly basis. This, in addition to Risk Assessment workshops and regular reviews and updates by the Board and Audit Committee ensure a robust framework of risk management is maintained. The purpose of these workshops has been to review enterprise-wide the likely risks to business objectives so that the Board can update its understanding of how well risks are understood and managed. The findings are recorded in a risk register along with their potential impact, the mitigations and controls currently in place, and recommendations, where possible, for risk reduction.

The Audit Committee and the Board review the risk register at half-year and year-end and will do so more frequently if necessary. The principal risks identified are robustly assessed by the Committee and any issues are challenged back to management through the Head of Internal Audit and Risk.

In addition to the work of this Committee, the Safety and Security Committee chaired by an independent Non-Executive Director meets at least quarterly to review the Group's safety performance.

Risks identified

The Committee assesses whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements at both the half and full years. The Committee also reviews reports by the external auditor on the half-year and full-year results which highlight any issues that have arisen as a result of their work.

Regarding the financial statements the Committee considered the following significant issues:

- The basis for the write-off of intangible assets totalling £4.3m plus £0.5m of accelerated amortisation on an identified group of intangible assets where the useful economic life has been reduced due to the planned implementation of a digital platform;
- How Flybe should account for its deferred tax position. Advice has been sought on this and recommendations were made in relation to the governing rule in IAS 12;
- Hedging conditions for both fuel and currency reviewing the fundamentals of the accounting of such hedges under IFRS 9;
- Future impacts to the financial statements on the forthcoming adoption of IFRS 15 and IFRS 16 (see note 2); and
- Maintenance provisions have been reviewed and remain unchanged.

The Committee is satisfied that the judgements made by management are reasonable, and that appropriate disclosures have been included in the accounts.

The significant other issues considered in the year are detailed below, while the wider set of risks that impact on the business are shown on pages 36 to 41:

- The Committee regularly reviewed the progress of the back-office system transformation project. In doing so any risks associated with the implementation of the new systems were considered and fed back to the project team for consideration;
- There was discussion by the Committee of the accounting treatment of the material fleet movements during 2017/18;
- Information security remains in constant focus for the Committee. During the year plans have commenced in preparation for the changing data protection laws through the EU General Data Protection Regulations; and
- The Committee has considered the risks which could affect the business following the UK vote to leave the EU and the subsequent triggering of Article 50.

Internal audit

Internal audit is independent of business operations, undertaking an ongoing programme 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 Committee approved the annual Internal Audit and Risk Plan, designed to provide effective risk-based coverage over the internal control environment, for the coming year.

The Audit Committee has made the decision to co-source the Internal Audit and Risk Management function, which is currently performed in-house. It is felt that external providers will provide access to specialists, use best practices and offer resource flexibility. They will be truly independent and will have tools, processes and people specialised in the Internal Audit and Risk Management functions. With the risk profile of Flybe and the limited number of qualified resources, it seemed an opportune point to proceed with this strategy. This will be implemented during 2017/18.

External audit process

The Audit Committee considers the report prepared by Deloitte LLP highlighting any matters identified in the course of its statutory audit work, which is reviewed by the Audit Committee in the presence of Deloitte LLP, the Chief Executive Officer, the Chief Financial Officer and the Head of Internal Audit and Risk.

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

- External auditor papers detailing their audit plans as well as the results of their full-year audit and half-year review which includes papers on critical judgements and estimates, risk and internal control; and
- The independence and effectiveness of the external audit itself.

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.

As a result of its reviews, the Audit Committee was able to recommend the re-appointment of Deloitte LLP to the Board.

Audit Committee report continued

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. In 2016/17, the external auditor has also provided advice to the Company in relation to the triennial valuation of the defined benefit pension scheme. In order to ensure that auditor objectivity and independence are safeguarded, the following controls have been implemented:

- (a) 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.

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.

- (b) 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.

- (c) 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.

We believe the independence and objectivity of the external auditor and the effectiveness of the audit process are safeguarded and remain strong.

Auditor rotation

Deloitte LLP audited the Annual Report and accounts for the first time for the year ended March 2007 and as a plc for the year ended March 2011. Under EU audit reform legislation, companies are required to have a mandatory rotation of auditors after 10 years from listing, or 20 years if there is a compulsory retender at 10 years.

Audit fees – non-audit services

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

	2015/16 actuals £000	2016/17 estimate £000
Audit fees (A)	354	326
Other non-audit services (B)	73	67
	427	393
Percentage (B/A)	20.6%	20.4%

Other non-audit services relate to all other services provided by the auditor. Other fees include defined benefit pension scheme consultancy and compliance services.

David Kappler

Chairman, Audit Committee

7th June 2017

Directors' remuneration

Committee Chairman's letter



Elizabeth McMeikan
Chairman, Remuneration Committee

Dear Shareholder,

I am pleased to introduce this year's Remuneration Report.

Having obtained shareholder approval for a revised remuneration policy at the 2015 AGM, we do not propose making any further changes to the policy this year. A full summary of the current policy is appended to this report, with an 'at a glance' summary of the policy and how it is currently being implemented set out on page 81.

It has been another challenging year for Flybe, with external pressures – including a highly competitive market and fragile consumer confidence – together with legacy fleet deliveries resulting in a growing fleet size, the completion of the transformation programme and the change in executive leadership of the business. This provided the backdrop to the considerations of the Committee during the course of the year.

Key Committee activities during the year

In January 2017, Christine Ourmieres-Widener became CEO. We were very pleased to secure Christine as our new CEO. She brings extensive experience of aviation and travel, as well as a deep knowledge of the UK regional aviation market, which will be extremely valuable to Flybe. Key details of Christine's remuneration package on her appointment (which is lower in terms of quantum than Saad Hammad's package) are:

- Base salary - £400,000
- Pension - 10% of salary
- Annual bonus - 100% of salary maximum (pro-rated in 2016/17 to reflect her appointment part-way through that year)
- PSP - 150% of salary award for 2016/17 and 2017/18, with the intention that this award level will be reviewed in 2018/19
- Relocation allowance - £120,000, repayable in full/part if Christine serves notice within two years. Christine is also responsible for the tax payable on this allowance

Directors' remuneration continued

Christine's appointment followed Saad Hammad stepping down from the Board. Saad's termination arrangements, which were in line with our policy and which were disclosed at the time, are set out in detail on page 84.

During the period between Saad stepping down from the Board and Christine assuming the role as CEO, Simon Laffin acted as Executive Chairman. To reflect the additional time commitment required of Simon, he received a supplementary fee of £34,629 which was in addition to his standard Chairman's fee of £153,000 p.a.

Other Committee activities during the year included:

- Determining the then incumbent executive directors' base salary levels for 2016/17 – Saad Hammad and Philip de Klerk received a base salary increase of 2% at the start of the last financial year;
- Setting the executive directors' bonus targets for 2016/17 – these were a mix of profit before tax and personal targets on a 70:30 weighting as explained more fully below;
- Overseeing the 2016/17 Performance Share Plan awards – also as reported last year, awards over shares worth 150% of salary were granted (albeit using a higher share price than at the date of grant, thereby reducing the number of shares over which awards were made), with vesting subject to challenging adjusted EPS and relative TSR targets; and
- Determining that the award made on Saad Hammad's recruitment in August 2013 lapsed due to the performance conditions not being satisfied.

Since the year-end, the Committee has:

- Set Christine Oumieres-Widener's base salary for 2017/18 which will be unchanged from last year (i.e. £400,000);
- Determined performance against the targets set under the 2016/17 annual bonus plan. Based on performance in 2016/17, no bonuses will be payable;
- Set the performance targets to apply to Christine's 2017/18 annual bonus opportunity of 100% of salary which will contain a mix of PBT and personal targets on a 70:30 weighting and are subject to (i) an aviation safety event underpin and (ii) positive adjusted PBT being delivered (following the payment of bonuses);
- Agreed to make a further grant under the PSP in 2017/18 to Christine over shares worth 150% of salary. As was the case last year, these awards will vest subject to a mix of challenging relative TSR and EPS targets described more fully later in this report; and
- Agreed the termination arrangements for Philip de Klerk following the announcement of his resignation in April (further details of which are set out on page 84). The process to appoint Philip's successor is ongoing.

Our policy and its implementation 'at a glance'

Feature	Our approach
Base salary	We take 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 of similar sector and size to Flybe. 2017/18 salaries will remain unchanged from their 2016/17 levels:
Christine Ourmieres-Widener	£400,000
Philip de Klerk*	£290,700
Pension/benefits	Standard range of benefits. Pension provided primarily via cash contributions in lieu of formal pension:
Christine Ourmieres-Widener	10% of salary
Philip de Klerk*	11% of salary
Annual bonus	Bonuses payable based on performance against a blend of stretching financial and personal/strategic targets. Policy maximum bonus is 150% of salary. Actual maximum bonus opportunities are:
Christine Ourmieres-Widener	100% of salary
Philip de Klerk*	No bonus opportunity for 2017/18
	Clawback provisions apply.
Long-term incentives	Provided via a Performance Share Plan. Regular annual grants made over shares worth up to 150% of salary. Awards for 2017/18 are:
Christine Ourmieres-Widener	150% of salary
Philip de Klerk*	No PSP award to be made in 2017/18
	Awards vest subject to stretching targets measured over three years. 2017/18 targets are a blend of EPS and relative TSR.
	Two year post-vesting holding period applies.
	Malus provisions apply.

* Philip de Klerk has resigned and is serving notice.

The Committee welcomes, and carefully considers, feedback from shareholders. We were happy to receive strong levels of support for the resolution approving the Annual Report on Remuneration at last year's AGM, with over 97% of votes cast in favour. We hope this support will continue. However, should you wish to contact me with any comments on our approach to executive remuneration, please feel free to email me at liz.mcmeikan@flybe.com.

On behalf of the Remuneration Committee and the Board

Elizabeth McMeikan

Chairman Remuneration Committee

7th June 2017

Directors' remuneration continued

Annual Report on Remuneration

This Annual Report on Remuneration, which has been approved by the Board, has been prepared in compliance with the Listing Rules, the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 (the 'Regulations').

In accordance with the Regulations, the following sections of this Report are subject to audit: the single total figure of remuneration for directors and notes (page 83), scheme interests awarded during the financial year (pages 87 to 90), payments to past directors (page 84), payments for loss of office (page 84) and the statement of directors' shareholdings and share interests (page 86). The remaining sections of the report are not subject to audit.

At our 2017 AGM we will be holding an advisory vote on this Annual Report on Remuneration.

Remuneration Committee membership in the year ended 31st March 2017

The Committee's purpose is to advise the Board and make recommendations to it about all elements of the remuneration packages of the Executive Directors and other members of senior management as it is designated to consider, including any major changes in employee benefit structures throughout the Group. The Committee's terms of reference are available on the Flybe website. The Group complied with the provisions of the Code relating to directors' remuneration throughout the financial year.

The current members of the Committee are:

- Liz McMeikan (Committee Chair from 1st August 2014)
- Sir Timo Anderson (from 1st May 2014)
- David Kappler (from 3rd March 2015)
- Simon Laffin (from 4th November 2013, albeit with Simon not being a member of the Committee while he fulfilled the role of Executive Chairman)

The Committee meets at least twice each year and may request relevant Executive Directors and senior management to attend meetings by invitation. During the year under review the Committee received material assistance and advice from the Chief Executive Officer and the Chief People Officer. No individual is involved in decisions relating to their personal remuneration package.

During the year under review the Committee met on four occasions (meeting attendance is detailed on page 68) to consider, and agree, among other matters the items set out on page 89.

Advisers

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.

In 2016/17 FIT provided independent advice and data in connection with the remuneration of the Executive Directors and the drafting of this Directors' Remuneration Report. FIT do not advise the Company on any other issues other than remuneration and are considered independent by the Committee. Their total fees (excluding expenses and VAT) for the provision of remuneration services to the Committee in 2016/17 were £67,028 (such fees being charged in accordance with FIT's standard terms of business).

During the year, Ashfords LLP and CMS Cameron McKenna Nabarro Olswang LLP provided advice on legal issues related to share scheme matters.

Summary of shareholder voting at the 2016 AGM

The following table shows the results of the advisory vote on the 2015/16 Annual Report on Remuneration at the 2016 Annual General Meeting:

	Total number of votes	% of votes cast
For (including discretionary)	123,421,430	97.1
Against	3,633,426	2.9
Total votes cast	127,054,856	n/a
Votes withheld	14,648	n/a
Total votes cast	127,069,504	n/a

Single total figure of remuneration for Directors

The table below sets out a single figure for the total remuneration received by each Executive and Non-Executive Director for the year ended 31st March 2017 and the prior year:

	Year	Base salary/fees ⁵	Taxable benefits ⁶	Annual bonus ⁷	PSP	Pension	Total
Executive Directors							
Christine Ourmieres-Widener	2016/17	84,848	120,162	-	-	8,513	213,523
Saad Hammad ¹	2016/17	433,600	48,265	-	-	57,140	539,005
Saad Hammad	2015/16	425,000	76,046	518,635	-	56,019	1,075,700
Philip de Klerk ²	2016/17	290,750	14,267	-	-	29,193	334,210
Philip de Klerk	2015/16	285,000	11,993	228,342	-	31,350	556,685
Non-Executive Directors							
Simon Laffin ³	2016/17	187,629					187,629
Simon Laffin	2015/16	150,000					150,000
Sir Timo Anderson	2016/17	49,000					49,000
Sir Timo Anderson	2015/16	48,000					48,000
David Kappler	2016/17	57,000					57,000
David Kappler	2015/16	53,526					53,526
Liz McMeikan	2016/17	49,000					49,000
Liz McMeikan	2015/16	48,000					48,000
Charlie Scott ⁴	2015/16	19,402					19,402

1 Saad Hammad left the Board on 26th October 2016. As explained on page 84, Saad will continue to receive his salary and other benefits until 25th October 2017.

2 Philip de Klerk's resignation was announced on 18th April 2017. Details of his termination arrangements can be found on page 84.

3 Simon Laffin fulfilled the role of Executive Chairman for a period following the departure of Saad Hammad 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.

4 Charlie Scott stepped down from the Board on 21st July 2015.

5 Base salary includes a loyalty increment of £100 for Saad Hammad and £50 for Philip de Klerk.

6 Taxable benefits comprise private health care, life assurance, permanent health insurance, car allowance, and (in the case of Saad Hammad) driver and tax on certain of such benefits. In addition Christine Ourmieres-Widener received a relocation payment of £120,000 relating to her recruitment. This payment is repayable in full if Christine serves notice to terminate her employment within six months of commencement (i.e. 16th January 2017), 75% if she serves 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 allowance excluding the tax-free amount of £8,000.

7 As explained on page 89, the annual bonus outturn for performance during the 2016/17 year was £Nil. The figure for 2015/16 includes the value of the portion of this bonus that was paid in deferred shares on a 'one-off' basis.

The aggregate emoluments (being salaries/fees, benefits, cash allowances in lieu of pension contributions and annual bonuses) of all directors for the 2016/17 year was £1,429,347 (2015/16: £1,951,313).

Directors' remuneration continued

2016/17 annual bonus

For the year ended 31st March 2017, the annual bonus opportunity for Christine Ourmieres-Widener was 100% of salary (pro-rated to reflect her appointment part-way through that year), with Philip de Klerk's annual bonus opportunity also 100% of salary. Bonuses were payable dependent on a mixture of financial targets based on adjusted PBT performance (70% of opportunity) and personal objectives (30%) based on the strategic priorities. The PBT targets, and related potential bonus payouts, were as follows (with straight-line payouts between each hurdle):

2016/17 adjusted PBT	% of element of bonus that pays out
Less than £10m	0%
£10m	0%
£15m	50%
£20m	100%

The adjusted loss before tax for the year was £(6.7)m, resulting in no portion of this element of bonus being payable.

Bonuses also included an underpin that enabled the Committee to scale back bonuses (to zero if considered appropriate) in the event that there had been an aviation safety event that it considered warranted the use of such discretion.

In addition, no portion of the personal/strategic bonus would normally be payable unless adjusted PBT grew versus the prior year. As Flybe made an adjusted loss before tax in 2016/17, the Committee determined that no element of the personal/strategic bonus was payable.

Upon his departure, Saad Hammad ceased to be eligible for an annual bonus (maximum 150% of salary) for the year ended 31st March 2017.

Payments to past Directors

There were no payments in the year to past Directors, other than the loss of office payments to Saad Hammad, as detailed below.

Payments for loss of office

Saad Hammad left the Board on 26th October 2016. The following provides a summary of his settlement agreement, which accords with the current policy:

- Saad was entitled to 12 months' notice from the Company under his service agreement and will therefore continue to receive his salary and other benefits until 25th October 2017, payable on a monthly basis. He will be on garden leave until this date. During his notice period he will be available to ensure an orderly transition;
- Saad will be paid £30,000 in compensation of lost benefits and in consideration of a waiver of his statutory employment rights at the end of his notice period;
- The 'one-off' deferred share element of his 2015/16 bonus will vest pursuant to its terms in July 2017;
- Saad ceased to be eligible to receive a bonus in respect of the year ended 31st March 2017;
- Unvested awards previously granted to Saad under the Performance Share Plan lapsed in accordance with the rules of the plan; and
- The Company made a contribution of £4,000 plus VAT towards Saad's legal fees in obtaining advice on the termination of his employment.

Philip de Klerk's resignation was announced on 18th April 2017:

- Philip will remain employed as CFO until the end of September 2017. A process to appoint his successor has already commenced;
- Until that date, Philip will continue to receive base salary, pension and other standard benefits at the same level as 2016/17;
- Philip will not participate in the 2017/18 annual bonus, nor will he receive a PSP award in 2017/18;
- The 'one-off' deferred share element of his 2015/16 bonus will vest pursuant to its terms in July 2017; and
- Unvested awards previously granted to Philip under the PSP will lapse, as will his 'signing-on' LTIP award.

Percentage change in Chief Executive Officer's remuneration

The table below shows the percentage change in the Chief Executive Officer's remuneration from the prior year compared to the average percentage change in remuneration for all employees.

	Percentage increase in remuneration between 2015/16 and 2016/17	
	CEO ¹	All staff
Salary and fees	2%	2%
Annual bonus	-%	-%
All taxable benefits	-%	-%

¹ Saad Hammad's package has been used for this purpose as he fulfilled the role of CEO for the majority of the 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 31st March 2016 and 31st March 2017, along with the percentage change in both.

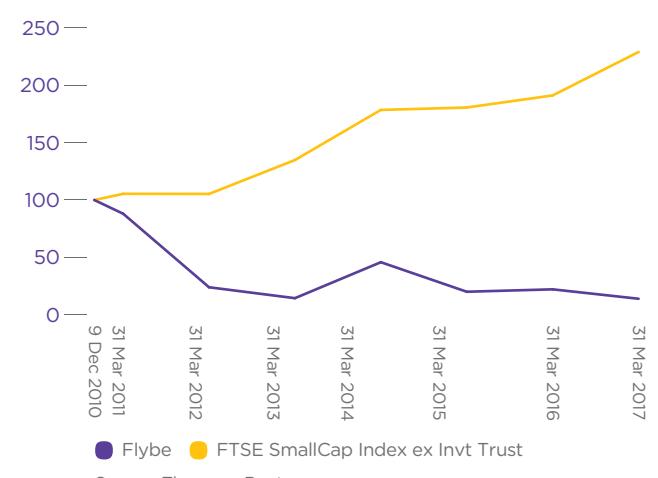
	2016/17	2015/16 ¹	% change 2015/16 - 2016/17
Shareholder distributions	£nil	£nil	-
Total employee expenditure	£120.2m	£103.8m	15.8%

¹ Staff costs (i.e. total employee expenditure) for 2015/16 has been restated to reflect the movement of £3.9m of contractor costs from the other operating expenses line into the staff costs line in the income statement.

Review of past performance

In line with the requirements of the Regulations, the chart below shows the value of a hypothetical £100 holding from the date Flybe's shares were priced immediately prior to IPO (being 10th December 2010) to 31st March 2017. The chart illustrates the TSR performance of the Group against the FTSE SmallCap Index (excluding investment trusts). The FTSE SmallCap Index (excluding investment trusts) was chosen as it is a recognised broad equity market index of which the Group has been a member since Admission in December 2010 and is the comparator group used for assessing TSR under the PSP.

Total Shareholder Return Index
(9th December 2010 = 100)



Directors' remuneration continued

The tables below detail the Chief Executive's 'single figure' remuneration over the same period, split between Christine Ourmieres-Widener, Saad Hammad and Jim French for their respective tenures in the role:

Year	Name	Single figure of remuneration	Annual bonus outcome (% of max)	PSP vesting outcome (% of max)
2016/17	Christine Ourmieres-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' interests

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 st March 2017 ²	Holding at 1 st April 2016
Christine Ourmieres-Widener	119,760	nil
Saad Hammad ¹	287,522	287,522
Philip de Klerk	120,250	120,250
Simon Laffin	479,404	288,000
Sir Timo Anderson	8,000	8,000
David Kappler	100,000	100,000
Liz McMeikan	10,000	10,000

1 Saad Hammad left the Board on 26th October 2016 and this is his shareholding at that date.

2 This excludes any shares held via share plans as disclosed below.

Directors' shareholding status

The table below shows the shareholding of each Director as at 31st March 2017:

Executive	Scheme	Date of grant	Interests held at 1 st April 2016			Interests awarded during the year	Interests vested during the year	Interests lapsed during the year ³	Interests held at 31 st March 2017	Interests at face value
			Owned outright or vested	Vested but subject to holding period	Unvested and subject to performance conditions					
Christine Ourmieres-Widener	PSP	9 th Feb 2017 ¹	-	1,395,349	-	-	-	-	1,395,349	£600,000
Saad Hammad	PSP	30 th Sept 2016 ²	-	726,536	-	-	(726,536)	-	-	-
Saad Hammad	PSP	29 th July 2015	712,374	-	-	-	(712,374)	-	-	-
Philip de Klerk	PSP	30 th Sept 2016 ²	-	487,206	-	-	-	487,206	£436,049	
Philip de Klerk	PSP	29 th July 2015	477,653	-	-	-	-	477,653	£427,499	

1 Saad Hammad left the Board on 26th October 2016.

2 Relates to the deferred share element of the 2015/16 bonus which lapses if circumstances occur which would warrant the Company summarily dismissing the Executive for misconduct (whether or not the Company has chosen to do so).

3 270,405 relates to the deferred share element of the 2015/16 bonus which lapses if circumstances occur which would warrant the Company summarily dismissing the Executive for misconduct (whether or not the Company has chosen to do so). 7,001 relates to the all-employee Share Incentive Plan.

Under the Company's share ownership guidelines, Executive Directors are required to retain 50% of any net vested shares received under any share plan until they hold shares worth 150% of base salary. Shares subject only to a holding period will, consistent with institutional shareholder guidelines, count towards the guidelines. At present, neither Executive Director holds shares worth 150% of salary.

There have been no changes in the interests of any of the Directors between 1st April 2017 and 5th June 2017.

Performance Share Plan awards

Executive	Scheme	Date of grant	Interests held at 1 st April 2016	Interests awarded during the year	Interests vested during the year	Interests lapsed during the year ³	Interests held at 31 st March 2017	Interests at face value
Christine Ourmieres-Widener	PSP	9 th Feb 2017 ¹	-	1,395,349	-	-	1,395,349	£600,000
Saad Hammad	PSP	30 th Sept 2016 ²	-	726,536	-	-	(726,536)	-
Saad Hammad	PSP	29 th July 2015	712,374	-	-	-	(712,374)	-
Philip de Klerk	PSP	30 th Sept 2016 ²	-	487,206	-	-	487,206	£436,049
Philip de Klerk	PSP	29 th July 2015	477,653	-	-	-	477,653	£427,499

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

2 As explained in last year's report, while Saad Hammad and Philip de Klerk received a notional 150% of salary grant under the PSP in 2016, the Committee was mindful of the fall in the share price over the preceding year. Therefore, when calculating how many shares were actually awarded, the Committee used the 89.5p share price used for the 2015 awards as opposed to the average share price of the last three dealing days prior to grant, thereby resulting in an award over fewer shares.

3 Saad Hammad's awards lapsed when he left the Board.

The exercise price for awards for Saad Hammad and Philip de Klerk is 1 pence per share.

There is a nil per share exercise price for Christine Ourmieres-Widener.

The awards granted in 2015/16 vest based on performance against the following targets:

Adjusted EPS for 2017/18 (50% weighting)	% of that part of the award that vests
22.2 pence or more	100%
Between 22.2 pence and 18.5 pence	Pro-rata on straight-line basis between 100% and 20%
18.5 pence	20%
Less than 18.5 pence	0%

Three-year TSR (50% weighting) relative to the constituents, as at 1st April prior to grant, of the FTSE SmallCap excluding investment trusts

Three-year TSR (50% weighting) relative to the constituents, as at 1 st April prior to grant, of the FTSE SmallCap excluding investment trusts	% of that part of the award that vests
Upper quartile or more	100%
Between upper quartile and median	Pro-rata on straight-line basis between 100% and 20%
Median	20%
Below median	0%

The awards granted in 2016/17 vest based on performance against the following targets:

Adjusted EPS for 2018/19 (50% weighting)	% of that part of the award that vests
15.9p or more	100%
Between 15.9p and 12.9p	Pro-rata on straight-line basis between 100% and 0%
12.9p	0%

Three-year TSR (50% weighting) relative to the constituents, as at 1st April prior to grant, of the FTSE SmallCap excluding investment trusts

Three-year TSR (50% weighting) relative to the constituents, as at 1 st April prior to grant, of the FTSE SmallCap excluding investment trusts	% of that part of the award that vests
Upper quartile or more	100%
Between upper quartile and median	Pro-rata on straight-line basis between 100% and 20%
Median	20%
Below median	0%

Directors' remuneration continued

In addition, an underpin applies under which the Committee can scale back vesting (to zero if considered appropriate) in the event that there has been an aviation safety event that it considers warrants the use of such discretion.

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 Saad Hammad and Philip de Klerk was deferred into shares which vest one year from the date on which the bonus was paid (20th July 2016). The table below summarises the deferred share awards made:

Executive	Scheme	Date of grant	Interests held at 1 st April 2016	Interests awarded during the year	Interests vested during the year	Interests lapsed during the year	Interests held at 31 st March 2017
Saad Hammad	Deferred bonus	1 st August 2016	-	614,173	-	-	614,173
Philip de Klerk	Deferred bonus	1 st August 2016	-	270,405	-	-	270,405

SIP

The Executive Directors' interests in ordinary shares of the Company under the all-employee Share Incentive Plan (these shares held as 'free shares' pursuant to the rules of the plan) are shown on the table below:

Executive		Interests held at 1 st April 2016	Interests awarded during the year	Interests lapsed during the year	Interests held at 31 st March 2017
Saad Hammad		-	7,001	(7,001)	-
Philip de Klerk		-	7,001	-	7,001

Recruitment awards

Saad Hammad's recruitment award

As part of his remuneration arrangements on joining Flybe, Saad Hammad received an award under the one-off LTIP which provided him with an entitlement to a cash payment based on the incremental growth in Flybe's market capitalisation over a three-year period commencing on 1st August 2013.

Under the terms of his award, Saad Hammad was entitled to a cash sum equivalent to a fixed percentage of the incremental increase in market capitalisation between 1st August 2013 and 31st July 2016. Starting and ending market capitalisations for Flybe were based on a three-month average market capitalisation to the relevant date. Saad Hammad was entitled to receive a 4% share of any incremental increase in market capitalisation if the ending market capitalisation was £150m or less. If the ending market capitalisation was greater than £150m, Saad Hammad was entitled to receive 4% of the incremental increase between the starting market capitalisation and £150m and a 3% share of any incremental increase in market capitalisation above the £150m threshold.

As disclosed in the prospectus released on 20th February 2014 in connection to the Proposed Firm Placing and Placing and Open Offer, the Committee further agreed that the ending market capitalisation should be reduced by the value of the aggregate subscription price paid for any new shares in the capital of the Company which were issued after the date that the CEO joined the Company, but on or before the end of the performance period. Accordingly, £156m was deducted from the ending market capitalisation, relating to the fundraising completed in March 2014.

To the extent the award vested at the end of the three-year performance period, 50% of the award was to be released after three years, with the remainder released after further deferral periods of six months (25% of the award) and 12 months (25% of the award).

Having assessed performance against the targets applicable to this award, the Committee determined that no portion of this award vested, resulting in the entire award lapsing.

Philip de Klerk's recruitment award

Philip de Klerk was granted a phantom option under the cash-based LTIP on 22nd August 2014 over 705,096 notional shares with an 'opening price' of £1.2126. This award vests on the third anniversary of grant provided that the 'closing price' (i.e. the average share price over three months prior to the third anniversary of grant) is at least £1.6126. To the extent that this performance condition is met, an amount equal to the embedded gain (i.e. the difference between the opening price and the closing price) at the end of the three-year performance period will vest subject to an overriding cap which states that the vested amount cannot exceed 300% of the opening price. Vesting will be on a phased basis between three and four years from grant (i.e. 50% on the third anniversary of grant, 25% six months later and the final 25% a further six months later).

As set out above, this award will lapse following Philip's resignation.

Implementation of policy for the year commencing

1st April 2017

Base salary

For the coming year with effect from 1st April 2017, Executive Directors' base salaries will remain at the same levels as last year i.e.:

Christine Ourmieres-Widener	£400,000
Philip de Klerk*	£290,700

* Philip de Klerk has resigned and is serving notice.

Pension

Christine Ourmieres-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. Philip de Klerk's pension contribution is 11% of salary, payable as a non-bonusable 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 for Christine Ourmieres-Widener will be 100% of salary. Philip de Klerk will not participate in the bonus plan for 2017/18 as he has resigned and is serving notice. 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, but with no adjustments made for surplus aircraft costs), 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) in the event that there has been an aviation safety event that it considers warrants the use of such discretion. Furthermore, no portion of the personal/strategic bonus will normally be payable unless there is a positive adjusted PBT (following the payment of bonuses).

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

Directors' remuneration continued

PSP awards

It is proposed that a PSP award be granted to Christine Ourmieres-Widener in the forthcoming year over shares worth 150% of salary. As was the case with awards made last year, the performance measures for these awards will be based on adjusted EPS and TSR growth, summarised as follows:

Adjusted EPS for 2019/20 (50% weighting)	% of that part of the award that vests
11.1p or more	100%
Between 11.1p and 7.4p	Pro-rata on straight-line basis between 100% and 0%
7.4p	0%

Three-year TSR (50% weighting) relative to the constituents, as at 1 st April prior to grant, of the FTSE SmallCap excluding investment trusts	% of that part of the award that vests
Upper quartile or more	100%
Between upper quartile and median	Pro-rata on straight-line basis between 100% and 20%
Median	20%
Below median	0%

Performance conditions will be measured over three financial years to 31st March 2020. 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 the financial year in which the grant is made with the three months prior to the end of the financial year ending three years later. In addition, an underpin applies under which the Committee can scale back vesting (to zero if considered appropriate) in the event that there has been an aviation safety event that it considers warrants the use of such discretion. 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.

The Committee is mindful of the fact that the EPS target range is lower in absolute terms than the 12.9p-15.9p target range employed for the 2016/17 grant (which was also lower than the 18.5p-22.2p range used in the 2015 grant). However, the Committee believes that the 7.4p-11.1p target range is entirely

appropriate and reflects tough market conditions and lower internal and external forecasts for growth, making it no less challenging for management than the targets employed for past awards. Based on the current capital structure and tax rates, the full vesting EPS of 11.1p is consistent with an adjusted (i.e. excluding currency revaluations of loans) profit before tax of £30m, with no payout made under the EPS element unless the 2019/20 outturn is greater than £20m. Particularly with a new CEO, the Committee believes it is vital that we retain and incentivise Christine's evolving senior management team. Making a further round of PSP grants with stretching but potentially achievable targets will be a crucial element in this.

As stated above, Christine will be awarded shares worth 150% of her salary (i.e. the same size as her 2016/17 award). The Committee does not think it appropriate to reduce the value of Christine's award to reflect the lower EPS targets, as the performance conditions applying to the 2016/17 awards were set prior to Christine joining Flybe. However, to reflect the lower targets, the Committee has retained the vesting schedule that was applied to the EPS element of awards last year of 0% vesting at threshold (as opposed to the more common 25%/20% threshold vesting used by other companies and by Flybe for the 2015/16 awards). In addition, the fact that Christine's package is lower in overall terms than Saad Hammad's is evidence of the prudent approach the Committee is taking to remuneration at Flybe.

Chairman and Non-Executive Director fees

Non-Executive Director fees in the forthcoming year will be as follows, which will remain at the same levels as last year:

Non-Executive Director	Basic fee £	Committee chairmanship fee £	Independent Director fee £	Senior Total £
Simon Laffin	153,000	-	-	153,000
Sir Timo Anderson	43,000	6,000	-	49,000
David Kappler	43,000	6,000	8,000	57,000
Liz McMeikan	43,000	6,000	-	49,000

Appendix to the Directors' Remuneration Report

The Directors' remuneration policy as summarised below was approved the Company's shareholders at the 2015 AGM (with the full formal policy as set out in the 2014/15 Report of the Remuneration Committee). This policy takes due account of the Corporate Governance Code and is felt to be appropriate to support the long-term success of the Company while ensuring that it does not promote inappropriate risk-taking.

Policy table

Function	Operation	Opportunity	Performance metrics
Basic salary 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 of similar sector and size to Flybe. Any increase in basic salary is normally effective 1 st April.	Salaries in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration.	None.
Pension To provide competitive retirement benefits.	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.

Directors' remuneration continued

Function	Operation	Opportunity	Performance metrics
Benefits To provide competitive benefits.	Executive Directors may receive benefits which may consist of car/driver 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; eligibility, 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.
SIP, SAYE To align the interests of employees and shareholders by encouraging all employees to own Flybe shares.	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).

Function	Operation	Opportunity	Performance metrics
Annual bonus Incentivise and reward Executive Directors for the delivery of business strategy.	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. 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.	Maximum annual bonus opportunity: CEO: → 150% of base salary, although the current CEO's bonus opportunity is 100% Other Executive Directors: → 100% of salary	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. Attaining the threshold level of performance for any measure will not 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.

Directors' remuneration continued

Function	Operation	Opportunity	Performance metrics
Long-term incentives Incentivise creation of long-term shareholder value, and support alignment with shareholders' interests.	The primary ongoing long-term incentive plan is the Performance Share Plan. 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. 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. PSP awards are subject to malus provisions described more fully at note 4 below.	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. 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. 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. No more than 20% of awards 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.	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).

Notes to the policy table

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 exceptionally their families) 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 remuneration policy will be honoured.

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 etc.). There is a three-year time bar on this malus provision, i.e. no award can be lapsed if the trigger event comes to light more than three years after its occurrence.

Similarly, a clawback provision will apply 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).

5. Discretions

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

→ To ensure fairness and align Executive Director 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. Any adjustments in light of corporate events will be made on a neutral basis, i.e. the intention of any adjustment will be that the event is not to the benefit or detriment of participants. Adjustments to underlying performance may be made in exceptional circumstances to ensure outcomes are fair both to shareholders and participants.

→ 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.

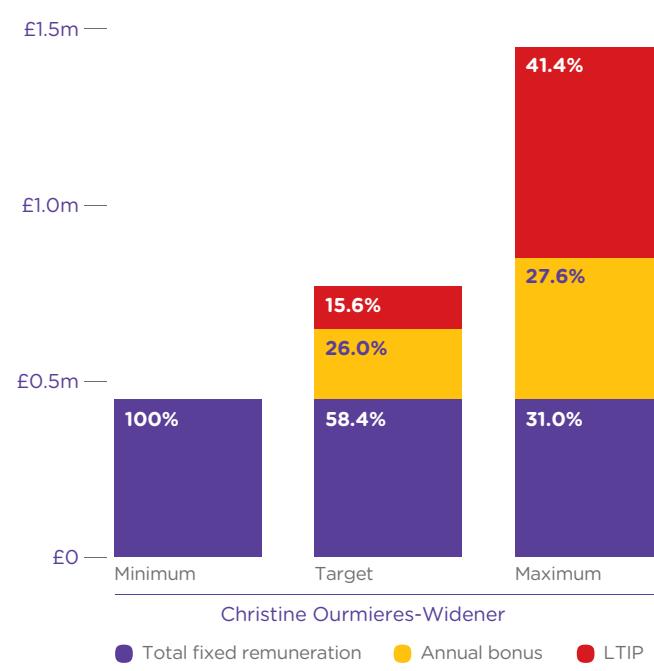
6. Shareholding guidelines

Executive Directors are required to retain 50% of any net vested shares received under any share plan until they hold shares worth 150% of base salary. Shares subject only to a holding period will, consistent with institutional shareholder guidelines, count towards the guidelines.

Directors' remuneration continued

Illustrations of application of remuneration policy

The charts and table below provide an illustration of the potential future reward opportunity for Christine Ourmieres-Widener (Philip de Klerk has not been included in this analysis as he has resigned) and the potential split between the different elements of remuneration under three different performance scenarios: 'minimum', 'on-target' and 'maximum':



Minimum

- Consists of base salary, benefits and pension
- Base salary is the salary of £400,000 to be paid in 2017/18
- Estimated value of benefits of £12,500 for Christine Ourmieres-Widener (reflecting the fact that Christine joined the Board part-way through the year ending 31st March 2017)
- Annualised value of pension for Christine Ourmieres-Widener for 2017/18 of £35,149

	Base salary	Benefits	Pension	Total fixed
Christine Ourmieres-Widener	£400,000	£12,500	£35,149	£447,649

Target

Based on what Christine would receive if performance was on-target (excluding share price appreciation and dividends):

- Annual bonus: consists of the on-target bonus of 50% of maximum opportunity
- LTIP: consists of the threshold level of vesting (20% vesting used for these purposes)

Maximum

Based on the maximum remuneration receivable (excluding share price appreciation and dividends):

- Annual bonus: consists of maximum bonus of 100% of base salary
- LTIP: consists of the face value of PSP awards of 150% of salary

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 Directors. 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.

Approach to recruitment remuneration

The Company's Recruitment Remuneration Policy, which is set out below, aims to give the Committee sufficient 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. 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 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. The Committee will seek to make buy-outs subject to what are, in its opinion, comparable requirements in respect of service and performance. 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.

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.

Directors' remuneration continued

Service contracts and treatment for 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 Ourmieres-Widener	19 th December 2016	12 months by either party
Philip de Klerk ¹	21 st April 2014	12 months by either party
Saad Hammad ²	8 th July 2013	12 months by either party

1 Philip de Klerk's resignation was announced on 18th April 2017.

2 Saad Hammad left the Board on 26th October 2016.

Upon termination, Executive Directors are entitled to salary and benefits (inclusive of pension/pension allowances) for the duration of their notice period. It is the Committee's policy to seek to mitigate the need for such payments. Each Executive Director has post-termination provisions which (among others) restrict the Executive Director from competing with Flybe for the duration of their notice period.

The Executive Directors' service contracts are available to view 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 normally not 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 prescribed 'good leaver' circumstances (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).

→ Under the rules for the LTIP (under which Philip de Klerk received an award on joining Flybe, further details of which are set out on page 89), awards lapse in the event a participant leaves Flybe, unless for reasons including, but not limited to, death, ill health, permanent disability and redundancy. In these circumstances, awards will normally be pro-rated for time and vest at the normal time, subject to the achievement of the performance condition over the complete performance period. In the event of a change of control, the award will normally be pro-rated for time and vest based on performance over the period to the change of control. At its discretion, the Committee may vary these default treatments. As noted above, this award will lapse following Philip's resignation.

→ 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.

Non-Executive Director remuneration

Non-Executive Director	Date of appointment	Expiry of current term
Simon Laffin	4 th November 2013	2019
Sir Timo Anderson	1 st May 2014	2017
David Kappler	3 rd March 2015	2018
Liz McMeikan	1 st August 2014	2017

Non-Executive Directors ('NEDs') do not have service contracts. Instead, their services are provided for under the terms of a letter of appointment with the Group and are subject to six months' notice by either party. Details of the terms of appointment of the current NEDs are provided above. Sir Timo Anderson and Elizabeth McMeikan's service agreements expire in 2017 but both have 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 NEDs are not eligible for bonuses or participation in share schemes and no pension contributions are made on their behalf.

Details of the policy on fees paid to our NEDs are set out in the table below:

Function	Operation	Opportunity	Performance metrics
Fees To attract and retain Non-Executive Directors with broad commercial and other experience relevant to the Company.	Fee levels are reviewed annually, with any adjustments normally effective 1 st April in the year following review. The fees paid to the Chairman are determined by the Committee, while the fees of the Non-Executive Directors are determined by the Executive Directors.	Fee increases for the Non-Executive Directors (and the Chairman) 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.	None.

Additional fees are payable for acting as Senior Independent Director and as Chairman of any of the Board's Committees (Audit, Remuneration, Nomination, Safety and Security).

Fee levels reflect the skills and experience of the NEDs, the market practice adopted in similar sized organisations and anticipated time commitments.

NEDs may also receive certain benefits from time to time.

To assist with product familiarisation, all Group Board directors are entitled to four complementary pairs of return plane tickets per annum, with the individual director paying any associated tax liability that arises. No other benefits are envisaged for the Non-Executive Directors (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. Currently, no such tax liabilities arise.

In recruiting a new Non-Executive Director, the Committee will use the policy set out in the table above. A base 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.

Directors' remuneration continued

External appointments

At the discretion of the Board, Executive Directors may be appointed as a Non-Executive Director 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.

Consideration of conditions elsewhere in the Company

The Company 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 Company 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 executive remuneration policy and framework.

Consideration of shareholder 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 Remuneration Policy. The Committee continues to keep its remuneration arrangements under regular review, to ensure the Remuneration Policy continues to reinforce the Company's long-term strategy and aligns closely with shareholders' interests. We will consult, and seek approval from, shareholders before making any significant changes to our Remuneration Policy.

As stated in the Committee Chair's introductory letter, the resolution approving the Annual Report on Remuneration was passed with a substantial majority at the 2016 AGM.

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 Ourmieres-Widener

Chief Executive Officer

7th June 2017

Philip de Klerk

Chief Financial Officer

7th June 2017

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

Opinion on financial statements of Flybe Group plc

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 31st March 2017 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.

The financial statements that we have audited comprise:

- The Group Income Statement;
- The Group Statement of Comprehensive Income;
- The Group and Parent Company Balance Sheets;
- The Group and Parent Company Cash Flow Statements;
- The Group and Parent Company Statements of Changes in Equity;
- The Statement of Accounting Policies; and
- The related notes 1 to 42.

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.

Summary of our audit approach

Key risks	The key risks that we identified in the current year were:
	<ul style="list-style-type: none"> → Aircraft fleet; → Aircraft maintenance provisions; → Revenue recognition and provisioning; and → Deferred tax recognition.
Materiality	The materiality that we used in the current year was £1.90m. In determining materiality we considered a number of measures 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 (passenger operations) and Flybe Aviation Services Limited (maintenance, repair and overhaul operations).
Significant changes in our approach	Due to the continued changes to the fleet we have identified this as a key risk as there are material accounting impacts. We no longer consider that passenger claims provisions to represent a key risk as the provisioning is based upon a well-established methodology and has historical data to support judgements applied.

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

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 3 to the financial statements and the directors' statement on the longer-term viability of the group contained within the financial review on page 35.

We are required to state whether we have anything material to add or draw attention to in relation to:

- The directors' confirmation on page 35 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;
- The disclosures on pages 36 to 41 describe those risks and explain how they are being managed or mitigated;
- 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 ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- The directors' explanation on page 35 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited nonaudit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Due to the continued changes to the fleet we have identified this as a key risk as there are material accounting impacts. We no longer consider that passenger claims provisions to represent a key risk as the provisioning is based upon a well-established methodology and has historical data to support judgements applied.

Aircraft fleet

Risk description	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. Additionally, we have considered the valuation of the fleet. Additional aircraft increase potential valuation risk. There have been 9 (FY16: 8) new aircraft delivered in the year and a number of changes to aircraft ownership (from operating leased to owned) resulting in aircraft additions of £132.9m (FY16: £59.0m). Changes to the fleet and related risks are disclosed on page 30 and note 14.
How the scope of our audit responded to the risk	For each aircraft and significant aircraft component delivered we have evaluated each lease to challenge the appropriateness of management's classification, being treated as either an operating or finance lease. For owned aircraft we have agreed the values capitalised to source documentation and have critically challenged the component accounting and separation of the aircraft components. We have also 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 fleet, including evaluating the reasonableness of underlying assumptions and historical accuracy of forecasting. We have agreed loans to agreements with counterparties and vouched the drawdown of funds. We have also assessed the accounting and presentation of the related loans. For leased aircraft we have challenged the completeness and accuracy of maintenance provisions required under the lease.
Key observations	Based on our procedures, we concluded that the classification and valuation of the new aircraft delivered in the year, together with the related financing, is appropriate and that the carrying value of the fleet is reasonable.

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

Aircraft maintenance provisions

Risk description	Management continue to recognise provisions for maintenance obligations in relation to leased aircraft. Their approach to recognising the provision of £80.9 (2016: £71.4m) and detail is provided in note 24, as well as being included in the Audit Committee Report at page 76. 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.
How the scope of our audit responded to the risk	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: <ul style="list-style-type: none"> → Testing the integrity and arithmetical accuracy of the provision model through recalculations; and → Consideration and challenge of the consistency and reasonableness of the assumptions adopted, including review of lease terms and conditions, testing of source data for the provision model to information from lessors, comparison of assumptions to contract terms, and assessment of recent interval and cost experience. We have supplemented this work with inquiry of engineering management in order 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.
Key observations	The provisions for maintenance obligations and assumptions are appropriate in all material respects.

Revenue recognition and provisioning

Risk description	Group revenue includes £619.3m (2016: £571.7m) of passenger revenue for the year ended 31 st March 2017. Further detail is set out in note 5. Management have recorded certain provisions against revenue where revenue data derived from the revenue reporting systems have needed amendment to accurately reflect revenue in accordance with the Group's revenue recognition criteria (as set out in note 3 to the financial statements).
How the scope of our audit responded to the risk	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. We have 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 judgments with past experience to determine historical accuracy, as well as the consistency of judgements and assumptions applied between financial periods. In addition, IT audit specialist members of the audit team have tested automated controls for those systems controlled by the Group and the reconciliation of data in the revenue reporting systems to the general ledger.

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

Deferred tax valuation

Risk description	A deferred net tax liability of £0.6m (2016: £11.3m asset) is recognised at 31 st March 2017, representing assets of £4.0m offset by liabilities of £4.6m. Further detail is set out in the critical accounting judgements in note 4 and further detail is provided in note 23, as well as being included in the Audit Committee Report at page 76.
How the scope of our audit responded to the risk	<p>We have evaluated management's process to prepare the deferred tax calculation and evaluated the design and implementation of the controls in this process.</p> <p>We critically assessed the judgements over the level of forecast taxable profits available to support the recoverability of recognised deferred tax assets. We have also considered historical utilisation of unclaimed capital allowances.</p> <p>We have involved tax specialists to assist with our assessment of the tax principles applied in the tax calculations, being the treatment of long funding leases, assessing capital allowances available on owned assets and treatment of financial instruments and pensions.</p>
Key observations	Based on our procedures, the deferred tax valuation is consistent with the Group's assessment of future taxable profits and capital allowances available and our understanding of the business.

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.

Our application of materiality

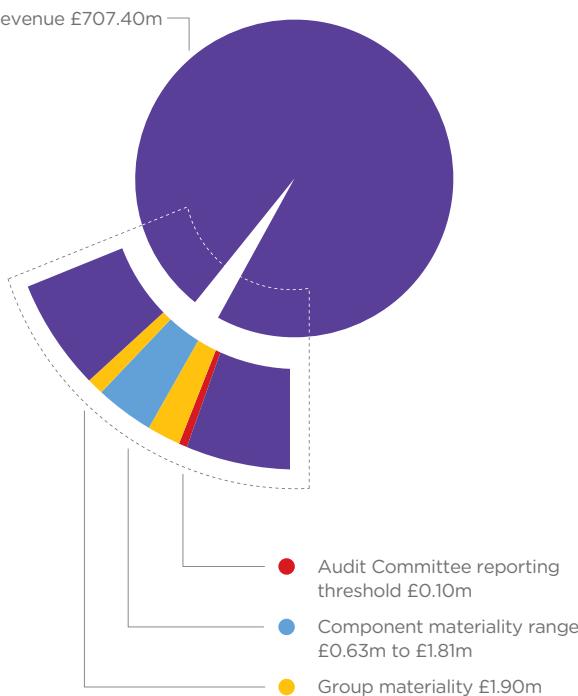
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Group materiality	£1.90m (2016: £1.67m).
Basis for determining materiality	In determining materiality we considered a number of measures and derived a figure based on a percentage of revenue (0.27% in both the current and prior years).
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.

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

Our application of materiality continued



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £95,000 (2016: £83,500), 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

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Based on that assessment, our group audit scope focused primarily on the audit work at the two components in the UK, being Flybe Limited (passenger operations) and Flybe Aviation Services Limited (maintenance, repair and overhaul operations). Our 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 £1.81m (FY16: £1.50m) and Flybe Aviation Services Limited £0.63m (FY16: £0.84m). 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.

At the parent entity level and head office we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and 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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- Materially inconsistent with the information in the audited financial statements; or
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit; or
- Otherwise misleading.

We confirm that we have not identified any such inconsistencies or misleading statements.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

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

Respective responsibilities of directors and auditor

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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Sonya Butters FCA

(Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
Bristol, United Kingdom
7th June 2017

Consolidated income statement Year ended 31st March 2017

	Note	2017 Total £m	2016 Restated Total £m
Group revenue	5	707.4	623.8
Consisting of:			
Passenger revenue		619.3	571.7
White Label flying revenue		33.0	13.9
Revenue from other activities		55.1	38.2
Group revenue		707.4	623.8
Staff costs	7	(120.2)	(103.8)
Fuel		(101.1)	(104.9)
Airport and en route charges		(148.2)	(117.6)
Ground operations		(94.3)	(81.2)
Maintenance		(39.4)	(22.7)
Depreciation and amortisation		(39.1)	(32.1)
Aircraft rental charges		(97.5)	(81.1)
Marketing and distribution costs		(27.1)	(25.4)
Other operating gains		18.8	7.0
Other operating expenses		(61.7)	(53.3)
Operating (loss)/profit	6	(2.4)	8.7
Investment income	8	0.7	0.8
Finance costs	9	(5.0)	(4.0)
Losses on USD loan revaluations	10	(13.2)	(2.8)
(Loss)/profit before tax		(19.9)	2.7
Deferred tax (charge)/credit	11	(6.8)	4.1
(Loss)/profit after tax		(26.7)	6.8
 (Loss)/earnings per share:			
Basic and diluted	12	(12.3)p	3.1p

Prior year restatements:

- 1 A new finance system was implemented in the year which has resulted in a change in the presentation of transactional foreign exchange. Previously each income statement line had been shown at the effective exchange rate. From 1st April 2016, foreign exchange gains and losses have been allocated to the appropriate income statement line. The prior period consolidated income statement has therefore been restated which included adjustments to fuel of £(3.3)m, airport and en route charges of £3.1m and other operating gains of £2.4m. There has been no impact to the operating profit for the year.
- 2 During the year the Group restated its 2015/16 income statement to reclassify contractor costs of £3.9m from the other operating expenses line to the staff costs line.

Consolidated statement of comprehensive income

Year ended 31st March 2017

	2017 £m	2016 £m
(Loss)/profit for the financial year	(26.7)	6.8
Items that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit obligation	(4.9)	6.3
Deferred tax arising on net defined benefit obligation	1.0	(1.3)
	(3.9)	5.0
Items that may be reclassified subsequently to profit or loss:		
Gains/(losses) arising during the year on cash flow hedges	48.2	(26.4)
Reclassification of (losses)/gains on cash flow hedges included in the income statement	(12.4)	30.6
Deferred tax arising on cash flow hedges	(6.1)	–
Foreign exchange translation differences	2.1	(2.4)
	31.8	1.8
Other comprehensive income for the year	27.9	6.8
Total comprehensive income for the year	1.2	13.6

Consolidated statement of changes in equity

Year ended 31st March 2017

	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 £m
Balance at 1 st April 2015	2.2	209.3	–	(11.7)	6.7	22.5	(89.0)	140.0
Profit for the year	–	–	–	–	–	–	6.8	6.8
Other comprehensive income for the year	–	–	–	1.8	–	–	5.0	6.8
Equity-settled share-based payment transactions	–	–	–	–	–	–	0.6	0.6
Balance at 31 st March 2016	2.2	209.3	–	(9.9)	6.7	22.5	(76.6)	154.2
Loss for the year	–	–	–	–	–	–	(26.7)	(26.7)
Other comprehensive income/(expense) for the year	–	–	–	31.8	–	–	(3.9)	27.9
Equity-settled share-based payment transactions	–	–	–	–	–	–	1.4	1.4
Capital reduction (see note 27)	–	–	–	–	–	(22.5)	22.5	–
Purchase of shares for employee benefit trust (see note 27)	–	–	(3.3)	–	–	–	(3.3)	(3.3)
Balance at 31st March 2017	2.2	209.3	(3.3)	21.9	6.7	–	(83.3)	153.5

Consolidated balance sheet

As at 31st March 2017

	Note	2017 £m	2016 £m
Non-current assets			
Intangible assets	13	11.9	13.3
Property, plant and equipment	14	309.1	213.7
Other non-current assets	15	69.6	40.7
Restricted cash	18	9.2	7.8
Deferred tax asset	23	4.0	11.3
Derivative financial instruments	22	0.4	0.8
		404.2	287.6
Current assets			
Inventories	16	6.3	6.4
Trade and other receivables	17	108.0	101.4
Cash and cash equivalents	18	115.1	163.6
Derivative financial instruments	22	26.0	9.7
		255.4	281.1
Total assets		659.6	568.7
Current liabilities			
Trade and other payables	20	(116.9)	(104.3)
Deferred income	19	(83.5)	(84.7)
Borrowings	21	(20.6)	(14.7)
Provisions	24	(30.3)	(42.3)
Derivative financial instruments	22	(1.3)	(18.8)
		(252.6)	(264.8)
Non-current liabilities			
Borrowings	21	(167.7)	(94.5)
Deferred tax liabilities	23	(4.6)	–
Provisions	24	(53.0)	(30.9)
Deferred income	19	(6.8)	(7.4)
Retirement benefits	32	(20.8)	(15.3)
Derivative financial instruments	22	(0.6)	(1.6)
		(253.5)	(149.7)
Total liabilities		(506.1)	(414.5)
Net assets		153.5	154.2
Equity attributable to owners of the Company			
Share capital	25	2.2	2.2
Share premium account	26	209.3	209.3
Own shares	27	(3.3)	–
Hedging reserve	21	21.9	(9.9)
Merger reserve	6.7	6.7	–
Capital redemption reserve	–	–	22.5
Retained deficit	27	(83.3)	(76.6)
		153.5	154.2

The financial statements of Flybe Group plc, registered number 01373432, were approved by the Board of Directors and authorised for issue on 7th June 2017.

Christine Ourmieres-Widener

Chief Executive Officer

Philip de Klerk

Chief Financial Officer

Consolidated cash flow statement

Year ended 31st March 2017

	2017 £m	2016 £m
Cash flows from operating activities		
(Loss)/profit for the year	(26.7)	6.8
Adjustments for:		
Unrealised losses on financial instruments	4.9	4.6
Depreciation and amortisation	39.1	32.1
Investment income	(0.7)	(0.8)
Interest expense	5.0	2.1
Losses on USD loan revaluations	13.2	2.8
Loss on disposal of plant, property and equipment	2.9	4.3
Loss/(profit) on write offs of intangible fixed assets	4.3	(0.1)
Share-based payment expenses	1.4	0.2
Deferred taxation	6.8	(4.1)
	50.2	47.9
Cash paid for defined benefit pension funding	(0.5)	(0.5)
(Increase)/decrease in restricted cash	(1.4)	10.2
Increase in trade and other receivables	(35.5)	(7.1)
Decrease in inventories	0.1	0.7
Increase in trade and other payables	10.8	14.8
Increase/(decrease) in provisions and retirement benefits	11.2	(1.9)
	(15.3)	16.2
Tax paid	-	-
Net cash flows from operating activities	34.9	64.1
Cash flows from investing activities		
Interest received	0.7	0.8
Decrease in pre-delivery aircraft deposits	-	1.3
Purchases of property, plant and equipment	(134.6)	(59.7)
Capitalised computer software expenditure	(5.7)	(5.9)
Net cash flows from investing activities	(139.6)	(63.5)
Cash flows from financing activities		
Proceeds from new loans	84.3	-
Cash paid for purchase of shares for employee benefit trust	(3.3)	-
Interest paid	(5.0)	(2.1)
Repayment of borrowings	(19.8)	(12.8)
Net cash flows from financing activities	56.2	(14.9)
Net decrease in cash and cash equivalents	(48.5)	(14.3)
Cash and cash equivalents at beginning of year	163.6	177.9
Cash and cash equivalents at end of year	115.1	163.6

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 64. The nature of the UK Group's operations and its principal activities are set out in the Strategic Report on pages 1 to 55.

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

New and amended standards that are mandatorily effective for the current year

There are no new accounting standards, amendments or interpretations which are mandatory for the first time for the financial year ended 31st March 2017 that materially impact the Group.

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);

→ IAS 7 (amendments) 'Statement of cash flows' (not yet endorsed – effective for the Group's 2017/18 financial year); and

→ 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 1st January 2018. The Group will adopt the standard from 1st 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.

IFRS 15 'Revenue from contracts with customers' is effective for periods beginning on or after 1st January 2018. The Group will adopt the standard from 1st April 2018. Flybe is currently analysing revenue streams under IFRS 15 and we will follow industry guidance. At this stage, the Group anticipates potential changes regarding the timing of the recognition of certain ancillary revenue and revenue streams from third party contracts.

IFRS 16 'Leases' introduces a single lessee accounting model and is effective for periods beginning on or after 1st January 2019. The new standard will require lessees to recognise a lease liability reflecting the obligation to make future lease payments and a 'right-of-use' asset for all leases unless exemption is taken for certain short-term leases or for leases of low-value assets. At 31st March 2017, the Group has £332.9m outstanding commitments arising from operating leases (see note 29) 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 significantly less than the current outstanding lease commitment. The Group expects to adopt the standard from 1st April 2019 and is currently considering whether to use fully or modified retrospective application.

IAS 7 (amendments) 'Statement of cash flows' is effective for periods beginning on or after 1st January 2017; it requires disclosures about changes in liabilities arising from financing activities. The amendment will result in additional disclosures for the Group.

IFRS 2 (amendments) 'Classification and measurement of share-based payment transactions' is effective for periods beginning on or after 1st January 2018.

The amendment provides guidance on three issues: the effects of vesting conditions on the measurement of a 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.

Notes to the consolidated financial statements

continued

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.

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 31st 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 page 28.

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, are 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.

Commission received from the issue of Flybe branded credit cards by a third party provider is deferred to the extent that it relates to free flights which the Group is required to offer as part of the transaction. Commission received in excess of the sales value of free flights granted to card-holders is recognised immediately as revenue. Revenue associated with free flights is recognised when the related flights are taken.

White Label flying revenue

White Label (definition in the glossary on page 161) 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 offering, 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

Interest 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. Interest 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 on the 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 over a period from one to five years 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 and options to acquire aircraft where the balance is expected to be funded by lease financing 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

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
Maintenance assets	25% to 50% 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 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 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 income statement or, where related to property, plant and equipment, are treated as deferred income and released to the income statement over the expected useful lives of the assets concerned.

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 income statement in the 'other gains and losses' line item.

Amounts deferred in other comprehensive income are recognised in the 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/(losses) in the income statement as the hedged item (see note on face of consolidated income statement for prior year treatment). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

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 income statement. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the income statement.

Notes to the consolidated financial statements

continued

3. Significant accounting policies

continued

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.

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. A fuel or foreign exchange hedging instrument may be designated as at FVTPL upon initial recognition if the instrument forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in the income statement. The net gain or loss recognised in the 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 income statement depending upon the nature of the instrument.

Loans and receivables

Trade receivables, loans 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, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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 by way of a note to these financial statements 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. A fuel or foreign exchange hedging instrument may be designated as at FVTPL upon initial recognition if the instrument forms part of a group of financial assets or financial liabilities, or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management strategy, and information about the grouping is provided internally on that basis.

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 gains and losses' line item in the income statement. Fair value is determined in the manner described in note 33.

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.

Notes to the consolidated financial statements

continued

3. Significant accounting policies continued

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 return of the aircraft to the lessor.

The provisions recorded and charged to the 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 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.

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 flights 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 income statement on a straight-line basis over the life of the lease. In the event that 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 31st March 2017, 67.5% 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 124.

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 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 so as 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 profit or loss, 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 net profit as reported in the 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 financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the 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 is able to 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.

Notes to the consolidated financial statements

continued

3. Significant accounting policies continued

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 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 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 31.

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.

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.

4. Critical accounting judgements in applying the Group's accounting policies

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.

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. Flybe expect to have available sufficient capital allowances arising from assets held at balance sheet date, such that taxable profits are not expected to arise within a reasonable outlook period. As a result, the net deferred tax position has moved from an asset of £11.3m to a liability of £(0.6)m at 31st March 2017 (see 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 income statement and valuation of the balance sheet. Details of the assumptions used are included in note 32. Any change in these assumptions could potentially result in a significant change to the pension assets/(liabilities), commitments and pension costs in future periods.

Notes to the consolidated financial statements

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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 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 main scheduled UK domestic and UK-Europe passenger operations and revenue ancillary to the provision of those services along with White Label flying.
Flybe Aviation Services (FAS)	This business segment provides maintenance, repair and overhaul services to customers, largely in Western Europe. FAS supports Flybe's UK activities as well as serving third-party customers.

Segment revenues and results

Transfer prices between business segments are set on an arm's length basis.

	2017 £m	2016 £m
Segment revenues:		
Flybe UK	675.6	601.0
FAS	50.1	42.8
Inter-segment sales	(18.3)	(20.0)
Consolidated revenue	707.4	623.8

	2017 £m	2016 £m
Segment results:		
Flybe UK (including net finance costs of £4.3m (2015/16: £3.2m))	(23.3)	0.2
FAS	3.4	2.5
Consolidated (loss)/profit before tax	(19.9)	2.7

The Flybe UK segment includes group costs of £4.3m (2015/16: £5.8m) and losses on revaluation of USD aircraft loans of £13.2m (2015/16: £2.8m).

Other segment information

	2017 £m	2016 £m
Depreciation and amortisation:		
Flybe UK	38.7	31.6
FAS	0.4	0.5
39.1	32.1	
Investment income:		
Flybe UK	0.7	0.8
	0.7	0.8

Geographical information

The Group's revenue from external customers by geographical location is detailed below:

	2017 £m	2016 £m
Revenue from external customers:		
United Kingdom	585.3	516.4
Europe excluding United Kingdom	108.2	92.4
Rest of world	13.9	15.0
Consolidated revenue	707.4	623.8

No non-current assets were based outside the United Kingdom for any of the periods presented.

6. Operating (loss)/profit

	2017 £m	2016 Restated £m
This has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	36.5	30.7
Amortisation of intangible assets	2.6	1.5
Loss on disposal of plant, property and equipment	2.9	4.3
Loss/(gain) on write offs of intangibles	4.3	(0.1)
Cost of inventories recognised as an expense	21.4	15.4
Operating leases:		
Land and buildings	2.7	2.0
Plant and machinery	0.4	0.2
Aircraft ¹	97.5	81.1
Foreign exchange gains	(26.0)	(6.1)

¹ Aircraft rental charges for 2015/16 have been restated from £79.3m to £81.1m. This is as a result of foreign exchange restatement detailed on the face of the consolidated income statement.

Auditor's remuneration

	2017 £m	2016 £m
The analysis of auditor's remuneration is as follows:		
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	0.3	0.2
Total audit fees	0.3	0.2
Corporate finance services	-	0.1
Other services	0.1	-
Total audit and non-audit fees	0.4	0.3

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 74. No services were provided pursuant to contingent fee arrangements.

Notes to the consolidated financial statements

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7. Staff costs

The average monthly number of employees (including executive directors) was:

	2017 No.	2016 Restated No.
Flight and maintenance	1,331	1,224
Technical support services	385	379
Administration	415	385
	2,131	1,988

¹ The 2015/16 staff numbers have been restated for a change in classification of employees.

The Group's aggregate payroll costs in respect of those persons were as follows:

	2017 £m	2016 Restated £m
Wages and salaries ¹	96.5	82.1
Social security costs	9.4	8.3
Other pension costs (see note 32)	5.4	5.1
Share-based payments (see note 31)	1.4	0.2
	112.7	95.7
Amounts payable to temporary staff ²	6.6	7.0
Redundancy costs	0.9	1.1
	120.2	103.8

¹ 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.

² The 2015/16 payroll costs have been restated due to contractor costs of £3.9m being reclassified from the other operating expenses line to the staff costs line.

In addition to the above, an actuarial loss of £(4.9)m (2016: £6.3m gain) was recognised in the consolidated statement of comprehensive income in respect of defined benefit pension schemes.

8. Investment income

	2017 £m	2016 £m
Interest on bank deposits	0.7	0.8

9. Finance costs

	2017 £m	2016 £m
Interest expense on bank loans	4.4	2.1
Net interest cost on defined benefit obligation (see note 32)	0.6	0.7
Release of interest receivable and recycling of FX losses for Flybe Finland	-	1.2
	5.0	4.0

10. Losses on USD loan revaluations

	2017 £m	2016 £m
Losses arising on retranslation of USD aircraft loans	(13.2)	(2.8)

11. Tax on (loss)/profit on ordinary activities

	2017 £m	2016 £m
Deferred tax		
Origination of temporary differences	6.8	(4.1)
Total deferred tax charge/(credit) for the year	6.8	(4.1)

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)/profit in the consolidated income statement as follows:

	2017 £m	2016 £m
(Loss)/profit on ordinary activities before tax	(19.9)	2.7
Tax at the UK corporation tax rate of 20% (2015/16: 20%)	(4.0)	0.6
Factors affecting tax charge for the year		
Capital allowances in excess of depreciation	-	(6.4)
Expenses not taxable/income not deductible	1.6	1.3
Amounts not recognised	9.3	-
Adjustments in respect of prior years	(0.1)	0.4
Total deferred tax charge/(credit) for the year	6.8	(4.1)

Reductions in the UK corporation tax rate to 19% (effective from 1st April 2017) and then 17% (effective from 1st April 2020) were substantively enacted on 6th 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:

	2017 £m	2016 £m
Deferred tax		

Items that will not be reclassified to profit or loss:

Deferred tax arising on net defined benefit obligation	1.0	(1.3)
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Items that may be reclassified subsequently to profit or loss:

Deferred tax arising on cash flow hedges	(6.1)	-
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Total tax (income) recognised in other comprehensive income	(5.1)	(1.3)
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There was no tax recognised directly in equity.

12. (Loss)/earnings per share

The calculation of the basic (loss)/earnings per share is based on the following data:

	2017 £m	2016 £m
Earnings		
(Loss)/earnings for the purposes of earnings per share, being net (loss)/profit attributable to owners of the Group	(26.7)	6.8

	2017	2016
Weighted average number of ordinary shares for the purposes of basic and diluted (loss)/earnings per share	216,656,776	216,656,776

	2017	2016
(Loss)/earnings per ordinary share – basic and diluted	(12.3)p	3.1p

Diluted (loss)/earnings per share is the same as basic (loss)/earnings per share in the years ended 31st March 2016 and 31st March 2017 because none of the shares that could, potentially, be issued are dilutive.

Notes to the consolidated financial statements

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13. Intangible fixed assets

	Computer software £m	Computer software in the course of construction £m	Total £m
Cost			
At 1 st April 2015	11.0	7.6	18.6
Additions	0.9	5.0	5.9
Reclassifications ¹	5.3	(5.3)	-
Reclassification from property, plant and equipment ²	1.9	-	1.9
Disposals	(4.2)	(0.2)	(4.4)
At 31 st March 2016	14.9	7.1	22.0
Additions	2.1	3.6	5.7
Reclassifications ¹	3.6	(3.6)	-
Reclassifications to plant, property and equipment	-	(0.2)	(0.2)
Disposals ³	(5.0)	(0.6)	(5.6)
At 31st March 2017	15.6	6.3	21.9
Accumulated amortisation			
At 1 st April 2015	9.8	-	9.8
Amortisation for the year	1.5	-	1.5
Reclassification from property, plant and equipment ²	1.5	-	1.5
Disposals ³	(4.1)	-	(4.1)
At 31 st March 2016	8.7	-	8.7
Amortisation for the year ³	2.6	-	2.6
Disposals ³	(1.3)	-	(1.3)
At 31st March 2017	10.0	-	10.0
Net book value			
At 31 st March 2016	6.2	7.1	13.3
At 31st March 2017	5.6	6.3	11.9

1 Assets costing £3.6m (2016: £5.3m) 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 income statement or balance sheet.

2 Assets with a net book value of £0.2m were reclassified to property, plant and equipment (2016: net book value of £0.4m were reclassified from property, plant and equipment). This had no impact on the total balance sheet or income statement.

3 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. In addition to this, assets costing £4.7m were deemed to have a shorter useful economic life. The effect on the current year is an additional £0.5m accelerated amortisation charge.

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
Cost					
At 1 st April 2015	24.7	17.7	240.6	-	283.0
Additions	0.1	0.6	59.0	-	59.7
Reclassifications ¹	0.2	(0.1)	(0.1)	-	-
Reclassifications to intangible assets ²	-	(1.9)	-	-	(1.9)
Disposals	(3.0)	(6.9)	(26.2)	-	(36.1)
At 31 st March 2016	22.0	9.4	273.3	-	304.7
Additions	-	0.5	132.9	1.2	134.6
Reclassifications ¹	(1.0)	0.9	-	0.1	-
Reclassifications from intangible assets ²	-	-	0.2	-	0.2
Disposals	-	(0.3)	(13.6)	-	(13.9)
At 31st March 2017	21.0	10.5	392.8	1.3	425.6
Accumulated depreciation					
At 1 st April 2015	5.8	14.2	73.9	-	93.9
Depreciation charge for the year	0.5	1.2	29.0	-	30.7
Reclassifications ¹	0.1	(0.1)	-	-	-
Reclassifications to intangible assets ²	-	(1.5)	-	-	(1.5)
Disposals	(3.3)	(6.9)	(21.9)	-	(32.1)
At 31 st March 2016	3.1	6.9	81.0	-	91.0
Depreciation charge for the year	0.4	0.8	35.3	-	36.5
Reclassifications ¹	(0.1)	0.1	-	-	-
Disposals	-	(0.2)	(10.8)	-	(11.0)
At 31st March 2017	3.4	7.6	105.5	-	116.5
Net book value					
At 31 st March 2016	18.9	2.5	192.3	-	213.7
At 31st March 2017	17.6	2.9	287.3	1.3	309.1

1 Assets with a net book value of £1.0m (2016: £0.1m) were reclassified between assets in the course of construction, aircraft, plant, equipment and motor vehicles and land and buildings in the year. There was no impact on the income statement or the balance sheet.

2 Assets with a net book value of £0.2m were reclassified from intangible fixed assets (2016: £0.4m were reclassified to intangible assets). There was no impact on total balance sheet or the income statement.

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. For Flybe UK, the recoverable amount was calculated using a value in use model and determined to be higher than the assets' recoverable amount by £246.0m and no impairment was required. The key assumption in the review of Flybe UK was the revenue per seat metric as it was determined that forecasts are most sensitive to revenue movements. Only when the revenue per seat is decreased by 5.4% does the recoverable amount equal its carrying amount.

Notes to the consolidated financial statements

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15. Other non-current assets

	2017 £m	2016 £m
Aircraft deposits	1.7	1.7
Aircraft security deposits	11.3	9.9
Aircraft operating lease prepayments	2.6	3.5
Other non-current assets	54.0	25.6
	69.6	40.7

Other non-current assets are maintenance receivables over one year.

16. Inventories

	2017 £m	2016 £m
Aircraft consumables	6.3	6.4

17. Trade and other receivables

	2017 £m	2016 £m
Amounts receivable	49.4	33.5
Allowance for doubtful debts	(0.2)	(0.3)
Trade receivables, net	49.2	33.2
Amounts recoverable on contracts	1.7	3.1
Other receivables	43.8	51.4
Prepayments	13.3	13.7
	108.0	101.4

Other receivables include maintenance receivables under one year and other receivables.

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

Trade receivables include amounts (see below for aged analysis) which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables because there has not been a significant change in credit quality and the amounts continue to be considered recoverable.

No impairment was recognised in the year to 31st March 2017 (2016: £nil).

Ageing of trade receivables that are not provided for:

	2017 £m	2016 £m
Not yet due	42.6	28.6
30 to 60 days	4.1	3.1
60 to 90 days	0.3	0.3
90+ days	2.2	1.2
	49.2	33.2

18. Cash, cash equivalents and restricted cash

	2017 £m	2016 £m
Cash and cash equivalents	115.1	163.6
Non-current restricted cash	9.2	7.8
	124.3	171.4
Restricted cash comprises:		
Aircraft operating lease deposits	7.5	6.5
Aircraft maintenance deposits	1.7	1.3
	9.2	7.8

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.

19. Deferred income

	2017 £m	2016 £m
Current	83.5	84.7
Non-current	6.8	7.4
	90.3	92.1

Deferred income includes government grants totalling £6.1m (2016: £6.2m) 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 31st 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 has been credited to the income statement relating to a detailed review of historic deferred income balances.

20. Trade and other payables

	2017 £m	2016 £m
Trade payables	43.6	27.3
Accrued expenses	39.3	38.1
Other payables	34.0	38.9
	116.9	104.3

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.

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 33.

	2017 £m	2016 £m
Secured bank loans		
Amount due for settlement within 12 months	20.6	14.7
Amount due for settlement after 12 months	167.7	94.5
	188.3	109.2

Fleet assets with a carrying amount of £252.1m (2016: £195.0m) have been pledged to secure borrowing of the Group.

Terms

	2017 Interest rate %	2016 Interest rate %	2017 Amount £m	2016 Amount £m
Floating rate sterling loans	3.3	3.5	17.7	24.9
Floating rate USD loans	2.9	2.5	93.6	83.0
Fixed rate sterling loans	3.1	3.0	47.5	0.9
Fixed rate USD loans	4.2	5.4	29.5	0.4
			188.3	109.2

The interest rate above relates to the weighted average for the year or period. Floating rates are based upon LIBOR and sterling base rate with margins of between 1.0% and 3.3%. The loans are repayable over a period to 31st 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.

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22. Derivative financial instruments

	2017 £m	2016 £m
Current assets		
Forward foreign currency contracts/options	21.6	9.0
Fuel contracts/options	4.4	0.7
Derivative instruments that are designated and effective as hedging instruments carried at fair value	26.0	9.7
Total derivative financial assets held as current assets	26.0	9.7
Non-current assets		
Forward foreign currency contracts/options	0.4	0.4
Fuel contracts/options	-	0.4
Derivative instruments that are designated and effective as hedging instruments carried at fair value	0.4	0.8
Total derivative financial assets held as non-current assets	0.4	0.8
Total derivative financial assets	26.4	10.5
Current liabilities		
Forward foreign currency contracts/options	(0.5)	(0.4)
Fuel contracts/options	(0.8)	(19.7)
Derivative instruments that are designated and effective as hedging instruments carried at fair value	(1.3)	(20.1)
Margin calls on derivative instruments	-	1.3
Total derivative financial assets held as current liabilities	(1.3)	(18.8)
Non-current liabilities		
Forward foreign currency contracts/options	-	(0.2)
Fuel contracts/options	(0.6)	(1.4)
Derivative instruments that are designated and effective as hedging instruments carried at fair value	(0.6)	(1.6)
Total derivative financial assets held as non-current liabilities	(0.6)	(1.6)
Total derivative financial liabilities	(1.9)	(20.4)
Net derivative financial assets/(liabilities)	24.5	(9.9)

Further details of derivative financial instruments are provided in note 33.

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	Intangible assets £m	Employee benefits £m	Financial instruments £m	Total £m
At 1 st April 2015	(2.8)	-	(4.2)	(1.5)	(8.5)
Recognised in the income statement	(4.0)	-	(0.1)	-	(4.1)
Recognised in other comprehensive income	-	-	1.3	-	1.3
At 31 st March 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 31st March 2017	-	-	(4.0)	4.6	0.6

There are no unused tax losses as at 31st March 2016 and 2017.

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2017 £m	2016 £m	2017 £m	2016 £m
Property, plant and equipment	-	6.8	-	-
Intangible assets	-	-	-	-
Employee benefits	4.0	3.0	-	-
Financial instruments	-	1.5	(4.6)	-
Tax value of loss carried forward	-	-	-	-
Tax assets/(liabilities)	4.0	11.3	(4.6)	-

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.

£21.1m of deferred tax assets have not been recognised in the year (2016: £13.0m). 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.

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24. Provisions

	2017 £m	2016 £m
Leased aircraft maintenance	80.9	71.4
Other	2.4	1.8
	83.3	73.2
Current	30.3	42.3
Non-current	53.0	30.9
	83.3	73.2

The Group's provisions are as follows:

	Leased aircraft maintenance £m	Other £m	Total £m
At 1 st April 2016	71.4	1.8	73.2
Additional provision made in the year	35.0	7.9	42.9
Utilisation of provision	(25.5)	(7.3)	(32.8)
At 31st March 2017	80.9	2.4	83.3

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), onerous property leases and amounts in relation to White Label agreements.

25. Share capital

	2017 £000	2016 £000
Authorised, issued and fully paid 216,656,776 ordinary shares of 1p each	2,167	2,167

The Company has one class of ordinary shares which carry no right to fixed income.

26. Share premium account

	£m
Balance at 31 st March 2016 and 31 st March 2017	209.3

27. Reserves

Retained deficit

	£m
Balance at 1 st April 2015	(89.0)
Net profit for the year	6.8
Other comprehensive income arising from measurement of defined benefit obligation net of deferred tax	5.0
Credit to equity for equity-settled share-based payment transactions	0.6
Balance at 31 st March 2016	(76.6)
Net loss for the year	(26.7)
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 31st March 2017	(83.3)

Own shares

	£m
Balance at 31 st March 2016	–
Purchase of shares for employee benefit trust	(3.3)
Balance at 31st March 2017	(3.3)

Shareholder and High Court approval was obtained on 27th July 2016 and 17th August 2016 respectively to a Reduction of Capital of Flybe Group plc ('the Company').

£22.5m was held in the capital redemption reserve as disclosed in the Company statement of changes in equity on page 115 of the Group's Annual Report for the year ended 31st 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.

This balance gave the Board the flexibility to proceed with a share grant of 5% of basic salary to all employees employed as at 31st July 2016, giving employees a stake in the Company (see note 31 on the Share Incentive Plan). The shares to enable the grant were purchased in August and September by the Company's Employee Benefit Trust. The purchase of 6,422,968 shares for £3.3m has therefore been reflected in the consolidated statement of changes in equity for the year ended 31st March 2017.

28. 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:

	2017 £m	2016 £m
Bank guarantees and letters of credit issued	9.8	6.8

At 31st March 2017, the Group had £3.5m (2016: £4.2m) of unused facilities which could be used for guarantees.

29. Operating lease commitments

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under noncancelable operating leases, which fall due as follows:

	Property and equipment		Aircraft	
	2017 £m	2016 £m	2017 £m	2016 £m
Less than one year	1.8	1.7	91.4	79.2
Between one and two years	0.9	1.0	78.0	77.0
Between two and five years	1.9	1.9	142.2	161.0
More than five years	9.8	10.4	6.9	28.0
	14.4	15.0	318.5	345.2

The majority of aircraft operating leases are denominated in US dollars.

The fall in obligations for aircraft operating leases reflects the acquisition of previously leased aircraft mainly as a result of the NAC transaction in 2016/17.

30. Capital commitments

The Group has, over time, contractually committed to the acquisition of aircraft (all due to be delivered in 2019) with a total list price before escalations and discounts as follows:

	2017 £m	2016 £m
Embraer E175 regional jet	118.8	103.4

It is intended that these aircraft will be financed partly through cash flow and partly through external financing and leasing arrangements.

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31. Share-based payments

Long-Term Incentive Plan ('LTIP')

Saad Hammad's recruitment award

As part of his remuneration arrangements on joining Flybe, Saad Hammad received an award under the one-off LTIP which provided him with an entitlement to a cash payment based on the incremental growth in Flybe's market capitalisation over a three-year period commencing on 1st August 2013.

To the extent the award vested at the end of the three-year performance period, 50% of the award was to be released after three years, with the remainder released after further deferral periods of six months (25% of the award) and 12 months (25% of the award).

Having assessed performance against the targets applicable to this award, the Remuneration Committee determined that no portion of this award vested, resulting in the entire award lapsing in August 2016. The LTIP liability was therefore released, resulting in a less than £0.1m credit to the income statement (2015/16: £0.3m).

Philip de Klerk's recruitment award

Philip de Klerk was granted a phantom option under the cash-based LTIP on 22nd August 2014 over 705,096 notional shares with an 'opening price' of £1.2126. This award vests on the third anniversary of grant provided that the 'closing price' (i.e. the average share price over three months prior to the third anniversary of grant) is at least £1.6126.

During the financial year an amount less than £0.1m was credited to the income statement as a result of the valuation movement in the LTIP liability. The LTIP liability was valued at less than £0.1m at 31st March 2016 and 31st March 2017.

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.

	2017		2016	
	Number of share awards	Weighted average exercise price £	Number of share awards	Weighted average exercise price £
Outstanding at beginning of year	3,574,501	0.26	1,037,657	1.14
Granted during the year	5,075,261	0.01	3,052,299	0.01
Forfeited during the year	(1,729,433)	0.05	(515,455)	0.56
Outstanding at end of year	6,920,329	0.12	3,574,501	0.26

Shares awarded under the PSP have been valued using a stochastic simulation valuation methodology. The relevant disclosures in respect of the PSP grants are set out below:

	2015 Grant	2015 Grant	2016 Grant	2016 Grant	2016 Grant	2016 Grant	2016 Grant	2017 Grant
Grant and measurement date	22 Apr 14	05 Feb 15	29 Jul 15	29 Sep 15	28 Jan 16	29 Sept 16	30 Sept 16	09 Feb 17
No. shares under scheme	672,110	587,259	2,430,337	92,879	529,083	233,188	3,446,724	1,395,349
Share price on measurement date (p)	135	61.75	93.5	73	80	49.75	49.75	44.00
Exercise date	21 Apr 17 ¹	04 Feb 18 ¹	28 Jul 18 ²	28 Sep 18 ²	27 Jan 19 ²	29 Sept 19	30 Sep 19 ²	31 Mar 19 ²
Exercise price (p)	124	106	1	1	1	1	1	1
Performance conditions	EPS ³	EPS ⁴	TSR/EPS ⁵	TSR/EPS ⁵	TSR/EPS ⁵	TSR/EPS ⁶	TSR/EPS	TSR/EPS
Risk-free rate of interest (% p.a.)	1.23	0.73	0.9	0.65	0.46	n/a	0.05	0.13
Flybe volatility (%)	45	45	45	45	45	n/a	45	45
Dividend yield (%)	nil	nil	nil	nil	nil	nil	nil	nil
Weighted average contractual life at 31 st March 2017 (years)	0.4	1.2	2.1	2.2	2.6	-	3.3	2.1
Shares forfeited in this financial year	-	58,962	747,899	-	-	16,458	906,898	-

1 50% will vest on third anniversary of grant, 25% six months after the end of the performance period and 25% 12 months after the end of the performance period.

2 50% will vest on third anniversary of grant, 25% on fourth anniversary of grant and 25% on fifth anniversary of grant.

3 Vesting is subject to the three-month average share price at the end of the performance period exceeding 120p. Options will lapse if not fully exercised by 22nd April 2019.

4 Vesting is subject to the three-month average share price at the end of the performance period exceeding 146p. Options will lapse if not fully exercised by 5th February 2020.

5 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.

6 SIP top-up for eligible employees. Shares will vest if employees still work for the Company or are classed as 'good leavers'.

The total charge for the year in relation to the PSPs was £0.6m (2015/16: £0.4m).

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31. Share-based payments continued

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 14th April 2014 and provided for an employee to be granted an option when entering into a savings contract ('SAYE Contract'). The eligible employees are able to save a regular sum each month for a three-year period of not less than £5 and not more than £100. An option to acquire ordinary shares will be granted to each eligible employee who entered into the SAYE Contract. On 8th August 2014, 1,659,467 options over ordinary shares were issued by the Company for this purpose. Contractual life remaining at 31st March 2017 was 0.4 years.

	2017	2016
Outstanding at the beginning of the year	1,279,306	1,550,237
Granted during the year	-	-
Forfeited during the year	(316,754)	(270,931)
Cancelled during the year	-	-
Expired	-	-
Exercised	-	-
Outstanding at the end of the year	962,552	1,279,306

The Group recognised expenses of £0.1m in relation to this award in the year to 31st March 2017 (2015/16: £0.2m).

Share Incentive Plan (SIP)

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. At the same time, a SIP was announced which will cost £3.3m over the three years from grant date and is phased according to IFRS 2.

Employees have been able to participate in the Group's SIP under which all eligible employees 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 a PSP. These top-up shares are held in a separate employee trust.

Eligible employees were granted awards totalling 6,422,968 shares in the SIP with a grant date of 26th September 2016, and 233,188 shares in the PSP (see above) with a grant date of 29th September 2016. The fair value of these awards is equal to the face value of these awards (the three-day average closing market price was 51.42p) spread over the three-year vesting period.

The Group recognised expenses of £0.5m in relation to this award in the year to 31st March 2017.

Deferred bonus scheme for 2015/16

As disclosed in the Directors' remuneration report on page 72 of the Group's Annual Report for the financial year ended 31st March 2016, the Remuneration committee and the executive directors agreed that 45% of the bonus should be payable in Flybe shares, subject to a one-year deferral period. The fair value of these awards is equal to the face value of these awards, 38.0p on the date of grant of 2nd August 2016, spread over the one-year vesting period. Although Saad Hammad has left the Board (effective 26th October 2017) and Philip de Clerk resigned post year end (his resignation was announced on 18th April 2017 and he will remain in post until the end of September 2017), under the terms of their contracts, this scheme will still vest in July 2017.

The Group recognised expenses of £0.2m in relation to this scheme in the year to 31st March 2017.

Summary

The Group recognised total expenses of £1.4m in relation to share-based payments in the year ended 31st March 2017 (2015/16: £0.6m). In addition, less than £0.1m was credited to the income statement as a result of movement on valuation of LTIPs (2015/16: £0.4m). The Group has recorded total liabilities in respect of the LTIP schemes of less than £0.1m at 31st March 2017 (2016: less than £0.1m).

32. 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 £5.4m (2015/16: £5.1m) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans.

Defined benefit scheme

The defined benefit scheme operated by the Group was acquired on 5th March 2007 as part of the acquisition of BA Connect. The scheme was closed to contributions during that year and most members 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 31st March 2016 and showed a deficit of £(12.2)m which has resulted in a revised funding plan being agreed between the Group and the Trustee. As a result of this new agreement, the Group will pay annual deficit contributions of £0.83m (previously £0.5m) with the increased payments starting in June 2017. The recovery plan payments along with the investment returns from return-seeking assets, is expected to make good this shortfall by 31st March 2028.

At 31st March 2017, the IAS 19 net accounting deficit has been recognised on the balance sheet. The principal assumptions used for the purpose of the IAS 19 actuarial valuations were as follows:

Key assumptions used:	Valuation at	
	2017 %	2016 %
Discount rate	2.7	3.7
Future pension increases	3.6/2.2	3.5/2.0
RPI inflation	3.3	3.1

The post-retirement mortality rate assumed at 31st March 2017 was based on the Self-Administered Pension Scheme ('SAPS') tables and the Continuous Mortality Investigation ('CMI') 2016 long-term rate projections of 1.5%, weighted by 95% (males) and 85% (females) (2016: the mortality rate was based on SAPS minus one year).

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	2017 £m	2016 £m
Discount rate	Increase by 0.1%	(3.5)	(3.3)
Rate of inflation	Increase by 0.1%	2.1	2.3
Life expectancy	Increase by one year	5.2	3.7

The amount included in the balance sheet arising from the Group's obligations in respect of its defined retirement benefit scheme is as follows:

	2017 £m	2016 £m
Present value of defined benefit obligations	(174.0)	(153.6)
Fair value of scheme assets	153.2	138.3
Net deficit	(20.8)	(15.3)
Recognised net liability from defined benefit obligation	(20.8)	(15.3)

Amounts recognised in the consolidated income statement in respect of the defined benefit scheme are as follows:

	2017 £m	2016 £m
Administration costs	0.5	0.4
Net interest payable	0.6	0.7
Charge to profit or loss before tax	1.1	1.1

Notes to the consolidated financial statements

continued

32. Retirement benefits continued

Re-measurements recognised in the consolidated statement of comprehensive income are as follows:

	2017 £m	2016 £m
Returns/(losses) on scheme assets in excess of interest	15.5	(6.6)
(Losses)/gains arising from changes in financial assumptions	(37.2)	8.2
Gains arising from changes in demographic assumptions	10.0	4.9
Gains arising from experience adjustments	6.8	-
Total re-measurements	(4.9)	6.5

Movements in the present value of defined benefit obligations were as follows:

	2017 £m	2016 £m
Opening defined benefit obligation	(153.6)	(165.1)
Interest cost	(5.6)	(5.7)
Benefits paid	5.6	4.1
Actuarial (losses)/gains arising from changes in financial assumptions	(37.2)	8.2
Actuarial gains arising from changes in demographic assumptions	10.0	4.9
Actuarial gains arising from experience adjustments	6.8	-
Closing defined benefit obligation	(174.0)	(153.6)

Movements in fair value of scheme assets were as follows:

	2017 £m	2016 £m
Opening fair value of scheme assets	138.3	143.9
Interest income	5.0	5.0
Benefits paid	(5.6)	(4.1)
Administration costs	(0.5)	(0.4)
Employer contributions	0.5	0.5
Actuarial gains/(losses) on scheme assets	15.5	(6.6)
Closing fair value of scheme assets	153.2	138.3

The analysis of the scheme assets and the return on those assets at the balance sheet date were as follows:

	2017 £m	2016 £m
Fair value of assets		
Equities	54.4	54.0
Bonds and gilts	97.4	83.0
Cash	1.4	1.3
	153.2	138.3
Actual return/(loss) on scheme assets	20.5	(1.5)

33. 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

	2017 Carrying value £m	2017 Fair value £m	2016 Carrying value £m	2016 Fair value £m
Financial assets				
Cash, cash equivalents and restricted cash	124.3	124.3	171.4	171.4
Loans and receivables:				
Trade and other receivables	156.2	156.2	120.4	120.4
Derivative instruments in designated hedge accounting relationships	26.4	26.4	10.5	10.5
Financial liabilities				
Liabilities held at amortised cost:				
Trade and other payables	(42.5)	(42.5)	(44.5)	(44.5)
Debt	(188.3)	(194.3)	(109.2)	(112.1)
Liabilities held at fair value through other comprehensive income:				
Derivative instruments in designated hedge accounting relationships	(1.9)	(1.9)	(20.4)	(20.4)

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-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.

Financial instruments recorded at fair value at 31st March 2017

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).

Notes to the consolidated financial statements

continued

33. Financial instruments continued

The following table provides an analysis of the Group's financial instruments recorded at fair value, all of which are grouped into Level 2:

	2017 £m	2016 £m
Foreign exchange derivatives	21.5	8.8
Margin calls	-	1.3
Fuel derivatives	3.0	(20.0)
At 31st March	24.5	(9.9)

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 and balance sheet, income statements 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, reserves and retained earnings as disclosed in the consolidated statement of changes in equity and notes 25 to 27.

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:

	2017 £m	2016 £m
Debt	(188.3)	(109.2)
Cash, cash equivalents and restricted cash	124.3	171.4
Net (debt)/cash	(64.0)	62.2
 Equity	 153.5	 154.2
 Net debt to equity ratio	 41.7%	 (40.3)%

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 %	Within 1 year £m	1-2 years £m	2-5 years £m	More than 5 years £m	Total £m
2017						
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	-	(42.5)	-	-	-	(42.5)
Borrowings:						
Variable interest rates	3.0	(13.4)	(12.5)	(38.4)	(50.6)	(114.9)
Fixed interest rates	3.5	(7.8)	(7.5)	(23.7)	(40.4)	(79.4)
2016						
Financial assets:						
Cash, cash equivalents and restricted cash (variable interest rates)	0.5	163.6	-	2.7	5.1	171.4
Loans and receivables	-	110.5	-	6.5	3.4	120.4
Financial liabilities:						
Trade and other payables	-	(44.5)	-	-	-	(44.5)
Borrowings:						
Variable interest rates	2.7	(14.4)	(12.1)	(33.9)	(50.3)	(110.7)
Fixed interest rates	3.7	(0.7)	(0.6)	(0.1)	-	(1.4)

All financial assets and financial liabilities are non-interest-bearing unless otherwise stated.

Notes to the consolidated financial statements

continued

33. 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
2017			
Net settled derivatives:			
Fuel derivatives	3.6	(0.6)	3.0
Gross settled derivatives:			
Foreign currency payments	21.1	0.4	21.5
	24.7	(0.2)	24.5
2016			
Net settled derivatives:			
Fuel derivatives	(19.0)	(1.0)	(20.0)
Gross settled derivatives:			
Foreign currency payments	8.6	0.2	8.8
	(10.4)	(0.8)	(11.2)

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 90% 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 31st March 2017 or 31st March 2016.

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 31st March 2017	USD 1.40	261.5	186.6	21.5
At 31st March 2016	USD 1.49	350.0	234.3	8.8

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:

	2017	2016
Percentage increase	1%	1%
US dollar (£m)	0.7	0.4
Euro (£m)	0.2	0.0

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:

	2017 £m	2016 Restated £m
Assets		
Euro:		
Cash and cash equivalents	4.9	2.6
Restricted cash	-	-
Trade receivables ¹	7.5	11.1
US dollar:		
Cash and cash equivalents	8.8	0.1
Restricted cash	9.2	7.8
Trade receivables ¹	105.9	80.7
	136.3	102.3
Liabilities		
Euro:		
Trade and other payables ¹	(3.5)	(5.8)
US dollar:		
Trade and other payables ¹	(11.4)	(13.0)
Debt	(123.2)	(83.3)
	(138.1)	(102.1)

¹ A new finance system was implemented in the year which has resulted in more visibility of foreign currency balances. The 2015/16 comparatives have therefore been restated to include all monetary non-derivative financial assets and liabilities.

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 14.8% and 17.6% of Flybe UK segment costs in the years ended 31st March 2017 and 2016 respectively. The prior year percentage has been restated from 17.1% due to the foreign exchange restatement). 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 83.2% of the following year's budgeted fuel consumption as at 31st March 2017 (2016: 90%).

The actual number of emissions credits purchased for calendar year 2016 amounted to 593,119 tonnes, including free allowances of 222,778 tonnes; the average price of the purchased allowances was €7.77.

Carbon emissions requirements for calendar year 2017 are currently expected to amount to 556,902 tonnes including free allowances of 222,778 tonnes. So far the Group has purchased 100% of its requirement for 2017 at an average cost of €4.86.

The following table details the fair values of forward fuel price contracts outstanding at each balance sheet date:

	2017 £m	2016 £m
Fair value of contracts to buy fuel expiring		
In less than 3 months		
	1.4	(7.3)
Between 3 and 6 months	1.0	(5.2)
Between 6 and 12 months	1.4	(6.4)
More than 12 months	(0.8)	(1.1)
	3.0	(20.0)

Notes to the consolidated financial statements

continued

33. Financial instruments continued

The highs and lows recorded in each period for jet fuel prices were as follows:

	2017	2016		
	Price per tonne USD	Date	Price per tonne USD	Date
High	550	3 rd January 2017	643	6 th May 2015
Low	351	5 th April 2016	263	20 th January 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/(decrease) both the Group's (loss)/profit before tax and decrease its equity by approximately:

	2017	2016
Percentage increase in cost of fuel	10%	10%
Impact on (loss)/profit before tax and equity (£m)	(1.1)	(6.0)

Cash flow hedge effectiveness

The Group designates certain hedges of foreign exchange and fuel price risks on firm commitments as cash flow hedges. At 31st March 2017, the Group has identified 132 (2016: 166) contracts for foreign exchange purchases and 125 (2016: 151) 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 an increase in the fair value of these financial derivative instruments of £35.8m (2016: £4.2m) was taken to equity through the hedging reserve.

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:

	2017	2016
Percentage increase	1%	1%
Impact on (loss)/profit before tax and equity (£m)	(1.1)	(6.0)

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.

34. 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 0.5% of the voting shares of the Company (2016: 0.4%).

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.

	2017 £m	2016 £m
Key management emoluments	1.0	1.9
Company contributions to personal pension schemes	0.1	0.1
Exit payments	0.3	0.1
	1.5	2.1

Exit payments made to former directors as described further in the Directors' Remuneration Report on page 79 include £nil (2016: £nil) of company contributions to personal pension schemes.

There are no other transactions or balances with key management.

35. Cross-guarantees

	2017 £m	2016 £m
Cross-guarantees	531.0	476.2

The maximum amount that the Company could be forced to settle under the arrangements to its operating subsidiaries is £531.0m (2016: £476.2m).

36. Post balance sheet event

Our pre-close statement, released on 29th March 2017, highlighted our intention to invest in a new customer platform. The Board has continued the process of evaluating potential new solutions, but has not yet made a final decision on the future service provider. It remains likely that the Board will approve a change of provider and, once committed, this is likely to trigger a contract cost of approximately £6m in respect of the existing services. We expect that this will be confirmed in the first half of 2017/18.

Company balance sheet

At 31st March 2017

Flybe Group plc

	Note	2017 £m	2016 £m
Non-current assets			
Investments in subsidiaries	38	60.4	60.4
Current assets			
Other receivables	39	178.2	176.9
Total assets		238.6	237.3
Current liabilities			
Other payables	40	(3.2)	-
Non-current liabilities			
Liability for share-based payments	31	-	-
Total liabilities		(3.2)	-
Net assets		235.4	237.3
Equity attributable to owners of the Company			
Share capital	41	2.2	2.2
Share premium account	41	209.3	209.3
Own shares	27	(3.3)	-
Merger reserve		6.7	6.7
Capital redemption reserve		-	22.5
Retained earnings		20.5	(3.4)
Total equity		235.4	237.3

There were no income statement or statement of comprehensive income movements in the Company for the financial year ended 31st March 2017 (2015/16: profit of £4.9m).

The financial statements of Flybe Group plc, registered number 01373432, were approved by the Board of Directors and authorised for issue on 7th June 2017.

Christine Ourmieres-Widener
Chief Executive Officer

Philip de Klerk
Chief Financial Officer

Company statement of changes in equity

Year ended 31st March 2017

	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 st April 2015	2.2	209.2	-	6.7	22.5	(8.7)	231.9
Profit for the year	-	-	-	-	-	4.9	4.9
Equity-settled share-based payment transactions	-	0.1	-	-	-	0.4	0.5
Balance at 31 st March 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 27)	-	-	-	-	(22.5)	22.5	-
Purchase of shares for employee benefit trust (see note 27)	-	-	(3.3)	-	-	-	(3.3)
Balance at 31st March 2017	2.2	209.3	(3.3)	6.7	-	20.5	235.4

Company cash flow statement

Year ended 31st March 2017

	2017 £m	2016 £m
Operating profit	-	-
Dividends received from subsidiaries	-	4.9
Credit to equity for share-based payments	1.4	0.5
Increase in receivables	(1.3)	(5.0)
Increase in payables	3.2	-
Decrease in employee benefits	-	(0.4)
Net cash flows from operating activities	3.3	-
 Cash flows from investing activities	-	-
 Net cash flows from investing activities	-	-
 Financing activities	-	-
Cash paid for purchase of shares for employee benefit trust	(3.3)	-
 Net cash flows from financing activities	(3.3)	-
 Net movement in cash and cash equivalents	-	-
 Cash and cash equivalents at beginning and end of year	-	-

Notes to the Company financial statements

Year ended 31st March 2017

37. 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. The Company's profit for the year was £nil (2015/16: £4.9m).

38. Subsidiaries and related companies

	£m
Cost of investment	91.7
At 1 st April 2016	91.7
Disposals ¹	(31.3)
At 31st March 2017	60.4
 Provision for impairment	(31.3)
At 1 st April 2016	(31.3)
Disposals ¹	-
At 31st March 2017	-
 Net book value	60.4
At 31 st March 2016	60.4
At 31st March 2017	60.4

1 Fully impaired investments with an original cost of £31.3m were in members' voluntary liquidation and have therefore been included as disposals.

Details of the Group's subsidiaries and related companies at 31st March 2017 are as follows:

	Registration number	Place of incorporation and operation	Proportion of ownership interest ³ %	Proportion of voting power held %
Flybe Limited	2769768	Great Britain	100	100
Flybe Aviation Services Limited ¹	3951235	Great Britain	100	100
Flybe.com Limited ²	4252085	Great Britain	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 of the subsidiaries and related companies is Exeter International Airport, Clyst Honiton, Exeter, EX5 2BA.

Notes to the company financial statements

Year ended 31st March 2017 (continued)

39. Other receivables

Amounts due from Group undertakings

Amounts due from Group undertakings are £178.2m (2016: £176.9m). The carrying amount of other receivables approximates to their fair value.

There is no allowance for doubtful debts as there are no inter-company balances that are not viewed as recoverable.

40. Other payables

Amounts due to Group undertakings

Amounts due to Group undertakings are £3.2m (2016: £nil). The carrying amount of other payables approximates to their fair value.

41. Share capital and share premium account

This is disclosed in notes 25 and 26 in the consolidated financial statements.

42. 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 £531.0m (2016: £476.2m).

Five-year summary

	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m
Financial measures					
Group revenue	614.3	620.5	574.1	623.8	707.4
EBITDAR ¹	55.5	98.7	83.5	121.9	134.2
Operating profit/(loss)	(34.7)	0.8	(12.7)	8.7	(2.4)
Profit/(loss) before tax	(41.1)	8.1	(35.6)	2.7	(19.9)
Earnings/(loss) per share (basic)	(56.0)p	9.6p	(16.5)	3.1	(12.3)p
Aircraft (at net book value)	140.4	147.0	166.4	192.3	287.3
Net (debt)/funds	(66.3)	116.9	76.7	62.2	(64.0)
Operating cash flows ²	(1.6)	7.3	30.1	64.1	34.9
	2013	2014	2015	2016	2017
Operating measures					
Average number of operating aircraft	59.9	56.6	58.7	59.0	64.4
Scheduled sectors flown	132,600	130,200	127,000	139,000	153,000
Scheduled seats flown	11,298,200	11,144,400	10,293,600	11,290,600	12,679,900
Scheduled sold seats	7,245,100	7,742,100	7,743,633	8,202,443	8,822,050
Passenger yield	£76.16	£71.55	£68.62	£70.23	£70.20
Scheduled load factor	64.1%	69.5%	75.2%	72.6%	69.6%

1 The consolidated income statement has been restated to show each cost line at the transactional spot rate therefore EBITDAR for 2016 has been restated. 2015 EBITDAR has been restated to show the gross depreciation on maintenance assets which were previously reported as net.

2 2013 and 2014 operating cash flows are before restructuring costs. There are no restructuring costs in subsequent years.

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Glossary

adjusted (loss)/profit before tax

reported (loss)/profit before tax less USD loan revaluations

Air Operator's Certificate ('AOC')

an air operator's certificate issued by the national regulator – the Civil Aviation Authority

Air Passenger Duty ('APD')

an excise duty which is charged by the UK and other governments on the carriage of passengers flying from an airport within that government's territory

BTECs

vocational awards formerly issued by the Business and Technology Education Council and now issued by Edexcel

Civil Aviation Authority ('CAA')

the civil aviation regulatory authority of the UK, the Channel Islands and the Isle of Man

codeshare

an arrangement whereby multiple airlines sell seats on the same flights and multiple flight designators and flight numbers are used for the same flight

domestic

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

effective exchange rate

the cost of currency for a period implicit through the weighted average cost of (i) currency acquired through forward contracts and (ii) currency bought in the spot markets

EASA

European Aviation Safety Agency

EBITDAR

operating (loss)/profit after adding back depreciation, amortisation and aircraft rental charges

ETS

Emissions Trading Scheme

FAS

Flybe Aviation Services Limited

Flybe

Flybe Group plc

Fuel burn per seat

jet kerosene used, divided by number of seats flown

GHG

greenhouse gas

the Group

Flybe Group plc

GWP

global warming potential

IATA

International Air Transport Association

IPO

the admission, through an Initial Public Offering, of the Company's shares to the Official List of the London Stock Exchange on 15th December 2010

load factor

sold seats (Flybe ticketed passengers on either Flybe operated scheduled services or hardblock routes operated by the codeshare partner) divided by scheduled available seats (seats available for passenger occupancy on scheduled services)

Glossary continued

MRO	scheduled sectors flown
maintenance, repair and overhaul	the total number of aircraft flights per annum, excluding positioning, charter and training flights
net (debt)/funds	seat capacity
total cash less borrowings	the average number of seats per aircraft multiplied by the number of scheduled sectors flown
passenger	sector
a person with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable)	a flight between an originating airport and a destination airport, typically with no intervening stops
passenger revenue	Summer season
total ticket and ancillary revenue (including unflown APD less refunds) plus revenue from hardblock codeshare arrangements	the last Sunday in March until the last Saturday in October in any particular year
passenger revenue per seat	tCO₂e
passenger revenue generated divided by scheduled available seats (seats available for passenger occupancy on scheduled services)	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 ₂
passenger yield	UK domestic routes
total passenger revenue per passenger (after the deduction of government taxes and levies)	routes where both the departure and destination airports are within the United Kingdom, the Channel Islands or the Isle of Man
regional aircraft	White Label
turboprop aircraft and regional jets of 120 seats or fewer	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
regional airline	Winter season
an airline that flies predominantly regional aircraft	the last Sunday in October to the last Saturday in March in any particular year
regional UK	
an airport or destination in the UK, including the Channel Islands and the Isle of Man, but excluding London	
route	
a scheduled service flown by an airline other than any franchise route	

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