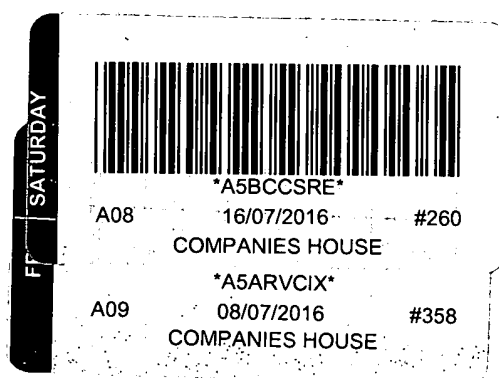


DELIVERING OUR TRANSFORMATION

Flybe Group plc
Annual Report 2015/16



Our ambition is to be the best regional airline in Europe.

We aim to do this by providing time-saving and cost-efficient air access to the world for regional customers.

See all our investor information at
www.flybe.com/corporate/investors

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The Directors present the Annual Report and Accounts for the year ended 31st March 2016. References to 'Flybe', the 'Group', the 'Company', 'we' or 'our' are to Flybe Group plc (registered number 01373432) and its subsidiary companies, where appropriate. The strategic report contains statements that are forward looking. These statements are made by the Directors in good faith based on the information available to them up to the time of approval of this report. Such statements should be treated with caution due to the inherent uncertainties and risk associated with forward looking information.

Highlights of the year

Revenue growth and cost discipline deliver first time profit since stock market flotation in 2010.

Total revenue £m (excluding joint ventures)	Reported profit/ (loss) before tax ¹ £m	Adjusted profit/(loss) before tax ¹ £m	Total cash £m (at 31st March)
---	--	---	----------------------------------

Load factor %	Passenger numbers m	Capacity m seats	Passenger revenue per seat £
------------------	------------------------	---------------------	------------------------------------

- Completed second full year of three-year transformation with the business in line with plan
- Resolved final key legacy issue through redeployment of remaining E195 jets
- Delivered a profit after five years of reported losses on an adjusted basis (excluding US dollar loan revaluations)
- Grew revenue through focused capacity growth and improved execution despite significant headwinds such as terrorism, consumer uncertainty and sector capacity growth
- Delivered year-on-year unit cost reduction after £20m of E195 costs in the year
- Delivered strong year-end cash position with total cash of £171.4m at 31st March 2016

¹ 2013/14 and 2014/15 includes discontinued operations

A year of strong progress and achievement

Our mission is to be Europe's leading regional airline, acting responsibly and generating value for all our stakeholders.

Simon Laffin
Chairman

Introduction

This has been the second full year of our turnaround, and we have made significant progress. In the first year of the turnaround, we restructured the business, completed a successful capital raise and relaunched the Flybe brand. We resolved a number of outstanding fleet issues, including an exit from binding new aircraft orders, and also divested the unprofitable and time-consuming joint venture in Finland. During this second year we resolved our final key legacy issue by redeploying our E195 aircraft. We also grew revenue and delivered a profit despite significant market headwinds.

The clearance of our key legacy issues has freed management to focus on building a growing and sustainable regional airline. The team has established a number of growth platforms including additional frequencies on existing routes, new routes and

new bases, as well as new commercial partnerships including a White Label agreement with SAS in Sweden. The benefit is now shown clearly in these results, with the Group achieving profitability.

The tragic events in Paris in November 2015 and Brussels in March 2016 caused customers to think hard about whether they had to travel in the UK and north-western Europe. Since this is our entire ambit of operations, and with our late-booking business market positioning, the effect on Flybe was immediate and far-reaching. However, Flybe is now a more agile business and management responded by significantly reducing capacity and accelerating their cost reduction initiatives; while electing to hold yields and accept lower load factors. The financial impact on Flybe could have been significant, but decisive management action reduced the net impact so that our full-year profit forecasts were not altered.

Low spot oil prices are beginning to reduce our costs as forward hedges on fuel unwind. This is beneficial to the business. However, all airlines, as well as our principal competitors, the road, rail and ferry operators, have benefited from the lower oil and energy prices. As a result, much of the fuel price saving is actually passed on to the consumer through lower fares.

Over the past 12 months Flybe has actively engaged the UK government and the EU to support regional aviation more effectively by providing a level playing field versus international air travel and other modes of transport. While Flybe is in favour of passenger rights, we have argued that penalties for excessive flight delays within an airline's control need to be proportionate to the value of the ticket price, and not, as is the case currently for regional airlines, at often three times the average price! No such punitive regime exists for long-haul airlines nor indeed for rail, road and ferry operators.

The UK government's Air Passenger Duty (APD) is also levied disproportionately on regional 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 return international flight suffers this charge once, but a domestic one is taxed twice as APD is a UK departure tax. In the run-up to the last general election, the government took the political decision to reduce long-haul APD rates by £1 billion, while, without a glimmer of shame, informing Flybe that it could not afford to reduce short-haul rates.

We ask that APD should be more reflective either of the distances actually travelled or the price of the ticket, and that APD is levied more equitably. Indeed we have proposed to the Chancellor to lower the levy at regional airports by 50% in line with what is being planned in Scotland, funding it through an increase at the large, slot-constrained airports in London such as Heathrow and Gatwick. This would give it some logic, akin to an airport congestion charge.

The government continues to highlight an aspiration for a Northern Powerhouse, but ignores the importance of regional aviation connectivity. The government-funded £43 billion HS2 will not be part of this in the foreseeable future, as it will not reach Manchester for the next 17 years. Meanwhile, right now, Flybe operates 41 flights from Manchester and 46 from Birmingham every day and those two million passengers a year receive no government subsidy and instead suffer an arbitrary tax burden.

The UK has 22 public service obligation (i.e. publicly underwritten) routes. By contrast, France has 45. Most of the UK routes are in Scotland, funded by the Scottish government. Flybe asks that the government takes a more strategic view on UK regional aviation and recognises that some communities need support to maintain fast physical connectivity to the main conurbations, especially London.

While the decision on the new south-east airport capacity continues to be delayed, Flybe proposed that it be allowed to operate scheduled services into Northolt airport. This would give some of the UK connectivity benefits of a new south-east runway with none of the environmental disadvantages in the interim until the new capacity is built. Flybe would contribute c£7m more annually to the government in landing fees and APD. It would replace the current noisy private executive jets that benefit only a few with our quieter efficient turboprops benefiting 300,000 passengers per annum. It would actually reduce noise for local residents. However, the Ministry of Defence decided perversely that it could not even consider our proposal until the Heathrow decision had been taken, ignoring the fact that our suggestion is an interim one only, and so completely irrelevant to the final decision. I suspect that this ended up in the 'all too difficult' bin of political decision-making.

Board

David Kappler became Chairman of the Audit Committee following Charlie Scott's retirement after the AGM in July 2015. We are also pleased to welcome Kate Ledger as our new Company Secretary and General Counsel. She brings with her a wealth of legal and aviation experience.

Corporate governance

In line with the standards of best practice and regulations, we have made a separate statement on page 45.

Results

This year sees Flybe achieve profitability with an adjusted profit before tax of £5.5m, excluding US dollar loan revaluation losses of £(2.8)m. There were no adjustments this year for either discontinued operations or non-recurring items following the resolution of our final legacy issue.

General outlook

The business is now in good shape. With key legacy issues behind us, we have made a profit this year. This represents an important milestone in the turnaround of Flybe. We want to create a business that delivers profitable growth underpinned by a robust financial foundation. Total revenue grew by 8.7%, and we finished the year with £62.2m net funds and £171.4m total cash.

The general economic conditions remain difficult. We are, as ever, exposed to exogenous events that can disrupt regional air travel. Our approach will be to continue to drive costs lower, improve the profitability of our route network and expand cautiously.

Flybe plays a vital role in UK regional connectivity. The Board believes that our differentiated competitive positioning, reduced cost base, strong balance sheet and disciplined growth strategy will enable us to deliver continued progress in the current year and position us well to drive sustainable profitable growth in the future.

Simon Laffin

Chairman
8th June 2016

Growth and profitability

Flybe is now a much more resilient business and well positioned for profitable growth.

Saad Hammad
Chief Executive Officer

“We have returned to growth and made a profit following losses in every year since Flybe’s stock exchange flotation in 2010.”

Introduction

The second full year of our three-year transformation plan saw Flybe grow seat capacity by 9.7%, passenger volumes by 5.9% and passenger revenue by 8.2%, as well as deliver a profit, with an adjusted PBT for 2015/16 of £5.5m. This reflects a c£20m year-on-year improvement in profitability even after the adverse bookings impact from the Paris events in November, absorption of c£20m of cost relating to the E195 jets, our last key legacy issue, and pressure on yields from industry-wide capacity growth acceleration and lower fuel costs.

Resolution of the remaining key legacy issue, surplus E195 jets

In November 2015, we announced the resolution of our last major legacy issue with the redeployment of our remaining nine E195s. In conjunction with regional airports, we entered into arrangements that enable Flybe to deploy these aircraft on UK regional routes while mitigating half of the outstanding £80m financial burden to the end of the aircraft leases.

Agility and delivery in a difficult revenue environment

2015/16 saw an acceleration in seat capacity growth rates across the European short-haul sector, enabled by industry-wide lower fuel costs. This put significant pressure on airline yields, even as the benefits started to come through from the unwinding of fuel price hedging. This yield pressure was reinforced by the adverse impact on bookings following the tragic events in Paris in November 2015 and Brussels in March 2016.

In this difficult revenue environment, we decided to protect yields rather than to chase unprofitable marginal revenue and slowed our seat capacity growth rate by c10ppts to 2.4% in Q4. This enabled us to deliver on a full-year basis a 1.7% increase in yields while load factor decreased by 2.6ppts to 72.6%, with a corresponding

£623.8m

Total revenue

(2014/15: £574.1m)

1.4% decrease in passenger revenue per seat. Passenger demand is now slowly recovering. In the aftermath of Paris, we also maintained and sharpened our unit cost reduction focus. On a full-year basis, cost per seat, excluding fuel, was reduced by 2.3%, and including fuel by 4.2%.

During the year, we maintained our record of operational excellence, being named in January 2016 by OAG as among the top 20 airlines worldwide for punctuality in 2015. 85.4% of our flights over the past 12 months arrived within 15 minutes of their scheduled arrival time. We also continued to improve our schedule quality through frequency additions on 47 existing routes. This delivered enhanced appeal to business travellers (c50% of our total customer base) who are time-sensitive and place a significant premium on convenience. Our customer satisfaction levels increased by 3 percentage points to 58% (top two box score: completely satisfied, very satisfied). In January 2016, Flybe was named Best Short-Haul Airline at the 2016 Business Travel Awards, beating, among others, easyJet and British Airways.

On the commercial front, we signed a landmark codeshare agreement with Virgin Atlantic involving 14 Flybe routes connecting onto 20 Virgin routes (50% of their total) from the UK to the US and the Caribbean at Manchester, Glasgow and Gatwick. We also signed a new franchising agreement with Blue Islands which will operate flights to and from Jersey and Guernsey airports with effect from Summer 2016 in Flybe branded aircraft. In October 2015 we also successfully launched a new White Label solution for SAS, Scandinavia's largest carrier, flying regional routes in their livery out of Stockholm Arlanda. This operation is anticipated to grow to five aircraft in 2016/17.

In February 2016 we took ownership of three Q400 aircraft, previously on operating leases, for a cash consideration of £24.4m in line with our stated strategy of rebalancing the aircraft fleet away from reliance on operating leases and towards outright ownership, which brings the associated margin uplift. We took out debt against these aircraft in May 2016, post year end.

We also delivered a strong year-end cash position with total cash of £171.4m and net funds of £62.2m at 31st March 2016.

85.4%

On-time performance

(2014/15: 84.5%)

People

We have worked hard to engage our people and embed our Purple values during our turnaround. This year's employee satisfaction survey demonstrates the improvements made with an increase in our overall employee engagement score of 8 percentage points to 63%. I would like to thank all Flybe employees for their hard work, passion and commitment.

Public affairs

During the year, we continued to lobby the UK government on a number of fronts:

- to allow Flybe to operate scheduled services into Northolt airport to provide much-needed regional connectivity into the capital until new runway capacity is built in the south-east of England in 15 to 20 years;
- to reform, if not abolish, Air Passenger Duty as this is a discriminatory tax on regional travel on a per mile basis compared to international travel; and
- to drive, at EU level, reform of EU Regulation 261/2004 on passenger rights which similarly discriminates against regional airline operators. The payment in the event of three-hour controllable delays under EU 261 is three times Flybe's average ticket price; which we feel is disproportionate relative to Flybe's principal competitors, the rail, road and ferry operators.

Flybe joined the European Regions Airline Association (ERA) last year to lobby the European Commission, Parliament and member states to promote the interests of regional aviation. One of ERA's key priorities is the revision of EU261. ERA has 52 regional airline members across the EU.

Strategy and outlook

Going into the third and final year of our transformation, our plan remains to establish Flybe as a world-class regional airline, occupying a distinctive niche in European aviation. There is a need for relatively short flights (up to around 90 minutes) from regional airports. Many of these routes are too short (less than 400 nautical miles) or too thin (i.e. they have too few passengers) for the standard short-haul jet aircraft format, such as an Airbus A320 or Boeing B737, to operate profitably or with sufficient daily frequency. Furthermore, some of these routes use runways that are also too short for the effective operation of these aircraft. This makes such routes less attractive to a flag-carrying or low-cost airline, but means they are well suited to our preferred turboprop Q400 aircraft and our fleet of small regional jets.

Chief Executive Officer's statement

continued

Flybe's strategy will therefore remain focused on delivering unrivalled regional connectivity with high frequency on low-volume, short-hop routes which mainstream airlines (be they low-cost carriers or national flag carriers) are unable to serve effectively or profitably.

Flybe will also continue to promote its 'one stop service to the world' connecting regional customers to all continents with long-haul codeshare partners at key international hubs such as Manchester, Paris and Dublin. We currently have nine codeshare partners which include Virgin Atlantic, Cathay Pacific, Emirates, Aer Lingus and Air France.

Flybe currently connects Britain – one out of every two domestic flights in the UK is a Flybe flight. Our ambition is to connect Europe. A third of our seat capacity is already on UK to Europe routes and this coming year will see us increase that proportion to more than 40% as we cautiously build up our European density. In August we start our first intra-European flights flying from Hannover to both Milan and Lyon.

We expect double-digit seat capacity growth during 2016/17. 40% of this relates to E195 capacity deployed in airport partnership deals which provide cost mitigation, and the other 60% on routes with additional frequency requirements or on new low-volume, short-hop routes which strictly adhere to Flybe's business model.

Summary

This year, Flybe returned to growth and made an adjusted profit before tax for the first time since the Company's flotation in 2010, concluding the second full year of our three-year turnaround and setting down strong foundations for the future. We have made great progress in building a sustainable, scalable, world-class regional European airline.

We are well advanced in our transformation.

Saad Hammad

Chief Executive Officer
8th June 2016

Flybe's four chapter turnaround

1 Turnaround Chapter 1: Restructuring

Chapter 1 focused on securing the survival of the business and comprised 'Immediate Actions' to maximise internal cash generation, double the cost reduction previously undertaken, reconfigure the network, fleet and organisation, improve commercialisation and rebuild stakeholder confidence.

2 Turnaround Chapter 2: Rebirth of Flybe

On the back of the successful delivery of Chapter 1, we entered Chapter 2 in March 2014. This involved a strengthening of our balance sheet through a £150m net capital raise and a brand relaunch. This included a new customer promise: 'The fastest way from A to Flybe' along with the introduction of purple as our new brand colour and a new code of conduct designed to maximise individual, team and business performance.

3 Turnaround Chapter 3: Resolving legacy issues and laying foundations for profitable growth

With the business restructured, refinanced and relaunched, we entered Chapter 3 in early 2015. This focused on establishing growth platforms while addressing the Company's key legacy issues. By the end of 2015, Chapter 3 was completed. All key legacy issues were tackled and c£750m of liabilities eliminated. The resolution of legacy issues comprised completion of our cost restructuring with £74m gross savings delivered over two years, £3m above the original commitment; securing Bombardier's agreement to fund the upgrading of our Q400 fleet with 27 modifications designed to improve technical reliability; negotiating

away a firm order for E175 aircraft (c\$892m obligation removed) at no cost to Flybe; exit from the loss-making Flybe Finland joint venture (€125m potential liability eliminated) at no cash cost to Flybe; and resolution of our surplus E195 jet aircraft (reducing the financial burden to c£40m to the end of the aircraft leases).

During Chapter 3, we also established future growth platforms: growth in UK capacity coupled with improved commercial and operational execution enabled us to drive growth in passenger volumes and revenue over five consecutive quarters; four new bases and 45 new routes were launched; five new codeshares were signed and launched (Cathay Pacific, Finnair, Emirates, Aer Lingus, Virgin Atlantic), more than doubling the number to nine; and a number of new commercial partnerships were signed and launched including with Airbus Military, through which Flybe provides airframe-related maintenance at Brize Norton for the RAF's new fleet of A400M Atlas airlifters, and with SAS, for whom Flybe provides a White Label operation in Stockholm, flying regional routes on their behalf and in their brand livery.

4 Turnaround Chapter 4: Profitable growth

With the completion of Chapters 1-3, Flybe entered Chapter 4 at the turn of the year. We achieved profitability in 2015/16 and are now looking forward to an exciting part of Flybe's journey to become Europe's best regional airline, focused on disciplined growth into the continent while consolidating our presence in the UK.

Chapter 1

Restructuring

- Focus on additional cost reduction and cash generation measures, strengthening our commercial capability and driving revenue growth

Chapter 2

Rebirth of Flybe

- Raised £150m net proceeds on 12th March 2014
- Relaunched our brand in April 2014
- The purple Flybe - new, invigorated culture and ethos
- £22.5m restricted cash released

Chapter 3

Legacy issues resolved and foundations for growth

Legacy issues

- Exited Embraer E175 deal
- Secured future Q400 fleet
- Exited Finland joint venture
- Found solutions for 14 E195s

Foundations for the future

- New bases
- New routes
- Record load factors
- SAS White Label deal
- A400M maintenance deal

Chapter 4

Profitable growth

- Enhance product quality through frequency
- Energise organisation to improve route profitability
- Build European density

Scale cautiously into Europe while consolidating UK position

With the completion of Chapters 1-3, Flybe entered Chapter 4 at the turn of the year. We achieved profitability in 2015/16 and are now looking forward to an exciting part of Flybe's journey to become Europe's best regional airline, focused on disciplined growth into the continent while consolidating our presence in the UK.

Our business model

How we are different

We exclusively serve regional communities.
We fly low-volume, short-hop regional routes
which the mainstream airlines cannot operate
profitably or with sufficient frequency.

What we do

Flybe branded airline
in UK and White Label
regional services for
European flag carriers

Connecting 8.2m
regional customers, more
than half of whom are
business travellers

Faster and cheaper than
road and rail, which are
the principal alternatives

Translates into
time-saving access
to the world for
the regional customer

How we do it

Best in class
White Label
solution delivery

Purple people

Codeshares at
international
hubs to maximise
access to long-
haul destinations

**Improved
shareholder
returns**

Safe
operations

High frequency
schedule with
good punctuality

Smaller aircraft suitable
for regional routes and
neighbourhood
airports with
short runways

How we create value

Disciplined capital allocation

- Targeted growth
- Route assessment model
- Selective White Label expansion

Strong cost culture

- Drive efficient unit cost
- Optimise procurement
- Optimise processes

Revenue/customer focus

- Relentless customer focus
- World-class on-time performance
- High frequency service to maximise convenience

Values led organisation

- The Purple Way
- Purple safety
- Right people in right roles

Margin expansion

Achieve profitability and then build sustainable profit growth

Improved asset turn

Drive aircraft utilisation. Airlines are asset-heavy companies with aircraft being the main asset

Measuring our progress

We have a robust mix of operational and financial KPIs which we monitor closely to assess the effectiveness of our performance. Targets are set periodically and results are reviewed on a regular basis.

Safety reporting

→ As part of our commitment to establish a culture of safety excellence, we track the safety reporting rate at all levels on a monthly basis. This key indicator reflects the level of employee safety awareness across the business and is measured by the number of safety reports per 1000 sectors flown.

Per 1000 sectors

We have been pleased with the increase in reporting rates in 2015/16 following a company-wide safety awareness and training programme designed to maximise ownership of safety issues across all employees.

 [Read more on page 32](#)


People

Employee satisfaction

%

→ At Flybe, we are very proud of our employees and an important KPI is the overall employee engagement score. We carried out our first employee satisfaction survey in 2014/15 and will continue to do so on an annual basis.

We have been pleased to see an increase of 8 percentage points this year in employee engagement.

 [Read more on page 33](#)

Revenue growth

We measure revenue growth in two ways: unit revenue growth and total passenger revenue growth:

Unit revenue

£

→ We measure our unit revenue performance via passenger revenue per seat. Our objective is to increase total passenger revenue.

During 2015/16 we have seen a 1.4% reduction in revenue per seat, partly driven by the significant increase in capacity during the first three quarters, but also impacted by extraordinary events in our macro environment including the tragic events in Paris in November 2015.

 [Read more on page 22](#)

Total passenger revenue

£m

→ As we grow our seat capacity and improve our business execution, our objective is to increase total passenger revenue.

During 2015/16 we grew total passenger revenue by 8.2%, driven by 9.7% capacity growth and improvements in commercial and operational delivery.

 [Read more on page 22](#)

We also track four enablers of revenue growth: load factor, schedule reliability, on-time performance and customer satisfaction:

Load factor

%

→ Following the external challenges faced in 2015/16, we chose to maintain yield at the expense of load factor in order to optimise revenue.

Following the external challenges faced in 2015/16, we chose to maintain yield at the expense of load factor in order to optimise revenue.

 [Read more on page 23](#)

Reliability

%

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

Reliability has been improved year-on-year following investment in reliability modifications for the Q400 and the launch of a preventative maintenance programme in 2015/16.

 [Read more on page 23](#)

Key performance indicators

continued

Revenue growth

On-time performance

%

→ The primary performance measure for our customers is on-time performance, measured as a percentage of flights which arrive within 15 minutes of their scheduled arrival time.

We maintained our record of operational excellence in 2015/16, being named in January 2016 by OAG as among the top 20 airlines worldwide for punctuality in 2015.

 Read more on page 19

Customer satisfaction

%

→ Since 2014, we continuously carry out customer satisfaction measurement through large-scale customer surveys. We track our top two box scores ('completely' and 'very' satisfied).

Improvements in our schedule quality and across the end-to-end customer experience at Flybe have yielded a three percentage point improvement in customer satisfaction in 2015/16. While we are pleased with the improvement, we are targeting a further improvement in the coming year.

 Read more on page 16

Cost reduction

Cost reduction

→ We measure our cost reduction effectiveness by tracking unit cost performance via two cost indicators due to the proportion of our costs that are driven by fuel. We therefore measure and track cost per seat both including and excluding fuel.

Cost per seat including fuel

£

Continued vigilance and focus on our costs have enabled us to grow while driving a reduction year-on-year in cost per seat both including and excluding fuel in 2015/16.

 Read more on page 23

Cost per seat excluding fuel

£

Asset utilisation

Asset utilisation

Hours

→ Part of maximising the financial performance of our operation is ensuring that we have a high level of aircraft utilisation measured in block hours per aircraft per day. This in turn will then drive improvement in asset turn.

We have significantly improved our aircraft utilisation as part of the turnaround and have further increased it in 2015/16.

 Read more on page 15

Profit and cash delivery

Adjusted profit before tax

£m

→ Adjusted PBT is reported PBT less US dollar aircraft loan revaluation, which is a non-cash item. This is the key profitability measure used by Flybe.

Flybe Group delivered a profit as part of the three-year transformation programme. Having resolved all of our key legacy issues, we have moved into Chapter 4 of our turnaround which is focused on profitable growth.

 Read more on page 21

EBITDAR

£m

→ We have redefined EBITDAR in 2015/16 to align with the norm across the airline industry. Previously we included the costs associated with maintenance depreciation triggered by component accounting in the EBITDAR calculation. We have now restated this for 2014/15 to ensure year-on-year comparability.

EBITDAR has improved as a result of the significant increase in profitability.

 Read more on page 21

Cash

£m

→ Cash generation and maintaining a healthy total cash balance are key priorities for Flybe. The main measure is total cash, which is a combination of free cash and restricted cash.

In February 2016 we purchased three aircraft for £24.4m as part of our strategy to have a more balanced owned/leased portfolio. We took out debt against these aircraft in May 2016, post year end.

 Read more on page 25

A clear strategy for growth

The commitment that we have shown to our key strategic drivers is showing positive results, and we are confident that we will continue to benefit from our disciplined approach.

Revenue growth

Following a 7.6% planned reduction in capacity in 2014/15, Flybe returned to growth in 2015/16 and its focus is on sustainable profitable growth going forward.

Progress on strategy

- Five quarters of both revenue and seat capacity growth from Q4 2014/15 onwards.
- Seat capacity growth in 2015/16 was 9.7%.
- Flybe expects to grow in the next financial year and will continue its expansion into Europe.

Key performance indicators

- ⬆ Passenger revenue up 8.2%
- ⬇ (1.4%) reduction in revenue per seat

Principal risk to strategy

Exogenous shocks
e.g. security events and macro-economic changes impacting consumer behaviour.

Continued softer yield driven by lower fuel prices and industry-wide capacity increases.

Heightened airline or intermodal competition on key routes.

Cost reduction

Sustained cost focus across all company activities. Aim to reduce cost per seat year-on-year.

Progress on strategy

Flybe has resolved the last key legacy issue, the grounded E195 aircraft, mitigating c£40m of the £80m lease obligations over four years. Cost per seat excluding fuel was reduced for the second year running.

Key performance indicators

- ⬆ 2.3% reduction year-on-year in cost per seat excluding fuel

Principal risk to strategy

Fuel is a significant part of the cost base and hedging only covers up to 90% of requirement.

A third of our costs are US dollar denominated and a strengthening of the US dollar against sterling is a risk when hedging only covers up to 90% of requirement.

Key:

-  Improvement
-  Worsening
-  Stable
-  Considered as part of viability assessment

Asset utilisation

Continually improve the utilisation of our assets, with the primary asset being our aircraft.


Progress on strategy

Flybe has increased aircraft utilisation in terms of block hours per aircraft per day, despite significant increase of capacity in winter.

Principal risk to strategy

The seasonality difference between Winter and Summer is considerable, driving poor utilisation.

Key performance indicators

-  1% increase in block hours per aircraft per day to 7h02 (2014/15: 6h58)

Profit and cash delivery

Continued sustainable growth in profit levels.
Drive cash generation.

Progress on strategy



Flybe has resolved all key legacy issues and improved the performance of our core UK business.

Principal risk to strategy

Regulatory and legislative changes.

Exchange rate movement on US dollar loan revaluations.

Key performance indicators

-  Adjusted PBT £5.5m
-  Total cash reduced by £24.5m reflecting purchase of three aircraft at £24.4m

Returning to growth

This has been a year of significant achievement in our turnaround journey, with strong performance around the business.

Flybe UK

Flybe UK made substantial progress in 2015/16 in terms of revenue growth and adjusted profit of £8.8m in 2015/16, an improvement of £32.9m from a loss of £(24.1)m in 2014/15. The profit improvement excludes Group costs of £(5.8)m in 2015/16 (2014/15: £(3.6)m and US dollar loan revaluation losses of £(2.8)m, (2014/15: £(10.2)m). This profit was driven by a combination of network and commercial enhancements and improved operational delivery in addition to a focus on unit cost reduction.

Firstly we made significant investments to optimise and grow our network. On the optimisation front, c50% of our routes now have at least two daily frequencies. Multiple daily frequencies are important to business travellers, who are time-sensitive and require a choice of flight departure times.

We also launched 52 new routes during the year of which only 14% had an airline competitor. These new routes focused on connecting our regional bases to important regional centres in Europe such as Rotterdam, Dusseldorf, Amsterdam, Paris and Milan, as well as some domestic route infilling, such as Edinburgh-Liverpool and Exeter-Glasgow.

In addition, we extended our 'One Stop to the World' programme which provides access to long-haul destinations for our customers through our international codesharing partners at key hubs within Flybe's network. We renewed our Aer Lingus codeshare agreement, which provides feed for their transatlantic routes to North America through Dublin, and signed a new codeshare agreement with Emirates, which sees Emirates' code added to 25 Flybe routes across the UK, seamlessly connecting regional UK customers with Emirates flights to Dubai and beyond from our Manchester, Glasgow and Birmingham gateways.

Secondly, we were able to drive passenger growth by a) improved marketing with more focus on digital channels, b) a more targeted sales programme through travel management companies focused on large travel buyers including corporates and public sector organisations, c) completing the automation of business rules in our revenue management systems, which enables us to optimise yield and load factor by type of route, and d) improved operational delivery with punctuality up versus prior year for both departure and arrival within 15 minutes of scheduled times.

The improvements in Flybe's commercial and operational execution were accompanied by enhancements in customer service delivery. During the year, we transferred our outsourced call handling operations from Exeter to Belgrade resulting in both cost reduction and improved service levels. The cumulative impact of the improvements across Flybe UK resulted in a 3 percentage points year-on-year increase in customer satisfaction to 58%. While pleased with this improvement, we are targeting to improve customer satisfaction further this year.

Flybe was recognised during the year for its improvements. It was named by OAG as one of the most punctual airlines in the world in 2015 and it won Best Short-Haul Airline in January 2016 at the Business Travel Awards in London.

11.3m**Available seats**

(2014/15: 10.3m)

8.2m**Passengers**(2014/15: 7.7m)

Winner of best short-haul business airline

Flybe was named as the Best Short-Haul Airline at the 2016 Business Travel Awards. Judged by top industry professionals, the awards are regarded as the highest recognition given by the UK travel industry and among the most valued in the business travel sector worldwide.

Flybe beat off competition from legacy carriers British Airways and KLM, as well as other airlines such as Easyjet and Fastjet, and the win is seen as a validation of Flybe's turnaround strategy over the past 18 months.

The judges commented that 'new routes, especially those out of London City, and the fact that 50% of its passengers are flying for business-related reasons, highlight the fact that Flybe is very much geared to the corporate market'.

Flybe now occupies a distinctive niche in regional aviation providing a better alternative to rail, road and other airlines in providing time saving business travel for regional customers. The choice of frequent and conveniently timed flights, coupled with value pricing and a strong commitment to customer service, is clearly favoured by business travellers for short-haul flights.

72.6%

Load factor
(2014/15: 75.2%)

Structural change in fuel price

During 2015 fuel prices have continued to remain at a very low level, driving sustained pressure on yield and significant capacity growth from most airlines. Due to the level of hedging in place at Flybe, this year has seen the first benefit from the lower fuel price, improving our financial performance. However, since all airlines as well as road, rail and ferry operators benefit from lower fuel and energy prices, much of this cost reduction is competed away to the benefit of customers in terms of lower air fares.

Cash

Working with our credit card providers, we have reduced restricted cash even further from £18.0m in March 2015 to £7.8m at the end of March 2016 and we had a healthy £171.4m total cash at 31st March 2016 (31st March 2015: £195.9m), in line with our cash strategy outlined at the time of the equity raise in 2014. The reduction in cash year-on-year is mainly as a result of the purchase of three Q400 aircraft for £24.4m.

Costs

We have continued to challenge our cost base. These efforts resulted in a reduction in cost per seat, excluding fuel, of 2.2%. In the face of a challenging environment, with additional pressure on revenue particularly in the fourth quarter, our focus on cost has enabled us to maintain our profitability in line with forecasts. This resilience is an indication of the strength of our business model and our ability to respond quickly to a changing environment.

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, cabin crew simulator hulls for safety and refresher training, and an engineering apprentice workshop.

Qualifications offered include a flight deck Multi-Crew Pilot's Licence (under the first CAA-approved scheme for a UK airline), cabin crew and customer service NVQs, Foundation and Bachelor degrees, and engineering aircraft type approvals.

This asset has proved immensely beneficial in support of our training requirements for crew driven by capacity growth.

£50.64

Passenger revenue per seat
(2014/15: £51.35)

White Label

There are currently seven aircraft flying (six as at 31st March 2016) as part of the White Label operation. These aircraft operate under Flybe's Airline Operating Certificate and are provided with Flybe flight and cabin crew, as well as maintenance. The aircraft operate short-haul services in Europe with five ATR 72-600 aircraft based at Arlanda, Stockholm, flying on behalf of SAS, and two Bombardier Q400 based in Brussels flying for Brussels Airlines.

Operations with SAS have been phased in since commencement in October 2015 with the fifth aircraft being introduced in May 2016.

A two-year extension to the existing contract with Brussels Airlines commenced in October 2015. Flybe will be using local crew for these operations.

Flybe Aviation Services (FAS)

FAS, a stand-alone entity to house our maintenance, repair and overhaul (MRO) business, is based in Exeter and provides third party maintenance coverage of the BAe, ATR, Bombardier and Embraer aircraft types, as well as maintenance, repair and overhaul (MRO) services for Flybe's own fleet.

Workload in FAS, measured by man-hours, increased by 2.6% to 548,000 hours (2014/15: 534,000 hours). Third party work accounted for 53.3% (2014/15: 53.6%), with the balance being work on behalf of Flybe.

The business delivered revenue of £42.8m and a profit before tax of £2.5m (2014/15: revenue £40.8m; profit before tax £2.3m).

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

In addition, FAS is a leading MRO business in A400M maintenance services, proudly supporting the UK's Royal Air Force through Airbus Military. This business unit has seen significant volume increase over the past 12 months and is set to grow to support the deployment of additional A400Ms by the RAF.

World class punctuality

Flybe was one of only two UK-based carriers to feature in the top 20 global airlines punctuality league table, outperforming many major UK carriers for its on time performance (OTP) ratings in the Punctuality League 2015, published by the globally renowned air travel intelligence specialist, OAG. The annual report is regarded as the industry's most comprehensive annual ranking of on time performance for the world's airlines and airports. With an 87.47% on time performance record, Flybe was placed in 17th position on the global listing.

We operate in excess of 450 flights a day so such official and independent recognition of our punctuality record is always extremely welcome. A good record for departing and arriving within the accepted 15-minute window is naturally one of the main considerations for travellers when deciding to which airline they will take their business.

We aim to provide time-saving air travel in comparison not just with other modes of transport such as road or rail, but also other airlines. This positive benchmarking report affirms that we are on the right track. Punctuality remains at the forefront of our growth strategy.

This latest report reinforces other high profile recognition received in recent years. In May 2015, the Civil Aviation Authority's (CAA) 2014 On-Time Performance Report confirmed that Flybe had outperformed many other major industry players (defined as those operating more than 25,000 flights a year from CAA reporting airports), bucking the industry's downward trend with an 82% on-time ranking, a full 3% above the industry average. This again exceeded that of such well-known names as British Airways (77%), Easyjet (78%) and Ryanair (79%).

This followed having been named as the UK's most punctual airline in a report issued by the influential consumer watchdog 'Which?' in December 2014.

Continuous focus on further cost per seat reduction

Disciplined growth and cost focus made us profitable in 2015/16.

Philip de Klerk
Chief Financial Officer

“We delivered a good year resulting in a strong balance sheet, a healthy cash position and in profit.”

Summary

2015/16 has been a year of returning to growth and achieving profitability for Flybe Group. Total revenue increased by 8.7% to £623.8m from £574.1m, as the UK business saw capacity increase by 9.7% to 11.3m seats, and passenger numbers increased significantly to 8.2m compared to 7.7m in the previous year through an improved route network and customer offering. Flybe has now created a platform to expand further in Europe.

During 2015/16 Flybe continued to reduce unit cost, both including and excluding fuel. We focused heavily on airport and aircraft ownership cost reduction. The resolution of the last key legacy issue, the nine remaining E195 aircraft, was a major achievement in the year. We absorbed c£20m of E195 related costs in 2015/16 related mainly to lease and maintenance costs, insurance, margin dilution and ‘back in to service’ costs. The future costs related to these aircraft remain as communicated before: £10.0m in 2016/17, £6.0m in 2017/18 and £4.0m in 2018/2019. Overall, we have mitigated half of the outstanding financial burden to the end of the aircraft leases.

Flybe invested in taking ownership of a further three of our leased Q400 aircraft in February 2016 for £24.4m as per the strategy of owning 50% of the fleet over time. During the year we started to benefit from the lower fuel cost as our hedges started unwinding.

The MRO business, Flybe Aviation Services, generated a profit before tax of £2.5m (2014/15: £2.3m).

Flybe made an adjusted profit before tax of £5.5m (2014/15: loss of £(25.4)m). 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 dollars. Including these revaluations, we made a profit before tax of £2.7m (2014/15: loss of £(35.6)m including discontinued operations).

£2.7m**Reported profit before tax**

(2014/15: loss before tax of £(35.6)m including discontinued operations)

£5.5m**Adjusted profit before tax¹ and USD loan revaluations**

(2014/15: £(25.4)m including discontinued operations)

£120.1m**EBITDAR**

(2014/15: £83.5m)

Flybe continues to have a robust balance sheet with free cash of £163.6m at the end of March 2016 (2014/15: £177.9m), net of restricted cash of £7.8m (2014/15: £18.0m) and net funds of £62.2m (2014/15: £76.6m).

EBITDAR improved by 43.8% to £120.1m from 2014/15's £83.5m as we achieved profitability.

Set out below is a reconciliation from operating profit/(loss) to the EBITDAR figures. EBITDAR metrics are non-GAAP measures².

EBITDAR is a common airline profit measure which is used for making comparisons between airlines.

	2016 £m	2015 restated £m	Change %
Operating profit/(loss)	8.7	(13.0)	166.9%
Discontinued operations profit/(loss)	-	(12.0)	(100.0)%
Depreciation and amortisation	32.1	27.9	15.1%
Aircraft rental charges	79.3	80.6	(1.6)%
EBITDAR	120.1	83.5	43.8%

The 2015 EBITDAR has been restated to show the gross depreciation on maintenance assets. These were previously reported as net.

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

	2016 £m	2015 £m	Change %
Profit/(loss) before tax			
- unadjusted	2.7	(35.6)	107.6%
USD loan revaluations	2.8	10.2	(72.5)%
Adjusted profit/(loss) before tax and USD loan revaluations	5.5	(25.4)	121.7%

The adjusted profit/(loss) before tax figures given above are non-GAAP measures².

Fleet

In 2014/15 Flybe entered into agreements with Embraer and Republic Airlines ('Republic') whereby the contractual commitment to acquire 20 (of a backlog of 24) Embraer E175 aircraft was removed and Flybe committed to sub-leasing 24 Republic Q400 aircraft between 2015 and 2019. In 2015/16 Flybe took delivery of five Republic aircraft with five further aircraft scheduled for delivery in 2015/16 being delayed into 2016/17.

¹ Adjusted profit before tax is calculated as reported profit before tax of £2.7m, excluding USD loan revaluations £2.8m, and is therefore £5.5m.

² Non-GAAP 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 non-GAAP measure is determined from the most directly comparable measure calculated and presented in accordance with IFRS. The non-GAAP 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.

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Flybe has entered into a contract with Nordic Aviation Capital (NAC) to cancel obligations to lease nine used Bombardier Q400 turboprop aircraft, while taking ownership of 10 Q400 aircraft it was under contract to lease, for a cash consideration of c£86.0m, with delivery and consideration to take place over the next 12 months. The contract has a number of conditions that still remain to be satisfied as at 8th June 2016. This will leave 10 Q400 aircraft to be delivered in 2016/17 (see page 113 – post balance sheet event).

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

One Embraer E195 aircraft was redelivered to its lessor in 2015/16. No other redeliveries have taken place in the year. Flybe also took ownership of three of its previously leased Q400 aircraft in 2015/16.

The following table shows the current number of aircraft that are contracted for delivery to the Group.

	ATRs	E175s	Republic Q400s
2016/17	1	-	10
2017/18	-	-	-
2018/19	-	3	-
2019/20	-	1	-
Total	1	4	10

The profile of Flybe's fleet at 31st March 2015 and 31st March 2016 is summarised below:

	Number of seats	Number of aircraft		
		31st March 2015	At movements in period	31st March 2016
Embraer E195 regional jet	118	10	(1)	9
Embraer E175 regional jet	88	11	-	11
ATR72 turboprop	70	-	4	4
Bombardier Q400 turboprop	78	45	5	50
Total		66	8	74
Held on operating lease		52	5	57
Owned and debt financed		14	3	17
Total		66	8	74
Total seats in fleet		5,658	552	6,210
Average seats per aircraft		86.0	(2.0)	84.0
Average age of fleet (years)		7.0	0.4	7.4

As at 31st March 2016 Flybe had 74 aircraft.

The Group will continue to match capacity to demand. With the announcement of the completion of 'Project Blackbird' in 2015/16, Flybe has found solutions for its 14 surplus E195s, with:

- five returned to lessors (four in 2014/15);
- two based at Cardiff, one based at Exeter and two based at Doncaster, under long-term agreements with the respective airports;
- one based at Newquay flying under a Public Service Obligation agreement with Cornwall Council; and
- two operating on high demand routes at Birmingham and Manchester airports plus one standby.

Business results

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

	2016 £m	2015 £m
Business revenues:		
Flybe UK	601.0	550.7
FAS	42.8	40.8
Inter-segment sales	(20.0)	(17.4)
Group revenue	623.8	574.1
Business adjusted profit/(loss) before tax:		
Flybe UK ¹	8.8	(24.1)
FAS ²	2.5	2.3
Group costs	(5.8)	(3.6)
Adjusted profit/(loss) before tax and USD loan revaluations³	5.5	(25.4)
Revaluation losses on USD aircraft loans	(2.8)	(10.2)
Group profit/(loss) before tax	2.7	(35.6)

¹ Flybe UK adjusted profit before tax is the segment profit of £8.8m (2014/15: £(24.1)m loss) after deducting Group costs of £5.8m (2014/15: £3.6m), and revaluation losses on USD aircraft loans of £(2.8)m (2014/15: losses of £(10.2)m).

² FAS profit before tax is the segment profit of £2.5m (2014/15: profit £2.3m).

³ Adjusted profit/(loss) before tax and USD loan revaluations defined as profit/(loss) before tax and revaluation losses on USD aircraft loans of £(2.8)m (2014/15: loss of £(10.2)m).

Flybe UK Revenue

	2016		2015	
	£m	£ per seat	£m	£ per seat
Passenger revenue	571.7	50.64	528.6	51.35
Contract flying	13.9		11.6	
Other revenue	15.4		10.5	
Total revenue	601.0		550.7	

74**Aircraft**
(2014/15: 66)**8.2m****Flybe UK passengers**
(2014/15: 7.7m)**£50.64****Flybe UK passenger revenue per seat**
(down 1.4% from £51.35 in 2014/15)

As discussed in the Business Review above, Flybe UK discontinued under-performing routes and drove load factors by yield investment and improved marketing. The 9.7% increase in seat capacity was offset by a 2.6 percentage points decrease in load factor. This resulted in annual passenger numbers increasing to 8.2m. The increase in passenger numbers and the increase in passenger yield resulted in an 8.2% increase in passenger revenue to £571.7m.

Due to the fact that the additional capacity was introduced recently, revenue per seat fell by 1.4% (to £50.64).

Other revenue in Flybe UK totalled £15.4m, a 46.7% increase on the £10.5m generated in 2014/15 driven mainly by an additional £5.7m contract receivables in association with our arrangement in Cardiff.

Contract flying was up £2.3m to £13.9m reflecting the start of SAS operations in Sweden.

Operating costs (Flybe UK)

	2016		2015	
	£m	£ per seat	£m	£ per seat
Fuel and aircraft operations	304.9	27.00	283.3	27.53
Aircraft ownership and maintenance	152.4	13.49	148.6	14.44
Staff and other net operating expenses	137.4	12.18	133.8	13.00
Operating costs	594.7	52.67	565.7	54.97

Operating costs, increased by 5.2% from £565.7m to £594.7m. The increase is significantly less than the increase in capacity growth of 9.7% as we have focused on cost control and cost savings.

Despite an increase in the number of aircraft from 66 to 74, the total aircraft rental charges reduced from £80.6m to £79.3m as we purchased three aircraft from lease and reduced the number of E195 aircraft to nine.

A better mix between digital and traditional advertising and improved marketing execution enabled us to reduce the marketing and distribution cost by £2.2m, while continuing to support our growth.

With growth, variable cost will increase as well. We have seen this especially in staff costs, airport and en-route charges and ground operations.

The focus on technical reliability and applying best Bombardier practices have resulted in a reduction of the maintenance cost by £1m from £22.3m to £21.3m.

As outlined below, Flybe benefited from fuel hedges unwinding through the year. The reduction was partly offset by capacity increases.

Cost per seat including fuel reduced by 4.2% from £54.97 to £52.67.

Cost per seat excluding fuel reduced by 2.3% from £44.72 to £43.67.

Fuel

The spot price of fuel has seen a decline in 2015/16 from \$822/MT to \$481/MT (42% reduction). Flybe has a hedging policy to protect itself from short-term fluctuations in spot prices, and so, in line with most other airlines, our net fuel price decreased by only 13.7%. Our net fuel costs decreased by 3.7% (net of FX adjustments) to £101.6m (£105.5m in 2014/15) with a 9.2% increase in volume of flights offsetting some of the fuel price saving. Aviation fuel prices remain liable to large and unpredictable movements due to a variety of external factors, including changes in supply and demand for oil and oil-related products.

During the year to 31st March 2016, Flybe UK used some 173,254 tonnes of jet fuel, an increase on 2014/15 of 8% from 160,702 tonnes. The average market price during the year was USD470 per tonne (2014/15: USD807), with the Group paying a blended rate (net of hedges) of USD826 per tonne (2014/15: USD949). Including 'into plane' costs, Flybe's fuel costs in 2015/16 of £101.6m (2014/15: £105.5m) represent an all-in cost of USD911 per tonne for 2015/16 (2014/15: USD1,041). Using constant currency, our fuel costs per seat decreased by 12.2% from £10.24 to £9.00.

Flybe UK operates a policy of managing fuel price volatility by entering into derivative contracts representing a portion (between 60% and 90%) 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 fuel costs for any forthcoming IATA

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season. As at March 2016, 90% of the year's fuel requirement to March 2017 was hedged at an average price of USD569 per tonne. Further details are given in note 34 to the consolidated financial statements. Taking into account our hedged position, each USD50 increase/decrease in the price of jet fuel reduces/improves Group profits in 2016/17 by £0.6m.

Net finance costs

Net finance costs improved by £4.9m mainly due to a £7.4m non-cash, non-underlying movement on the retranslation of US dollar denominated debt used to fund the acquisition of aircraft, from a loss of £10.2m in 2014/15 to a loss of £2.8m in 2015/16. The movement in this US dollar liability cannot be naturally offset against the value of the aircraft as the latter is recorded in pounds sterling in order to comply with the requirements of International Financial Reporting Standards. This income statement charge of £2.8m has therefore been removed in arriving at adjusted profit before tax. Other finance costs increased by £2.5m including the release of £(0.3)m interest receivable and £1.5m recycling of foreign exchange losses on Flybe Finland.

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. Flybe UK 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. As at 31st March 2016, 90% of our anticipated US dollar requirements for the year to 31st March 2017 were hedged at an average exchange rate of USD1.5079. All existing derivative financial instruments are forward swap arrangements.

Taking into account our hedged position, each USD0.05 reduction/improvement in the US dollar exchange rate has the effect of reducing/increasing Flybe UK's profits in 2016/17 by approximately £0.7m.

Carbon emissions

The Group is required to purchase carbon allowances for all flights departing from and arriving into the EU in order to offset its carbon footprint in each calendar year. Flybe manages its exposure by purchasing carbon emissions allowances through a forward purchase programme to top up the free allowances awarded to it under the scheme. The table below sets out Flybe UK's emissions and carbon allowances for each of the periods under review:

Calendar year	2016 Budget	2015 Actual
Anticipated carbon allowances required, tonnes	507,150	503,663
Free allowance allocation, tonnes	222,778	222,778
Proportion hedged at beginning of period	100%	100%
Effective carbon rate	€4.13	€3.52

FAS

In November 2014 we created FAS, a stand-alone maintenance, repair and overhaul (MRO) business which includes the MRO business that was part of Flybe Limited. The results for FAS in 2015/16 (combined MRO and FAS for 2014/15) were as follows:

	2016 £m	2015 £m	Change %
Revenue	42.8	40.8	4.9%
Operating costs	(40.3)	(38.5)	4.7%
Profit before tax	2.5	2.3	8.7%

Revenue increased by 4.9% in 2015/16 to £42.8m (2014/15: £40.8m), of which £22.8m was for third party customers (2014/15: £23.2m). This increase was driven by the 2.6% increase in man-hours from 534,000 in 2014/15 to 548,000 in 2015/16. The increase in revenue generating capacity led to a 4.7% increase in operating costs from £38.5m to £40.3m. FAS, despite being loss making in H1 as a result of delays of third party work from H1 to H2 and a focus on E195 solution preparation, increased its profitability by 8.7% to £2.5m for the full year.

Group costs

Group costs of £5.8m (2014/15: £3.6m) include Group Board salary costs and Group related legal and professional fees. The increase year-on-year is primarily due to an accrual for a staff bonus of £2.4m (2014/15: £nil). The reduction in Group Board costs in the year has been offset by higher adviser, legal and professional fees.

£171.4m

Total cash including restricted cash
(2014/15: £195.9m)

Profit/(loss) before and after tax

The Group's reported profit before tax was £2.7m (2014/15: £(35.6)m loss including discontinued operations).

The Group's adjusted profit before tax and US dollar aircraft loans revaluation was £5.5m (2014/15: £(25.4)m loss).

Profit after tax was £6.8m (2014/15: £(35.7)m loss). The current year tax credit was £(4.1)m (2014/15: charge £0.1m).

EPS and dividends

Basic earnings per share for the year were 3.1p, compared to loss per share of (16.5)p in 2014/15.

No dividends were paid or proposed in either 2015/16 or 2014/15.

Cash flow

	2016 £m	2015 £m	Change £m
Net cash inflow from operating activities before restructuring	64.1	30.1	34.0
Net capital expenditure after disposal proceeds	(64.3)	(36.6)	(27.7)
Net (repayment)/proceeds from loans	(12.8)	7.0	(19.8)
Net interest paid	(1.3)	(0.5)	(0.8)
Net decrease in cash and cash equivalents	(14.3)	-	(14.3)
Cash and cash equivalents at beginning of year	177.9	177.9	-
Cash and cash equivalents at end of year	163.6	177.9	(14.3)
Restricted cash	7.8	18.0	(10.2)
Total cash	171.4	195.9	(24.5)
Net borrowing	(109.2)	(119.2)	10.0
Net funds	62.2	76.7	(14.5)

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£154.2m

Net assets

(2014/15: £140.0m)

The Group generated £53.9m from operating activities excluding the movement in restricted cash of £10.2m (2014/15: £7.6m excluding the movement in restricted cash of £22.5m). See cash flow statement on page 85 for the breakdown of cash inflow from operating activities. Largely due to further negotiations, the restricted cash was reduced by £10.2m. £10.0m was due to reduction in the restricted cash for our card acquiring merchants and £0.2m due to changes in exchange rates on our outstanding restricted cash balances.

Financing activities of £14.1m included £12.8m of repayment of borrowings, £2.1m of interest paid and £0.8m of interest received, (2014/15: £6.5m including net borrowings of £7.0m and £0.5m of net interest payments). As a result, total cash (excluding debt) available was £171.4m at the year-end (2014/15: £195.9m).

Balance sheet

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

The £192.3m of net book value of aircraft represents owned aircraft, engines and aircraft modifications. The increase of £25.9m is mainly due to the purchase of three aircraft at £24.4m.

Net funds, representing cash offset by debt, at 31st March 2016 of £62.2m (2015: £76.7m) has reduced as outflows related to the purchase of three aircraft for £24.4m in February 2016. Net funds at 31st March 2016 includes restricted cash of £7.8m (£18.0m at 31st March 2015) which represents, predominantly, cash deposits held in favour of aircraft owners to secure operating lease arrangements.

The mark-to-market valuation of derivative financial instruments increased from a liability of £7.2m at 31st March 2015 to a liability of £9.9m at 31st March 2016, as foreign exchange rates and fuel prices moved against Flybe's portfolio of contracts. Net negative other working capital increased from £(115.6)m to £(123.5)m, largely due to the increase in trade and other payables.

The balance sheet also includes the impact of the defined benefit pension scheme deficit of £15.3m which is included in other non-current assets and liabilities above. This scheme, which is closed to future benefit accrual, had been in deficit by £21.0m at March 2015. The year-on-year decrease of £5.7m in the deficit is primarily due to the change in the discount rates. A recovery plan of £0.5m contribution per annum from Flybe was agreed as part of the last actuarial review in 2013. A new valuation commenced in March 2016.

Covenants

The Group has certain financial performance covenants in relation to some of its aircraft financing agreements. These specify performance, depending on the contractual terms, against a series of tests, which are performed either quarterly, half-yearly or annually. Flybe has met all the terms of the covenants tested since the inception of the arrangements to 31st March 2016 (see note 22 to the consolidated financial statements).

Country and currency risk

Flybe's UK business operates in a global marketplace. Most of Flybe's customers are based in Europe, although the MRO business also has customers from Africa, the Middle East and the central Asian republics. Most of Flybe's revenues are derived from UK-based customers (about 85% of Group revenue). Aircraft are bought and sold in US dollars as are other key costs such as fuel, lease costs, maintenance and aviation insurance. Airport and enroute charges are payable in a mix of sterling and euros and an expansion into Europe will mean greater exposure to euro revenues and costs. This is further considered in the Risks and Uncertainties section on pages 28 to 31 and note 34 'Financial instruments'.

Going concern

Flybe's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Chairman's and Chief Executive Officer's statements on pages 2 to 7. The financial position of the Group, its cash flows and liquidity position, and events since the balance sheet date are described in the financial performance section of that statement on page 113 and in the Financial Review on pages 20 to 27. In addition, note 34 covers Flybe's financial risk management objectives, details of its financial instruments and hedging activities and its exposures to credit risk and liquidity risk.

Flybe had free cash balances of £163.6m at 31st March 2016, and has met all of its operating lease commitments and debt repayments as they have fallen due during the year.

Flybe faces trading risks presented by current economic conditions in the aviation sector, particularly in relation to passenger volumes and yields and the associated profitability of individual routes.

The Group is exposed to fluctuations in fuel prices and foreign exchange rates. The Group's policy is to hedge between 60% and 90% of estimated exposures 12 months in advance. As of 31st May 2016, we had purchased 90% of our anticipated fuel requirements and 90% of our anticipated US dollar requirements for 2016/17.

The Group increasingly purchases aircraft outright rather than leasing, and has access to a loan facility to part fund such purchases as described on page 113 – post balance sheet event note.

The directors have prepared a detailed trading budget and cash flow forecast for a period which covers at least 12 months after the date of approval of these financial statements. 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 2019. 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 page 28 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 2019.

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 not be a significant change in government regulation.

Philip de Klerk
Chief Financial Officer
8th June 2016

Principal risks and uncertainties

Responsible risk management

We have implemented an effective model for the assessment, review and mitigation of risks.

Description	Impact	Mitigation	Risk trend
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.	Significant adverse effect on Flybe's reputation, financial results and operational performance.	<p>Safe and secure operations are the number one priority for all of Flybe's management and staff.</p> <p>A Safety and Security Review Board, chaired by Sir Timo Anderson, is responsible for assuring all policy and governance.</p> <p>Flybe operates both a strong Safety Management System and a comprehensive Security Management System and has appropriate procedures in place, including trained staff.</p> <p>An emergency response plan is in place and is reviewed and tested, including full crisis management.</p>	
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.	<p>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.</p> <p>Breaches in IT security, or fraud, could adversely affect Flybe's brand and reputation, and have an adverse impact on revenue.</p>	<p>A security improvement programme is underway to improve resilience in this area. The following controls are in place:</p> <ul style="list-style-type: none"> → Information Security Committee oversees the security framework to ensure appropriate controls are put in place; → 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. 	

Key:



Reduced risk










Increased risk



Stable







Considered as part of viability assessment

Description	Impact	Mitigation	Risk trend
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. 	Adverse pressure on revenue and load factors, and negative impact on Flybe's growth prospects, financial condition and the value of its assets, particularly aircraft.	Flybe monitors route performance within its commercial teams and adjusts flying patterns to customer demand. Flybe's fleet planning is designed to provide it with the most fuel-efficient aircraft available under a mix of ownership and lease terms.	
Flybe operates in a highly competitive aviation market. 	Adverse effect on market share leading to reduced revenue and profits.	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.	
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.	Flybe has procedures in place to respond to such events, and to communicate effectively with passengers and shareholders.	
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.	Flybe operates a rigorous aircraft maintenance programme, with continuous improvement to aircraft reliability through development of modifications through Bombardier. Standby aircraft within the programme allows some flexibility in aircraft availability.	

Principal risks and uncertainties

continued

Description	Impact	Mitigation	Risk trend
Flybe is heavily dependent on its information technology systems, the ongoing development of those systems, and the internet to operate its business. Future scalability and resilience of such key systems are an issue to the business maintaining a competitive advantage.	Inability to implement successful development could lead to Flybe's business plans not being fulfilled.	IT project prioritisation and control are in place in order to adequately focus attention and resources on the key project deliverables. Flybe uses third parties to supplement its own resources. Effective processes relating to contract review, compliance and management are in place to mitigate the consequent risks that arise.	
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.	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.	
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, and therefore the risk has reduced.	
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. The failure to remove surplus aircraft costs, or to have delivery of additional aircraft surplus to requirements, has been removed and is therefore no longer a risk.	

Description	Impact	Mitigation	Risk trend
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Regulatory

Regulatory changes in the airline industry may have an adverse impact on an airline's costs, operational flexibility, marketing strategy, business model and ability to expand.

Adverse impact on reputation, costs and market share coupled with decline in growth opportunities.

Management engages with governments through direct contact and membership of industry organisations.

Flybe has an in-house legal team to monitor compliance with formal regulatory requirements.



In the event that the UK leaves the European Union, this could have an effect on the Group due to its operations across Europe.

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.



Responsibility at our core

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.

Safety first

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.

New reporting processes and systems have been implemented and company-wide encouragement has been given to all group members and service partners to further increase hazard and near-miss safety reporting. The 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 - a 'Just Culture' - with all incidents investigated objectively and thoroughly.

The priority of safety and security within Flybe was further demonstrated through the formation of a separate, and independent, Safety and Security Department during the year, headed by a new Director of Safety and Security. This team provides safety investigation, compliance monitoring (auditing), security management, flight data monitoring and health and safety expertise under one department. 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 and Security Committee (SSC), chaired by Sir Timo Anderson, an independent Non-Executive Director, meets quarterly and is charged with holding the operational executive management team to account for all safety, security and compliance matters, reporting directly to the Board.

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 Action Group chaired by the Accountable Manager, Flybe's Chief Operations Officer, Luke Farajallah. The effectiveness of the SMS is reviewed at the Safety and Security Review Board which is chaired by the Chief Executive Officer, Saad Hammad.

Flybe as a member of IATA is required to maintain International Operational Safety Audit (IOSA) accreditation. The airline underwent its IOSA renewal audit during May 2015 and has subsequently had its accreditation extended 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.

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.

2,262

Flybe employees

at 31st March 2016

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. Managers undergo training in their roles and responsibilities in relation to health and safety.

Health and safety is incorporated into the Flybe SMS and overseen by the Flybe Health & Safety Committee, which itself reports ultimately into the SSC. Flybe's policy for health and safety is defined in the Health, Safety & 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 & Safety Committee.

During the year, all Flybe colleagues have been undertaking Purple Safety Training, an in-house training course, as part of the initiative to heighten awareness of hazards and their risks. This has supported a co-ordinated approach to all aspects of safety, security and health and safety management processes across the group.

Our people

As at 31st March 2016, Flybe employed 2,262 employees across 10 regional UK bases. More than 20% of our UK employees worked part-time or flexibly to balance their lifestyle needs and now more than 55% of our employees have more than five years' service, with an average attendance rate of more than 95%.

People engagement

Flybe is only as good as the quality and engagement of its people. Our people strategy is to have the right people in the right jobs and to make Flybe an attractive workplace in which a long-term career can be built on equality of opportunity. Flybe is proud to be one of the very few airlines that enables many of its employees to live where they work – locally, within the regions.

Meg and the CRUK Aeroplane

In October 2015 Flybe ran a simple art competition for children aged between 4 and 14, with prizes of flights and a seven day holiday for the winner and their family up for grabs. The competition received entries from all over the UK from children young and old with entries visually interpreting the joy and fun of travelling by plane to see friends and family, of exploring the UK or flying on holiday with Flybe. The overall winner was four year old Meg Clark from Kent.

Meg and her family were invited to Flybe's Exeter HQ to collect her prize and received a big surprise when an aircraft decorated with her picture was revealed! Seeing her picture blown up to fit the length of a jet was a wonderful birthday present as by a happy coincidence she was celebrating turning five that day.

Flybe chose Meg's drawing as we felt it was a delightfully simple, innocent and joyful painting that perfectly represented not only the fun and passion of our own Purple brand but also the sentiments of hope behind Cancer Research UK's Kids & Teens.

The jet with the special livery is currently flying families like the Clarks around Europe with Meg's beautiful design on display for all to see, raising awareness of the wonderful work that Cancer Research UK is doing in the fight to beat cancer sooner.

We have adopted purple, not just as our new brand colour, but also as a signifier of a new set of behavioural norms within the organisation designed to maximise individual, team and business performance. These Purple norms are captured by the five Ps: **People focus, Positivity, Performance driven, Playfulness and Passion**. All employees and business partners have been trained through a structured engagement in the 'Purple Way'.

What the five Ps entail:

- **People focus** = having empathy or putting oneself in the shoes of the other person and being caring with customers and colleagues alike
- **Positivity** = having a can-do attitude and being optimistic and enthusiastic
- **Performance driven** = being totally committed to key business and personal objectives and acting systematically to deliver these
- **Playfulness** = having fun and being light-hearted without sacrificing safety or performance or causing offence
- **Passion** = embracing the job and Company direction with a commitment to excel and go the extra mile where possible

As well as the Purple Way, we have launched a number of initiatives over the past 12 months to engage our people effectively, make Flybe a great place to work and reinforce the cultural change we are seeking. These include:

- Our second annual employee satisfaction survey. More than 57% of employees participated in the survey which reflects a 1% increase from 2014/15, providing a depth of insight which will inform and shape our people strategy as we move forward into 2016/17. The engagement of our people was measured at 63%, which reflects an 8 percentage point increase versus 2014/15.
- Purple Heroes recognition scheme. This rewards our people for going the extra mile. During the year 169 employees have become Purple Heroes with nominations from fellow colleagues.
- Employee 'Thank You' events. During the year, we held two employee events: one in the Summer and one in the Winter to thank our employees for all of their hard work.
- Continuous training initiatives including the Purple Managers Programme, a leadership course for managers and Purple Safety training in addition to the roll-out of annual objectives and appraisals to all office-based staff.

15.3kg

Flybe UK fuel burn per seat
(2014/15: 15.6kg)

- A two year pay deal across the Company (excluding senior management, whose pay was frozen).
- A base visit and back-to-the-floor programme for all directors, bi-monthly 'Ask Saad' CEO question time calls, a monthly CEO newsletter and a cascade of quarterly business updates via the Purple Leadership Team. Continued feedback to issues raised on the Purple Concierge staff helpline and via PurpleNet, our staff intranet.
- Active senior management engagement with recognised unions and also with representatives of non-unionised staff.
- Crew lifestyle improvement: While we need to do more in this area, we have made a start e.g. night stopping has been significantly reduced and we have improved the quality of crew food. We are also increasing our recruitment intensity given the current world-wide pilot shortage and bringing in third party capacity where appropriate to improve roster stability.

Employee communication

Flybe continues to focus on active two-way communications with its dispersed workforce through line management. During the year five 'Ask Saad' CEO conference calls were held where all employees had direct access to ask the CEO and Board questions on any relevant topic. 'Ask Saad' has now become a bi-monthly event, complementing regular email and intranet updates, as well as a monthly CEO newsletter. In the UK, in addition to active engagement with its recognised trade union partners, Flybe uses its consultative body known as Open Channel for non-unionised staff. Open Channel meets quarterly, is chaired by a member of the Executive Committee and is attended by up to 15 elected representatives.

Senior management has continued with back-to-the-floor sessions as well as 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.

Benefits

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

Corporate responsibility

continued

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 and the Group's approved Save As You Earn Scheme ('SAYE') launched in 2011 and again in 2014. 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 to include pensions, and buying extra days off work and child-care vouchers.

In addition to this, we have also launched '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.

Development of our people

To engage a dispersed workforce, line management has been empowered to lead and the majority of our people managers attended a 'Purple Managers' development programme during 2015. In addition, a number of training programmes were launched or run during the year, including Flybe Loves Service and Purple Safety Training.

Flybe has also continued an annual performance management system for non-crew staff as well as an annual talent review and a succession planning process as part of its commitment to developing key talent, irrespective of religion, sex or ethnicity.

Human rights

Flybe operates entirely with staff employed in the EU and consequently has not developed a separate, human rights policy. Detailed policies and procedures exist, among others, around:

- equality and diversity (see below);
- grievances;
- disciplinary procedures;
- whistle-blowing;
- harassment and bullying; and
- bribery.

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

During the year Flybe also launched an Employee Assistance Programme with a confidential helpline available with free advice on legal, health-related and financial issues.

Equality and diversity

Equality of opportunity and valuing diversity are central to the regional activities of Flybe and it aims to ensure that all employment decisions are based on fairness and merit.

Applications for employment by an individual from any background, including disabled persons, are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Group continues and that appropriate training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

The breakdown of employees by gender is as follows:

	31st March 2016				31st March 2015			
	Male		Female		Male		Female	
	No.	%	No.	%	No.	%	No.	%
Board	5	83	1	17	6	86	1	14
Senior management (Purple Leadership Team)	18	75	6	25	27	84	5	16
All other employees of the Group	1,270	57	962	43	1,155	57	875	43
Total	1,293	57	969	43	1,188	57	881	43

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.

Flybe pulls out the stops for its home team

Flybe has been the main shirt sponsor of Exeter City Football Club since 2002, meaning that it is now the longest running corporate shirt sponsorship in the football league.

In January 2016 the Club was drawn to play an FA Cup replay match against Liverpool so Flybe pulled out all the stops to ensure that the team and its supporters could travel to Liverpool 'faster than road or rail' for the much anticipated game.

Having overcome all the logistical challenges and made the necessary operational changes, Flybe made one of its E195 jet aircraft available for a special charter flight to make the convenient 'day return' flight direct from Exeter to Liverpool. This enabled the team to travel quickly in comfort without the need to travel 4-5 hours by coach immediately prior to taking to the pitch for this important fixture – and to return home again after the match.

To enable supporters to make the 374-mile round trip quicker and easier than travelling by road or rail, Flybe offered a limited time return fare to ensure as many as possible could make the historic trip to Anfield.

Corporate responsibility

continued

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

- shirt sponsor, Exeter City FC;
- sponsorship, Exeter Chiefs Rugby Club; and
- sponsorship, Newquay AFC.

Flybe's partnership with Cancer Research UK celebrated its seventh anniversary. Since launching the partnership the airline has raised more than £630,000 for the charity.

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.

Although aviation accounts for around 2% of global CO₂ emissions, Flybe is committed to being an industry leader in minimising its environmental impact wherever possible while continuing to provide vital air services to our customers. Flybe's main aircraft, the Bombardier Q400, is one of the most environmentally efficient ways to travel and we are proud to be at the forefront of the aviation industry's efforts to reduce the environmental impact of air travel. The Q400 aircraft is as fuel-efficient as an eco-friendly car on a per-seat basis. The Q400 aircraft uses less fuel, produces fewer emissions and is quieter than similar capacity jet aircraft, in some cases by up to 40%.

In this respect, Flybe's policy continues to:

- commit to a system for managing its environmental impact in order to comply with all applicable current legislation and, where practical, seek to meet future legislative requirements ahead of relevant deadlines;
- implement training programmes for staff to enhance environmental awareness, constantly informing and motivating colleagues, to enlist their support in improving Flybe's performance; and
- integrate the Company's environmental objectives into business decisions, where feasible, in a cost-efficient manner.

Waste and energy management remains a key focus area for Flybe. Recycling policies are already in place at all major premises.

Management of buildings has incorporated, wherever possible, environmentally friendly techniques such as rainwater harvesting and a 'living' roof on part of the Flybe Training Academy site. There is also a programme to replace light fittings in the offices and hangars with LED lighting as these become unserviceable.

Aircraft impact upon the environment in two key areas: locally at airports and over the course of a journey.

In 2007, Flybe introduced an 'Ecolabel' rating for its aircraft which was designed to provide customers with a range of information regarding the noise and carbon emissions for each flight. The label identifies the noise rating and also the carbon emissions made during the normal take-off and landing cycle of a flight, as well as the carbon emissions for the total flight based on a range of distances.

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.

Fuel usage and emissions

The airline's Flight Efficiency Programme, successfully introduced in 2009, has resulted in a 13.4% reduction over the average in-flight fuel burn before the programme was launched and continues to be a major area of focus for the Company. The programme relies on finely tuned strategies to reduce fuel consumption. These include lowering the aircraft's maximum operational cruise speed by an average of 20 knots and optimising performance during each phase of flight (climb profile, approach from cruise altitude, low speed descent and auxiliary power unit use). There are also tankering strategies in place for refuelling from the lowest-cost vendor.

A further development has been the use of single engine taxiing across the fleet to both economise on fuel burn and lower emissions.

While CO₂ emissions are identified as the primary contributor to global warming, other pollutants are also harmful to the environment and have dedicated limitations regulated by the International Civil Aviation Organisation ('ICAO').

Emissions Trading Scheme ('ETS')

Since the introduction of aviation into the European ETS on 1 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 2016. 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 its sole operating subsidiary, Flybe Limited, and 60% of data reported by our former joint venture partner, Flybe Finland, to the end of October 2014, using the financial control approach.

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 2014/15 and 2015/16

	2015/16 tCO ₂ e	2014/15 tCO ₂ e*
Scope 1		
Aviation fuel	551,346	647,131
Other fuels	2,319	611
Total Scope 1	553,665	647,742
Scope 2		
Electricity - UK	4,027	2,225
Electricity - overseas	-	104
Total Scope 2	4,027	2,329
Scope 3		
Water supply and waste disposal	67	24
Business travel air/car	457	610
Total Scope 3	524	634
Gross and net emissions	558,216	650,705

* 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 2015/16, the Group's total emissions per passenger kilometre were 144.9 g/km (2014/15: 133.3 g/km).

Base year

Flybe has a fixed base year of 2014/15. This year was chosen as this was the first year for which Flybe has 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.

Rainwater harvesting

Flybe's state-of-the-art Training Academy has a rainwater harvesting system for re-use within that building.

Noise

The Q400 is rightfully heralded as one of the quietest passenger turboprop aircraft in the world. Inside the Q400, the revolutionary Active Noise and Vibration Suppression system significantly reduces noise and vibration, making it as quiet and comfortable as a jet. Outside, it is considerably quieter than jets with a similar number of seats (10 decibels of exterior perceived noise quieter).

A strong board

Committed to the highest standards of corporate governance.

Simon Laffin
Chairman

“We believe that a small, well-balanced board is the most effective leadership team for this company.”

Dear Shareholder,

Flybe remains committed to the highest standards of corporate governance, and will endeavour to continue to meet these standards at all times. We believe that it is an important component in achieving a high performing company that delivers value to its stakeholders, while taking account of our responsibilities to the wider community.

The board has 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 reviewed our own performance, by asking directors to complete a questionnaire, followed by individual interviews with an external HR consultant, Andrea Gregory from People Business. Andrea also provides coaching to some of the Group board. She then presented her views to a full board meeting. The overall conclusion was that the board, while still relatively new, was settling down and becoming an effective team. It was agreed that directors remained independent in spirit and challenge, believing that both committee and non-executive meetings were effective, and that directors were kept well informed. The Non-Executive Directors are supportive to management, as well as challenging. There is a need to improve our succession planning process as well as to develop further our evaluation of directors' contributions. One key recommendation was to seek a further non-executive appointment, especially to enhance further our board diversity. This is currently in hand.

The other directors also reviewed my performance as Chairman. The feedback was that I was an effective leader of the board and board meetings, communicating well with, and supportive of, both the non-executives and management. It was suggested that there are some opportunities to improve further on communication.

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 Remuneration Committee Report.

Although not required to do so under the UK Corporate Governance Code, all directors will again submit themselves for re-election at the 2016 Annual General Meeting (the 'AGM').

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/en/corporate/investors.

The strategic report has been approved by the Board on 8th June 2016.

Simon Laffin
Non-Executive Chairman
8th June 2016

Board focus

The Board focuses on key tasks, which include receiving reports on health, safety and security, business risks, long-term strategy, the Group's trading performance, the work of its committees and the key actions of the Executive Committee and senior management.

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.

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 shareholder information.

The Board held nine scheduled meetings during the year.

Board of Directors

With the exceptions as noted below, all of the Directors served throughout the year.

Executive Directors

Saad Hammad
Chief Executive Officer -
appointed 1st August 2013
(aged 53)

Saad Hammad joined Flybe from the Gores Group, an operations-focused US private equity firm with c\$4bn in assets under management, where he was Managing Director. At Gores, Saad was responsible for leading operational due diligence efforts across Europe as well as working with portfolio company executive teams to achieve full operational potential. Prior to Gores, Saad was Chief Commercial Officer at easyJet plc from 2005 to 2009 where he led the commercial turnaround of the airline. Saad was a Non-Executive Director of Air Berlin plc and, since 25 April 2014, has been a Non-Executive Director of Pegasus, the leading Turkish low-cost carrier. He has also held senior executive roles at a number of leading consumer-focused corporations including Procter & Gamble, Thorn-EMI and Vision Express. Saad has a BA (Hons) degree in Politics, Philosophy and Economics from Oxford University and an MBA from INSEAD. Saad is a member of the Nominations Committee.

Philip de Klerk
Chief Financial Officer -
appointed 19th August 2014
(aged 48)

Philip de Klerk joined Flybe from SABMiller, where he was Global Head of Financial Planning & Analysis, 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 (Maastricht).

Non-Executive Directors

Simon Laffin
Non-Executive Chairman -
appointed 4th November 2013
(aged 57)

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

David Kappler

Senior Independent Non-Executive Director - appointed 3rd March 2015 (aged 69)

David has recently retired from Deputy Chairman and Senior Independent Director at Shire plc and is a director of a number of private companies. David has previously served as 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 a member of the Remuneration and Nomination Committees.

Elizabeth McMeikan

Independent Non-Executive Director - appointed 1st August 2014 (aged 54)

Elizabeth is 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 and a Non-Executive Director at CH&Co Group, a £200m private company. Elizabeth spent her early career 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.

Sir Timothy (Timo) Anderson

Independent Non-Executive Director - appointed 1st May 2014 (aged 59)

Sir Timo 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.

Directors who served but retired during the period:

→ Charlie Scott – Non-Executive Director – retired 22nd July 2015

Corporate governance

The Board is supported in its day-to-day running of the Group by the Executive Committee which comprises (in addition to Messrs Hammad and de Klerk) the following members reporting to Saad Hammad, CEO.

Executive Committee

Luke Farajallah
Chief Operations Officer & Accountable Manager - appointed 1st April 2015 (aged 48)

Luke Farajallah is responsible for the key operations functions (flight operations, crew planning, operational control centre, ground operations, engineering, and Flybe's maintenance & 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 Group Chief Operating Officer, and more recently, roles in Spain with Spanair and Volotea.

Vincent Hodder
Chief Revenue Officer - appointed 2nd December 2015 (aged 45)

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. Vince 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. Vince holds a BA in Commerce and an MBA from Melbourne Business School, University of Melbourne.

Amy Valcik
Chief Sales & Marketing Officer - appointed 1st February 2016 (aged 43)

Amy Valcik is responsible for Sales & Marketing, PR, Product Development, and Customer Support. Prior to Flybe, she was VP Commercial at Silver Airways, a regional airline based in Florida, USA where she had been since 2013. Prior to Silver Airways, Amy spent seven years at Siquis (an award-winning US advertising agency) between 2007 and 2013 where she was VP of Interactive Services and was an integral part of the Spirit Airlines commercial team which led the airline to an unprecedented period of innovation and growth, helping it to emerge as the US's first and largest ULCC and one of its most profitable airlines. Amy graduated from Bryn Mawr College with a cum Laude A.B. conferred in Russian and Political Science; her minors were in Spanish and French.

Catherine (Kate) Ledger
General Counsel & Company Secretary - appointed 4th January 2016 (aged 48)

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 member and subsidiary board member who served but left during the period:

→ Matt Bennett, Director of Strategic Procurement and Corporate Development (31st March 2016).

Group Board

Audit Committee

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

Nomination Committee

- Simon Laffin (Chair)
- Saad Hammad
- Elizabeth McMeikan
- Sir Timo Anderson
- David Kappler

Remuneration Committee

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

Safety & Security Committee

- 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 2016. 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 FTSE350 throughout the year immediately prior to the reporting year. Throughout the year ended 31st March 2016, 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'.

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 2016 the Board comprised six directors, of whom four are non-executive and two are executive.

Executive Directors

Saad Hammad
Chief Executive Officer

Philip de Klerk
Chief Financial Officer

Non-Executive Directors

Simon Laffin
Non-Executive Chairman

Sir Timo Anderson
Independent Non-Executive Director

Elizabeth McMeikan
Independent Non-Executive Director

David Kappler
Senior Independent Non-Executive Director

Corporate governance

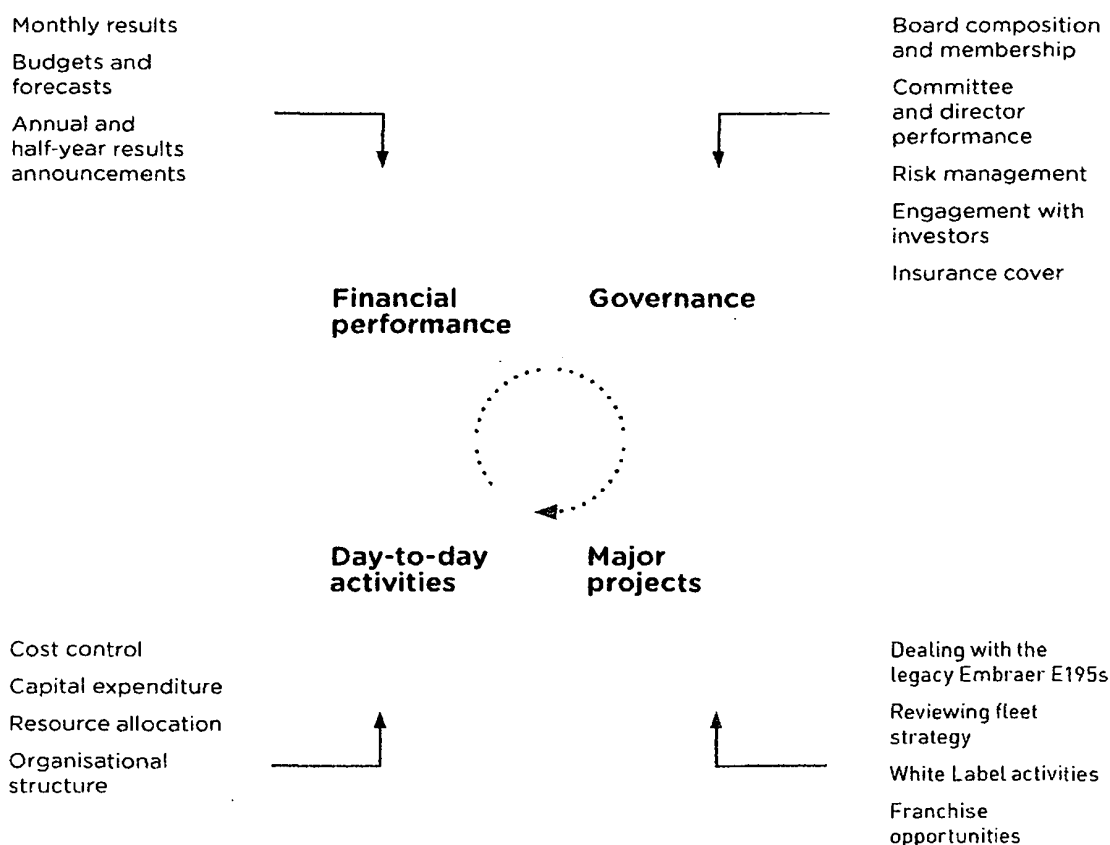
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The Board is led by the Chairman, Simon Laffin, who is responsible for ensuring its effectiveness in all aspects of its role. The Board's key purpose is to provide the leadership and vision necessary to ensure the Company's prosperity by collectively 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 must deal 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 42 and 43 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 49. 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

During the year the Board considered:



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, on resignation, concerns, if any, raised by an outgoing non-executive director are circulated by the Chairman to the remaining members of the Board. No concerns were raised during the year.

Key activities of the Board

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

- the resolution of the legacy Embraer E195 issue, with agreements being reached with regional airports to operate E195s for particular routes;
- new White Label activity, operating aircraft on routes for SAS;
- a new franchise agreement with Blue Islands, operating routes to the Channel Islands, effective April 2016;
- purchase of three currently leased Q400 aircraft;
- IT strategy, organisation and investments;
- network development strategy;
- people engagement; and
- safety culture.

In addition, the Board has supported the management team in its second full year of the three-year turnaround, in which the underlying performance of the business has significantly improved.

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 shareholder information. 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.

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 48 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 2016

Year ended 31st March 2016	Board	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Security Committee
Executive Director					
Saad Hammad	9/9	n/a	3/3	n/a	n/a
Philip de Klerk	9/9	n/a	n/a	n/a	n/a
Non-Executive Director					
Simon Laffin	9/9	5/5	3/3	5/5	n/a
Sir Timo Anderson	9/9	5/5	3/3	5/5	4/4
David Kappler	9/9	5/5	3/3	5/5	n/a
Elizabeth McMeikan	9/9	5/5	3/3	5/5	4/4

Former Directors who served during the year

Year ended 31st March 2016	Board	Audit Committee	Nomination Committee	Remuneration Committee	Safety & Security Committee
Non-Executive Director					
Charlie Scott	3/3	1/1	2/2	2/2	n/a

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.

Diversity

All recruitment for the Board is led by the Nomination Committee. There have been no new appointments during the year. We recognise that diversity, in its widest sense, is important for the Board's effectiveness. However, the non-executive directors have been appointed on merit alone and specifically for their contributions 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 36.

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/en/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;
- 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.

Board performance and evaluation

The Board has considered and supports the Code's provisions on Board performance evaluation. A self-evaluation of the Board took place within the period assisted by an external consultant, who conducted interviews with all of the directors. The non-executive directors meet regularly without the executive directors present, and the Senior Independent Director also carried out a performance evaluation of the Chairman within the period.

Induction and continuing development of directors

There were no new appointments to the Board during the year and so no new induction. The Chairman and Chief Executive Officer are responsible for reviewing the development needs of individual directors. The use of an external coach has been offered to assist directors. All of the non-executive directors have, during the course of the year, received updates on best practice, 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 2016 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.

Corporate governance

continued

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 Sales and Marketing 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 2016 was as below:

Group Board
chaired by Simon Laffin

Executive Committee
chaired by Saad Hammad

Operations	Revenue	Finance & IT	Marketing & Communications	Legal
Luke Farajallah	Vincent Hodder	Philip de Klerk	Amy Valcik	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, Nomination, Remuneration, 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/en/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 42 and 43.

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.

Members of the Audit Committee can, where they judge it necessary to discharge their responsibilities, obtain independent professional advice at the Company's expense.

The Audit Committee held five scheduled meetings during the year. The attendance of the individual members at meetings is detailed in the table on page 48.

The current members of the Audit Committee are David Kappler (Committee Chairman), Simon Laffin, Elizabeth McMeikan and Sir Timo Anderson. Charlie Scott resigned during the year. The Group Company Secretary acts as secretary for the Audit Committee.

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. In addition, Simon Laffin, who is also a qualified accountant, serves on the Audit Committee. The Board is satisfied that the members of the Audit Committee are those who are best able to contribute to its objectives.

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.

Further details about the Audit Committee can be found on pages 54 to 57.

Remuneration Committee

The current members of the Remuneration Committee are Elizabeth McMeikan (Committee Chairman), Simon Laffin, David Kappler and Sir Timo Anderson. Charlie Scott resigned during the year.

The Remuneration Committee held five scheduled meetings during the year. The attendance of the individual members at meetings is detailed in the table on page 48.

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 Committee 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.

The Company Secretary acts as secretary of the Remuneration Committee.

The Group's compliance with the provisions of the Code relating to directors' remuneration is further explained on pages 61 to 76.

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 Head of People and Culture. No director is involved in decisions relating to their personal remuneration package.

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.

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

The committee shall:

- determine and agree with the Board the framework or broad policy for the remuneration of the Chief Executive Officer, all other executive directors, the Chairman of the Company and such other members of the executive management as it is designated to consider by the Board. The remuneration of non-executive directors shall be a matter for the executive members of the Board, within the limits set by the Articles of Association. No director or manager shall be involved in any decisions as to his or her own remuneration. In order to ensure her independence, the Committee shall also review and recommend to the Board the remuneration of the Company Secretary;
- in determining the remuneration policy, take into account all factors which the Committee deems necessary including relevant legal and regulatory requirements, the provisions and recommendations of the UK Corporate Governance Code and associated guidance. The objective of the policy shall be to promote the long-term success of the Company. Performance elements should be transparent, stretching and rigorously applied. Remuneration incentives should be compatible with risk policies and systems;
- liaise with the Nomination Committee to ensure that the remuneration of newly appointed executives is within the Company's overall policy;
- when setting remuneration policy for directors, review and have regard to the remuneration trends within the Company's sector and with regard to remuneration levels across the Group (especially when determining fixed or variable pay opportunity increases);
- review the ongoing appropriateness and relevance of the Remuneration Policy;
- within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive, as appropriate, determine the total individual remuneration package of the Chairman, each executive director and the Company Secretary including bonuses, incentive payments and share options or other share award scheme;
- obtain reliable, up-to-date information about remuneration in other companies. To help it fulfil its obligations the Committee shall have full authority to appoint remuneration consultants and to commission or purchase any reports, surveys or information which it deems necessary, within any budgetary restraints imposed by the Board;
- be exclusively responsible for establishing the selection criteria, selecting, appointing and setting the terms of reference for any remuneration consultants who advise the Committee;
- approve the design of, and determine targets for, any performance-related pay schemes (both short-term and long-term) operated by the Company and approve the total annual payments made under such schemes;
- review the design of all share incentive plans for approval by the Board and shareholders. For any such plans, determine each year whether awards will be made, and if so, the overall amount of such awards, the individual awards to Executive Directors, Company Secretary, Executive Committee members and other senior managers and the performance criteria to be used;
- determine the policy for, and scope of, pension arrangements for each executive director;

Corporate governance

continued

- ensure that contractual terms on termination, and any payments made, are fair to the individual, and the Company, that failure is not rewarded and that the duty to mitigate loss is appropriately recognised;
- oversee any major changes in employee benefit structures throughout the Company or Group;
- agree the policy for authorising claims for expenses from directors;
- work with the Company's Audit Committee and / or Committee's independent advisers in evaluating performance criteria;
- use a consistent approach to performance measurement and explain in the Remuneration Report how this is achieved;
- where appropriate, design and invoke appropriate safeguards such as withholding and recovery in relation to all performance-related pay to ensure payments reflect required achievements and targets;
- approve share ownership and retention policies for Executive Directors, Executive Committee members and other senior members of management; and;
- approve remuneration arrangements and payments only within the terms of the Remuneration Policy or as separately approved by the Company's shareholders.

The Remuneration Committee is authorised by the Board to:

- be exclusively responsible for establishing the selection criteria and then for selecting, appointing and setting the terms of reference for any remuneration consultants providing advice to the Remuneration Committee, at the Company's expense;
- to obtain, at the Company's expense, expert legal or other professional advice where necessary in the course of its activities.

Nomination Committee

The members of the Nomination Committee are Simon Laffin (Committee Chairman), Saad Hammad, Elizabeth McMeikan, Sir Timo Anderson and David Kappler.

The Nomination Committee held three scheduled meetings during the year. The attendance of the individual members at meetings is detailed in the table on page 48.

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

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. Charlie Scott resigned as a Committee member during the period. Simon Laffin chairs the Committee and Saad Hammad also continues to serve on the Committee. The Board is satisfied that the members of the Nomination Committee are those who are best able to contribute to its objectives.

The responsibilities of the Nomination Committee include:

- regularly reviewing the structure, size and composition (including skills, knowledge, experience and diversity) of the Board and making recommendations to the Board with regard to any changes;
- keeping under review the leadership needs of the organisation, both executive and non-executive, with a view to ensuring the continued ability to compete effectively in the marketplace;
- evaluating, before any appointment is made by the Board, the balance of skills, knowledge, experience and diversity on the Board and in light of this preparing a description of the role and capabilities required for a particular appointment;
- giving full consideration to succession planning for directors taking into account the challenges and opportunities facing the Company and the skills and expertise needed on the Board in future;
- reviewing the time requirements of non-executive directors.

The Board fully supports diversity, recognising the benefits that diverse viewpoints can contribute to decision-making. Directors are committed to encouraging all of the Group's employees, and its Board, to reach their full potential, irrespective of their gender, race, or sexuality. The Board is very mindful of the benefits of a diverse Board. It does not, however, believe that setting a quota is the most appropriate method for achieving a balanced Board and all appointments are therefore made on merit. The Board remains committed to developing talent throughout the Group, and to providing training, support and development to those identified as displaying potential.

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 members of the Safety and Security Committee as at 31st March 2016 were Sir Timo Anderson (Committee Chairman) and 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 Safety and Security Committee met on four occasions during the year. The attendance of the individual Board members at meetings of the Safety and Security Committee is detailed in the table on page 48.

The Safety and Security Committee's purpose is to establish, review and monitor formal policies and procedures and have oversight of performance in connection with the safe and secure operation of the Group's business. The Company Secretary acts as secretary of the Safety and Security Committee.

The duties of the Safety and Security Committee include:

- reviewing all matters concerned with the safe and secure operation of any aircraft operated by the Group, or joint venture partners operating under Flybe Group plc's Air Operator Certificate, in the air or on the ground; ensuring that appropriate procedures and processes are in place; encourage an open reporting culture;
- considering, and, if necessary call for, reports on incidents, including accidents, involving any aircraft operated by the Group, its franchisees or partners or joint venture partners. In cases involving the Group's aircraft, the Committee will ensure that appropriate and recommended remedial action is taken, and, in any other cases, that appropriate recommendations are made to, and implemented by, relevant third parties;
- considering, and if necessary call for, reports on significant incidents concerning safety at airports and in engineering facilities and ensure remedial action or appropriate recommendations are implemented;
- ensuring compliance with airworthiness requirements and meet with the relevant authority on an annual basis;
- ensuring compliance with health and safety legislation in all relevant jurisdictions through regular audit reports;
- ensuring that security advice received from relevant national agencies and authorities is given full and timely attention, and acted on as appropriate; and
- ensuring an annual safety and security report is published.

Audit Committee report

David Kappler
Chairman Audit Committee

Dear Shareholder,

I write this report having joined the Flybe Audit Committee in March 2015 and taken over the chairmanship from Charlie Scott in June last year. Many thanks are due to Charlie for his leadership of the Committee over many years. The Committee now comprises four members and has met five times during the year. It is our plan to add an additional meeting in the financial year 2016/17 reflecting the increasing responsibilities of the Committee and allowing an occasional in-depth review of controls in a specific area of the business.

This year has again been a busy one for the Committee as it has focused on monitoring the changes being introduced by the Finance team to a range of systems and processes. These will all improve the control environment and efficiencies.

The Committee has particularly encouraged work on the internal controls against cyber crime by the internal audit department, as its prevalence around the world has markedly increased in recent years.

From a personal perspective, a strong professional relationship has been established with both the external and internal auditors, as well as with the key members of the Flybe finance team; and I thank them for their support during my induction period.

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.

Responsibilities

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

- monitoring the integrity of the Group's financial statements and formal announcements relating to Flybe's performance and reviewing any significant financial reporting issues and/or judgements contained therein;
- keeping under review the consistency of, and any changes to, accounting policies, both on a year-to-year basis and across the Group and challenging, where necessary, the Company's financial statements;
- reviewing, and challenging where necessary, the strategic and business reviews, and the corporate governance statement insofar as it relates to audit matters or risk management;
- considering management's response to any major external or internal audit recommendations;
- reviewing the effectiveness of the Group's internal controls and risk management systems;
- monitoring the effectiveness of the external audit process including the appointment, cost and independence of the external auditor - see Auditor Independence on page 57;
- developing and implementing policy on the engagement of the external auditor to supply non-audit services; and
- ensuring that clear and effective channels are maintained for 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 full-year audit and half-year review 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 five occasions during 2015/16. Details of the attendance at its meetings are set out in the table on page 48.

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. The external auditors have a private session with the Committee at the end of each meeting.

The Head of Internal Audit and Risk and the external auditors 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 and conditions of the committee;
- full-year results, including review of the Annual Report to ensure it is fair, balanced and understandable;
- principal judgemental accounting matters affecting the Group based on reports from both the Group's management and the external auditors;
- external audit plans and reports;
- reviewing reports from the Head of Internal Audit and Risk;
- approval of the annual Internal Audit and Risk Plan;
- reviewing internal controls, policies and procedures;
- review of compliance with the Bribery Act 2010;
- approval of the Treasury Policy;
- reviewing the deferred tax position; and
- reviewing the changes to Corporate Governance.

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.

Following the publication of our 2015 Annual Report, we have had an interaction with the Financial Reporting Council's (FRC) Conduct Committee. We have been able to clarify a number of queries and have applied any relevant improvements in this Annual Report. Unfortunately we had included an incorrect classification of a loan impairment, linked to the Finnair JV, of £18.5m in our parent cash flow statement. This resulted in a reclassification, with no impact on either profit, net assets or cash. We have restated the parent cash flow for 2015/2016. Details of the restatement are in note 38, page 117.

Review of business risk and its reporting in the financial statements

The principal risks and uncertainties facing the business are discussed on pages 28 to 31. 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.

Mitigating controls for the key risks in the Group are regularly reviewed and monitored for accuracy and completeness. These monitoring controls are reported to the Executive Committee monthly, outlining events and mitigating actions taken.

In addition to the work of this Committee, the Safety and Security Committee chaired by an independent Non-Executive Director, meets quarterly, or more regularly where events require, to review the Group's safety performance.

Audit committee report

continued

The internal audit team facilitated risk review workshops to identify risks, impacts and mitigations:



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 the year end and half year and will do so more frequently if necessary.

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

- The accounting for the E195s as a result of the fleet optimisation programme, with the removal of surplus aircraft costs from the financial accounts and to correctly account for the remaining E195s
- During the year Flybe took delivery of four Q400 and one ATR aircraft and has handed back one E195. The aircraft have been classified as being held under operating leases.
- 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 IAS12.
- Maintenance provisions have been reviewed and remain unchanged.

- The provision for EU261 Passenger Delay Compensation has been reviewed and amended to ensure the assumptions are in line with historical expenses.
- A verification exercise was completed on fixed assets with any amendments being reflected in the balance sheet.

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.

The significant issues considered in the year are detailed below, while the wider set of risks that impact on the business are shown on pages 28 to 31:

- 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.
- The reporting of the results of Project Blackbird and the accounting of the specific deals and also the risks involved with the solutions.
- The Committee also reviewed the possibilities regarding the recoverability of the deferred tax asset.
- Information Security was a continuous focus for the Committee; an independent review of the holistic information security landscape of the business was commissioned. Any findings from this report have been addressed by the Information Security Committee. During the year Flybe joined the Information Security Forum, which has provided the business with tools and insight into the latest developments in this area.

Internal audit

Internal audit is independent of business operations, undertaking an on-going 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 Head of Internal Audit and Risk attends the Committee meetings to present the findings of such reviews and reports on internal audit's performance against the agreed annual internal audit plan, such plan being agreed during the year by the Committee.

In addition, 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.

External audit process

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

- The Annual Report and financial statements to ensure they are fair, balanced and understandable;
- Papers on critical judgements, internal control and fraud prepared by management;
- External auditor papers detailing their audit plans as well as the results of their full-year audit and half-year review;
- The independence and effectiveness of the external audit itself.

It is standard practice for the external auditors to meet privately with the Audit Committees without any member of management or the executive directors being present, at least once each year.

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

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 in the provision of taxation advice and advice on corporate transactions that may arise from time to time. 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/en/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 7 to the consolidated financial statements and further detail is highlighted below.
- (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.

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 auditors for non-audit services is as follows:

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	Average £000
Audit fees (A)	201	225	249	241	229
Services provided to satisfy legislative or regulatory requirements	-	290	-	-	73
Other non-audit services (B)	123	276	83	90	143
Percentage (B/A)	61.2%	122.7%	33.3%	37.3%	62.4%

Other non-audit services relate to all other services provided by the auditors. Other fees include tax advisory and compliance services. After deducting work on all corporate transactions, the percentage of non-audit services to audit services over a four-year average was 62.4%.

David Kappler

Chairman, Audit Committee
8th June 2016

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 2016. The corporate governance statement on page 41 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	39
Employee involvement	33
Employment of disabled people	36
Diversity policy and reporting	36

Directors and Company Secretary

The directors and Company Secretaries who served during the year are shown on pages 42 and 44.

Dividends

No dividends are declared or proposed for either 2015/16 or 2014/15.

Share capital

Details of the movement in authorised and issued share capital during the year are provided in note 26 to the consolidated financial statements. As at 31st March 2016, 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;
- 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 2016, 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. At the AGM the Chairman reports, after each show of hands, details of all proxy votes lodged for, and against, each resolution and the number of abstentions. Subsequently, the results are published on the Group's website at www.flybe.com/en/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 (2014/15: nil).

Substantial interests

On 3rd June 2016 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	23.19	50,242,131
T Rowe Price Associates (US)	8.00	17,334,174
Standard Life	7.86	17,036,151
Pelham Capital Mgt	6.95	15,057,646
Columbia Threadneedle Inv	5.72	12,401,572
Henderson Global Inv	3.30	7,157,194
City Financial Fd Mgrs	2.77	6,000,000
Legal & General	2.54	5,492,702
Soros Fund Mgt	2.41	5,229,925
Polar Capital Partners	2.18	4,713,919

Financial calendar

Item	Date
Annual General Meeting	27 July 2016
Half-year results 2016/17	November 2016
Full-year results 2016/17	June 2017

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

The directors' consideration of the Group's use of financial instruments is set out within the strategic report.

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 has 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 Klerk

Chief Financial Officer
8th June 2016

Directors' remuneration

Elizabeth McMeikan

Chairman Remuneration Committee

Annual statement

Dear Shareholder,

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

As required by the relevant Regulations, this Report is split into three sections:

- (A) this Annual Statement
- (B) the Directors' Remuneration Policy Report
- (C) the Annual Report on Remuneration

Having sought and gained shareholder approval for certain changes to the policy, which was approved at last year's AGM, we do not propose making any further changes to the policy this year.

Flybe has made good progress on a number of fronts during the past year. The significant improvement in profitability has been achieved despite the impact of the terrorist attacks in both Paris and Brussels, which depressed customer demand in the second half.

The last significant legacy issue of the turnaround, the future of surplus E195 jets, was satisfactorily resolved during the course of the year, halving the outstanding liability.

The Flybe team has been further strengthened; new routes have been identified and launched; and further cost has been taken out of the business.

The year ahead will be the final year of transformation of the business and it remains critically important that the business attracts, retains and motivates a strong and capable management team to complete the turnaround and deliver long-term value for shareholders.

Key Committee activities during the year

It is in this context that the Committee approached the following key issues during the year:

- Agreeing the bonus outturn for 2014/15 – as reported last year, no bonuses were payable
- Determining the executive directors' base salary levels for 2015/16 – no changes were made
- Setting the executive directors' bonus targets for 2015/16 – these were a mix of PBT and personal targets on a 70:30 weighting as explained more fully below, with the existing maximum bonus opportunities of 150% and 100% of salary retained for Saad Hammad and Philip de Klerk respectively
- Overseeing the Performance Share Plan awards – also as reported last year, awards over shares worth 150% of salary were granted, with vesting subject to challenging adjusted EPS and relative TSR targets

Since the year end, the Committee has also determined performance against the targets set under the 2015/16 annual bonus plan referred to above. A full explanation is provided in this report of how the Committee determined this bonus outturn, including (i) an explanation of how the committee used the flexibility that shareholders encouraged it to reserve regarding the treatment of the one-off costs incurred in dealing with the E195 legacy issue to ensure that the executives were not disincentivised to find a solution to this issue and (ii) the deferral of a substantial portion of the bonus into shares.

In addition, the Committee has agreed to make a further grant under the PSP to Saad and Philip over shares worth 150% of salary (albeit with the number of shares over which this award is made being calculated as set out on page 74). 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. Also, Saad and Philip's base salaries will be increased (for the first time since their respective appointments) by 2% for 2016/17, which reflects typical salary increases across the Group.

The Committee welcomes, and carefully considers, feedback from shareholders. We were happy to receive strong levels of support for the remuneration-related resolutions tabled at last year's AGM, with 93.36% of votes cast in favour of our new policy and 99.93% in favour of the Annual Report on Remuneration. 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.

Directors' Remuneration Policy

Compliance statement

This report, 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. In accordance with the Regulations, the following sections of the Remuneration Report are subject to audit: the single total figure of remuneration for directors and notes (page 71), scheme interests awarded during the financial year (page 74), payments to past directors (page 72), payments for loss of office (page 68) and the statement of directors' shareholdings and share interests (pages 73 to 74). The remaining sections of the report are not subject to audit.

Directors' Remuneration Policy

Shareholder approval was obtained at the 2015 AGM for our directors' remuneration policy. No changes are being made to this policy, which will continue to apply for the forthcoming year. For ease of reference, we have set out below the key features of our policy (although the full, formal policy will be as disclosed in last year's report). 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

The following table summarises the Group's policies in respect of key elements of executive director remuneration:

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 1st April.	Salaries in respect of the year under review (and for the following year) are disclosed in the Annual Report on Remuneration. It is anticipated that salary increases will generally be in line with those awarded to salaried employees as a whole. In certain circumstances (including, but not limited to, increases for other employees, changes in role and responsibilities, market levels, and individual and company performance), the Committee may make appropriate adjustments to salary levels to ensure they remain market competitive. The rationale for any such increase will be disclosed in the relevant Annual Report on Remuneration.	None.
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 receive benefits which consist primarily of car/driver allowances (including tax on such benefit), private medical insurance and life assurance and, for the CEO only, membership of a London club (which operates as a base for work undertaken while in London together with tax on such subscriptions), although can 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.	<p>SAYE - All-employee scheme under which all UK employees (including executive directors) may save up to the maximum monthly savings limit (as determined by legislation) over a period of three or five years. Options under the SAYE scheme are granted at a discount of up to 20% to the market value of shares at the date of grant.</p> <p>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).</p>	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.	Maximum annual bonus opportunity: CEO: → 150% of base salary 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.
	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.		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.
	Annual bonus outcomes are paid in cash. The Committee will keep under review whether it is appropriate for bonuses to be partly deferred into shares. Where such arrangements are operated, a payment equivalent to the dividends that would have accrued on the number of shares that vest may be made to participants on vesting, as cash or shares.		Further details on the bonus for the year under review and forthcoming year are provided in the Annual Report on Remuneration.
	Clawback provisions apply to future annual bonuses as described more fully at note 4.		

Directors' remuneration

continued

Function	Operation	Opportunity	Performance metrics
Long-term incentives Incentivise creation of long-term shareholder value, and support alignment with shareholders' interests.	<p>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.</p> <p>A payment equivalent to the dividends that would have accrued on the number of shares that vest may be made to participants on vesting (including any holding period), as cash or shares.</p> <p>PSP awards are subject to malus provisions described more fully at note 4.</p>	<p>Awards of shares worth up to 150% of salary can be granted each year (or such higher number as the Committee considers appropriate in exceptional circumstances, up to a maximum of 250%). Details of any awards granted in a year will be disclosed in the relevant Annual Report on Remuneration.</p>	<p>The Committee may set such performance conditions on PSP awards as it considers appropriate (whether financial or non-financial and whether corporate, divisional or individual).</p> <p>Once set, performance measures and targets will generally remain unaltered unless events occur which, in the Committee's opinion, make it appropriate to substitute, vary or waive the performance conditions in such manner as the Committee thinks fit.</p> <p>Performance periods may be over such periods as the Committee selects at grant, which will not be less than (but may be longer than) three years.</p> <p>No more than 20% of awards vest for attaining the threshold level of performance for each condition. Further details of measures, their weighting and targets will be disclosed in the relevant Annual Report on Remuneration.</p>

Notes to the policy table

1. Stating maximum amounts for the remuneration policy

The DRR 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.

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.

Directors' remuneration

continued

Pay for performance scenarios

The charts and table below provide an illustration of the potential future reward opportunities for the executive directors and the potential split between the different elements of remuneration under three different performance scenarios: 'minimum', 'on-target' and 'maximum':

Minimum	<p>→ Consists of base salary, benefits and pension.</p> <p>→ Base salary is the salary to be paid in 2016/17 as set out in the table on page 75.</p> <p>→ Benefits measured as benefits paid in the year ending 31st March 2016 and as set out in the Single Figure Table on page 71.</p> <p>→ Pension measured as paid in the year ending 31st March 2016 and as set out in the Single Figure Table on page 71.</p>															
	<table><tr><th></th><th>Base salary</th><th>Benefits</th><th>Pension</th><th>Total fixed</th></tr><tr><td>Saad Hammad</td><td>£433,500</td><td>£76,046</td><td>£56,019</td><td>£565,565</td></tr><tr><td>Philip de Klerk</td><td>£290,700</td><td>£11,993</td><td>£31,350</td><td>£334,043</td></tr></table>		Base salary	Benefits	Pension	Total fixed	Saad Hammad	£433,500	£76,046	£56,019	£565,565	Philip de Klerk	£290,700	£11,993	£31,350	£334,043
	Base salary	Benefits	Pension	Total fixed												
Saad Hammad	£433,500	£76,046	£56,019	£565,565												
Philip de Klerk	£290,700	£11,993	£31,350	£334,043												
Target	<p>Based on what the director would receive if performance was on-target (excl. share price appreciation and dividends):</p> <p>→ Annual bonus: consists of the on-target bonus of 50% of maximum opportunity</p> <p>→ LTI: consists of the threshold level of vesting (20% vesting).</p>															
Maximum	<p>Based on the maximum remuneration receivable (excl. share price appreciation and dividends):</p> <p>→ Annual bonus: consists of maximum bonus of 150% of base salary for the CEO and 100% for the CFO.</p> <p>→ LTI: consists of the face value of PSP awards (150% of salary for the CEO and CFO, albeit that the actual award quantum may be lower depending on the share price at grant as explained on page 76).</p>															

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

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

All buy-outs, whether under the Company's existing incentive arrangements or otherwise, will take account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. 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.

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.

Saad Hammad entered into a service agreement dated 8th July 2013 and Philip de Klerk into a service agreement dated 21st April 2014. Both service agreements are subject to 12 months' notice by either party.

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.

Executive director 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. In certain 'good leaver' circumstances, however, Saad Hammad will be eligible to receive an annual bonus, pro-rated for the portion of the financial year worked.

→ 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 one-off recruitment long-term incentive plan for Saad Hammad (further details of which are set out on page 75), the award will normally lapse if Saad Hammad leaves Flybe before the end of the performance period. At its discretion, the Committee may vary this treatment in certain leaver circumstances, i.e. where Saad Hammad is a 'good leaver'. In the event of a change of control, performance will be tested over a curtailed period based on the Company's market capitalisation on the date of change of control.

→ 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 75), 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.

→ 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
Charlie Scott	1 April 2006	Retired
David Kappler	3 March 2015	2018
Simon Laffin	4 November 2013	2016
Liz McMeikan	1 August 2014	2018
Sir Timo Anderson	1 May 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.

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.	<p>Fee levels are reviewed annually, with any adjustments normally effective 1st April in the year following review.</p> <p>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.</p> <p>Additional fees are payable for acting as Senior Independent Director and as Chairman of any of the Board's Committees (Audit, Remuneration, Safety & Security).</p> <p>Fee levels reflect the skills and experience of the NEDs, the market practice adopted in similar sized organisations and anticipated time commitments.</p> <p>NEDs may also receive certain benefits from time to time.</p>	<p>Fee increases for the non-executive director (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.</p> <p>It is expected that any increases to NED fee levels will be in line with salaried employees over the life of the policy. However, in the event that there is a material misalignment with the market or a change in the complexity, responsibility or time commitment required to fulfil the NED role, the Board has discretion to make an appropriate adjustment to the fee level. Aggregate fees (plus the value of any benefits) will not exceed the cap in the Company's Articles of Association (currently £500k).</p>	None.

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.

Recruitment policy for Non-Executive Directors

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.

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.

Saad Hammad has been granted permission to act as a non-executive director of Pegasus for which he received fees of £55k in 2015/16 which he has retained.

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, all remuneration-related resolutions were passed with substantial majorities at the 2015 AGM.

Directors' remuneration

continued

Annual report on remuneration

The following section provides details of how Flybe's Remuneration Policy was implemented during the financial year ended 31st March 2016.

Remuneration Committee membership in the year ended 31st March 2016

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)
- Simon Laffin (from 4th November 2013)
- David Kappler (from 3rd March 2015)

Charlie Scott stood down from the Committee during the year.

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 Director/Head of HR. No individual is involved in decisions relating to their personal remuneration package.

During the year under review the Committee met on five occasions to consider, and agree, among other matters the items set out in the Annual Statement on page 61.

Advisers

FIT Remuneration Consultants 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 2015/16 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 (including expenses, but excluding VAT) for the provision of remuneration services to the Committee in 2015/16 were £58,994 (such fees being charged in accordance with FIT's standard terms of business).

During the year, Norton Rose provided advice on legal issues related to share scheme matters.

Summary of shareholder voting at the 2015 AGM

The following table shows the results of the advisory vote on the 2014/15 remuneration report at the 2015 Annual General Meeting:

	Total number of votes	% of votes cast
For (including discretionary)	145,956,316	99.93%
Against	106,139	0.07%
Total votes cast (excluding withheld votes)	146,062,455	
Votes withheld	4,878,766	
Total votes cast (including withheld votes)	150,941,221	

The following table shows the results of the binding vote on the remuneration policy at the 2015 Annual General Meeting:

	Total number of votes	% of votes cast
For (including discretionary)	140,874,907	93.36%
Against	10,017,586	6.64%
Total votes cast (excluding withheld votes)	150,892,493	
Votes withheld	48,728	
Total votes cast (including withheld votes)	150,941,221	

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 2016 and the prior year:

	Year	Base salary/ fees ²	Taxable benefits ³	Annual bonus ⁴	PSP	Pension ⁵	Total
Executive Directors							
Saad Hammad	2015/16	425,000	76,046	518,635	9	56,019	1,075,700
Saad Hammad	2014/15	425,000	39,612	-	-	56,019	520,631
Philip de Klerk	2015/16	285,000	11,993	228,342	-	31,350	556,685
Philip de Klerk ¹	2014/15	176,115	6,911	-	-	21,900	204,926
Non-Executive Directors							
Simon Laffin	2015/16	150,000					150,000
Simon Laffin	2014/15	150,000					150,000
Charlie Scott	2015/16	19,402					19,402 ⁶
Charlie Scott	2014/15	63,000					63,000
Sir Timo Anderson	2015/16	48,000					48,000
Sir Timo Anderson	2014/15 ¹	44,000					44,000
Liz McMeikan	2015/16	48,000					48,000
Liz McMeikan ¹	2014/15	32,000					32,000
David Kappler	2015/16	53,526					53,526
David Kappler ¹	2014/15	4,666					4,666

1 Messrs Anderson, de Klerk and Kappler and Ms McMeikan joined the Board on 1st May 2014, 19th August 2014, 3rd March 2015 and 1st August 2014 respectively.

2 Base salary includes a length of service increment of £50 for Saad Hammad. This approach is consistent with that of other employees.

3 Taxable benefits comprise private health care, car allowance, and (in the case of Saad Hammad), driver, and tax on certain of such benefit. As of 1st December 2015, compliant with the existing benefits policy, the executive directors ceased to receive a fuel card allowance, with a related increase made to their car allowance which has been increased to £20,000 for Saad Hammad and £12,500 for Philip de Klerk (from £14,500 and £7,000 respectively). The 2014/15 benefit value has been restated to include tax paid on the driver benefit after the year end.

4 Annual bonus outturn for performance during the 2015/16 year is described below. The above figure includes the portion of the bonus to be paid in deferred shares (amounting to 45% of the stated bonus).

5 During 2015/16, Saad Hammad received cash sums paid in lieu of pension contributions.

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

The aggregate emoluments (being salaries/fees, benefits, cash allowances in lieu of pension contributions and annual bonuses) of all directors for the 2015/16 year was £1,951,313 (2014/15: £1,179,417).

2015/16 annual bonus

For the year ended 31st March 2016, the annual bonus was 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:

2015/16 Adjusted PBT	% of element of bonus that pays out
Below £5m	0%
£5m	20%
£15m	100%
Between £5m and £15m	20% – 100% straight-line

As stated above, last year Project Blackbird (which addressed solving the legacy E195 issue) was brought to a successful conclusion. Having announced solutions for five of the 14 E195s in 2014/15, the executive directors arranged the redeployment of the remaining nine aircraft. Overall, completion of Project Blackbird

delivers a £40m mitigation versus Flybe's previously indicated obligation of £80m over the remaining term of the aircraft leases.

During the consultation exercise that was undertaken prior to shareholder approval being obtained for the remuneration policy at the 2015 AGM, investors encouraged the Committee to ensure that bonus schemes incentivised management to find solutions for the surplus E195s. Accordingly, as set out in last year's remuneration report, flexibility was reserved to exclude one-off costs incurred in dealing with this legacy issue from the adjusted PBT when calculating the annual bonus pay out. The Committee is satisfied that a good solution was found by management and that the additional costs incurred in doing so in the year, which amounted to approximately £6.7m, should therefore be removed from the adjusted PBT used for bonus purposes, resulting in an adjusted PBT of £12.2m. A rigorous approach has been adopted to identify and verify these costs to be adjusted. Consequently,

Directors' remuneration

continued

bonuses equalling 78% and 52% of salary were earned by Saad Hammad and Philip de Klerk respectively in connection with this element of the bonus.

The CEO had six personal objectives:

- The resolution of the legacy E195 jets;
- Further improve employee engagement;
- Further improve safety performance;
- Further simplify the business;
- Continue to improve the quality and depth of management; and
- Further improve operational performance.

The CFO also had six personal objectives:

- Deliver cost reductions, including the resolution of the legacy E195 jets;
- Further improve employee engagement;
- Further improve safety performance;
- Enhance the performance of the finance function, including his personal development;
- Enhance the performance of his reporting team; and
- Deliver free cash in line with budget.

Based on an assessment of their performance against these objectives, and their overall performance and contribution during the year, the Committee determined that bonuses equalling approximately 41% and 26% of salary were earned by Saad Hammad and Philip de Klerk respectively in connection with this element of the bonus.

Also, as reported last year, bonuses would only be payable if (i) the Committee was satisfied that the Company had made satisfactory progress in resolving the E195 legacy issue and (ii) the Company's aviation safety record warrants such payments. The Committee confirmed that these additional conditions had been satisfied.

Therefore, in total a bonus equal to 122% of salary was payable to Saad Hammad, with 80% payable to Philip de Klerk.

The Committee believes that these bonus payments properly reflect the executive directors' contribution and performance during the year. However, mindful of the wish to adopt a considered approach when implementing our remuneration policy, the Committee and the executive directors have agreed that 45% of the bonus (being broadly equivalent to the amount of additional bonus triggered by the exclusion of the E195 solution costs) should be payable in Flybe shares, subject to a one-year deferral period.

Payments to past directors

As reported last year, Andrew Knuckey (via RAK Business Services Limited, owned by him) signed a consultancy agreement with the Company on 12th January 2015 to provide consultancy services to the Company on the Annual Report. RAK Business Services was paid £20,500 under the consultancy agreement.

Also as reported last year, Andrew Strong was paid £76,574 in settlement of a claim on 29th May 2015.

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 2014/15 and 2015/16	
	CEO	All staff
Salary and fees	-%	1.6%
Short-term incentives	100%	-%
All taxable benefits	92%	-%

The increase in all taxable benefits for the CEO is primarily due to his proportionately greater usage of the Company's driver services, together with the fact that certain benefits were only available on a part-year basis in 2014/15.

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 2015 and 31st March 2016, along with the percentage change in both.

	2015/16	2014/15	% change 2014/15 - 2015/16
Shareholder distributions	£nil	£nil	-
Total employee expenditure	£99.8m	£90.5m	10.3%

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 2016. 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.

Historical TSR performance

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

Saad Hammad	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Single figure of remuneration				£499,555	£520,631	£1,075,700
Annual bonus outcome ¹ (% of max.)				30%	0%	81%
PSP vesting outcome (% of max.)				n/a	n/a	n/a

1 Saad Hammad elected to donate his 2013/14 net annual bonus amount in full to charity.

Jim French	2010/11	2011/12	2012/13	2013/14
Single figure of remuneration	£589,689	£606,785	£600,401	£212,395
Annual bonus outcome (% of max.)	0%	0%	0%	0%
PSP vesting outcome (% of max.)	n/a	n/a	0%	0%

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 31st March 2016	Holding at 1st April 2015
Saad Hammad	287,522	287,522
Philip de Klerk	120,250	120,250
Simon Laffin	288,000	288,000
Sir Timo Anderson	8,000	8,000
Charlie Scott	20,833	20,833
Liz McMeikan	10,000	10,000
David Kappler	100,000	-

This excludes any shares held via share plans as disclosed on page 74.

Directors' remuneration

continued

Directors' shareholding status

The table below shows the shareholding of each director as at 31st March 2016:

	Shares held			Options held	
	Owning outright or vested	Vested but subject to holding period	Unvested and subject to perf. conditions	Vested but not exercised	Unvested and subject to continued employment
Saad Hammad	287,522	-	712,374	-	-
Philip de Klerk	120,250	-	477,653	-	-
Simon Laffin	288,000	-	-	-	-
Sir Timo Anderson	8,000	-	-	-	-
Liz McMeikan	10,000	-	-	-	-
Charlie Scott	20,833	-	-	-	-
David Kappler	100,000	-	-	-	-

There have been no changes in the interests of any of the directors between 1st April 2016 and 8th June 2016.

Performance Share Plan awards

Executive	Scheme	Date of grant	Interests held at 1st April 2015	Interests awarded during the year	Interests vested during the year	Interests lapsed during the year	Interests held at 31st March 2016	Interests at face value
Saad Hammad	PSP	29th July 2015	-	712,374	0	0	712,374	637,574
Philip de Klerk	PSP	29th July 2015	-	477,653	0	0	477,653	427,499

The above PSP awards were granted at the average market price of 89.5p of the last three trading days prior to grant. The exercise price is 1p.

These awards vest based on performance against the following targets:

Adjusted EPS for FY 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 the 1st 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 2018. 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 TSR 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. The Committee may scale back vesting based on performance against these targets (to zero if considered appropriate) if there has been a safety event that it considers warrants the use of such discretion. Furthermore, an additional underpin applies which states that awards will only vest to the extent that the Committee is satisfied that the Company has made satisfactory progress in resolving the outstanding legacy issue relating to the E195s in an appropriate manner.

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.

Recruitment awards

Saad Hammad's recruitment award

As part of his remuneration arrangements on joining Flybe, and as approved by shareholders at the 2013 Annual General Meeting, Saad Hammad received an award under the one-off LTIP which provides 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 will be 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 will be based on a three-month average market capitalisation to the relevant date. Saad Hammad will receive a 4% share of any incremental increase in market capitalisation if the ending market capitalisation is £150m or less. If the ending market capitalisation is greater than £150m, Saad Hammad will 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 are issued after the date that the CEO joined the Company, but on or before the end of the performance period. Accordingly, £156m will be deducted from the ending market capitalisation, relating to the fundraising completed in March 2014.

To the extent the award vests at the end of the three-year performance period, 50% of the award will 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).

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).

Implementation of policy for the year commencing 1st April 2016

Base salary

For the coming year with effect from 1st April 2016, executive directors' salaries will be increased by 2% (reflecting typical salary increases across the Group) as follows:

Saad Hammad	£433,500
Philip de Klerk	£290,700

Pension

Executive directors are eligible to receive a company pension contribution of up to 15% of basic salary and are also eligible to elect to join the main GPPP defined contribution scheme open to all UK employees. Should contributions exceed the relevant annual and/or lifetime allowance limits or if further pension contributions mean an individual exceeds such limits, then the executive director may elect on a broadly cost-neutral basis for the Group to receive a non-bonusable cash supplement equal to the pension contribution amount.

Saad Hammad has elected to receive his pension contributions as a non-bonusable cash supplement. Philip de Klerk will receive a cash supplement in lieu of pension where it would otherwise be tax-inefficient for him to continue to receive a formal pension contribution. As with Saad Hammad, any cash supplement will be reduced by the employer's NIC liability that arises to ensure the new approach is cost-neutral to Flybe.

Annual bonus

The maximum annual bonus opportunity for Messrs Hammad and de Klerk will be unchanged from last year at 150% and 100% of salary respectively. The proposed performance measures will also 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, going forward, no portion of the personal/strategic bonus will normally be payable unless adjusted PBT grows versus the prior year.

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 this year.

Directors' remuneration

continued

PSP awards

It is proposed that PSP awards be granted to Messrs Hammad and de Klerk in the forthcoming year. 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 FY 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%
Less than 12.9p	0%

Three-year TSR (50% weighting) relative to the constituents, as at the 1st 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 2019. 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 TSR 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 18.5p-22.2p target range employed for the 2015 grant. The Committee believes, however, that the 12.9p-15.9p target range is entirely appropriate as it is no less challenging in relative terms, due to evolving market conditions, than was the 18.5p-22.2p range when set last year. The Committee strongly believes that the LTIP needs to be set at a level that motivates and incentivises management. This target range reflects Flybe's forecast EPS growth and requires very substantial growth from current levels of profitability. It is consistent with analyst expectations as far as they are set into the future.

However, to adopt again a considered approach to remuneration, 0% of the EPS portion of the 2016 award will vest for achieving the threshold target, whereas 20% vested at threshold last year. In addition, while the CEO and CFO will receive a notional 150% of salary grant under the PSP in the forthcoming year (in line with last year's grant), the Committee is mindful of the fall in the share price over the last year and feels it would be inappropriate if management were to gain benefit from this. Accordingly, when calculating how many shares are actually awarded, the higher of either the share price on grant or the 89.5p share price used for the 2015 awards will be used.

Chairman and Non-Executive Director fees

NED fees in the forthcoming year will be as follows (which equate to an approximate increase of 2% over the prior year):

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

On behalf of the Board

Elizabeth McMeikan

Chairman Remuneration Committee
8th June 2016

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 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 and have also chosen to prepare the parent company financial statements under IFRSs as adopted by the European Union. Under company law the directors must not approve the accounts 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 of the Group for that period. In preparing these 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.

Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, 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 Annual Report, including the strategic report, and accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, strategy and business model; and
- 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.

By order of the Board

Saad Hammad
Chief Executive Officer
8th June 2016

Philip de Klerk
Chief Financial Officer
8th June 2016

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 31 March 2016 and of the group's profit 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 comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Balance Sheets, the Consolidated and Company Statements of Changes in Equity, the Consolidated and Company Statements of Cash Flows and the related notes 1 to 43. 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.

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 and the directors' statement on the longer-term viability of the group contained within the strategic report.

We have nothing material to add or draw attention to in relation to:

- the directors' confirmation on page 27 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 28 to 31 that 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 12 months from the date of approval of the financial statements;
- the directors' explanation on page 27 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and 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 non-audit 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.

Risk	How the scope of our audit responded to the risk
<p>Aircraft maintenance provisions</p> <p>Management continue to recognise provisions for maintenance obligations in relation to leased aircraft. Their approach to recognising the provision of £71.4m (2015: £68.8m) is set out in the critical accounting judgements in note 4 and further detail is provided in note 25.</p> <p>The quantification of maintenance provisions requires complex judgements and estimates to be made including considerations of aircraft utilisation, expected maintenance intervals and associated costs, and any changes in terms with maintenance providers.</p>	<p>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 evaluation included:</p> <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 model to information from lessors, comparison of assumptions to contract terms, recent interval and cost experience. We have supplemented this work with corroborative inquiry of engineering management, 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.
<p>Revenue recognition and provisioning</p> <p>Group revenue includes £571.7m (2015: £528.6m) of passenger revenue for the year ended 31 March 2016.</p> <p>Management have recorded certain provisions against revenue where revenue data derived from the revenue reporting systems, primarily arising from codeshare arrangements, needed amendment to properly reflect revenue in accordance with the Group's revenue recognition criteria (as set out in note 3 to the financial statements).</p> <p>These provisions primarily arise from activities such as inter-airline charge backs, air passenger tax recharges and ancillary revenue. Their quantification can involve complex data flows and in some cases judgment on the likely volume of rejected transactions.</p>	<p>We have evaluated the design and implementation of the key controls over revenue recognition combined with substantive tests and analytical procedures of related revenue and revenue provisions. We have also challenged the judgements made in valuing the required revenue provisions and comparisons of those judgments with historical experience.</p> <p>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.</p>
<p>Deferred tax asset recognition</p> <p>A deferred tax asset of £11.3m (2015: £8.8m) is recognised at 31 March 2016. Further detail is set out in the critical accounting judgements in note 4 and further detail is provided in note 24.</p> <p>Management judgement is required in assessing the recoverability of the deferred tax asset, based on the likelihood of sufficient taxable profits arising in future periods and the likelihood that the tax assets will be utilised. In making their judgement, management consider the inherent volatility within the airline industry and its exposure to other circumstances beyond its control.</p>	<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 the deferred tax asset.</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.</p>

Independent Auditor's Report to the members of Flybe Group plc

continued

Passenger compensation claims

A provision of £1.1m (2015: £6.7m) has been recorded at 31 March 2016 in respect of claims made under passenger compensation rights under EU regulation. Further detail is provided in note 25.

There is an inherent level of complexity in estimating such provisions and management have made their best estimate based on the number of historical delayed flights and claims received to date.

We have obtained management's calculation model underpinning the provision and evaluated the design and implementation of the controls in this process. We:

- used IT audit specialist members of the audit team to test the completeness and accuracy of the underlying model; and
- tested the key assumptions in the model including the history and level of passenger claims
- reperformed management's calculations.

We performed sensitivity analysis around the key drivers of the provision. We benchmarked against other airlines and reviewed the provision against historical claims.

We have also considered the compliance approach with the regulations.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on page 56.

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.

In determining materiality we considered a number of measures and derived a blended figure of £1.67m (2015: £1.56m) based on revenue and statutory profit before tax.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £83,500 (2015: £31,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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 (maintenance, repair and overhaul operations). Our audit work 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. 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:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
 - 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.
-

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.

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

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
Chartered Accountants and Statutory Auditor
Bristol, United Kingdom
8 June 2016

Consolidated income statement

Year ended 31st March 2016

	Note	2016 Total £m	2015 Restated Total £m
Group revenue	6	623.8	574.1
Consisting of:			
Passenger revenue		571.7	528.6
Contract flying revenue		13.9	11.6
Revenue from other activities		38.2	33.9
Group revenue		623.8	574.1
Staff costs	8	(99.8)	(90.5)
Fuel		(101.6)	(105.5)
Airport and en route charges		(120.7)	(108.7)
Ground operations		(82.5)	(69.1)
Maintenance		(21.3)	(22.3)
Depreciation and amortisation		(32.1)	(28.0)
Aircraft rental charges		(79.3)	(80.6)
Marketing and distribution costs		(25.2)	(27.4)
Other operating gains/(losses)		4.6	(1.0)
Other operating expenses		(57.1)	(53.7)
Operating profit/(loss)		8.7	(12.7)
Investment income	9	0.8	0.8
Finance costs	10	(4.0)	(1.5)
Other losses	11	(2.8)	(10.2)
Profit/(loss) before tax		2.7	(23.6)
Tax credit/(charge)	12	4.1	(0.1)
Profit/(loss) after tax of continuing operations		6.8	(23.7)
Loss on discontinued operations	5	-	(12.0)
Profit/(loss)		6.8	(35.7)
Earnings/(loss) per share:			
Basic and diluted	13	3.1p	(16.5p)

Prior year restatement

During the year the Group restated its 2015 income statement to reclassify costs between staff costs and other operating expenses (see note 8), and depreciation on maintenance assets between maintenance and depreciation (see note 15). This had no impact on the loss for the year.

Consolidated statement of comprehensive income

Year ended 31st March 2016

	2016 £m	2015 £m
Profit/(loss) for the financial year	6.8	(35.7)
Items that will not be reclassified to profit or loss:		
Remeasurement of net defined benefit obligation	6.3	(18.4)
Deferred tax arising on net defined benefit obligation	(1.3)	4.1
	5.0	(14.3)
Items that may be reclassified subsequently to profit or loss:		
Losses arising during the year on cash flow hedges	(26.4)	(23.4)
Reclassification of gains on cash flow hedges included in the income statement	30.6	15.5
Deferred tax arising on cash flow hedges	-	(0.2)
Foreign exchange translation differences	(2.4)	3.8
	1.8	(4.3)
Other comprehensive income/(loss) for the year	6.8	(18.6)
Total comprehensive income/(loss) for the year	13.6	(54.3)

Consolidated statement of changes in equity

Year ended 31st March 2016

Financial statements

	Share capital £m	Share premium £m	Hedging reserve £m	Merger reserve £m	Capital redemp- tion reserve £m	Retained earnings/ (deficit) £m	Total equity £m
Balance at 1 April 2014	2.2	209.2	(7.4)	6.7	22.5	(39.1)	194.1
Loss for the year	-	-	-	-	-	(35.7)	(35.7)
Other comprehensive loss for the year	-	-	(4.3)	-	-	(14.3)	(18.6)
Equity settled share based payment transactions	-	-	-	-	-	0.1	0.1
Share issue expenses	-	0.1	-	-	-	-	0.1
Balance at 31st March 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 31st March 2016	2.2	209.3	(9.9)	6.7	22.5	(76.6)	154.2

Consolidated balance sheet

Year ended 31st March 2016

	Note	2016 £m	2015 £m
Non-current assets			
Intangible assets	14	13.3	8.8
Property, plant and equipment	15	213.7	189.1
Other non-current assets	16	40.7	38.0
Restricted cash	19	7.8	7.1
Deferred tax asset	24	11.3	8.8
Derivative financial instruments	23	0.8	0.2
		287.6	252.0
Current assets			
Inventories	17	6.4	7.1
Trade and other receivables	18	101.4	98.3
Cash and cash equivalents	19	163.6	177.9
Restricted cash	19	-	10.9
Derivative financial instruments	23	9.7	14.1
		281.1	308.3
Total assets		568.7	560.3
Current liabilities			
Trade and other payables	20	(104.3)	(96.3)
Deferred income	21	(84.7)	(77.1)
Borrowings	22	(14.7)	(13.0)
Provisions	25	(42.3)	(51.9)
Derivative financial instruments	23	(18.8)	(18.9)
		(264.8)	(257.2)
Non-current liabilities			
Borrowings	22	(94.5)	(106.2)
Deferred tax liabilities	24	-	(0.3)
Provisions	25	(30.9)	(24.3)
Deferred income	21	(7.4)	(8.3)
Employee benefits	33	(15.3)	(21.0)
Derivative financial instruments	23	(1.6)	(2.6)
Liability for share-based payments	32	-	(0.4)
		(149.7)	(163.1)
Total liabilities		(414.5)	(420.3)
Net assets		154.2	140.0
Equity attributable to owners of the company			
Share capital	26	2.2	2.2
Share premium account	27	209.3	209.3
Hedging reserve		(9.9)	(11.7)
Merger reserve		6.7	6.7
Capital redemption reserve		22.5	22.5
Retained deficit	28	(76.6)	(89.0)
Total equity		154.2	140.0

The financial statements of Flybe Group plc, registered number 01373432, were approved by the Board of Directors and authorised for issue on 8th June 2016.

Saad Hammad
Chief Executive Officer

Philip de Klerk
Chief Financial Officer



Consolidated cash flow statement

Year ended 31st March 2016

	2016 £m	2015 £m
Cash flows from operating activities		
Profit/(loss) for the year	6.8	(35.7)
Loss from discontinued operations	-	-2.2
Interest received on joint venture loan	-	(0.2)
Impairment of joint venture	-	10.0
Profit/(loss) from continued operations	6.8	(23.7)
Adjustments for:		
Unrealised losses/(gains) on financial instruments and borrowings	4.6	(2.5)
Depreciation and amortisation impairment	32.1	14.6
Investment income	(0.8)	(0.8)
Interest expense	2.1	1.5
Other losses	2.8	10.2
Loss on disposal of plant, property and equipment	4.3	-
Loss on disposal of intangible fixed assets	(0.1)	-
Share-based payment expenses	0.2	(0.5)
Taxation	(4.1)	0.1
	47.9	(1.1)
Cash paid for defined benefit pension funding	(0.5)	(0.5)
Decrease in restricted cash	10.2	22.5
Increase in trade and other receivables	(7.1)	(10.9)
Decrease/(increase) in inventories	0.7	(0.2)
Increase in trade and other payables	14.8	21.3
Decrease in provisions and employee benefits	(1.9)	(1.0)
	16.2	31.2
Tax paid	-	-
Net cash flows from operating activities	64.1	30.1
Cash flows from investing activities		
Interest received	0.8	1.0
Decrease in pre-delivery aircraft deposits	1.3	-
Purchases of property, plant and equipment	(59.7)	(32.3)
Purchases of intangibles/fixed assets	(5.9)	(4.3)
Net cash flows from investing activities	(63.5)	(35.6)
Cash flows from financing activities		
Proceeds from new loans	-	25.4
Interest paid	(2.1)	(1.5)
Repayment of borrowings	(12.8)	(18.4)
Net cash flows from financing activities	(14.9)	5.5
Net decrease in cash and cash equivalents	(14.3)	-
Cash and cash equivalents at beginning of year	177.9	177.9
Cash and cash equivalents at end of year	163.6	177.9

Financial statements

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 59. The nature of the UK Group's operations and its principal activities are set out in the Strategic Report on pages 14 to 39.

These financial statements are presented in pounds sterling because that is 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

None of the standards, amendments and interpretations which are mandatory for the first time for the financial year ended 31st March 2016 are either currently relevant or material for 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).

The directors do not expect that the adoption of IFRS 9 and IFRS 15 will have a material impact on the financial statements of the Group in future periods. IFRS 9 will impact both the measurement and disclosures of financial instruments. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

IFRS 16 'Leases' introduces a single lessee accounting model. 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 2016, the Group has significant outstanding commitments for aircraft operating leases and the new standard is expected to have a material impact for 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 a detailed review has been completed.

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, 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 27.

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.

Aircraft maintenance and other revenue

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 contract flying, are recognised in the period when the services are provided.

Frequent Flyer Programme

During the 2014/15 financial year, Flybe moved to a new point purchasing agreement with Avios, a subsidiary of International Airlines Group. Flybe also allows customers to redeem their points on Flybe travel through the Avios.com website and BA Executive Club website.

For flights purchased by members of the Frequent Flyer Programme 'Rewards for all', an element of revenue representing the sales value of flights which these customers may take in future at no cost is deferred and recognised when the related free flights have been taken. The amount of deferral is based on the fair value of an equivalent flight.

Flybe has entered into an agreement with Avios to enable passengers to accrue Avios points when flying on Flybe tickets. Flybe simply purchases points from Avios at a pre-agreed rate and the cost of purchasing the points is charged against the passenger revenues at the point that transportation occurs. 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 and BA Executive Club members can earn points by using Flybe's network offering, including partners. The cost of the points is treated as a revenue reduction at the point of complete transportation provision in the income statement and at the point of sale recorded as a liability against deferred income.

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. Currently Flybe is drawing down on a £1.5m prepayment made by Avios at the outset of the arrangement.

Interest revenue

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 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.

Notes to the consolidated financial statements

continued

3. Significant accounting policies continued

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.

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 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 excluding goodwill

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 or net realisable value as follows:

Aircraft consumables

These comprise aircraft parts which are non-repairable and non-renewable. These are valued at the lower of cost or 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, and uses forward foreign exchange contracts and commodity swaps to hedge these exposures. The Group 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 same line of the income statement as the hedged item. 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.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. Initially they are measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss ('FVTPL') or at fair value designated and effective as hedges, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets at FVTPL, financial assets that are designated and effective as hedging instruments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. The Group holds no 'available-for-sale' or 'held-to-maturity' financial assets.

Notes to the consolidated financial statements

continued

3. Significant accounting policies continued

Financial assets 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 34.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Leased aircraft maintenance provisions

The Group incurs liabilities for maintenance costs in respect of aircraft leased under operating leases during the term of the lease. These arise from the contractual obligations relating to the condition of the aircraft when it is returned to the lessor. To discharge these obligations, the Group will either need to compensate the lessor for the element of the life of the component or maintenance intervals used, or carry out the maintenance check before 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.
- 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.

Notes to the consolidated financial statements

continued

3. Significant accounting policies continued

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 2016 77% of Flybe's fleet was leased via operating leases from nine lessors. 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 94.

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 risk 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 arising 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

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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.

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 Project 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 32.

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 and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), 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:

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continued

4. Critical accounting judgements and key sources of estimation uncertainty

continued

Aircraft maintenance

On acquisition of an aircraft, a proportion of the cost of the aircraft is allocated to engines and other material components with different useful lives to the airframe. Judgement is required to determine the amount of cost to allocate based on the estimated cost of overhauling the components, and the time between maintenance events. This judgement affects the amounts recognised as a depreciation expense given the different useful lives of the components.

For aircraft held under operating leases, the Group has a commitment to return the aircraft in a specific maintenance condition at the end of the lease term. Estimating the provision for maintenance costs requires judgement as to the cost and timing of future maintenance events. This estimate is based on planned usage of the aircraft, contractual obligations under lease agreements, industry experience, manufacturers' guidance and regulations. Any change in these assumptions could potentially result in a significant change to the maintenance provisions and costs in future periods.

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, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. 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. As a result of the Group's performance, the net deferred tax asset has increased from £8.6m to £11.3m at 31st March 2016 (see note 24).

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Passenger delay compensation

In 2005, EU261 was promulgated, requiring airlines to provide flight delay compensation for passengers at predetermined rates. Uncertainty over the types of delay leading to compensation was finally clarified

in October 2014 where the appeal cases of Dawson v Thompson Airways and Huzar versus Jet 2 concluded that technical issues should be included within the ambit of this regulation. In essence, airlines are required to compensate passengers where delays in arrival, greater than three hours, are deemed to have been under the control of the airline – including technical delays. Claims may go back six years.

We estimate the full liability associated with this regulation based on the number of passengers delayed and the average compensation due. The claim rate associated with this liability is then estimated based on historical experience and expected claim rates. This adjusted liability is then provided for in the period of the delay.

In 2014/15, a historical catch up provision was created on the basis of the October 2014 appeal case. This has then been adjusted over the period as payments have been made for historical claims and an additional liability has been provided for associated with incremental compensation liability. The outstanding liability estimated at 31st March 2016 was £1.1m.

Employee benefits

Accounting for pensions and other post-retirement benefits involves judgement about uncertain events including, but not limited to, discount rates, life expectancy, future pay inflation and expected health care cost trend rates. 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 33. Any change in these assumptions could potentially result in a significant change to the pension assets/(liabilities), commitments and pension costs in future periods.

5. Discontinued operations

On 11th November 2014, the Group entered into a sale agreement to dispose of its share in the joint venture, Flybe Finland. The disposal was completed on 31st March 2015, on which date control of the Group's share of Flybe Finland passed to the acquirer.

The loss for the year from discontinued operations was as follows:

	2016 £m	2015 £m
Post-tax loss of discontinued operation (see below)	-	(2.2)
Investment in joint venture impairment charge	-	(10.0)
Interest received on joint venture associated loan	-	0.2
	-	(12.0)

No gain or loss arose on the disposal of the Group's share of Flybe Finland, being the difference between the proceeds of disposal and the carrying amount of the Group's investment in the joint venture. The investment had been written down to €1 as at 30th September 2014, and an impairment of £10.0m recorded.

The results of the discontinued operations, which have been included in the 2015 consolidated income statement, were as follows:

	2016 £	2015 £
Revenue	-	117.2
Expenses	-	(119.7)
Loss before tax	-	(2.5)
Attributable tax credit	-	0.5
Net loss attributable to discontinued operations (attributable to owners of the Company)	-	(2.2)

6. Business and geographical segments

During the previous financial year, the Group's divisions were removed and the business was refocused into One Flybe. Under IFRS 8, Flybe reports two business segments in order to comply with accounting standards.

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:

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.
Flybe Aviation Services (FAS)	This business segment aims to provide aviation services to customers, largely in Western Europe. The 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.

	2016 £m	2015 £m
Segment revenues:		
Flybe UK	601.0	550.7
FAS	42.8	40.8
Inter-segment sales	(20.0)	(17.4)
Group revenue (excluding investment income)	623.8	574.1

	2016 £m	2015 £m
Segment results:		
Flybe UK (including net finance costs of £3.2m in 2016 and £0.7m in 2015)	0.2	(25.9)
FAS	2.5	2.3
Total segment profit/(loss) before tax	2.7	(23.6)

The Flybe UK segment includes Group costs of £5.8m (2014/15: £3.6m) and revaluation losses on US dollar aircraft loans of £2.8m (2014/15: £10.2m losses).

For the purposes of monitoring segment performance and allocation of resources between segments, the Executive Committee monitors the tangible, intangible and financial assets attributable to each segment. All assets are allocated to reportable segments with the exception of revalued open fuel and foreign exchange derivatives, and tax assets and liabilities. Assets used jointly by reportable segments are allocated on the basis of the revenue earned by individual reportable segments.

	2016 £m	2015 £m
Segment assets:		
Flybe UK	525.2	517.0
FAS	21.8	20.2
Unallocated assets	21.7	23.1
Consolidated total assets	568.7	560.3
Segment liabilities:		
Flybe UK	(387.4)	(387.7)
FAS	(6.7)	(4.5)
Unallocated liabilities	(20.4)	(28.1)
Consolidated total liabilities	(414.5)	(420.3)

The unallocated assets and liabilities refer to financial instruments, deferred tax and share-based payments.

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continued

6. Business and geographical segments

continued

Other segment information

	2016 £m	2015 Restated £m
Depreciation and amortisation:		
Flybe UK	(31.6)	(27.9)
FAS	(0.5)	(0.1)
	(32.1)	(28.0)
Investment income:		
Flybe UK	0.8	0.8
Flybe Finland	-	-
	0.8	0.8
Additions to non-current assets:		
Flybe UK	28.5	27.4
FAS	(3.4)	8.5
	25.1	35.9

Prior year restatement

During the year the Group restated its disclosure of 2015 additions to non-current assets by segment to ensure consistency with amounts disclosed in notes 14 and 15. There is no impact on the income statement or balance sheet.

Geographical information

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

	2016 £m	2015 £m
Revenue from external customers:		
United Kingdom	516.4	484.5
Europe excluding United Kingdom	92.4	76.6
Rest of world	15.0	13.0
Group revenue	623.8	574.1

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

7. Operating profit/(loss)

	2016 £m	2015 Restated £m
This has been arrived at after charging/(crediting):		
Depreciation of property, plant and equipment	30.7	27.2
Amortisation of intangible assets	1.5	0.8
Loss on disposal of plant, property and equipment	4.3	-
Gain on disposal of intangibles	(0.1)	-
Cost of inventories recognised as an expense	15.4	14.9
Operating leases:		
Land and buildings	2.0	2.6
Plant and machinery	0.2	1.9
Aircraft	79.3	80.6
Foreign exchange (gain)/loss	(6.1)	1.2

The 2015 depreciation costs have been restated as a result of the gross up of maintenance assets. The 2015 foreign exchange gain was a foreign exchange loss.

Auditor's remuneration

	2016 £m	2015 £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	0.2	0.2
Total audit fees	0.2	0.2
Tax compliance and advisory services	-	-
Corporate finance services	0.1	0.1
Total audit and non-audit fees	0.3	0.3

Fees payable to Deloitte LLP and its associates for non-audit services to the Company are not required to be disclosed because the financial statements are required to disclose such fees on a consolidated basis. 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 57. No services were provided pursuant to contingent fee arrangements.

8. Staff costs

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

	2016 No.	2015 No.
Flight and maintenance	1,221	1,118
Technical support services	380	413
Administration	387	319
	1,988	1,850

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

	2016 £m	2015 Restated £m
Wages and salaries	82.0	72.0
Social security costs	8.3	8.1
Other pension costs (see note 33)	5.1	5.3
Share-based payments (see note 32)	0.2	0.2
Amounts payable to temporary staff	3.1	4.9
	98.7	90.5
Redundancy costs	1.1	-
	99.8	90.5

In addition to the above, an actuarial gain of £6.3m (2015: actuarial loss of £18.4m (restated)) was recognised in the consolidated statement of comprehensive income in respect of defined benefit pension schemes.

Prior year restatement

During the year the Group restated its disclosure of 2015 wages and salaries costs and increased aggregate payroll costs by £1.4m to adjust for prior period share-based payments. Other operating expenses were reduced by £1.4m, therefore there is no impact on loss in the income statement, or in the balance sheet.

9. Investment income

	2016 £m	2015 £m
Interest on bank deposits	0.8	1.0
Net interest cost on defined benefit costs (see note 33)	-	(0.2)
	0.8	0.8

10. Finance costs

	2016 £m	2015 £m
Interest expense on bank loans	2.1	1.5
Net interest cost on defined benefit costs (see note 33)	0.7	-
Release of interest receivable of £(0.3)m and recycling of FX losses of £1.5m for Flybe Finland	1.2	-
	4.0	1.5

11. Other losses

	2016 £m	2015 £m
Losses arising on retranslation of foreign currency loans and deposits	(2.8)	(10.2)

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

	2016 £m	2015 £m
Deferred tax		
Origination of temporary differences	(4.1)	0.1
Reversal of tax losses recognised	-	-
Total tax (credit)/ charge for the year	(4.1)	0.1

The Group did not incur or pay any current corporation tax in this or the prior year.

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12. Tax on profit/(loss) on ordinary activities continued

The difference between the total tax shown above and the amount calculated by applying the standard rate of United Kingdom corporation tax to the profit/(loss) before tax is as follows:

	2016 £m	2015 £m
Profit/(loss) on ordinary activities before tax	2.7	(35.6)
Tax on profit/(loss) on ordinary activities before tax at 20% (2015: 21%)	0.6	(7.1)
Factors affecting tax charge for the year		
Items outside the scope of UK taxation	-	0.1
Effect of change in corporation tax rate	-	(0.1)
Effect of tax losses (Capital allowances in excess of depreciation)/ depreciation in excess of capital allowances	(6.4)	4.8
Expenses not taxable/ income not deductible	1.3	-
Adjustments in respect of prior years	0.4	-
Total tax (credit)/ charge for the year	(4.1)	0.1

The directors are not aware of any other factors that will materially affect the future tax charge.

13. Earnings/(loss) per share

The calculation of the basic earnings per share is based on the following data:

	2016 £m	2015 £m
Earnings/(loss)		
Earnings/(loss) for the purposes of earnings per share, being net profit/(loss) attributable to owners of the Group	6.8	(35.7)
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	216,656,776	216,655,910
Earnings/(loss) per ordinary share - basic	3.1p	(16.5)p

Diluted earnings per share is the same as basic earnings per share in the year ended 31st March 2015 and 31st March 2016 because none of the shares that could, potentially, be issued are dilutive.

Loss per share - discontinued operations

In the current year, all earnings were derived from continuing operations. In 2014/15, loss from discontinued operations for the purposes of unadjusted earnings per share was £12m, giving a loss per share of 5.5p.

14. Intangible fixed assets

	Computer software £m	Computer software in the course of construction £m	Total £m
Cost			
At 1st April 2014	10.6	3.6	14.2
Additions	0.4	4.0	4.4
Disposals	-	-	-
At 31st March 2015	11.0	7.6	18.6
Additions	0.9	5.0	5.9
Reclassifications ¹	5.3	(5.3)	-
Reclassifications from plant, property and equipment ²	1.9	-	1.9
Disposals	(4.2)	(0.2)	(4.4)
At 31st March 2016	14.9	7.1	22.0
Amortisation			
At 1st April 2014	9.0	-	9.0
Amortisation for the year	0.8	-	0.8
At 31st March 2015	9.8	-	9.8
Amortisation for the year	1.5	-	1.5
Reclassifications from plant, property and equipment ²	1.5	-	1.5
Disposals	(4.1)	-	(4.1)
At 31st March 2016	8.7	-	8.7
Net book value			
At 31st March 2015	1.2	7.6	8.8
At 31st March 2016	6.2	7.1	13.3

¹ Assets costing £5.3m were reclassified from software in the course of construction to computer software. There was no impact on the income statement or balance sheet.

² Assets with a net book value of £0.4m (2015: £nil) were reclassified from property, plant and equipment. This had no impact on the total balance sheet or income statement.

15. Property, plant and equipment

	Land and buildings £m	Plant, equipment and motor vehicles £m	Aircraft £m	Total £m
Cost				
At 1st April 2014	24.6	17.4	209.5	251.5
Additions	0.4	0.2	47.0	47.6
Disposals	-	(0.2)	(15.9)	(16.1)
Reclassifications	(0.3)	0.3	-	-
At 31st March				
2015 - Restated	24.7	17.7	240.6	283.0
Additions	0.1	0.6	59.0	59.7
Disposals	(3.0)	(6.9)	(26.2)	(36.1)
Reclassifications ¹	0.2	(0.1)	(0.1)	-
Reclassifications to intangible assets ²	-	(1.9)	-	(1.9)
At 31st March				
2016	22.0	9.4	273.3	304.7

Accumulated depreciation and impairment

At 1st April 2014	5.3	13.1	62.5	80.9
Depreciation charge for the year	0.5	1.3	25.4	27.2
Disposals	-	(0.2)	(14.0)	(14.2)
At 31st March				
2015 - Restated	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 31st March				
2016	3.1	6.9	81.0	91.0

Net book value

At 1st March				
2015	18.9	3.5	166.7	189.1

At 31st March

2016	18.9	2.5	192.3	213.7
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¹ Assets with a net book value of £0.1m were reclassified between 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 £0.4m (2015: £nil) were reclassified to intangible fixed 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 £62.6m and no impairment was required. The key assumption in the review of Flybe UK was the weighted average cost of capital used of 10.0%. Only when the weighted average cost of capital is increased to 15% does the recoverable amount equal its carrying amount.

Included above are fully depreciated assets with an original cost of £24.8m (2015: £25.1m).

In 2014/15 aircraft additions, disposals and depreciation costs have been restated to show the gross movement on the maintenance assets. These were previously reported as a net cost movement of £3.9m and a net depreciation movement of £2.2m.

16. Other non-current assets

	2016 £m	2015 £m
Aircraft deposits	1.7	3.1
Aircraft security deposits	9.9	7.8
Aircraft operating lease prepayments	3.5	4.3
Other non-current assets	25.6	22.8
	40.7	38.0

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

17. Inventories

	2016 £m	2015 £m
Aircraft consumables	6.4	7.1
	6.4	7.1

18. Trade and other receivables

	2016 £m	2015 £m
Amounts receivable	33.5	32.8
Allowance for doubtful debts	(0.3)	-
Trade receivables, net	33.2	32.8
Amounts recoverable on contracts	3.1	2.1
Other receivables	51.4	47.9
Prepayments	13.7	15.5
	101.4	98.3

Notes to the consolidated financial statements

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18. Trade and other receivables continued

An amount of £2.1m was reclassified in 2015 between trade receivables and amounts recoverable on contracts in line with 2016. There is no impact on the total income statement or balance sheet.

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

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 2016 (2015: £nil).

Ageing of trade receivables that are not provided for:

	2016 £m	2015 £m
Not yet due	28.6	28.8
30 to 60 days overdue	3.1	1.1
60 to 90 days overdue	0.3	2.8
90+ days overdue	1.2	0.1
	33.2	32.8

19. Cash, cash equivalents and restricted cash

	2016 £m	2015 Restated £m
Cash and cash equivalents	163.6	177.9
Current restricted cash	-	10.9
Non-current restricted cash	7.8	7.1
	171.4	195.9
Restricted cash comprises:		
Aircraft operating lease deposits	6.5	7.1
Aircraft maintenance deposits	1.3	0.9
Other (cash deposited to secure card acquiring facilities)	-	10.0
	7.8	18.0

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.

Since 31st March 2015, there has been a reduction in restricted cash of £10.2m in total which relates to a £10.0m reduction in restricted cash relating to secure card acquiring facilities and £0.2m relating to a reduction in other restricted cash.

Prior year restatement

During the year the Group restated its disclosure of the 2015 breakdown of restricted cash. There is no impact on the income statement or the balance sheet. Previously the breakdown of the £18.0m was £4.3m for aircraft operating lease deposits, £7.9m for aircraft maintenance deposits and £5.8m for other.

20. Trade and other payables

	2016 £m	2015 £m
Trade payables	27.3	26.4
Accrued expenses	38.1	21.2
Other payables	38.9	48.7
	104.3	96.3

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 include passenger taxes, output VAT, fuel hedges and other cash liabilities.

21. Deferred income

	2016 £m	2015 £m
Current	84.7	77.1
Non-current	7.4	8.3
	92.1	85.4

Deferred income includes government grants totalling £6.2m (2015: £6.4m (restated)) 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.

22. 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 34.

	2016 £m	2015 £m
Secured bank loans		
Amount due for settlement within 12 months	14.7	13.0
Amount due for settlement after 12 months	94.5	106.2
	109.2	119.2

Terms

	2016		2015	
	Interest rate %	Amount £m	Interest rate %	Amount £m
Floating rate sterling loans	3.5	24.9	3.4	28.8
Floating rate US dollar loans	2.5	83.0	2.2	87.4
Fixed rate sterling loans	3.0	0.9	3.1	2.5
Fixed rate US dollar loans	5.4	0.4	5.4	0.5
		109.2		119.2

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 1.1% and 3.3%. The loans are repayable over a period to 31st March 2031. 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.

At 31st March 2016, the Group had £4.2m of unused borrowing facilities in the form of guarantees (2015: £3.0m).

23. Derivative financial instruments

	2016 £m	2015 £m
Current assets		
Forward foreign currency contracts/options	9.0	14.1
Fuel contracts/options	0.7	-
Derivative instruments that are designated and effective as hedging instruments carried at fair value	9.7	14.1
Total derivative financial assets held as current assets	9.7	14.1
Non-current assets		
Forward foreign currency contracts/options	0.4	0.2
Fuel contracts/options	0.4	-
Total derivative financial assets held as non-current assets	0.8	0.2
Total derivative financial assets	10.5	14.3
Current liabilities		
Forward foreign currency contracts/options	(0.4)	-
Fuel contracts/options	(19.7)	(27.2)
Derivative instruments that are designated and effective as hedging instruments carried at fair value	(20.1)	(27.2)
Margin calls on derivative instruments	1.3	8.3
Total derivative financial assets held as current liabilities	(18.8)	(18.9)
Non-current liabilities		
Forward foreign currency contracts/options	(0.2)	-
Fuel contracts/options	(1.4)	(2.6)
Total derivative financial assets held as non-current liabilities	(1.6)	(2.6)
Total derivative financial liabilities	(20.4)	(21.5)
Net derivative financial liabilities	(9.9)	(7.2)

Further details of derivative financial instruments are provided in note 34.

Notes to the consolidated financial statements

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24. 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	Tax losses £m	Total £m
At 1st April 2014	(2.3)	-	(0.6)	(1.6)	-	(4.5)
Recognised in the income statement	(0.4)	-	0.5	-	-	0.1
Recognised in other comprehensive income	-	-	(4.1)	0.2	-	(3.9)
Effect of rate change	(0.1)	-	-	(0.1)	-	(0.2)
At 31st March 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 31st March 2016	(6.8)	-	(3.0)	(1.5)	-	(11.3)

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities	
	2016 £m	2015 £m	2016 £m	2015 £m
Property, plant and equipment	6.8	3.1	-	(0.3)
Intangible assets	-	-	-	-
Employee benefits	3.0	4.2	-	-
Financial instruments	1.5	1.5	-	-
Tax value of loss carried forward	-	-	-	-
Tax assets/(liabilities)	11.3	8.8	-	(0.3)

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. At each balance sheet date, the Group recognised deferred tax assets primarily on previously unrecognised losses or unutilised capital allowances. The recognition of an asset, as well as the composition of that asset, was a result of management's judgement that it was probable that it would realise such deferred tax assets in future periods, when taking into consideration the availability of feasible tax planning strategies and estimates of future taxable income in which these operating losses and other tax attributes exist.

The Group has significant deferred assets due to the accumulation of accelerated capital allowances in prior periods. The realisation of these assets is not assured and is dependent on the generation of sufficient taxable income in the future. The directors have exercised judgement in determining the extent of the realisation of these losses based upon estimates of future taxable income. Where there is an expectation that on the balance of probabilities there will not be sufficient taxable profits to utilise these assets, they have not been recognised.

£13.0m of deferred tax assets have not been recognised in the year (2014/15: £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.

25. Provisions

	2016 £m	2015 £m
Leased aircraft maintenance	71.4	68.8
EU261 regulation	1.1	6.7
Onerous lease provisions	0.7	0.7
	73.2	76.2
Current	42.3	51.9
Non-current	30.9	24.3
	73.2	76.2

The Group's provisions are as follows:

	Leased aircraft maintenance £m	EU261 regulation £m	Onerous lease £m	Total £m
At 31st March 2015	68.8	6.7	0.7	76.2
Additional/ (released) provision in the year	22.3	0.2	0.7	23.2
Utilisation of provision	(19.7)	(5.8)	(0.7)	(26.2)
At 31st March 2016	71.4	1.1	0.7	73.2

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.

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 arising from the contract, being the lower of the cost of fulfilling the contract and any compensation or penalties arising from failure to fulfill the contract. The £0.7m onerous lease provision at 31st March 2015 was in respect of an E195 aircraft. This provision was utilised in the year. The £0.7m onerous lease provision at 31st March 2016 is in respect of office buildings.

Provision is made for passenger compensation claims when the group has an obligation to recompense customers under regulation EU261 where 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. The majority of claims paid in the year were as a result of court rulings clarifying the liability; these included current and prior period claims.

26. Share capital

	2016 £000	2015 £000
Authorised, issued and fully paid		
216,656,776 ordinary shares of 1p each (2015: 216,656,776)	2,167	2,167

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

On 1st September 2014, 1,185 ordinary shares of 1 pence were issued; on 16th September 2014, 790 ordinary shares were issued.

27. Share premium

	£m
Balance at 31st March 2015 and 31st March 2016	209.3

28. Retained deficit

	£m
Balance at 1st April 2014	(39.1)
Net loss for the year	(35.7)
Other comprehensive loss arising from measurement of defined benefit obligation net of deferred tax	(14.3)
Credit to equity for equity-settled share-based payments	0.1
Balance at 31st March 2015	(89.0)
Net profit for the year	6.8
Other comprehensive gain arising from measurement of defined benefit obligation net of deferred tax	5.0
Credit to equity for equity-settled share-based payments	0.6
Balance at 31st March 2016	(76.6)

29. Contingencies

The Group has placed bank guarantees and letters of credit in favour of various aircraft lessors, handling agents, fuel suppliers and customs offices as follows:

	2016 £m	2015 £m
Bank guarantees and letters of credit issued	6.8	7.9
	6.8	7.9

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30. Operating lease arrangements

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

	Property and equipment		Aircraft	
	2016 £m	2015 £m	2016 £m	2015 Restated £m
Less than one year	1.7	1.3	79.2	71.8
Between one and two years	1.0	0.8	77.0	71.3
Between two and five years	1.9	1.8	161.0	167.0
More than five years	10.4	10.2	28.0	54.1
	15.0	14.1	345.2	364.2

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

The 2015 aircraft numbers were previously reported at budget rate. These have been restated to reflect the actual exchange rate as at 31st March 2015. There is no impact on the income statement or balance sheet.

31. Capital commitments

The Group has, over time, contractually committed to the acquisition of aircraft with a total list price before escalations and discounts as follows:

	2016 £m	2015 £m
Aircraft	103.4	100.1

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

The 2015 Aircraft numbers have been restated. There is no impact on the income statement or balance sheet.

32. Share-based payments

Long-Term Incentive Plan ('LTIP')

The Flybe LTIP 2013

All employees of the Group may be granted Flybe LTIP 2013 Awards ('LTIP Award'). No directors of the Company may be granted an LTIP Award under this scheme.

Awards granted take the form of a conditional right to receive a cash amount, the value of which is calculated by reference to the number of ordinary shares which are notionally subject to an LTIP Award multiplied by the increase in the market value of an ordinary

share between the date of grant (unless determined otherwise by the Remuneration Committee) and the market value of an ordinary share on the third anniversary of grant. Market value on a particular date will be calculated by reference to an average of the closing price of an ordinary share for the three months prior to such date. The closing price at the third anniversary of the grant date in respect of an LTIP Award may not exceed 400% of the opening price and therefore will be capped at the amount equal to 400% of the opening price.

The vesting of LTIP Awards granted will be conditional upon the achievement of an objective performance target set at the time of grant. It is intended that the performance target will be that the closing price in respect of an LTIP Award at the first vesting date must exceed a predetermined level.

	2016 Number of share awards	2015 Number of share awards
Outstanding at beginning of year	2,751,591	2,751,591
Forfeited during the year	(2,751,591)	-
Outstanding at end of year	-	2,751,591

At 31st March 2016, all members of the Flybe LTIP 2013 had left the Company and therefore all share awards have been forfeited. Less than £0.1m was credited to the income statement (2015: less than £0.1m charge) and the LTIP liability fully released (2015: £0.1m liability).

The Saad Hammad LTIP ('SH Plan')

Mr. Hammad is the sole participant under the SH Plan, which is specifically designed in order to incentivise him to grow the market capitalisation of the Company over a three-year performance period commencing on the date that he joined the Company.

The award made under the terms of the SH Plan entitles Mr. Hammad to receive a cash payment depending upon the extent to which the performance conditions have been satisfied, over a three-year performance period commencing on the date that he joined the Company. The performance condition is that the market capitalisation of the Company at the end of the performance period must be greater than the market capitalisation of the Company at the start of the performance period. If this condition is not satisfied, no payment will be made. See the Directors' Remuneration Report on page 75 for further details.

The LTIP award was granted on 1st August 2013. Fair value of the award at 31st March 2016 has been calculated using a Monte Carlo valuation model.

The inputs into the valuation are as follows:

	2016
Starting market capitalisation	39.5m
Starting issued share capital	75.2m
Issued share capital at 31st March 2016 (the measurement date)	216.7m
Share price at 31st March 2016 (the measurement date)	63.75p
Aggregate price paid for new shares	155.7m
Risk-free rate of interest	0.40%
Flybe volatility	45%
Dividend yield	nil

As participation is limited to one individual, no forfeiture risk has been assumed in the valuation.

£0.3m was credited to the income statement (2015: less than £0.1m charge) as a result of the movement in the LTIP liability from £0.3m at 31st March 2015 to be less than £0.1m at 31st March 2016. Contractual life remaining at 31st March 2016 was 1.3 years.

The Philip de Klerk LTIP

Mr. de Klerk is the sole participant under the Philip de Klerk LTIP. On 22nd August 2014, Philip de Klerk was awarded a notional number of Flybe shares that entitle him to a cash payment equivalent to the gain in share price over a three-year period, subject to the

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 performance hurdle.

three-month average share price at the end of the three-year period exceeding 161.26p. See the Directors' Remuneration Report on page 75 for further details.

To the extent the award vests, 50% of the cash payment will vest immediately at the end of the three-year performance period, 25% will vest six months after the end of the performance period, with the remaining 25% vesting 12 months after the end of the performance period.

The LTIP award was granted on 22nd August 2014. Fair value of the award at 31st March 2016 has been calculated using a Monte Carlo valuation model. The inputs into the valuation are as follows:

Starting share price	121.26p
Share price at 31st March 2016 (the measurement date)	63.75p
Risk-free rate of interest	0.31%
Flybe volatility	45%
Dividend yield	nil

As participation is limited to one individual, no forfeiture risk has been assumed in the valuation.

Less than £0.1m was credited to the income statement (2015: less than £0.1m charge) as a result of the movement in the LTIP liability from less than £0.1m at 31st March 2015 to be less than £0.1m at 31st March 2016. Contractual life remaining at 31st March 2016 was 2.4 years.

	2016		2015	
	Number of share awards	Weighted average exercise price (£)	Number of share awards	Weighted average exercise price (£)
Outstanding at beginning of year	1,037,657	1.14	1,803,725	1.37
Granted during the year	3,052,299	0.01	1,259,369	1.16
Forfeited during the year	(515,455)	0.56	(2,025,437)	1.36
Outstanding at end of year	3,574,501	0.26	1,037,657	1.16

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32. Share-based payments continued

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
Grant and measurement date	22 Apr 14	05 Feb 15	29 Jul 15	29 Sep 15	28 Jan 16
No. shares under scheme	672,110	587,259	2,430,337	92,879	529,083
Share price on measurement date (p)	135	61.75	93.5	73	80
Exercise date	21 Apr 17 ¹	04 Feb 18 ¹	28 Jul 18 ²	28 Sep 18 ²	27 Jan 19 ²
Exercise price (p)	124	106	1	1	1
Performance conditions	EPS ³	EPS ⁴	TSR/EPS ⁵	TSR/EPS ⁵	TSR/EPS ⁵
Risk-free rate of interest (% p.a.)	1.23	0.73	0.9	0.65	0.46
Flybe volatility (%)	45	45	45	45	45
Dividend yield (%)	nil	nil	nil	nil	nil
Weighted average contractual life at 31st March 2016 (years)	1.4	2.2	3.1	3.2	3.6
Shares forfeited in this financial year	115,671	132,780	267,004	-	-

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.

The total charge for the year in relation to PSP was £0.4m (2015: £0.1m).

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 2016 was 1.4 years.

	2016	2015
Outstanding at the beginning of the year	1,550,237	470,281
Granted during the year	-	1,659,467
Forfeited during the year	(270,931)	(18,834)
Cancelled during the year	-	(123,206)
Expired	-	(435,496)
Exercised	-	(1,975)
Outstanding at the end of the year	1,279,306	1,550,237

The Group recognised expenses of £0.2m in relation to this award in the year to 31st March 2016 (2015: £0.1m).

Summary

The Group recognised total expenses of £0.6m in relation to share-based payments in the year ended 31st March 2016 (2015: £0.2m). In addition, £0.4m was credited to the income statement as a result of movement on valuation of LTIPs (2015: £0.3m charge). The Group has recorded total liabilities in respect of the LTIP schemes of less than £0.1m at 31st March 2016 (2015: £0.4m).

33. Employee 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 income of £5.1m (2015: £5.3m) 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 its members now contribute to the Group's defined contribution scheme. The estimated amount of contributions expected to be paid to the scheme in the next financial year is £0.5m (current year: £0.5m). At 31st March 2016, the net deficit has been recognised in the balance sheet.

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 2013 and showed a deficit of approximately £7.0m. The Group is currently paying deficit contributions of £0.5m which, along with the investment returns from return-seeking assets, is expected to make good this shortfall by 31st March 2023. A valuation at 31st March 2016 is underway and is expected to be completed by Summer 2017.

The principal assumptions used for the purpose of the actuarial valuation were as follows:

	Valuation at	
	2016 %	2015 %
Key assumptions used:		
Discount rate	3.7	3.5
Future pension increases	3.5/2.0	3.5/2.1
RPI inflation	3.1	3.1

The post-retirement mortality rate assumed at 31st March 2016 was based on the Small Area Population Statistics ('SAPS') tables with a minus one year age rating and the Continuous Mortality Investigation ('CMI') 2015 long-term rate projections of 1.5% p.a. for males and 1.25% p.a. for females (2015: the mortality rate was also based on SAPS).

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	2016 £m	2015 £m
Discount rate	Increase by 0.1%	(3.3)	(3.6)
Rate of inflation	Increase by 0.1%	2.3	2.4

The amount included in the balance sheet arising from the Group's obligations in respect of its defined retirement benefit scheme is as follows:

	2016 £m	2015 £m
Present value of defined benefit obligations	(153.6)	(165.1)
Fair value of scheme assets	138.3	143.9
Net deficit	(15.3)	(21.2)
Recognised net liability from defined benefit obligation	(15.3)	(21.2)

Amounts recognised in the consolidated income statement in respect of the defined benefit scheme are as follows:

	2016 £m	2015 £m
Administration costs	0.4	0.4
Net interest payable	0.7	0.2
Charge to profit or loss before tax	1.1	0.6

Remeasurements recognised in the consolidated statement of comprehensive income are as follows:

	2016 £m	2015 £m
Return on scheme assets in excess of interest	(6.6)	11.9
Gains/(losses) arising from changes in financial assumptions	8.2	(28.5)
Gains/(losses) arising from changes in demographic assumptions	4.9	(2.0)
Total remeasurements	6.5	(18.6)

Movements in the present value of defined benefit obligations were as follows:

	2016 £m	2015 £m
Opening defined benefit obligation	165.1	132.3
Interest cost	5.7	6.1
Benefits paid	(4.1)	(3.8)
Actuarial (gain)/loss arising from changes in financial assumptions	(8.2)	28.5
Actuarial (gain)/loss arising from changes in demographic assumptions	(4.9)	2.0
Closing defined benefit obligation	153.6	165.1

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33. Employee benefits continued

Movements in fair value of scheme assets were as follows:

	2016 £m	2015 £m
Opening fair value of scheme assets	143.9	129.8
Interest income	5.0	5.9
Benefits paid	(4.1)	(3.8)
Administration costs	(0.4)	(0.4)
Employer contributions	0.5	0.5
Actuarial (loss)/gain on scheme assets	(6.6)	11.9
Closing fair value of scheme assets	138.3	143.9

The analysis of the scheme assets and the return on those assets at the balance sheet date were as follows:

	2016 £m	2015 £m
Fair value of assets		
Equities	54.0	62.9
Bonds and gilts	83.0	79.6
Cash	1.3	1.4
	138.3	143.9
Actual return on scheme assets	3.6%	4.1%

34. 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

	2016		2015	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets				
Cash, cash equivalents and restricted cash	171.4	171.4	195.9	195.9
Loans and receivables:				
Trade and other receivables	120.4	120.4	111.8	111.8
Derivative instruments in designated hedge accounting relationships	10.5	10.5	14.3	14.3
Financial liabilities				
Liabilities held at amortised cost:				
Trade and other payables	(44.5)	(44.5)	(48.6)	(48.6)
Debt	(109.2)	(112.1)	(119.2)	(122.5)
Liabilities held at fair value through other comprehensive income:				
Derivative instruments in designated hedge accounting relationships	(20.4)	(20.4)	(21.5)	(21.5)

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 2016

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table provides an analysis of the Group's financial instruments, all of which are grouped into Level 2:

	2016 £m	2015 £m
Foreign exchange derivatives	8.8	14.3
Margin calls	1.3	8.3
Fuel derivatives	(20.0)	(29.8)
At 31st March	(9.9)	(7.2)

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 22), cash and cash equivalents (see note 19) 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 26 to 28.

Capital management and gearing ratio

The Group Board reviews the capital structure on a regular basis. As part of this review, the Board considered the cost of capital and the risks associated with each class of capital. The gearing ratio at the year-end is as follows:

	2016 £m	2015 £m
Debt	(109.2)	(119.2)
Cash, cash equivalents and restricted cash	171.4	195.9
Net cash	62.2	76.7
 Equity	 154.2	 140.0
 Net debt to equity ratio	 (40.3)%	 (54.8)%

Debt is defined as long-term and short-term borrowings as detailed in note 22. Equity includes all capital and reserves of the Group attributable to equity holders of the parent.

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34. Financial instruments continued

Liquidity risk management

The directors believe that the Group has adequate cash holdings to meet its short-term creditors 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	Over 5 years £m	Total £m
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)
2015						
Financial assets:						
Cash, cash equivalents and restricted cash (variable interest rates)	0.1	187.7	-	1.5	6.7	195.9
Loans and receivables	-	104.2	-	5.4	2.3	111.9
Financial liabilities:						
Trade and other payables	-	(48.6)	-	-	-	(48.6)
Borrowings:						
Variable interest rates	2.5	(11.5)	(14.1)	(34.0)	(59.6)	(119.2)
Fixed interest rates	3.5	(1.9)	(0.7)	(0.7)	-	(3.3)

All financial assets and financial liabilities are non-interest-bearing unless otherwise stated.

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
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)
2015			
Net settled derivatives:			
Fuel derivatives	(27.2)	(2.6)	(29.8)
Gross settled derivatives:			
Foreign currency payments	14.1	0.2	14.3
	(13.1)	(2.4)	(15.5)

Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies, primarily the leasing and purchase of aircraft, spare parts and fuel in US dollars. Hence, significant exposures to exchange rate fluctuations arise to US dollars. In addition, certain sales and airport costs are incurred in euros.

Exchange rate exposures are managed within approved parameters by entering into a series of foreign exchange forward contracts. These contracts are used in conjunction with fuel derivatives to mitigate fuel procurement price risk. In addition, foreign exchange forward contracts are matched to planned purchases of aircraft, spare parts and lease costs. It is the policy of the Group to enter into forward foreign exchange contracts to cover specific US dollar payments to cover up to 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 2016 or 31st March 2015.

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 2016	USD 1.4940	350.0	234.3	8.8
At 31st March 2015	USD 1.6191	253.0	156.3	14.3

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:

	2016	2015
Percentage increase	1%	1%
US dollar (£m)	0.4	0.5
Euro (£m)	0.0	0.1

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.

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34. Financial instruments continued

The carrying value of the Group's foreign currency denominated non-derivative monetary assets and liabilities at the balance sheet date is as follows:

	2016 £m	2015 £m
Assets		
Euro:		
Cash and cash equivalents	2.6	4.9
Restricted cash	-	-
Trade receivables	27.2	8.4
US dollar:		
Cash and cash equivalents	0.1	3.1
Restricted cash	7.8	7.9
Trade receivables	3.2	2.9
	40.9	27.2
Liabilities		
Euro:		
Trade and other payables	(4.9)	(5.1)
US dollar:		
Trade and other payables	(9.0)	(7.8)
Debt	(83.3)	(87.9)
	(97.2)	(100.8)

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 2016, the Group has identified 166 (2015: 99) contracts for foreign exchange purchases and 151 (2015: 102) contracts for fuel purchases which have been designated as cash flow hedges. For these hedges, the changes in the fair value of the financial instrument were compared to market movement in the underlying hedged item and were found to be an effective offset. As a result an increase in the fair value of these financial derivative instruments of £4.2m (2015: decrease £7.9m) 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:

	2016	2015
Percentage increase	1%	1%
Impact on profit/(loss) before tax and equity (£m)	(1.1)	(1.2)

Credit risk management

Disclosures in respect of credit risk management for trade and other receivables are provided in note 18.

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.

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 17.1% and 18.7% of Flybe UK segment costs in the years ended 31st March 2016 and 2015 respectively). The Group engages in fuel price hedging and foreign exchange transactions from time to time to meet its policy of entering into forward fuel price exchange contracts and other related financial instruments to cover a significant percentage of its anticipated requirements for fuel over a 12-month period.

Aviation fuel is a variable cost which has had a material impact on the Group's results during the period under review. A variety of external factors, such as changes in supply and demand for oil and oil-related products and the increasing role of speculators and funds in the futures markets, have played their part in making aviation fuel prices highly volatile. It is fuel price volatility which is the main driver of variances in the Group's overall fuel costs.

The Group operates a policy during normal trading conditions of managing this volatility by entering into derivative contracts representing a portion of its aviation fuel requirements a minimum of 12 months forward.

The actual amount covered by such contracts amounted to 90% of the following year's budgeted fuel consumption as at 31st March 2016 (2015: 70%).

The actual number of emissions credits purchased for calendar year 2015 amounted to 503.7 tonnes, including free allowances of 222.8 tonnes; the average price of the purchased allowances was €6.33.

Carbon emissions requirements for calendar year 2016 are currently expected to amount to 507.2 tonnes including free allowances of 222.8 tonnes. So far the Group has purchased 100% of its requirement for 2016 at an average cost of €7.36.

The following table details the fair values of forward fuel price contracts outstanding at each balance sheet date:

	2016 £m	2015 £m
Fair value of contracts to buy fuel expiring		
In less than 3 months	(7.3)	(7.5)
Between 3 and 6 months	(5.2)	(9.1)
Between 6 and 12 months	(6.4)	(12.0)
More than 12 months	(1.1)	(1.2)
	(20.0)	(29.8)

The highs and lows recorded in each period for jet fuel prices were as follows:

	2016		2015	
	Price per tonne USD	Date	Price per tonne USD	Date
High	643	6 May 2015	1,010	19 June 2014
Low	263	20 January 2016	507	13 January 2015

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 profit/(loss) before tax and decrease its equity by approximately:

	2016	2015
Percentage increase in cost of fuel	10%	10%
Impact on profit/(loss) before tax and equity (£m)	(6.0)	(3.9)

35. Related parties

The Group companies did not enter into any transactions with related parties which are not members of the Group.

Transactions with key management personnel

Directors of the Company and their immediate relatives control approximately 0.4% of the voting shares of the Company (2015: 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.

	2016 £m	2015 £m
Key management emoluments	1.9	1.0
Company contributions to personal pension schemes	0.1	0.2
Exit payments	0.1	-
	2.1	1.2

Exit payments are due to be made to former directors as described further in the Directors' Remuneration Report on page 72 and include £nil of company contributions to personal pension schemes.

There are no other transactions or balances with key management.

36. Cross-guarantees

	2016 £m	2015 £m
Cross-guarantees	476.2	488.6

The maximum amount that the Company could be forced to settle under the arrangements to its operating subsidiaries is £476.2m (£2015: £488.6m).

37. Post balance sheet event

Flybe's stated strategy, as announced in our capital raise two years ago, is to rebalance its aircraft fleet away from operating leases towards outright ownership, which brings cost savings. In line with this, Flybe took ownership in February 2016 of three Q400 aircraft, previously on operating leases, from Rand Merchant Bank (RMB) for a cash consideration of £24.4m. Flybe took out debt against these aircraft in May 2016 of USD 23m.

Flybe has entered into a contract with Nordic Aviation Capital (NAC) to cancel obligations to lease nine used Bombardier Q400 turboprop aircraft, while taking ownership of 10 Q400 aircraft it was under contract to lease, for a cash consideration of c£86m, with delivery and consideration to take place over the next 12 months. The contract has a number of conditions that still remain to be satisfied at this time.

Company balance sheet

At 31st March 2016

	Note	2016 £m	2015 £m
Non-current assets			
Investments in subsidiaries	39	60.4	60.4
Current assets			
Other receivables	40	176.9	171.9
Total assets		237.3	232.3
Current liabilities			
Trade and other payables	41	-	-
Non-current assets			
Liability for share-based payments	32	-	(0.4)
Total liabilities		-	(0.4)
Net assets		237.3	231.9
Equity attributable to owners of the company			
Share capital	42	2.2	2.2
Share premium account	42	209.3	209.2
Merger reserve		6.7	6.7
Capital redemption reserve		22.5	22.5
Retained earnings		(3.4)	(8.7)
Total equity		237.3	231.9

The financial statements of Flybe Group plc, registered number 01373432, were approved by the Board of Directors and authorised for issue on 8th June 2016.

Saad Hammad
Chief Executive Officer

Philip de Klerk
Chief Financial Officer

Company statement of changes in equity

Year ended 31st March 2016

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Retained earnings/ (deficit) £m	Total equity £m
Balance at 1st April 2014	2.2	209.2	6.7	22.5	10.9	251.5
Loss for the year	-	-	-	-	(18.6)	(18.6)
Share capital issued	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-
Equity-settled share-based payment transactions	-	-	-	-	(1.0)	(1.0)
Balance at 31st March 2015	2.2	209.2	6.7	22.5	(8.7)	231.9
Profit for the year	-	-	-	-	4.9	4.9
Share capital issued	-	-	-	-	-	-
Share issue expenses	-	-	-	-	-	-
Equity-settled share-based payment transactions	-	0.1	-	-	0.4	0.5
Balance at 31st March 2016	2.2	209.3	6.7	22.5	(3.4)	237.3

Financial statements

Company cash flow statement

Year ended 31st March 2016

	2016 £m	2015 Restated £m
Operating loss	-	(18.5)
Dividends received from subsidiaries	4.9	-
Impairment of investments in subsidiaries	-	21.7
Credit to equity for share-based payments	0.5	-
Increase in receivables	(5.0)	(2.2)
Decrease in payables	-	(0.5)
Decrease in employee benefits	(0.4)	(0.5)
Net cash flows from operating activities	-	-
Cash flows from investing activities	-	-
Net cash flows from investing activities	-	-
Financing activities	-	-
Net cash raised from financing activities	-	-
Net increase/(decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning and end of year	-	-

Notes to the Company financial statements

38. 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 £4.9m (2015: loss of £18.5m).

Prior year restatement

During the year the Company restated the 2015 cash flow statement to correct classification of cash flows and present a nil movement in cash and cash equivalents. There is no impact on the Company balance sheet.

39. Subsidiaries and related companies

	£m
Cost of investment	
At 31st March 2015	91.7
At 31st March 2016	91.7
Provision for impairment	
At 31st March 2015	(31.3)
At 31st March 2016	(31.3)
Net book value	
At 31st March 2015	60.4
At 31st March 2016	60.4

Financial statements

Details of the Group's subsidiaries and related companies at 31st March 2016 are as follows:

	Registration number	Place of incorporation and operation	Proportion of ownership interest ¹ %	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 entities - the Company is exempt from the requirement to prepare individual accounts in line with s394A of The Companies Act 2006.

3 Ordinary shares.

40. Other receivables

Amounts due from Group undertakings

Amounts due from Group undertakings are £176.9m (2015: £171.9m). The carrying amount of trade and 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. All receivables that are not provided are not yet due.

41. Trade and other payables

Accruals

There are no accruals in 2016 (2015: £nil which comprised amounts outstanding for trade purchases and ongoing costs). The carrying amount of trade payables approximates to their fair value.

Notes to the Company financial statements

continued

42. Share capital and share premium account

This is disclosed in notes 26 and 27 in the consolidated financial statements.

43. 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 £476.2m (2015: £488.6m).

Five-year summary

	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m
Financial measures					
Group revenue	615.3	614.3	620.5	574.1	623.8
EBITDAR ¹	85.8	55.5	98.7	83.5	120.1
Operating profit/(loss) ²	(4.9)	(34.7)	0.8	(12.7)	8.7
Profit/(loss) before tax ²	(6.8)	(41.1)	8.1	(35.6)	2.7
Earnings/(loss) per share (basic)	(8.5)p	(56.0)p	9.6p	(16.5)	3.1
Aircraft (at net book value)	136.9	140.4	147.0	166.4	192.3
Net (debt)/funds	(29.7)	(66.3)	116.9	76.7	62.2
Operating cash flow before restructuring	3.0	(1.6)	7.3	30.1	64.1
	2012	2013	2014	2015	2016
Operating measures³					
Average number of operating aircraft	61.3	59.9	56.6	58.7	59.0
Scheduled sectors flown	137,400	132,600	130,200	127,000	139,000
Scheduled seats flown	11,610,400	11,298,200	11,144,400	10,293,600	11,290,600
Scheduled sold seats	7,325,200	7,245,100	7,742,100	7,743,633	8,202,443
Passenger yield	£77.21	£76.16	£71.55	£68.62	£70.23
Scheduled load factor	63.1%	64.1%	69.5%	75.2%	72.6%

1 EBITDAR redefined to be profit/(loss) before tax after adding back net finance costs, taxation, depreciation, amortisation and aircraft rental costs. 2015 EBITDAR has been restated to show the gross depreciation on maintenance assets. These were previously reported as net.

2 2012 and 2013 have been restated for changes to IAS 19 (revised 2011) 'Employee Benefits'.

3 Operating measures stated are for Flybe UK.

Glossary

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, 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

contract flying

a leasing agreement whereby an aircraft (together with its operating crew), maintenance, support and insurance are provided from one party to another, otherwise known as an ACMI agreement

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)

eco-label rating

a rating, introduced by Flybe, concerning the measurement of aircraft performance in respect of noise and greenhouse gas emissions, during operation

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

ETS

Emissions Trading Scheme

Flybe Finland

Flybe Finland Oy (formerly Finnish Commuter Airlines Oy) of which 60% is owned by Flybe and 40% by Finnair Oy

Fuel burn per seat

jet kerosene used, divided by number of seats flown

GHG

greenhouse gas

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)

MRO

maintenance, repair and overhaul

passenger

a person with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable)

passenger yield

total passenger revenue per passenger (after the deduction of government taxes and levies)

passenger revenue per seat

passenger revenue (fare revenue + ancillary revenue) generated divided by scheduled available seats (seats available for passenger occupancy on scheduled services)

purchase rights

the right to purchase additional aircraft under the same terms and conditions as for firm and option aircraft. Such rights to be exercised within a finite time

regional aircraft

turboprop aircraft and regional jets of 120 seats or fewer

regional airline

an airline that flies predominantly regional aircraft

regional branded airline

a regional airline flying aircraft under its own name and colours

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

scheduled sectors flown

the total number of aircraft flights per annum, excluding positioning, charter and training flights

seat capacity

the number of seats per aircraft multiplied by the number of scheduled sectors flown

sector

a flight between an originating airport and a destination airport, typically with no intervening stops

slot

an authorisation to arrive at or depart from a stand at a particular airport at a specific time on a particular day

summer season

the last Sunday in March until the last Saturday in October in any particular year

tCO₂e

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 CO₂

UK domestic routes

routes where both the departure and destination airports are within the United Kingdom, the Channel Islands or the Isle of Man

White Label

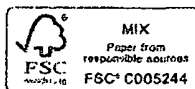
flying operated by Flybe on behalf of another airline, on which Flybe takes cost and operational risk, but the revenue risk remains with the airline for whom Flybe is operating

winter season

the last Sunday in October to the last Saturday in March in any particular year

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