



flybe.



FLYBE GROUP PLC FIRM PLACING AND PLACING AND OPEN OFFER

LIBERUM
Financial Adviser, Sponsor, Broker and Underwriter

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek immediately your own financial advice from your stockbroker, bank manager, solicitor, accountant or other appropriate independent financial adviser duly authorised under the Financial Services and Markets Act 2000 (as amended) ("FSMA") if you are resident in the United Kingdom or, if not, another appropriately authorised independent financial adviser.

This document is not for distribution to any person or address in the United States.

If you sell or have sold or otherwise transferred all of your Existing Ordinary Shares prior to the date the shares are traded "ex" the entitlement to the Open Offer, you should send this document, and if relevant, the accompanying Application Form and the enclosed Form of Proxy (and reply-paid envelope) at once to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for delivery to the purchaser or transferee. If you have sold or transferred any part of your registered holding of Existing Ordinary Shares in Flybe Group plc, please contact your stockbroker, bank or other agent through whom the sale or transfer was effected immediately and refer to the instructions regarding split applications set out in the Application Form, if relevant. However, no Application Form should be forwarded to or transmitted in or into the United States or any Excluded Territories where doing so may constitute a violation of local securities laws. Please refer to paragraph 6 of Part 2 of this document if you propose to send this document and/or the Application Form outside the United Kingdom. The distribution of this document and the accompanying documents, and/or the transfer of the Open Offer Entitlements through CREST into jurisdictions other than the United Kingdom, may be restricted by law. Therefore, persons into whose possession this document and any accompanying documents come should inform themselves about, and observe, any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

This document, which comprises a prospectus relating to Flybe prepared in accordance with the Prospectus Rules, has been approved as such by the FCA. A copy of this document has been filed with the FCA in accordance with paragraph 3.2.1 of the Prospectus Rules. This document has been made available to the public in accordance with paragraph 3.2.1 of the Prospectus Rules by the same being made available, free of charge, at Flybe's registered office, details of which are set out on page 28 of this document.

This document should be read as a whole. Your attention is drawn to the letter from the Chairman of Flybe set out on pages 31 to 43 (inclusive) of this document which recommends that you vote in favour of the Resolutions to be proposed at the General Meeting.

Flybe Group plc

(incorporated in England and Wales under the Companies Act 1985 with registered number 1373432)

Firm Placing of 91,400,000 New Ordinary Shares and Placing and Open Offer to Shareholders of up to 50,101,920 New Ordinary Shares at 110 pence per share

and

Notice of General Meeting

Liberum Capital Limited

Financial Adviser, Sponsor, Broker and Underwriter

The Existing Ordinary Shares are listed on the Official List and traded on the London Stock Exchange's main market for listed securities. Application has been made to the FCA and to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List and to be admitted to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective and that dealings in the New Ordinary Shares will commence at 8.00 a.m. on 12 March 2014. Liberum Capital, which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for Flybe and for no-one else in relation to the Firm Placing and Placing and Open Offer and will not be responsible to anyone other than Flybe for providing the protections afforded to clients of Liberum Capital nor for providing advice in relation to the Firm Placing and Placing and Open Offer or any other transaction or arrangement referred to in this document and, apart from the responsibilities and liabilities which may be imposed on Liberum Capital by FSMA or the regulatory regime established thereunder, Liberum Capital accepts no responsibility whatsoever and makes no representation or warranty, express or implied, for or in respect of the contents of this document, including its

accuracy, completeness or verification, nor for any other statement made or purported to be made by it, or on its behalf, in connection with Flybe, the Group or the Firm Placing and Placing and Open Offer and nothing in this document shall be relied upon as a promise or representation in this respect, whether as to the future or past. Liberum Capital accordingly disclaims, to the fullest extent permitted by law, all and any liability whatsoever, whether arising in tort, contract or otherwise, which it might otherwise be found to have in respect of this document or any such statement.

The Open Offer closes at 11.00 a.m. on 7 March 2014 and payment is required in full by this time. If you are a Qualifying non-CREST Shareholder and wish to apply or subscribe for Open Offer Shares under the Open Offer, you should complete the accompanying Application Form and return it with your remittance in accordance with the instructions set out in paragraph 4(a) of Part 2 of this document and in the Application Form. If you are a Qualifying CREST Shareholder the relevant CREST instructions must have settled as explained in this document by no later than 11.00 a.m. on 7 March 2014. The Application Form is personal to Qualifying Shareholders and cannot be transferred, sold or assigned except to satisfy *bona fide* market claims. Applications under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim.

Notice of the General Meeting of Flybe, to be held at 11.00 a.m. on 11 March 2014 at the offices of Instinctif Partners, 65 Gresham Street, London EC2V 7NQ, is set out at the end of this document. A Form of Proxy is enclosed for use by Shareholders in connection with the meeting. To be valid, Forms of Proxy, completed, or submitted electronically, in accordance with the instructions printed thereon, must be received at Flybe's registrars, Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU as soon as possible but in any event by no later than 11.00 a.m. on 7 March 2014. Completion and return of the Form of Proxy will not preclude Shareholders from attending and voting at the General Meeting should they so wish.

Liberum Capital may, in accordance with applicable legal and regulatory provisions, engage in transactions in relation to the Firm Placing or the Open Offer and/or related instruments for its own account for the purpose of hedging its underwriting exposure or otherwise. Liberum Capital does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities, or any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, such securities by any person in any circumstances in which such offer or solicitation is unlawful.

NOTICE TO US AND OTHER OVERSEAS INVESTORS

The New Ordinary Shares, the Open Offer Entitlements and the Excess Open Offer Entitlements have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") or under the applicable securities laws of any state or other jurisdiction of the United States or qualified for distribution under any applicable securities laws in any of the Excluded Territories. Accordingly, the New Ordinary Shares, the Open Offer Entitlements and Excess Open Offer Entitlements are being offered only outside of the United States in offshore transactions in reliance on Regulation S ("Regulation S") under the Securities Act. The New Ordinary Shares, the Open Offer Entitlements and the Excess Open Offer Entitlements may not be offered, sold, taken up, resold, transferred or delivered, directly or indirectly, within the United States (as defined in Rule 902 under Regulation S) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

Neither the New Ordinary Shares, the Application Form, the Form of Proxy, this document nor any other document connected with this Firm Placing and Placing and Open Offer have been or will be approved or disapproved by the United States Securities and Exchange Commission ("SEC") or by the securities commissions of any state or other jurisdiction of the United States or any other regulatory authority, nor have any of the foregoing authorities or any securities commission passed upon or endorsed the merits of the offering of the New Ordinary Shares, the Application Form, the Form of Proxy or the accuracy or adequacy of this document or any other document connected with this Firm Placing and Placing and Open Offer. Any representation to the contrary is a criminal offence.

Notwithstanding anything to the contrary herein, each prospective investor may disclose to any and all persons, without limitation of any kind, the US federal income tax treatment and tax structure of the Company and of the transactions contemplated by the Company. For this purpose, "tax structure" shall mean any fact that may be relevant to understanding the purported or claimed US federal tax treatment of the transaction; provided that none of the following shall for this purpose constitute tax treatment or tax structure information, the name of or other identifying information relating to the performance of the Company or its operations.

Not all Shareholders will be Qualifying Shareholders. Shareholders in the United States or who have registered addresses in, or who are resident or ordinarily resident in, or citizens of, any of the Excluded Territories will not qualify to participate in the Firm Placing and Placing and Open Offer and will not be sent an Application Form or a placing letter or otherwise be permitted to participate in the Firm Placing and Placing and Open Offer. The attention of any Overseas Shareholders is drawn to paragraph 6 of Part 2 of this document.

NOTICE TO ISLE OF MAN INVESTORS

This document has not been, and is not required to be, filed or lodged with any regulatory or other authority in the Isle of Man. The Company is not subject to any regulatory approval in the Isle of Man and holders of Ordinary Shares are not protected by any statutory compensation arrangements in the event of the Company's failure. The Isle of Man Financial Supervision Commission does not vouch for the financial soundness of the Company or the correctness of any statements made or opinions expressed with regard to it.

No person may market, offer or sell New Ordinary Shares in or to persons in the Isle of Man other than in compliance with the licensing requirements of the Isle of Man Financial Services Act 2008 or in accordance with any relevant exclusion contained in the Isle of Man Regulated Activities Order 2011 or exemption contained in the Isle of Man Financial Services (Exemptions) Regulations 2011.

FOR THE ATTENTION OF PROSPECTIVE INVESTORS IN JERSEY

Consent to the circulation of this prospectus by Flybe Group plc has been granted by the Jersey Financial Services Commission (the "Commission") pursuant to the Control of Borrowing (Jersey) Law 1947, as amended (the "Law") and the Control of Borrowing (Jersey) Order 1958. The Commission is protected by the Law against liability arising from the discharge of its functions under the Law.

This prospectus may also be circulated in Jersey only by persons who are registered by the Commission in accordance with the Financial Services (Jersey) Law 1998 (the "FSL") for the conduct of financial services business and the distribution of this prospectus, or are exempt from such registration in accordance with the FSL.

Those prospective investors or persons who are seeking to acquire an interest in the New Ordinary Shares who are resident in Jersey are strongly advised to seek independent appropriate professional advice.

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SUMMARY INFORMATION

Summaries are made up of disclosure requirements known as ‘Elements’. The Elements are numbered in Sections A–E (A.1–E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some of the Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of security and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of the words ‘not applicable’.

Section A – Introduction and warnings

A.1	Warning	This summary should be read as an introduction to this Prospectus. Any decision to invest in the securities should be based on consideration of the prospectus as a whole by the investor. Where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of England and Wales, have to bear the costs of translating the prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	Subsequent resale of securities or final placement of securities through financial intermediaries	Not applicable – the Company has not given consent to the use of this document for subsequent resale or any final placement of Ordinary Shares by financial intermediaries.

Section B – Issuer and any guarantor

B.1	Legal and Commercial Name	The Issuer’s legal and commercial name is Flybe Group plc.
B.2	Domicile/Legal Form/Legislation/ Country of Incorporation	The Company was incorporated on 14 June 1978 as a private company limited by shares and registered in England and Wales under number 1373432 with the name Spacegrand Limited. The Company was re-registered as a public company on 7 December 2010, on which date the name of the Company was changed to Flybe Group plc. The principal legislation under which the Company operates is the Companies Act (including the Companies Act 1985) and the regulations made thereunder. The Company is subject to the Takeover Code.
B.3	Key factors of issuer’s current operations and principal activities	Flybe operates scheduled and white label (or contract flying) services in Europe and provides maintenance, repair and overhaul (“MRO”) and training services, primarily to the airline industry. The Group’s schedule for the 2014 Summer Season comprises 164 routes between 35 UK and 48 European airports across 15 countries. The Group operates as one business operating through two reporting segments, being Flybe UK (comprising all of the Group’s scheduled UK-based operations, and its MRO and training service) and Flybe Finland (comprising all of the Group’s Finnish-based white label and scheduled operations).

B.4a	Significant trends	<p>The level of competition in the European airline industry is high. Airlines compete primarily on fare levels, frequency, service reliability, convenience, safety record, brand recognition and passenger amenities. The Group's competitors include European LCCs legacy airlines, other established commercial and charter airlines and travel conglomerates with integrated airlines (some of which are larger and have greater financial resources than the Group), as well as alternative means of transport, such as high speed rail and road. Flybe, and the wider airline industry, remain exposed to competitive factors and wider economic conditions, both of which can impact on demand for its services.</p> <p>The Group has a 49.6 per cent. share of the UK regional domestic air passenger sector, and is the largest independent regional branded airline and white label airline in Europe, all of which the Directors believe gives Flybe a strong platform for the future. Key cost variables, such as fuel and GBP:USD exchange rate, have been relatively stable to positive in the past 12 months. In that same period, UK economy returned to growth. These factors, together with implementation of the Group's Turnaround Plan, resulted in a significant improvement in financial performance in H1 2013/14. Following Saad Hammad's strategic review, the Directors believe that Flybe can achieve profitable growth in both branded and white label operations.</p>																																																																							
B.5	Group structure	<p>Flybe Group plc is the parent company of the Flybe Group. The Company has 9 direct or indirect significant subsidiary undertakings: Flybe Limited, Walker Aviation Leasing (UK) Limited, British Regional Air Lines Group Limited, Flybe Leasing Limited, Flybe (IOM) Limited, JEA Engineering UK Limited, Flybe Nordic AB and Flybe Finland Oy. The capital of each subsidiary is directly or indirectly wholly owned by Flybe, save for Flybe Nordic AB. 60 per cent. of the shares in Flybe Nordic AB are owned by Flybe Holdings Limited and 40 per cent. are owned by Finnair Oyj. Flybe Finland Oy is indirectly wholly owned by Flybe Nordic AB.</p>																																																																							
B.6	Notifiable interests	<p>As at 18 February 2014, being the last practicable date prior to the publication of this document, the interests (all of which are or will be beneficial unless otherwise stated) of the Directors and their connected persons in the share capital of the Company are as follows:</p> <table border="1" data-bbox="523 1361 1382 1780"> <thead> <tr> <th rowspan="2"><i>Name of Director</i></th> <th colspan="2"><i>Number of Existing Ordinary Shares beneficially held at present</i></th> <th colspan="2"><i>Per cent. of Existing Ordinary Shares beneficially held at present</i></th> <th colspan="2"><i>Number of Ordinary Shares beneficially held following Admission*</i></th> <th colspan="2"><i>Per cent. of issued Ordinary Shares beneficially held following Admission*</i></th> </tr> <tr> <th><i>Number of Existing Ordinary Shares beneficially held at present</i></th> <th><i>Per cent. of Existing Ordinary Shares beneficially held at present</i></th> <th><i>Number of Existing Ordinary Shares beneficially held at present</i></th> <th><i>Per cent. of Existing Ordinary Shares beneficially held at present</i></th> <th><i>Number of Ordinary Shares beneficially held following Admission*</i></th> <th><i>Per cent. of issued Ordinary Shares beneficially held following Admission*</i></th> <th><i>Number of Ordinary Shares beneficially held following Admission*</i></th> <th><i>Per cent. of issued Ordinary Shares beneficially held following Admission*</i></th> </tr> </thead> <tbody> <tr> <td>Saad Hammad</td> <td>nil</td> <td>n/a</td> <td>227,272</td> <td>0.10%</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Andrew Knuckey</td> <td>223,125</td> <td>0.3%</td> <td>223,125</td> <td>0.10%</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Simon Laffin</td> <td>nil</td> <td>n/a</td> <td>227,272</td> <td>0.10%</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>David Longbottom</td> <td>12,500</td> <td>n/a</td> <td>26,760</td> <td>0.01%</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Charlie Scott</td> <td>12,500</td> <td>n/a</td> <td>12,500</td> <td>0.01%</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>Alan Smith</td> <td>22,500</td> <td>n/a</td> <td>22,500</td> <td>0.01%</td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>* Assuming no take up under the Open Offer</p>	<i>Name of Director</i>	<i>Number of Existing Ordinary Shares beneficially held at present</i>		<i>Per cent. of Existing Ordinary Shares beneficially held at present</i>		<i>Number of Ordinary Shares beneficially held following Admission*</i>		<i>Per cent. of issued Ordinary Shares beneficially held following Admission*</i>		<i>Number of Existing Ordinary Shares beneficially held at present</i>	<i>Per cent. of Existing Ordinary Shares beneficially held at present</i>	<i>Number of Existing Ordinary Shares beneficially held at present</i>	<i>Per cent. of Existing Ordinary Shares beneficially held at present</i>	<i>Number of Ordinary Shares beneficially held following Admission*</i>	<i>Per cent. of issued Ordinary Shares beneficially held following Admission*</i>	<i>Number of Ordinary Shares beneficially held following Admission*</i>	<i>Per cent. of issued Ordinary Shares beneficially held following Admission*</i>	Saad Hammad	nil	n/a	227,272	0.10%					Andrew Knuckey	223,125	0.3%	223,125	0.10%					Simon Laffin	nil	n/a	227,272	0.10%					David Longbottom	12,500	n/a	26,760	0.01%					Charlie Scott	12,500	n/a	12,500	0.01%					Alan Smith	22,500	n/a	22,500	0.01%				
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		<p>As at 18 February 2014, being the latest practicable date prior to the publication of this document, in addition to those persons described above, the Company is aware of the following persons who will be interested, directly or indirectly, in three per cent. or more of the issued share capital of the Company immediately following the proposals described in this document:</p> <table border="1"> <thead> <tr> <th><i>Shareholder</i></th> <th><i>Number of Existing Ordinary Shares held</i></th> <th><i>Per cent. of Existing Ordinary Shares held</i></th> <th><i>Number of Existing Ordinary Shares held immediately following Admission*</i></th> <th><i>Per cent. of issued Ordinary Shares held immediately following Admission*</i></th> </tr> </thead> <tbody> <tr> <td>The Plimsoll Line Limited</td> <td>10,925,847</td> <td>14.54</td> <td>10,925,847</td> <td>5.04</td> </tr> <tr> <td>Aberforth Partners LLP</td> <td>8,222,756</td> <td>10.94</td> <td>18,223,169</td> <td>8.41</td> </tr> <tr> <td>Quantum Partners LP</td> <td>7,066,200</td> <td>9.40</td> <td>14,835,200</td> <td>6.85</td> </tr> <tr> <td>Artemis Investment Management LLP</td> <td>6,000,000</td> <td>7.98</td> <td>13,297,125</td> <td>6.14</td> </tr> <tr> <td>Standard Life Investments Ltd</td> <td>5,842,015</td> <td>7.77</td> <td>12,947,001</td> <td>5.98</td> </tr> <tr> <td>The Wellcome Trust</td> <td>3,228,400</td> <td>4.96</td> <td>7,154,740</td> <td>3.30</td> </tr> <tr> <td>Polar Capital Partners</td> <td>3,248,850</td> <td>4.32</td> <td>3,248,850</td> <td>1.50</td> </tr> </tbody> </table> <p>* Assuming no take up under the Open Offer</p> <p>The Company's major shareholders do not have different voting rights.</p> <p>There are no controlling interests in the Company.</p>	<i>Shareholder</i>	<i>Number of Existing Ordinary Shares held</i>	<i>Per cent. of Existing Ordinary Shares held</i>	<i>Number of Existing Ordinary Shares held immediately following Admission*</i>	<i>Per cent. of issued Ordinary Shares held immediately following Admission*</i>	The Plimsoll Line Limited	10,925,847	14.54	10,925,847	5.04	Aberforth Partners LLP	8,222,756	10.94	18,223,169	8.41	Quantum Partners LP	7,066,200	9.40	14,835,200	6.85	Artemis Investment Management LLP	6,000,000	7.98	13,297,125	6.14	Standard Life Investments Ltd	5,842,015	7.77	12,947,001	5.98	The Wellcome Trust	3,228,400	4.96	7,154,740	3.30	Polar Capital Partners	3,248,850	4.32	3,248,850	1.50								
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Polar Capital Partners	3,248,850	4.32	3,248,850	1.50																																														
<p>B.7</p>	<p>Historical financial information</p>	<p>The selected financial information set out below has been extracted without material adjustment from the audited reports and accounts of the Group prepared under IFRS for the years ended 31 March 2011, 31 March 2012 and 31 March 2013, and from the unaudited half-year accounts for each of the six months ended 30 September 2012 and 30 September 2013.</p> <table border="1"> <thead> <tr> <th></th> <th><i>H1 2013/14</i></th> <th><i>H1 2012/13</i></th> <th><i>2012/13</i></th> <th><i>2011/12 (restated)</i></th> <th><i>2010/11</i></th> </tr> <tr> <th></th> <th><i>£m</i></th> <th><i>£m</i></th> <th><i>£m</i></th> <th><i>£m</i></th> <th><i>£m</i></th> </tr> </thead> <tbody> <tr> <td>Group revenue</td> <td>351.1</td> <td>340.8</td> <td>614.3</td> <td>615.3</td> <td>595.5</td> </tr> <tr> <td>Revenue under management</td> <td>477.3</td> <td>396.3</td> <td>781.5</td> <td>678.8</td> <td>595.5</td> </tr> <tr> <td>EBITDAR</td> <td>58.0</td> <td>44.6</td> <td>55.8</td> <td>85.8</td> <td>87.2</td> </tr> <tr> <td>Adjusted EBITDAR</td> <td>61.3</td> <td>44.6</td> <td>63.8</td> <td>85.8</td> <td>113.8</td> </tr> <tr> <td>Operating profit/(loss) before restructuring and IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and revaluation on USD aircraft loans</td> <td>12.2</td> <td>(1.0)</td> <td>(26.3)</td> <td>(4.9)</td> <td>7.6</td> </tr> <tr> <td>Profit/(loss) before tax</td> <td>13.8</td> <td>(1.6)</td> <td>(40.7)</td> <td>(6.2)</td> <td>(4.3)</td> </tr> </tbody> </table> <p>Set out below are details of significant changes in the financial condition or operating results of the Group during the period covered by the audited annual report and accounts of the Group prepared under IFRS for the years ended 31 March 2011, 31 March 2012 and 31 March 2013, the unaudited half-year accounts to 30 September 2013 and the period since 30 September 2013 (being the date of the Group's latest published half-year report) until 18 February 2014, being the latest practicable date prior to the publication of this document:</p>		<i>H1 2013/14</i>	<i>H1 2012/13</i>	<i>2012/13</i>	<i>2011/12 (restated)</i>	<i>2010/11</i>		<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>	Group revenue	351.1	340.8	614.3	615.3	595.5	Revenue under management	477.3	396.3	781.5	678.8	595.5	EBITDAR	58.0	44.6	55.8	85.8	87.2	Adjusted EBITDAR	61.3	44.6	63.8	85.8	113.8	Operating profit/(loss) before restructuring and IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and revaluation on USD aircraft loans	12.2	(1.0)	(26.3)	(4.9)	7.6	Profit/(loss) before tax	13.8	(1.6)	(40.7)	(6.2)	(4.3)
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		<ul style="list-style-type: none"> ● In 2011 the Group experienced revenue growth, primarily generated by improved passenger yield. However, disruption caused by volcanic ash and adverse weather reduced profits by approximately £18.1 million, contributing to an overall decrease in profits from the previous year; ● In 2012, the Group's revenue grew again, primarily through the combination of a small passenger number increase and greater passenger yield. In addition to the impact of accounting for the Group's share of the Flybe Finland joint venture losses, costs also grew and overall the Group reported an operating loss in difficult trading conditions; ● In 2013, revenue under management grew significantly thanks to the first full year of operation of the Flybe Finland joint venture. Group revenue was stable, despite a small drop in passenger numbers and yield, due to new contract flying operations with SN Brussels (now Brussels Airlines), but costs continued to rise and the restructuring of the business was initiated, leading to a significant overall loss at both operating and before tax levels; ● The half year to 30 September 2013 saw a return to growth, with both revenue under management and Group revenue increasing, partially thanks to the improving economic backdrop. Operating costs benefited from the Group's restructuring and, as a result, operating profit was higher than the comparative half year to 30 September 2012. ● There has been no significant change in the financial condition and operating results of the Group since 30 September 2013, being the date of the Group's latest published half-year report. <p>The Group expects the general macroeconomic environment to continue improving 2013/14 and into the first half of 2014/15. The Group expects to see further improvements in its operations in Finland, as its operations in Finland mature and are further rebalanced in favour of more profitable white-label operations.</p>
B.8	Pro forma financial information	If the net proceeds of the Firm Placing had been received at the beginning of the 2012/2013 financial period, save for any earned interest, there would have been no material effect on earnings for the year ended 31 March 2013.
B.9	Profit forecast	Not applicable – there are no profit forecasts contained in the prospectus.
B.10	Qualifications in the audit report	Not applicable – there are no qualifications in the audit reports on the historical financial information.
B.11	Working capital	The Company is of the opinion that, taking into account existing cash balances and the net proceeds of the Firm Placing and Placing and Open Offer receivable by the Company, the Group has sufficient working capital for its present requirements, that is, at least 12 months following the publication of this document.

Section C – Securities

C.1	Type and class of securities being offered	<p>The Firm Placed Shares being offered are New Ordinary Shares of the Company of 1 pence each whose ISIN is GB00B4QMVR10. The Firm Placed Shares are denominated in Sterling, and the Offer Price is payable in Sterling.</p> <p>The Open Offer Shares being offered are New Ordinary Shares of the Company of 1 pence each whose ISIN is GB00B4QMVR10. The Open Offer Shares are denominated in Sterling, and the Offer Price is payable in Sterling.</p>
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		The Excess Application Shares being offered are New Ordinary Shares of the Company of 1 pence each whose ISIN is GB00B4QMVR10. The Excess Application Shares are denominated in Sterling, and the Offer Price is payable in Sterling.
C.2	Currency	The Firm Placed Shares, Open Offer Shares and Excess Application Shares are denominated in Sterling.
C.3	Number of shares	The Company has 75,152,881 fully paid Ordinary Shares of 1 pence each in issue. The Company has no partly paid Ordinary Shares in issue.
C.4	Description of the rights attaching to the securities	The New Ordinary Shares will, when issued and fully paid, rank equally in all respects with the Existing Ordinary Shares, including the right to receive all dividends or other distributions made, paid or declared, if any, by reference to a record date after the date of their issue.
C.5	Restrictions on the free transferability of the securities	The New Ordinary Shares and Existing Ordinary Shares are freely transferable, subject to the restrictions in the Articles.
C.6	Admission	Subject to shareholder approval, application will be made to the UK Listing Authority and the London Stock Exchange for all of the New Ordinary Shares to be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities. The New Ordinary Shares will not be listed on any other regulated market.
C.7	Dividend policy	The New Ordinary Shares will rank <i>pari passu</i> in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions (if any) declared, paid or made by Flybe after Admission.

Section D – Risks

D.1	Key information on the key risks that are specific to the issuer or the industry	<p>Shareholders should carefully consider the following risks:</p> <p>(a) Working capital and importance of the vote</p> <p>If the Resolutions are not approved, the Firm Placing and Placing and Open Offer will not proceed. In such circumstances, the Group will not receive the net proceeds of the Firm Placing and Placing and Open Offer and therefore would not be able to pursue its strategy of building resilience or targeting profitable growth.</p> <p>Should the Firm Placing and Placing and Open Offer not proceed, the Company would risk being in a negative cash position of less than £5 million, and breaching financial covenants that it has given in respect of its aircraft financing arrangements, in the first quarter of the 2015 calendar year, and consequently the working capital available to the Group may be materially adversely affected, which might, as a further consequence, adversely affect the ability of the Group to continue to operate.</p> <p>Should the Firm Placing and Placing and Open Offer not proceed, the Group will continue to pursue its existing strategy of cash generation and the Directors are confident that the Group would be able to generate sufficient working capital through such means. However, the outcome of some of this strategy lies outside of the full control of the Company and, as a result, the Directors cannot be certain that it will be successful.</p>
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(b) Aircraft accidents and associated safety issues may have a material adverse effect on the Group

The Group is exposed to potentially significant losses or potential criminal liability if any of its aircraft is lost or subject to an accident, terrorist incident or other disaster. In addition, the Group operates a maintenance, repair and overhaul facility that provides services to third parties. Any defect in the standard of the service provided could lead to an aircraft accident or to an injury to the third party operator's passengers, crew or other staff.

(c) The Group is exposed to a deterioration in general economic conditions

The airline industry tends to experience comparatively adverse financial results during general economic downturns. A renewed deterioration in the global economy could result in a decrease in demand for air travel.

(d) The Group is exposed to fluctuations in foreign exchange rates

The Group is exposed to changes in exchange rates between the Euro and, particularly, the US dollar, against Sterling. Consequently, any significant fluctuations in the US dollar and Euros against Sterling could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(e) The Group is exposed to risks associated with fluctuations in fuel prices

Fuel costs represent one of the largest components of the Group's operating costs. A significant continuing upward trend in fuel costs, which may not be immediately recoverable from customers, could lead to material increases in the Group's operating costs, which could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(f) The Group is exposed to the effects of extraneous events, such as epidemics, natural occurrences or disasters and terrorist attacks

The outbreak of a major epidemic or the occurrence of a natural disaster, may result in travel restrictions being imposed by governments or regulatory authorities, causing disruption or suspension of the Group's services. Terrorist attacks, whether or not involving the airline industry, could result in decreased demand for or the disruption or suspension of, air travel, and increased insurance, security and other costs.

(g) The Group may not be successful in implementing its growth strategy

The Group's success in implementing its growth strategy is affected by matters such as the general condition of the global economy, demand for regional air transportation, the Group's ability to acquire additional licenses, traffic rights and the Group's ability to identify and attract suitable acquisition opportunities and joint venture, franchise, codeshare and interline partners to facilitate its expansion. Many of these factors are beyond the Group's control.

(h) Any real or perceived safety or reliability-related problem with the Embraer regional jets, ATR 42, ATR 72 or Q400 aircraft types could adversely affect the Group's operations

The Group currently operates the Embraer E195, E175 and Bombardier Q400 aircraft in the UK and the Embraer E170, E190, ATR 42 and ATR 72 in Finland. The commonality of aircraft and associated engine types

		increases the Group's exposure to risks flowing from the design of, systemic manufacturing defects relating to, or contractual non-performance by the manufacturers of, these aircraft or the engines which are used in them.
D.3	Key information on the key risks that are specific to the securities	<p>Shareholders should carefully consider the following risks:</p> <p>(a) Dilution</p> <p>The New Ordinary Shares issued through the Firm Placing and Placing and Open Offer will represent 65.3 per cent. of the Enlarged Share Capital, assuming full take up of the Open Offer. In light of the fact that Shareholders will not be eligible to participate in the Firm Placing, following the issue of the New Ordinary Shares to be allotted pursuant to the Firm Placing and Placing and Open Offer, Qualifying Shareholders who take up their Open Offer Entitlements in full will suffer a dilution of 42.2 per cent. to their interests in the Company, assuming full take up of the Open Offer.</p> <p>(b) The Company does not currently pay dividends and it cannot assure investors that it will make dividend payments in the future</p> <p>The Company may not be able to or may choose not to pay dividends in the future. The payment of future dividends will depend on, among other things, the Group's future profit, financial position, distributable reserves, working capital requirements, general economic conditions and other factors that the Directors deem significant from time to time.</p>

Section E – Offer

E.1	Net proceeds and expenses	The gross proceeds of the Firm Placing and Placing and Open Offer will be approximately £155.65 million. The net proceeds of the Firm Placing and Placing and Open Offer will be approximately £150.0 million, after estimated expenses of approximately £5.61 million.
E.2a	Reasons for the offer and use of proceeds	<p>The Directors intend to use the net proceeds of the Firm Placing and Placing and Open Offer as follows:</p> <ul style="list-style-type: none"> ● approximately £68 million for additional working capital to strengthen the Group's balance sheet. The Directors believe that the Group will significantly benefit from a strengthening of its balance sheet, improving operational flexibility and providing additional cash reserves to enable the Group to protect itself from unforeseen disruptions or occurrences. A stronger liquidity position is expected by the Directors to assist additionally in securing better credit terms from a number of suppliers; ● approximately £14 million to reduce fleet ownership costs. The Directors intend to deploy capital to own aircraft with secured loans rather than full operating leases, thereby rebalancing Flybe's fleet financing structure more towards ownership than operating leases; ● approximately £5 million to improve productivity. The Directors believe that increased investment in improvements to the Group's IT and finance functions will result in greater robustness in infrastructure, cost savings and improved operating efficiencies within 6 to 12 months; ● approximately £5 million to enhance service to customers. The Directors believe that, in its branded business, the Flybe customer offering, product range and brand impact need to be developed further. With

		<p>improved marketing, the Directors intend to increase the number of visitors to the Group's website and enhance conversion rates by offering an improved customer proposition that enhances the brand promise and to identify improvements in the product that will mark the Flybe experience as different to others;</p> <ul style="list-style-type: none"> ● approximately £35 million to expand the Group's branded scheduled commercial operation with new routes and bases. The Directors believe that the expansion of Flybe-branded scheduled operations will primarily involve the development of new routes and bases within the UK within a 12 to 24 month timeframe; and ● approximately £23 million to expand white label flying. The Directors believe that there are other opportunities to roll out Flybe's white label offering and have identified a number of national airlines in Europe for whom white label flying could be attractive, and are in ongoing commercial discussions with several of these airlines. <p>The Firm Placing and Placing and Open Offer require Shareholder approval. If any of the Resolutions are not passed, the Firm Placing and Placing and Open Offer will not proceed.</p>
<p>E.3</p>	<p>Terms and conditions</p>	<p>Flybe intends to issue 91,400,000 New Ordinary Shares through the Firm Placing and up to 50,101,920 New Ordinary Shares through the Open Offer at 110 pence per New Ordinary Share to raise gross proceeds of up to £155.65 million.</p> <p>The Firm Placing and Placing and Open Offer requires Shareholder approval, which will be sought at the General Meeting.</p> <p>The Offer Price of 110 pence per New Ordinary Share represents a 7.2 per cent. discount to the Closing Price of an Existing Ordinary Share of 118.5 pence on 19 February 2014 (being the latest practicable date prior to the announcement of the Firm Placing and Placing and Open Offer).</p> <p><i>Firm Placing</i></p> <p>The Firm Placees have agreed to subscribe for 91,400,000 New Ordinary Shares at the Offer Price (representing gross proceeds of up to £100.5 million). The Firm Placed Shares are not subject to clawback and are not part of the Open Offer.</p> <p><i>Placing and Open Offer</i></p> <p>The Company has raised approximately £55.1 million (gross) through a Placing and Open Offer of 50,101,920 New Ordinary Shares at the Offer Price. Liberum Capital, as agents for the Company, have placed the Placing Shares with further investors subject to the Qualifying Shareholders' right to take up their rights under the Open Offer.</p> <p>Qualifying Shareholders are being given the opportunity to subscribe for New Ordinary Shares pro rata to their existing shareholdings at the Offer Price on the basis of:</p> <p>2 New Ordinary Shares for every 3 Existing Ordinary Shares</p> <p>held and registered in their name at the Record Date. Qualifying Shareholders may apply for any whole number of New Ordinary Shares. Excess applications will be satisfied only to the extent that corresponding</p>

		<p>applications by other Qualifying Shareholders are not made or are made for less than their pro rata entitlements. If there is an oversubscription resulting from excess applications, allocations in respect of such excess applications will be scaled down according to the Directors' discretion.</p> <p>Under the Open Offer, Flybe intends to issue up to 50,101,920 New Ordinary Shares at the Offer Price (representing gross proceeds of up to £55.1 million) to be made available pursuant to the Open Offer.</p> <p>The Firm Placing and Placing and Open Offer have been fully underwritten by Liberum Capital on, and subject to, the terms and conditions of the Underwriting and Sponsor Agreement.</p> <p>The New Ordinary Shares, when issued and fully paid, will rank in full for all dividends or other distributions declared, made or paid after Admission and in all other respects will rank <i>pari passu</i> with the Existing Ordinary Shares. Application has been made for the New Ordinary Shares to be admitted to the Official List and to trading on the London Stock Exchange's main market for listed securities. It is expected that Admission will become effective on 12 March 2014 and that dealings for normal settlement in the New Ordinary Shares will commence at 8.00 a.m. on the same day.</p> <p>The Plimsoll Line Limited, a subsidiary of International Consolidated Airlines Group, S.A. has signed an irrevocable undertaking to vote in favour of the Resolutions in respect of its entire shareholding in the Company (representing 14.54 per cent. of the Company's existing issued share capital).</p>
E.4	Conflicts of interest	Not applicable – there are no interests (including conflicts of interest) which are material to the issue.
E.5	Lock-up	Not applicable – there are no entities or persons offering to sell the security of Flybe. There are no lock-up agreements.
E.6	Dilution	Following the issue of the New Ordinary Shares pursuant to the Firm Placing and Placing and Open Offer, Qualifying Shareholders who do not take up any of their Open Offer Entitlements will suffer a dilution of approximately 65.3 per cent. to their interests in the Company, assuming full take-up under the Open Offer. If a Qualifying Shareholder takes up his Open Offer Entitlement in full he will suffer a dilution of 42.2 per cent. to his interest in the Company, assuming full take-up under the Open Offer.
E.7	Expenses	Assuming that all of the New Ordinary Shares are issued pursuant to the Firm Placing and Placing and Open Offer, the aggregate costs of the Firm Placing and Placing and Open Offer Issues are expected to amount to approximately £5.61. These costs and expenses will be deducted from the gross proceeds of the Firm Placing and Placing and Open Offer and will therefore be indirectly charged to investors.

RISK FACTORS

The following risk factors, which the Directors believe include all known material risks in relation to the Company or its industry, and the Firm Placing and Placing and Open Offer, should be carefully considered by Shareholders and investors when deciding (in the case of Shareholders) what action to take at the General Meeting and (in the case of investors) whether to make an investment in the Group. Shareholders and investors should carefully consider the whole of this document and not rely solely on the information set out in this section.

Investors should be aware that any investment in the Company involves a high degree of risk and should be made only by those with the necessary expertise to appraise the investment.

Additional risks currently unknown to Flybe, or currently believed to be immaterial, could have an adverse effect on the Group. Any or all of these factors could have a material and adverse effect on the Group's operational results, financial condition and prospects. Furthermore, the trading price of the Ordinary Shares could decline, possibly rapidly, resulting in the loss of all or part of any investment therein.

A. RISKS ASSOCIATED WITH THE FIRM PLACING AND PLACING AND OPEN OFFER

Working Capital and importance of the vote

If the Resolutions are not approved, the Firm Placing and Placing and Open Offer will not proceed. In such circumstances, the Group will not receive the net proceeds of the Firm Placing and Placing and Open Offer and therefore would not be able to pursue its strategy of building resilience or targeting profitable growth, as described in the 'Future Strategy of Flybe' paragraph of section 2 of Part 1 of this document.

Should the Firm Placing and Placing and Open Offer not proceed, the Company would risk being in a negative cash position of less than £5 million, and breaching financial covenants that it has given in respect of its aircraft financing arrangements, in the first quarter of the 2015 calendar year, and consequently the working capital available to the Group may be materially adversely affected, which might, as a further consequence, adversely affect the ability of the Group to continue to operate.

Should the Firm Placing and Placing and Open Offer not proceed, the Group will continue to pursue its existing strategy of cash generation and the Directors are confident that the Group would be able to generate sufficient working capital through such means. However, the outcome of some of this strategy lies outside of the full control of the Company and, as a result, the Directors cannot be certain that it will be successful.

B. RISKS RELATING TO THE INDUSTRY

(a) Aircraft accidents and associated safety issues may have a material adverse effect on the Group

The Group is exposed to the risk of a significant accident involving one or more of its aircraft. The Group is exposed to potentially significant losses or potential criminal liability if any of its aircraft is lost or subject to an accident, terrorist incident or other disaster, including significant costs related to passenger claims, repairs or replacement of a damaged aircraft and temporary or permanent loss from service. In addition, the Group operates a maintenance, repair and overhaul facility that provides services to third parties. Any defect in the standard of the service provided could lead to an aircraft accident or to an injury to the third party operator's passengers, crew or other staff. In the event of such an accident or injury, the Group is exposed to potentially significant costs related to claims from the third party operator or its passengers, crew or other staff.

(b) The Group is exposed to the risk of a significant increase in the cost of, or the loss of, insurance as a result of accidents, terrorist incidents or other disasters

The airline industry is exposed to potentially catastrophic losses that may be incurred in the event of an accident, terrorist incident or other catastrophe. Although the Group considers its insurance coverage to be appropriate, there can be no assurance that the level of such coverage will be

sufficient to cover all losses arising from a catastrophic event. Even if the level of the Group's insurance coverage was adequate to cover all such losses in full, Flybe would be forced to bear substantial losses if its insurers were unwilling or unable to pay the agreed insurance benefits. Further, insurance premiums charged to the Group following any accident, terrorist incident or other catastrophe could increase significantly, as they did following the terrorist attacks of 11 September 2001. Any losses incurred by the Group as a result of an accident, terrorist incident or other disaster for which the Group is not insured, which exceed the amount insured or which the insurer cannot or will not pay (or any increased premiums charged to the Group as a result of an accident, terrorist incident or other disaster) could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(c) *The Group operates in a highly competitive market*

The level of competition in the European airline industry is high. Airlines compete primarily on fare levels, frequency, service reliability, convenience, safety record, brand recognition and passenger amenities. The Group's competitors include European LCCs, legacy airlines, other established commercial and charter airlines and travel conglomerates with integrated airlines (some of which are larger and have greater financial resources than the Group), as well as alternative means of transport, such as high speed rail and road. The Group's competitors may seek to protect or gain market share through fare-matching or price-discounting (something the airline industry has been historically susceptible to), by offering more attractive flight schedules or services, by introducing new routes, or by placing large orders for new aircraft and transferring excess capacity to markets and routes already served by the Group or which Flybe is contemplating serving. Some competitors may also be able to offer lower fares than Flybe as a consequence of, for example, providing passengers with fewer on-board services, having lower fixed and/or variable costs, or drawing upon sources of financial support unavailable to Flybe, such as intra group financial support, which could prevent Flybe from obtaining the passenger volumes required to sustain profitable operations on a new or existing route. In particular, some of these airlines are state owned, state controlled or state protected national flag carriers that have received or may receive in the future significant amounts of subsidies and state assistance from their respective governments. In addition, as an operator of primarily short-haul services, Flybe is more exposed to competition from alternative modes of transport, such as high-speed rail and road, than an airline operating long-haul, intercontinental services.

There can be no assurance that the Group will be able to continue to compete effectively with other airlines, any new entrants to the industry or other forms of transport. The sustained loss of a significant number of passengers to competing airlines or to alternative forms of transport, or a reduction in the Group's revenues as a result of increased competition in the industry, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(d) *Due to relatively high fixed costs, the Group's profitability is vulnerable to relatively small changes in the numbers of passengers or in pricing, particularly during the summer season*

As is typical for the airline industry, the Group is characterised by relatively high fixed costs (including costs in respect of aircraft financing and ownership, lease and fuel costs, depreciation expenses and general labour costs). The revenues generated by flights are generally substantially more variable than costs as they are directly related to the number of passengers carried and the fare structure of the flight. Therefore, a relatively small reduction in the number of passengers flown and/or a detrimental change in the pricing structure for the Group's tickets could have a disproportionate effect on the Group's profit margins, and thereby on its business, results of operations, growth prospects and/or financial condition.

Demand for the Group's services fluctuates over the course of the year, and has historically been higher in the summer season and lower in the winter season. As the majority of the Group's profits are generated in the summer season, lower demand for air travel, flight cancellations or other factors that adversely affect aircraft utilisation during this period may have a disproportionately adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(e) The Group is exposed to a deterioration in general economic conditions

The airline industry tends to experience comparatively adverse financial results during general economic downturns. The credit crisis beginning in late 2007 caused higher unemployment rates, constrained credit markets, housing related pressures and increased business operating costs. This in turn has caused a material decrease in the amount spent on discretionary items, such as air travel, which are often scaled back during economic downturns. A renewed deterioration in the global economy (and the UK and European economy in particular (being the markets served by the Group)) could result in a decrease in demand for air travel, as passengers may be inclined either not to travel at all or to opt for alternative (and perceived or actually cheaper) methods of transportation, such as road and rail. In such downturns, the Group may also be required to take delivery of new aircraft it has agreed to purchase or lease whether or not it requires additional capacity, or may be unable to dispose of surplus aircraft on financially acceptable terms. Prolonged economic uncertainty in certain markets may also lead other airlines to shift their capacity to markets and routes served by the Group, increasing competition in these markets and putting further downward pressure on Flybe's fares. Any of the foregoing events could cause a fall in passenger numbers or fares, which could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(f) The Group is exposed to fluctuations in foreign exchange rates

A significant amount of the Group's expenditure is incurred in US dollars, in areas such as aircraft fuel purchases, operating lease financing and engine and other maintenance costs, and in Euros, in areas such as airport charges and European air traffic control charges. In addition, as a result of the various locations to and from which the Group flies, approximately 11.2 per cent. of the Group's revenue in the 2012/13 Financial Year was generated in Euros. The proportion of the Group's revenue generated in Euros is likely to increase upon the implementation of the Group's strategy to further expand its operations into continental Europe. The Group generates a significant amount of its revenues (primarily through ticket sales) in sterling. The Group also reports its financial results in sterling. The Group is exposed to changes in exchange rates between the Euro and, particularly, the US dollar, against sterling. Consequently, any significant fluctuations in the US dollar and Euros against sterling could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

To manage this exposure to the variability of cash flows as a result of movements in these currencies, the Group operates a foreign exchange hedging policy. Foreign exchange forward contracts are used in conjunction with fuel derivatives to mitigate procurement price risk and, further, the foreign exchange forward contracts are matched to planned purchases of aircraft, spare parts and lease costs to cover the majority of the Group's exposure. There can be no assurance that these hedging activities will be sufficient to protect the Group from adverse effects of currency fluctuations. Hedging also limits the potential gain by the Group of any beneficial exchange rate developments. The Group's assumptions and estimates regarding the future development of currency exchange rates and its chosen risk avoidance or risk tolerance strategies have a substantial impact on the success of its hedging policy. If these assumptions and estimates prove to be incorrect or if the Group's hedging policy were to fail, this could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(g) The Group is exposed to risks associated with fluctuations in fuel prices

Fuel costs represent one of the largest components of the Group's operating costs, accounting for 18.9 per cent. of total operating costs for the 2012/13 Financial Year. Due to the large proportion of fuel costs in the Group's total operating cost base, even a relatively small increase in the price of aviation fuel, which increased significantly during the 2011/12 and 2012/13 Financial Years, can have a significant negative impact on the Group's operating costs. The Directors expect this volatility to continue in at least the short to medium term. A significant continuing upward trend in fuel costs, which may not be immediately recoverable from customers, could lead to material increases in the Group's operating costs, which could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

The Group currently operates a policy of hedging a portion (between 60 per cent. and 90 per cent.) of its aviation fuel requirements up to 12 months in advance. However, such arrangements do not

completely protect the Group against price volatility, are limited in volume and duration, can be less effective during volatile market conditions and may carry counterparty risk. In addition, under the fuel hedge contracts the Group may enter into from time to time, counterparties to those contracts may require the Group to fund the margin associated with any loss position on the contracts if the price of crude oil falls below specified benchmarks. Substantial fuel price increases (whether covered by hedges or not), or meeting the Group's obligations to fund margin calls under fuel hedge contracts, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(h) The Group is exposed to an increase in airport charges and taxes

Airport charges represent a significant proportion (approximately 14 per cent. in the 2012/13 Financial Year) of the total operating costs of the Group. Certain airports which the Group serves in the UK are specifically regulated such that all users of the airport are required to be treated in a non-discriminatory manner, and the Group has very limited ability to negotiate preferential or improved commercial terms for the charges imposed at these airports. To the extent possible within the regulatory constraints, the Group has entered into commercial agreements with the airports from which it operates (some of which are on a short term or informal basis) whereby it has sought to negotiate the best possible commercial arrangements. However, there can be no assurance that these arrangements can be renewed on commercially similar terms and that the various airport charges covered by such arrangements, such as in relation to airport transit, landing fees and security charges, will not increase substantially. There can also be no assurance that airports at which the Group operates, which are not currently regulated as described above, will remain so.

In addition, taxes are levied on the sale of airline seats in many of the countries in which the Group operates. The UK currently levies one of the highest tax rates in Europe in relation to aircraft departures, airport passenger duty ("APD").

Any increase in airport charges or taxes, such as APD, which cannot be passed on to the customer will result in an increase in operating costs for the Group. In addition, any increase in such costs which can be passed on to the customer may result in increased levels of competition from alternative forms of transport. Any significant increase in airport charges or taxes, whether through changes in regulation or otherwise, could therefore have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(i) The elimination of current tax exemptions for aviation fuel would lead to a substantial increase in the Group's aviation fuel costs

Over the past few years, there has been discussion at EU level and within EU member states regarding the existing tax exemptions for aviation fuel. While such exemptions are the subject of an international treaty and therefore not within the EU's control, there can be no assurance that the current tax exemptions for aviation fuel will be maintained and any change to these exemptions could lead to a substantial increase in the Group's aviation fuel costs, which could have a material adverse effect on its business, results of operations, growth prospects, and/or financial condition.

(j) 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

The airline industry is highly regulated. Flybe is authorised to operate its airline business through an Operating License issued by the CAA, Flybe Aviation Services through an EASA approval from the CAA (pursuant to Article 4 of EU Regulation 2042/2003) and Flybe Finland through an Operating License issued by TRAFI. These authorisations are subject to Flybe's ongoing compliance with applicable legislation, rules and regulations, including any new rules or regulations that may be adopted in the future. Changes to these rules and regulations in the future could require the Group to make changes to its operational practices and/or business strategy in order to retain its Operating Licenses and Route Licenses, which could in turn have an adverse impact on the Group's financial condition and/or growth prospects.

Regulatory changes affecting the airline industry could also have an adverse impact on the Group's costs, flexibility, marketing strategy, business model and ability to expand. It may not be feasible to pass regulatory and compliance costs on to customers and regulatory changes may affect how the

Group markets its services. Regulatory authorities may for example, impose operating restrictions at airports served by the Group, such as take-off curfews, noise restrictions, mandatory flight paths, runway restrictions, limits on the average number of daily departures and restrictions on maximum total duty time for crew members. There can be no assurance that airports at which there are currently no restrictions may not implement restrictions in the future or that, where such restrictions already exist, they will not become more onerous. Any increase in the restrictions imposed by regulatory authorities, or the introduction of more onerous restrictions or other regulatory action may have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(k) *The Group is exposed to negative environmental perception of the airline industry*

There has been increased focus in recent years amongst the media, governments and the public on environmental issues relating to the airline industry, and specifically the environmental impact of air travel. There can be no assurance that there will not be an increasingly negative perception of the airline industry in connection with environmental issues in the future which could have an adverse impact on the Group. Members of the public may seek to reduce their use of air travel in favour of alternative forms of transport with a perceived cleaner environmental record. Any negative change in public sentiment towards air travel could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(l) *Airlines may be adversely affected by any future application of restrictions with regard to the regulation of emissions trading and other environmental laws and regulations*

In February 2009 EU Directive 2008/101/EC came into force, bringing the aviation industry within the EU Emissions Trading Scheme ("EU ETS"). As a result, all flights departing from, and arriving at, EU airports have been included within the EU ETS from 2012. The EU ETS delivers a market price for carbon, capping total emissions to a fixed limit with operators required to acquire allowances for each reporting year to cover their total emissions. If the Group is not able to obtain sufficient allowances free of charge, consequently, it will have to purchase additional allowances within the open market. The purchase of sufficient allowances will increase the Group's total costs, which could (depending on the cost of such allowances) have a material adverse effect on the Group's business, results or operations, growth prospects and/or financial condition.

In the future, the UK and/or other European governments may choose to impose a more penal tax regime on air travel designed to reduce airline emissions by making air travel more expensive and therefore less attractive to customers. Any increase in cost to passengers brought about by a tougher taxation or other regulatory regime could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(m) *The Group is exposed to the effects of extraneous events, such as epidemics, natural occurrences or disasters and terrorist attacks*

The outbreak of a contagious disease, such as Severe Acute Respiratory Syndrome (SARS), the Influenza H1N1 virus, avian flu, or another contagious disease with the potential to become a pandemic, whether on a regional or global scale, or the occurrence of a natural disaster, such as the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland in April and May 2010, may result in travel restrictions being imposed by one or more governments or regulatory authorities and substantial reductions in, and cancellations of, bookings not only to the affected region but also more generally, thereby reducing overall demand for the Group's services or causing disruption or suspension of those services. In addition, adverse winter weather arising from snow accumulations, ice, fog or other conditions can cause flights to be delayed or disrupted for extended periods, leading to flight cancellations, additional costs and reduced revenues.

Terrorist attacks, particularly those involving aircraft such as the 11 September 2001 attacks, had a negative effect on the airline industry. Further actual, attempted or suspected terrorist attacks, acts of sabotage, new military conflicts or the expansion of existing conflicts and similar events, whether or not involving the airline industry, could result in decreased demand for or the disruption or suspension of, air travel, and increased insurance, security and other costs, especially if they are directed against air traffic or business and tourist destinations.

Furthermore, any accident, terrorist incident or other disaster directly affecting Flybe, even if fully insured against, could result in substantial losses to the Group. In addition, such an incident could increase the risk of litigation or regulatory action and could damage the Flybe brand, including through a perception that Flybe is less safe or reliable than other airlines, which could cause passengers to lose confidence in Flybe and switch to other airlines or other means of transport. Passengers could also lose confidence in Flybe even if an airline other than Flybe were to suffer such loss or damage, particularly if the airline is a UK or European carrier perceived by air travellers to be similar to Flybe.

Restrictions imposed by one or more governments or regulatory authorities as a result of the outbreak of a major epidemic, a natural occurrence or disaster, or as a result of a terrorist attack, or indeed the perception that an epidemic, natural disaster, terrorist attack or similar event may occur, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

C. RISKS RELATING TO THE GROUP'S BUSINESS

(a) *The Group is exposed to a reduction in UK domestic air travel, including business travel*

Approximately 74 per cent. of passengers who flew with the Group in the 2012/13 Financial Year did so on UK domestic routes. In addition, approximately 40 per cent. of passengers who flew with the Group during the same periods did so for business rather than personal reasons, with a further 30 per cent. of passengers flying to visit friends and family. Any sudden decreases in UK domestic air travel, in particular which the Group is unable to compensate for by increasing its services on new or other existing routes, or a significant and sustained decline in demand for UK domestic air travel or business travel generally, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(b) *The Group may not be successful in implementing its growth strategy*

The Group's medium-term growth strategy involves strengthening its market position through organic growth, relationships with other major carriers (such as codeshare, contract flying and joint ventures), selected acquisitions, the introduction of new flights to airports not currently served by the Group and the replication of the Group's business model within other European regional marketplaces, including through the establishment of new airport bases.

The Group's success in implementing its growth strategy is affected by matters such as the general condition of the global economy (particularly the UK and European economies) and the continued growth in demand for regional air transportation, the Group's ability to acquire additional licenses, traffic rights and the Group's ability to identify and attract suitable acquisition opportunities and joint venture, franchise, codeshare and interline partners to facilitate its expansion into its targeted marketplaces.

The Group's growth prospects are also affected by the availability of landing and take-off slots at the airports from which it currently operates and other airports from which it may wish to operate in the future. Operational access to certain UK and European airports is regulated by a system of slot allocation. There is competition amongst airlines for the allocation of slots at such airports. Where new slots are not available (such as when an airport reaches full capacity) or their availability is restricted, either at airports from which Flybe currently operates or at airports from which it may wish to operate from in the future, the Group may have to amend its schedules, reduce aircraft utilisation or amend its growth plans.

The Group's success in implementing its growth strategy is also affected by the Group's ability to finance new aircraft on acceptable terms (whether through operating lease structures or borrowing). The Group has successfully financed 24 aircraft since October 2008, during a period of global economic instability.

Further, growth through acquisitions or joint ventures involves the successful integration of other existing businesses which may pose risks not foreseeable at the time of agreement. While the Directors believe that the BA Connect acquisition in 2007, the establishment of the joint venture with Finnair Oyj in 2011 and the ongoing Loganair franchise demonstrate respectively the Group's ability

to successfully execute and integrate a major acquisition, joint venture and franchise operation, there can be no assurance that the Group will be able to implement any future integration within the time frame or cost profile expected at the time of agreement.

Many of these factors are beyond the Group's control. While the Group's strategy is to replicate its business model within other European regional marketplaces, particularly through "white label" flying, the implementation of this strategy may result in the Group operating in countries where it has no or limited operating experience, and where the operating, financial and legal challenges presented could be significantly different from those faced by the Group in its existing markets. As such, there can be no assurance that the Group will be successful in implementing its strategy of replicating its business model within other European marketplaces, or that the costs associated with an unsuccessful implementation of this strategy will not have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(c) *Costs will be incurred in developing new routes, and new routes proposed by the Group may not be profitable*

The Group's growth strategy involves expanding the number of destinations served and increasing flight connection opportunities between existing destinations in the future. When an airline begins service on a new route, its passenger load factors and yields initially tend to be lower than those on its established routes, and its advertising and other promotional costs tend to be higher. Customers may make less use of new routes or additional capacity on existing routes than the Group may have expected. New routes may also experience more competition than current ones, or competition may otherwise exceed the Group's expectations. As a result, the establishment of new routes usually generates initial losses. If the Group is unable to manage or implement its planned growth adequately by correctly assessing demand, capacity and fares, or if the Group is forced to terminate any unprofitable routes, this could have a material and adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(d) *The Group may not be successful in implementing its restructuring plan*

The Group's plan to return to profitable growth involves (among other things) reducing costs through a substantial restructuring of its business, with a focus (among other things) on reducing employee headcount, base and route closures and the renegotiation of commercial terms with third party suppliers of goods and services (including lessors of the Group's aircraft). The Group may not be able to achieve each of its desired cost reductions should negotiations with unions, employees and the suppliers of goods and services not proceed as planned. If the Group is unable to negotiate its desired cost reductions, or if the negotiations themselves have a negative impact on the Group's relations with its unions, employees, customers and suppliers of goods and services, this could have a material and adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(e) *The Group is heavily dependent on its information technology systems and the internet to operate its business*

The Group's ability to manage its operations (including its ability to receive and process ticket sales, and to manage reservations and its website), and to engage in other business critical tasks is dependent on the efficient and uninterrupted operation of its computer and communication systems and on the systems used by third parties in the course of their interaction with the Group. Although the Group has put in place appropriate disaster recovery procedures and adequate systems to protect against future attacks, it cannot guarantee the efficient and uninterrupted operation of systems used by the Group, particularly where the Group is affected by events beyond its control.

Further, the Group cannot guarantee that third parties who supply information technology services to the Group or whose systems interact with the Group's in the operation of its business have or will be able to provide adequate support for service disruptions or will continue to maintain adequate disaster recovery procedures. Any significant disruption to the Group's systems (and in particular any sustained period during which the Group's website is rendered inoperative), any failure of the back-up systems (through power shortages, acts of terrorism or sabotage, computer viruses, fires or other events) or any inability of third party providers to supply necessary systems and services to the Group could significantly impair the Group's ability to operate its business efficiently and could have a

material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

In the 2012/13 Financial Year the Group generated 70 per cent. of its revenues through the internet. Any compromise of internet security could deter people from using the internet or from using it to conduct transactions that involve transmitting confidential information, which could have a negative impact on the Group's internet sales. The Group may also incur significant costs to protect against the threat of security breaches, particularly if the perceived risks of terrorist activity and/or third party misappropriation of information lead to government imposed increases in internet security and greater restrictions on ticket purchases made remotely. Costs may also be incurred in dealing with problems caused by internet security breaches. In addition, alleviating these problems may cause interruptions, delays or cessations in service to the Group's customers, which could lead them to stop using the Group's services or to make claims against the Group.

The Group retains personal information received from customers and has put in place security measures to protect against unauthorised access to such information. Personal information held both offline and online is highly sensitive and, if third parties were to access such information without the customer's prior consent or if third parties were to misappropriate that information, customers may seek to bring legal claims against the Group which, if successful, could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(f) *The Group is exposed to an event, including a safety-related accident, damaging its reputation or brand*

As part of its overall business model, the Group relies on its reputation and positive brand recognition, amongst other things, to attract customers. Damage to the Group's reputation or brand through either a single event, a series of events or an event affecting one of the Group's partners, could adversely impact the Group's ability to market its services and attract and retain customers, and could ultimately have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(g) *Any real or perceived safety or reliability-related problem with the Embraer regional jets, ATR 42, ATR 72 or Q400 aircraft types could adversely affect the Group's operations*

The Group currently operates the Embraer E195, E175 and Bombardier Q400 aircraft in the UK and the Embraer E170, E190, ATR 42 and ATR 72 in Finland. The Embraer regional jets utilise General Electric engines and the Q400, ATR 42 and ATR 72 aircraft utilise Pratt & Whitney engines. Although the Group's choice of aircraft provides the Group with what it believes are many advantages, this commonality of aircraft and associated engine type increases the Group's exposure to risks flowing from the design of, systemic manufacturing defects relating to, or contractual non-performance by the manufacturers of, these aircraft or the engines which are used in them. The Group is also exposed to the risk of any real or perceived adverse perception by the public that results in consumer avoidance of, or regulatory action in respect of, these aircraft.

(h) *Flight cancellations or significant delays in departures or turn-around times can have an impact on the Group's operations*

The Group seeks to maximise its aircraft utilisation rate by reducing turn-around times at the airports from which it operates, thereby increasing the number of sectors that may be flown by its aircraft each day. As a result of the Group's comparatively short average sector length and high number of sectors flown per day, the Group may be disproportionately affected by delays, including those resulting from factors such as air traffic control, ground handling, regulatory requirements in relation to passenger data provision, air traffic or airport congestion, adverse weather, unexpected events (such as the ash cloud generated by the eruption of the Eyjafjallajökull volcano in Iceland in April and May 2010), acts of third parties on whom Flybe relies, maintenance or technical issues and the imposition of more onerous safety or security requirements. In addition, passengers who experience flight cancellations or significant delays are now able, in certain circumstances, to claim compensation under EC Regulation 261/2004. Flight cancellations or significant delays in departures or turn-around times, especially if repeated on multiple occasions, could damage the Group's reputation or brand and have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(i) The Group is exposed to fluctuations in interest rates

The Group is exposed to movements in interest rates on operating lease payments made by the Group on its aircraft finance arrangements and its external borrowings. The Group hedges a proportion of its exposure to such movements in interest rates through the use of fixed rate interest agreements. There can be no assurance that these fixed rate agreements will be sufficient to protect the Group from adverse effects of interest rate movements. Hedging also limits the potential benefit to the Group of any positive interest rate movements. The Group's assumptions and estimates regarding the future development of interest rates and its chosen risk avoidance or risk tolerance strategies could have a substantial impact on the success of its hedging policy. If these assumptions and estimates prove to be incorrect or if the Group's hedging policy were to fail, this could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(j) The Group is dependent on good industrial relations

Many of the Group's employees are represented by trade unions and the Group has voluntary recognition agreements in place with BALPA in respect of its pilots, UNITE in respect of its cabin crew and Prospect in respect of its engineers. Non-unionised staff are represented by a staff council called Open Channel. The Group undertakes collective bargaining with such unions and employee representatives on a financial yearly basis. Any breakdown in the bargaining process with BALPA, UNITE or Prospect could result in the Group being unable to continue to negotiate wages and salaries on terms that support it offering services at competitive prices, or could lead to strikes or other industrial action (or the threat of strikes or industrial action) which could damage the Group's reputation or cause passengers to book with the Group's competitors. A breakdown in the relationship with employee representative bodies or the employees themselves (particularly in the context of the Group implementing its restructuring plan), could lead to industrial action being taken which could in turn have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(k) The Group is exposed to shortages of pilots / licensed engineers and other key personnel

Pilots are from time to time in short supply in the European airline industry and the Group may have to expend significant amounts of time in recruiting and training them. There has historically been a trend in the industry for senior pilots in short haul airlines (such as the Group) to leave in order to join airlines with longer haul routes, particularly when the global economy is strong and there is high demand for experienced pilots to fly on international routes. Although in the last few years the Group has maintained a relatively high retention rate in respect of pilots, this may change when the global economy improves. Similar recruitment and training issues exist for licensed engineers employed by Flybe Aviation Services and in relation to other key personnel more widely. Any significant shortage of highly trained or specialised employees could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(l) The Group's joint venture, Flybe Finland, is dependent on its relationship with its joint venture partner, Finnair Oyj

Approximately 21 per cent. of the Group's revenues under management in the 2012/13 Financial Year related to its Flybe Finland joint venture with Finnair Oyj. The success of Flybe Finland is dependent, in part, on the Group's ongoing commercial relationship with Finnair Oyj. Should the Group's relationship with Finnair Oyj deteriorate, whether as a result of the perceived underperformance of Flybe or Finnair Oyj (by the other joint venture party) in the operation of Flybe Finland or otherwise, thereby leading to a reduction in revenues attributable to Flybe Finland or a closure of Flybe Finland altogether, this could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(m) The Group is exposed to the failure or non-performance of commercial and financial counterparties

The Group is dependent on numerous third parties with whom it has commercial agreements for certain business critical services, such as aircraft manufacturers (for example, Embraer), engine manufacturers (specifically General Electric and Pratt & Whitney), aircraft component manufacturers, maintenance service providers, airport operators, fuel providers, ground handlers, caterers and other

outsourced service providers. The efficiency, timeliness and quality of contract performance by third party providers is largely beyond the Group's direct control. For example, any delay in the prompt delivery of aircraft or critical aircraft components in the future may have an adverse result on the Group's operations. In addition, the Group is subject to the risk of failure by counterparties to its financial arrangements, such as money market deposits, fuel hedging contracts, foreign currency transactions and insurance policies. If one or more of these third parties failed to meet its contractual obligations to the Group, or if such services were temporarily (for example, as a result of technical problems or industrial action) or permanently unavailable, or not available on commercially acceptable terms, this could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(n) *The Group is reliant on the efficient operation of UK and European air traffic control systems*

Air traffic in Europe has become increasingly congested in recent years, particularly in the air space around UK regional airports, through which a significant portion of Flybe's flights operate. The expected continuing growth of UK and European air traffic is likely to increase the pressure upon UK and European air traffic control systems. While the Directors have no expectation that the air traffic control systems will not be able to cope with the pressure from increased utilisation, any significant disruption in, or a complete breakdown of, these systems could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

(o) *The Group is exposed to risks relating to the British Regional Airlines Group Pension Scheme*

As part of its acquisition of BA Connect in 2007, Flybe became the principal employer for the British Regional Airlines Group Pension Scheme, a defined benefit pension scheme. This scheme is closed to new members and was, with effect from 31 October 2007, closed to future benefit accrual for existing members.

A triennial valuation of the scheme (formally assessing the position as at 31 March 2013) is currently underway. Once conclusions are reached in the first half of 2014, the resulting actions will need to be agreed between the trustees of the scheme and the Group. The last triennial valuation of the scheme as at 31 March 2010 showed an actuarial surplus of £2.5 million. In addition, the scheme had an IAS 19 surplus of £0.5 million as at 30 September 2013. While the IAS 19 accounting valuation as at 30 September 2013 is the most recent assessment of the scheme's position, it was not conducted on the same basis as the triennial valuation.

Depending on the results of the current and future triennial valuations, Flybe may be required (should the scheme fall into deficit in the future) to make top-up payments to the scheme under an agreed recovery plan.

Any requirement by the trustees of the scheme for top-up payments to be made (should the scheme fall into deficit in the future), could have a material adverse effect on the Group's business, results of operations, growth prospects and/or financial condition.

D. RISKS RELATING TO THE STOCK MARKET AND TO SHARE TRADING

(a) *Dilution*

The New Ordinary Shares issued through the Firm Placing and Placing and Open Offer will represent 65.3 per cent. of the Enlarged Share Capital, assuming full take up of the Open Offer. Specifically, the New Ordinary Shares issued through the Firm Placing will represent 42.2 per cent. of the Enlarged Share Capital and New Ordinary Shares issued through the Open Offer will represent 23.1 per cent. of the Enlarged Share Capital, assuming full take up of the Open Offer. In light of the fact that Shareholders will not be eligible to participate in the Firm Placing, following the issue of the New Ordinary Shares to be allotted pursuant to the Firm Placing and Placing and Open Offer, Qualifying Shareholders who take up their Open Offer Entitlements in full will suffer a dilution of 42.2 per cent. to their interests in the Company, assuming full take up of the Open Offer.

(b) Fluctuation of share price

The price at which the New Ordinary Shares will be quoted and the price which investors may realise for their New Ordinary Shares will be influenced by a large number of factors, some specific to Flybe and its operations and some which may affect the airline sector, or quoted companies generally. The Company's share price has fluctuated, and may continue to fluctuate.

The Company's share price may fall in response to market appraisal of its current strategy or if the Group's operating results and prospects from time to time are below the expectations of market analysts and investors. In addition, stock markets have from time to time experienced significant price and volume fluctuations that have affected the market price of the companies whose shares are traded on such markets. Such fluctuations could affect the Company's share price, though they may be unrelated to the Group's actual operating performances and prospects.

(c) The Company does not currently pay dividends and it cannot assure investors that it will make dividend payments in the future

The Company may not be able to or may choose not to pay dividends in the future. The payment of future dividends will depend on, among other things, the Group's future profit, financial position, distributable reserves, working capital requirements, general economic conditions and other factors that the Directors deem significant from time to time. There can be no assurance that the Company will pay dividends or, if it does pay dividends, as to the amount of such dividends.

(d) Possible issue or sale of shares

The Company may issue additional shares in the future, which may adversely affect the market price of the outstanding Ordinary Shares at that time. The Company has no current plans for a subsequent offering of its shares or of rights or invitations to subscribe for shares. Significant sales of shares by major Shareholders or the public perception that an offering may occur, could also have an adverse effect on the market price of the Company's outstanding Ordinary Shares.

FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements that reflect the Group's current expectations regarding the business of Flybe, and management plans and objectives. Flybe considers any statements that are not historical facts as "forward-looking statements". Forward-looking statements involve risks and uncertainties. Actual events could differ materially from those projected herein and depend on a number of factors, including the risks described in the Risk Factors set out in pages 14 to 24 (inclusive) of this document.

When used in this document the words "estimate", "project", "intend", "aim", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to Flybe or the management of the Group, are intended to identify such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as at the date of this document. Neither Flybe nor any other member of the Group undertakes any obligation publicly to update or revise any of the forward-looking statements, whether as a result of new information, future events or otherwise, save in respect of any requirement under applicable laws, the Listing Rules, Prospectus Rules, Disclosure and Transparency Rules and other regulations.

No person has been authorised to give any information or make any representations in relation to the Flybe Group or the Firm Placing and Placing and Open Offer other than those contained in this document and, if given or made, such information or representations must not be relied on as having been so authorised.

Investors and Shareholders should note that the contents of these paragraphs relating to forward-looking statements are not intended to qualify the statements made as to sufficiency of working capital in this document.

IMPORTANT INFORMATION

Prospective investors are urged to read the sections of this document entitled “Summary”, “Risk Factors”, “Operating and Financial Review of Flybe Group plc” and “Information on Flybe Group plc” for a more complete discussion of the factors that could affect the Group’s future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

No profit forecast

No statement in this document is intended as a profit forecast and no statement in this document should be interpreted to mean that earnings per Ordinary Share for the current or future financial years would necessarily match or exceed the historical published earnings per Ordinary Share.

No incorporation of website information

Save where expressly stated otherwise, neither the content of Flybe’s website nor the content of any website accessible from hyperlinks on Flybe’s website is incorporated into, or forms part of, this document.

Information not contained in this document

No person has been authorised to give any information or make any representations in relation to the Flybe Group or the Firm Placing or the Open Offer other than those contained in or incorporated by reference into this document and, if given or made, such information or representations must not be relied on as having been so authorised by Flybe or Liberum Capital or any other person. Subject to the requirements of the Prospectus Rules, neither the delivery of this document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of Flybe since the date of this document or that the information in or incorporated by reference into this document is correct as of any time subsequent to the date hereof.

Recipients of this document acknowledge that: (i) they have not relied on Liberum Capital or any person affiliated with it in connection with any investigation of the accuracy of any information contained in or incorporated by reference into this document or their investment decision; and (ii) they have relied only on the information contained in or incorporated by reference into this document, and that no person has been authorised to give any information or to make any representation concerning the Flybe Group or the Firm Placing or the Open Offer or the New Ordinary Shares (other than as contained in or incorporated by reference into this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by Flybe or Liberum Capital.

Miscellaneous

Liberum Capital, which is authorised and regulated in the United Kingdom by the FCA, is acting exclusively for Flybe and for no-one else in relation to the Firm Placing and Placing and Open Offer and will not be responsible to anyone other than Flybe for providing the protections afforded to clients of Liberum Capital nor for providing advice in relation to the Firm Placing and Placing and Open Offer, the contents of this document or any other transaction or arrangement referred to in this document.

Liberum Capital and its representatives do not make any representation to any offeree or purchaser of the New Ordinary Shares regarding the legality of an investment in the New Ordinary Shares by such offeree or purchaser or acquirer under the laws applicable to such offeree or purchaser or acquirer. In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Group and the terms of the Firm Placing and Placing and Open Offer, including the merits and risks involved.

Liberum Capital may, in accordance with applicable legal and regulatory provisions, engage in transactions in relation to the Firm Placing or the Open Offer and/or related instruments for its own account for the purpose of hedging its underwriting exposure or otherwise. Liberum Capital does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

Apart from the responsibilities and liabilities, if any, which may be imposed on it or them under FSMA or the regulatory regime established thereunder: (i) Liberum Capital does not accept any responsibility whatsoever and makes no representation or warranty, express or implied, in relation to the content of this document, including its accuracy, completeness or verification or in relation to any other statement made or purported to be made by it, or on its behalf, in connection with Flybe, the Firm Placing, the Open Offer or the New Ordinary Shares and nothing in this document is or shall be relied upon as a promise or representation in this respect, whether as to the past or future; and (ii) Liberum Capital accordingly disclaims, to the fullest extent permitted by law, all and any liability whatsoever, whether arising in tort, contract or otherwise (except as referred to above) which it might otherwise have in respect of this document or any such statement.

Liberum Capital nor any person acting on its behalf accepts any responsibility or obligation to update, review or revise the information in this document or to publish or distribute any information which comes to its or their attention after the date of this document, and the distribution of this document shall not constitute a representation by Liberum Capital or any such person, that this document will be updated, reviewed or revised or that any such information will be published or distributed after the date hereof.

In connection with the Firm Placing and Placing and Open Offer, Liberum Capital and any of its affiliates, acting as an investor for its own account, may take up New Ordinary Shares in the Firm Placing and Placing and Open Offer and in that capacity may retain, purchase or sell for its own account such New Ordinary Shares or related investments otherwise than in connection with the Firm Placing and Placing and Open Offer. Accordingly, references in this document to New Ordinary Shares being offered or placed should be read as including any offering or placement of New Ordinary Shares to Liberum Capital or its affiliates acting in such capacity. Liberum Capital does not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

DIRECTORS, SECRETARY AND ADVISERS

Directors

Executive Directors:

Chief Executive Officer
Chief Financial Officer

Saad Hammad
Andrew Knuckey

Non-Executive Directors:

Independent Non-Executive Chairman
Deputy Chairman and Senior
Independent Non-Executive Director
Independent Non-Executive Director
Independent Non-Executive Director

Simon Laffin
Charlie Scott
David Longbottom
Alan Smith

Company Secretary

Christopher Simpson

Registered and Head Office

Jack Walker House
Exeter International Airport
Exeter EX5 2HL

Financial Adviser, Sponsor and Broker and Underwriter

Liberum Capital Limited
Ropemaker Place Level 12
25 Ropemaker Street
London EC2Y 9LY

Legal Adviser to the Company

Eversheds LLP
Eversheds House
70 Great Bridgewater Street
Manchester M1 5ES

Legal Adviser to the Financial Adviser, Sponsor and Broker and Underwriter

Ashurst LLP
Broadwalk House
5 Appold Street
London EC2A 2HA

Auditors and Reporting Accountants

Deloitte LLP
2 Hardman Street
Manchester M60 2AT

Registrars

Capita Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

Receiving Agent

Capita Asset Services
Corporate Actions
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Announcement of offer	20 February 2014
Record Date for entitlements under the Open Offer	Close of business on 18 February 2014
Ex-entitlement date	8.00 a.m. on 20 February 2014
Despatch of Prospectus, Application Forms and Forms of Proxy	20 February 2014
Open Offer Entitlements and Excess Open Offer Entitlements credited to stock accounts in CREST of Qualifying CREST Shareholders	as soon as possible after 8.00 a.m. on 21 February 2014
Latest recommended date for requested withdrawal of Open Offer Entitlements and Excess Open Offer Entitlements from CREST	4.30 p.m. on 3 March 2014
Latest recommended date for depositing Open Offer Entitlements and Excess Open Offer Entitlements into CREST	3.00 p.m. on 4 March 2014
Latest time and date for splitting Application Forms (to satisfy <i>bona fide</i> market claims)	3.00 p.m. on 5 March 2014
Latest time and date for receipt of Forms of Proxy and electronic proxy appointments via the CREST system	11.00 a.m. on 7 March 2014
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer or settlement of relevant CREST instructions (as appropriate)	11.00 a.m. on 7 March 2014
General Meeting	11.00 a.m. on 11 March 2014
Results of the Firm Placing and Placing and Open Offer announced through an RIS	11 March 2014
Admission and commencement of dealings in the New Ordinary Shares expected to commence	8.00 a.m. on 12 March 2014
CREST stock accounts expected to be credited for the New Ordinary Shares	as soon as possible after 8.00 a.m. on 12 March 2014
Share certificates for New Ordinary Shares expected to be despatched	within 7 days of Admission

Notes

Each of the times and dates in the above timetable is subject to change, in which event details of the new times and/or dates will be notified to the FCA and the London Stock Exchange and, where appropriate, Shareholders.

Please note that any Existing Ordinary Shares sold prior to close of business on 20 February 2014, the date on which the Existing Ordinary Shares will trade with entitlement, will be sold to the purchaser with the right to receive entitlements under the Open Offer.

If you have any queries on the procedure for application and payment under the Open Offer, you should contact Capita Asset Services at Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or please telephone Capita Registrars between 9.00 a.m. and 5.30 p.m. (London time) Monday to Friday on 0871 664 0321 from within the UK or +44 20 8639 3399 if calling from outside the UK. Calls to the 0871 664 0321 number cost 10 pence per minute (including value added tax) plus your service provider's network extras. Calls to the helpline from outside the UK will be charged at applicable international rates.

Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Firm Placing and Placing and Open Offer nor give any financial, legal or tax advice.

STATISTICS RELATING TO THE FIRM PLACING AND PLACING AND OPEN OFFER

Offer Price	110 pence
Discount to Existing Ordinary Shares ¹	7.2 per cent.
Entitlement under the Open Offer	2 Open Offer Shares for every 3 Existing Ordinary Shares
Number of Existing Ordinary Shares in issue as at 18 February 2014 (being the latest practicable date prior to the publication of this document)	75,152,881
Number of Firm Placed Shares	91,400,000
Number of Open Offer Shares to be offered by the Company	up to 50,101,920
Number of New Ordinary Shares to be issued pursuant to the Firm Placing and Placing and Open Offer ²	141,501,920
Number of Ordinary Shares in issue immediately upon completion of the Firm Placing and Placing and Open Offer ²	216,654,801
Gross proceeds of the Firm Placing and Placing and Open Offer ²	£155.65 million
Estimated net proceeds of the Firm Placing and Placing and Open Offer to be retained by the Company ²	£150.0 million
New Ordinary Shares as a percentage of the Enlarged Issued Share Capital ²	65.3 per cent.

1. The discount is to the closing middle market price of Existing Ordinary Shares at the close of business on 19 February 2014, being the latest practicable date prior to the announcement of the Firm Placing and Placing and Open Offer.
2. This assumes full take up of the Open Offer and no further exercise of options or awards under the Share Schemes.

PART 1

LETTER FROM THE CHAIRMAN OF FLYBE GROUP PLC

(Incorporated in England and Wales with registered no 1373432)

Simon Laffin *Independent Non-Executive Chairman*
Saad Hammad *Chief Executive Officer*
Andrew Knuckey *Chief Financial Officer*
Charlie Scott *Deputy Chairman, Senior Independent Non-Executive Director*
Alan Smith *Independent Non-Executive Director*
David Longbottom *Independent Non-Executive Director*

Registered Office
Jack Walker House
Exeter International Airport
Exeter
Devon EX5 2HL

20 February 2014

To: Shareholders and, for information only, to holders of options and awards under the Share Schemes

Dear Shareholder,

FIRM PLACING OF 91,400,000 NEW ORDINARY SHARES AND PLACING AND OPEN OFFER OF UP TO 50,101,920 NEW ORDINARY SHARES AT A PRICE OF 110 PENCE PER SHARE

NOTICE OF GENERAL MEETING

1. Introduction

The Firm Placing and Placing and Open Offer

The Company announced on 20 February 2014 that it proposes to raise up to £150.0 million, net of expenses, by the issue of 91,400,000 New Ordinary Shares through a Firm Placing and up to 50,101,920 New Ordinary Shares through a Placing and Open Offer at 110 pence per New Ordinary Share. The Offer Price of 110 pence per New Ordinary Share represents a 7.2 per cent. discount to the Closing Price of 118.5 pence on 19 February 2014 (being the last practicable date prior to the announcement of the Firm Placing and Placing and Open Offer).

Shareholder approval

The Firm Placing and Placing and Open Offer requires shareholder approval. If the Resolutions are not passed, the Firm Placing and Placing and Open Offer will not proceed.

The purpose of this document

The purpose of this document is:

- (a) to provide you with information about the proposed Firm Placing and Placing and Open Offer;
- (b) to explain why the Board considers that the Firm Placing and Placing and Open Offer and the Resolutions are fair and reasonable and in the best interests of Flybe and the Shareholders as a whole; and
- (c) to explain why the Board unanimously recommends that Shareholders, to the extent they are permitted by the Listing Rules, vote in favour of the Resolutions to be proposed at the General Meeting, as they intend to do in respect of their own beneficial holdings.

The terms and conditions of the Open Offer are set out in full in Part 2 of this document.

The Firm Placing and Placing and Open Offer is fully underwritten by Liberum Capital on, and subject to, the terms and conditions of the Underwriting and Sponsor Agreement, further details of which are set out in paragraph 9.1 of Part 7 of this document.

You are recommended to read the whole of this document and not to rely on only part of it. In particular, you are advised to consult the section entitled "Risk Factors" on pages 14 to 24 of this document and the "Glossary of Technical Terms" at the end of this document, which sets out definitions of certain technical terms.

2. Background to and reasons for the Firm Placing and Placing and Open Offer and future strategy of Flybe

The Directors believe that the Firm Placing and Placing and Open Offer will provide the platform for Flybe to improve further the efficiency and profitability of the Group. The Directors also believe that the Firm Placing and Placing and Open Offer will enable Flybe to build resilience and target profitable growth.

Background to and reasons for the Firm Placing and Placing and Open Offer

In January 2013, following a significant decline in financial performance in prior years, the Group announced its intentions to embark on a turnaround strategy and set out a plan intended to return the Group to profitability in the 2013/14 Financial Year.

In May 2013, the Group released an update on the progress of this turnaround plan together with details of additional savings and revenue enhancement opportunities targeted by the Group, under the banner of "Making Flybe Fit to Compete", along with the Group's refocused network strategy. Key elements of the update included the exchange of Flybe's arrival and departure slots at Gatwick for £20.0 million, deferring the delivery and pre-delivery payment commitments on 16 new aircraft, and an announcement that the turnaround would deliver savings to the Group of approximately £40 million by March 2014. The exchange of the Gatwick slots was approved by shareholders on 2 August 2013, £17.5 million of the total proceeds has been received by Flybe and the final balance of £2.5 million of the total proceeds is contracted to be received by Flybe in June 2014.

In August 2013, the Group introduced management changes and split the roles of Chairman and Chief Executive Officer, appointing Saad Hammad to be the new Chief Executive Officer. Saad Hammad brings considerable airline, commercial and business transformation experience. From October 2005 to April 2009, Saad Hammad was Chief Commercial Officer of easyJet plc at the time of the airline's commercial transformation that delivered significant revenue growth while increasing easyJet's European network, helping form the basis of easyJet's current pan-European market position.

It was also announced in August 2013 that Andrew Knuckey, Chief Financial Officer since 2007, had decided to step down from the Board and leave the Company as soon as a successor can be appointed and a suitable handover has been completed. The search for his successor is continuing and an announcement will be made in due course.

Simon Laffin was appointed non-executive Chairman in November 2013, replacing Jim French who had previously held both the Chairman and Chief Executive Officer roles.

Future strategy of Flybe

Upon joining Flybe, Saad Hammad initiated a full strategic review of the Group's operations. As a result of that review, the Board believes that Flybe will achieve a sustainable competitive position in the European regional airline sector, based on:

1. Flybe developing an efficient operation, using regional aircraft that can operate profitably on 'thinner' regional routes, being routes with less than 400,000 passengers per annum;
2. Flybe offering a high frequency operation at smaller, more convenient regional airports serving local business and leisure passengers and accessing international hubs; and
3. Flybe providing a professional and personal service to all customers, with reliable on time performance.

The Directors intend for Flybe to become Europe's best local airline with sustainable competitive positioning delivering regional connectivity through two main business activities:

- (a) a regional branded airline, providing scheduled services connecting passengers travelling in the regions, both on business and visiting friends and relatives, to each other and to international carriers at metropolitan airports; and
- (b) a regional "white label" provider, where Flybe provides crew under contract on a maintained and insured aircraft belonging to Flybe but operated on behalf of a third party airline (as it currently does for Finnair in Finland and Brussels Airlines in Belgium).

The Directors believe Flybe has developed expertise and specialist skills in operating a regional branded airline alongside a regional white label operation, with the synergies between the two business activities driving economies of scale in both buying and operations. In addition, the two business activities complement each other in both earnings and risk profile. The regional branded airline's operations are both higher margin and higher risk (due to the exposure to passenger demand, fuel costs and foreign exchange rates), with the white label business's operations lower margin and lower risk due to income generated under contracts for the provision of the white label service.

Saad Hammad's review identified a number of actions necessary to improve further the efficiency and profitability of the Group. Further to the review, the Board has now identified a three stage strategic programme:

1. Take immediate action – aimed at returning the Group to profitable operations, including the removal or rationalisation of unprofitable routes and bases, adjusting the fleet mix, further cost reductions and improved commercialisation;
2. Build resilience – strengthen the balance sheet to put the Group on a firm foundation for the future and deploy capital more effectively; and
3. Target profitable growth – implement the Group's plans for a profitable growth strategy in both Flybe-branded scheduled flying and white label operations, whilst enhancing service to customers in branded flying.

Each of these three stages is outlined in detail below.

1. Take immediate action

On 11 November 2013, Flybe announced that its airline business would implement additional immediate actions, on top of those already being implemented in the Turnaround Plan, to ensure a solid platform for profitable growth. These further initiatives cover both Flybe's UK scheduled flying operations and its Finnish joint venture ("Immediate Actions").

Within the UK, these Immediate Actions involved an optimisation of the Group's configuration by:

- establishing a simplified integrated management structure and organisation (now referred to as "One Flybe");
- rationalising the route network;
- reviewing the fleet mix;
- removing surplus aircraft capacity;
- improving aircraft and crew utilisation;
- implementing further cost reductions through redundancy of approximately a further 500 employees, rationalisation of suppliers and contract re-negotiations; and
- engaging with key suppliers to improve cost arrangements.

The Group also announced its intention to improve its commercialisation by:

- filling critical management gaps within Flybe's commercial team;
- optimising pricing and revenue management;
- refocusing its network development;
- driving route management improvements;
- improving the impact of marketing initiatives; and
- developing further trading partnerships.

In addition, the Directors intend to improve the profitability of the Group's joint venture with Finnair by:

- further enhancing cost and operational efficiency in white label flying; and
- reducing the number of aircraft deployed on loss-making scheduled flying operations.

The Directors believe that the immediate actions in the UK will deliver further cost benefits of approximately £7 million in the 2013/14 Financial Year and £26 million in the 2014/15 Financial Year, with around 450 anticipated redundancies (reduced from an anticipated 500 redundancies due to mitigating actions taken by the Company) and estimated one-off and surplus capacity costs of approximately £14 million in the 2013/14 Financial Year plus a further approximate £27 million in the 2014/15 Financial Year. Taking into account the Group's announcements in January and May 2013 of anticipated redundancies of 300 and 290 respectively, these additional 450 anticipated redundancies would combine to take anticipated redundancies under the Turnaround Plan and Immediate Actions to 1,040.

2. Build resilience

Strengthen the balance sheet

The Directors believe that the Group will significantly benefit from a strengthening of its balance sheet, improving operational flexibility and providing additional cash reserves to enable the Group to protect itself from unforeseen disruptions or occurrences. A stronger liquidity position is expected by the Directors to assist additionally in securing better credit terms from a number of suppliers. In addition, the Directors are aware that the CAA recommends that existing licence holders have financial resources in excess of three months of the future operating costs of the business. The Directors believe that maintaining a seasonal minimum of the equivalent of 10 weeks' operating costs in unrestricted cash, cash equivalents or highly liquid short term investments will provide significant resilience to the Group.

3. Target profitable growth

The Directors believe that Flybe can achieve profitable growth in both branded and white label operations. In addition, the Directors believe that enhanced customer service in Flybe's branded operations is needed to drive profitable growth.

a. Reduce fleet ownership costs

The Directors intend to deploy capital to own aircraft with secured loans rather than full operating leases, thereby rebalancing Flybe's fleet financing structure towards ownership rather than operating leases. The former typically provides a cheaper form of ownership, but requires an equity stake to be held, normally being 20 to 30 per cent. of the value of the aircraft. Currently, 87.1 per cent. of the fleet is financed through operating leases, which is sub-optimal versus Flybe's peers. The Directors believe that deploying capital in this manner will deliver an estimated return on equity investment of between 15 and 18 per cent.

b. Improved productivity

The Directors believe that increased investment in improvements to the Group's IT and finance functions will result in greater robustness in infrastructure, cost savings and improved operating efficiencies within 6 to 12 months.

c. Expansion of Flybe-branded scheduled operations

The Directors believe that the expansion of Flybe-branded scheduled operations will primarily involve the development of new routes and bases within the UK within a 12 to 24 month timeframe. Following completion of the route rationalisation strategy being carried out as described within the "Immediate Actions" above, the Directors intend for the Group to create a number of new routes in the next two years and will work with a number of regional airports, such as Manchester, to develop their capacity as domestic and international hubs. As part of this progressive route expansion, the Directors have identified nine routes from the New Route Planning Selection Model that has been adopted by the Group. The Directors believe that an additional 10 aircraft will be required in order to service these identified routes, which they plan to fund at a 75 per cent. loan to value ratio, thereby requiring approximately £35 million of equity financing and £103 million of debt financing. The Directors expect this planned funding structuring to be operating cash flow positive (after loan amortisation and setup costs) after year one of the funding structure. The Directors believe that "thinner" regional routes are unattractive for full service airlines and European LCCs. New route development will prioritise domestic routes in the UK between poorly connected catchment areas as well as the building of service density to European destinations which the Directors believe are underserved by current carriers and where the Directors believe that Flybe can maximise its competitive advantage of smaller aircraft that can operate from airports that have relatively

short runways. In addition, Flybe's aircraft and infrastructure are well suited to short sectors, with 79 per cent. of Flybe's routes on sectors less than 350 miles in distance.

The Group is also looking at opportunities to develop new bases within a one to two year time frame. The Directors are currently evaluating these opportunities and will make further announcements as appropriate once commercial evaluations and negotiations with the relevant airports have progressed.

d. Expansion of white label operations

Flybe's joint venture with Finnair, Flybe Finland, moved to profitability in H1 2013/14. Flybe Finland operates 22 of its 28 aircraft on profitable contract flying operations which balance its activity in scheduled flying. The Directors believe that there are other opportunities to roll out Flybe's white label offering and have identified a number of national airlines in Europe for whom white label flying could be attractive, and are in ongoing commercial discussions with several of these airlines. The Board believes there is an initial requirement for six additional aircraft in order to service white label opportunities, which they plan to fund at a 75 per cent. loan to value ratio, thereby requiring approximately £23 million of equity financing and £62 million of debt financing. The Directors expect this planned funding structure to be operating cash flow positive (after loan amortisation and setup costs) after year one of the funding structure, with setup costs paid back in year two. The Directors anticipate that capital commitments would only be made by the Group after contracts have been signed. The Directors believe that Flybe needs financial strength in order to be seen as a credible player in the white label market.

e. Enhanced service to customers

The Directors believe that, in its branded business, the Flybe customer offering, product range and brand impact need to be developed further. With improved marketing, the Directors intend to increase the number of visitors to the Group's website and enhance conversion rates by:

- an improved customer proposition that enhances the brand promise and identity. The Directors intend that this will be communicated through new creative copy, backed by increased media spending; and
- improvements in the product that will mark the Flybe experience as different to others. The Directors intend that this will include a simplified offering, rationalised pricing, an improved website, sustained focus on on-time performance and a relaunched customer loyalty programme, focusing on more frequent passengers with a view to increasing their use of Flybe further through improved rewards and benefits and by having reciprocal earning and spending agreements with partner airlines.

The Directors anticipate that the enhanced services to customers will be in place over the next 12 months.

3. Principal terms of the Firm Placing and Placing and Open Offer

Flybe intends to issue 91,400,000 New Ordinary Shares through the Firm Placing and up to 50,101,920 New Ordinary Shares through the Open Offer at 110 pence per New Ordinary Share to raise gross proceeds of up to £155.65 million.

The Firm Placing and Placing and Open Offer requires Shareholder approval, which will be sought at the General Meeting.

The Offer Price of 110 pence per New Ordinary Share represents an 7.2 per cent. discount to the Closing Price of 118.5 pence on 19 February 2014 (being the latest practicable date prior to the announcement of the Firm Placing and Placing and Open Offer).

Firm Placing

The Firm Placees have agreed to subscribe for 91,400,000 New Ordinary Shares at the Offer Price (representing gross proceeds of £100.5 million). The Firm Placed Shares are not subject to clawback and are not part of the Open Offer.

Placing and Open Offer

The Company has raised approximately £55.1 million (gross) through a Placing and Open Offer of 50,101,920 New Ordinary Shares at the Offer Price. Liberum Capital, as agents for the Company, have placed the Placing Shares with further investors subject to the Qualifying Shareholders' right to take up their rights under the Open Offer.

Subject to the fulfillment of the conditions set out below and in Part 2 of this document, Qualifying Shareholders are being given the opportunity to subscribe for New Ordinary Shares *pro rata* to their existing shareholdings at the Offer Price on the basis of:

2 New Ordinary Shares for every 3 Existing Ordinary Shares

held and registered in their name at the Record Date. Qualifying Shareholders may apply for any whole number of New Ordinary Shares. Excess applications will be satisfied only to the extent that corresponding applications by other Qualifying Shareholders are not made or are made for less than their *pro rata* entitlements. If there is an oversubscription resulting from excess applications, allocations in respect of such excess applications will be scaled down according to the Directors' discretion.

Under the Open Offer, Flybe intends to issue up to 50,101,920 New Ordinary Shares at the Offer Price (representing gross proceeds of up to £55.1 million) to be made available pursuant to the Open Offer.

Fractions of Ordinary Shares will not be allotted and each Qualifying Shareholder's entitlement under the Open Offer will be rounded down to the nearest whole number.

The New Ordinary Shares when issued and fully paid, will rank *pari passu* in all respects with the Existing Ordinary Shares, including the right to receive all dividends or other distributions made, paid or declared after the date of their issue.

Qualifying Shareholders with holdings of Existing Ordinary Shares in both certificated and uncertificated form will be treated as having separate holdings for the purpose of calculating their entitlements under the Open Offer.

The Firm Placing and Placing and Open Offer is fully underwritten by Liberum Capital on, and subject to, the terms and conditions of the Underwriting and Sponsor Agreement, further details of which are set out in paragraph 9.1 of Part 7 of this document.

Application has been made for the Open Offer Entitlements and Excess Open Offer Entitlements to be admitted to CREST. It is expected that the Open Offer Entitlements and Excess Open Offer Entitlements will be admitted to CREST at 8.00 a.m. on 21 February 2014. The Open Offer Entitlements and Excess Open Offer Entitlements will also be enabled for settlement in CREST at 8.00 a.m. on 21 February 2014. Applications through the means of the CREST system may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim.

Qualifying Shareholders may apply for Excess Shares pursuant to the Excess Application Facility. Qualifying non-CREST Shareholders will have received an Application Form with this document, which sets out their maximum entitlement to Open Offer Shares as shown by the number of Open Offer Entitlements allocated to them, and gives them the opportunity to apply for Excess Shares under the Excess Application Facility. Qualifying CREST Shareholders will receive a credit to their appropriate stock accounts in CREST in respect of their Open Offer Entitlements and Excess Open Offer Entitlements as soon as possible after 8.00 a.m. on 21 February 2014.

Shareholders should note that the Open Offer is not a rights issue. Qualifying CREST Shareholders should note that, although the Open Offer Entitlements and Excess Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised by Euroclear's Claims Processing Unit. Qualifying non-CREST Shareholders should note that the Application Form is not a negotiable document and cannot be traded.

Further information on the Open Offer and the terms and conditions on which it is made, including the procedure for application and payment, are set out in Part 2 of this document and, where relevant, in the Application Form.

For Qualifying non-CREST Shareholders, completed Application Forms, accompanied by full payment in accordance with the instructions in Part 2, paragraph 4 on pages 46 to 56 of this document, should be returned by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU so as to arrive as soon as possible and in any event so as to be received no later than 11.00 a.m. on 7 March 2014. For Qualifying CREST Shareholders the relevant CREST instructions must have settled as explained in this document by no later than 11.00 a.m. on 7 March 2014.

Applications by Qualifying Shareholders will be satisfied in full up to their Open Offer Entitlements. In addition and subject to availability, the Excess Application Facility will enable Qualifying Shareholders to apply for any whole number of Excess Shares in excess of their Open Offer Entitlements up to a maximum number of Excess Shares not exceeding 50,101,920. Qualifying non-CREST Shareholders should complete the relevant sections of the Application Form. Qualifying CREST Shareholders will have Excess Open Offer Entitlements credited to their stock account in CREST and should refer to paragraph 4(b)(iv) of Part 2 on how to apply for the Excess Shares pursuant to the Excess Application Facility. If there is an oversubscription resulting from excess applications, allocations in respect of such excess applications will be scaled down according to the Directors' discretion.

The Firm Placing and Placing and Open Offer is subject to the satisfaction of the following material conditions:

- (i) the passing of the Resolutions;
- (ii) Admission becoming effective by not later than 8.00 a.m. on 12 March 2014 (or such later time and/or date as Liberum Capital and the Company may agree, not being later than 8.00 a.m. on 27 March 2014); and
- (iii) the Underwriting and Sponsor Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms prior to Admission.

Accordingly, if any of such conditions are not satisfied or, if applicable, waived, the Firm Placing and Placing and Open Offer will not proceed and any Open Offer Entitlements and Excess Open Offer Entitlements admitted to CREST will thereafter be disabled.

4. Effect of the Firm Placing and Placing and Open Offer

Upon Admission, the Enlarged Share Capital is expected to be 216,654,801 Ordinary Shares. On this basis, New Ordinary Shares issued through the Firm Placing and Placing and Open Offer will represent 65.3 per cent. of the Enlarged Share Capital. New Ordinary Shares issued through the Firm Placing will represent 42.2 per cent. of the Enlarged Share Capital and New Ordinary Shares issued through the Open Offer will represent 23.1 per cent. of the Enlarged Share Capital.

Following the issue of the New Ordinary Shares to be allotted pursuant to the Firm Placing and Placing and Open Offer, Qualifying Shareholders who do not take up any of their Open Offer Entitlement will suffer a dilution of approximately 65.3 per cent. to their interests in the Company, assuming full take up under the Open Offer. If a Qualifying Shareholder takes up his Open Offer Entitlement in full he will suffer a dilution of 42.2 per cent. to his interest in the Company, assuming full take up under the Open Offer.

5. Use of proceeds

The Directors intend to use the net proceeds of the Firm Placing and Placing and Open Offer as follows:

- approximately £68 million for additional working capital to strengthen the Group's balance sheet. The Directors believe that the Group will significantly benefit from a strengthening of its balance sheet, improving operational flexibility and providing additional cash reserves to enable the Group to protect itself from unforeseen disruptions or occurrences. A stronger liquidity position is expected by the Directors to assist additionally in securing better credit terms from a number of suppliers;
- approximately £14 million to reduce fleet ownership costs. The Directors intend to deploy capital to own aircraft with secured loans rather than full operating leases, thereby rebalancing Flybe's fleet financing structure more towards ownership rather than operating leases;

- approximately £5 million to improve productivity. The Directors believe that increased investment in improvements to the Group's IT and finance functions will result in greater robustness in infrastructure, cost savings and improved operating efficiencies within 6 to 12 months;
- approximately £5 million to enhance service to customers. The Directors believe that, in its branded business, the Flybe customer offering, product range and brand impact need to be developed further. With improved marketing, the Directors intend to increase the number of visitors to the Group's website and enhance conversion rates by offering an improved customer proposition that enhances the brand promise and to identify improvements in the product that will mark the Flybe experience as different to others;
- approximately £35 million to expand the Group's branded scheduled commercial operation with new routes and bases. The Directors believe that the expansion of Flybe-branded scheduled operations will primarily involve the development of new routes and bases within the UK within a 12 to 24 month timeframe; and
- approximately £23 million to expand white label flying. The Directors believe that there are other opportunities to roll out Flybe's white label offering and have identified a number of national airlines in Europe for whom white label flying could be attractive, and are in ongoing commercial discussions with several of these airlines.

The Firm Placing and Placing and Open Offer is conditional upon Shareholder approval.

6. Current trading and prospects for Flybe

On 3 February 2014, the Company released an interim management statement for Q3 2013/14. Q3 2013/14 trading was in line with the Board's overall expectations. Key highlights were that UK scheduled revenue per seat was up 2.3 per cent., whilst costs per seat (excluding fuel and restructuring costs) were down 5.2 per cent. In Finland, revenue from white label flying increased by 23.7 per cent.

Phase 1 of the Turnaround Plan (announced by the Company in January 2013), Phase 2 (announced by the Company in May 2013) and the Immediate Actions (launched by the Company in November 2013), are all now well advanced. The Immediate Actions were announced with targets to deliver underlying benefits of £7million in the 2013/14 Financial Year and £26 million in the 2014/15 Financial Year, with around 500 proposed redundancies and estimated one off and grounded aircraft costs of £14 million in the 2013/14 Financial Year plus a further £27 million in the 2014/15 Financial Year. It is now anticipated that job losses will total around 450 and work is continuing to reduce the cost of aircraft grounding.

The Directors believe that each of these actions is essential to provide the Company with a sustainable cost base and a platform upon which it can profitably grow its business in the future, as it implements the twin strategy, announced in November 2013, of being both a UK regional branded airline and a European regional white label provider.

Q3 2013/14 Trading Summary

- There was a 5.0 per cent. increase in total revenue under management to £203.5 million.
- Group revenue was in line with Q3 2012/13 at £142.9 million.
- UK Airline results:
 - 0.4 per cent. increase in total revenues to £137.6 million;
 - 2.3 per cent. increase in passenger revenue per seat to £48.46;
 - 5.2 per cent. decrease in costs per seat (excluding fuel and restructuring costs) to £41.58.
- White label results:
 - 23.7 per cent. increase in white label revenue in Flybe Finland to £52.2 million.

Turnaround Update

1. Optimise configuration:

- Flybe's UK route network has now been successfully rationalised for the Summer 2014 Season, impacting 55 out of last year's 140 summer routes, including the discontinuation of 30 unprofitable routes;
- Flybe's UK base network will reduce from 13 to seven bases by the end of March 2014, as indicated in the Group's half year results announcement in November 2013. The refocus towards the larger bases will result in the closure of bases in Inverness, Aberdeen, Isle of Man, Newcastle, Jersey and Guernsey. Flybe will continue to operate services to and from all of these airports as part of a total of 119 routes being flown across its UK network in the 2014 Summer Season; and
- Surplus aircraft capacity is being addressed by grounding 10 aircraft by the end of March 2014 and a further four by the end of the 2014 Summer Season. Work is continuing to reduce the cost of this aircraft grounding.

2. Reducing costs further:

- Following the removal by the Group of its divisional structure in November 2013, Flybe has now implemented an integrated organisation structure and completed the streamlining of its senior management team;
- Further progress has been made to complete the delivery by the end of March 2014 of the cost savings previously announced in Phases 1 and 2 of the Turnaround Plan:

<i>2013/14 Financial Year cost savings</i>	<i>Phase 1 £m</i>	<i>Phase 2 £m</i>	<i>Total £m</i>
Headcount reduction	16	4	20
Outsourcing	8	–	8
Procurement and other	6	6	12
Total	30	10	40

- Flybe is on track to achieve the further cost benefits, as previously announced, of £7 million in the 2013/14 Financial Year and £26 million in the 2014/15 Financial Year from network rationalisation, removal of the divisional structure and engagement with key suppliers. These include around 450 job losses, slightly down from the estimated 500 announced by the Company in November 2013. Of these, about half are expected to be voluntary redundancies, whilst others will be leavers and there are anticipated to be around 40-60 compulsory redundancies.

3. Improving commercialisation:

- Key management roles have been filled with a balance of external recruitment and internal appointments;
- Significant progress has been made with marketing enhancements, in both media and the website, and further work is in hand;
- A structured route profitability and selection methodology has been developed by the Group and is being rigorously implemented. Over 100 potential new routes have been assessed and 9 new routes are planned by the Group for Summer 2014;
- A variety of pricing, revenue management and route management improvements have been introduced. Early results are showing encouraging trends;

- Trading partnerships with major suppliers are being strengthened and developed further. Progress to date is underpinned by the Board's growing confidence in the achievement of its targeted benefits from the Immediate Actions; and
- The Directors believe that the impact of the improvements is already evidenced by the growth, in Q3 2013/14, of Flybe's share of the UK regional domestic air passenger sector to 49.6 per cent., up 1.2 ppts from the equivalent quarter in the prior year.

4. *Finland Optimisation:*

- The Flybe Finland JV continues to show strong progress in its profitable white label flying operations. A programme to reduce losses in the legacy scheduled risk flying portion of the Flybe Finland business is being implemented with effect from April 2014, with two of the six loss making lines of scheduled risk flying being removed, and Finnair working closely with Flybe on the commercial management of the remaining routes.

Current trading

Flybe UK's current forward passenger sales revenue is as follows:

- Q4 2013/14 shows an increase over Q4 2012/13 of approximately 3 per cent. driven by an increase in passenger volumes partially offset by lower yields; and
- Forward sales for the 2014 Summer Season are currently broadly in line with the 2013 Summer Season.

Outlook

The UK economy has returned to growth, although the aviation sector remains highly competitive. The Directors believe that Flybe's strong position in the regional aviation market is an attractive and sustainable one that plays an important part in aviation connectivity for regions, airports, passengers and indeed other airlines. In the short-term, the Company's revenue will be affected as it discontinues unprofitable routes. However, the Group's improved cost structure will, the Board believes, provide Flybe with a firm foundation for future profitable growth.

7. General Meeting

You will find set out at the end of this document a notice convening the General Meeting to be held at the offices of Instinctif Partners, 65 Gresham Street, London EC2V 7NQ on 11 March at 11.00 a.m. where the following Resolutions will be proposed:

Resolution 1

An ordinary resolution to authorise the Directors to allot relevant securities for the purposes of section 551 of the Companies Act provided that such power be limited to the allotment of the New Ordinary Shares up to an aggregate nominal amount of £1,415,020.

Resolution 2

A special resolution to grant the Directors authority to allot equity securities for cash pursuant to the authority conferred on them by Resolution 1 as if section 561 of the Companies Act did not apply to such allotment. This resolution is conditional upon the passing of Resolution 1.

The Resolutions are interconditional, therefore, if either of the Resolutions are not passed the Firm Placing and Placing and Open Offer will not proceed.

It should be noted that whilst the provisions of section 570 of the Companies Act confer on Shareholders rights of pre-emption on the allotment of equity securities for cash, Resolution 2 seeks to disapply this right for the purpose of the Firm Placing and Placing and Open Offer.

The authority and the power described in Resolutions 1 and 2 above will (unless previously revoked or varied by the Company in general meeting) expire on the date 15 months from the passing of such

resolutions or at the conclusion of the next annual general meeting of the Company following the passing of the resolutions, whichever occurs first. The authority and the power described in Resolutions 1 and 2 above are in addition to any like authority or power previously conferred on the Directors.

8. Actions to be taken

In respect of the General Meeting

A Form of Proxy for use at the General Meeting is enclosed with this document. Whether or not you intend to be present at the meeting, the Form of Proxy should be completed in accordance with the instructions printed thereon and returned to Capita Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU or submitted electronically through CREST as soon as possible, but in any event so as to be received by no later than 11.00 a.m. on 7 March 2014. The completion and return, or submission electronically, of a Form of Proxy will not preclude you from attending the General Meeting and voting in person, if you so wish.

In respect of the Open Offer

If you are a Qualifying non-CREST Shareholder you will have received an Application Form together with this document. If you wish to apply for Open Offer Shares and any Excess Shares, you should complete the enclosed Application Form in accordance with the procedure for application set out in paragraph 4 of Part 2 of this document and on the Application Form itself. If you do not wish to apply for any Open Offer Shares, you should not complete or return the Application Form. Shareholders are nevertheless requested to complete and return or submit electronically the Form of Proxy.

If you are a Qualifying CREST Shareholder no Application Form is enclosed and you will receive a credit to your appropriate stock account in CREST in respect of the Open Offer Entitlements representing your maximum entitlement under the Open Offer and a credit in respect of the Excess Open Offer Entitlement for use in connection with the Excess Application Facility. You should refer to the procedure for application set out in paragraph 4(b) of Part 2 of this document.

The latest time for applications under the Open Offer to be received is 11.00 a.m. on 7 March 2014. The procedure for application and payment depends on whether, at the time at which application and payment is made, you have an Application Form in respect of your entitlement under the Open Offer or have Open Offer Entitlements and Excess Open Offer Entitlements credited to your stock account in CREST in respect of such entitlement. The procedures for application and payment are set out in Part 2 of this document. Further details also appear in the Application Forms which have been sent to Qualifying non-CREST Shareholders.

Qualifying CREST Shareholders who are CREST sponsored members should refer to their CREST sponsors regarding the action to be taken in connection with this document and the Open Offer.

9. Dividend policy

The New Ordinary Shares will rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends and other distributions (if any) declared, paid or made by Flybe after Admission.

10. Additional information

You are recommended to read all the information contained in this document and not just rely on the key or summarised information and your attention is drawn to the information set out in Parts 2 to 7 of this document.

11. Risk Factors

Shareholders and investors should consider fully the Risk Factors associated with the Group and the New Ordinary Shares. Your attention is drawn to the Risk Factors set out in pages 14 to 24 (inclusive) of this document.

12. Taxation

Information about United Kingdom taxation, Jersey taxation, Guernsey taxation, taxation of Isle of Man resident individuals and taxation of Isle of Man resident companies is set out in paragraph 16 of Part 7 of this document. This information is a general guide only. If you are in any doubt as to your tax position, or you are subject to tax in a jurisdiction other than the United Kingdom, Jersey, Guernsey or the Isle of Man, you should consult your own independent professional adviser without delay.

13. Working Capital

The Company is of the opinion that, taking into account existing cash balances and the net proceeds of the Firm Placing and Placing and Open Offer receivable by the Company, the Group has sufficient working capital for its present requirements, that is at least 12 months following the publication of this document.

14. Importance of Vote

If the Resolutions are not approved, the Firm Placing and Placing and Open Offer will not proceed. In such circumstances, the Group will not receive the net proceeds of the Firm Placing and Placing and Open Offer and therefore would not be able to pursue its strategy of building resilience or targeting profitable growth, as described in the 'Future Strategy of Flybe' paragraph of section 2 of this Part 1 of this document.

Should the Firm Placing and Placing and Open Offer not proceed, the Company would risk being in a negative cash position of less than £5 million, and breaching financial covenants that it has given in respect of its aircraft financing arrangements, in the first quarter of the 2015 calendar year, and consequently the working capital available to the Group may be materially adversely affected, which might, as a further consequence, adversely affect the ability of the Group to continue to operate.

Should the Firm Placing and Placing and Open Offer not proceed, the Group will continue to pursue its existing strategy of cash generation and the Directors are confident that the Group would be able to generate sufficient working capital through such means. However, the outcome of some of this strategy lies outside of the full control of the Company and, as a result, the Directors cannot be certain that it will be successful.

15. Directors' Participation in Firm Placing

Mr Simon Laffin and Mr Saad Hammad each intend to subscribe for 227,272 New Ordinary Shares as part of the Firm Placing. Mr David Longbottom intends to subscribe for 14,260 New Ordinary Shares as part of the Firm Placing.

16. Irrevocable Undertaking

The Plimsoll Line Limited, a subsidiary of International Consolidated Airlines Group, S.A. has signed an irrevocable undertaking to vote in favour of the Resolutions in respect of its entire shareholding in the Company (representing 14.54 per cent. of the Company's existing issued share capital).

17. Financial Advice

The Board has received financial advice from Liberum Capital in relation to the Firm Placing and Placing and Open Offer. In providing its financial advice to the Board, Liberum Capital has relied on the Board's commercial assessment of the Firm Placing and Placing and Open Offer.

18. Recommendation

The Board considers the Firm Placing and Placing and Open Offer and the Resolutions to be proposed at the General Meeting of the Company to be in the best interests of the Company and its Shareholders as a whole.

Accordingly, the Board unanimously recommends that Shareholders vote in favour of all of the Resolutions to be proposed at the General Meeting.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'Simon Laffin', with a long horizontal stroke extending to the right.

Simon Laffin

Non-Executive Chairman

PART 2

DETAILS OF THE OPEN OFFER

OPEN OFFER OF UP TO 50,101,920 NEW ORDINARY SHARES AT 110 PENCE PER SHARE

1. Introduction

As explained in the letter from the Chairman of Flybe which comprises Part 1 of this document, the Board proposes to raise up to £150.0 million (net of expenses) by the issue of 91,400,000 New Ordinary Shares through a Firm Placing and up to 50,101,920 New Ordinary Shares through a Placing and Open Offer at 110 pence per New Ordinary Share.

The Open Offer Shares have been placed conditionally with certain investors at the Offer Price, subject to clawback to satisfy valid applications by Qualifying Shareholders under the Open Offer.

The Firm Placing and Placing and Open Offer have been fully underwritten by Liberum Capital on, and subject to, the terms and conditions of the Underwriting and Sponsor Agreement. A summary of the Underwriting and Sponsor Agreement is set out in paragraph 9.1 of Part 7 of this document.

This document and, for Qualifying non-CREST Shareholders only, the accompanying Application Form contain the formal terms and conditions of the Open Offer.

2. The Open Offer

Subject to the terms and conditions set out below and, where relevant, in the Application Form, and pursuant to the Underwriting and Sponsor Agreement, Qualifying Shareholders are invited to apply for Open Offer Shares at a price of 110 pence per share, payable in full on application, free of all expenses, on the basis of:

2 New Ordinary Shares for every 3 Existing Ordinary Shares

held by them and registered in their names on the Record Date and so in proportion for any other number of Existing Ordinary Shares then held.

Qualifying Shareholders may apply for any whole number of New Ordinary Shares. Excess applications will be satisfied only to the extent that corresponding applications by other Qualifying Shareholders are not made or are made for less than their *pro rata* entitlements. If there is an oversubscription resulting from excess applications, allocations in respect of such excess applications will be scaled down according to the Directors' discretion.

Holdings of Existing Ordinary Shares in certificated and uncertificated form will be treated as separate holdings for the purpose of calculating Qualifying Shareholders' entitlements under the Open Offer.

Fractions of Ordinary Shares will not be allocated to Qualifying Shareholders and entitlements to apply for New Ordinary Shares will be rounded down to the nearest whole number of New Ordinary Shares.

If you have received an Application Form with this document please refer to paragraph 4(a) and paragraphs 5 to 10 of this Part 2.

If you hold your Existing Ordinary Shares in CREST and have received a credit of Open Offer Entitlements and Excess Open Offer Entitlements to your CREST stock account, please refer to paragraph 4(b) and paragraphs 5 to 10 of this Part 2 and also to the CREST Manual for further information on the CREST procedures referred to below.

The Open Offer is not a rights issue. Qualifying CREST Shareholders should note that although the Open Offer Entitlements and Excess Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of entitlements under the Open Offer may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim raised

by Euroclear's Claims Processing Unit. Qualifying non-CREST Shareholders should note that the Application Form is not a negotiable document and cannot be traded.

Before making any decision to acquire Open Offer Shares, you are asked to read and carefully consider all the information in this document including, in particular, the important information set out in the letter from the Chairman of the Company in Part 1 of this document, as well as this paragraph 2 of Part 2 and the Risk Factors set out on pages 14 to 24 (inclusive) of this document. Shareholders who do not participate in the Open Offer will experience dilution of their shareholdings. The material terms of the Firm Placing and Placing and Open Offer are contained in this document.

The Existing Ordinary Shares are listed on the premium segment of the Official List and traded on the London Stock Exchange's main market for listed securities. Application will be made to the FCA and to the London Stock Exchange for the New Ordinary Shares to be issued in the Firm Placing and Placing and Open Offer to be admitted to the premium segment of the Official List and to trading on the London Stock Exchange's main market for listed securities respectively. It is expected that Admission will become effective on 12 March 2014 and that dealings for normal settlement in the New Ordinary Shares will commence at 8.00 a.m. on the same day.

The Existing Ordinary Shares are already admitted to CREST. No further application for admission to CREST is accordingly required for the New Ordinary Shares; all such shares, when issued and fully paid, may be held and transferred by means of CREST.

Application has been made for the Open Offer Entitlements and the Excess Open Offer Entitlements to be admitted to CREST. The conditions for such admission having already been met, the Open Offer Entitlements and the Excess Open Offer Entitlements are expected to be admitted to CREST with effect from 21 February 2014.

The Open Offer Shares will, when issued and fully paid, be identical to and rank in full for all dividends or other distributions declared, made or paid after Admission and in all other respects will rank *pari passu* with the Existing Ordinary Shares in issue. No temporary documents of title will be issued. Further details of the rights attaching to the New Ordinary Shares are set out in paragraph 4 of Part 7 of this document.

3. Conditions of the Firm Placing and Placing and Open Offer

The Firm Placing and Placing and Open Offer is conditional upon the Underwriting and Sponsor Agreement becoming or being declared unconditional in all respects by 8.00 a.m. on 12 March 2014 (or such later time and/or date as Liberum Capital shall agree, being not later than 8.00 a.m. on 27 March 2014) and the Underwriting and Sponsor Agreement not being terminated in accordance with its terms. The Underwriting and Sponsor Agreement is subject to the satisfaction of the following material conditions: (a) the passing of the Resolutions (without amendment) at the General Meeting; and (b) Admission becoming effective by not later than 8.00 a.m. on the first dealing day after the General Meeting.

It is expected that all these conditions will be satisfied by 8.00 a.m. on 12 March 2014 and that Admission will become effective at 8.00 a.m. on 12 March 2014, and that dealings in the New Ordinary Shares will commence at 8.00 a.m. on 12 March 2014. Definitive certificates in respect of New Ordinary Shares will be prepared and are expected to be posted to those allottees who have validly elected to hold their shares in certificated form within seven days of Admission. In respect of those allottees who have validly elected to hold their shares in uncertificated form, the New Ordinary Shares are expected to be credited to their accounts maintained in the CREST system as soon as possible after 8.00 a.m. on 12 March 2014.

Further details of the Underwriting and Sponsor Agreement are set out in paragraph 9.1 of Part 7 of this document.

Further terms of the Firm Placing and Placing and Open Offer are set out in this letter and, where relevant, in the Application Form.

If the Underwriting and Sponsor Agreement is not declared or does not become unconditional in all respects, or if it is terminated in accordance with its terms, the Open Offer will be revoked and will not proceed. In such event, no New Ordinary Shares will be issued, and all monies received by Capita Registrars in connection with the Open Offer will be returned to applicants without interest and at their risk

as soon as practicable and any Open Offer Entitlements and Excess Open Offer Entitlements admitted to CREST will thereafter be disabled. Liberum Capital may arrange sub-underwriting for some or all of the New Ordinary Shares.

4. Procedure for Application and Payment

The action to be taken by you in respect of the Open Offer depends on whether, at the relevant time, you have an Application Form in respect of your entitlement under the Open Offer or you have Open Offer Entitlements and Excess Open Offer Entitlements credited to your CREST stock account in respect of such entitlement.

CREST sponsored members should refer to their CREST-sponsor, as only their CREST sponsor will be able to take the necessary action specified below to apply under the Open Offer in respect of the Open Offer Entitlements and Excess Open Offer Entitlements of such members held in CREST. CREST members who wish to apply under the Open Offer in respect of their Open Offer Entitlements and Excess Open Offer Entitlements in CREST should refer to the CREST Manual for further information on the CREST procedures referred to below.

If for any reason it becomes necessary to adjust the expected timetable as set out in this document, the Company will make an appropriate announcement to a Regulatory Information Service giving details of the revised dates.

(a) ***If you hold your shares in certificated form (not in CREST) in respect of your entitlement under the Open Offer***

(i) *General*

Qualifying non-CREST (certificated) Shareholders will have received an Application Form enclosed with this document. The Application Form shows the number of Existing Ordinary Shares registered in your name on the Record Date. It also shows the maximum number of New Ordinary Shares for which you are entitled to apply on a *pro rata* basis under the Open Offer, as shown by the total number of Open Offer Entitlements allocated to you. You may also hold such an Application Form by virtue of a *bona fide* market claim.

The instructions and other terms set out in the Application Form form part of the terms of the Open Offer.

The Application Form has not been, and will not be, sent to Overseas Shareholders in, or with registered addresses in, the United States, or any Excluded Territories, brokers, banks and other agents may not send an Application Form to, or submit Application Forms on behalf of, Overseas Shareholders in, or with addresses in any of these countries or a person (including, without limitation, stockbrokers, banks or other agents) who has a contractual or other legal obligation to forward this document into a jurisdiction other than the United Kingdom.

(ii) *Market Claims*

Applications may only be made on the Application Form and may only be made by the Qualifying Shareholder named in it or by a person entitled by virtue of a *bona fide* market claim in relation to a purchase of Existing Ordinary Shares through the market prior to the date upon which the Existing Ordinary Shares were marked “ex” the entitlement to the Open Offer by the London Stock Exchange, being 20 February 2014. Application Forms may be split up to 3.00 p.m. on 5 March 2014. The Application Form is not a negotiable document and cannot be separately traded. A Qualifying non-CREST Shareholder who has sold or transferred all or part of his holding of Existing Ordinary Shares prior to 20 February 2014, being the date upon which the Existing Ordinary Shares were marked “ex” the entitlement to the Open Offer by the London Stock Exchange, should consult his or her broker or other professional adviser as soon as possible, as the invitation to acquire New Ordinary Shares under the Open Offer may be a benefit which may be claimed by the transferee from his or her counterparty pursuant to the rules of the London Stock Exchange. Qualifying Shareholders who have sold all or part of their registered holdings should, if the market claim is to be settled outside CREST, complete Box 10

on the Application Form and immediately send it to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

The Application Form should not, however, be forwarded to or transmitted in or into the United States, or any of the Excluded Territories.

If the market claim is to be settled outside CREST, the beneficiary of the claim should follow the procedures set out in the accompanying Application Form. If the market claim is to be settled in CREST, the beneficiary of the claim should follow the procedures set out in paragraph 4(b) below.

(iii) *Excess non-CREST Applications*

Qualifying non-CREST Shareholders who have taken up their Open Offer Entitlements in full may apply to acquire Excess Shares using the Excess Application Facility, should they wish. Qualifying non-CREST Shareholders wishing to apply to acquire Excess Shares may do so by following the relevant instructions on the Application Form. The total number of Open Offer Shares will not be increased in response to such excess applications. Excess applications will therefore only be satisfied to the extent that other Qualifying Shareholders do not apply for their Open Offer Entitlements in full. If there is an oversubscription resulting from excess applications, allocations in respect of such excess applications will be scaled down according to the Directors' discretion. Excess monies in respect of scaled down applications will be returned to the applicant (at the applicant's risk) without interest within 14 days of Admission by way of a cheque.

(iv) *Application Procedures*

If you are a Qualifying non-CREST Shareholder and wish to apply for all or some of your entitlement to New Ordinary Shares under the Open Offer you should complete and sign the Application Form in accordance with the instructions on it and send it, together with the appropriate remittance and in accordance with the instructions in this Part 2, paragraph 4, by post or by hand (during normal business hours only) to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. A reply-paid envelope is enclosed for use by Qualifying non-CREST Shareholders within the UK, in connection with the Open Offer.

Please note that Capita Asset Services cannot provide financial advice on the merits of the Open Offer or as to whether or not you should take up your entitlement to New Ordinary Shares under the Open Offer. If any Application Form is sent by first-class post within the United Kingdom, Qualifying non-CREST (certificated) Shareholders are recommended to allow at least four Business Days for delivery. Liberum Capital may require the Company to treat as valid (i) Application Forms and accompanying remittances which are received through the post not later than 11.00 a.m. on the Business Day immediately following the final date for acceptance and payment of the Open Offer (the cover bearing a legible postmark not later than 11.00 a.m. on the final date for payment and acceptance); and (ii) applications in respect of which remittances are received prior to 11.00 a.m. on the final date for acceptance and payment of the Open Offer from an authorised person (as defined in the Financial Services and Markets Act 2000 (as amended)) specifying the number of New Ordinary Shares concerned and undertaking to lodge the relevant Application Form duly completed by not later than 11.00 a.m. on the second Business Day immediately following the final date for acceptance and payment of the Open Offer.

(v) *Payments*

All payments must be in Sterling and cheques or banker's drafts should be made payable to "Capita Registrars Limited Re: Flybe Group plc Open Offer A/C" and crossed "A/C payee only". Cheques or banker's drafts must be drawn on an account at a branch of a bank or building society in the United Kingdom, the Channel Islands or the Isle of Man which is either a settlement member of the Cheque and Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which is a member of either of the Committees of Scottish or Belfast clearing houses or which has arranged for its cheques and banker's drafts to be cleared through the facilities provided by any of those companies or committees. Such cheques or banker's drafts must bear

the appropriate sort code in the top right-hand corner and must be for the full amount payable on application.

Cheques must be drawn on the personal account of the individual investor where they have sole or joint title to the funds. Third party cheques will not be accepted with the exception of building society cheques or banker's drafts where the building society or bank has confirmed the name of the account holder by stamping or endorsing the back of the building society cheque/banker's draft to such effect. The account name should be the same as that shown on the application.

Cheques or banker's drafts will be presented for payment upon receipt. The Company reserves the right to instruct Capita Asset Services to seek special clearance of cheques and banker's drafts to allow the Company to obtain value for remittances at the earliest opportunity. No interest will be allowed on payments made as funds are held in a non-interest bearing account. It is a term of the Open Offer that cheques shall be honoured on first presentation, and the Company may elect in its absolute discretion to treat as invalid acceptances in respect of which cheques are not so honoured.

Application monies will be paid into a separate non-interest bearing bank account pending the Open Offer becoming unconditional. In the event that it does not become unconditional by 8.00 a.m. on 12 March 2014 or such later time and date as Liberum Capital shall agree (being no later than 8.00 a.m. on 27 March 2014), the Firm Placing and Placing and Open Offer will lapse and application monies will be returned by post to applicants, at the applicants' risk and without interest, to the address set out on the Application Form, within 14 days thereafter.

(vi) *Effect of Application*

All documents and remittances sent by post by or to an applicant (or as the applicant may direct) will be sent at the applicant's own risk. By completing and delivering an Application Form, you (as the applicant(s)):

- (A) agree that all applications, and contracts resulting therefrom, under the Open Offer shall be governed by, and construed in accordance with, the laws of England;
- (B) confirm that in making the application you are not relying on any information or representation other than that contained in this document, and you accordingly agree that no person responsible solely or jointly for this document or any part thereof shall have any liability for any such information or representation not so contained;
- (C) represent and warrant to Flybe and Liberum Capital that if you have received some or all of your Open Offer Entitlements from a person other than the Company, you are entitled to apply under the Open Offer in relation to such Open Offer Entitlements by virtue of a *bona fide* market claim;
- (D) represent and warrant to Flybe and Liberum Capital that you are not a person who by virtue of being resident in or a citizen of any country outside the United Kingdom is prevented by the law of any relevant jurisdiction from lawfully applying for New Ordinary Shares;
- (E) represent and warrant to Flybe and Liberum Capital that you are acquiring New Ordinary Shares in an offshore transaction in accordance with Regulation S under the Securities Act and furthermore that, (i) you are not in the United States, or in any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares or to use the Application Form in any manner in which you have used or will use it; (ii) you are not acting for the account or benefit of a person located within the United States, or within any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares, and were not acting for the account or benefit of such a person at the time the instruction to apply for the New Ordinary Shares was given; and (iii) you are not acquiring New Ordinary Shares with a view to the offer, sale, resale, delivery or transfer, directly or indirectly, of any such New Ordinary Shares into the United States, or any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares, except in each case of (i), (ii) and (iii) where proof satisfactory to the Company and Liberum

Capital has been provided that you are entitled to take up your entitlement without and breach of applicable law; and

- (F) represent and warrant to Flybe and Liberum Capital that you are not, and nor are you applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in Section 93 (depository receipts) or Section 96 (clearance services) of the Finance Act 1986.

Further representations and warranties are contained in the Application Form. Each subscriber or purchaser acknowledges that Flybe and Liberum Capital will rely upon the truth and accuracy of the foregoing agreements, confirmations, representations and warranties and agrees that if any of the agreements, confirmations, representations or warranties made by such subscriber or purchaser are no longer accurate he shall promptly notify the Company and Liberum Capital. If such subscriber or purchaser is subscribing for, or purchasing, New Ordinary Shares as a fiduciary or agent for one or more investor accounts, each subscriber or purchaser represents that he has sole investment discretion with respect to each such account and full power to make the foregoing representations and agreements on behalf of each such account.

If you do not wish to apply for any of the New Ordinary Shares to which you are entitled under the Open Offer, you should not complete and return the Application Form.

If you are in doubt as to whether or not you should apply for any of the New Ordinary Shares under the Open Offer, you should consult your independent financial adviser immediately. All enquiries in relation to the procedure for application for Qualifying non-CREST (certificated) Shareholders under the Open Offer should be addressed to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by telephone to Capita Registrars on 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to the Capita Registrars 0871 664 0321 number are charged at 10 pence per minute (including VAT) plus any of your service provider's network extras. Calls to the Capita Registrars +44 20 8639 3399 number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. Capita Registrars cannot provide advice on the merits of the Open Offer nor give any financial, legal or tax advice.

(b) ***If you have Open Offer Entitlements and Excess Open Offer Entitlements credited to your stock account in CREST in respect of your entitlement under the Open Offer***

(i) *General*

Subject as provided in paragraph 6 of this Part 2 in relation to certain Overseas Shareholders, each Qualifying CREST Shareholder will receive a credit to his stock account in CREST of his Open Offer Entitlements equal to the basic number of New Ordinary Shares for which he is entitled to apply under the Open Offer and his Excess Open Offer Entitlements (see paragraph 4(b)(iii) below for further details).

The CREST stock account to be credited will be an account under the Participant ID and Member Account ID that apply to the Existing Ordinary Shares held on the Record Date by the Qualifying CREST Shareholder in respect of which the Open Offer Entitlements and Excess Open Offer Entitlements have been allocated.

If for any reason the Open Offer Entitlements and Excess Open Offer Entitlements cannot be admitted to CREST by, or the stock accounts of Qualifying CREST Shareholders cannot be credited by, 3.00 p.m. on 21 February 2014 or such later time as the Company may decide, an Application Form will be sent out to each Qualifying CREST Shareholder in substitution for the Open Offer Entitlements and/or Excess Open Offer Entitlements which should have been credited to his stock account in CREST. In these circumstances the expected timetable as set out in this document will be adjusted as appropriate and the provisions of this document applicable to Qualifying non-CREST (certificated) Shareholders with Application Forms will apply to Qualifying CREST Shareholders who receive Application Forms.

CREST members who wish to apply for some or all of their entitlements to New Ordinary Shares should refer to the CREST Manual for further information on the CREST procedures referred to below. Should you need advice with regard to these procedures, please contact Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU or by telephone to Capita Asset Services on 0871 664 0321 or, if telephoning from outside the UK, on +44 20 8639 3399. Calls to the Capita Asset Services 0871 664 0321 number are charged at 10 pence per minute (including VAT) plus any of your service provider's network extras. Calls to the Capita Asset Services +44 20 8639 3399 number from outside the UK are charged at applicable international rates. Different charges may apply to calls made from mobile telephones and calls may be recorded and monitored randomly for security and training purposes. Capita Asset Services cannot provide advice on the merits of the Open Offer nor give any financial, legal or tax advice. If you are a CREST sponsored member you should consult your CREST sponsor if you wish to apply for New Ordinary Shares as only your CREST-sponsor will be able to take the necessary action to make this application in CREST.

(ii) *Market Claims*

The Open Offer Entitlements and Excess Open Offer Entitlements will constitute a separate security for the purposes of CREST. Although Open Offer Entitlements and Excess Open Offer Entitlements will be admitted to CREST and be enabled for settlement, applications in respect of Open Offer Entitlements and Excess Open Offer Entitlements may only be made by the Qualifying Shareholder originally entitled or by a person entitled by virtue of a *bona fide* market claim transaction. Transactions identified by the CREST Claims Processing Unit as "cum" the Open Offer Entitlements and Excess Open Offer Entitlements will generate an appropriate market claim transaction and the relevant Open Offer Entitlement(s) and Excess Open Offer Entitlements will thereafter be transferred accordingly.

(iii) *Excess Application Facility*

Qualifying CREST Shareholders who have taken up their Open Offer Entitlements in full may apply to acquire Excess Shares using the Excess Application Facility, should they wish. The Excess Application Facility enables Qualifying CREST Shareholders to apply for Excess Shares in excess of their Open Offer Entitlement up to a maximum number of Excess Shares not exceeding 50,101,920 in which case applications made under the Excess Application Facility will be scaled down according to the Directors' discretion. A Qualifying CREST Shareholder should not make an application under the Excess Application Facility unless such Qualifying CREST Shareholder has applied for his Open Offer Entitlements in full.

An Excess Open Offer Entitlement may not be sold or otherwise transferred. Subject as provided in paragraph 6 of this Part 2 in relation to Overseas Shareholders, the CREST accounts of Qualifying CREST Shareholders will be credited with an Excess Open Offer Entitlement in order for any applications for Excess Shares to be settled through CREST.

Qualifying CREST Shareholders should note that, although the Open Offer Entitlements and the Excess Open Offer Entitlements will be admitted to CREST, they will have limited settlement capabilities (for the purposes of *bona fide* market claims only). Neither the Open Offer Entitlements nor the Excess Open Offer Entitlements will be tradeable or listed and applications in respect of the Open Offer may only be made by the Qualifying Shareholders originally entitled or by a person entitled by virtue of a *bona fide* market claim.

To apply for Excess Shares pursuant to the Open Offer, Qualifying CREST Shareholders should follow the instructions in paragraph (iv) below and must not return a paper form and cheque. Should a transaction be identified by the CREST Claims Processing Unit as "cum" the Open Offer Entitlement and the relevant Open Offer Entitlement is transferred, the Excess Open Offer Entitlements will not transfer with the Open Offer Entitlement claim, but will be transferred as a separate claim. Should a Qualifying CREST Shareholder cease to hold all of his Existing Ordinary Shares as a result of one or more *bona fide* market claims, the Excess Open Offer Entitlement credited to CREST and allocated to the relevant Qualifying Shareholder will be transferred to the purchaser. **Please note that a separate USE Instruction must be sent in respect of any application under the Excess Open Offer Entitlement.**

Fractions of Excess Shares will be rounded down to the nearest whole number.

The total number of Open Offer Shares is fixed and will not be increased in response to any applications under the Excess Application Facility. Applications under the Excess Application Facility will therefore only be satisfied to the extent that other Qualifying Shareholders do not apply for their Open Offer Entitlements in full. Applications under the Excess Application Facility shall be allocated in such manner as the Directors may determine, in their absolute discretion, and no assurance can be given that the applications by Qualifying Shareholders will be met in full or in part or at all. Excess monies in respect of applications which are not met in full will be returned to the applicant (at the applicant's risk) without interest within 14 days thereafter, by way of cheque or CREST payment, as appropriate. The interest earned on such monies will be retained for the benefit of the Company.

All enquiries in relation to the procedure for application and completion of applications For Excess Open Offer Entitlements should be addressed to Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU. (Telephone Capita Asset Services on 0871 664 0321 from within the UK or on +44 20 8639 3399 if calling from outside the UK). Calls to the 0871 664 0321 number cost 10 pence per minute from a BT landline. Other network providers' costs may vary. Lines are open 9.00 a.m. to 5.30 p.m. (London time) Monday to Friday. Calls to the helpline from outside the UK will be charged at the applicable international rate. Different charges may apply to calls from mobile telephones and calls may be recorded and randomly monitored for security and training purposes. The helpline cannot provide advice on the merits of the Offer nor give any financial, legal or tax advice.

(iv) *USE Instructions*

CREST members who wish to apply for New Ordinary Shares in respect of all or some of their Open Offer Entitlements and their Excess Open Offer Entitlements in CREST must send (or, if they are a CREST sponsored member, procure that their CREST sponsor sends) an Unmatched Stock Event ("USE") instruction to Euroclear which, on its settlement, will have the following effect:

- (A) the crediting of a stock account of Capita Asset Services under the Participant ID and Member Account ID specified below, with a number of Open Offer Entitlements or Excess Open Offer Entitlements corresponding to the number of New Ordinary Shares applied for; and
- (B) the creation of a CREST payment, in accordance with the CREST payment arrangements, in favour of the payment bank of Capita Asset Services in respect of the amount specified in the USE instruction which must be the full amount payable on application for the number of New Ordinary Shares referred to in (A) above.

(v) *Content of USE Instructions*

The USE instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (A) the number of New Ordinary Shares for which application is being made (and hence the number of the Open Offer Entitlement(s) being delivered to Capita Registrars);
- (B) the ISIN of the Open Offer Entitlements. This is GB00BJBQC478;
- (C) the Member Account ID of the accepting CREST member from which the Open Offer Entitlements are to be debited;
- (D) the Participant ID of the accepting CREST Member;
- (E) the Participant ID of Capita Asset Services, in its capacity as CREST receiving agent. This is 7RA33;
- (F) the Member Account ID of Capita Asset Services, in its capacity as CREST receiving agent. This is 28172FLY;

- (G) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of New Ordinary Shares referred to in (A) above;
- (H) the intended settlement date. This must be on or before 11.00 a.m. on 7 March 2014; and
- (I) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for an application under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 7 March 2014.

In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) may consider adding the following non-mandatory fields to the USE instruction:

- (a) a contact name and telephone number (in the free-format shared note field); and
- (b) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 7 March 2014 in order to be valid is 11.00 a.m. on that day.

In the event that the Firm Placing and Placing and Open Offer does not become unconditional by 8.00 a.m. on 12 March 2014 or such later time and date as Liberum Capital shall agree (being no later than 8.00 a.m. on 27 March 2014), the Firm Placing and Placing and Open Offer will lapse, the Open Offer Entitlements admitted to CREST will be disabled and Capita Registrars will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, within 14 days thereafter.

(vi) *Content of USE Instruction in respect of Excess Open Offer Entitlements*

The USE Instruction must be properly authenticated in accordance with Euroclear's specifications and must contain, in addition to the other information that is required for settlement in CREST, the following details:

- (A) the number of Open Offer Shares for which the application is being made (and hence the number of the Excess Open Offer Entitlement(s) being delivered to the Registrar);
- (B) the ISIN of the Excess Open Offer Entitlement. This is GB00BJBQC585;
- (C) the Member Account ID of the accepting CREST member from which the Excess Open Offer Entitlements are to be debited;
- (D) the participant ID of the accepting CREST member;
- (E) the participant ID of Capita Asset Services, in its capacity as CREST receiving agent. This is 7RA33;
- (F) the Member Account ID of Capita Asset Services, in its capacity as CREST receiving agent. This is 28172FLY;
- (G) the amount payable by means of a CREST payment on settlement of the USE instruction. This must be the full amount payable on application for the number of Open Offer Shares referred to in paragraph (A) above;
- (H) the intended settlement date. This must be on or before 11.00 a.m. on 7 March 2014; and
- (I) the Corporate Action Number for the Open Offer. This will be available by viewing the relevant corporate action details in CREST.

In order for the application in respect of an Excess Open Offer Entitlement under the Open Offer to be valid, the USE instruction must comply with the requirements as to authentication and contents set out above and must settle on or before 11.00 a.m. on 7 March 2014.

In order to assist prompt settlement of the USE instruction, CREST members (or their sponsors, where applicable) should add the following non-mandatory fields to the USE instruction:

- (aa) a contact name and telephone number (in the free format shared note field); and
- (bb) a priority of at least 80.

CREST members and, in the case of CREST sponsored members, their CREST sponsors, should note that the last time at which a USE instruction may settle on 7 March 2014 in order to be valid is 11.00 a.m. on that day.

In the event that the Firm Placing and Placing and Open Offer does not become unconditional by 8.00 a.m. on 12 March 2014 or such later time and date as Liberum Capital and the Company shall agree (being no later than 8.00 a.m. on 27 March 2014), the Firm Placing and Placing and Open Offer will lapse, the Open Offer Entitlements and the Excess Open Offer Entitlements admitted to CREST will be disabled and Capita Asset Services will refund the amount paid by a Qualifying CREST Shareholder by way of a CREST payment, without interest, within 14 days thereafter.

(vii) *Deposit of Open Offer Entitlements and Excess Open Offer Entitlements into, and withdrawal from, CREST*

A Qualifying non-CREST Shareholder's entitlement under the Open Offer as shown by the number of Open Offer Entitlements set out in his Application Form may be deposited into CREST (either into the account of the Qualifying Shareholder named in the Application Form or into the name of a person entitled by virtue of a *bona fide* market claim). Similarly, Open Offer Entitlements and Excess Open Offer Entitlements held in CREST may be withdrawn from CREST so that the entitlement under the Open Offer is reflected in an Application Form. Normal CREST procedures (including timings) apply in relation to any such deposit or withdrawal, subject (in the case of a deposit into CREST) as set out in the Application Form.

A holder of an Application Form who is proposing so to deposit the entitlement set out in such form is recommended to ensure that the deposit procedures are implemented in sufficient time to enable the person holding or acquiring the Open Offer Entitlements and the entitlement under the Excess Application Facility following their deposit into CREST to take all necessary steps in connection with taking up the entitlement prior to 11.00 a.m. on 7 March 2014. Shortly after depositing their Open Offer Entitlement into their CREST account, CREST holders will receive a credit for their Open Offer Entitlement and Excess Open Offer Entitlements which will be managed by the Registrar.

In particular, having regard to normal processing times in CREST and on the part of Capita Asset Services, the recommended latest time for depositing an Application Form with the CREST Courier and Sorting Service, where the person entitled wishes to hold the entitlement under the Open Offer set out in such Application Form as Open Offer Entitlements or Excess Open Offer Entitlements in CREST, is 3.00 p.m. on 4 March 2014, and the recommended latest time for receipt by Euroclear of a dematerialised instruction requesting withdrawal of Open Offer Entitlements and/or Excess Open Offer Entitlements from CREST is 4.30 p.m. on 3 March 2014, in either case so as to enable the person acquiring or (as appropriate) holding the Open Offer Entitlements and/or Excess Open Offer Entitlements following the deposit or withdrawal (whether as shown in an Application Form or held in CREST) to take all necessary steps in connection with applying in respect of the Open Offer Entitlements or Excess Open Offer Entitlements prior to 11.00 a.m. on 7 March 2014. CREST holders inputting the withdrawal of their Open Offer Entitlement from their CREST account must ensure that they withdraw their Open Offer Entitlement and the Excess Open Offer Entitlements.

Delivery of an Application Form with the CREST Deposit Form duly completed whether in respect of a deposit into the account of the Qualifying Shareholder named in the Application Form or into the name of another person, shall constitute a representation and warranty to the Company, Liberum capital and Capita Asset Services from the relevant CREST member(s) that you are acquiring New Ordinary Shares in an offshore transaction in accordance with Regulation S under the Securities Act, and furthermore that: (i) you are not in the United States,

or in any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares; (ii) you are not acting for the account or benefit of a person located within the United States, or within any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares, and were not acting for the account or benefit of such a person at the time the instruction to apply for the New Ordinary Shares was given; and (iii) you are not acquiring the New Ordinary Shares with a view to the offer, sale, resale, delivery or transfer, directly or indirectly, of any such New Ordinary Shares into the United States, any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares, except in each case of (i), (ii) and (iii) where proof satisfactory to the Company and Liberum Capital has been provided that you are entitled to take up your entitlement without breach of applicable law; and, where such deposit is made by a beneficiary of a market claim, a representation and warranty that the relevant CREST member(s) is/are entitled to apply under the Open Offer by virtue of a *bona fide* market claim.

Each subscriber or purchaser acknowledges that Flybe and Liberum Capital will rely upon the truth and accuracy of the foregoing agreements, confirmations, representations and warranties and agrees that if any of the agreements, confirmations, representations or warranties made by such subscriber or purchaser are no longer accurate he shall promptly notify the Company and Liberum Capital. If such subscriber or purchaser is subscribing for, or purchasing, New Ordinary Shares as a fiduciary or agent for one or more investor accounts, each subscriber or purchaser represents that he has sole investment discretion with respect to each such account and full power to make the foregoing representations and agreements on behalf of each such account.

(ix) *Validity of Application*

A USE instruction complying with the requirements as to authentication and contents set out above which settles by no later than 11.00 a.m. on 7 March 2014 will constitute a valid application under the Open Offer.

(x) *CREST Procedures and Timings*

CREST members and (where applicable) their CREST sponsors should note that Euroclear does not make available special procedures in CREST for any particular corporate action. Normal system timings and limitations will therefore apply in relation to the input of a USE instruction and its settlement in connection with the Open Offer. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST sponsored member, to procure that his CREST sponsor takes) such action as shall be necessary to ensure that a valid application is made as stated above by 11.00 a.m. on 7 March 2014. In this connection, CREST members and (where applicable) their CREST sponsors are referred in particular to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

(xi) *Incorrect or Incomplete Applications*

If a USE instruction includes a CREST payment for an incorrect sum, the Company through Capita Asset Services reserves the right:

- (A) to reject the application in full and refund the payment to the CREST member in question;
- (B) in the case that an insufficient sum is paid, to treat the application as a valid application for such lesser whole number of New Ordinary Shares as would be able to be applied for with that payment at the Offer Price, refunding any unutilised sum to the CREST member in question; or
- (C) in the case that an excess sum is paid, to treat the application as a valid application for all the New Ordinary Shares referred to in the USE instruction refunding any unutilised sum to the CREST member in question.

(xii) *Effect of Valid Application*

A CREST member who makes or is treated as making a valid application in accordance with the above procedures will thereby:

- (A) pay the amount payable on application in accordance with the above procedures by means of a CREST payment in accordance with the CREST payment arrangements (it being acknowledged that the payment to Capita Asset Services payment bank in accordance with the CREST payment arrangements shall, to the extent of the payment, discharge in full the obligation of the CREST member to pay to the Company the amount payable on application);
- (B) request that the New Ordinary Shares to which he will become entitled be issued to him on the terms set out in this document and subject to the Articles;
- (C) agree that all applications and contracts resulting therefrom under the Open Offer shall be governed by, and construed in accordance with, the laws of England;
- (D) represent and warrant to Flybe and Liberum Capital that he is acquiring New Ordinary Shares in an offshore transaction in accordance with Regulation S under the Securities Act, and furthermore that, (i) he is not in the United States or in any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares; (ii) he is not acting for the account or benefit of a person located within the United States, or within any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares, and he was not acting for the account or benefit of such a person at the time the instruction to apply for the New Ordinary Shares was given; and (iii) he is not acquiring New Ordinary Shares with a view to the offer, sale, resale, delivery or transfer, directly or indirectly, of any such New Ordinary Shares into the United States, any of the Excluded Territories or any other territory in which it is unlawful to make or accept an offer to apply for New Ordinary Shares, except in each case of (i), (ii) or (iii) where proof satisfactory to the Company and Liberum Capital has been provided that he is entitled to take up your entitlement without breach of applicable law;
- (E) represent and warrant to Flybe and Liberum Capital that he is not, and nor is he applying as nominee or agent for, a person who is or may be liable to notify and account for tax under the Stamp Duty Reserve Tax Regulations 1986 at any of the increased rates referred to in section 93 (depository receipts) or section 96 (clearance services) of the Finance Act 1986;
- (F) confirm that in making such application he is not relying on any information in relation to the Company other than that contained in this document and agrees that no person responsible solely or jointly for this document or any part thereof or involved in the preparation thereof shall have any liability for any such other information and further agree that having had the opportunity to read this document, he will be deemed to have had notice of all the information concerning the Company contained therein; and
- (G) represent and warrant to Flybe and Liberum Capital that he is the Qualifying Shareholder originally entitled to the Open Offer Entitlements and the Excess Open Offer Entitlements or that he has received such Open Offer Entitlements by virtue of a *bona fide* market claim.

Further representations and warranties are contained in the Application Form.

Each subscriber or purchaser acknowledges that Flybe and Liberum Capital will rely upon the truth and accuracy of the foregoing agreements, confirmations, representations and warranties and agrees that if any of the agreements, confirmations, representations or warranties made by such subscriber or purchaser are no longer accurate he shall promptly notify the Company and Liberum Capital. If such subscriber or purchaser is subscribing for, or purchasing, New Ordinary Shares as a fiduciary or agent for one or more investor accounts, each subscriber or purchaser represents that he has sole investment discretion with respect to each such account and full power to make the foregoing representations and agreements on behalf of each such account.

(xiii) *The Company's Discretion as to Rejection and Validity of Applications*

The Company may in its sole discretion:

- (A) treat as valid (and binding on the CREST member concerned) an application which does not comply in all respects with the requirements as to validity set out or referred to in this Part 2;

- (B) accept an alternative properly authenticated dematerialised instruction from a CREST member or (where applicable) a CREST sponsor as constituting a valid application in substitution for or in addition to a USE instruction and subject to such further terms and conditions as the Company may determine;
- (C) treat a properly authenticated dematerialised instruction (in this subparagraph the “first instruction”) as not constituting a valid application if, at the time at which Capita Asset Services receives a properly authenticated dematerialised instruction giving details of the first instruction or thereafter, either the Company or Capita Asset Services has received actual notice from Euroclear of any of the matters specified in Regulation 35(5)(a) in relation to the first instruction. These matters include notice that any information contained in the first instruction was incorrect or notice of lack of authority to send the first instruction; and
- (D) accept an alternative instruction or notification from a CREST member or CREST sponsored member or (where applicable) a CREST sponsor, or extend the time for settlement of a USE instruction or any alternative instruction or notification, in the event that, for reasons or due to circumstances outside the control of any CREST member or CREST sponsored member or (where applicable) CREST sponsor, the CREST member or CREST sponsored member is unable validly to apply for New Ordinary Shares by means of the above procedures. In normal circumstances, this discretion is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or any part of CREST) or on the part of the facilities and/or systems operated by Capita Registrars in connection with CREST.

5. Money Laundering Regulations

(a) Holders of Application Forms

It is a term of the Open Offer that to ensure compliance with the Money Laundering Regulations, Capita Asset Services may require, in its absolute discretion, verification of the identity of the person by whom or on whose behalf an Application Form is lodged with payment (which requirements are referred to below as the “verification of identity requirements”).

The person(s) (the “applicant”) who, by lodging an Application Form with payment, and in accordance with the other terms as described above, accept(s) the Open Offer in respect of the New Ordinary Shares (the “relevant shares”) comprised in such Application Form shall thereby be deemed to agree to provide Capita Asset Services with such information and other evidence as it may require to satisfy the verification of identity requirements.

Capita Asset Services may therefore undertake electronic searches for the purposes of verifying identity. To do so Capita Asset Services may verify the details against the Applicant’s identity, but also may request further proof of identity.

If Capita Asset Services determines that the verification of identity requirements apply to any applicant or application, the relevant shares (notwithstanding any other term of the Open Offer) will not be issued to the applicant unless and until the verification of identity requirements have been satisfied in respect of that application. Capita Asset Services is entitled, in its absolute discretion, to determine whether the verification of identity requirements apply to any applicant or application and whether such requirements have been satisfied, and none of Capita Asset Services, the Company or Liberum Capital will be liable to any person for any loss, expense or damage suffered or incurred (or alleged), directly or indirectly as a result of the exercise of such discretion.

If the verification of identity requirements apply, failure to provide the necessary evidence of identity within a reasonable time may result in delays in the despatch of share certificates or in crediting CREST accounts. If, within a reasonable period of time and in any event by not later than 7 March 2014, following a request for verification of identity, Capita Asset Services has not received evidence satisfactory to it as aforesaid, the Company may, in its absolute discretion, terminate the contract of allotment in which event the monies payable on acceptance of the Open Offer will be returned without interest to the account of the bank from which such monies were originally debited (without prejudice to the right of the Company to take proceedings to recover the amount by which the net proceeds of sale of the relevant New Ordinary Shares fall short of the amount payable thereon).

Submission of an Application Form with the appropriate remittance will constitute a warranty from the applicant that the Money Laundering Regulations will not be breached by application of such remittance.

The verification of identity requirements will not usually apply:

- (i) if the applicant is an organisation required to comply with the Money Laundering Directive (the Council Directive on the prevention of the use of the financial system for the purpose of money laundering (no. 91/308/EEC)); or
- (ii) if the applicant is a regulated United Kingdom broker or intermediary acting as agent and is itself subject to the Money Laundering Regulations; or
- (iii) if the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the name of such applicant; or
- (iv) if the aggregate subscription price for the relevant shares is less than the sterling equivalent of €15,000 (currently approximately £12,300).

In other cases the verification of identity requirements may apply. The following guidance is provided in order to assist in satisfying the verification of identity requirements and to reduce the likelihood of difficulties or delays and potential rejection of an application (but does not limit the right of Capita Asset Services to require verification of identity as stated above). Satisfaction of the verification of identity requirements may be facilitated in the following ways:

- (A) if payment is made by building society cheque (not being a cheque drawn on an account of the applicant) or banker's draft, by the building society or bank endorsing on the cheque or draft the applicant's name and the number of an account held in the applicant's name at such building society or bank, such endorsement being validated by a stamp and an authorised signature by the building society or bank on the reverse of the cheque or banker's draft; or
- (B) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Argentina, Australia, Brazil, Canada, Hong Kong, Iceland, Japan, Mexico, New Zealand, Norway, Russian Federation, Singapore, South Africa, Switzerland, Turkey, the United States of America and, by virtue of their membership of the Gulf Cooperation Council, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), the agent should provide written confirmation that it has that status with the Application Form and written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to Capita Asset Services or the relevant authority.

In order to confirm the acceptability of any written assurance referred to in (B) above or any other case, the applicant should contact Capita Asset Services; or

- (C) if (an) Application Form(s) is/are in respect of relevant shares with an aggregate subscription price of the sterling equivalent of €15,000 (currently approximately £12,300) or more and is/are lodged by hand by the applicant in person, he should ensure that he has with him evidence of identity bearing his photograph (for example, his passport) and evidence of his address.

Third-party cheques will not be accepted.

(b) *Open Offer Entitlements in CREST and Excess Open Offer Entitlements in CREST*

If you hold your Open Offer Entitlements in CREST and Excess Open Offer Entitlements in CREST and apply for New Ordinary Shares in respect of all or some of your Open Offer Entitlements in CREST and Excess Open Offer Entitlements in CREST as agent for one or more persons and you are not a UK or EU regulated person or institution (e.g. a UK financial institution), then irrespective of the value of the application, Capita Asset Services is obliged to take reasonable measures to establish the identity of the person or persons on whose behalf you are making the application.

You must therefore contact Capita Asset Services before sending any USE or other instruction so that appropriate measures may be taken.

Submission of a USE instruction which on its settlement constitutes a valid application as described above constitutes a warranty and undertaking by the applicant to provide promptly to Capita Asset Services such information as may be specified by Capita Registrars as being required for the purposes of the Money Laundering Regulations. Pending the provision of evidence satisfactory to Capita Asset Services as to identity, Capita Asset Services may in its absolute discretion take, or omit to take, such action as it may determine to prevent or delay issue of the New Ordinary Shares concerned. If satisfactory evidence of identity has not been provided within a reasonable time, then the application for the New Ordinary Shares represented by the USE instruction will not be valid. This is without prejudice to the right of the Company to take proceedings to recover any loss suffered by it as a result of failure to provide satisfactory evidence.

6. Overseas Shareholders

6.1 General

The making of the Open Offer to Overseas Shareholders may be affected by the laws or regulatory requirements of the relevant jurisdiction. Overseas Shareholders who are in any doubt in this respect should consult their professional advisers. No person receiving a copy of this document and/or an Application Form and/or receiving a credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST in any territory other than the United Kingdom may treat the same as constituting an invitation or offer to him, nor should he in any event use such Application Form and/or credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST, unless, in the relevant territory, such an invitation or offer could lawfully be made to him or such Application Form or credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST could lawfully be used without contravention of any legislation or other local regulatory requirements. Receipt of this document and/or an Application Form or the crediting of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST does not constitute an invitation or offer to Overseas Shareholders in the territories in which it would be unlawful to make an invitation or offer and in such circumstances this document and/or any Application Forms are sent for information only. It is the responsibility of any person receiving a copy of this document and/or an Application Form and/or receiving a credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST outside the United Kingdom and wishing to make an application for any New Ordinary Shares to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant territory in connection therewith, including obtaining any governmental or other consents which may be required or observing any other formalities required to be observed in such territory and paying any issue, transfer or other taxes due in such other territory.

Persons (including, without limitation, stockbrokers, banks and other agents) receiving an Application Form and/or receiving a credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST should not, in connection with the Open Offer, distribute or send the Application Form or transfer the Open Offer Entitlements and/or Excess Open Offer Entitlements into any jurisdiction where to do so would or might contravene local securities laws or regulations.

If an Application Form or a credit of Open Offer Entitlements and/or Excess Open Offer Entitlements to a stock account in CREST is received by any person in any such jurisdiction or by the stockbrokers, banks and other agents or nominees of such person, he or she must not seek to take up the New Ordinary Shares except pursuant to an express agreement with the Company. Any person who does forward an Application Form or transfer the Open Offer Entitlements and/or Excess Open Offer Entitlements into any such jurisdiction, whether pursuant to a contractual or legal obligation or otherwise, should draw the attention of the recipient to the contents of this paragraph. The Company and Liberum Capital reserve the right to reject an Application Form or transfer of Open Offer Entitlements and/or Excess Open Offer Entitlements from or in favour of Shareholders in any such jurisdiction or persons who are acquiring New Ordinary Shares for resale in any such jurisdiction.

The Company and Liberum Capital reserve the right in their absolute discretion to treat as invalid any application for New Ordinary Shares under the Open Offer if it appears to the Company and Liberum Capital and their agents that such application or acceptance thereof may involve a breach of the laws or regulations of any jurisdiction or if in respect of such application the Company and Liberum Capital have not been given the relevant warranty concerning overseas jurisdictions set out in the Application

Form or in this document, as appropriate. All payments under the Open Offer must be made in Sterling.

6.2 **United States**

The New Ordinary Shares, the Open Offer Entitlements and the Excess Open Offer Entitlements have not been and will not be registered under the Securities Act, or under the securities laws of any state or other jurisdiction of the United States and, may not be offered, sold, resold, taken up, delivered or distributed, directly or indirectly, within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and any applicable state or local securities laws.

Accordingly, the New Ordinary Shares, the Open Offer Entitlements and the Excess Open Offer Entitlements are being offered only outside the United States in offshore transactions in accordance with Regulation S under the Securities Act. This document does not constitute or form part of any offer or invitation to sell or issue, or any solicitation of any offer to purchase or subscribe for, any securities in the United States.

Application Forms are not being sent to, and Open Offer Entitlements and/or Excess Open Offer Entitlements are not being credited to a stock account in CREST of, any Shareholder with a registered address in the United States. Any application for New Ordinary Shares under the Open Offer will be treated as invalid if it appears to have been executed or effected in, postmarked or otherwise dispatched in or from the United States, or if it provides an address in the United States for the registration or issue of New Ordinary Shares in uncertificated form or for the delivery of New Ordinary Shares in certificated form, or if it appears to have been sent by a person who cannot make the representations and warranties set out in the Application Form or in this document.

In addition, until 40 days after the commencement of the Open Offer, an offer, sale or transfer of the New Ordinary Shares, the Open Offer Entitlements and the Excess Open Offer Entitlements within the United States by a dealer (whether or not participating in the Firm Placing and Placing and Open Offer) may violate the registration requirements of the Securities Act.

6.3 **Jersey**

Consent to the circulation of this prospectus by Flybe Group plc has been granted by the Jersey Financial Services Commission (the "Commission") pursuant to the Control of Borrowing (Jersey) Law 1947, as amended (the "Law") and the Control of Borrowing (Jersey) Order 1958. The Commission is protected by the Law against liability arising from the discharge of its functions under the Law.

This prospectus may also be circulated in Jersey only by persons who are registered by the Commission in accordance with the Financial Services (Jersey) Law 1998 (the "FSL") for the conduct of financial services business and the distribution of this prospectus, or are exempt from such registration in accordance with the FSL.

Those prospective investors or persons who are seeking to acquire an interest in the New Ordinary Shares who are resident in Jersey are strongly advised to seek independent appropriate professional advice.

6.4 **Isle of Man**

This document has not been, and is not required to be, filed or lodged with any regulatory or other authority in the Isle of Man. The Company is not subject to any regulatory approval in the Isle of Man and holders of Ordinary Shares are not protected by any statutory compensation arrangements in the event of the Company's failure. The Isle of Man Financial Supervision Commission does not vouch for the financial soundness of the Company or the correctness of any statements made or opinions expressed with regard to it.

No person may market, offer or sell New Ordinary Shares in or to persons in the Isle of Man other than in compliance with the licensing requirements of the Isle of Man Financial Services Act 2008 or

in accordance with any relevant exclusion contained in the Isle of Man Regulated Activities Order 2011 or exemption contained in the Isle of Man Financial Services (Exemptions) Regulations 2011.

6.5 Other Excluded Territories

Due to the restrictions under the securities laws of the Excluded Territories, Shareholders who have registered addresses in or who are resident or ordinarily resident in, or citizens of, any Excluded Territories will not qualify to participate in the Open Offer and will not be sent an Application Form and no Open Offer Entitlements and/or Excess Open Offer Entitlements will be credited to their CREST stock accounts.

The New Ordinary Shares have not been and will not be registered under the relevant laws of any of the Excluded Territories or any state, province or territory thereof and may not be offered, sold, resold, delivered or distributed, directly or indirectly in or into any of the Excluded Territories or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any Excluded Territories except pursuant to an applicable exemption.

7. Withdrawal Rights

Qualifying Shareholders wishing to exercise statutory withdrawal rights after publication by the Company of a prospectus supplementing this document must do so by lodging a written notice of withdrawal which must include the full name and address of the person wishing to exercise statutory withdrawal rights and, if such person is a CREST member, the Participant ID and the Member Account ID of such CREST member, with Capita Asset Services, Corporate Actions, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, so as to be sent by the Qualifying Shareholder no later than two Business Days after the date on which the supplementary prospectus is published. Notice of withdrawal given by any other means or which is deposited with or received by Capita Asset Services after expiry of such period will not constitute a valid withdrawal, provided that the Company will not permit the exercise of withdrawal rights after payment by the relevant Qualifying Shareholder of its subscription in full and the allotment of New Ordinary Shares to such Qualifying Shareholder becoming unconditional save to the extent required by statute. In such event Shareholders are advised to seek independent legal advice.

8. Taxation

Information regarding United Kingdom taxation, Jersey taxation, Guernsey taxation, the taxation of Isle of Man resident individuals and the taxation of Isle of Man resident companies in respect of the New Ordinary Shares and the Firm Placing and Placing and Open Offer is set out in paragraph 16 of Part 7 of this document. If you are in any doubt about your tax position or are subject to tax in a jurisdiction other than the United Kingdom, Jersey, Guernsey or the Isle of Man, you should consult your professional adviser without delay.

9. Listing, Settlement, Dealings and Publication

Applications have been made to the FCA for the New Ordinary Shares to be admitted to the premium segment of the Official List and to the London Stock Exchange for the same to be admitted to trading on its main market for listed securities subject to the fulfillment of the conditions of the Open Offer. Subject to the Firm Placing and Placing and Open Offer becoming unconditional in all respects (save only as to Admission), it is expected that admission of the New Ordinary Shares to the premium segment of the Official List and to trading on its main market for listed securities will become effective and that dealings therein for normal settlement will commence at 8.00 a.m. on 12 March 2014.

Open Offer Entitlements and Excess Open Offer Entitlements held in CREST are expected to be disabled in all respects after 11.00 a.m. on 7 March 2014 (the latest date for applications under the Open Offer). If the conditions to the Open Offer described above are satisfied, New Ordinary Shares will be issued in uncertificated form to those persons who submitted a valid application for New Ordinary Shares by utilising the CREST application procedures and whose applications have been accepted by the Company on the day on which such conditions are satisfied (expected to be 12 March 2014). On this day, Capita Asset Services will instruct Euroclear to credit the appropriate stock accounts of such persons with such persons, entitlement to New Ordinary Shares with effect from Admission (expected to be 12 March 2014).

The stock accounts to be credited will be accounts under the same Participant IDs and Member Account IDs in respect of which the USE instruction was given.

Notwithstanding any other provision of this document, the Company reserves the right to send Qualifying CREST Shareholders an Application Form instead of crediting the relevant stock account with Open Offer Entitlements and Excess Open Offer Entitlements, and to allot and/or issue any New Ordinary Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST (or of any part of CREST), or on the part of the facilities and/or systems operated by Capita Registrars in connection with CREST.

For Qualifying non-CREST Shareholders who have applied by using an Application Form, definitive share certificates in respect of the New Ordinary Shares validly applied for are expected to be despatched by post within seven days of Admission. No temporary documents of title will be issued and, pending the issue of definitive certificates, transfers of the New Ordinary Shares by Qualifying non-CREST (certificated) Shareholders will be certified against the share register. All documents or remittances sent by or to applicants, or as they may direct, will be sent through the post at their own risk. For more information as to the procedure for application, Qualifying non-CREST (certificated) Shareholders are referred to the Application Form.

Qualifying CREST Shareholders should note that they will be sent no confirmation of the credit of the New Ordinary Shares to their CREST stock account nor any other written communication by the Company in respect of the issue of the New Ordinary Shares.

The completion and results of the Firm Placing and Placing and Open Offer will be announced and made public through an announcement on a Regulatory Information Service as soon as possible after the results are known on 7 March 2014.

The terms and conditions of the Open Offer as set out in this document, the Application Form and any non-contractual obligation related thereto shall be governed by, and construed in accordance with, English law. The courts of England and Wales are to have exclusive jurisdiction to settle any dispute which may arise out of, or in connection with, the Open Offer, this document or the Application Form (including, without limitation, disputes relating to any non-contractual obligations arising out of or in connection with the Open Offer, this document or the Application Form). By taking up the Open Offer Shares, in accordance with the instructions set out in this document and, where applicable, the Application Form, Qualifying Shareholders irrevocably submit to the jurisdiction of the English courts (including, without limitation, in relation to disputes relating to any non-contractual obligations arising out of or in connection with the Open Offer, this document or the Application Form) and waive any objection to proceedings in any such court on the ground of venue or on the ground that proceedings have been brought in an inconvenient forum.

10. Other Information

Your attention is drawn to the letter from your Chairman which is set out in Part 1 of this document and to the further information set out in Parts 2 to 7 of this document and also, where relevant, to the terms, conditions and other information printed on the accompanying Application Form.

PART 3

INFORMATION ON FLYBE GROUP PLC

Investors are advised to read the whole of this document and not rely on only part of it. In particular, investors are advised to consult the Glossary at the end of this document, which sets out the definitions of certain technical terms. The Directors confirm that, where information in this document has been sourced from a third party, this information has been accurately reproduced and, as far as they are aware and are able to ascertain from information prepared by that third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

1. Introduction

Flybe is headquartered in Exeter, Devon, and has two reporting segments.

a. Flybe UK comprises:

- UK-based airline providing scheduled passenger regional airline services on a UK domestic and UK to Europe route network, together with charter and cargo transport services;
- white label services provider to other airlines, providing crew under contract on maintained and insured aircraft belonging to Flybe but operated on behalf of a third party airline;
- a maintenance, repair and overhaul ('MRO') facility for both Flybe and third party customers; and
- a training academy providing pilot, crew, engineering and other training services to Flybe and third parties.

There are 70 aircraft (with five aircraft due to be returned to lessors between February and May 2014) operating in Flybe's scheduled flying segment, providing scheduled services to UK (including the Channel Islands and the Isle of Man) and continental European destinations.

b. Flybe Finland, a joint venture with Finnair Oyj ("Finnair"), which operates 28 aircraft and provides both a white label service for Finnair and scheduled services in its own right from its base in Helsinki. Flybe Finland, through Flybe Nordic AB, is 60 per cent. owned by Flybe and 40 per cent. owned by Finnair.

The Group employs 2,664 full time equivalents across all of its operations and provides a conveniently timed, high frequency flight schedule from accessible regional airports, which is targeted at a core customer base of business and other repeat passengers.

2. History of the Group

Flybe started operations in 1979 as Jersey European Airways. It was acquired in 1983 by C. Walker & Sons Limited, the parent company of a Blackpool-based charter airline named Spacegrand Aviation. The two airlines were run separately, with partially shared management, until their amalgamation in 1985 under the "Jersey European" name. The airline was renamed British European Airways in 2000.

In 2002, the Group was faced with the choice of continuing to operate at a loss, closing its operations or developing a new strategic direction. It was decided that the Group should be re-focused as a European regional airline which retained certain elements of its existing legacy airline business model and adopted other elements of the European low cost carrier model to take advantage of what the directors at the time saw as an opportunity to create a distinct market niche. In July 2002, the airline was re-launched with this new "hybrid" business model as Flybe.

In March 2007, Flybe acquired BA Connect, a subsidiary of British Airways and a business of similar size to the Group as it was then. Prior to the transaction, BA Connect had recorded substantial losses due, amongst other things, to its legacy airline business model, its older more inefficient fleet and historical working and commercial practices. Flybe moved quickly to integrate BA Connect into the Group and its business model and in the 12 months following the completion of the acquisition the Group achieved significant savings and synergies across the former BA Connect business. The acquisition provided the Group with an additional established route network, a well-trained workforce, an increase in its overall fleet size, and access to established, slot constrained, business destinations in Europe as well as to certain

medium route density destinations in the UK. Through the BA Connect acquisition, Flybe acquired additional landing slots at slot constrained airports such as London Gatwick, Paris Charles De Gaulle, Düsseldorf International and Frankfurt am Main.

The Group was listed on the Official List and its shares admitted to trading on the Main Market of the London Stock Exchange in 2010, raising £60 million as part of the IPO process.

On 18 August 2011, Flybe entered into a joint venture arrangement with Finnair to acquire Finncomm, a Finnish regional airline (subsequently renamed Flybe Finland), with Flybe's share of consideration, including expenses, being £19.1 million. The 16 aircraft in operation at the time were acquired on leases and utilised on a mix of commercial and white label flying. The Group owns, through Flybe Nordic AB, 60 per cent. of Flybe Finland with Finnair owning the remaining 40 per cent. On 28 October 2012, a further 12 leased aircraft were acquired from Finnair, all of which are operated on white label flying, bringing the total number of aircraft deployed in the joint venture to 28.

In January 2013, following a significant decline in financial performance in prior years, the Group announced its intentions to embark on a turnaround strategy and set out a plan to return the Group to profitability in the 2013/14 Financial Year. In May 2013, the Group released an update on the progress of this turnaround plan together with details of additional cost savings targets and cash generative projects. Key elements of the update included:

- An agreement by the Group to transfer all of its pairs of arrival and departure slots at London Gatwick Airport to a subsidiary of easyJet PLC for a gross consideration of £20.0 million;
- An agreement with Embraer to defer 16 new E175 aircraft due for delivery during 2014 and 2015. These aircraft will now not be delivered until 2017 to 2019. This deferral led to a reduction in pre-delivery payment commitments in the winter of the 2013/14 Financial Year of £20.0 million; and
- An announcement that the cost savings involved in the turnaround would deliver a benefit of £30 million in its initial phase, being early to mid 2013 ("Phase 1"), and that Phase 1 would be complemented by a further phase in the winter of the 2013/14 Financial Year with an additional £10 million of savings being targeted ("Phase 2").

In August 2013, the Group introduced management changes and split the roles of Chairman and Chief Executive Officer, appointing Saad Hammad to be the new Chief Executive Officer. Simon Laffin was appointed non-executive Chairman in November 2013, replacing Jim French who had previously held both roles.

It was also announced in August 2013 that Andrew Knuckey, Chief Financial Officer since 2007, had decided to step down from the Board and leave the Company as soon as a successor can be appointed and a suitable handover has been completed. The search for his successor is continuing and an announcement will be made in due course.

3. Information on the Group

Flybe operates scheduled and white label (or contract flying) services in Europe and provides maintenance, repair and overhaul ("MRO") and training services, primarily to the airline industry. The Group's schedule for the 2014 Summer Season comprises 164 routes between 35 UK and 48 European airports across 15 countries. The Group now operates as one business operating through two reporting segments:

- *Flybe UK* – comprises all of the Group's scheduled UK-based services and passenger operations. The core activities of the division comprise the provision of scheduled airline services, both within the UK and from the UK to continental Europe, on both commercial and white label flying operations. It also includes the Group's MRO and Flybe Training Academy businesses, supporting Flybe's UK and continental European activities and serving third-party customers.
- *Flybe Finland* – comprises all of the Group's Finnish-based white label and scheduled services and passenger operations. The core activities of the division comprise the provision of contract flying airline services to the joint venture partner, Finnair.

The Group is headquartered in Exeter and the Group's shares are listed on the Premium Segment of the Official List and admitted to trading on the Main Market of the London Stock Exchange. As at the close of

business on 19 February 2014 (being the latest practicable date prior to the publication of this document), its market capitalisation was £89.1 million.

The Group's revenue for the year ended 31 March 2013 was £614.3 million, Adjusted EBITDAR Before Restructuring was £63.8 million and Adjusted Loss Before Restructuring Costs was £32.7 million. As at 31 March 2013, the Group had net assets of £48.1 million and gross assets of £405.8 million. During the year ended 31 March 2013, the Group's average number of employees was 2,667. In the six months ending 30 September 2013, the Group's revenue was £351.1 million and Adjusted EBITDAR Before Restructuring was £61.3 million. As at 30 September 2013, the Group had net assets of £50.6 million and gross assets of £388.3 million.

4. Strategy and prospects

Upon joining Flybe, Saad Hammad initiated a full strategic review of the Group's operations. As a result of that review, the Board believes that Flybe will achieve a sustainable competitive position in the European regional airline sector, based on;

1. Flybe developing an efficient operation, using regional aircraft that can operate profitably on 'thinner' regional routes, being routes with less than 400,000 passengers per annum;
2. Flybe offering a high frequency operation at smaller, more convenient regional airports serving local business and leisure passengers and accessing international hubs; and
3. Flybe providing a professional and personal service to all customers, with reliable on time performance.

The Directors intend for Flybe to become Europe's best local airline with sustainable competitive positioning, delivering regional connectivity through two main business activities:

- (a) a regional branded airline, providing scheduled services connecting passengers travelling in the regions, both on business and visiting friends and relatives, to each other and to international carriers at metropolitan airports; and
- (b) a regional "white label" provider, where Flybe provides crew under contract on a maintained and insured aircraft belonging to Flybe but operated on behalf of a third party airline (as it currently does for Finnair in Finland and Brussels Airlines in Belgium).

The Director's believe Flybe has developed expertise and specialist skills in operating a regional branded airline alongside a regional white label operation, with the synergies between the two business activities driving economies of scale in both buying and operations. In addition, the two business activities complement each other in both earnings and risk profile. The regional branded airline's operations are both higher margin and higher risk (due to the exposure to passenger demand, fuel costs and foreign exchange rates), with the white label business's operations lower margin and lower risk due to income generated under contracts for the provision of the white label service.

Saad Hammad's review identified a number of actions necessary to improve further the efficiency and profitability of the Group. Further to the review, the Board has now identified a three stage strategic programme:

1. Take immediate action – aimed at returning the Group to profitable operations, including the removal or rationalisation of unprofitable routes and bases, adjusting the fleet mix, further cost reductions and improved commercialisation;
2. Build resilience – strengthen the balance sheet to put the Group on a firm foundation for the future and deploy capital more effectively; and
3. Target profitable growth – implementing the Group's plans for a profitable growth strategy in both Flybe-branded scheduled flying and white label operations, whilst enhancing service to customers in branded flying.

Each of these three stages is outlined in detail below.

1. *Take immediate action*

On 11 November 2013 Flybe announced that the company would implement the Immediate Actions on top of those being implemented in Phase 1 and Phase 2 of the Turnaround Plan to ensure a solid platform for profitable growth. These further initiatives cover both Flybe's UK scheduled flying operations and its Finnish joint venture.

Within the UK, the Immediate Actions involved the following elements:

- (a) Optimise the Group's configuration:
 - (i) establish a simplified integrated management structure and organisation ("One Flybe");
 - (ii) rationalise the route network by eliminating unprofitable routes and exiting smaller, inefficient bases;
 - (iii) review the fleet mix to determine whether the aircraft types used are appropriate for the Group's operations, and establish long-term replacements for the existing fleet;
 - (iv) remove surplus aircraft capacity by divesting of surplus aircraft as market conditions allow;
 - (v) improve aircraft and crew utilisation by concentrating aircraft at fewer bases, thereby enabling a reduction in the number of crew sets per aircraft to be achieved and an increase in flight hours per day per aircraft;
 - (vi) implement further cost reductions through redundancy of approximately a further 500 employees, rationalisation of suppliers and contract re-negotiations; and
 - (vii) engage with key suppliers to improve cost arrangements.
- (b) Improve commercialisation:
 - (i) filling critical management gaps within Flybe's commercial team. This included the recruitment of key executives such as Paul Simmons as Chief Commercial Officer, Ronnie Matheson as Director of Revenue Management and Ben Burge as Director of Network, and the internal appointment of Fred Kochak as Director of Route Performance;
 - (ii) optimise pricing and revenue management through changes to the pricing architecture, with more competitive and coherent lead-in fares and price development as the date of departure nears, and improved revenue management rules to drive load factors at optimum yields at an individual flight level;
 - (iii) refocus network development by developing the network planning and review process and by focusing on where the Flybe operating model operates most effectively, such as short routes with passenger volumes of under 400,000 per annum or into airports where size or other features exist that benefit Flybe's operations;
 - (iv) drive route management improvements through changes to the weekly review process, the management and identification of under-performing routes as well as the development of new opportunities arising from redeploying activity onto other routes;
 - (v) improve the impact of marketing initiatives both in terms of unique visitor generation to the Flybe website (currently circa. 70 per cent. of revenue) and volumes from third party channels as well as driving unique visitor conversion into bookings; and
 - (vi) develop further trading partnerships with other airlines and aviation partners, not only to develop new airline code-sharing agreements to enhance the spread of destinations offered to Flybe customers, but also to engage with airports and other partners to enhance customer experience at optimized cost.

In addition, the Directors intend to improve the profitability of the Group's joint venture with Finnair by:

- (a) further enhancing cost and operational efficiency in white label flying; and
- (b) reducing the number of aircraft deployed on loss-making flying operations.

The Directors believe that the Immediate Actions in the UK will deliver further cost benefits of approximately £7 million in the 2013/14 Financial Year and £26 million in the 2014/15 Financial Year, with around 450

anticipated redundancies (reduced from an anticipated 500 redundancies due to mitigating actions taken by the Company), and estimated one-off and surplus capacity costs of approximately £14 million in the 2013/14 Financial Year plus a further approximate £27 million in the 2014/15 Financial Year. Taking into account the Group's announcements in January and May 2013 of anticipated redundancies of 300 and 290 respectively, these additional 450 anticipated redundancies would combine to take anticipated redundancies under the Turnaround Plan and Immediate Actions to 1,040.

2. Build resilience

Strengthen the balance sheet

The Directors believe that the Group will significantly benefit from a strengthening of its balance sheet, improving operational flexibility and providing additional cash reserves to enable the Group to protect itself from unforeseen disruptions or occurrences. A stronger liquidity position is expected by the Directors to assist additionally in securing better credit terms from a number of suppliers. In addition, the Directors are aware that the CAA recommends that existing licence holders have financial resources in excess of three months of the future operating costs of the business. The Directors believe that maintaining a seasonal minimum of the equivalent of 10 weeks' operating costs in unrestricted cash, cash equivalents or highly liquid short term investments will give significant resilience to the Group.

3. Target profitable growth

The Directors believe that Flybe can achieve profitable growth in both branded and white label operations. In addition, the Directors believe that enhanced customer service in Flybe's branded operations is needed to drive profitable growth:

a. Reduce fleet ownership costs

The Directors intend to deploy capital to own aircraft with secured loans rather than full operating leases, thereby rebalancing Flybe's fleet financing structure towards ownership rather than operating leases. The former typically provides a cheaper form of ownership, but requires an equity stake to be held, typically being 20 to 30 per cent. of the value of the aircraft. Currently, 87.1 per cent. of the fleet is financed through operating leases, which is sub-optimal versus Flybe's peers. The Directors believe that deploying capital in this manner will deliver an estimated return on equity investment of between 15 and 18 per cent.

b. Improved productivity

The Directors believe that increased investment in improvements to the Group's IT and finance functions will result in greater robustness in infrastructure, cost savings and improved efficiencies within 6 to 12 months.

c. Expansion of Flybe-branded scheduled operations

The Directors believe that the expansion of Flybe-branded scheduled operations will primarily involve the development of new routes and bases within the UK within a 12 to 24 month period. Following completion of the route rationalisation strategy being carried out as described within the Immediate Actions, the Directors intend for the Group to create a number of new routes in the next two years and will work with a number of regional airports, such as Manchester, to develop their capacity as domestic and international hubs. As part of this progressive route expansion, the Directors have identified nine routes from the New Route Planning Selection Model that has been adopted by the Group. The Directors believe that an additional 10 aircraft will be required in order to service these identified routes, which they plan to fund at a 75 per cent. loan to value ratio, thereby requiring approximately £35 million of equity financing and £103 million of debt financing. The Directors expect this planned funding structuring to be operating cash flow positive (after loan amortisation and setup costs) after year one of the funding structure. The Directors believe that "thinner" regional routes are unattractive for full service airlines and European LLCs. New route development will prioritise domestic routes in the UK between poorly connected catchment areas as well as the building of service density to European destinations which the Directors believe are underserved by current carriers and where the Directors believe that Flybe can maximise its competitive advantage of smaller aircraft that can operate from airports that have relatively short runways. In addition, Flybe's aircraft and infrastructure are well suited to short sectors, with 79 per cent. of Flybe's routes on sectors less than 350 miles in distance.

The Group is also looking at opportunities to develop new bases in the UK and Europe within a one to two year time frame. The Directors are currently evaluating these opportunities and will announce their intentions in this area once commercial evaluations and negotiations with the relevant airports have progressed.

d. Expansion of white label operations

Flybe's joint venture with Finnair, Flybe Finland, moved to profitability in H1 2013/14. Flybe Finland operates 22 of its 28 aircraft on profitable contract flying operations, which balance Flybe Finland's activity in scheduled flying. The Directors believe that there are other opportunities to roll out Flybe's white label offering, and have identified a number of national airlines in Europe for whom white label flying could be attractive, and are in ongoing commercial discussions with several of these airlines. The Board believes there is an initial requirement for six additional aircraft in order to service white label opportunities, which they plan to fund at a 75 per cent. loan to value ratio, thereby requiring approximately £23 million of equity financing and £62 million of debt financing. The Directors expect this planned funding structure to be operating cash flow positive (after loan amortisation and setup costs) after year one of the funding structure, with setup costs paid back in year two. The Directors anticipate that capital commitments would only be made by the Group after contracts have been signed. The Directors believe that Flybe needs financial strength in order to be seen as a credible player in the white label market.

e. Enhanced service to customers

The Directors believe that, in its branded operations, the Flybe customer offering, product range and brand impact need to be developed further. With improved marketing, the Directors intend to increase the number of visitors to the Group's website and enhance conversion rates by:

- an improved customer proposition that enhances the brand promise and identity. The Directors intend that this will be communicated through new creative copy, backed by increased media spending; and
- improvements in the product that will mark the Flybe experience as different to others. The Directors intend that this will include a simplified offering, rationalised pricing, an improved website, sustained focus on on-time performance and a relaunched customer loyalty programme, focusing on more frequent passengers with a view to increasing their use of Flybe further through improved rewards and benefits and by having reciprocal earning and spending agreements with partner airlines.

The Directors anticipate that the enhanced services to customers will be in place over the next 12 months.

5. Selected financial information

The following table sets out certain summary financial information in respect of the Group in the six-month periods ended 30 September 2013 and 2012 and the financial years ended 31 March 2013, 2012 and 2011:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 (restated) £m	2010/11 £m
Group revenue	351.1	340.8	614.3	615.3	595.5
Revenue under management	477.3	396.3	781.5	678.8	595.5
EBITDAR ⁽¹⁾	58.0	44.6	55.8	85.8	87.2
Adjusted EBITDAR ⁽²⁾	61.3	44.6	63.8	85.8	113.8
Operating profit/(loss) before restructuring and IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and revaluation on USD aircraft loans	12.2	(1.0)	(26.3)	(4.9)	7.6
Profit/(loss) before tax	13.8	(1.6)	(40.7)	(6.2)	(4.3)

Source: Annual and half-year accounts, unaudited management information

(1) EBITDAR is defined as the profit or loss before tax after adding back net finance costs, taxation, depreciation, amortisation and aircraft rental costs.

(2) Adjusted EBITDAR removes restructuring costs, IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and estimated impact of disruption from volcanic ash and weather as reported in the income statement.

The table below reconciles operating profit/(loss) to operating profit/(loss) before restructuring and IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and revaluation on USD aircraft loans for the period under review:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 (restated) £m	2010/11 £m
Operating profit/(loss)	8.9	(1.0)	(34.3)	(4.9)	(0.9)
Restructuring costs	3.3	–	8.0	–	–
IPO costs	–	–	–	–	1.7
Unrealised losses on fuel and foreign exchange hedges	–	–	–	–	6.8
Operating profit/(loss) before restructuring and IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and revaluation on USD aircraft loans	12.2	(1.0)	(26.3)	(4.9)	7.6

Source: Annual and half-year accounts

EBITDAR is defined as the profit or loss before tax after adding back net finance costs, taxation, depreciation, amortisation and aircraft rental costs. All EBITDAR metrics are non-GAAP measures. EBITDAR is a common airline profit measure which is used for making comparisons between airlines. Adjusted EBITDAR removes restructuring costs, IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and the estimated impact of disruption from volcanic ash and weather as reported in the income statement. 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 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.

The table below reconciles operating profit to EBITDAR and adjusted EBITDAR for the period under review:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 (restated) £m	2010/11 £m
Operating profit/(loss)	8.9	(1.0)	(34.3)	(4.9)	(0.9)
Depreciation and amortisation	6.9	6.9	12.0	13.1	10.7
Aircraft rental charges	42.2	38.7	78.1	77.6	77.4
EBITDAR⁽³⁾	58.0	44.6	55.8	85.8	87.2
IPO costs	–	–	–	–	1.7
Estimated impact of disruption from volcanic ash and weather	–	–	–	–	18.1
Unrealised losses on fuel and foreign exchange hedges	–	–	–	–	6.8
Restructuring costs	3.3	–	8.0	–	–
Adjusted EBITDAR⁽⁴⁾	61.3	44.6	63.8	85.8	113.8

Source: Annual and half-year accounts

(3) See footnote 1 above.

(4) See footnote 2 above.

Unaudited financial information for Q3 2013/14

Flybe KPIs (including Flybe Finland)

	Quarter to 31 December 2013	Quarter to 31 December 2012	Change %
Revenue			
Passenger revenue (£m)	137.4	136.9	0.4
Contract flying revenue (£m)	56.2	46.1	21.9
Revenue from other activities (£m)	9.9	10.9	(9.2)
Total revenue under management (£m)	<u>203.5</u>	<u>193.9</u>	<u>5.0</u>

Flybe UK

UK Airline comprises Flybe's UK domestic and UK to European airline operations.

KPIs

	Quarter to 31 December 2013	Quarter to 31 December 2012	Change %
Seats and passengers			
Scheduled seats (million)	2.69	2.74	(1.8)
Passengers (million)	1.90	1.74	9.2
Load factor (%)	<u>70.8%</u>	<u>63.7%</u>	<u>7.1 ppts</u>
Revenue			
Passenger revenue (£m)	130.3	129.8	0.4
Contract flying revenue (£m)	4.0	3.9	2.6
Revenue from other activities (£m)	3.3	3.4	(2.9)
Total UK Airline revenue (£m)	<u>137.6</u>	<u>137.1</u>	<u>0.4</u>
Yield			
Passenger yield (£)	<u>68.42</u>	<u>74.44</u>	<u>(8.1)</u>
Passenger revenue per seat (£)	<u>48.46</u>	<u>47.39</u>	<u>2.3</u>

Revenue

Scheduled seats flown in the period were 2.69 million, down 1.8 per cent. on Q3 2012/13.

Passenger revenues of £130.3 million were marginally higher than the prior year.

Passenger revenue per seat improved by 2.3 per cent. to £48.46:

- Passenger numbers in Q3 2013/14 were 1.90 million, 9.2 per cent. higher than in Q3 2012/13, with average load factor increasing by 7.1 ppts to 70.8 per cent;
- Passenger yield decreased by 8.1 per cent to £68.42 primarily as a result of the decision by the Directors to stimulate demand and improve load factor, as outlined in Part 1 of this document.

Contract flying revenue was £4.0 million in relation to four aircraft operating on a Brussels Airlines contract flying agreement. Two of these aircraft are contracted to exit this agreement in April 2014 and the remaining two in October 2014.

Revenue from other activities in Q3 2013/14 was in line with Q3 2012/13 at £3.3 million.

Costs

Flybe UK's costs per operated seat for Q3 2013/14 (excluding fuel and restructuring costs) decreased by 5.2 per cent. to £41.58.

On a constant currency basis, Flybe UK's costs per operated seat for Q3 2013/14 (excluding fuel and restructuring costs) decreased by 6.0 per cent. to £41.58.

Hedging

Flybe UK's current hedge books are summarised below (all hedges are forward swaps):

Jet fuel:

- Q4 2013/14 – 76 per cent. hedged at \$990 per tonne;
- H1 2014/15 – 76 per cent. hedged at \$959 per tonne;
- H2 2014/15 – 32 per cent. hedged at \$969 per tonne;

US Dollar:

- Q4 2013/14 – 73 per cent. hedged at \$1.54;
- H1 2014/15 – 68 per cent. hedged at \$1.53;
- H2 2014/15 – 25 per cent. hedged at \$1.62;

Carbon:

- Calendar year 2013 – 89 per cent. hedged at €3.73 per tonne; and
- Calendar year 2014 – 82 per cent. hedged at €4.37 per tonne.

Flybe UK currently has a broadly neutral position in Euro income and expenditure.

Market share

Flybe's share of the UK regional domestic air passenger sector in Q3 2013/14 was 49.6 per cent. (Q3 2012/13: 48.4 per cent).

Total UK domestic market share of Flybe in the same period was 25.9 per cent. (Q3 2012/13: 25.8 per cent.).

Flybe Finland

KPIs

	<i>Quarter to</i> <i>31 December</i> <i>2013</i>	<i>Quarter to</i> <i>31 December</i> <i>2012</i>	<i>Change</i> <i>%</i>
Revenue			
Passenger revenue (£m)	7.1	7.1	–
Contract flying revenue (£m)	52.2	42.2	23.7
Other revenue (£m)	1.3	1.4	(7.1)
Total Flybe Europe revenue (£m)	<u>60.6</u>	<u>50.7</u>	<u>19.5</u>
Yield			
Passenger yield (£)	<u>84.06</u>	<u>81.01</u>	<u>3.8</u>
Passenger revenue per seat (£)	<u>36.89</u>	<u>33.82</u>	<u>9.1</u>

The 23.7 per cent. increase in revenues from contract flying to £52.2 million has been driven by the commencement on 28 October 2012 of an additional 12 E190 aircraft on contract flying for Finnair.

Fleet

Deliveries

In Flybe UK, two new 88-seat Embraer E175 regional jets were delivered in Q3 2013/14 – one financed on an operating lease basis and the other debt financed.

Current fleet

As at 31 December 2013, Flybe's aircraft fleet under management is as follows:

	Number of seats	Owned with debt finance or finance lease	Operating lease	Total
UK Airline				
Bombardier Q400 turboprop	78	2	43	45
Embraer E175 regional jet	88	7	4	11
Embraer E195 regional jet	118	–	14	14
		<u>9</u>	<u>61</u>	<u>70</u>
Flybe Finland				
ATR 42 turboprop	48	–	2	2
ATR 72 turboprop	68-72	–	12	12
Embraer E170 regional jet	76	–	2	2
Embraer E190 regional jet	100	–	12	12
		<u>–</u>	<u>28</u>	<u>28</u>
Total		<u><u>9</u></u>	<u><u>89</u></u>	<u><u>98</u></u>

Of the total fleet of 98 aircraft, 26 are being deployed on contract flying for Finnair and Brussels Airlines. The average age of Flybe's fleet is 5.6 years.

Current trading

Flybe UK's current forward passenger sales revenue is as follows:

- Q4 2013/14 shows an increase over Q4 2012/13 of approximately 3 per cent. driven by an increase in passenger volumes partially offset by lower yields; and
- Forward sales for the 2014 Summer Season are currently broadly in line with the 2013 Summer Season.

6. Directors and Senior Management

The Board

The Company has a board of directors headed by an Independent Non-Executive Chairman with management led by a Chief Executive. The Board comprises a Non-Executive Chairman, three Non-Executive Directors and two Executive Directors as set out below:

Simon Laffin	<i>Independent Non-Executive Chairman</i>
Saad Hammad	<i>Chief Executive Officer</i>
Andrew Knuckey	<i>Chief Financial Officer</i>
Charlie Scott	<i>Deputy Chairman, Senior Independent Non-Executive Director</i>
Alan Smith	<i>Independent Non-Executive Director</i>
David Longbottom	<i>Independent Non-Executive Director</i>

Saad Hammad, Chief Executive Officer

Saad Hammad joined Flybe as Chief Executive Officer on 1 August 2013. He has considerable airline experience having been Chief Commercial Officer of easyJet plc from 2005 to 2009. Mr Hammad was a non-executive Director of Air Berlin plc and has also held senior executive roles at The Gores Group, Procter & Gamble, Thorn-EMI, Vision Express, Minit Group and Tibbett & Britten.

Andrew Knuckey, Chief Financial Officer

Andrew Knuckey joined Flybe in 2005, having previously had a 24 year career with KPMG LLP, latterly as a partner in audit and transaction services. Mr Knuckey played a key role in the successful acquisition and integration of BA Connect, following which he was appointed as Chief Financial Officer at Flybe in April

2007. As Chief Financial Officer, he helped deliver the IPO on the London Stock Exchange in 2010 and, more recently, the design and implementation of Flybe's Turnaround Plan. Mr Knuckey has informed the Flybe Board of his intention to stand down as Chief Financial Officer and leave the Company once a successor has been appointed and a suitable handover period completed.

Simon Laffin, *Independent Non-Executive Chairman*

Simon Laffin was appointed to the Flybe board as Independent Non-Executive Chairman in November 2013. Mr Laffin is Chairman of Assura Group Limited, Chairman of the audit committee at Quintain Estates & Development PLC and an adviser to Dentsu Inc. Previously he was Group Finance and Property Director at Safeway plc between 1994 and 2004 and has served as a non-executive Director at 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. Mr Laffin chairs Flybe's nominations committee.

Charlie Scott, *Deputy Chairman, Senior Independent Non-Executive Director*

Charlie Scott was formerly chairman of William Hill plc from 2004 until 2010. He is a chartered accountant and was previously Chief Executive Officer at Saatchi & Saatchi plc and chairman of Cordiant plc. Mr Scott has held other non-executive positions, including with airport group TBI plc. Mr Scott chairs Flybe's audit committee.

Alan Smith, *Independent Non-Executive Director*

Alan Smith is currently chairman of Fisher Leisure Holdings Limited. His career has included being managing director of Superdrug Stores plc, B&Q plc and The Victoria Wine Company Limited before working for the Boddington Group Limited as group managing director. In 1996, Mr Smith moved to Evans Halshaw Holdings plc as group chief executive before becoming chief executive of Somerfield plc from 2000 until 2002. Mr Smith chairs Flybe's safety and security review committee.

David Longbottom, *Independent Non-Executive Director*

David Longbottom is currently pro-chancellor and chairman of the board of governors of London South Bank University. He is also chairman of Horton International (UK) Limited, an executive search firm. Mr Longbottom was formerly the senior independent director of Luminar Leisure plc and a director of DSG International plc, and held a number of senior positions within the Dixons Group plc after joining in 1987 (including group human resources director). Previously, Mr Longbottom worked with British Gas plc, Courtaulds plc and Lloyds of London. Mr Longbottom chairs Flybe's remuneration committee.

Senior Management

Paul Simmons, *Chief Commercial Officer*

Paul Simmons joined Flybe in September 2013 from easyJet where, for the last five years, he led their team in the UK as Director, UK Market. Prior to easyJet Mr Simmons held senior commercial positions at Oberoi Hotels Group (EVP – Sales & Marketing) and IHG (Global VP, InterContinental Brand) and a variety of marketing roles at Procter & Gamble, S.C. Johnson, Helene Curtis/Unilever and Kelloggs.

Chris Simpson, *Company Secretary*

Chris Simpson qualified as a chartered accountant in Scotland before moving into the airline industry in 1985 where he has served as finance director and company secretary of several airlines. Between 2003 and 2007 Mr Simpson was Chief Financial Officer of Flybe, and was appointed as Company Secretary in 2010. Mr Simpson has resigned and will leave the Company on 7 March 2014.

John Palmer, *Director of Operations*

John Palmer joined Flybe in 2006 as Director of Aviation Services and previously held senior management roles in British Airways, Virgin Atlantic and Zurich Financial Services. He was promoted to Director of Airline Operations and Deputy COO in 2009 before becoming, in 2011, Managing Director, Flybe Aviation Support. Appointed as Director of Operations in August 2013, Mr Palmer is now responsible for all aspects of the Flybe's operations.

Simon Charles, *Director of Human Resources and Health and Safety*

Simon Charles joined Flybe in January 2007 from RHM Plc where he was group director of organisation and people development and part of the management team involved in the initial public offering of shares

in RHM plc. He has spent 25 years in human resources within significant companies having been European HR director at Quaker Inc. and held management positions with PricewaterhouseCoopers, Pepsico Inc. and Unilever plc.

Matt Bennett, *Director of Internal Audit and Special Projects*

Matt Bennett, a Chartered Accountant, joined Flybe in January 2012, as the Director of Internal Audit and Risk to set up Company's first Internal Audit Function. Mr Bennett has commercial auditing experience having led the audit function for four years at the Rank Group PLC, and more recently for six years in a joint Director of Financial Control and Audit role for Sony Computer Entertainment (Sony PlayStation). Mr Bennett reports to the Chief Executive Officer and the audit committee.

Matt Linsey, *Acting Head of IT*

Matt Linsey joined Flybe in December 2003 as Systems Architect to direct the design activities of Flybe's IT department. Mr Linsey brings 14 years' experience of IT previously contracting in various sectors including military, education, and e-commerce. He was promoted to Head of IT Services in 2006 and then to Head of IT Development in 2008 before being made Acting Director of IT in October 2013 to oversee all IT delivery and operations for Flybe.

7. Corporate Governance

The policy of the Board is to manage the affairs of Flybe to the highest standards of corporate governance and in accordance with the principles of good governance and the code of best practice as set out in the UK Corporate Governance Code ("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 a reporting year.

Compliance with the Provisions of the UK Corporate Governance Code

Flybe is led and controlled by a Board currently consisting of a Non-Executive Chairman, three Non-Executive Directors and two Executive Directors. The Directors have significant experience of management within the airline industry. There is a clear division of responsibilities between the Chairman and Chief Executive Officer. The Board considers that the Non-Executive Chairman and the Non-Executive Directors are independent of management. The Chairman has no significant external commitments that would impact the performance of his duties and the Board considers that, at the time of his appointment, he met the independence criteria set out in the Code.

The Directors are satisfied that the Company, as at the date of this document, complies with the relevant provisions of the Code.

Board of Directors

The Board of Directors (known internally as the "Group Board") meets seven times per year or more frequently if required. There is a Schedule of Matters Reserved for decision by the Group Board. The Group Board establishes overall Group strategy, including new activities and withdrawal from existing activities. It approves the Group's commercial strategy and the operating budget and monitors performance through the receipt of monthly management accounts.

The day-to-day management of the operation of the Group's business is conducted by the "Operating Board" (which is not the Board for fiduciary purposes or the CA 2006), which meets twelve times per year or more frequently if required. The Operating Board currently comprises Mr Bennett, Mr Charles, Mr Hammad, Mr Linsey, Mr Knuckey, Mr Palmer and Mr Simmons.

Finally, each member of the "Operating Board" is also a member of the "Flybe Leadership Team" along with approximately 38 other senior employees of the Group who each report directly (or indirectly) to a member of the Operating Board on a specific area of the Group's business (for example, marketing, fleet or crew training). The Flybe Leadership Team typically meets formally every two months, but may meet more regularly if appropriate.

In accordance with the principles laid down in the Code, the Company has established separate audit, remuneration and nomination committees. In addition, the Company also has a safety and security review committee and a mergers and acquisitions committee.

Remuneration committee

The remuneration committee comprises four independent Non-Executive Directors of the Company. The members of the remuneration committee are Mr Longbottom (Chairman), Mr Laffin, Mr Scott and Mr Smith. The committee has Terms of Reference approved, and reviewed regularly, by the Board.

The purpose of the committee 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 responsibilities of the committee include to:

- determine and agree with the Board the framework or broad policy for the remuneration of the Executive Directors, the Company Secretary and any other members of the executive management that the Board delegates to it ensuring that such policy provides appropriate incentives to encourage enhanced performance and, in a fair and responsible manner, rewards executives for their individual contributions to the success of the Group. When setting policy, have regard to trends across the Company, in other companies and to the provisions of the Code, the Listing Rules and associated guidance;
- determine the total individual remuneration package of the Chief Executive, Executive Directors, and any other members of the executive management that the Board delegates to it including bonuses, incentive payments and share options or other awards;
- approve the design of, and determine targets for, any performance related pay schemes operated by the Group and approving the total annual payments made under such schemes;
- approve the design of all share incentive plans for approval by the Board and shareholders, determine on an annual basis whether awards will be made, and if so the amounts of such awards in total to individuals;
- determine the policy for, and scope of, pension arrangements for each Executive Director and designated senior executives;
- determine the contractual terms on termination and individual termination payments, ensuring that the duty of the individual to mitigate loss is fully recognised;
- be told of, and advise on, any major changes in employee benefit structures in the Group; and
- recommend an annual report for the Board to put to shareholders on the Company's remuneration policies and practices compliant with relevant legal and regulatory provisions.

The remuneration committee is authorised by the Board to:

- seek any information it requires from any employee or officer of the Group in order to perform its duties;
- be 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 Group's expense; and
- obtain, at the Group's expense, expert legal or other professional advice where necessary in the course of its activities.

Audit committee

The audit committee comprises three independent Non-Executive Directors of the Company. The members of the audit committee are Mr Scott (chairman), Mr. Laffin and Mr Smith. Mr Scott is a chartered accountant and Mr Laffin is a chartered management accountant. The Board considers that Mr Scott and Mr Laffin have the appropriate recent and relevant experience to enable them to fulfil their role. The audit committee has Terms of Reference approved, and regularly reviewed, by the Board.

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 Group's external auditor. The committee develops and monitors policy on the engagement of the external auditor to supply non-audit services.

The responsibilities of the committee include to:

- monitor the integrity of the Group's financial statements and formal announcements relating to Flybe's performance and to review any significant financial reporting issues and/or judgements contained therein;
- keep 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;
- review, and challenge where necessary, the operating and financial/business review and corporate governance statement insofar as it relates to audit matters or risk management;
- consider management's response to any major external or internal audit recommendations
- consider applications for the post of Director of Internal Audit and Risk, approving appointments to the post and any dismissal of that post holder; and
- review the effectiveness of the Group's internal controls and risk management systems

The Group has a clear internal control system, the purpose of which is to safeguard investment in the Group's assets, which accords with the recommendations of the Financial Reporting Council. Through the audit committee the Board conducts reviews of the effectiveness of the Group's systems of internal controls, its policies and its systems including its risk management systems. The audit committee considers reports prepared by the Group's Internal Audit and Risk department and ensures that the annual Internal Audit and Risk plan reflects any material risks in internal control.

The Group employs procedures to ensure the continued independence of the external auditor. The audit committee has responsibility for monitoring and reviewing the external auditor's objectivity and independence and for ensuring that clear and effective channels are maintained for communication between the external auditor and the Group's financial and senior management.

The audit committee reviews the scope, results and cost-effectiveness of external audit, and has delegated power from the Board to keep under review the relationship with the external auditors, including the consideration of audit fees and any other fees which are payable to the Company's external auditors in respect of non-audit matters.

Nomination committee

The members of the nomination committee are Mr Laffin (Chairman), Mr Hammad, Mr Longbottom, Mr Scott and Mr Smith. The committee has Terms of Reference approved, and regularly reviewed, by the Board.

The nomination committee regularly reviews the structure, size and composition (including skills, knowledge, experience and diversity) of the Board and makes recommendations to the Board with regard to any adjustments that are deemed necessary.

In addition, the function of the nomination committee includes providing a formal, rigorous and transparent procedure for the appointment of new Directors to the Board.

In carrying out its duties, the nomination committee is primarily responsible for:

- 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 market place;
- identifying and nominating candidates, for the approval of the Board, to fill Board vacancies;
- reviewing the time requirements of Non-Executive Directors; and
- giving full consideration to succession planning for directors and other senior executives taking into account the challenges and opportunities facing the Company and the balance of skills, knowledge, experience and diversity needed on the Board in the future.

Safety and security review committee

The members of the safety & security review committee are Mr Smith (chairman), Mr Charles, Mr Palmer and Mr Wayne Jenner, who acts as an independent consultant to Flybe. Mr Jenner has had a career in both aviation and rail safety having, until February 2014, held the post of Director of Engineering at Southeastern Railway. Senior managers from within Flybe, Flybe Finland and Loganair attend meetings of this committee. The committee has terms of reference approved, and regularly reviewed, by the Board.

The purpose of the committee 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 committee reports regularly to the Board on matters relating to safety and produces an annual report which is reviewed and formally approved by the Board.

The duties of the safety and security review committee include to:

- review matters concerned with the safe and secure operation (both in the air and on the ground) of any aircraft operated by the Group;
- consider reports on incidents involving any aircraft operated by the Group. In cases involving the Group's aircraft, the safety and security review committee will ensure that appropriate remedial action is taken and, in any other cases, that appropriate recommendations are made to third parties;
- consider reports of significant incidents concerning safety at airports and in engineering facilities and ensure remedial action or appropriate recommendations are implemented;
- review compliance with health and safety legislation; and
- ensure full attention is given to issues of security and advice received from relevant national agencies and authorities.

8. Employees

As at 31 January 2014 (being the latest practicable date before the publication of this document), the Group had 2,090 permanent employees. The average number of employees employed by the Group during the periods covered by the historical financial information on Flybe contained in this document is as follows:

	<i>Year ended 31 March 2011</i>	<i>Year ended 31 March 2012</i>	<i>Year ended 31 March 2013</i>
Average headcount employed in year (FTEs)	2,786	2,781	2,667

Source: Annual Accounts

PART 4

FINANCIAL INFORMATION RELATING TO FLYBE GROUP PLC

The following documents, all of which are available on the Company's website at www.flybe.com, are incorporated into this document by reference.

- (a) Flybe's 2013 Annual Report and Accounts comprising Flybe's audited consolidated financial statements for the year ended 31 March 2013 under IFRS together with relevant notes. The independent auditors' report is on page 61, the consolidated balance sheet as at 31 March 2013 is on page 64, the consolidated income statement for the year ended 31 March 2013 is on page 62, the consolidated statement of comprehensive income and changes in equity is on page 63, the consolidated statement of cash flows is on page 65 and the accounting policies and explanatory notes are on pages 66 to 103;
- (b) Flybe's 2012 Annual Report and Accounts comprising Flybe's audited consolidated financial statements for the year ended 31 March 2012 under IFRS together with relevant notes. The independent auditors' report is on page 59, the consolidated balance sheet as at 31 March 2012 is on page 62, the consolidated income statement for the year ended 31 March 2012 is on page 60, the consolidated statement of comprehensive income and changes in equity is on page 61, the consolidated statement of cash flows is on page 63 and the accounting policies and explanatory notes are on pages 64 to 101;
- (c) Flybe's 2011 Annual Report and Accounts comprising Flybe's audited consolidated financial statements for the year ended 31 March 2011 under IFRS together with relevant notes. The independent auditors' report is on page 53, the consolidated balance sheet as at 31 March 2011 is on page 56, the consolidated income statement for the year ended 31 March 2011 is on page 54, the consolidated statement of comprehensive income and changes in equity is on page 55, the consolidated statement of cash flows is on page 57 and the accounting policies and explanatory notes are on pages 58 to 95; and
- (d) Flybe's half-year report for the six months ended 30 September 2013 comprising Flybe's unaudited consolidated financial statements for the six months ended 30 September 2013 under IFRS together with relevant notes. The independent auditors' review report is on page 20, the consolidated balance sheet as at 30 September 2013 is on page 23, the consolidated statement of comprehensive income for the six months ended 30 September 2013 is on page 21, the consolidated statements of comprehensive income and changes in equity is on page 22, the consolidated statement of cash flows is on page 24 and the accounting policies and explanatory notes are on pages 25 to 31.

Flybe will provide without charge to each person to whom a copy of this document has been delivered, upon the written or oral request of such person, a copy of any documents incorporated by reference in this document except that exhibits to such documents will not be provided unless they are specifically incorporated by reference into this document. Requests for copies of any such documents should be directed to:

Flybe Group plc

Jack Walker House
Exeter International Airport
Exeter
Devon
EX5 2HL

Attn: Chris Simpson

Company Secretary
Telephone: 01392 366669

PART 5

OPERATING AND FINANCIAL REVIEW OF FLYBE GROUP PLC

The following operating and financial review contains financial information that has been extracted or derived without material adjustment from the Group's consolidated financial information prepared in accordance with IFRS as at 30 September 2012 and 2013, and 31 March 2011, 2012 and 2013, and for the six months ending 30 September 2012 ("H1 2012/13") and 30 September 2013 ("H1 2013/14") and the 2010/11 Financial Year ("2010/11"), the 2011/12 Financial Year ("2011/12") and the 2012/13 Financial Year ("2012/13").

This Part 5 of this document contains forward looking statements about the Company's and the Directors' beliefs and expectations. Forward looking statements involve inherent risks and uncertainties and speak only as at the date on which they are made. A number of important factors could cause actual results or outcomes to differ materially from those expressed in any forward looking statements. In particular, the results of the Group's operations may not be consistent with predicted trends. Prospective investors should read the statement in relation to forward looking statements contained on page 25 of this document.

1. Overview

Headquartered in Exeter, United Kingdom, Flybe operates primarily as a UK-based regional airline, supported by one of Europe's leading regional aircraft maintenance, repair and overhaul ("MRO") businesses, trading as Flybe Aviation Services and a developing training business, trading as the Flybe Training Academy.

The Directors believe that Flybe's leading market position as a UK regional airline with a strong domestic focus offering has been established due to offering conveniently timed flight schedules operating from accessible regional airports. The Directors believe this can be demonstrated through Flybe's group revenues, which grew to £614.3 million for 2012/13.

The EBITDAR and profit before tax performance of the business over the prior three years reflect difficult trading conditions. The Board has taken a number of key steps to address this over the last year, including:

- Appointing a new Chief Executive Officer, Saad Hammad, in August 2013. Mr Hammad has a track record of turnaround situations and experience of the airline sector with easyJet and Air Berlin plc. Since then, there have been a number of further senior executive appointments to the management team;
- Implementing a number of efficiency programmes from August 2013 ("Immediate Actions") that build on the earlier programme (Phases 1 and 2). Overall these projects are reducing costs, rationalising routes and bases, increasing aircraft and crew utilisation, seeking supplier partnerships to reduce operating expenses and improving revenue yield;
- As a result, headcount has reduced from an average 2,786 FTEs in the year to 31 March 2010 to 2,123 FTEs in H1 2013/14. A further circa 500 employees are due to leave their posts by April 2014;
- Improving efficiency and productivity by increasing the utilisation of Flybe's operated aircraft and pilots and cabin crew, and closing six smaller bases;
- Selling Flybe's take-off and landing slots at London Gatwick to the easyJet Airline Company Limited for gross proceeds of £20.0 million, thereby reducing unprofitable flying activity; and
- Renegotiating agreements with suppliers including maintenance and parts providers, airports and other service arrangements so that the costs incurred by the business on its day-to-day operations are lower than previous years.

The second element of Flybe's development is the growth in revenues and the generation of profits from its joint venture operations in Finland. Flybe Finland is 60 per cent. owned by Flybe, with 40 per cent. held

by Finnair and predominantly provides contract flying services to Finnair from its base at Helsinki Airport. H1 2013/14 saw the first reported profits for this business. Further opportunities to improve profitability through efficiency initiatives and the elimination of losses from the smaller commercial flying operations are in the process of being delivered.

Consequently, the Group reports its business through two business segments, its UK businesses, Flybe UK and Flybe Finland:

- Flybe UK: This comprises the Group's commercial and contract flying operations from its UK-managed business as well as the MRO and Training Academy.
- Flybe Finland: This comprises the Group's contract and commercial flying operations from its joint venture based in Finland.

1.1. Summary financial information

The following table sets out certain summary financial information in respect of the Group in the six-month periods ended 30 September 2013 and 2012 and the financial years ended 31 March 2013, 2012 and 2011:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 (restated) £m	2010/11 £m
Group revenue	351.1	340.8	614.3	615.3	595.5
Revenue under management	477.3	396.3	781.5	678.8	595.5
EBITDAR ⁽⁵⁾	58.0	44.6	55.8	85.8	87.2
Adjusted EBITDAR ⁽⁶⁾	61.3	44.6	63.8	85.8	113.8
Operating profit/(loss) before restructuring and IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and revaluation on USD aircraft loans	12.2	(1.0)	(26.3)	(4.9)	7.6
Profit/(loss) before tax	13.8	(1.6)	(40.7)	(6.2)	(4.3)

Source: Annual and half-year accounts, unaudited management information

(5) Please see definition in the section "Glossary of Technical Terms"

(6) Please see definition in the section "Glossary of Technical Terms"

The table below reconciles operating profit/(loss) to operating profit/(loss) before restructuring and IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and revaluation on USD aircraft loans for the period under review:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 (restated) £m	2010/11 £m
Group revenue	351.1	340.8	614.3	615.3	595.5
Operating profit/(loss)	8.9	(1.0)	(34.3)	(4.9)	(0.9)
Restructuring costs	3.3	–	8.0	–	–
IPO costs	–	–	–	–	1.7
Unrealised losses on fuel and foreign exchange hedges	–	–	–	–	6.8
Operating profit/(loss) before restructuring and IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and revaluation on USD aircraft loans	12.2	(1.0)	(26.3)	(4.9)	7.6

Source: Annual and half-year accounts, unaudited management information

EBITDAR is defined as the profit or loss before tax after adding back net finance costs, taxation, depreciation, amortisation and aircraft rental costs. All EBITDAR metrics are non-GAAP measures. EBITDAR is a common airline profit measure which is used for making comparisons between airlines. Adjusted EBITDAR removes restructuring costs, IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and the estimated impact of disruption from volcanic ash and weather as reported in the income statement. 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 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.

The table below reconciles operating profit to EBITDAR and adjusted EBITDAR for the period under review:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 (restated) £m	2010/11 £m
Operating profit/(loss)	8.9	(1.0)	(34.3)	(4.9)	(0.9)
Depreciation and amortisation	6.9	6.9	12.0	13.1	10.7
Aircraft rental charges	42.2	38.7	78.1	77.6	77.4
EBITDAR⁽⁷⁾	58.0	44.6	55.8	85.8	87.2
IPO costs	–	–	–	–	1.7
Estimated impact of disruption from volcanic ash and weather	–	–	–	–	18.1
Unrealised losses on fuel and foreign exchange hedges	–	–	–	–	6.8
Restructuring costs	3.3	–	8.0	–	–
Adjusted EBITDAR⁽⁸⁾	61.3	44.6	63.8	85.8	113.8

Source: Annual and half-year accounts, unaudited management information

(7) Please see definition in the section “Glossary of Technical Terms”

(8) Please see definition in the section “Glossary of Technical Terms”

1.2. Changes to accounting for pensions under IAS 19R

For the six month period ended 30 September 2013, Flybe adopted the provisions of IAS 19R on Retirement Benefits for the first time. The impact of this change is addressed in note 2 on page 25 of the results for the six months ended 30 September 2013 incorporated by reference into this document.

IAS 19R has impacted the accounting for the Group’s defined benefit scheme by replacing the interest cost and expected return on plan assets with a new interest charge on the net defined benefit liability. For H1 2013/14, the profit and other comprehensive income is in line with what would have been prior to the adoption of IAS 19R. For the comparative period, the restated loss is £0.3 million higher, giving a loss before tax of £1.6 million (previously a loss of £1.3 million), and other comprehensive loss is £0.3 million lower than previously reported at £2.6 million (previously a loss of £2.9 million). There is no impact from the restatement on the net assets or reserves position at either 31 March 2013 or 31 March 2012.

For the periods H1 2013/14, H1 2012/13, 2012/13 and 2011/12, the impact of the adoption of IAS 19 on profit or loss before tax is as follows:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 £m
Profit/(loss) before tax – as reported	13.8	(1.3)	(40.7)	(6.2)
Increase in net finance cost under IAS 19R	–	(0.3)	(0.4)	(0.6)
Profit/(loss) before tax – restated	13.8	(1.6)	(41.1)	(6.8)

Source: Annual and half-year accounts, unaudited management information

For the periods H1 2013/14, H1 2012/13, 2012/13 and 2011/12, the impact of the adoption of IAS 19 on earnings per share is as follows:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 £m
Earnings/(loss) for the purposes of unadjusted earnings per share being net profit/(loss) attributable to the owners of the Group – as reported	13.6	(1.3)	(41.8)	(6.4)
Increase in net finance cost under IAS 19R	–	(0.3)	(0.4)	(0.6)
Earnings/(loss) for the purposes of unadjusted earnings per share being net profit/(loss) attributable to the owners of the Group – restated	13.6	(1.6)	(42.2)	(7.0)
Add back:				
Restructuring costs	3.3	–	8.0	–
Revaluation (gains)/losses on USD aircraft loans	(5.7)	(0.7)	4.7	(0.9)
Earnings/(loss) for the purposes of adjusted earnings per share – restated	11.2	(2.3)	(29.5)	(7.9)
	<i>No.</i>	<i>No.</i>	<i>No.</i>	<i>No.</i>
Weighted average number of shares in issue	75,152,881	75,152,881	75,152,881	75,152,881
Earnings/(loss) per ordinary share – basic and diluted (restated)	18.1p	(2.0)p	(56.2)p	(9.3)p
Adjusted earnings/(loss) per ordinary share – basic and diluted (restated)	14.9p	(3.0)p	(56.2)p	(9.3)p

Source: Annual and half-year accounts, unaudited management information

Diluted profit per share is the same as basic loss per share in H1 2013/14 as the average market price of ordinary shares during the period was less than the exercise price of the potentially issuable shares. For H1 2012/13, 2012/13 and 2011/12 diluted loss per share is the same as basic loss per share because the Group recorded a loss in each of those periods and as such none of the potentially issuable shares are dilutive.

2. Current trading

The business has a late booking profile from its passengers, reflecting the high flexibility demanded by business travellers who comprise around 40 per cent. of its customers.

Flybe UK's current forward passenger sales revenue is as follows:

- Q4 2013/14 shows an increase over Q4 2012/13 of approximately 3 per cent. driven by an increase in passenger volumes partially offset by lower yields; and
- Forward sales for the 2014 Summer Season are currently broadly in line with the 2013 Summer Season.

3. Factors affecting the Group's results from operations

The results of operations and financial condition of the Group have been influenced in the period under review by various factors, including those summarised below, and the Group expects that these factors may continue to have an impact on its results of operations and financial condition in the future. For further information on some of the risks that may affect the Group's results of operations and financial condition, please see the section of this document entitled "Risk Factors".

3.1. General economic conditions

The Group's results of operations and financial condition are largely driven by customer demand for business and leisure goods and services, and the level of such demand, in turn, is affected by general economic conditions. The Group's results of operations are impacted by economic conditions in its source markets as well as those in destination countries. As spending on leisure (and to a lesser extent business) travel is discretionary and price-sensitive, conditions that reduce disposable income or consumer confidence – such as an increase in interest rates (which, among other things, may cause consumers to incur higher monthly expenses under mortgages), unemployment rates, direct or indirect taxes, fuel prices or other costs of living – have led, and may continue to lead, to consumers reducing or discontinuing their spending on travel or opting for lower-cost products offered by the Group or its competitors. In the period under review, some of these factors have been, and may continue to be, particularly prevalent during periods of economic downturn or market volatility and disruption.

3.2. Initiatives to reduce cost base, improve productivity and increase profitability

As discussed in the Overview set out on page 78, the business has embarked on a far reaching review of all its operations and significant cost savings have been identified.

3.3. Fuel

Aviation fuel is a significant variable cost which has had a material impact on Flybe's results during the period under review and will continue to do so. 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 Flybe's overall fuel costs.

The price of aviation fuel has seen a reduction in volatility throughout 2012/13 and H1 2013/14, but it has stabilised at a relatively high level – Brent crude was in the \$103 to \$113 a barrel range for most of the period. The average price for jet fuel was around \$1,021 for 2012/13, and \$962 for H1 2013/14. Overall, the price of jet fuel was slightly lower than in 2011/12, peaking at \$1,116 per tonne on 3 April 2012.

Flybe's fuel costs for 2012/13 increased to £122.6 million from £106.4 million, and for the first half of 2013/14 increased marginally to £69.4 million from £68.6 million largely due to the realisation of favourable hedge positions during 2010/11 that had been taken out in 2009/10 and the benefit of these was not available in 2012/13 or H1 2013/14. The limitations to this are discussed in the Risk Factors section.

Flybe operates a policy of managing this volatility by entering into derivative contracts representing a portion (between 60 per cent. and 90 per cent.) of its aviation fuel requirements up to 12 months forward. The intention of this programme is to provide a significant element of certainty over its fuel costs for any forthcoming IATA season. However, such contracts and agreements do not completely protect the Group against price volatility and are limited in volume and duration. As fuel is a global commodity, the price of it in the open market can go up as well as down from the position reported at any particular point in time. The factors that affect the commodity price of fuel are varied (including the state of the global economy, geo-political factors, market demand, supply from key producers, future investment in the exploration for oil and the production of fuel and the role of speculators) and, in some cases, the price can be very sensitive to small changes in these factors. As a result, the price experienced can be highly volatile.

Flybe adopts IAS39 hedge accounting and all hedges of exposure to changes in fuel price are documented accordingly, and this enables any gains and losses arising on effective hedges to be deferred until final settlement when the derivative instrument is finally realised. 2010/11 saw the unwinding of hedge positions that had been put in place prior to the adoption of these requirements on 1 April 2010.

As at 17 February 2014, Flybe had hedged 76 per cent. of its anticipated fuel requirements for December 2013 to March 2014 at US\$993 per tonne, and had hedged 62 per cent. of its anticipated fuel requirements for 2014/15 at US\$961 per tonne.

Further information on fuel and other financial instruments is set out at paragraphs 9.1 and 9.5 of this Part 5 of this document.

3.4. Foreign currency

Flybe reports its financial results in Sterling. However, due to its international operations, Flybe also generates revenues and incurs expenses in Euros and incurs a significant amount of expenses in US dollars as a result of fuel purchases, maintenance costs and aircraft operating lease commitments. Translation of receivables and payables are taken to the income statement at each balance sheet date.

The Group manages its exposures based on its net foreign currency exposure. As regards “net” foreign currency exposure (i.e. foreign currency expenditure less associated revenues), Flybe currently has a relatively small net exposure to Euros, but has to purchase a significant volume of US dollars to settle expenditure on items such as fuel, maintenance and aircraft operating leases. Flybe generates no significant US dollar revenues and actively manages its US dollar position through a foreign exchange forward purchase programme – see paragraph 7.2 of this Part 5 of this document for further details. In addition, Flybe is not able to put in place hedging arrangements to ameliorate all of the impact of balance sheet movements in non-sterling denominated assets and liabilities and as such the income statement may be subject to both adverse and favourable movements in profitability as a result.

The table below sets out for each of the periods under review (i) Flybe’s US dollar requirements, (ii) forward derivative instruments taken out and (iii) the blended exchange rate achieved:

	<i>H1</i> <i>2013/14</i> <i>£m</i>	<i>H1</i> <i>2012/13</i> <i>£m</i>	<i>2012/13</i> <i>£m</i>	<i>2011/12</i> <i>£m</i>	<i>2010/11</i> <i>£m</i>
US dollar					
Foreign currency requirement	\$202m	\$202m	\$385m	\$349m	\$322m
Proportion hedged at beginning of period	60%	78%	61%	82%	79%
Effective exchange rate ⁽⁹⁾	\$1.53	\$1.61	\$1.55	\$1.58	\$1.62

Source: Unaudited management information

(9) Please see definition in the section “Glossary of Technical Terms”

As at 17 February 2014, Flybe had hedged 73 per cent. of its anticipated US dollar requirements for December 2013 to March 2014 at US\$1.55, and had hedged 53 per cent. of its anticipated US dollar requirements for 2014/15 at US\$1.57.

Further information on foreign currency and other financial instruments is set out at paragraphs 9.3 and 9.5 of this Part 5 of this document.

3.5. Operational gearing

Flybe has a relatively high fixed operating cost base, being 39.8 per cent. of total costs in 2012/13 and 34.3 per cent. of total costs in H1 2013/14. These costs, which include pilots and cabin crew, aircraft ownership, depreciation, marketing, overheads and finance costs, vary to a minimal degree relative to seat capacity deployed or passengers flown.

As a result of this cost structure, Flybe’s business is sensitive to fluctuations in passenger demand which has a significant effect on revenues. In an economic downturn, such as that experienced from 2008 onwards, Flybe’s relatively high level of fixed costs can limit its ability to reduce overall costs in the short term. Conversely, in a period of increasing demand, Flybe is able to offer increased seat capacity with little or no increase in fixed costs.

As part of the Turnaround Plan and Immediate Actions, Flybe is reducing its fixed operating cost base by seeking early exits for surplus aircraft, reducing numbers of pilots and cabin crew and closing six of its smaller bases (Jersey, Guernsey, Aberdeen, Isle of Man, Newcastle and Inverness).

3.6. Seasonality

Flybe's results of operations vary significantly from quarter to quarter within the financial year and the first half of the year is generally stronger than the second half of the year. Historically, Flybe has generated more than 50 per cent. of its passenger revenues during the summer season. As a result, any disruption to Flybe's business during the summer season leading to lower utilisation, lower yields or reduced passenger load factor, would have a disproportionate impact on Flybe's results of operations. Flybe generally generates lower passenger revenues in the winter season. As the majority of Flybe's costs are incurred more evenly throughout the year, Flybe generally records lower operating results in the third and fourth quarters of its financial year. As a result of seasonality of demand, together with its high relative level of fixed costs, Flybe's passenger revenues and profitability have varied and are expected to continue to vary significantly from quarter to quarter within the financial year.

Additionally, heavy maintenance checks are typically performed in the off-peak winter season, from November to April, when fewer aircraft are in use due to lower passenger demand. Line maintenance or minor checks of aircraft occur throughout the year.

3.7. Capacity management

Since Flybe in the UK operates a regular flight schedule typically from regional airports, the Group is able to reduce the number of frequencies on certain routes in times of reduced demand (thereby saving all of the variable costs, which comprise 60 per cent. of Flybe's total operating costs), while maintaining sufficient flights on those routes to maintain customer loyalty over the medium to long term. However the result of further reviews in 2013 has led to plans to reduce further the numbers of both sectors and routes by 4.0 per cent. and 4.7 per cent. respectively.

In an effort to remove these surplus fixed operating costs from the business, Flybe 'wet leased' Q400s as follows:

- four to SN Brussels (now Brussels Airlines) for a contracted period of two years each that commenced in April 2012. Two aircraft are contracted to return to Flybe service in each of April and October 2014. Negotiations are underway to extend the arrangements with Brussels Airlines; and
- four to Olympic Air for an average 11 month period from Autumn 2009. All four wet-leased aircraft (and crew) returned to Flybe's operations at the end of October 2010. A 'wet lease' agreement involves the provision by the lessor (Flybe) of an aircraft together with its requisite crew, maintenance and insurance to the lessee.

In addition, seven aircraft were sold in 2011/12 and two more in H1 2013/14 to further reduce capacity. The 'Immediate Actions' currently being implemented are likely to lead to further aircraft being identified as surplus to Flybe's requirements for its scheduled operations allowing them to be used on white label opportunities as they arise or to be disposed of.

3.8. Impact of Icelandic volcanic ash disruption

During April and May 2010 Flybe cancelled 3,177 flights as a result of the disruption caused by the ash cloud from the eruption of the Eyjafjallajökull volcano in Iceland leading to the closure of various parts of northern European airspace. This represented approximately 4.2 per cent. of Flybe's planned flying programme for the first six months of 2010/11. The ash cloud significantly disrupted the Group's ability to generate revenue and profit and resulted in lower revenues and profit for the first quarter of 2010/11 than in the corresponding quarter of 2009/10. The Directors believe that the lost profit before tax for 2010/11 relating to the disruptions in April and May 2010 was £(11.6) million:

The Directors believe that changes implemented by the CAA (in May 2010) in the regulations concerning the safe flying of aircraft in the presence of volcanic ash are likely to have a much lower impact on Flybe's

flying programme when compared to the disruption experienced in April and May 2010 as a result of the eruption in Iceland. By way of example, operating under the previous rules, 396 flights were cancelled by Flybe as a result of the volcanic ash on 16 and 17 May 2010 whereas the Directors believe that, under the new regulations, only 33 flights (approximately three per cent. of Flybe's total flying programme) would have been cancelled.

4. Key components of the income statement

This section 4 of Part 5 of this document sets out in overview the key issues for the Group in managing its business for the period under review, the drivers behind such issues and the Group's key performance indicators ("KPIs"). Detailed analysis of these issues, drivers and KPIs is set out in sections 3 to 8 of this Part 5 of this document.

4.1. Revenue

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:

4.1.1. 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.

For flights purchased by members of the Frequent Flyer Programme, 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.

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.

4.1.2. 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 are recognised in the period when the services are provided and consists of income from charter, cargo, contract flying and the Loganair franchise.

Charter revenues represent aircraft and seat capacity provided to charter consolidators for series and ad hoc charter services. These are sold on an aircraft availability basis only and typically utilise gaps in Flybe's weekend flying programme, which tends to deploy less capacity than its business-oriented weekday flight schedule.

Cargo revenue is aircraft hold space sold for cargo and mail purposes on Flybe's scheduled services.

Contract flying revenues were derived from the Olympic Air contract in 2010/11 and SN Brussels from 2012/13 onwards, which accounted for a significant proportion of the overall growth in other revenue.

Franchise income is derived from the franchise agreement with Loganair, a regional airline based in Scotland, which flew 0.5 million passengers in 2012/13 and 0.2 million passengers during the H1 2013/14 under the Flybe brand. Please see the "Loganair Franchise Agreement" paragraph of section 9.2 of Part 6 of this document for further details of the Loganair franchise.

4.2. Restructuring provision

A restructuring provision is recognised when the Group has developed a detailed formal plan for the restructuring and has raised valid expectations in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

The costs incurred in the year to 31 March 2013 and H1 2013/14 are shown in the table below:

	<i>H1 2013/14</i>	<i>2012/13</i>
	<i>£m</i>	<i>£m</i>
Redundancies	2.4	5.6
Legal, professional and other support costs	0.9	1.2
Other restructuring costs	–	1.2
Restructuring costs	3.3	8.0

Source: Annual and half-year accounts, unaudited management information

4.3. 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 respective asset.

4.4. 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 component, 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.

4.5. Fleet

The Group continues to manage its fleet costs through its fleet management, which impacts its maintenance, fuel costs, aircraft rental charges and depreciation and amortisation costs. During the period under review the principal focus of Flybe's fleet management effort to support the UK business has been to maintain the overall fleet size by acquiring Embraer E175 regional jets to replace Bombardier Q400 turboprops as they have been returned to lessors or sold.

The overall fleet under Flybe's management increased by 16 aircraft in August 2011 following the acquisition of Finncomm (now Flybe Finland) in joint venture with Finnair Oyj, and that fleet was expanded after the establishment of the joint venture by the acquisition on operating lease of 12 Embraer E190 regional jets. Of the total fleet of 28 aircraft in Finland, 22 are deployed on white label contract flying activities in service of Finnair Oyj.

At 30 September 2013 Flybe's fleet under management of 96 aircraft had an average age of 5.5 years, as summarised below:

		1 April 2010	31 March 2013	30 September 2013
	Number of seats	Number of aircraft	Number of aircraft	Number of aircraft
UK Airline				
Bombardier Q400 turboprop	78	54	47	45
Embraer E175 regional jet	88	–	9	9
Embraer E195 regional jet	118	14	14	14
		<hr/>	<hr/>	<hr/>
		68	70	68
Flybe Finland				
ATR 42 turboprop	48	–	2	2
ATR 72 turboprop	68-72	–	12	12
Embraer E170 regional jet	76	–	2	2
Embraer E190 regional jet	100	–	12	12
		<hr/>	<hr/>	<hr/>
		–	28	28
		<hr/>	<hr/>	<hr/>
		68	98	96
Total Fleet				
Total seats in fleet		5,864	8,390	8,234
Average seats per aircraft		86.2	85.6	85.6
Average age (years)		3.3	5.1	5.5

Source: Unaudited management information

Historically, Flybe has financed its fleet primarily through operating lease structures.

As at 30 September 2013, Flybe had:

- committed orders in place with Embraer for 26 88-seat Embraer E175 aircraft, part of the E-Series family (due for delivery between September 2013 and December 2019);
- options for 65 E-Series aircraft, exercisable at Flybe's discretion for delivery between July 2015 and January 2022;
- purchase rights for a further 40 E Series aircraft (purchase rights have no contractual exercise or delivery dates, the delivery date becoming fixed once contracted). Flybe relinquishes the right to any purchase right not exercised on or before November 2017 and the contractual delivery dates to which these purchase rights can apply can be no later than December 2019.

On 14 November 2013, the remaining options in respect of the E-series aircraft were cancelled and two E175 aircraft were delivered in December 2013 leaving 24 orders outstanding.

4.6. Carrying value of aircraft

The Group had a net book value of approximately £131.8 million for aircraft as at 30 September 2013. Changes to the Group's estimation of useful lives, residual values and potential for impairment would have a material effect on the valuation of the Group's assets and on its operating loss.

Useful lives and residual values are reviewed at the end of each reporting period. Estimates of useful lives of aircraft are based on judgements as to expected usage of the aircraft, timing of maintenance events, the Group's route and fleet plans and on changes within the wider aviation industry. Estimates of residual value are based on current market values of aircraft in the same expected age and condition expected at the end of the asset's useful life to the Group.

The carrying value of aircraft, property, equipment and other tangible assets is reviewed for impairment at least annually and when events or changes in circumstances indicate the carrying value may not be recoverable. Factors that would indicate a potential impairment of aircraft would include a significant reduction in market values based on appraisers' data for the aircraft type, a significant change in the physical condition of the aircraft and a reduction in forecast cash flows arising from operating the asset. Carrying value is assessed based on the appraised data and forecast cash flows.

4.7. 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.

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 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 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.

5. Key performance indicators

A more detailed discussion of the key performance indicators than is outlined in the table below is contained in the applicable sections of this Part 4 of this document.

	2012/13	2011/12	2010/11	Change 2012/13 versus 2011/12 %	Change 2011/12 versus 2010/11 %
Operational measures					
<i>UK Airline</i>					
Scheduled sectors flown ⁽¹⁰⁾	132,600	137,400	138,200	(3.5)	(0.6)
Seat capacity (million) ⁽¹¹⁾	11.3	11.6	11.6	(2.6)	–
Available seat kilometres (million) ⁽¹²⁾	5,125.2	5,320.7	5,363.6	(3.7)	(0.8)
Passengers (million) ⁽¹³⁾	7.2	7.3	7.2	(1.4)	1.4
Load factor ⁽¹⁴⁾	64.1%	63.1%	61.7%	1.0 ppts	1.4 ppts
Fuel burn per seat (kgs) ⁽¹⁵⁾	15.9	15.8	15.9	(0.6)	0.6
Average number of aircraft operated during year	59.9	61.3	68.3	(2.3)	(10.1)
Operated aircraft utilisation – block hours ⁽¹⁶⁾	159,800	166,400	167,700	(4.0)	(0.8)
Block hours per operated aircraft	2,667	2,713	2,457	(1.7)	10.4
<i>MRO</i>					
Man hours – Flybe (000s)	214	244	208	(12.3)	17.3
Man Hours – third party (000s)	312	403	356	(22.6)	13.2
Man hours – total (000s)	526	647	564	(18.7)	14.7
<i>Finland</i>					
Block hours – white label flying	39,500	12,800	n/m	208.6	n/m
<i>Group</i>					
Employees – UK businesses (average FTEs)	2,667	2,781	2,786	(4.1)	(0.2)
Employees – Flybe Finland (average FTEs)	491	460	n/m	6.7	n/m

Source: Annual accounts, unaudited management information

(10) Please see the definition in the section “Glossary of terms”.

(11) Please see the definition in the section “Glossary of terms”.

(12) Please see the definition in the section “Glossary of terms”.

(13) Please see the definition in the section “Glossary of terms”.

(14) Please see the definition in the section “Glossary of terms”.

(15) Please see the definition in the section “Glossary of terms”.

(16) Please see the definition in the section “Glossary of terms”.

	<i>H1</i>	<i>H1</i>	<i>Change</i>
	<i>2013/14</i>	<i>2012/13</i>	<i>H1</i>
			<i>2013/14</i>
			<i>versus</i>
			<i>H1</i>
			<i>2012/13</i>
			<i>%</i>
Operational measures			
<i>UK Airline</i>			
Scheduled sectors flown	73,100	72,700	0.6
Seat capacity (million)	6.2	6.2	–
Available seat kilometres (million)	2,903.1	2,897.9	0.2
Passengers (million)	4.3	4.0	5.6
Load factor	68.6%	65.0%	3.6 <i>ppts</i>
Fuel burn per seat (kgs)	16.2	16.2	–
Average number of aircraft operated during year	58.5	62.0	(5.6)
Operated aircraft utilisation – block hours	87,100	89,000	(2.1)
Block hours per operated aircraft	1,489	1,435	3.8
<i>MRO</i>			
Man hours – Flybe (000s)	74	96	(22.9)
Man Hours – third party (000s)	139	179	(22.3)
Man hours – total (000s)	213	275	(22.5)
<i>Finland</i>			
Block hours – white label flying	31,600	12,100	161.2
<i>Group</i>			
Employees – UK businesses (average FTEs)	2,123	2,833	(25.1)
Employees – Flybe Finland (average FTEs)	533	473	12.6

Source: Half-year accounts, unaudited management information

	2012/13	2011/12	2010/11	Change 2012/13 versus 2011/12 %	Change 2011/12 versus 2010/11 %
Financial measures					
<i>UK Airline</i>					
Passenger yield ⁽¹⁷⁾	£76.16	£77.21	£76.15	(1.4)	1.4
Passenger revenue per seat ⁽¹⁸⁾	£48.84	£48.71	£46.96	0.3	3.7
Passenger revenue per available seat kilometre (pence) ⁽¹⁹⁾	10.77p	10.63p	10.17p	1.3	4.5
Operating costs (exc. fuel) per seat ⁽²⁰⁾	£(41.98)	£(41.58)	£(40.42)	(1.0)	(2.9)
Operating cost at constant currency (exc. fuel) per seat ⁽²¹⁾	£(41.98)	£(42.15)	£(43.50)	0.4	3.1
Operating cost at constant currency (exc. fuel) per available seat kilometre (pence)	(10.45)p	(9.69)p	(9.28)p	(7.8)	(4.4)
Fuel cost per seat	£(10.85)	£(9.17)	£(7.96)	(18.3)	(15.1)
Effective fuel price per tonne ⁽²²⁾	\$(1,002)	\$(853)	\$(735)	(17.5)	(16.0)
Effective USD exchange rate ⁽²³⁾	\$1.55	\$1.58	\$1.62	n/m	n/m
<i>MRO</i>					
Third party revenue	25.0	26.4	22.8	(5.2)	15.6
<i>Group</i>					
Revenue under management	781.5	678.8	595.5	15.1	14.0
Group revenue	614.3	615.3	595.5	(0.2)	3.3
EBITDAR ⁽²⁴⁾	55.8	85.8	87.2	(35.0)	(1.6)
Adjusted EBITDAR ⁽²⁵⁾	63.8	85.8	113.8	(25.6)	(24.6)
EBITDAR margin ⁽²⁶⁾	7.1%	12.6	14.6	(5.5) ppts	(2.0) ppts
Adjusted EBITDAR margin ⁽²⁷⁾	8.2%	12.6	19.1	(4.5) ppts	(6.5) ppts
Loss before tax	(40.7)	(6.2)	(4.3)	556.6	44.2

Source: Annual accounts, unaudited management information

(17) Please see the definition in the section "Glossary of Technical Terms".

(18) Please see the definition in the section "Glossary of Technical Terms".

(19) Please see the definition in the section "Glossary of Technical Terms".

(20) For a description of operating costs, please see section 6.4 of this document.

(21) Please see the definition in the section "Glossary of Technical Terms".

(22) Please see the definition in the section "Glossary of Technical Terms".

(23) Please see the definition in the section "Glossary of Technical Terms".

(24) Please see the definition in the section "Glossary of Technical Terms".

(25) Please see the definition in the section "Glossary of Technical Terms".

(26) Please see the definition in the section "Glossary of Technical Terms".

(27) Please see the definition in the section "Glossary of Technical Terms".

			<i>Change</i>
			<i>H1</i>
			<i>2013/14</i>
			<i>versus</i>
	<i>H1</i>	<i>H1</i>	<i>H1</i>
	<i>2013/14</i>	<i>2012/13</i>	<i>2012/13</i>
			<i>%</i>
Financial measures			
<i>UK airline</i>			
Passenger yield	£73.36	£76.79	(4.5)
Passenger revenue per seat	£50.35	£49.92	0.9
Passenger revenue per available seat kilometre (pence)	10.76p	10.71p	0.5
Operating costs (exc. fuel) per seat	£43.92	£(43.63)	(0.8)
Operating cost at constant currency (exc. fuel) per seat	£43.92	£(44.37)	(0.9)
Operating cost at constant currency (exc. fuel) per available seat kilometre (pence)	(9.40)p	(9.58)p	1.9
Fuel cost per seat	£(11.19)	£(11.06)	(1.2)
Effective fuel price per tonne	\$(975)	\$(1,008)	3.2
Effective USD exchange rate	\$1.53	\$1.61	<i>n/m</i>
<i>MRO</i>			
Third party revenue	13.6	11.7	16.2
<i>Group</i>			
Revenue under management	477.3	396.3	20.4
Group revenue	351.1	340.8	3.0
EBITDAR	58.0	44.6	30.0
Adjusted EBITDAR	61.3	44.6	37.4
EBITDAR margin	12.2	11.3	<i>0.9 ppts</i>
Adjusted EBITDAR margin	12.8	11.3	<i>1.6 ppts</i>
Profit/(loss) before tax	13.8	(1.6)	<i>n/m</i>

Source: Half-year accounts, unaudited management information

EBITDAR declined from £87.2 million in 2010/11 to £55.8 million in 2012/13 as a result of costs increasing faster than the overall increase in revenue over that period.

Primarily as a result of cost savings from the Turnaround Plan, Flybe's EBITDAR in H1 2013/14 increased to £58.0 million (from £44.6 million in H1 2012/13).

6. Results of operations

The Group's results for H1 2013/14 and 2012/13 and for each of the three years ended 31 March 2013, 2012 and 2011 are shown in the table below:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 (restated) £m	2010/11 £m
Passenger revenue	312.3	310.3	551.8	565.6	545.7
Other revenue	38.8	30.5	62.5	49.7	49.8
Group revenue	351.1	340.8	614.3	615.3	595.5
Joint venture revenue	126.2	55.5	167.2	63.5	–
Revenue under management	477.3	396.3	781.5	678.8	595.5
Fuel and aircraft operations	(183.6)	(180.1)	(323.3)	(311.2)	(295.1)
Aircraft ownership costs	(73.4)	(66.2)	(123.8)	(128.4)	(125.3)
Staff and other net operating expenses	(85.4)	(93.4)	(201.5)	(180.6)	(167.5)
Operating profit/(loss) before IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	8.9	(1.0)	(34.3)	(4.9)	7.6
IPO costs	–	–	–	–	(1.7)
Unrealised gains on fuel and foreign exchange hedges	–	–	–	–	(6.8)
Operating profit/(loss)	8.9	(1.0)	(34.3)	(4.9)	(0.9)
Net finance costs and other gains and losses	4.9	(0.6)	(6.4)	(1.3)	(3.4)
Profit/(loss) before tax	13.8	(1.6)	(40.7)	(6.2)	(4.3)
Tax (charge)/credit	(0.2)	–	(1.1)	(0.2)	8.1
Profit/(loss) after tax	13.6	(1.6)	(41.8)	(6.4)	3.8

Source: Annual and half-year accounts

6.1. Revenue

The Group's revenues for each of the three years ended 31 March 2013, 2012 and 2011 are shown in the table below:

	2012/13	2011/12	2010/11	Change 2012/13 versus 2011/12	Change 2011/12 versus 2010/11
	£m	£m	£m	%	%
Passenger revenue	551.8	565.6	545.7	(2.4)	3.6
Other revenue	62.5	49.7	49.8	25.8	(0.2)
Group revenue	614.3	615.3	595.5	(0.2)	3.3
Joint venture revenue	167.2	63.5	–	163.3	n/m
Revenue under management	781.5	678.8	595.5	15.1	14.0
Passengers, million ⁽²⁸⁾	7.2	7.3	7.2	(1.4)	1.4
Seats, million ⁽²⁹⁾	11.3	11.6	11.6	(2.6)	–
ASKs, million ⁽³⁰⁾	5,125	5,320	5,364	(3.7)	(0.8)
Passenger yield ⁽³¹⁾	£76.16	£77.21	£76.15	(1.4)	1.4
Passenger revenue per seat ⁽³²⁾	£48.84	£48.71	£46.96	0.3	3.7
Passenger revenue per ASK ("RASK") ⁽³³⁾	10.77p	10.63p	10.17p	1.3	4.5

Source: Annual accounts, unaudited management information

(28) Please see the definition in the section "Glossary of Technical Terms".

(29) Please see the definition in the section "Glossary of Technical Terms".

(30) Please see the definition in the section "Glossary of Technical Terms".

(31) Please see the definition in the section "Glossary of Technical Terms".

(32) Please see the definition in the section "Glossary of Technical Terms".

(33) Please see the definition in the section "Glossary of Technical Terms".

The Group's revenues for each of H1 2013/14 and H1 2012/13 are shown in the table below:

	<i>H1</i> <i>2013/14</i> <i>£m</i>	<i>H1</i> <i>2012/13</i> <i>£m</i>	<i>Change</i> <i>H1</i> <i>2013/14</i> <i>versus</i> <i>H1</i> <i>2012/13</i> <i>%</i>
Passenger revenue	312.3	310.3	0.6
Other revenue	38.8	30.5	27.2
Group revenue	351.1	340.8	3.0
Joint venture revenue	126.2	55.5	127.4
Revenue under management	477.3	396.3	20.4
Passengers, million	4.3	4.0	5.6
Seats, million	6.2	6.2	–
ASKs, million	2,903	2,898	0.2
Passenger yield	£73.36	£76.79	(4.5)
Passenger revenue per seat	£50.35	£49.92	0.9
RASK	10.76p	10.71p	0.5

Source: Half-year accounts, unaudited management information

Passenger revenue increased from £545.7 million in 2010/11 to £551.8 million in 2012/13 as a result of the increase in passenger yield from £76.15 to £76.16, with passenger numbers holding flat at 7.2 million. H1 2013/14 saw a 0.6 per cent. increase in passenger revenue over H1 2012/13 with passenger numbers increasing by 5.6 per cent. as a result of Flybe stimulating demand by reducing the price it charged to customers; as a result passenger yield fell from £76.79 to £73.36.

Passenger revenue per available seat kilometre ("RASK") increased from 10.17p to 10.77p from 2010/11 to 2012/13 largely as a result of capacity management measures which reduced the number of seats flown from 11.6 million to 11.3 million over the same period. H1 2013/14 saw a continued increase in RASK to 10.76p from the 10.71p in H1 2012/13 as a result of the small increase in passenger revenue from £310.3 million to £312.3 million on flat seats flown at 6.2 million.

Other revenue grew from H1 2012/13 to H1 2013/14 by £8.3m primarily due to increased contract flying for SN Brussels (four aircraft rather than two) and higher charter and inventory sales. Other revenue increased by £12.8 million from 2011/12 to 2012/13 primarily due to the contract with SN Brussels commencing and was flat between 2010/11 and 2011/12. Other revenue generated from third parties includes £13.6 million and £1.1 million in H1 2013/14 and £25.0 million and £1.5 million in 2012/13 of revenue related to the MRO and the Training Academy respectively.

6.2. Fuel and aircraft operations

The Group's costs related to fuel and aircraft operations for each of the three years ended 31 March 2013, 2012 and 2011 are shown in the table below:

	2012/13	2011/12	2010/11	Change 2012/13 versus 2011/12	Change 2011/12 versus 2010/11
	£m	£m	£m	%	%
Fuel	(122.6)	(106.4)	(92.5)	(15.2)	(15.0)
Net airport and en route charges	(117.0)	(118.1)	(113.6)	0.9	(4.0)
Ground operations	(83.7)	(86.7)	(89.0)	3.5	2.6
Fuel and aircraft operations	(323.3)	(311.2)	(295.1)	(3.9)	(5.5)
Fuel burn, kilotons	179.1	183.5	185.0	2.4	0.8
Fuel burn per seat, kgs ⁽³⁴⁾	15.9	15.8	15.9	(0.6)	0.6

Source: Annual accounts, unaudited management information

(34) Please see definition in the section "Glossary of Technical Terms"

The Group's costs related to fuel and aircraft operations for each of H1 2013/14 and H1 2012/13 are shown in the table below:

	H1 2013/14	H1 2012/13	Change H1 2013/14 versus H1 2012/13
	£m	£m	%
Fuel	(69.4)	(68.6)	(1.2)
Net airport and en route charges	(70.0)	(68.1)	(2.8)
Ground operations	(44.2)	(43.4)	(1.8)
Fuel and aircraft operations	(183.6)	(180.1)	(1.9)
Fuel burn, kilotons	100.5	101.0	0.5
Fuel burn per seat, kgs ⁽³⁵⁾	16.2	16.2	-

Source: Half-year accounts, unaudited management information

(35) Please see definition in the section "Glossary of Technical Terms"

Fuel costs have been the key driver of increased costs as the blended price of fuel, net of hedges, increased from an average of \$735 in 2010/11 to \$1,002 in 2012/13. Fuel efficiency has remained stable at around 15.9 kilogrammes per seat over these three years and at 16.2 million in each of the two half year periods. The amount of fuel burnt has reduced from 185.0 kilotons in 2010/11 to 179.1 kilotons in 2012/13 and by a small amount between H1 2012/3 and H1 2013/14. Further detail on fuel price movements can be found in paragraph 3.3 of Part 5.

Net airport and en route charges and costs associate with ground operations have remained broadly stable, with the main changes resulting from changes in foreign exchange rates.

6.3. Aircraft ownership costs

The Group's costs related to aircraft ownership for each of the three years ended 31 March 2013, 2012 and 2011 are shown in the table below:

	2012/13	2011/12	2010/11	Change 2012/13 versus 2011/12	Change 2011/12 versus 2010/11
	£m	£m	£m	%	%
Maintenance	(33.7)	(37.7)	(37.2)	10.6	(1.3)
Depreciation	(12.0)	(13.1)	(10.7)	8.4	(22.4)
Aircraft rental charges	(78.1)	(77.6)	(77.4)	(0.6)	(0.3)
Aircraft ownership costs	(123.8)	(128.4)	(125.3)	3.6	(2.5)
UK fleet size, number at end of year	70	68	69	2.9	(1.4)

Source: Annual accounts, unaudited management information

The Group's costs related to aircraft ownership for each of H1 2013/14 and H1 2012/13 are shown in the table below:

	H1 2013/14	H1 2012/13	Change H1 2013/14 versus H1 2012/13
	£m	£m	%
Maintenance	(24.3)	(20.6)	(18.0)
Depreciation	(6.9)	(6.9)	–
Aircraft rental charges	(42.2)	(38.7)	(9.0)
Aircraft ownership costs	(73.4)	(66.2)	(10.9)
UK fleet size, number at end of period	68	69	(1.4)

Source: Half-year accounts, unaudited management information

Aircraft ownership costs have decreased from £125.3 million in 2010/11 to £123.8 million in 2012/13 largely as a result of movements in exchange rates as the fleet size deployed from the UK has remained broadly stable at between 68 to 70 aircraft throughout. H1 2013/14 has seen an increase in these costs largely as a result of increases in maintenance costs and aircraft rental charges. The latter have increased largely due to movements in foreign exchange rates and the arrival of new leased regional jet aircraft which are more expensive than the majority of Flybe's turboprop fleet.

6.4. Staff and other net operating costs

The Group's staff and other net operating costs for each of the three years ended 31 March 2013, 2012 and 2011 are shown in the table below:

	2012/13 (before restruc- turing) £m	2012/13 (restruc- turing) £m	2012/13 £m	2011/12 £m	2010/11 £m	Change 2012/13 versus 2011/12 %	Change 2011/12 versus 2010/11 %
Staff costs	(124.0)	(5.6)	(129.6)	(120.7)	(110.3)	(7.4)	(9.4)
Marketing and distribution costs	(25.1)	–	(25.1)	(25.5)	(24.5)	1.6	(4.1)
Other operating gains or losses	(1.2)	–	(1.2)	4.2	2.5	n/m	(68.0)
Other operating expenses	(40.4)	(2.4)	(42.8)	(35.6)	(35.2)	(20.2)	(1.1)
Share of joint venture results – Finland	(2.8)	–	(2.8)	(3.0)	–	6.7	–
Staff and other net operating costs – Group	(193.5)	(8.0)	(201.5)	(180.6)	(167.5)	(11.7)	(6.0)
Employees, full time equivalents (“FTEs”)	2,667	–	2,667	2,781	2,786	(4.1)	(0.2)
Staff cost per FTE, £	46,500	–	48,600	43,400	39,600	(12.0)	(9.6)

Source: Annual accounts, unaudited management information

The Group's staff and other net operating costs for each of H1 2013/14 and H1 2012/13 are shown in the table below:

	H1 2013/14 (before restruc- turing) £m	H1 2013/14 (restruc- turing) £m	H1 2013/14 £m	H1 2012/13 %	Change H1 2013/14 versus H1 2012/13 %
Staff costs	(49.3)	(2.4)	(51.7)	(63.2)	18.2
Marketing and distribution costs	(11.7)	–	(11.7)	(12.9)	9.3
Other operating gains or losses	2.5	–	2.5	1.3	(92.3)
Other operating expenses	(23.6)	(0.9)	(24.5)	(18.6)	(31.7)
Share of joint venture results – Finland	0.2	–	0.2	(2.1)	n/m
Staff and other net operating costs – Group	(81.9)	(3.3)	(85.2)	(95.5)	10.8
Employees, FTEs	2,123	–	2,123	2,833	(25.1)
Staff cost per FTE, £	23,200	–	24,400	22,300	(4.0)

Source: Half-year accounts, unaudited management information

Overall, the largest impact on staff and other net operating costs has been staff costs and in relation to increases in other operating expenses across the periods. Staff cost changes have been driven by negotiated pay rises in the unionised sections of the workforce and changes to headcount. In addition, other operating gains and losses are subject to significant volatility in relation to the non-cash foreign exchange movements on the value of the Group's USD-denominated loans used to fund aircraft purchases. These accounted for a loss of £(4.7 million) in 2012/13 and gains of £0.9 million in 2011/12 with the two periods of H1 2013/14 and H1 2012/13 showed gains of £5.7 million and £0.7 million respectively. These loans did not exist in 2010/11 and so no gain or loss arose in that period.

The restructuring of the business has reduced the overall cost burden as demonstrated by the decrease in overall staff costs from £63.2 million in H1 2012/13 to £49.3 million (before restructuring costs, i.e. redundancy costs, of £2.4 million) in H1 2013/14. Staff costs before restructuring decreased by 22.0 per cent., while staff costs per FTE increased by 4.0 per cent. Other costs associated with the restructuring programme including legal and professional fees are reported in other operating expenses and amounted to £2.4 million in 2012/13 and £0.9 million in H1 2013/14. Other operating expenses before restructuring increased by 26.9 per cent. in H1 2013/14 and 13.5 per cent. in 2012/13 compared to H1 2011/12 and 2011/12 respectively.

6.5. Results on a constant currency basis

The Group's operating results, on a constant currency basis, for H1 2013/14 and 2012/13 and for each of the three years ended 31 March 2013, 2012 and 2011 are shown in the table below:

	H1 2013/14 £m	H1 2012/13 £m	2012/13 (restated) £m	2011/12 (restated) £m	2010/11 £m
Passenger revenue	312.3	310.3	551.8	565.6	545.7
Other revenue	38.8	30.5	62.5	49.7	49.8
Group revenue	351.1	340.8	614.3	615.3	595.5
Joint venture revenue	126.2	55.5	167.2	63.5	–
Revenue under management	477.3	396.3	781.5	678.8	595.5
Fuel and aircraft operations	(183.6)	(184.9)	(332.9)	(313.1)	(299.5)
Aircraft ownership costs	(73.4)	(68.9)	(128.4)	(131.5)	(127.9)
Staff and other net operating expenses	(85.2)	(95.7)	(201.8)	(180.7)	(167.7)
Operating profit/(loss) before IPO costs and unrealised gains and losses on fuel and foreign exchange hedges	8.9	(8.7)	(48.8)	(10.0)	0.4
IPO costs	–	–	–	–	(1.7)
Unrealised gains on fuel and foreign exchange hedges	–	–	–	–	(6.8)
Operating profit/(loss) on a constant currency basis	8.9	(8.7)	(48.8)	(10.0)	(8.1)
Operating profit/(loss) – as reported	8.9	(1.0)	(34.3)	(4.9)	(0.9)

Source: Unaudited management information

Constant currency is calculated by applying the effective exchange rate of \$1.53 and €1.19 for H1 2013/14 to the costs incurred in USD and Euros in each of the other reporting periods.

Due to the movements in exchange rates, the costs incurred would have been higher and the operating loss higher in each of the relevant reporting periods. Overall, costs in 2012/13 and H1 2012/13 would have been 2.2 per cent. and 2.3 per cent. higher than originally reported with fuel, maintenance and aircraft rental charges seeing the highest increases due to the significant expenditure incurred in USD.

6.6. EBITDAR and operating profit/(loss)

The Group's earnings before interest, tax, depreciation, amortisation and aircraft rental charges ("EBITDAR") for each of the three years ended 31 March 2013, 2012 and 2011 are shown in the table below:

	2012/13	2011/12	2010/11	Change 2012/13 versus 2011/12	Change 2011/12 versus 2010/11
	£m	£m	£m	%	%
Operating loss – unadjusted	(34.3)	(4.9)	(0.9)	n/m	n/m
Depreciation and amortisation	12.0	13.1	10.7	(8.4)	22.4
Aircraft rental charges	(78.1)	(77.6)	(77.4)	0.6	0.3
EBITDAR⁽³⁶⁾	55.8	85.8	87.2	(35.0)	(1.6)
Restructuring costs reported in the income statement	8.0	–	–	n/m	n/m
Adjusted EBITDAR before restructuring costs⁽³⁷⁾	63.8	85.8	87.2	(25.6)	(1.6)

Source: Annual accounts

(36) Please see definition in the section "Glossary of Technical Terms"

(37) Adjusted EBITDAR is defined as the profit or loss before tax after adding back net finance costs, taxation, depreciation, amortisation, aircraft rental costs and restructuring costs.

The Group's EBITDAR for each of H1 2013/14 and H1 2012/13 are shown in the table below:

	H1 2013/14	H1 2012/13	Change H1 2013/14 versus H1 2012/13
	£m	£m	%
Operating profit/(loss) – unadjusted	8.9	(1.0)	n/m
Depreciation and amortisation	(6.9)	(6.9)	–
Aircraft rental charges	(42.2)	(38.7)	9.0
EBITDAR	58.0	44.6	30.0
Restructuring costs reported in the income statement	3.3	–	n/m
Adjusted EBITDAR before restructuring costs	61.3	44.6	37.4

Source: Half-year accounts

EBITDAR has fallen in each year from 2010/11 to 2012/13. H1 2013/14 saw a recovery from the position in H1 2012/13 as a result of cost reductions due to the restructuring programme. As a result, Adjusted EBITDAR increased to £61.3 million in H1 2013/14 from £44.6 million in H1 2012/13.

Operating profit/(loss) includes £2.1 million and £nil in H1 2013/14 and £(1.2) million and £(0.3) million in 2012/13 of segment operating profit related to the MRO and the Training Academy respectively.

6.7. Tax

The Group paid no corporation tax during the period under review. Any taxable profits generated have been fully offset by tax losses carried forward from previous financial years and capital allowances on aircraft purchases.

The Group has recorded a tax credit for 2010/11 of £8.1 million, with small charges totalling £1.3 million in each of the following periods. As at 30 September 2013, a recognised tax asset in relation to available tax losses of £2.7 million and other unrecognised deferred tax assets of £6.6 million, comprising both differences between depreciation and capital allowances and assets recognised in relation to derivative financial instrument positioning. To the extent that the Group generates taxable profits in excess of the amounts for which assets have been recognised, the tax payable will be offset by these assets.

6.8. Flybe UK

The following table indicates the results of Flybe UK for each of the three years ended 31 March 2013, 2012 and 2011:

	2012/13 (before restruc- turing) £m	2012/13 (restruc- turing) £m	2012/13 £m	2011/12 £m	2010/11 £m	Change 2012/13 versus 2011/12 %	Change 2011/12 versus 2010/11 %
Passenger revenue	551.8	–	551.8	565.6	545.7	(2.4)	3.6
Other revenue	62.5	–	62.5	49.7	49.8	25.8	(0.2)
Revenue	614.3	–	614.3	615.3	595.5	(0.2)	3.3
Fuel and aircraft operations	(323.3)	–	(323.3)	(311.2)	(295.1)	(3.9)	(5.5)
Aircraft ownership costs	(123.8)	–	(123.8)	(128.4)	(125.3)	3.6	(2.5)
Staff and other net operating costs	(189.7)	(8.0)	(197.7)	(176.8)	(167.5)	(11.8)	(5.6)
Segment operating costs	(636.8)	(8.0)	(644.8)	(616.4)	(587.9)	(4.6)	(4.8)
Net finance costs	(6.7)	–	(6.7)	(1.6)	(3.4)	(318.8)	(52.9)
Segment results	(29.2)	(8.0)	(37.2)	(2.7)	(4.3)	n/m	n/m

Source: Annual accounts, unaudited management information

The following table indicates the segmental results of Flybe UK for each of H1 2013/14 and H1 2012/13:

	H1 2013/14 (before restruc- turing) £m	H1 2013/14 (restruc- turing) £m	H1 2013/14 £m	H1 2012/13 %	Change H1 2013/14 versus H1 2012/13 %
Passenger revenue	312.3	–	312.3	310.3	0.6
Other revenue	38.8	–	38.8	30.5	27.2
Revenue	351.1	–	351.1	340.8	3.0
Fuel and aircraft operations	(183.6)	–	(183.6)	(180.1)	(1.9)
Aircraft ownership costs	(73.4)	–	(73.4)	(66.2)	(10.9)
Staff and other net operating costs	(81.7)	(3.3)	(85.0)	(92.9)	8.5
Segment operating costs	(338.7)	(3.3)	(342.0)	(339.2)	(0.8)
Net finance income/(costs)	4.7	–	4.7	(0.8)	n/m
Segment results	17.1	(3.3)	13.8	(0.8)	n/m

Source: Half-year accounts, unaudited management information

Overall revenue has increased for all of the periods under review. This is discussed further in section 6.1. Fuel and aircraft operations are identical between the Group and Flybe UK. The only difference between

the aircraft ownership costs reported for the Group are the depreciation charges incurred in respect of the MRO operation as discussed in section 6.9 below.

Staff and other net operating costs increased across the three years to 2012/13 as a result, largely of pay rises agreed and increases in headcount. The restructuring programme has benefited this area in H1 2013/14 when compared to the 8.5 per cent. higher (including restructuring costs) figure reported in H1 2012/13. Before restructuring, staff and other net operating costs were 12.1 per cent. lower than H1 2012/13 but 7.3 per cent. higher in 2012/13 compared to 2011/12.

Segment results show a move to losses in the full financial years while the H1 2013/14 period has shown a return to profit, largely as a result of the actions taken to restructure the business.

6.9. Flybe Finland

The following table indicates the results of Flybe Finland for each of the two years ended 31 March 2013 and 2012:

	2012/13 £m	2011/12 £m	2010/11 £m	Change 2012/13 versus 2011/12 %	Change 2011/12 versus 2010/11 %
Joint venture revenue	167.2	63.5	-	163.3	n/m
Joint venture result	(2.8)	(3.0)	-	6.7	n/m
Staff and other net operating costs	(1.0)	(0.8)	-	(25.0)	n/m
Net finance costs	0.3	0.3	-	-	n/m
Segment results	(3.5)	(3.5)	-	-	n/m

Source: Annual accounts, unaudited management information

The following table indicates the results of Flybe Finland for each of H1 2013/14 and H1 2012/13:

	H1 2013/14 £m	H1 2012/13 £m	Change H1 2013/14 versus H1 2012/13 %
Joint venture revenue	126.2	55.5	127.4
Joint venture result	0.2	(2.1)	n/m
Staff and other net operating costs	(0.4)	(0.5)	20.0
Net finance costs	0.2	0.2	-
Segment results	-	(2.4)	n/m

Source: Half-year accounts, unaudited management information

Flybe Finland was acquired in a joint venture with Finnair Oyj in August 2011 operating 16 leased aircraft on a mix of commercial and contract flying for Finnair. In October 2012, a further 12 aircraft were acquired on leases from Finnair to perform contract flying operations for them. Revenue has grown within the joint venture as a result and the losses in the operations reduced as costs have been eliminated and the volume of commercial flying reduced both in relation to the total and to that initially planned.

The overall joint venture results have improved as restructuring actions were taken to eliminate cost from the business. As contract flying has increased within the business, the joint venture has moved towards

profit. Other costs, including finance costs, have remained largely stable throughout (after taking account that 2012/13 was the first full year of operations).

7 Balance sheet

This section provides selected information on the financial position of the Group as contained in the Group's balance sheets. The only material acquisition or disposals of business in the period under review was Flybe's acquisition of Flybe Finland in a joint venture with Finnair Oyj in August 2011. Aside from this, all other balance sheet movements during this period resulted from normal trading activities in continuing operations.

The following table sets out certain of the Group's key balance sheet data as at 31 March 2011, 31 March 2012, 31 March 2013, 30 September 2012 and 30 September 2013 under IFRS:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 £m	2010/11 £m
Aircraft	131.8	155.5	140.4	136.9	110.9
Interest in joint ventures	13.2	14.4	13.2	16.2	–
Borrowings	(98.2)	(109.1)	(121.0)	(97.3)	(83.7)
Net (debt)/funds, including restricted cash	(34.0)	(50.0)	(66.3)	(29.7)	21.9

Source: Annual and half-year accounts, unaudited management information

7.1. Aircraft

Flybe has historically financed the majority of its aircraft fleet by way of operating lease. However, in certain cases, Flybe will choose to take direct ownership of aircraft and will fund those purchases through loans secured on the respective aircraft. This programme was accelerated after the IPO which provided funds for aircraft purchases. The net book value of these assets increased in 2011/12 due to the acquisition of four owned E175 regional jets through finance lease arrangements and in 2012/13 by a further two owned E175s (the other three E175s were acquired through operating leases that are not currently capitalised onto the balance sheet). There were disposals of seven Q400 turboprops in 2011/12 to Rand Merchant Bank and a further two in H1 2013/14 that had the impact of reducing the impact of these additions on the overall carrying value of Flybe's aircraft fleet.

The majority of the Group's fleet is financed in US dollars. Please see paragraph 3.4 of this Part 5 of this document for a discussion of the risks inherent in foreign currency financing arrangements.

7.2. Interest in joint ventures

The Group acquired its 60 per cent. stake in the joint venture that has become Flybe Finland in August 2011 for a total consideration of £19.1 million (including expenses). Flybe's share of the losses since then has reduced the carrying value of the investment in the following period, but H1 2013/14 has seen Flybe Finland move to a break-even position, reversing this trend.

7.3. Borrowings and liquidity

The Group's liquidity position is discussed in paragraph 8.1 and borrowings are discussed in paragraph 8.3 of this Part 5 of this document.

8. Liquidity and capital resources

8.1. Overview

Flybe has historically funded its business through a combination of its operating cash flows, debt and operating lease financing. During this period the Group has historically maintained a net debt position,

except at 31 March 2011 which benefited from the unspent portion of the IPO proceeds raised in December 2010, as follows:

	<i>H1</i> 2013/14 £m	<i>H1</i> 2012/13 £m	2012/13 £m	2011/12 £m	2010/11 £m
Borrowings – non-current	(85.7)	(96.2)	(102.3)	(76.0)	(66.8)
Borrowings – current	(12.5)	(12.9)	(18.7)	(21.3)	(16.9)
Cash and cash equivalents	19.1	27.9	23.3	42.9	87.7
Net debt	(79.1)	(81.2)	(97.7)	(54.4)	4.0
Restricted cash – non-current	5.6	8.3	7.2	7.9	8.6
Restricted cash – current	39.5	22.9	24.2	16.8	9.3
Net debt including restricted cash	(34.0)	(50.0)	(66.3)	(29.7)	21.9

Source: Annual and half-year accounts

The Group's primary liquidity needs in the future are to fund its ongoing operations, aircraft and non-aircraft capital expenditure, investment in new routes and bases, product development and its debt financing commitments. The Group expects to finance these liquidity needs, along with its net indebtedness position, through cash generated from operating activities, cash held on the balance sheet, proceeds of the Firm Placing and Placing and Open Offer and external funding, including committed bank facilities. As at 17 February 2014 (being the latest practicable date prior to the publication of this document), the Group's sources of liquidity comprise cash and cash equivalents (which includes short term deposits) of £18.5 million, excluding £39.5 million held in Flybe's name in restricted accounts, borrowings that have been drawn down of £102.6 million and undrawn bonds facilities of £4.3 million.

8.2. Capital resources

The Group's business is capital intensive. Its main sources of liquidity are cash flows and debt and operating lease financing arrangements.

8.3. Financing arrangements

The following table discloses the obligations under financing arrangements as at 30 September 2013 of Flybe.

	<i>Payments due by period</i>				<i>Total</i> £m
	<i>Less than</i> <i>1 year</i> £m	<i>1 to 2</i> <i>years</i> £m	<i>2 to 5</i> <i>years</i> £m	<i>More than</i> <i>5 years</i> £m	
	Secured bank loans ⁽³⁸⁾	13.1	13.4	25.7	
Aircraft operating leases	82.2	75.7	183.4	83.2	424.5
Other operating leases	2.1	1.0	2.3	9.6	15.0
Total	97.4	90.1	211.4	141.1	540.0

Source: Unaudited management information

(38) Includes interest that will accrue in future reporting periods.

Total borrowings on balance sheet were £(97.3) million as at 31 March 2012, rising to £(121.0) million as at 31 March 2013 largely as a result of the delivery of two new aircraft in April 2012, and falling to £(98.2) million as at 30 September 2013 as a result of the disposal of two owned aircraft from Flybe's fleet. As at 30 September 2013, £(82.0) million in secured bank loans consisted of amounts denominated in US Dollars on which interest was charged based on floating interest rates based on LIBOR. Overall, £(92.7) million of the secured bank loans have interest charged based on floating rates based on LIBOR, with remaining £(5.5) million being at fixed interest rates under loans largely denominated in sterling. During

2012/13, the weighted average interest rate was 1.6 per cent, a figure which increased to 2.4 per cent. in H1 2013/14.

As at 17 February 2014 (being the latest practicable date prior the publication of this document), there have been no significant changes in Flybe's financing arrangements to the position set out in respect of H1 2013/14. For further information on Flybe's levels of capitalisation and indebtedness as at 30 September 2013, please see section 13 of Part 7 "Additional Information" of this document.

8.4. Cash flows for the period under review

The following table displays Flybe's cash flows for each of the three years ended 31 March 2013, 2012 and 2011:

	<i>2012/13 (before restruc- turing) £m</i>	<i>2012/13 (restruc- turing) £m</i>	<i>2012/13 £m</i>	<i>2011/12 £m</i>	<i>2010/11 £m</i>
Net cash from operating activities	(1.5)	(1.4)	(2.9)	3.0	18.1
Net cash from investing activities	(32.7)	–	(32.7)	(58.1)	(35.4)
Net cash from financing activities	16.0	–	16.0	10.3	58.9
Net (decrease)/increase in cash and cash equivalents	(18.2)	(1.4)	(19.6)	(44.8)	41.6
Cash and cash equivalents at beginning of year	42.9	–	42.9	87.7	46.1
Cash and cash equivalents at 31 March	24.7	(1.4)	23.3	42.9	87.7

Source: Annual accounts, unaudited management information

The following table displays Flybe's cash flows for each of H1 2013/14 and H1 2012/13:

	<i>H1 2013/14 (before restruc- turing) £m</i>	<i>H1 2013/14 (restruc- turing) £m</i>	<i>H1 2013/14 £m</i>	<i>H1 2012/13 £m</i>
Net cash from operating activities	(3.2)	(6.9)	(10.1)	(4.8)
Net cash from investing activities	23.5	–	23.5	(22.0)
Net cash from financing activities	(17.6)	–	(17.6)	11.8
Net increase/(decrease) in cash and cash equivalents	2.7	(6.9)	(4.2)	(15.0)
Cash and cash equivalents at beginning of period	23.3	–	23.3	42.9
Cash and cash equivalents at 30 September	26.0	(6.9)	19.1	27.9

Source: Half-year accounts, unaudited management information

8.4.1. Operating activities

Included in cash inflow from operating activities are the movements in monetary receivables, payables and provisions. Flybe benefits from very low debtor days because the majority of ticket sales and ancillary revenues are sold through the internet using credit cards, with cash settlement occurring within a few days. The Directors consider that there is a very low credit default risk from sales on cards.

Across the period, the decrease in cash flow from operations reflects the underlying profitability of the business. H1 2013/14 has seen a return to profit and underlying cash generation, but was adversely affected by further transfer to restricted cash of £15.0 million in order to secure card acquiring services for Flybe. This follows on from changes initiated in 2011/12 by the Group's primary banker that meant £7.0 million of additional cash was required to secure these services. 2012/13 saw a further change requiring another £7.0 million to be transferred in the first half of the year to restricted cash for these services. In addition, £6.9 million was spent in H1 2013/14 and £1.4 million in 2012/13 in order to restructure the business.

8.4.2. Investing activities

2010/11: completion of the Group's new Training Academy building in Exeter and the cash flows associated with this event. The majority of the remaining investing cash flows are associated with the acquisition and disposal of aircraft, with one aircraft acquired and one disposed of on a sale and lease back arrangement.

2011/12: seven aircraft acquired and seven disposed of to Rand Merchant Bank. In addition, £18.2 million was spent on the acquisition of what is now Flybe Finland, the Group's joint venture with Finnair Oyj.

2012/13: five aircraft were acquired, with the majority of the other movements being related to new software acquisitions and development and, as in the other periods, aircraft deposit arrangements. Two owned aircraft were contracted for sale to Aero Nigeria and the deposits received.

H1 2013/14: completion of the sale of the two aircraft to Aero Nigeria and the receipt of the £7.5 million first instalment of the slot consideration due from the EasyJet Airline Company Limited.

8.4.3. Financing activities

2010/11: financing arrangements put in place for the completion of the Training Academy building and in relation to the aircraft acquired mentioned in section 8.4.2 above. In addition, there were scheduled cash flows associated with loans already entered into. The most significant receipt was in respect of the net proceeds from Flybe's Admission in December 2010 of £60.3 million.

2011/12: disposal of seven aircraft led to the repayment of the associated loans as well as the scheduled loan repayments on these and other arrangements. Four new loans on relation to aircraft acquired were taken out.

2012/13: two of the aircraft acquired were financed via loan arrangements, with the main other net movement being in relation to scheduled loan repayments.

H1 2013/14: aside from scheduled loan repayments, borrowings on the two aircraft disposed of to Aero Nigeria were repaid.

8.5. Capital Expenditure

Committed E-series jet Aircraft

As at September 2013 Flybe had firm commitments to purchase a further 26 Embraer E-series jets for delivery between December 2013 and December 2019. Two of these were delivered in December 2013, leaving an outstanding commitment for 24 aircraft.

The committed Embraer E-series jets require pre-delivery payments (“PDPs”) of approximately 20 per cent. of the aircraft basic price prior to delivery. This is payable as set out below:

Firm aircraft initial contract deposit, paid in July 2010	US\$100,000 per aircraft
	1 per cent. of the aircraft basic price (less the initial deposit), payable 15 months prior to delivery.
	4 per cent. of the aircraft basic price, payable 12 months prior to delivery.
	5 per cent. of the aircraft basic price, payable 9 months prior to delivery.
	10 per cent. of the aircraft basic price, payable 5 months prior to delivery.

Flybe has not secured financing for its future pre delivery payments, and the Directors therefore expect that the payments will be financed out of existing cash resources.

Flybe has entered into a letter of agreement with Embraer for the provision of debt financing for the purchase of all of the committed E175 aircraft deliveries. Under this arrangement with Embraer, if BNDES (the Brazilian National Development Bank) is not able to provide committed finance for the delivery of a particular aircraft within agreed financial parameters by a specified date prior to the contractual delivery date in respect of that aircraft, and alternative financing arrangements cannot then be made through Embraer, Flybe is not obliged to accept delivery of that aircraft. Any PDPs paid by Flybe to Embraer would be repayable by Embraer in the event that Flybe terminates the delivery of an aircraft in such circumstances. If BNDES fails to provide the financing in respect of the delivery of a particular E175 aircraft (and alternative financing arrangements cannot be made through Embraer), this default does not impact on the delivery or financing obligations agreed to by Embraer in respect of subsequent committed E175 aircraft deliveries.

The terms of the debt financing are to be in accordance with the OECD Aircraft Sector Understanding on Export Credits for Civil Aircraft (the “ASU”), save that Flybe has secured additional terms that cap the interest rate costs related to the lender’s cost of funding. The debt financing is for 85 per cent. of the net aircraft price. The Directors estimate that the margin, based on Flybe’s previous ASU financings, is likely to be less than 200 basis points. At Flybe’s election, financing may be provided directly to Flybe (in order for Flybe to purchase the aircraft) or to a third party aircraft lessor nominated by Flybe who will purchase the aircraft and subsequently lease it back to Flybe under an operating lease structure.

In the event Flybe Limited elects to use debt finance, the Directors intend to fund the remaining 15 per cent. of the net aircraft price payable in respect of each Embraer E175 delivery out of existing cash resources. The expected cash outlay in respect of the delivery of each Embraer E175 aircraft is expected to be less than £2.4 million (approximately US\$3.95 million).

Flybe currently has firm commitments to purchase a further two CF34-8E5 spare engines for its Embraer E175 aircraft for delivery between June 2014 and November 2015. The Directors intend to obtain operating lease financing, on competitive terms, for these engines on delivery.

8.6. Capital commitments

As at each period end, the Group was contractually committed to the following capital expenditure:

	<i>As at</i> <i>30 September</i>	<i>As at 31 March</i>		
	<i>2013</i>	<i>2013</i>	<i>2012</i>	<i>2011</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Aircraft purchase commitments	596.5	636.2	720.9	858.0
Number of aircraft under purchase commitments:	No.	No.	No.	No.
Q400	–	–	–	3
E-Series	26	26	31	35
Total	26	26	31	38

Source: Unaudited management information

The number and value of aircraft subject to purchase commitments has declined since 2010/11 as the final aircraft were delivered under the arrangements with Bombardier and the deliveries under the July 2010 contract with Embraer commenced.

The Directors expect that the committed aircraft purchases (alongside the purchase rights held by Flybe) will be used to replace existing aircraft.

As at September 2013, Flybe has committed orders in place with Embraer for 26 E175 aircraft (due for delivery until December 2019).

In addition, Flybe has purchase rights with Embraer for a further 40 E-series aircraft (purchase rights have no contractual exercise or delivery dates, the delivery date becoming fixed once contracted). Flybe is not contractually committed to exercise such purchase rights and can let the purchase rights lapse without penalty. Flybe relinquishes the right to any purchase right aircraft not exercised on or before November 2017 and the contractual delivery dates to which these purchase rights can apply can be no later than December 2019.

The Directors intend that the committed new aircraft will be financed partly through cash flow and partly through external financing and leasing arrangements.

8.7. Financing of the fleet

In order to maintain a modern fleet, the Group typically finances its aircraft, whether held under operating leases or owned outright by Flybe (with associated debt financing), over an 8 to 12 year period. After this period, aircraft are usually retired by returning them to the lessor or selling them in the second-hand market, thus avoiding the higher operational costs (such as fuel and maintenance) associated with older aircraft. The majority of the Group's fleet is financed in US dollars.

The table below summarises (i) the dates on which each of Flybe's 60 aircraft operating leases expire and (ii) the date on which the Directors anticipate each of Flybe's 10 owned or finance leased aircraft (including two aircraft already sold in 2013/14) will be retired from service:

	<i>E-Series</i>		<i>Q400</i>		<i>Total</i>	
	<i>Op. lease</i>	<i>Owned</i>	<i>Op. lease</i>	<i>Owned</i>	<i>Op. lease</i>	<i>Owned</i>
Lease expiry date or anticipated retirement date from fleet						
2013/14	–	–	3	4	3	4
2014/15	3	–	2	–	5	–
2015/16	2	–	2	–	4	–
2016/17	–	–	5	–	5	–
2017/18	–	–	10	–	10	–
2018/19	3	–	6	–	9	–
2019/20	5	–	2	–	7	–
2020/21	1	–	5	–	6	–
2021/22	–	4	7	–	7	4
2022/23	3	2	1	–	4	2
Total	17	6	43	4	60	10

Source: Unaudited management information

To date, Flybe has financed the majority of its fleet through operating leases. The two principal considerations on which Flybe has historically based its decision to finance the majority of its fleet by way of operating leases are:

- residual value of aircraft: the use of operating leases to finance aircraft reduces residual value risk because the Group typically operates the aircraft until expiry of its operating lease, and then returns it to the lessor, subject to agreed return conditions. In contrast, aircraft purchased using debt finance must either be sold or re-financed at the end of the financing period. If the decision is made to sell an aircraft, the proceeds will be dependent on the prevailing market, which is difficult to predict as it is typically eight to twelve years after initial purchase date; and
- cash flow: financing new aircraft by way of operating lease requires significantly less initial cash outlay than acquiring outright ownership of aircraft using debt finance. For example, an operating lease covering the full initial purchase price of an aircraft typically requires an initial cash deposit of approximately three per cent. of the aircraft's value. In contrast, the Group's acquisition of outright ownership of an aircraft using debt finance has typically required an initial cash outlay of 15 to 20 per cent. or more of the purchase price of the aircraft, as the maximum loan to value ratio of debt funding available to the Group has usually been between 80 and 85 per cent.

While the Group's decision to date to finance the majority of its aircraft via operating leases minimises initial cash outlay and residual value risk, annual operating lease payments are typically higher than the corresponding ownership costs, including depreciation and interest payments due to the operating lessors' profit margin and risk premium for assuming the residual value risk in the capital value of the aircraft.

8.8 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 complied with such covenants for the period under review.

8.9 Dividends

No dividends were paid or declared by the Company during the period under review.

8.10 Off balance sheet arrangements and contingent liabilities

Other than for operating leases referred to at paragraph 8.3 of this Part 5 of this document, the Group had no other off balance sheet arrangements for the periods under review.

The Group has entered into arrangements to guarantee the Group's credit card arrangements and has placed bonds in favour of various handling agents, fuel suppliers and customs offices:

	<i>H1</i>			
	<i>2013/14</i>	<i>2012/13</i>	<i>2011/12</i>	<i>2010/11</i>
	<i>£m</i>	<i>£m</i>	<i>£m</i>	<i>£m</i>
Credit card arrangements	29.0	14.0	14.0	14.0
Bonds	7.9	8.7	8.8	8.2
Total	36.9	22.7	22.8	22.2
Cash deposited to secure the above arrangements	36.9	22.7	15.7	8.7

Source: Annual accounts, unaudited management information

In order to secure some of the arrangements highlighted above, the Group deposited amounts with its bankers that are classified as part of other restricted cash.

9. Quantitative and qualitative disclosures about market risk

Flybe is exposed to market risks associated with fluctuations in fuel prices, interest rates, and foreign exchange rates. The Group has adopted a treasury policy designed to reduce uncertainty around fuel prices, foreign exchange rates and interest rates.

Flybe adopts IAS39 hedge accounting and all hedges of exposure to changes in fuel price are documented accordingly, and this enables any gains and losses arising on effective hedges to be deferred until final settlement when the derivative instrument is finally realised.

Paragraph 9.5 of this Part 5 of this document details the fair value of the derivative financial instruments held as at 30 September 2013.

9.1. Fuel policies

The Group purchases aviation fuel on the open market from recognised fuel suppliers in order to operate its fleet of aircraft. Jet fuel costs represented 20 per cent. of Flybe's revenue in 2012/13 and 19.8 per cent. in H1 2013/14 and, in recent years, fuel prices have been extremely volatile. The objective of the Group's fuel hedging policy is to manage the average effective price of fuel over the subsequent 12 months to 24 months, in order to allow the Group to build known fuel costs into its pricing decisions. In order to do this, the Group enters into forward derivative contracts on a monthly rolling basis to gain certainty over fuel prices and delivery and provide some certainty around cash outflows for the Group's fuel requirements. The Group typically has 60 per cent. of its fuel requirements for the subsequent rolling 12 month period fixed at any given time. The Group fixes up to a maximum of 90 per cent. of its requirements for the following season.

To mitigate such fuel price risk, the Group enters into derivative contracts (swaps and options) in the "over the counter market" ("OTC") that are relatively straight-forward in nature and do not expose the Group to risks it does not understand. This policy is designed to gain greater certainty over a significant proportion of the Flybe's future short-term fuel payments. However, in order to protect itself from being at a competitive disadvantage from falling prices, the Group regularly reviews its current fuel hedging portfolio and may, from time to time, reconsider the proportion of its fuel that it will hedge.

For 2012/13, the Directors estimate that a general increase of ten percentage points in fuel price per tonne, all other factors being equal and taking account of hedging in place at the beginning of the financial year, would have increased the Group's costs by approximately £3.3 million. For H1 2013/14, the equivalent annual increase would have been £6.3 million. The effect of these derivatives upon completion of the underlying transaction is recorded in the income statement under costs for jet fuel.

9.2. 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.

	<i>Calendar year</i> <i>2013</i>	<i>Calendar year</i> <i>(actual)</i> <i>2012</i>
Anticipated carbon allowances required, tonnes	562,200	566,800
Free allowance allocation, tonnes	259,800	274,900
Proportion forward purchased	88%	100%
Effective carbon rate	€3.63	€6.17

Source: Annual accounts, unaudited management information

Anticipated carbon allowances required for calendar year 2014 amount to 518,500 tonnes, with the free allowance allocation being maintained at calendar year 2013's level of 259,800 tonnes. As at 30 September 2013, 80.0 per cent. of Flybe's anticipated requirement including free allowances for calendar year 2014 had been purchased at an average effective rate of €4.37.

Following the Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading within the Community, it is expected that no free carbon allowances will be issued for calendar year 2013 and that compliance for this year will be deferred for a period of one year to coincide with 2014 submissions. Any carbon allowances purchased for 2013 Calendar Year compliance have been rolled forward and will be combined with 2014 compliance which will all be submitted in April 2015.

9.3. Foreign currency

Flybe reports its financial results in Sterling. However, due to its international operations, Flybe also generates revenues and incurs expenses in Euros. The Group also incurs a significant amount of expenses in US dollars as a result of purchases of aircraft, spare parts and fuel in US dollars. As regards "net" foreign currency exposure (i.e. foreign currency expenditure less associated revenues), Flybe currently has a relatively small net exposure to Euros, but has to purchase a significant volume of US dollars to settle expenditure on items such as fuel, maintenance and aircraft operating leases. Flybe generates a very small proportion of its revenues in US dollars and actively manages its US dollar position through a foreign exchange forward purchase programme – see paragraph 3.4 of this Part 5 of this document for further details. To mitigate this risk, Flybe enters into a series of forward contracts in order to gain certainty over a significant proportion of its future US dollar payments.

The Group's borrowings are used to finance the purchase of aircraft and engines and are denominated in both Sterling and US dollars. To mitigate the interest rate risk on these borrowings, Flybe enters into a mix of fixed and floating borrowing arrangements to gain certainty over a proportion of its future interest payments.

For 2012/13, it is estimated that a general increase of one percentage point in US dollar and Euros exchange rates would have increased the Group's costs by approximately £0.4 million and £0.1 million respectively and for H1 2013/14 by approximately £0.3 million and nil respectively.

Monetary assets and liabilities denominated in foreign currencies are re-translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the consolidated income statement. 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.

9.4. Interest rate 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 between fixed and floating rate borrowings. In addition, Flybe generates investment income from its cash balances that are largely derived by its operating activities, although the financing of aircraft can also have a significant impact.

For 2012/13, it is estimated that a general increase of one percentage point in interest rates would have increased the Group's costs by approximately £1.2 million and for H1 2013/14 by approximately £0.9 million.

9.5. Amounts of derivative financial instruments

At 30 September 2013, the Group had hedge instruments recorded at their fair market value as follows:

	<i>Fair market value £m</i>
Forward fuel price contracts	(0.7)
Forward contracts for foreign exchange	(7.3)
Net liability position	(8.0)

Source: Unaudited management information

Derivative financial instruments are classified as current or non-current, assets or liabilities depending on their market value and their maturity date. The Group does not engage in any trading activity in respect of the instruments and the instruments are all designed to hedge known exposures within the Group

PART 6

UNAUDITED PRO FORMA FINANCIAL INFORMATION

Annex I
para 20.2 and
para 20.4.3

Part A: Accountants' report on the unaudited pro-forma financial information

Deloitte LLP
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Manchester
M60 2AT

The Board of Directors
on behalf of Flybe Group plc
Jack Walker House
Exeter International Airport
Exeter
Devon
EX5 2HL

Liberum Capital Limited
Ropemaker Place Level 12
25 Ropemaker Street
London
EC2Y 9LY

20 February 2014

Dear Sirs,

Flybe Group plc (the "Company")

We report on the pro-forma financial information (the "Pro-forma financial information") set out in Part B of Part 6 of the prospectus dated 20 February 2014 (the "**Prospectus**"), which has been prepared on the basis described, for illustrative purposes only, to provide information about how the Firm Placing and Placing and Open Offer might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the period ending 30 September 2013. This report is required by Annex I item 20.2 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro forma financial information in accordance with Annex 1 item 20.2 and Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, in accordance with Annex I item 20.2 of the Prospectus Directive Regulation, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

- (a) the pro-forma financial information has been properly compiled on the basis stated; and
- (b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully,

Deloitte LLP

Chartered Accountants

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London, EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Part B: Unaudited Pro-forma Financial Information

The unaudited pro-forma financial information set out below has been prepared to illustrate the impact of the Firm Placing and Placing and Open Offer on the consolidated net assets of the Group. The pro-forma financial information has been prepared for illustrative purposes only and, because of its nature, addresses a hypothetical situation and, therefore, does not and will not represent the Group's actual financial position or results.

The pro-forma financial information is based on the consolidated net assets of the Group as at 30 September 2013 and has been prepared on the basis that the exchange of the London Gatwick slots with easyJet (being the subject of the circular to shareholders dated 17 July 2013) and the settlement of the Firm Placing and Placing and Open Offer took place on that date. The pro-forma financial information takes no account of the results of the Group for the period subsequent to 30 September 2013, or for any other changes in its financial position in that period.

Pro-forma Statement of Consolidated Net Assets

at 30 September 2013

	Adjustments:			Pro-forma Consolidated Net Assets of the Group as at 30 September 2013 ⁽⁴¹⁾
	Consolidated Net Assets of the Group as at 30 September 2013 ⁽³⁸⁾	Net proceeds of the exchange of London Gatwick slots with easyJet ⁽³⁹⁾	Estimated Net Proceeds of the Firm Placing and Placing and Open Offer ⁽⁴⁰⁾	
	(£m)	(£m)	(£m)	(£m)
Non-current assets				
Intangible assets	13.7	(8.5)	–	5.2
Property, plant and equipment	156.1	–	–	156.1
Interests in joint ventures	13.2	–	–	13.2
Other non-current assets	39.8	–	–	39.8
Restricted cash ⁽⁴²⁾	5.6	–	–	5.6
Deferred tax asset	4.4	0.1	–	4.5
	<u>232.8</u>	<u>(8.4)</u>	<u>–</u>	<u>224.4</u>
Current assets				
Inventories	6.6	–	–	6.6
Trade and other receivables	89.9	11.6	–	101.5
Cash and cash equivalents ⁽⁴²⁾	19.1	–	150.0	169.1
Restricted cash ⁽⁴²⁾	39.5	–	–	39.5
Derivative financial instruments	0.4	–	–	0.4
	<u>155.5</u>	<u>11.6</u>	<u>150.0</u>	<u>317.1</u>
Total assets	<u>388.3</u>	<u>3.2</u>	<u>150.0</u>	<u>541.5</u>
Current liabilities				
Trade and other payables	(99.3)	–	–	(99.3)
Deferred income	(55.8)	7.5	–	(48.3)
Borrowings ⁽⁴²⁾	(12.5)	–	–	(12.5)
Provisions	(38.6)	–	–	(38.6)
Derivative financial instruments	(8.3)	–	–	(8.3)
	<u>(214.5)</u>	<u>7.5</u>	<u>–</u>	<u>(207.0)</u>
Non-current liabilities				
Borrowings ⁽⁴²⁾	(85.7)	–	–	(85.7)
Deferred tax liabilities	(0.9)	0.9	–	–
Provisions	(26.3)	–	–	(26.3)
Deferred income	(10.2)	–	–	(10.2)
Derivative financial instruments	(0.1)	–	–	(0.1)
	<u>(123.2)</u>	<u>0.9</u>	<u>–</u>	<u>(122.3)</u>
Total liabilities	<u>(337.7)</u>	<u>8.4</u>	<u>–</u>	<u>(329.3)</u>
Net assets	<u>50.6</u>	<u>11.6</u>	<u>150.0</u>	<u>212.2</u>

(38) The consolidated net assets position of the Group as at 30 September 2013 has been extracted without material adjustment from the unaudited accounts for that period.

(39) On 2 August 2013, Flybe's shareholders approved the exchange of all of the slots it then held at London Gatwick with easyJet for gross proceeds of £20.0 million, with £7.5 million (£6.6 million net of expenses) being received that day, £10.0 million in November 2013 and £2.5 million due to be received in June 2014. The proforma adjustment presents the balance sheet of Flybe as if the exchange had been completed at 30 September 2013. The remaining £12.5 million of proceeds is recognised as trade and other receivables within current assets. In addition, the following items are derecognised as a consequence of the exchange: intangible assets of £8.5 million, deal expenses of £0.9 million recorded within trade and other receivables, deferred income of £7.5 million and a deferred tax liability of £1.0 million. The net effect of the exchange is a gain of £11.6 million, that results in a corresponding increase in net assets being recorded.

(40) The estimated net proceeds of the Firm Placing and Placing and Open Offer receivable by the Group are calculated on the basis that the gross proceeds are £155.65 million and fees and expenses arising from the Firm Placing and Placing and Open Offer are £5.65 million (net amount of £150.0 million).

(41) The pro forma financial information takes no account of the results of the Group for the period subsequent to 30 September 2013, or any other changes in its financial position in that period.

(42) Net indebtedness includes cash and cash equivalents, restricted cash and borrowings and amounted to £(34.0 million) at 30 September 2013. The pro forma net funds amount to £116 million.

PART 7

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names are set out on page 28 of this document, accept responsibility for all the information contained in this document. To the best of the knowledge and belief of the Company and the Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

2. The Group

- 2.1 The Company was incorporated in England on 14 June 1978 under the name of Spacegrand Limited (with registered number 1373432) as a private company limited by shares. The Company was re-registered as a public company on 7 December 2010. The principal legislation under which the Company operates is the CA 2006 and regulations made under the CA 2006. The liability of the Company's members is limited.
- 2.2 The Company is domiciled in the United Kingdom with its registered office (and principal place of business and head office) at Jack Walker House, Exeter International Airport, Exeter EX5 2HL. The telephone number of the Company's registered office is 01392 366669.
- 2.3 The Company is the ultimate holding company of the Group. The Company has the following significant subsidiary undertakings, being those considered by the Company to be likely to have a significant effect on the assessment of the assets and liabilities, financial position and/or profits and losses of the Group:

<i>Company</i>	<i>Jurisdiction of Incorporation</i>	<i>Principal Activity</i>	<i>Issued Share Capital (fully paid)</i>
Flybe Limited	England	Airline operator/aircraft technical support	£1,000,000
Walker Aviation Leasing (UK) Limited	England	Aircraft leasing	£2
Flybe Holding Limited	England	Investment holding	£2
British European Airlines Limited	England	Financing company	£2
British Regional Air Lines Group Limited	England	Investment holding	£3
British Regional Airlines Limited	England	Aircraft leasing	£1
Flybe Leasing Limited	England	Airline operator	£94,331,000
Flybe (IOM) Limited	Isle of Man	Airline operator	£2,447,000
JEA Engineering UK Limited	England	Investment holding	£1,000,000
Flybe Nordic AB	Sweden	Investment holding	SEK 50,000
Flybe Finland Oy	Finland	Airline operator	EUR 2,500

- 2.4 The Company owns directly or indirectly 100 per cent. of the issued shares of the above companies and can exercise 100 per cent. of the voting rights of each such company, save for Flybe Nordic AB and Flybe Finland Oy, in respect of which the Company indirectly holds 60 per cent. of the issued shares.
- 2.5 The registered office of each of the above companies is at Jack Walker House, Exeter International Airport, Exeter EX5 2HL, save for:
- 2.5.1 Flybe (IOM) Limited, whose registered office is at Cains Fiduciaries Limited, Fort Anne, Douglas, Isle of Mann, IM1 5PD;

- 2.5.2 Flybe Nordic AB, whose registered office is at Box 14055 Stranduagenl SE-104 40 Stockholm, Sweden; and
- 2.5.3 Flybe Finland Oy, whose registered office is at c/o Castren & Snellman Attorneys Limited, Box 233, FI-00131, Helsinki, Finland.

3. Share capital

- 3.1 The issued and fully paid up share capital of the Company as at 18 February 2014 (being the latest practicable date before the publication of this document) was as follows:

	<i>Nominal Value</i>	<i>Number</i>
Existing Ordinary Shares of one pence each	£751,528.81	75,152,881

The issued and fully paid up share capital of the Company immediately following Admission (assuming there has been no exercise of share options and awards under the Share Schemes) will be as follows:

	<i>Nominal Value</i>	<i>Number</i>
Ordinary Shares of one pence each	£2,166,548.01	216,654,801

- 3.2 On 1 April 2010 (being the date of the commencement of the period for which the historical financial information on Flybe has been provided in this document), the issued and fully paid ordinary share capital of the Company consisted of 654,150 Ordinary Shares and 1,445,850 'A' ordinary shares of 1 pence each.
- 3.3 The following alterations in the issued share capital of the Company have taken place during the period for which the historical financial information set out in Part 4 of this document has been prepared:
- 3.3.1 on 25 November 2010, 34,700,400 'A' ordinary shares of 1 pence each and 15,699,000 Ordinary Shares were issued to the Shareholders at par by capitalising the sum of £504,000, being part of the amount standing to the credit of the Company's share premium account and applying such sum in paying up new shares by way of a bonus issue of 24 new shares for each existing share held by each Shareholder;
- 3.3.2 on 15 December 2010, 22,372,881 Ordinary Shares were issued for a cash consideration of £66 million, being £2.95 per share, on the Company's listing on the London Stock Exchange; and
- 3.3.3 on 24 January 2011, 280,000 Ordinary Shares were issued at par to satisfy the Group's obligations under the SIP Scheme.
- 3.4 In addition to the alterations referred to at paragraph 3.3 above, by ordinary and special resolutions of the Company passed on 6 December 2010:
- 3.4.1 36,146,250 authorised and issued 'A' Ordinary Shares of £0.01 each were reclassified as 36,146,250 Ordinary Shares;
- 3.4.2 99,000,000 authorised but unissued cumulative redeemable preference shares of 1 pence each were reclassified as 99,000,000 authorised but unissued Ordinary Shares; and
- 3.4.3 2,150,000,000 authorised but unissued redeemable preference shares of 1 pence each were reclassified as 2,150,000,000 authorised but unissued Ordinary Shares.
- 3.5 If Shareholders vote in favour of the Resolutions set out in the Notice of General Meeting and if the Resolutions become unconditional:
- (a) pursuant to Resolution 1, the Directors will be unconditionally authorised, in accordance with section 551 of the Companies Act, to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into such shares (all of which transactions are hereafter referred to as an allotment of "relevant securities"), up to an aggregate nominal amount of £1,415,020 pursuant to the Firm Placing and Placing and Open Offer which authority will be in addition to any existing authority conferred, which shall continue

in full force and effect. The authority conferred by this resolution shall expire (unless previously revoked or varied by the Company in general meeting) on the conclusion of the next annual general meeting of the Company or the date 15 months from the date of the passing of this resolution, whichever is earlier, save that the Company may, before such expiry, revocation or variation make an offer or agreement which would or might require relevant securities to be allotted after such expiry, revocation or variation and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred had not expired or been revoked or varied; and

- (b) pursuant to Resolution 2, the Directors will be given power to allot equity securities as defined by section 560 of the Companies Act for cash pursuant to the authority under section 570 of the Companies Act conferred on them by the Resolution referred to at 3.5(a) above as if section 561 of the Companies Act did not apply to the allotment. Such power shall, subject to the continuance of the authority conferred by the Resolution referred to at 3.5(a) above, expire on the conclusion of the next annual general meeting of the Company or the date 15 months from the date of the passing of the Resolution, whichever is earlier, but may be revoked or varied from time to time by Special Resolution so that the Company may before such expiry, revocation or variation make an offer or agreement which would or might require equity securities to be allotted after such expiry, revocation or variation and the Directors may allot equity securities in pursuance of such offer or agreement as if such power had not expired or been revoked or varied.

- 3.6 The Ordinary Shares are denominated in sterling. The nominal value of the Ordinary Shares is 1 pence.
- 3.7 Save as disclosed in paragraph 3.13 of this Part 7, neither Flybe nor any of its subsidiaries has granted any options or awards over its share or loan capital which remain outstanding or has agreed, conditionally or unconditionally, to grant any such options or awards.
- 3.8 The Existing Ordinary Shares currently in issue are, and the New Ordinary Shares will be, in registered form and capable of being held in uncertificated form in CREST. Where New Ordinary Shares are held in certificated form, share certificates will be sent to the registered member by first class post.
- 3.9 When admitted to trading, the New Ordinary Shares will be registered with the International Security Identification Number ISIN GB00B4QMVR10 the same as the current ISIN number for Existing Ordinary Shares.
- 3.10 The New Ordinary Shares to be issued pursuant to the Firm Placing and Placing and Open Offer will be credited as fully paid and will rank equally in all respects with the Existing Ordinary Shares, including the right to receive any dividends or distributions made, paid or declared after Admission.
- 3.11 Of the balance of the unissued ordinary share capital of the Company immediately following Admission 2,816,441 Ordinary Shares are available for issue on exercise of the outstanding share options and awards granted to certain Directors and employees of the Group under the Share Schemes detailed at paragraph 3.13 of this Part 7.
- 3.12 The provisions of section 561 of the Companies Act and the Listing Rules confer on Shareholders rights of pre-emption in respect of the allotment of equity securities (as defined in section 560 of the Companies Act) which are to be paid up in cash, except to the extent disapplied by resolutions of the Company including the Resolutions.
- 3.13 As at 18 February 2014 (the latest practicable date prior to the publication of this document) the following share options and awards granted to certain Directors and employees of the Group under the Share Schemes were outstanding:

<i>Scheme</i>	<i>Date of grant of awards/options</i>	<i>Total number of Ordinary Shares under options/awards</i>	<i>Exercise price per Ordinary Share (if any)</i>	<i>Normal vesting date of the options/awards</i>
PSP	5 August 2011	1,803,725	–	5 August 2014
SAYE Scheme	5 August 2011	732,716	£1.37	5 August 2014
SIP Scheme	24 January 2011	280,000	–	24 January 2014

3.14 As at 18 February 2014 (being the latest practicable date prior to the publication of this document) the following awards had been granted to certain Senior Managers under the LTIP:

<i>Name</i>	<i>Date of LTIP Award</i>	<i>Opening Price</i>	<i>First Vesting Date</i>	<i>Number of Ordinary Shares notionally subject to LTIP Award</i>
Simon Charles	21 November 2013	78.50 pence	21 November 2016	515,923
Paul Simmons	21 November 2013	78.50 pence	21 November 2016	1,050,955
Matt Bennett	21 November 2013	78.50 pence	21 November 2016	496,815
John Palmer	21 November 2013	78.50 pence	21 November 2016	687,898

4. Memorandum of Association and Articles of Association

4.1 Memorandum

The Company passed a resolution on 6 December 2010 to amend its Articles by deleting all of the provisions of the Company's Memorandum which, by virtue of section 28 of the CA 2006, were to be treated as provisions of the Company's Articles. Pursuant to this resolution, the Company's objects have been deleted and consequently the objects of the Company are unlimited.

4.2 Articles

The Articles will be adopted pursuant to a conditional written resolution of the Company's members, such written resolution being conditional only upon Admission, and will contain provisions, *inter alia*, to the following effect:

4.2.1 Objects

The Articles contain no specific restrictions on the Company's objects and therefore, by virtue of section 31(1) of the CA 2006, the Company's objects are unrestricted.

4.2.2 Voting rights

Subject to any special terms as to voting, upon which any shares may for the time being be held, on a show of hands every member who (being an individual) is present in person or by proxy or (being a corporation) is present by a duly appointed representative shall have one vote (other than in the case of a proxy appointed by multiple members, who may have (on a show of hands) more than one vote) and on a poll every member present in person or by a representative or proxy shall have one vote for every ordinary share in the capital of the Company held by him. A proxy need not be a member of the Company.

4.2.3 Variation of rights

If at any time the capital of the Company is divided into different classes of shares, all or any of the rights or privileges attached to any class of shares in the Company may be varied or abrogated with the consent in writing of the holders of three-fourths in nominal value of the issued shares of that class (excluding any shares of that class held as treasury shares) or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. At every such separate general meeting (except an adjourned meeting), the quorum shall be two persons holding or representing by proxy one-third in nominal value of the issued shares of that class.

4.2.4 **Alteration of capital**

The Company may by ordinary resolution increase its share capital, consolidate and divide all or any of its share capital into shares of a larger nominal value and subdivide all or any of its shares into shares of a smaller nominal value.

Subject to and in accordance with the provisions of the CA 2006, the Company may purchase its own shares (including any redeemable shares), provided that the Company shall not purchase any of its shares unless such purchase has been sanctioned by a special resolution passed at a separate meeting of the holders of any class of shares convertible into equity share capital of the Company.

4.2.5 **Transfer of shares**

A member may transfer all or any of his shares (1) in the case of certificated shares by instrument in writing in any usual or common form or in such other form as may be approved by the Directors and (2) in the case of uncertificated shares, through a relevant system in accordance with the Uncertificated Securities Regulations and the facilities and requirements of the relevant system concerned. The instrument of transfer of a certificated share shall be executed by or on behalf of the transferor and, if the share is not fully paid, by or on behalf of the transferee. The Directors may in their absolute discretion refuse to register a transfer of any share: (i) held in certificated form which is not fully paid, provided that dealings in the shares are not prevented from taking place on an open and proper basis, (ii) that is subject to a notice concerning the disclosure of interests (and certain circumstances apply) and (iii) that is in favour of more than four persons jointly. In the case of uncertificated shares the Directors may only refuse to register a transfer in accordance with the Uncertificated Securities Regulations. Subject to the above and to paragraph 4.2.7 and section 5 below of this Part 7, the Articles contain no restrictions on the free transferability of fully paid shares provided that the transfer is in respect of only one class of share and is accompanied by the share certificate and any other evidence of title required by the Directors and that the provisions in the Articles relating to the deposit of instruments for transfer have been complied with.

4.2.6 **Dividends**

The Company may by ordinary resolution in general meeting declare dividends provided that no dividend shall be paid otherwise than out of profits and no dividend shall exceed the amount recommended by the Directors. The Directors may from time to time pay such interim dividends as appear to the Directors to be justified.

Subject to the rights of persons, if any, holding shares with special dividend rights, and subject to paragraph 4.2.7 below, all dividends shall be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid or credited as paid in advance of calls shall be regarded as paid on shares for this purpose.

All dividends unclaimed for a period of 12 years after the payment date for such dividend shall, if the Directors so resolve, be forfeited and cease to remain owing by the Company.

The Directors may, if authorised by an ordinary resolution of the Company, offer the holders of Ordinary Shares the right to elect to receive additional shares, credited as fully paid, instead of cash in respect of any dividend or any part of any dividend. The Directors may at their discretion make the right to participate in any such elections subject to restrictions necessary or expedient to deal with legal, regulatory or other difficulties in respect of overseas shareholders.

4.2.7 **Suspension of rights**

If a member or any other person appearing to be interested in shares held by such shareholder has been duly served with notice under section 793 of the CA 2006 and is in default in supplying to the Company within 14 days (or such longer period as may be specified in such notice) the information thereby required, then (unless the Directors otherwise determine) such member shall not be entitled to vote or to exercise any right conferred by membership in relation to meetings of the Company in respect of the shares which are the subject of such

notice. Where the holding represents more than 0.25 per cent. of the issued shares of that class (calculated exclusive of any treasury shares of that class), the payment of dividends may be withheld, and such member shall not be entitled to transfer such shares otherwise than by an arms length sale.

4.2.8 **Return of capital**

Subject to the provisions of the CA 2006 and any other relevant statutes and any special rights attached to any class of shares, on a winding-up or other return of capital, the holders of Ordinary Shares are entitled to share in any surplus assets pro rata to the amount paid up on their Ordinary Shares. A liquidator may, with the sanction of a special resolution of the Company and any other sanction required by the CA 2006, divide amongst the members in specie or in kind the whole or any part of the assets of the Company, those assets to be set at such value as he deems fair. A liquidator may, with the sanction of a special resolution, also vest the whole or any part of the assets of the Company in trustees on trusts for the benefit of the members.

4.2.9 **Pre-emption rights**

There are no rights of pre-emption under the Articles in respect of transfers of issued Ordinary Shares.

In certain circumstances, the Company's shareholders may have statutory pre-emption rights under the CA 2006 in respect of the allotment of new shares in the Company. These statutory pre-emption rights would require the Company to offer new shares for allotment by existing Shareholders on a pro rata basis before allotting them to other persons. In such circumstances, the procedure for the exercise of such statutory pre-emption rights would be set out in the documentation by which such shares would be offered to the Company's shareholders.

4.2.10 **Shareholder meetings**

Annual general meetings should be held in accordance with the CA 2006. Other general meetings may be called whenever the Directors think fit or when the CA 2006 so requires. Two members present in person or by proxy (or, being a corporation, present by a duly authorised representative), at the meeting and entitled to vote shall be a quorum for all purposes.

Annual general meetings or a meeting at which it is proposed to pass a resolution requiring special notice are called on at least 21 days' notice in writing, exclusive of the day of which the notice is served or deemed to be served and of the day on which the meeting is to be held. Other general meetings are to be called on 14 days' notice in writing exclusive of the day on which notice is served or deemed to be served and of the day on which the meeting is to be held. Notice is to be given to all members on the register at the close of business on a day determined by the Directors, such day being not more than 21 days before the day that the notice of meeting is sent.

The Company may specify in the notice of meeting a time, not more than 48 hours before the time fixed for the meeting, by which a person must be entered into the register in order to have the right to attend and vote at the meeting. In every notice calling a meeting of the Company there shall appear with reasonable prominence a statement that a member entitled to attend and vote is entitled to appoint one or more proxies to attend and speak and vote instead of him/her, and that a proxy need not be a member.

A resolution of the Company proposed at an annual general meeting or a general meeting shall not be validly made in the event that a majority in number of the members voting in favour of such resolution are Relevant Non-EEA Persons or Relevant Non-UK Persons (as such terms are defined in section 5 of this Part 7).

4.2.11 **Directors**

Save as provided in the Articles or by the terms of any authorisation given by the Directors, a Director shall not vote as a Director in respect of any contract, transaction or arrangement or proposed contract, transaction or arrangement or any other proposal whatsoever in which he

(or any person connected with him) has any interest (otherwise than by virtue of an interest in shares or debentures or other securities of or otherwise in or through the Company) and which conflicts or may conflict with the interests of the Company and if he shall do so his vote shall not be counted, nor in relation thereto shall he be counted in the quorum present at the meeting.

The Directors may authorise a Director to be involved in a situation in which the Director has or may have a direct or indirect interest which conflicts or may conflict with the interests of the Company and may impose such terms or conditions on the grant of such authorisation as they think fit and in doing so will act in such a way, in good faith, as they consider will be most likely to promote the success of the Company.

A Director shall (in the absence of some other interest than is indicated below) be entitled to vote (and be counted in the quorum) in respect of any resolution relating to any of the following matters namely:

- (a) the giving of any security, guarantee or indemnity in respect of money lent or obligations incurred by him or by any other person at the request of or for the benefit of the Company or any of its subsidiary undertakings; or
- (b) the giving of any security, guarantee or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director himself has assumed responsibility in whole or in part under a guarantee or indemnity or by the giving of security; or
- (c) the granting of an indemnity or provision of funding pursuant to the Articles unless the terms of such arrangement confer upon such director a benefit not generally available to any other Director; or
- (d) an offer of shares or debentures or other securities of or by the Company or any of its subsidiary undertakings for subscription or purchase in which offer he is or is to be or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate; or
- (e) any other company in which he or any person connected with him is interested, directly or indirectly, and whether as an officer or shareholder or otherwise howsoever, provided that he and any persons connected with him are not to his knowledge the holder (otherwise than as a nominee for the Company or any of its subsidiary undertakings) of or beneficially interested in one per cent. or more of any class of the equity share capital of such company (or of any third company through which his interest is derived) or of the voting rights available to members of the relevant company (any such interest being deemed for the purpose of the relevant Article to be a material interest in all circumstances); or
- (f) an arrangement for the benefit of the employees of the Company or any of its subsidiary undertakings which does not award him any privilege or benefit not generally awarded to the employees to whom such arrangement relates; or
- (g) the purchase and/or maintenance of any insurance policy for the benefit of the Directors or for the benefit of persons including the Directors.

Fees may be paid out of the funds of the Company to Directors who are not managing or executive Directors at such rates as the Directors may from time to time determine provided that such fees do not in the aggregate exceed the sum of £500,000 per annum (exclusive of value added tax if applicable) or such other figure as the Company may by ordinary resolution from time to time determine.

Any Director who devotes special attention to the business of the Company, or otherwise performs services which in the opinion of the Directors are outside the scope of the ordinary duties of a director, may be paid such additional remuneration as the Directors or any committee authorised by the Directors may determine.

The Directors (including alternate directors) are entitled to be paid out of the funds of the Company all their travelling, hotel and other expenses properly incurred by them in connection with the business of the Company, including their expenses of travelling to and from meetings of the Directors, committee meetings or general meetings.

A Director may hold any other office or employment with the Company (other than the office of auditor) in conjunction with his office of Director for such period and on such terms (as to remuneration and otherwise) as the Directors may determine. No Director or intending director shall be disqualified by his office from entering into any contract, arrangement, transaction or proposal with the Company either with regard to his tenure of any other such office or employment, nor shall any such contract, arrangement, transaction or proposal or any contract, arrangement, transaction or proposal entered into by or on behalf of the Company in which any Director or any person connected with him is in any way interested (whether directly or indirectly) be liable to be avoided, nor shall any Director who enters into any such contract, arrangement, transaction or proposal or who is so interested be liable to account to the Company for any benefit realised from any such contract, arrangement, transaction or proposal by reason of such director holding that office or of the fiduciary relationship thereby established, if the director has disclosed his interest in accordance with the CA 2006.

The remuneration and other terms and conditions of appointment of a Director appointed to any executive office or employment under the Company shall from time to time (without prejudice to the provisions of any agreement between him and the Company) be fixed by the Directors or by any committee appointed by the Directors, and may (without limitation) be by way of fixed salary, lump sum, commission on the dividends or profits of the Company (or of any other company in which the Company is interested) or other participation in any such profits or by any combination of such modes.

The quorum necessary for the transaction of the business of the Directors may be fixed by the Directors and unless so fixed at any other number shall be two provided that at all times the Directors counting in the quorum shall comprise a majority of Directors who are UK nationals.

4.2.12 Restrictions on Borrowing Powers of Directors

The Directors shall restrict the borrowings of the Company and exercise all voting and other rights or powers of control exercisable by the Company in relation to its subsidiaries (if any) so as to secure (as regards subsidiaries so far as by such exercise they can secure) that the aggregate amount for the time being remaining undischarged of all moneys borrowed by the Group and for the time being owing to persons outside the Group shall not, without the previous sanction of an ordinary resolution of the Company, exceed an amount equal to the greater of two and one half times the Adjusted Capital and Reserves (as defined in the Articles) and £200,000,000. The certificate of the auditors of the Company for the time being as to the amount of the Adjusted Capital and Reserves (as defined in the Articles) at any time shall be conclusive and binding upon all concerned.

4.2.13 Limitations on Share Ownership

Please see the summary at section 5 of this Part 7 of this document.

5. Limitations on Share Ownership

The Group holds a number of authorities, permissions, licences and privileges pursuant to which it has the right to operate air services (the “**Operating Rights**”). Some of the Operating Rights are conditional on the Company being owned or controlled, to varying degrees, by United Kingdom nationals or by nationals of EEA member states. The purpose of article 50 within the Articles is, accordingly, to enable the Company to ensure that so long as and to the extent that these conditions apply to the Operating Rights, the ownership of the Company satisfies the conditions.

The Directors can use various powers in order to prevent breaches of the conditions attached to the Operating Rights. These powers are exercisable in respect of shares in the Company, other than Exempted Shares, in which (depending on the condition breach of which is being prevented) Relevant Non-UK Persons, or Relevant Non-EEA Persons, have an interest (being respectively “**Relevant Non-UK Shares**” and “**Relevant Non-EEA Shares**” and Relevant Non-UK Shares together with Relevant Non-EEA Shares “**Relevant Shares**”).

In this section 5 of this Part 7 of this document, the following expressions shall have the following meanings:

- a “**Relevant Non-UK Person**” includes any: (i) individual who is a non-UK citizen; (ii) body corporate that is non-UK incorporated and that does not have its central place of business and central management and control in the UK (along with any persons that would be taken to be interested in shares held by such a company by virtue of sections 822 and 823 of the CA 2006); and (iii) any government, government agency or body, local authority or municipality otherwise than of, or established in, the UK;
- a “**Relevant Non-EEA Person**” includes any: (i) individual who is a non-EEA citizen; (ii) body corporate that is incorporated outside the EEA and that does not have its central place of business and central management and control in the EEA (along with any persons that would be taken to be interested in shares held by such a company by virtue of sections 822 and 823 of the CA 2006); and (iii) any government, government agency or body, local authority or municipality otherwise than of, or established in, the EEA;
- an “**Exempted Share**” includes any share in the Company that, at the material time, is held by a trustee (acting in such capacity) of: (i) any approved employee share scheme established by the Company or its subsidiaries and approved in general meeting principally for the benefit of it or their employees; or (ii) any superannuation fund or retirement benefits scheme that has been approved by HMRC and is established wholly or mainly for UK employees of the Company; and
- a person is deemed to have an “interest” in relation to shares in circumstances which include where that person has an interest which would be taken into account, or which he would be taken as having, in determining whether that person has a notifiable interest under Rule 5 of the Disclosure and Transparency Rules, however that person will not be deemed to be interested in such shares if that interest arises solely by way of his relationship with a spouse, infant child or step-child.

In order to monitor the number of Relevant Shares that are held and the details of the Relevant Non-UK Persons and/or Relevant Non-EEA Persons (as appropriate) who are interested in those Relevant Shares, the Directors must maintain two additional share registers (together the “**Separate Registers**”), namely:

- a “**Separate Non-UK Register**” on which the particulars of Relevant Non-UK Shares, including details of the Relevant Non-UK Person and the size of that interest, are recorded; and
- a “**Separate Non-EEA Register**” on which the particulars of Relevant Non-EEA Shares, including details of the Relevant Non-EEA Person and the size of that interest, are recorded.

Where the Directors suspect a Relevant Non-UK Person or Relevant Non-EEA Person is or may be interested in Shares the Directors may order that those Shares are Relevant Shares and, accordingly and provided that the suspicion is not disproved to the satisfaction of the Directors by the person so interested (or alleged to be so interested), enter such Shares on the relevant Separate Register.

The Directors may apply these powers where they determine that it is necessary or desirable to take steps in order to protect any Operating Right of the Company or any subsidiary of the Company by reason of the fact that, among other things, an Intervening Act has occurred, may occur or may be contemplated, threatened or intended, in each case taking into account the likelihood of any further increases in the aggregate number of Relevant Shares.

An “**Intervening Act**” means the refusal, withholding, suspension or revocation of any Operating Right applied for, granted to or enjoyed by the Company or any subsidiary of the Company, or the imposition of any conditions or limitations upon any such Operating Right which materially inhibits the exercise thereof, in either case by any state, authority or person in reliance upon any provision or by reason of any matter or circumstance relating to the nationality of persons owning or controlling (however described) the Company.

Where the Directors have made such a determination, the Chairman or the Directors as a whole may take any of the following steps as are deemed necessary or desirable to overcome, prevent or avoid the Intervening Act or the risk thereof:

- remove any Director before the expiration of his term of office;

- identify, or seek to identify, those shares or Relevant Shares the interests in which gave rise or contributed to the determination or would, in the sole opinion of the Directors, have given rise to such a determination and dealing with such shares as Affected Shares (as defined below); and/or
- specify aggregate maximum permitted numbers (each a “Permitted Maximum”) respectively of Relevant Non-UK Shares and Relevant Non-EEA Shares (or vary any such numbers previously specified), provided that at no time a Permitted Maximum is less than 25 per cent. of the aggregate number of shares in issue, and at any point when the aggregate number of Relevant Non-UK Shares or Relevant Non-EEA Shares is in excess of its respective Permitted Maximum, dealing with such of those Relevant Non-UK Shares or Relevant Non-EEA Shares as they decide are in excess of such Permitted Maximum as Affected Shares.

An “**Affected Share**” is any share which the Directors have declared as such and in respect of which the Directors have certain additional powers. As a consequence of such declaration the Directors are required to serve a notice (an “**Affected Share Notice**”) on the registered holder of the share and on any other person who appears to the Directors to be interested in the share, specifying which of the additional powers are to be applied in respect of the Affected Shares. The Directors may from time to time serve further Affected Share Notices in respect of each Affected Share applying further of their powers.

In deciding which shares are to be dealt with as Affected Shares the Directors are, where applicable, entitled to have regard to the interests in Relevant Shares which, in their sole opinion, have directly or indirectly caused or contributed to the determination that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act. However, subject to such cases, the Directors are required, so far as practicable, to have regard to the chronological order in which particulars of Relevant Shares have been, or are to be, entered in the relevant Separate Register (and accordingly treat as Affected Shares those Relevant Shares which have been acquired, or details of which have been entered in the relevant Separate Register, most recently) save to the extent that the application of such criterion would in the sole opinion of the Directors be inequitable or would result in their actions being illegal or unenforceable, in which event the Directors may apply such other criterion as they, in their absolute discretion, consider appropriate.

The transfer of any share shall be subject to the approval of the Directors if, in the opinion of the Directors, upon the completion of the transfer the share would become, or would be capable of being treated as, or would continue or be capable of continuing to be capable of being treated as, an Affected Share and the Directors may refuse to register the transfer of any such share. In the case of shares held in uncertificated form, the Directors may only exercise their discretion not to register a transfer if permitted to do so by the Uncertificated Securities Regulations. However, the Directors may make such arrangements as they consider fit to convert such shares from uncertificated to certificated form if such conversion might enable the Directors to exercise their discretion not to register a transfer.

The additional powers that the Directors may apply in respect of Affected Shares include the following:

- the registered holder of the Affected Share on whom an Affected Share Notice has been served may be disentitled from exercising any right (in respect of such Affected Share) to attend, speak, vote or demand a poll vote at any general meeting of the Company or meeting of any class of shareholders of the Company;
- any person on whom an Affected Share Notice has been served may be required, within 10 business days of the Affected Share Notice being served, to dispose of his interest in the Affected Share (an “**Affected Share Disposal**”) so that:
 - no Relevant Non-EEA Person or no Relevant Non-UK Person (as appropriate) has an interest in that share; and
 - the share ceases, to the satisfaction of the Directors, to be an Affected Share.

If an Affected Share Notice requires that an Affected Share Disposal be made and this is not done within 10 business days, the Directors may arrange for the sale of the Affected Share, on behalf of the registered holder and at the best price reasonably obtainable at the relevant time, so that the share ceases to be or to be capable of being treated as an Affected Share.

The net proceeds of an Affected Share Disposal that has been arranged by the Directors shall be received by the Company, shall be converted into sterling (if necessary) and shall be held on trust for and paid (together with interest at such rate as the Directors consider appropriate) to the former registered holder upon surrender by him, of any certificate in respect of the Affected Shares sold and formerly held by him.

The Directors are not obliged to serve any notice normally required under this article upon any person if they do not know either his identity or address. The absence of service in such circumstances shall not prevent the implementation of or invalidate any procedure under the Articles. Otherwise, the general notice provisions contained in the Articles apply in the same manner with such consequential changes as are necessary.

At any time when the Directors have resolved to specify a Permitted Maximum or deal with any shares as Affected Shares they shall publish, within two business days of the making of such determination, notice of their determination that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act and of any Permitted Maximum which has been specified together with a statement of the provisions of the relevant article which can apply to Affected Shares and the name of the person or persons who will answer any enquiries relating to Affected Shares on behalf of the Company.

If at any time when a determination by the Directors has been made (and not withdrawn) that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act, a person enquires of the Directors (i) whether the aggregate number of Relevant Non-EEA Shares or Relevant Non-UK Shares exceeds any Permitted Maximum that applies or (ii) whether any shares in the Company which such person proposes to purchase or acquire an interest in would in the opinion of the Directors, be capable following such purchase or acquisition of becoming Affected Shares, the Directors shall, on sufficient information being given to them to enable them to answer the enquiry, notify the person whether, in their opinion, such shares would become or be capable of becoming Affected Shares. However, any such notification made by the Directors will not be binding on them or on the Company and shall not prevent such shares being subsequently identified as Affected Shares.

Any determination made by the Directors that steps should be taken to protect an Operating Right from the occurrence, or deemed risk of occurrence, of an Intervening Act shall apply until such time as the Directors resolve that the grounds for making such a determination have ceased to exist and that such determination shall be withdrawn. Upon such a withdrawal, the Directors shall cease to act pursuant to such determination and shall remove any Permitted Maximum that they may have specified. The Directors shall inform every person on whom an Affected Share Notice has been served in respect of an Affected Share which has not yet been subject to an Affected Share Disposal (whether by the registered holder or by the Company) that such provisions and requirements set out in the Affected Share Notice no longer apply in respect of such a share.

6. Share Schemes and Long Term Incentive Plans

The Company has three share schemes: the Flybe Performance Share Plan, the Flybe Share Incentive Plan and the Flybe Sharesave. The Company also operates the Flybe Long Term Incentive Plan 2013 and the Saad Hammad Long Term Incentive Plan, awards under which are satisfied in cash. The principal provisions of each of these schemes and plans are summarised below:

6.1 The Flybe Performance Share Plan

Status of the PSP

Awards granted under the PSP (“**Awards**”) take the form of conditional awards of Ordinary Shares from an employee benefit trust established by the Company for nil consideration. The remuneration committee may determine, however, that future awards granted under the PSP will take the form of nil-cost options which are commercially on equivalent terms to the conditional share awards (and if such determination is made, the remuneration committee may make such alterations to the rules of the PSP as are necessary so as to give effect to the use of nil-cost options). Awards have no beneficial tax status.

Eligibility

All employees (including Executive Directors) of the Company and any of its subsidiaries may be granted Awards under the PSP.

Grant

The remuneration committee has absolute discretion to select the persons to whom Awards may be granted and, subject to the limits set out below, in determining the number of Ordinary Shares to be subject to each Award. The remuneration committee then authorises the trustee to grant the proposed Awards.

Awards may be granted during the period of 42 days commencing on the Dealing Day immediately following the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year (provided that if the Ordinary Shares continue to be admitted to the Official List at the time in question, no Award shall be granted during the first two Dealing Days following the date of any such announcement) or any other time fixed by the Remuneration Committee where, in its discretion, circumstances are considered to be exceptional so as to justify the grant of Awards.

If the grant of an Award on any of the above days would be prohibited by virtue of the Model Code or any statute or regulation or any order made pursuant to such statute, then such Award may be granted during the period of 40 days commencing immediately after the second Dealing Day following the time that such prohibition shall cease to have effect.

No consideration is payable for the grant of an Award.

PSP Limits

On any date, no Award may be granted under the PSP if, as a result, the aggregate nominal value of Ordinary Shares issued or issuable pursuant to Awards granted during the previous ten years under the PSP or any other discretionary employees' share scheme (which excludes any Save As You Earn Scheme approved by HMRC, a share incentive plan approved by HMRC under Schedule 2 to ITEPA or any other share option scheme of the Company which is linked to a contractual savings scheme) adopted by the Company would exceed five per cent. of the nominal value of the share capital of the Company in issue on that date.

On any date, no Award may be granted under the PSP if, as a result, the aggregate nominal value of Ordinary Shares issued or issuable pursuant to Awards granted during the previous ten years under the PSP or any other employees' share scheme, profit sharing scheme or employee share ownership plan adopted by the Company would exceed ten per cent. of the nominal value of the share capital of the Company in issue on that date.

For the purposes of the limits set out above:

- any Ordinary Shares issued or then capable of being issued pursuant to any Awards or options granted prior to the Admission Date (under any other employees' share scheme adopted by the Company) shall not count towards the limits set out above; and
- where an Award takes the form of a right to acquire Ordinary Shares from an employee benefit trust established by the Company, such Ordinary Shares will only be counted as "issued or issuable" to the extent to which they have been issued (or there is an intention for them to be issued) by the Company to the trust for the purposes of the PSP or any other employees' share scheme operated by the Company.

Individual Limit

In general, each individual's participation is limited so that, in any one financial year of the Company, the aggregate market value of Ordinary Shares subject to all Awards (calculated as at the date of grant of each Award) granted to the individual under the PSP in that financial year, will not exceed 150 per cent. of the individual's basic salary at the date of grant.

The individual limit can be exceeded in circumstances which the remuneration committee considers to be exceptional.

Performance Target

The vesting of Awards granted under the PSP will be made conditional upon the achievement of an objective performance target set at the time of grant. Such a performance target shall be measured over a performance period (determined by the remuneration committee at the time of grant but which shall not ordinarily be less than three years) ("**Performance Period**").

Awards vest as and when (and to the extent to which) the remuneration committee determines that the performance targets imposed on an Award have been met. The Vesting may not occur, however, before a date ("**Earliest Vesting Date**") specified at the time of grant of an Award. The Earliest Vesting Date for an award may not occur before the third anniversary of the date of grant.

If events occur which cause the remuneration committee reasonably to consider that a different or amended performance target would be a fairer measure of performance, the Remuneration Committee may waive or amend the original performance target in such manner as it deems fit provided that any such amended target is not materially more difficult to achieve than the original performance target.

It should also be noted that a performance target, applying to an Award, may be measured over an abbreviated period less than the Performance Period in circumstances where:

- an employee ceases to be a Group employee before the end of the relevant Performance Period and the remuneration committee exercises its discretion to allow the Award to vest immediately as described below; or
- certain corporate events occur (such as a change of control of the Company) before the end of the relevant Performance Period.

In these circumstances such performance target may be modified in such manner as the remuneration committee thinks fit so as to be applied over such abbreviated period.

Dividends

Until an Award vests, the Award holder shall have no entitlement to any dividends or other distributions payable by reference to a record date preceding the date of such vesting.

Dividend equivalent payments will be made in respect of vested Ordinary Shares. The remuneration committee will have a discretion to determine, at the time Awards vest, whether such payments are satisfied in cash or Ordinary Shares. The value of the payment shall be equal (rounded down to the nearest whole number of Ordinary Shares in the case of payments satisfied in Ordinary Shares) to the aggregate value of any dividends or other cash distributions which would have been paid by the Company in respect of the Ordinary Shares that vest under an Award during the period commencing on the date of grant of the Award and ending on the date upon which the Award vests.

Vesting of Awards

Generally, Awards vest as and when (and to the extent to which) the remuneration committee determines that the performance conditions imposed on an Award have been met. Normally, no vesting can occur before the Earliest Vesting Date.

No vesting can occur at a time when the Ordinary Shares are not capable of transfer due to the provisions of the Model Code.

Awards may vest earlier than the Earliest Vesting Date in the event that the Award holder dies. In these circumstances, his Awards will vest on the date of his death. The maximum number of Ordinary Shares over which an Award will vest in these circumstances shall, subject to the discretion of the remuneration committee, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the relevant date of grant until the date of death. Vesting in the event of an Award holder's death shall not, however, be conditional upon the satisfaction of any performance condition to which an Award is subject.

Awards will vest earlier than the Earliest Vesting Date in the event of a takeover (pursuant to the City Code), a scheme of arrangement under Part 26 of the CA 2006 being sanctioned by the court or the voluntary winding up of the Company. In the case of a takeover of the Company, Awards will vest

conditional upon, but so as to take effect immediately before, the takeover concerned. The maximum number of Ordinary Shares over which any Award is capable of vesting in such circumstances shall, subject to the discretion of the remuneration committee, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the relevant date of grant to the date upon which the event triggering vesting occurs.

In the event of cessation of employment (other than in the event of an Award holder's death), the remuneration committee has a discretion to determine that Awards which would otherwise continue in existence and be retained by an Award holder (as described further below) shall vest upon the Award holder ceasing to be an employee. The maximum number of Ordinary Shares over which any Award is capable of vesting in such circumstances shall, subject to the discretion of the remuneration committee, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the relevant date of grant to the date upon which the event triggering vesting occurs.

In all of the above mentioned circumstances (with the exception of death), vesting of an Award remains conditional upon the satisfaction of the performance condition, if any, to which it is subject.

In relation to the pro-rating mechanisms outlined above, the remuneration committee has a discretion, having full regard to all the circumstances, to ignore the prescribed pro-rating of the Ordinary Shares over which such Award may vest.

Cessation of Employment

Other than in the event of death and in the circumstances set out below, Awards generally lapse on cessation of employment.

In the event an Award holder ceases to be employed within the Group by reason of:

- ill health or permanent disability (evidenced to the satisfaction of the remuneration committee), redundancy or retirement or upon the sale or transfer out of the Group of the company or undertaking employing him; or
- in such other circumstances as the remuneration committee considers to be relevant,

his Award shall continue in existence and may be retained by the Award holder. Such Award may then vest after the Earliest Vesting Date, but only to the extent that any performance condition is satisfied. The maximum number of Ordinary Shares over which any Award is capable of vesting in such circumstances shall, subject to the discretion of the remuneration committee, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the relevant date of grant to the date upon which the Award holder ceased to be employed within the Group.

In relation to the pro-rating mechanisms outlined above, the remuneration committee has a discretion, having full regard to all the circumstances, to ignore the prescribed pro-rating of the Ordinary Shares over which such Award may vest.

Other Award terms

Awards are not capable of transfer or assignment.

Until Awards vest, Award holders have no voting or other rights in relation to the Ordinary Shares subject to those Awards.

Ordinary Shares transferred on the vesting of an Award shall be transferred without the benefit of any rights attaching to the Ordinary Shares by reference to a record date preceding the date of such vesting.

Benefits obtained under the PSP are not pensionable.

Adjustment of Awards

The number of Ordinary Shares under an Award may be adjusted by the remuneration committee in the event of any capitalisation issue or rights issue (other than an issue of Ordinary Shares pursuant to the exercise of an option given to the shareholders of the Company to receive shares in lieu of a

dividend) or any other variation in the share capital of the Company including (without limitation) any consolidation, subdivision or reduction of capital.

Administration & amendment

The PSP is administered by the remuneration committee. The Board may amend the provisions of the PSP. The rules of the PSP which relate to:

- the persons to whom Ordinary Shares are provided under the PSP;
- the limits on the number of Ordinary Shares which may be issued under the PSP;
- the maximum entitlement of any Award holder;
- the basis for determining an Award holders entitlement to Ordinary Shares or Awards; and
- the basis for determining the adjustment of any Award granted under the PSP following any increase or variation in the share capital of the Company

cannot be amended to the advantage of any Award holder or potential Award holder without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the PSP, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Award holders or any Group company.

Termination

The PSP may be terminated at any time by resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption so that no further Awards can be granted under the PSP after such termination. Termination shall not affect the outstanding rights of existing Award holders.

6.2 The Flybe Share Incentive Plan

Status of the SIP Scheme

The SIP Scheme is designed to be capable of approval by HMRC under Schedule 2 to ITEPA.

Eligibility

Subject to some limited exceptions set out in the rules of the SIP Scheme, the SIP Scheme is open to all UK employees of the Company or any company in the Group which is participating in the SIP Scheme. The SIP Scheme may (in the discretion of the Company) be used in relation to non-UK employees.

As noted below, the remuneration committee can exclude employees whom have not completed a qualifying period of service.

How the SIP Scheme may be operated

The SIP Scheme provides that the Company can offer to employees any of the following types of awards of Ordinary Shares:

- “Free Shares” – being an allocation of Ordinary Shares to employees without charge.
- “Partnership Shares” – being an allocation of Ordinary Shares paid for by employees out of deductions made from pre-tax salary.
- “Matching Shares” – being an allocation of Ordinary Shares to employees without charge, the number of which is proportionate to the number of Partnership Shares acquired.

Any combination of the above awards may be utilised in any year (except that Matching Shares are dependent on awards of Partnership Shares being made and so can only be made at the same time as a corresponding award of Partnership Shares).

The SIP Scheme operates in conjunction with the SIP Trust which is administered by the SIP Trustee under the direction of the Company. No director of the Company has any interest in the SIP Trustee.

The SIP Scheme is structured to allow for the SIP Trustee to subscribe for, or purchase, Ordinary Shares. The money to acquire the Ordinary Shares is provided by the Company or the relevant employing company (or, in the case of Partnership Shares, from the employees themselves).

Free Shares

The Company may give Free Shares up to a maximum value calculated at the date of award of £3,000 per employee in a tax year (or such other amount as specified in the relevant legislation relating to HMRC approved SIP schemes).

Qualifying Periods

In relation to each award of Free Shares, the Board may (in its discretion) set a qualifying period during which an individual must have been employed in order to be eligible to participate in the award. The qualifying period cannot exceed a period of 18 months before the date of the award.

Timing of Awards

Awards of Free Shares may only be made within the period of 42 days commencing on: (a) the Admission Date; or (b) the Dealing Day immediately following the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year (provided that if the Ordinary Shares continue to be admitted to the Official List at the time in question, no Award shall be made during the first two Dealing Days following the date of any such announcement). No awards may be made at a time when the making of such award would be in breach of the Model Code.

Performance Conditions

An award of Free Shares can at the discretion of the Board be made subject to the prior satisfaction of performance conditions. If the Board determines to use performance conditions it must follow one of the two methods of applying performance conditions set out in the rules of the SIP Scheme which accord with the legislation relating to HMRC approved SIP schemes.

Holding Period

In relation to each award of Free Shares, the Board must set a holding period determined in its discretion of between three and five years from the date of the award of Free Shares. Once set, the holding period cannot be amended.

While individuals remain employed within the Group, they must generally leave their Free Shares within the hands of the SIP Trustee throughout the holding period.

Forfeiture Provisions

In relation to each award of Free Shares, the Board may set a forfeiture period which must not exceed three years from the date of the award. The Board may provide that if, during a stated forfeiture period, an individual ceases to be an employee or otherwise attempts to withdraw his Free Shares from the SIP Scheme, the Free Shares shall be forfeited.

Free Shares will not be forfeited if an individual ceases to be employed due to death, injury or disability, redundancy or retirement or as a result of the company or business by which the individual is employed ceasing to be part of the Group. The Board (in its discretion) may also specify other circumstances in which Free Shares will not be forfeited.

Partnership Shares

The Company may provide employees with the opportunity to enter into an agreement with the Company to enable such employees to use part of their pre-tax salary to acquire Partnership Shares.

Deductions

An employee may allow the Company to make deductions from his salary up to a maximum of 10 per cent. of his salary in any tax year or £1,500 in any tax year (or such other maximum ratio as specified in the relevant legislation relating to HMRC approved SIP schemes), whichever is less, for the purpose of acquiring Partnership Shares. The Company may impose lower maximum limits. In

addition, the Company may set a minimum monthly deduction (but such minimum cannot exceed £10 per month).

The money deducted from an employee's salary will be held by the SIP Trustee and shall be applied by the SIP Trustee in purchasing Partnership Shares.

Accumulation Period

If the Board so chooses, deductions in relation to Partnership Shares may be accumulated over an accumulation period not exceeding 12 months.

If no accumulation period is set, any deduction from salary must be used by the SIP Trustee to acquire Partnership Shares within 30 days from the date on which it was deducted. Any surplus money remaining after the acquisition of Partnership Shares may be added to the next deduction or paid over to the participant.

If an accumulation period is set, the deductions from salary will be accumulated throughout the period. At the end of the period, the accumulated deductions from salary must be used by the SIP Trustee to acquire Partnership Shares within 30 days from the end of the accumulation period. Partnership Shares will be allocated to employees at the end of an accumulation period at the lower of the market value of the Ordinary Shares at the beginning of the accumulation period and the market value of the Ordinary Shares on the date they are allocated to the employees following the end of the accumulation period. Any surplus money remaining after the acquisition of Partnership Shares may be carried forward or paid over to the participant.

Qualifying Period

In relation to each award of Partnership Shares, the Board may (in its discretion) set a qualifying period during which an individual must have been employed in order to be eligible to participate in the award.

If there is an accumulation period, the qualifying period cannot exceed six months before the starting date of the accumulation period.

If there is no accumulation period, the qualifying period cannot exceed 18 months before the date of the award (and, for these purposes, each individual acquisition of Ordinary Shares will constitute an award).

Forfeiture

Partnership Shares shall not be subject to forfeiture and may be withdrawn from the SIP Scheme at any time.

Matching Shares

If employees acquire Partnership Shares, the Board can also (at its discretion) give the employees Matching Shares in proportion to the number of Partnership Shares acquired by the employee. The maximum ratio for an award of Matching Shares to Partnership Shares is 2:1 (or such other maximum ratio as specified in the relevant legislation relating to HMRC approved SIP schemes).

Holding Period

In relation to each award of Matching Shares, the Board must set a holding period determined in its discretion of between three and five years from the date of the award of Matching Shares.

While individuals remain employed within the Group, they must generally leave their Matching Shares within the hands of the SIP Trustee of the SIP Scheme throughout the specified holding period.

Forfeiture Provisions

In relation to an award of Matching Shares, the Board may set a forfeiture period determined at its discretion which must not exceed three years from the date of the award of Matching Shares.

The Board may provide that it, during a stated forfeiture period, an individual ceases to be an employee or otherwise attempts to withdraw his Matching Shares from the SIP Scheme, the Matching Shares shall be forfeited.

In addition, the Company may provide that Matching Shares will be forfeited if the Partnership Shares to which such Matching Shares relate are withdrawn at any time during the applicable forfeiture period.

Matching Shares will not be forfeited if an individual ceases to be employed due to death, injury or disability, redundancy or retirement or as a result of the company or business by which the individual is employed ceasing to be part of the Group. The Board (in its discretion) may also specify other circumstances in which Matching Shares will not be forfeited.

Dividends and Dividend Shares

In relation to any dividends paid on Ordinary Shares held within the SIP Scheme, the Board shall decide whether:

- they are paid out in cash;
- they are re-invested in the Dividend Shares (as defined in the SIP Scheme); or
- the employees are given an individual choice to take either cash or Dividend Shares.

Surplus Cash Dividends

Any surplus cash after Dividend Shares have been acquired may be retained by the SIP Trustee and carried forward to acquire further Dividend Shares in the future.

Holding Period

The rules for the SIP Scheme provide that Dividend Shares must be held in the SIP Scheme for a period of three years from acquisition.

SIP Scheme Limits

In any 10 year period, the number of Ordinary Shares issued under the SIP Scheme, when aggregated with the number of Ordinary Shares issued or issuable under any other employees' share scheme operated by the Company, shall not exceed more than 10 per cent. of the Company's issued share capital from time to time.

Other Award Terms

Awards under the SIP Scheme will not be pensionable.

Corporate Events and Share Reorganisations

A participant may direct the SIP Trustee at any time while the SIP Trustee holds Ordinary Shares on the participant's behalf to:

- accept any offer for such shares, if the acceptance of such offer would result in a new holding of shares being equated with the original Ordinary Shares for capital gains tax purposes;
- agree to a transaction which would if entered into be a scheme, compromise or arrangement applicable to all the Ordinary Shares (or all such class of Ordinary Shares as have been appropriated to the participant) or all Ordinary Shares (or Ordinary Shares of the class in question) held by a class of shareholders identified otherwise than by reference to their employment; or
- accept an offer for cash (with or without other assets) or accept an offer for a qualifying corporate bond (whether alone or with other assets or cash or both) for such shares if such offer forms part of a general offer which is made on the condition that if satisfied will result in the offeror obtaining control of the Company.

In the event of a rights issue in respect of any Ordinary Shares, each participant may instruct the SIP Trustee in respect of all or any of the Ordinary Shares allocated to him and held by the SIP Trustee to exercise the rights on all or any of such Ordinary Shares or to exercise some of the rights and sell the remainder of the rights nil paid (the sale proceeds to be used to take up the rights exercised) or to sell all of the rights on some or all of such Ordinary Shares.

In the event that the SIP Trustee is offered the opportunity to acquire Ordinary Shares pursuant to rights attaching to Ordinary Shares which it holds on behalf of any participant, it shall take up such opportunity only on the instructions of the participant concerned.

Administration and Amendments

The SIP Scheme is administered by the Board. The Board may amend the provisions of the SIP Scheme. However, no amendment to a key feature of the SIP Scheme shall have effect until HMRC has approved such amendment. Furthermore, the rules of the SIP Scheme which relate to:

- the persons to whom awards may be made under the SIP Scheme;
- the limitations on the number or amount of Ordinary Shares which may be used under the SIP Scheme;
- the maximum entitlement of any one employee under the SIP Scheme;
- the basis for determining an employee's entitlement to Ordinary Shares under the SIP Scheme following any increase or variation in the share capital of the Company; and
- the basis for determining the adjustment of any award granted under the SIP Scheme following any increase or variation in share capital of the Company,

cannot be amended to the advantage of any participant or potential participant without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the SIP Scheme, to take account of any change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for any option holder or any Group company.

In addition, no amendments shall be made which adversely affects the rights of subsisting participants without the prior written consent of three-quarters of such Participants (by number) or, at the Board's discretion, the prior written consent of three-quarters of the Participants (by number) as hold subsisting rights that are affected).

Overseas Employees

The Board may adopt supplemental rules to the SIP Scheme to facilitate the granting of awards to individuals not resident in the UK provided that such supplemental rules will, so far as the Board in its discretion considers reasonably practicable, follow the rules of the SIP Scheme.

Termination

The SIP Scheme may be terminated at any time by a resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption. After termination no further Ordinary Shares may be awarded to individuals under the SIP Scheme.

6.3 The Flybe Sharesave

Status of the SAYE Scheme

The SAYE Scheme is designed to be capable of approval by HMRC under Schedule 3 to ITEPA.

Eligibility

Participation in the SAYE Scheme is offered to all employees (including full-time Executive Directors) of the Company and participating subsidiaries who have been employed for a continuous period to be determined by the Board (not exceeding five years ending on the date of grant of the relevant option) and whose earnings from employment are general earnings (or would be if there were any) for a tax year in which the employee is ordinarily resident in the United Kingdom. In addition, certain other employees of any member of the Group nominated by the Board may be permitted to participate in the SAYE Scheme.

Issue of Invitations

Invitations to participate in the SAYE Scheme ("**Invitations**") may be issued to eligible employees during the period of 42 days commencing on (a) the Dealing Day immediately following the date of the preliminary announcement of the Company's annual results or the announcement of its half-yearly results in any year (provided that if the Ordinary Shares continue to be admitted to the Official List at

the time in question, no Invitation shall be issued during the first two Dealing Days following the date of any such announcement), (b) any day on which a change to the legislation affecting savings related share option schemes approved by HMRC is proposed or takes effect or (c) any day on which a new savings contract prospectus is announced or takes effect.

If the issue of an Invitation on any of the above days would be prohibited by virtue of the Model Code or any statute or regulation or order made pursuant to such statute, then such Invitation may be issued during the period of 40 days commencing immediately after the second Dealing Day following the time that such prohibition shall cease to have effect.

Each eligible employee who receives an Invitation may, within 21 days from the date of Invitation (or such shorter period selected by the Board not being less than 14 days), apply for an option.

Savings Contract and Grant of Options

An eligible employee who wishes to be granted an option must enter into a savings contract “**SAYE contract**” with an approved savings body selected by the Board. Under the SAYE contract, the eligible employee will save a regular sum each month for three or five years of not less than £5 nor more than £250 per month (or such greater amount as may from time to time be permitted by Schedule 3 of ITEPA). Employees who complete an SAYE contract will be entitled to a bonus from the building society or bank. The bonus is fixed at the inception of the SAYE contract.

In relation to a given round of option awards, the Board may determine whether the savings period will be three or five years or whether each employee will be given a choice.

An option to acquire Ordinary Shares will be granted to each eligible employee who enters into an SAYE contract. The number of Ordinary Shares subject to such an option will be that number of Ordinary Shares which have an aggregate option price not exceeding the projected proceeds of the SAYE contract concerned including the bonus (subject to any scaling back – see below).

No consideration is payable for the grant of an option.

Scaling Back

If there are insufficient Ordinary Shares available to fully satisfy all applications received for an option from eligible employees (either due to the scheme limit referred to below or such other limit imposed by the Board for the purposes of an option), the Board may scale down the applications by taking one or more prescribed steps approved by HMRC and set out in the rules of the SAYE Scheme to reduce the amount of savings made under each SAYE contract or otherwise reduce the proceeds derived from each SAYE contract so as to ensure that the options are granted over such number of Ordinary Shares as does not exceed the number of Ordinary Shares available to satisfy those options.

Exercise Price

The option price per Ordinary Share subject to an option will be selected by the Board but will not be less than the greater of 80 per cent. (or such lesser percentage as may from time to time be permitted by Schedule 3 of ITEPA) of the market value of an Ordinary Share on the day on which Invitations to apply for options are issued and, in the case of an option to subscribe for Ordinary Shares, the nominal value of an Ordinary Share. While the Ordinary Shares are traded on the Official List the market value of an Ordinary Share will be the average of the middle market prices of an Ordinary Share as derived from the Official List for the three consecutive Dealing Days immediately preceding the date of Invitation.

The exercise price (as well as the number of Ordinary Shares under option and their nominal value) may be adjusted by the Board in the event of any capitalisation issue or rights issue (other than an issue of Ordinary Shares pursuant to the exercise of an option given to the shareholders of the Company to receive shares in lieu of a dividend) or any other variation in the share capital of the Company including (without limitation) any consolidation, subdivision or reduction of capital. Any such adjustment will require the prior approval of HMRC.

SAYE Scheme Limits

On any date, no option may be granted under the SAYE Scheme if as a result the aggregate nominal value of Ordinary Shares issued or issuable pursuant to options granted during the previous ten years under the SAYE Scheme or any other employee's share scheme or profit sharing scheme or employee share ownership plan adopted by the Company would exceed 10 per cent. of the nominal value of the share capital of the Company in issue at that date.

Exercise and Lapse of Options

Options are not transferable and (except in the circumstances described below) an option may normally only be exercised within a period of six months following the maturity of the relevant SAYE contract by a person who remains a Director or employee.

Where an option holder dies before the maturity of his SAYE contract, his personal representatives may exercise his option within a period of 12 months from the date of his death. Where an option holder dies within a period of six months following the expiry of his SAYE contract without having exercised his option, his personal representatives may exercise his option within a period of 12 months from the date of expiry of the SAYE contract.

An option holder may exercise his option within a period of six months of ceasing to be an employee of the Group where the cessation occurs as a result of:

- injury, disability, redundancy (within the meaning of the Employment Rights Act 1996) or retirement;
- his employment being transferred within the meaning of the Transfer of Undertakings (Protection of Employment) Regulations 2006; or
- his employing company or business being disposed of outside the Group or his employing company ceasing to be an "associated company" for the purposes of the legislation governing SAYE Schemes.

In relation to options granted before 17 July 2013 only where an option holder reaches the age of 60, but remains in employment he may exercise his option within a period of six months after reaching such age.

Options will lapse upon cessation of employment of the option holder in any other circumstances not referred to above.

An option holder may exercise his option within a limited period following a takeover (pursuant to the City Code) of the Company, the Court sanctioning a scheme under section 899 of the CA 2006 in certain circumstances or the passing of a resolution for the voluntary winding up of the Company.

In certain circumstances option holders may release their rights under options in consideration of the grant to them of equivalent rights over shares in an acquiring company which gains control of the Company.

The number of Ordinary Shares acquired on exercise will in any event be limited by reference to the proceeds accrued under the relevant SAYE contract up to the date of exercise.

Other Option Terms and Issues of Ordinary Shares

The SAYE Scheme provides the facility for the exercise of options to be satisfied by either the issue of Ordinary Shares, the transfer of Ordinary Shares held by trustees of an employee benefit trust established for the purpose of facilitating the holding of Ordinary Shares by Group employees or by the transfer of Ordinary Shares held in treasury.

Options are not capable of transfer or assignment.

Until options are exercised, option holders have no voting or other rights in relation to the Ordinary Shares subject to those options.

Ordinary Shares allotted pursuant to the exercise of an option will rank *pari passu* in all respects with the Ordinary Shares already in issue but shall not rank for any dividends or other distribution payable by reference to a record date preceding the date of allotment. Ordinary Shares transferred on the exercise of an option shall be transferred without the benefit of any rights attaching to the Ordinary Shares by reference to a record date preceding the date of that exercise. For so long as the Company's Ordinary Shares are traded on the Official List, the Company will use its best endeavours to procure that the Ordinary Shares issued following exercise of any options are admitted to trading on the Official List as soon as practicable after allotment.

Benefits obtained under the SAYE Scheme are not pensionable.

Administration and Amendments

The SAYE Scheme is administered by the Board. The Board may amend the provisions of the SAYE Scheme. However, no amendment to a key feature of the SAYE Scheme shall have effect until HMRC has approved such amendment. Furthermore, the rules of the SAYE Scheme which relate to:

- the persons to whom options may be granted;
- the limits on the number of Ordinary Shares which may be issued under the SAYE Scheme;
- the maximum entitlement of any option holder;
- the basis for determining an option holders entitlement to Ordinary Shares or options; and
- the basis for determining the adjustment of any option granted under the SAYE Scheme following any increase or variation in the share capital of the Company

cannot be amended to the advantage of any option holder or potential option holder without the prior approval of the Company in general meeting except for minor amendments to benefit the administration of the SAYE Scheme, to take account of any change in legislation or to obtain or maintain favorable tax, exchange control or regulatory treatment for any option holder or any Group company.

Overseas Employees

The Board may adopt supplemental rules to the SAYE Scheme to facilitate the granting of awards to individuals not resident in the UK provided that such supplemental rules will, so far as the Board in its discretion considers reasonably practicable, follow the rules of the SAYE Scheme.

Termination

The SAYE Scheme may be terminated at any time by resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption by the Company so that no further options can be granted under the SAYE Scheme after such termination. Termination shall not affect the outstanding rights of existing option holders.

6.4 The Flybe Long Term Incentive Plan 2013

Nature of LTIP Awards

Awards granted under the LTIP ("**LTIP Awards**") take the form of a conditional right to receive a cash amount ("**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 of such award ("**Opening Price**") (unless determined otherwise by the remuneration committee) and the market value of an Ordinary Share on the third anniversary of grant ("**Closing Price**"). 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.

Eligibility

All employees of the Group may be granted LTIP Awards. No directors of the Company may be granted an LTIP Award.

Grant

The remuneration committee has absolute discretion as to when to grant an LTIP Award and to select the persons to whom LTIP Awards may be granted and, subject to the limit set out below, in determining the number of Ordinary Shares to notionally be subject to each LTIP Award.

No consideration is payable for the grant of an LTIP Award.

Individual Limit

In general, each individual's participation is limited so that the aggregate market value of the Ordinary Shares which are to be notionally subject to a proposed LTIP Award (calculated as at the date of grant of such award) will not exceed 300 per cent. of the individual's basic salary at the date of grant. The individual limit can be exceeded in circumstances which the remuneration committee considers to be exceptional.

Cap on Value of LTIP Award

Save in circumstances where the remuneration committee determines otherwise, the Closing Price in respect of an LTIP Award may not exceed 400 per cent. of the Opening Price in respect of such award as at the third anniversary of the grant date of such award ("**First Vesting Date**") and to the extent that it does exceed such limit shall be deemed to be equal to 400 per cent. of the Opening Price ("**LTIP Cap**").

Performance Target

The vesting of LTIP Awards granted under the LTIP 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 as at the First Vesting Date of such award must exceed a pre-determined level.

If events occur which cause the remuneration committee reasonably to consider that a different or amended performance target would be a fairer measure of performance, the remuneration committee may waive or amend the original performance target in such manner as it deems fit provided that any such amended target is not materially more difficult to achieve than the original performance target.

If payment is to be made pursuant to an LTIP Award prior to the First Vesting Date as a consequence of:

- van employee ceasing to be a Group employee; or
- the occurrence of certain corporate events (such as a change of control of the Company),

the applicable performance target may be modified in such manner as the remuneration committee thinks fit so as to be applied over such abbreviated period.

Dividends

The Cash Amount in respect of an LTIP Award will be increased by an amount equal to the value of any dividends or other cash distributions paid by the Company in respect of the number of the notional Ordinary Shares which are subject to such award during the period between the grant of such award and the First Vesting Date in respect of such award.

Vesting of LTIP Awards and Payment of the Cash Amount

Generally, LTIP Awards vest on the First Vesting Date subject to the achievement of the applicable targets imposed on an Award. Normally, no vesting can occur before the First Vesting Date.

Within thirty days of the vesting of an LTIP Award, an amount equal to 50 per cent. of the Cash Amount in respect of such award will be paid to the LTIP Award holder. A further 25 per cent. of such Cash Amount will be payable within thirty days of the date falling six months after the First Vesting Date ("**Second Vesting Date**"). The balance of such Cash Amount will be payable within thirty days of the twelve months anniversary of the First Vesting Date ("**Third Vesting Date**").

All payments made pursuant to the LTIP will be subject to deductions for income tax and employee's National Insurance contributions.

No payments may be made at a time when payment would be prohibited due to the provisions of the Model Code.

LTIP Awards will vest earlier than the First Vesting Date, and all payments of the Cash Amount will be accelerated, in the event of a takeover or a scheme of arrangement under Part 26 of the CA 2006 being sanctioned by the court. In such circumstances, subject to the achievement of the applicable performance targets, LTIP Awards will vest immediately and the Cash Amount, or the balance of the Cash Amount which remains unpaid at such time, will be payable in full within thirty days of such event. In such circumstances, subject to the LTIP Cap, the Closing Price will be deemed to be the value of an Ordinary Share determined in connection with the event giving rise to the vesting of the LTIP Awards. In the event that such circumstances arise prior to the First Vesting Date, the Cash Amount shall, subject to the discretion of the remuneration committee to misapply pro-rating, be pro-rated down on a time apportioned basis by reference to the time that has elapsed from the date of grant of the relevant LTIP Award to the date upon which the event triggering vesting occurs ("**Pro-Rata Adjustment**").

Cessation of Employment

Other than in the circumstances set out below, LTIP Awards generally lapse on the earlier of cessation of employment of the LTIP Award holder or the giving of notice by the LTIP Award holder in respect of their employment.

Generally, in the event that an LTIP Award holder ceases to be employed within the Group before the First Vesting Date in respect of an LTIP Award by reason of:

- death, ill health or permanent disability (evidenced to the satisfaction of the remuneration committee) or redundancy or upon the sale or transfer out of the Group of the company or undertaking employing him; or
- in such other circumstances as the remuneration committee considers to be relevant,

his LTIP Award shall continue in existence and may be retained by the LTIP Award holder. Such LTIP Award may then vest at the First Vesting Date, but only to the extent that the applicable performance target is satisfied. In such circumstances, the Cash Amount shall, subject to the discretion of the remuneration committee to misapply pro-rating, be subject to Pro-Rata Adjustment. Payment of the Cash Amount will be made within thirty days of the First Vesting Date (with no deferral of any proportion of such payment).

In the circumstances described above, the remuneration committee may resolve to allow an LTIP Award to vest at the date of cessation of employment rather than at the First Vesting Date. In such circumstances: (i) for the purposes of calculating the Cash Amount, subject to the LTIP Cap, the Closing Price will be deemed to be the market value of an Ordinary Share as at the date of cessation of employment; (ii) subject to the discretion of the remuneration committee to disapply pro-rating, the Cash Amount will be subject to Pro-Rata Adjustment; (iii) the applicable performance target (as modified if a modification is made) must be satisfied; and (iv) payment of the Cash Amount will be made within thirty days of the date of cessation of employment (with no deferral of any proportion of such payment).

In the event that an LTIP Award holder ceases to be employed within the Group after the First Vesting Date in respect of an LTIP Award but before the Second Vesting Date or the Third Vesting Date in respect of such award (as the case may be) in any of the circumstances described above, the balance of any Cash Amount due to such LTIP Award holder shall be paid within thirty days of the date of cessation of employment (with no further deferral of any proportion of such payment).

In the event that an LTIP Award holder ceases to be employed within the Group after the First Vesting Date in respect of an LTIP Award but before the Second Vesting Date or the Third Vesting Date in respect of such award (as the case may be) other than in any of the circumstances described above, the LTIP Award holder will not be entitled to any further payments in respect of the Cash Amount.

Other LTIP Award terms

In respect of an LTIP Award, in the event that at any time prior to the Third Vesting Date in respect of such award the remuneration committee determines that there has been a misstatement of the financial accounts of the Company during the period between the date of grant of such award and the First Vesting Date in respect of such award and that as a consequence of such misstatement, the Closing Price applicable to such award is higher than it would have been were it not for such misstatement, the remuneration committee has a discretion to make adjustments to the payments of the Cash Amount which are to be made on the Second Vesting Date and/or the Third Vesting Date in respect of such award to reflect the extent to which such Closing Price is higher than it would otherwise have been.

LTIP Awards are not capable of transfer or assignment.

Benefits obtained under the LTIP are not pensionable.

Adjustment of LTIP Awards

The number of Ordinary Shares which are notionally subject to an LTIP Award and the Opening Price may be adjusted by the remuneration committee in the event of any capitalisation issue or rights issue (other than an issue of Ordinary Shares pursuant to the exercise of an option given to the shareholders of the Company to receive shares in lieu of a dividend) or any other variation in the share capital of the Company including (without limitation) any consolidation, subdivision or reduction of capital.

Administration & amendment

The LTIP is administered by the remuneration committee. The Board may amend the provisions of the LTIP.

Termination

The LTIP may be terminated at any time by resolution of the Board and shall in any event terminate on the tenth anniversary of its adoption so that no further LTIP Awards can be granted under the LTIP after such termination. Termination shall not affect the outstanding rights of existing LTIP Award holders.

6.5 The Saad Hammad Long Term Incentive Plan (the “SH Plan”)

Eligibility

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 with the date that he joined the Company.

Principal Terms

The principal terms of the SH Plan are:

- the award made under the terms of the SH Plan entitles Mr. Hammad to receive a cash payment, subject to the terms described below;
- the quantum of the cash payment will depend upon the extent to which the performance condition (summarised below) has been satisfied, as measured, in normal circumstances, over a three year performance period commencing on the date that Mr. Hammad joined the Company (“**Performance Period**”);
- the performance condition is that the market capitalisation of the Company at the end of the Performance Period (“**Ending Market Capitalisation**”) must be greater than the market capitalisation of the Company at the start of the Performance Period (“**Starting Market Capitalisation**”). If this condition is not satisfied, no payment will be made to Mr. Hammad under the SH Plan;
- if the Ending Market Capitalisation exceeds the Starting Market Capitalisation, then:
 - in respect of the incremental increase in the Company’s market capitalisation above the Starting Market Capitalisation measured over the Performance Period up to a maximum market capitalisation of the Company of £150 million, Mr. Hammad will be entitled to

receive a cash payment of an amount equal to four per cent. of the amount by which the lower of: (i) the Ending Market Capitalisation and (ii) £150 million, exceeds the Starting Market Capitalisation; and

- o in respect of any incremental increase in the Company's market capitalisation measured over the Performance Period in excess of £150 million, Mr. Hammad will be entitled to receive a cash payment of an amount equal to 3 per cent. of the amount by which the Ending Market Capitalisation exceeds £150 million; and
- for the purpose of the SH Plan, the Starting Market Capitalisation will be based on the average market capitalisation over the period of three months immediately preceding the start of the Performance Period and in normal circumstances the Ending Market Capitalisation will be based on the average market capitalisation over the period of three months immediately preceding the end of the Performance Period. However, the aggregate subscription price paid for any new shares in the capital of the Company which are issued after the date that Mr. Hammad joined the Company but on or before the end of the Performance Period shall be deducted from the Ending Market Capitalisation for the purpose of calculating any payment due to Mr. Hammad under the SH Plan.

Vesting

At the end of the Performance Period, normally the award will vest as to 50 per cent. of the amount determined in accordance with the performance condition described above. Thereafter a further 25 per cent. of the award will vest on the date falling six months after the end of the Performance Period and a further 25 per cent. of the award will vest on the date falling twelve months after the end of the Performance Period.

Change of Control

In any circumstances where there is a change of control of the Company (within the meaning of section 450 of the Corporation Tax Act 2010), then the Performance Period will be terminated so that it ends at the date of the change of control of the Company. In this case, the Ending Market Capitalisation will be determined as at the date that such change of control occurs based on the greater of:

- the average market capitalisation of the Company over the period of three months immediately preceding such change of control; or
- the market capitalisation of the Company as at the date of such change of control.

The Ending Market Capitalisation so determined will be used for the purpose of calculating any cash payment due to Mr. Hammad pursuant to the performance condition set out above. However, the aggregate subscription price paid for any new shares in the capital of the Company which are issued after the date that Mr. Hammad joined the Company but before the date that the change of control of the Company occurs shall be deducted from such Ending Market Capitalisation for the purpose of determining any cash payment due to Mr. Hammad under the SH Plan. Any payment which is due to Mr. Hammad on the change of control will be payable immediately upon the change of control of the Company and the vesting provisions described above will not apply.

Cessation of Employment

If Mr. Hammad ceases to be employed by the Company before the end of the Performance Period, the award will normally lapse and he will cease to have any entitlement to receive a cash payment under the SH Plan.

However, the remuneration committee may vary the treatment of the award at its discretion in certain circumstances, for example, where Mr. Hammad ceases to be an employee for certain "good leaver" reasons (which do not include the termination of Mr. Hammad's employment due to unsatisfactory performance in the reasonable opinion of the Company) and/or where any corporate or capital restructuring or other changes would produce an unfair adverse effect upon the amount of Mr. Hammad's entitlement under the SH Plan.

Pensionable Benefits

Benefits under the SH Plan for Mr. Hammad are not pensionable.

Variation of the SH Plan

The provisions of the SH Plan for Mr. Hammad which relate to:

- the person to whom the cash payment may be provided (being Mr. Hammad);
- the maximum entitlement for Mr. Hammad;
- the basis for determining Mr. Hammad's entitlement to, and the terms of, the cash payment to be provided to him, and for the adjustment thereof (if any) if there is a corporate or capital restructuring of the Company;

cannot be amended to the advantage of Mr. Hammad without the prior approval of Shareholders in general meeting (except for minor amendments to benefit the administration of the SH Plan for Mr. Hammad, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control, or regulatory treatment for Mr. Hammad or the Company or members of the Group.

6.6 The Flybe Group Limited Employees' Share Ownership Trust ("Flybe Group Limited Trust")

The Flybe Group Limited Trust was constituted by a trust deed entered into between the Company and Kleinwort Benson (Jersey) Trustees Limited (a company registered in Jersey) ("**Flybe Group Limited Trustee**") on 4 April 1997. The Company has the power to appoint and remove the Flybe Group Limited Trustee.

The Flybe Group Limited Trust is a discretionary settlement set up for the benefit of employees and former employees (and their immediate dependants) of the Company and its subsidiaries (not including those resident in Jersey).

The Flybe Group Limited Trustee currently holds Ordinary Shares and cash subject to the terms of the Flybe Group Limited Trust which are unencumbered.

The Flybe Group Limited Employees' Share Ownership (No.2) Trust ("Flybe Group Limited No.2 Trust")

The Flybe Group Limited No.2 Trust was constituted by a trust deed entered into between the Company and Kleinwort Benson (Guernsey) Trustees Limited (a company registered in Guernsey) ("**Flybe Group Limited No.2 Trustee**") on 3 June 2005. The Company has the power to appoint and remove the Flybe Group Limited No.2 Trustee.

The Flybe Group Limited No.2 Trust is a discretionary settlement set up for the benefit of employees and former employees (and their immediate dependants) of the Company and its subsidiaries (not including those resident in Guernsey).

The Flybe Group Limited No.2 Trustee currently holds cash subject to the terms of the Flybe Group Limited No.2 Trust which is unencumbered.

The Flybe Group plc Employee Benefit Trust ("EBT")

The EBT was constituted by a trust deed entered into between the Company and Kleinwort Benson (Guernsey) Trustees Limited (an offshore trustee) ("**EBT Trustee**") on 15 December 2010. The Company has the power to appoint and remove the EBT Trustee.

The EBT is a discretionary settlement set up for the benefit of employees and former employees (and their immediate dependants) of the Company and its subsidiaries (not including those resident in Guernsey).

The EBT Trustee may either purchase existing shares in the Company in the market or subscribe for new shares in the Company. It is proposed that such shares will predominantly be used for the purposes of the employee share schemes established by the Company.

In accordance with the guidelines issued by the Association of British Insurers, the maximum number of shares in the Company which may be held by the EBT Trustee at any time (when added to the number of shares in the Company held by the trustee or trustees of any other trust established by the Company) may not exceed 5 per cent. of the Company's issued ordinary share capital at that time. The EBT Trustee currently holds cash subject to the terms of the EBT which is unencumbered.

7. Directors and Others' Interests

- 7.1 Details of the Directors and the Senior Management and their functions in the Group are set out in section 6 of Part 3 of this document. The business address of each of the Directors and the Senior Management is at Jack Walker House, Exeter International Airport, Exeter EX5 2HL.
- 7.2 The interests of the Directors, the Senior Management and persons connected with them (within the meaning of section 252 of the CA 2006) in the issued share capital of the Company (all of which are beneficial) as at 18 February 2014 (being the latest practicable date prior to the publication of this document) and as they will be immediately following Admission are as follows:

	<i>As at 18 February 2014</i>		<i>Immediately following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of voting rights</i>	<i>Number of Ordinary Shares*</i>	<i>Percentage of voting rights*</i>
Simon Laffin	nil	n/a	227,272	0.10%
Saad Hammad	nil	n/a	227,272	0.10%
Andrew Knuckey	223,125	0.3%	223,125	0.10%
Charlie Scott	12,500	n/a	12,500	0.01%
Alan Smith	22,500	n/a	22,500	0.01%
David Longbottom	12,500	n/a	26,760	0.01%
Paul Simmons	nil	n/a	nil	n/a
John Palmer	37,500	n/a	37,500	0.02%
Simon Charles	75,000	0.1%	75,000	0.03%
Chris Simpson	224,125	0.3%	224,125	0.10%
Matt Bennett	nil	n/a	nil	n/a
Matt Linsey	nil	n/a	nil	n/a

*Assuming no take up under the Open Offer

Details of options and awards over Ordinary Shares granted pursuant to the Share Schemes which are held by the Directors and the Senior Management as at the date of this document are set out below:

<i>Name of Director/Senior Manager</i>	<i>Date of grant of option/award</i>	<i>Scheme</i>	<i>Number of Ordinary Shares under award/option</i>	<i>Exercise price per Ordinary Share (if any)</i>	<i>Normal vesting date for option/award</i>
Andrew Knuckey	5 August 2011	PSP	173,410	–	5 August 2014
	24 January 2011	SIP Scheme	100	–	24 January 2014
	5 August 2011	SAYE Scheme	790	£1.37	5 August 2014
Simon Charles	5 August 2011	PSP	61,317	–	5 August 2014
	24 January 2011	SIP Scheme	100	–	24 January 2014
	5 August 2011	SAYE Scheme	790	£1.37	5 August 2014
Christopher Simpson	5 August 2011	PSP	35,375	–	5 August 2014
John Palmer	5 August 2011	SAYE Scheme	790	£1.37	5 August 2014
	5 August 2011	PSP	115,606	–	5 August 2014

The above stated amounts do not include any Ordinary Shares which may be issued to the Directors and the Senior Management to reflect any dividends that were paid during the vesting period of the option or award.

- 7.3 During the 12 months prior to the date of this document no interests in shares in the capital of the Company have been acquired by the Directors or Senior Management at a cost below the Offer Price.
- 7.4 Save as disclosed in paragraph 7.2 of this Part 7 of this document, no Director or member of the Senior Management has any interest in the share capital or loan capital of the Company or any of its

subsidiaries nor does any person connected with them (within the meaning of section 252 of the CA 2006) have any such interest, whether beneficial or non-beneficial.

- 7.5 Other than current or former directorships of members of the Group, during the five years immediately prior to the date of this document, the Directors and the Senior Management are or have been members of the administrative, management or supervising bodies or partners of the companies or partnerships specified below (excluding, save where set out below, subsidiaries of any company of which the relevant Director or member of the Senior Management is also a member of the administrative, management or supervisory bodies):

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships held in the last five years</i>
Simon Laffin	Assura Group Limited Quintain Estates and Development plc Simon Laffin Business Services Limited CVC Capital Partners VI Associates L.P. (Limited Partner)	Rasindeck Limited Aegis Group plc Mitchells & Butlers plc Thistlehaven Limited Dentsu Aegis Network Limited Ashpring Limited Columbus MFV LLP
Saad Hammad	None	Easyjet Airline Company Limited Easy Jet Aircraft Company Limited Easy Jet Leasing Limited Easy Jet Sterling Limited GB Airways Limited Air Berlin plc Optos plc Glendon Partners Limited Sagemcom Siemens Enterprise Communications The Hay Group
Andrew Knuckey	None	38-48 Macrae Road Management Company Limited RAK Interim Management Limited
Charlie Scott	Emcore Corporation Intechnology plc Kircal Limited	William Hill plc
Alan Smith	Displayplan Limited Fisher Manco Limited Fisher Outdoor Leisure Limited Fisher Outdoor Leisure Trustee Company Limited NAAFI Trustees Limited Navy, Army and Air Force Institutes (The) Fisher Outdoor Leisure Holdings Limited Royal Air Force Charitable Trust Enterprises Royal Air Force Charitable Trust (trustee) Brambledown Aircraft Hire (Partner)	Aquabella Group plc Bezier Acquisitions Limited Empire World Trade Holdings Limited Empire World Trade Limited EWT Trustees Limited NAAFI Incorporated Trustees Limited NAAFI Pension Fund Trustees Limited

<i>Name</i>	<i>Current directorships and partnerships</i>	<i>Previous directorships held in the last five years</i>
David Longbottom	London South Bank University Horton Consulting Partnership LLP (Partner)	Chilton Road Abstraction (Pitters Piece) Limited
Paul Simmons	None	The Strategic Factory Limited
John Palmer	None	None
Simon Charles	None	None
Chris Simpson	Bulldog Aviation Limited Oystercatcher Limited	None
Matt Bennett	None	None
Matt Linsey	None	None

7.6 Save as set out in paragraph 7.7 below, no Director or member of the Senior Management (for at least the previous five years before the date of this document):

- (i) has any convictions in relation to fraudulent offences; or
- (ii) has been bankrupt or the subject of an individual voluntary arrangement, or has had a receiver appointed to any of his assets; or
- (iii) has been a director of any company which, while he was a director had a receiver appointed or went into compulsory liquidation, creditors voluntary liquidation, administration or company voluntary arrangement, or made any composition or arrangement with its creditors generally or with any class of its creditors; or
- (iv) has been a partner of any partnership which, while he was a partner, went into compulsory liquidation, administration or partnership voluntary arrangement, or had a receiver appointed to any partnership asset: or
- (v) has had any public criticism and/or sanction by statutory or regulatory authorities (including designated professional bodies); or
- (vi) has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7.7 Alan Smith was a director of Bezier Acquisitions Limited which went into administration in August 2011.

7.8 So far as the Directors are aware, no person, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.

7.9 So far as the Directors are aware, there are no arrangements the operation of which may at a later date result in a change of control of the Company.

7.10 Insofar as is known to the Company, the following persons are interested in three per cent. or more of the Company's share capital or voting rights at 18 February 2014 (being the latest practicable date prior to the publication of this document) and/or immediately following the Offer:

	<i>As at 18 February 2014</i>		<i>Immediately following Admission</i>	
	<i>Number of Ordinary Shares</i>	<i>Percentage of voting rights</i>	<i>Number of Ordinary Shares*</i>	<i>Percentage of voting rights*</i>
The Plimsoll Line Limited	10,925,847	14.54	10,925,847	5.04
Aberforth Partners LLP	8,222,756	10.94	18,223,169	8.41
Quantum Partners LP	7,066,200	9.40	14,835,200	6.85
Artemis Investment Management LLP	6,000,000	7.98	13,297,125	6.14
Standard Life Investments Ltd	5,842,015	7.77	12,947,001	5.98
The Wellcome Trust	3,228,400	4.96	7,154,740	3.30
Polar Capital Partners European	3,248,850	4.32	3,248,850	1.50

*Assuming no take up under the Open Offer

- 7.11 None of the Company's major holders of Shares listed above has voting rights which are different from other Shareholders.
- 7.12 There are no loans made or guarantees granted or provided by any member of the Group to or for the benefit of any Director or member of the Senior Management, other than those set out in paragraph 7.15 and section 10 of this Part 7 of this document.
- 7.13 No Director or member of the Senior Management is or has been interested in any transaction which is or was unusual in its nature or conditions or significant to the business of the Group and which was effected by the Company or any of its subsidiaries during the current or immediately preceding financial year or which was effected by the Company or any of its subsidiaries during any earlier financial year and remains in any respect outstanding or unperformed.
- 7.14 No Director or member of the Senior Management has any conflict of interest (or potential conflict of interest) between any duties he has to the Company and his private interests and/or other duties he may have.
- 7.15 The amount of remuneration (including any contingent or deferred compensation) payable and benefits in kind granted to each of the Directors and the Senior Management for the 2012/13 Financial Year was:

<i>Name</i>	<i>Remuneration (£)</i>
Simon Laffin	nil
Saad Hammad	nil
Andrew Knuckey	308,756
Charlie Scott	63,000
Alan Smith	48,000
David Longbottom	48,000
Paul Simmons	nil
John Palmer	232,068
Simon Charles	140,335
Chris Simpson	67,821
Matt Bennett	135,934
Matt Linsey	93,835

- 7.16 The total amount set aside or accrued by the Group to provide pension, retirement or similar benefits in the 2012/13 Financial Year was £106,440.

8. Directors' and Senior Managers' Service Contracts

- 8.1 Saad Hammad has entered into a service agreement with the Company dated 19 February 2014, subject to termination upon 12 months' notice by either party. The service agreement provides for an annual salary of £425,000, pension contributions in line with the Company's current policy, life

assurance of up to four times salary, income protection insurance, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £14,500. In addition, Mr Hammad receives a relocation allowance of £3,000 per month for the first six months of his employment with the Company. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for 12 months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the 12 months prior to termination or, if earlier, the start of any period of garden leave.

- 8.2 Andrew Knuckey has entered into a service agreement with the Company dated 9 December 2010, subject to termination upon 12 months' notice by either party. The service agreement provides for an annual salary of £300,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, income protection insurance, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £7,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for 12 months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the 12 months prior to termination or, if earlier, the start of any period of garden leave. Mr Knuckey tendered his resignation on 2 August 2013 and will leave the Company when a successor has been appointed.
- 8.3 Paul Simmons has entered into a service agreement with the Company dated 25 July 2013, subject to termination upon 12 months' notice by either party. The service agreement provides for an annual salary of £275,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, income protection insurance, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £7,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for 12 months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the 12 months prior to termination or, if earlier, the start of any period of garden leave.
- 8.4 John Palmer has entered into a service agreement with the Company dated 4 August 2008, subject to termination upon six months' notice by either party. The service agreement provides for an annual salary of £185,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £7,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for six months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the six months prior to termination or, if earlier, the start of any period of garden leave.
- 8.5 Simon Charles has entered into a service agreement with the Company dated 15 December 2006, subject to termination upon six months' notice by either party. Under the terms of the service agreement, the executive is entitled to an annual salary of £132,600, pension contributions in line with the Company's current policy, life assurance of up to four times salary, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £6,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive for a period of six months following the termination of his employment from interfering with, soliciting or endeavouring to entice away the business of any person who was a client, customer or supplier of the Company at the date of termination or in the year prior to that date and with whom the executive had personal dealings.
- 8.6 Chris Simpson has tendered his resignation and will leave the Company on 7 March 2014.
- 8.7 Matt Bennett has entered into a service agreement with the Company dated 5 October 2011, subject to termination upon six months' notice by either party. The service agreement provides for an annual salary of £130,000, pension contributions in line with the Company's current policy, life assurance of up to four times salary, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £6,000.

The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for six months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the six months prior to termination or, if earlier, the start of any period of garden leave.

- 8.8 Matt Linsey has entered into a service agreement with the Company dated 4 September 2009, subject to termination upon six months' notice by either party. The service agreement provides for an annual salary of £80,000, pension contributions in line with the Company's current policy, life assurance of up to two times salary, private medical expenses insurance for the benefit of the executive, his spouse/partner and dependent children in full time education and an annual car allowance of £6,000. The service agreement contains post-termination restrictive covenants which (among other restrictions) restrict the executive from competing with the Company for six months following the termination of his employment in any area/territory in which the executive worked or to which he was assigned during the six months prior to termination or, if earlier, the start of any period of garden leave.
- 8.9 The services of Simon Laffin as Independent Non-Executive Chairman are provided under the terms of a letter of appointment with the Company dated 7 November 2013. The appointment commenced on 5 November 2013 and will terminate on 4 November 2016 unless terminated earlier by either party upon six months' notice, at an initial fee of £150,000 per annum. Mr Laffin's services are provided under an agreement between Flybe and Simon Laffin Business Services Limited.
- 8.10 The services of Charlie Scott as Non-Executive Director are provided under the terms of a letter of appointment with the Company dated 3 May 2012. The appointment will terminate on 31 March 2015 unless terminated earlier by either party upon six months' notice, at an initial fee of £63,000 per annum.
- 8.11 The services of Alan Smith as Non-Executive Director are provided under the terms of a letter of appointment with the Company dated 3 May 2012. The appointment will terminate on 31 March 2015 unless terminated earlier by either party upon six months' notice, at an initial fee of £48,000 per annum.
- 8.12 The services of David Longbottom as Non-Executive Director are provided under the terms of a letter of appointment with the Company dated 3 May 2012. The appointment will terminate on 31 March 2015 unless terminated earlier by either party upon six months' notice, at an initial fee of £48,000 per annum.
- 8.13 Save as set out in this section 8 of Part 7 of this document, there are no service agreements in existence between any of the Directors and the Company or any of its subsidiaries which cannot be determined by the employing company without payment of compensation (other than statutory compensation) within one year.

9. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and its subsidiaries during the two years preceding the date of this document and are or may be material or contain any provision under which any member of the Group has an obligation or entitlement which is material to the Group as at the date of this document:

9.1 Summary of Underwriting and Sponsor Agreement

Pursuant to the Underwriting and Sponsor Agreement, Liberum Capital has been appointed as the sole sponsor, bookrunner and financial adviser. Liberum Capital has agreed, as agent for the Company, to procure acquirers for the New Ordinary Shares at the Offer Price subject, in certain cases, to clawback under the Open Offer. Liberum Capital has agreed that, to the extent that acquirers have not been procured for the New Ordinary Shares and such New Ordinary Shares are not otherwise the subject of valid applications under the Open Offer, to acquire such New Ordinary Shares itself at the Offer Price subject to the terms and conditions set out in the Underwriting and Sponsor Agreement.

The obligations of Liberum Capital under the Underwriting and Sponsor Agreement are subject to certain standard conditions (some of which may be waived by Liberum Capital), including, among others:

- the passing of the Resolutions;
- Admission becoming effective by not later than 8.00 a.m. on 12 March 2014 (or such later time and/or date as Liberum Capital and the Company may agree, not being later than 8.00 a.m. on 27 March 2014); and
- the Underwriting and Sponsor Agreement becoming unconditional in all respects and not having been terminated in accordance with its terms prior to Admission.

Subject to the terms and conditions of the Underwriting and Sponsor Agreement, the Company has agreed to pay Liberum Capital on Admission, a fee of £350,000, a commission of an amount equal to 2.00 per cent. of the Offer Price multiplied by the total number of New Ordinary Shares and a further fee of up to £150,000 (payable at the discretion of the Company). In addition, subject to the terms and conditions of the Underwriting and Sponsor Agreement, the Company shall pay Liberum Capital, on behalf of and for payment to the placees, a placing commission of 1.25 per cent. of the Offer Price multiplied by the total number of Open Offer Shares.

The Company has also agreed to bear all costs and expenses relating to the Placing and Open Offer, including, but not limited to, the fees and expenses of its professional advisers, the cost of preparation, advertising, printing and distribution of this document and all other documents connected with the Firm Placing and Placing and Open Offer, the listing fees of the UK Listing Authority, any charges by CREST and the fees of the London Stock Exchange.

The Company has given certain customary representations and warranties and indemnities to Liberum Capital under the Underwriting and Sponsor Agreement. The liabilities of the Company under the Underwriting and Sponsor Agreement are unlimited as to time and amount.

The Underwriting and Sponsor Agreement may be terminated by Liberum Capital upon the occurrence of certain specified events, including, but not limited to, a material breach of the Underwriting and Sponsor Agreement by the Company, any of the warranties given by the Company ceasing to be true and accurate and not misleading or a material adverse change in the condition or business affairs of the Group. Liberum Capital may also terminate the Underwriting and Sponsor Agreement if there is a material adverse change in international financial markets, an incident of terrorism, the outbreak of hostilities or if trading in the Ordinary Shares is suspended which makes it inadvisable or impracticable (in Liberum Capital's opinion) to proceed with the Placing and Placing and Open Offer.

9.2 Loganair Franchise Agreement

Flybe, Flybe Limited and Loganair entered into a franchise agreement in December 2007 (effective from October 2008) under which Flybe granted Loganair a franchise along with a non-exclusive and non-assignable licence to use certain intellectual property rights of Flybe to enable Loganair to operate scheduled flights under the Flybe brand. Loganair pays a franchise fee of 2.5 per cent. of gross passenger revenue (excluding passenger service charges, security and fuel charge levies, air passenger duty and travel agency commission) for all routes in operation prior to the start of the IATA Winter Season. In respect of any new routes commencing after the start of the IATA winter 2008 season, the franchise fee is 1.25 per cent. for the first year, 1.90 per cent. for the second year and 2.5 per cent. for subsequent years.

During the term of the agreement, Flybe is prohibited from commencing or operating any air services on any route on which Loganair operates scheduled air services under the Flybe brand or licensing any other person to do so. Either party may terminate the agreement on six months' notice. Loganair and the Company have also entered into various service agreements, the terms of which are contemporaneous with the Loganair Franchise Agreement. These govern various administrative and operational parts of the franchise arrangement, the provision by the Group of reservation, ticketing, the provision of information technology services, and the ability of passengers on Loganair operated franchise flights to participate in the Flybe frequent flyer programme.

9.3 **Term Loan Facility with Barclays**

This agreement is a facility letter dated 21 January 2008 between Barclays Bank plc (“Barclays”) as lender and Flybe Limited as borrower, in respect of a term loan facility of £2,600,000. This facility was made available for a term of 10 years and is repayable in equal quarterly instalments of £65,000. The interest rate applicable to the facility is 1.06 per cent. over three month sterling LIBOR. The facility is stated to be for the purpose of acquiring the leasehold title to the property known as Hangar 1 at Exeter International Airport. The facility amount of £2,600,000 was drawn down on 1 March 2008 with a maturity date of 28 February 2018. The balance outstanding as of 17 February 2014 is £1,105,000.

9.4 **BGI Facilities with Barclays**

This agreement, comprised in two facility letters, each entered into between Barclays and Flybe Limited is in relation to the provision of bonds, guarantees and/or indemnities, as follows:

- (a) a facility letter dated 24 May 2013 in respect of a facility of up to £6,000,000 for the purpose of issuing bonds, guarantees and/or indemnities. The fee for any obligations issued by Barclays under this facility letter is 2.55 per cent. per annum; and
- (b) a facility Letter dated 24 May 2013 in respect of a facility of up to £5,000,000 for the purpose of issuing bonds, guarantees and/or indemnities. The fee for any obligations issued by Barclays under this facility letter is 2.55 per cent. per annum.

All of the above facilities are made available by Barclays on-demand, and as such Barclays may, in its sole discretion at any time, cancel its commitment and/or demand repayment of any amounts outstanding. The facility is available for a period of 12 months with a review due on 30 April 2014.

9.5 **Cross Guarantees and Security with Barclays**

The performance by Flybe Limited of its obligations under the facility and hedging documents referred to at paragraphs 6.3 and 6.4 above is guaranteed by the Company and its subsidiaries, pursuant to cross guarantees dated 19 February 2003 and 3 March 2010. In support of these guarantees, Barclays has the following items of security:

- (a) debentures from Flybe Group plc, Flybe Limited, JEA Engineering (UK) Limited, Westcountry Aircraft Services (UK) Limited, Guide Leasing Limited, Iscavia Limited, Walker Aviation Leasing UK Limited, British Regional Airlines Limited, British Regional Airlines Group Limited, Flybe Leasing Limited and Flybe (IOM) Limited;
- (b) a legal charge from Flybe Limited over the property known as Hangar 1 at Exeter International Airport;
- (c) a charge over credit balances from Flybe Limited; and
- (d) a deed of assignment in respect of a receivable owed by Flybe Limited to Jersey European Airways Limited.

9.6 **Learning and Skills Council Funding Agreement**

This agreement is a grant agreement dated 29 October 2009 entered into between Flybe Limited and the Learning and Skills Council in respect of a capital project grant towards the costs of developing a national training centre for the airline industry (the Flybe Training Academy). The grant of £4,261,704 is subject to various conditions and the council may be entitled to claw back the grant if these conditions are not observed. The conditions expire on 29 October 2019.

9.7 **South West of England Regional Development Agency Funding Agreement**

This agreement is a grant agreement dated 13 October 2009 between Flybe Limited and the South West of England Regional Development Agency in respect of a grant of £2,826,500 towards the development of the Flybe Training Academy. The grant is subject to various conditions and the agency

may be entitled to claw back the grant if these conditions are not observed. The conditions expire on 1 October 2020.

9.8 **Business Loan Agreement – Lloyds TSB Bank plc**

A business loan agreement executed by Flybe Limited on 20 September 2012 between Lloyds TSB Bank plc (“**Lloyds**”) as lender and Flybe Limited as borrower (as amended), in respect of a term loan facility of £3,229,000. This facility is repayable in equal quarterly instalments of £57,000 with a final balance repayment on 30 November 2016. The interest rate applicable to the facility is 3.25 per cent. over Lloyds’ base rate (from time to time). The facility was made available for the purpose of funding the Training Academy at Exeter International Airport.

The performance by Flybe Limited of its obligations under the business loan agreement is secured by:

- (a) a legal charge over the freehold land and buildings situated at the Training Academy; and
- (b) a guarantee from Flybe Group plc.

9.9 **Joint Venture Agreement with Finnair**

On 30 June 2011 Flybe Holdings Limited (“**Flybe Holdings**”) entered into a shareholders’ agreement, governed by Finnish law, with Finnair Oyj (“**Finnair**”) stating the terms of the ownership of Flybe Nordic AB (“**Nordic**”), a Swedish company. 60 per cent. of the shares in Nordic are owned by Flybe Holdings, and 40 per cent. are owned by Finnair. The shareholders’ agreement does not expire, and each party has a right of first refusal in respect of the other’s shares in the event of a proposed sale of such shares. No such sale may take place until the expiration of five years from the date of acquisition of Flybe Finland, or, if earlier, the expiration of two years from the date that Flybe Finland meets certain financial targets.

Nordic acquired Finnish Commuter Airlines Oy (now known as Flybe Finland Oy) (“**Flybe Finland**”) from Finnair via a subsidiary company, Flybe Finland Holdings Oy, on 18 August 2011. Flybe’s total investment in Nordic was limited to €23.6 million (£21.3 million).

The board of Nordic consists of three representatives of the Group and two representatives of Finnair. The shareholders’ agreement relating to Nordic contains provisions, which are standard in nature, which stipulate that certain matters require the unanimous consent of Nordic’s shareholders. In the event that Flybe and Finnair cannot agree on a matter requiring unanimous consent, the agreement contains provisions to break any such deadlock, including a mechanism for the transfer of one party’s shares to the other.

9.10 **Purchased Traffic Agreement**

A Purchased Traffic Agreement (“**PTA**”) was signed between Flybe Finland and Finnair with effect from 18 August 2011 under which six ATR 72 aircraft and two Embraer 170 aircraft are operated by Flybe Finland for Finnair. 12 Embraer 190 aircraft were added to the arrangement with effect from 28 October 2012 by a supplementary agreement dated 11 October 2012 together with provisions for spare aircraft to cover the ATR and Embraer fleets. The PTA contains provisions allowing Finnair to increase or decrease the number of aircraft provided. The PTA was further amended on 31 January 2013 to add a further part-line of ATR flying to Pulkova International Airport, St Petersburg.

Flybe Nordic and other members of the Group are party to a number of ancillary arrangements relating to the PTA which cover the provision of intellectual property and support services from the Group to Flybe Finland, and govern the use by Flybe Finland of flight codes and Slots.

The PTA has a series of expiry dates, tied to the expiry dates of the various leases of the aircraft. Flybe Finland has given indemnities to Finnair in respect of liabilities, damages and claims by reason of death or injury to any person or damage to property suffered by passengers and third parties arising out of or connected with the contract flights for Finnair.

9.11 **Flybe Limited aircraft subject to German KG financing and lease structures**

25 of the Q400 aircraft, with manufacturer's serial numbers 4113, 4114, 4118, 4120, 4126, 4136, 4139, 4155, 4157, 4179, 4197, 4201, 4206, 4216, 4220, 4221, 4224, 4229, 4230, 4233, 4237, 4251, 4257, 4259 and 4261, three Embraer E195 aircraft with manufacturer's serial numbers 184, 204, 213 and two Embraer E175 aircraft with manufacturer's serial numbers 355 and 358 (each, an "**Aircraft**") are leased to Flybe Limited using a German KG financing and leasing structure.

The partnership structure of a KG investment model involves a Kommanditgesellschaft ("**KG**") which is a limited partnership. Each KG investment vehicle is comprised of a limited liability company. The management companies, in some cases GOAL German Operating Aircraft Leasing GmbH & Co, KG and in other cases HEH Beteiligungsgesellschaft GmbH, act as non-recourse general partners to the KG, Private Investors act as the limited partners.

Each KG has purchased an Aircraft from Flybe Limited and leased it back to Flybe Limited for 10 years (with a two year extension option in the case of the HEH Q400 aircraft) under an operating lease. The purchase price of the Aircraft is financed partly by equity provided by the investors and partly by a bank loan. The investors' investments are placed shortly after the purchase. In the interim period the KG funds this element using an unsecured bridge loan. The bank loans in respect of the Aircraft have been provided by any one of, HSH Nordbank AG, Norddeutsche Landesbank Girozentrale, Export Development Canada ("**EDC**"), Bayerische Landesbank Girozentrale and DVB Bank SE, London Branch.

The bank loan which is used to finance the purchase of the Aircraft is typically secured by a first ranking mortgage over the Aircraft and a security assignment of claims under the operating lease as well as security over airframe warranties/Pratt & Whitney term cost plan agreement, the insurances and in some cases the provision by Flybe Limited of maintenance reserves.

The banks' recourse is (i) to Flybe Limited as primary credit counterparty during the term of lease, (ii) to the value of the Aircraft, and (iii) to the other securities.

Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each Aircraft.

At the expiry of the lease term Flybe Limited has no right to continue leasing the Aircraft nor to take title to the Aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.12 **Flybe Limited aircraft subject to RASPRO Trust operating lease structure**

Five of the Q400 aircraft (being aircraft with manufacturer's serial numbers 4094, 4095, 4098, 4103 and 4105) are leased to Flybe Limited until December 2017 from RASPRO Trust 2005, a Delaware statutory trust. Flybe Limited has granted an assignment of the insurances to the lessor and entered into an airframe warranty agreement with, amongst others, the lessor. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each aircraft.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.13 **Walker Aviation Leasing (UK) Limited aircraft financed by UT Finance Corporation and Lloyds Bank**

Two of the Q400 aircraft are leased to Flybe Limited with lease terms expiring in 2015 or 2016, from Walker Aviation Leasing (UK) Limited (“**WALL**”), a wholly owned subsidiary of Flybe Group plc, being aircraft with manufacturer’s serial numbers 4077 and 4093.

The aircraft bearing manufacturer’s serial number 4077 is financed by UTF, the aircraft bearing manufacturer’s serial number 4093 is financed by HBOS.

Flybe Limited has granted an assignment of the insurances to WALL, which is assigned to the respective security trustee, and entered into an airframe warranty agreement with, amongst others, WALL and the Security Trustee.

WALL has granted a mortgage in favour of the respective Security Trustee in respect of each Aircraft. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of WALL under the loans entered into in respect of each aircraft.

WALL has entered into a Letter of Intent with Elix Aviation Capital Limited for the sale and short-term lease-back of these aircraft with the intent to close the transaction in the first quarter of 2014.

9.14 **Flybe Limited operating leases with Nordic Aviation Capital A/S (“NAC”)**

Four of the Q400 aircraft are leased to Flybe Limited until November 2021 from NAC Aviation 2 Limited being aircraft with manufacturer’s serial numbers 4242, 4248, 4253 and 4255. Flybe Limited has entered into an airframe warranty agreement with, amongst others, the lessor and provides maintenance reserves.

Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each aircraft. The lessor’s ownership of the Aircraft is partially financed by EDC. NAC has entered into payment guarantees to guarantee the obligations of NAC Aviation 2 Limited under the lease agreements and any related documents thereto.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.15 **Flybe Limited operating leases with Fly 108 Limited**

Three of the Q400 aircraft are leased to Flybe Limited with lease terms expiring in 2017 or 2018 from Fly 108 Limited being aircraft with manufacturer’s serial numbers 4180, 4185 and 4212. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each Aircraft. The lessor company is financed by FirstRand (Ireland) plc as a junior lender and by HSH Nordbank AG as senior lender and Norddeutsche Landesbank Girozentrale as senior lender and security trustee.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.16 **Flybe Limited operating lease with Turbo Leasing Limited**

One of the Q400 aircraft is leased to Flybe Limited with the lease term expiring on 27 January 2018 from Turbo Leasing Limited being aircraft with manufacturer’s serial number 4110. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into a payment guarantee to guarantee the payment obligations of Flybe

Limited under the operating lease entered into in respect of the aircraft. The lessor company's ownership of the Aircraft is partially financed by HSH Nordbank AG.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.17 Flybe Limited operating lease with A&L CF June (2) Limited

One of the Q400 aircraft is leased to Flybe Limited with a lease term expiring in April 2014 from A&L CF June (2) Limited having manufacturer's serial number 4089. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor, provides maintenance reserves (but not in respect of the engines) into a Flybe Limited bank account charged in favour of the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into a payment guarantee to guarantee the payment obligations of Flybe Limited under the operating lease entered into in respect of the aircraft. The lessor company is financed by Santander UK plc.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.18 Flybe Limited operating lease with Capital Bank Leasing 12 Limited

One of the Q400 aircraft is leased to Flybe Limited with a lease term expiring in May 2014 from Capital Bank Leasing 12 Limited being aircraft with manufacturer's serial number 4090. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor, provides maintenance reserves (but not in respect of the engines) into a Flybe Limited bank account charged in favour of the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor.

Flybe has entered into a payment guarantee to guarantee the payment obligations of Flybe Limited under the operating lease entered into in respect of the aircraft. The lessor company is financed by HBoS plc.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.19 Flybe Limited operating leases with BMBF (No 12) Limited

Three of the Q400 aircraft are leased to Flybe Limited with lease terms expiring in February and March 2014 from BMBF (No 12) Limited being aircraft with manufacturer's serial numbers 4085, 4087 and 4088 pursuant to a master operating lease agreement and separate lease supplements. Flybe Limited has entered into an assignment of the insurances, an airframe warranty agreement with, amongst others, the lessor, provides maintenance reserves (but not in respect of the engines) into a Flybe Limited bank account charged in favour of the lessor and an assignment of the Pratt & Whitney term cost plan in favour of the lessor. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the operating leases entered into in respect of each aircraft. The lessor company is financed by Barclays.

At the expiry of the lease term Flybe Limited has no right to continue leasing the aircraft nor to take title to the aircraft. Flybe Limited is obliged to redeliver the aircraft to the Lessor in the return condition set out in the lease. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.20 Financings in relation to nine PW 150A spare engines

Four of the PW 150A spare engines are owned by Flybe Limited subject to a mortgage and further security arrangements with EDC being engines with serial numbers 0487, 0640, 0644 and 0645. The

loans in respect of these engines are due to be fully repaid between December 2014 (in the case of 0640, 0644 & 0645) and September 2018 (in the case of 0487). Flybe Limited has granted EDC a mortgage over the engines as well as an assignment of the term cost plan with Pratt & Whitney. Flybe Group plc has entered into payment guarantees to guarantee the payment obligations of Flybe Limited under the loans entered into in respect of each engine.

Two of the PW 150A spare engines are owned by Flybe Limited subject to a mortgage and further security arrangements with Siemens Financial Services AB being engines with serial numbers 0053 and 0242. The loans in respect of these engines are due to be fully repaid in March 2018 and January 2019. Flybe Limited has granted Siemens Financial Services AB a mortgage over the engines.

One PW 150A engine is owned by Flybe Limited having been financed by Siemens Financial Services AB being an engine with serial number 0149. The loan in respect of this engine is due to be fully repaid at the end of March 2018.

Two of the PW 150A engines are owned by Walker Aviation Leasing (UK) Limited, a 100 per cent. subsidiary of Flybe Group plc, having been financed by Siemens Financial Services AB being engines with serial numbers 0025 and 0144. The loans in respect of those engines are due to be fully repaid at the end of March 2018. There is an intra-group lease between Flybe Limited and WALL.

9.21 **Bombardier Q400 purchase agreement No. 606**

The Bombardier Purchase Agreement no. 0606 dated May 2007 is in respect of 15 firm aircraft and 15 optional aircraft. The period of warranty cover for each delivered aircraft is for the following periods:

- 48 months from the delivery of the aircraft in respect of failure to conform to the specification and installation on the aircraft;
- 48 months from the delivery of the aircraft such Bombardier parts found to be defective in material or workmanship;
- 48 months from the delivery of the aircraft defects in such Bombardier parts relating to the design;
- 12 months from the delivery of the aircraft in relation to errors in such technical data; and
- 144 months from the delivery of the aircraft due to failure of any covered component – the Service Life Policy.

Bombardier agrees to maintain or cause to be maintained the capability to respond to Flybe Limited's technical inquiries, to conduct investigations concerning repetitive maintenance problems and to issue findings and recommend action thereon. This service shall be provided for as long as ten Q400 aircraft remain in commercial air transport service.

All the aircraft subject to this purchase agreement have been delivered to Flybe Limited.

9.22 **Flybe Limited aircraft subject to GECAS operating lease structure**

On 12 July 2006, Flybe Limited entered into an "Aircraft Lease Common Terms Agreement" with GE Commercial Aviation Services Limited ("GECAS"), pursuant to which it was agreed that Flybe Limited would assign to a GECAS subsidiary its right to purchase five new Embraer E195 LR aircraft from Embraer, following which they would be leased to Flybe Limited under eight year operating leases.

Three of the aircraft were purchased by Celestial Aviation Trading 69 Limited and the other two were purchased by Celestial Aviation Trading 5 Limited. Both companies are incorporated in Ireland.

Each individual aircraft was leased to Flybe Limited pursuant to an "Aircraft Specific Lease Agreement" which incorporated the terms of the Aircraft Lease Common Terms Agreement.

Flybe was also a party to each Aircraft Specific Lease Agreement, accepting joint and several liability with Flybe Limited for the performance of Flybe Limited's obligations under the Aircraft Specific Lease Agreement.

The Aircraft Specific Lease Agreements in respect of the first two aircraft to be leased to Flybe Limited were novated to Aldus Portfolio Leasing Limited in March 2008.

Flybe Limited is required to pay a floating rate rent for the first three aircraft, monthly in advance and in US dollars. The rent is calculated on the basis of the prevailing six month US dollars LIBOR. For the fourth and fifth aircraft, the rent is fixed and is calculated by reference to a 6.5-year US dollars fixed interest rate swap. That rent is also payable monthly in advance and in US dollars.

Flybe Limited was required to provide a security deposit equal to three months' rent under each Aircraft Specific Lease Agreement. In lieu of paying cash, Flybe Limited provided standby letters of credit, issued by Barclays Bank plc. Flybe Limited is also required to pay maintenance reserves (characterised as supplemental rent) to each lessor, monthly in arrears. These are calculated to cover the cost of major airframe, engine, landing gear and APU maintenance and Flybe Limited is entitled to be reimbursed with the cost of such maintenance out of the accumulated reserves.

None of the Aircraft Specific Lease Agreements contains an extension or aircraft purchase option. At the end of each lease term, Flybe Limited is required to redeliver the aircraft to the lessor in compliance with a set of standard return conditions. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.23 Flybe Limited CF34-10E7 engines subject to GECAS operating lease structure

Flybe Limited entered into a sale and leaseback transaction with GECAS in March 2008 and December 2010, pursuant to which in each of those months Flybe Limited sold a CF34-10E7 spare engine to Celestial Aviation Trading 50 Limited, a subsidiary of GECAS, and leased it back under a 12-year (in the case of the 2008 engine) and an 8-year (in the case of the 2010 engine) operating lease. Celestial Aviation Trading 50 Limited is incorporated in Ireland.

The engines were leased by Celestial Aviation Trading 50 Limited to Flybe Limited pursuant to Engine Lease Agreements which incorporated the terms of an "Engine Lease Common Terms Agreement" between Flybe Limited and GECAS.

Flybe was also a party to the Engine Lease Agreements, accepting joint and several liability with Flybe Limited for the performance of Flybe Limited's obligations under it.

Flybe Limited is required to pay rent in US dollars monthly in advance.

Flybe Limited was required to provide a security deposit equal to two months' rent. Flybe Limited is also required to pay maintenance reserves (characterised as supplemental rent) to Celestial Aviation Trading 50 Limited, monthly in arrears. These are calculated to cover the cost of each engine's refurbishment and life-limited part replacement. Flybe Limited is entitled to be reimbursed with the cost of such refurbishment and replacement out of the accumulated reserves.

The Engine Lease Agreements do not contain an extension or purchase option. At the end of the lease term, Flybe Limited is required to redeliver the engine to the lessor in compliance with a set of detailed but industry standard return conditions. Flybe Limited has no interest in, nor exposure to, the residual value of the engine.

9.24 Flybe Limited aircraft subject to Allco operating lease structure

On 5 September 2007, Flybe Limited entered into a "Master Aircraft Operating Lease" with Allco Rentals (UK) Limited, pursuant to which it was agreed that Flybe Limited would assign to Allco Rentals (UK) Limited its right to purchase six of those aircraft from Embraer, following which each such aircraft would be sold by Allco Rentals (UK) Limited to a special purpose vehicle incorporated in the Cayman Islands which would then lease the aircraft back to Allco Rentals (UK) Limited, which would then sub-lease the aircraft to Flybe Limited under a 12 year operating lease.

Each aircraft was sub-leased to Flybe Limited by Allco Rentals (UK) Limited pursuant to an "Operating Lease Schedule". That Operating Lease Schedule, together with the Master Aircraft Operating Lease, constituted the sub-lease between Allco Rentals (UK) Limited and Flybe Limited.

Flybe Group plc was also a party to the Master Aircraft Operating Lease and to each Operating Lease Schedule, thereby accepting joint and several liability with Flybe Limited for the performance of Flybe Limited's obligations under each sub-lease.

Allco Finance Group provided a letter of comfort to Flybe Limited, undertaking, inter alia, to procure that certain parties to the overall structure, including each Cayman Island special purpose vehicle (as owner and head lessor), and Allco Rentals (UK) Limited (as sub-lessor) complied with their respective obligations under the transaction documents to which they were parties.

In 2010, the Allco Aviation business was sold to Hong Kong Aviation Capital. There was no change to the commercial terms of the leases.

Flybe Limited is required to pay rent in respect of each aircraft quarterly in advance and in US dollars. For three of the aircraft, the quarterly rent is fixed and for the other three aircraft the rent is floating, linked to the three-month US dollars LIBOR, but with a smaller "hybrid fixed rate component".

Flybe Limited was required to provide a security deposit equal to an instalment of rent. Flybe Limited is also required to pay maintenance reserves monthly in arrears. Both the security deposit and the maintenance reserves are paid to, and held, by BTA Institutional Services Australia Limited, as security trustee.

The maintenance reserves are calculated to cover the cost of major airframe, engine, landing gear and APU maintenance and Flybe Limited is entitled to be reimbursed with the cost of such maintenance out of the accumulated reserves.

Neither the Master Aircraft Operating Lease nor the Operating Lease Schedule contains a sub-lease extension or aircraft purchase option in favour of Flybe Limited. At the end of each sub-lease term, Flybe Limited is required to redeliver the aircraft to Allco Rentals (UK) Limited in compliance with a set of standard return conditions. There is also a financial adjustment mechanism pursuant to which Flybe Limited is obliged to make certain payments calculated by reference to the utilisation of the aircraft since new or (if applicable) since the last heavy check, shop visit or overhaul. Any remaining balance of the maintenance reserves is available to cover any sums payable by Flybe Limited pursuant to such mechanism and any final balance then remaining is payable to Flybe Limited. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.25 Embraer 195 LR Purchase Agreement DCT-017/05

Flybe Limited entered into the Purchase Agreement DCT-017/05 with Embraer on 12 June 2005. It provided for the purchase by Flybe Limited of 14 new Embraer 195 LR aircraft. The 14 aircraft have all been acquired and are in service with Flybe Limited.

In respect of the firmly ordered aircraft, Embraer has granted the following warranty package:

- (a) freedom from defects in materials, workmanship, design and installation of parts manufactured by Embraer or its sub-contractors for 48 months from delivery of each aircraft;
- (b) freedom from defects in operation, installation and conformity with specification of vendor parts (excluding Engines, APU and their accessories) for 36 months from delivery of each aircraft; and
- (c) freedom from defects in materials, workmanship, manufacturing processes and design of spare parts or ground support equipment (excluding Engines, APU and their accessories) for 24 months from date of the relevant invoice.

In the event of a breach of these warranties, Flybe Limited is entitled to have the defective part repaired or replaced free of charge, with the warranty period being suspended in the meantime. Flybe

Limited also has the right to perform warranty repairs in-house and receive a credit for the direct labour costs involved.

In addition, Embraer has granted a "Service Life Guarantee" which covers structural defects occurring within the first 30,000 cycles or 12 years (whichever is the earlier) in the main load-bearing elements of the fuselage, wings, pylon, empennage, landing gears and structural attachment fittings.

In the event of any such defect, Embraer is obliged to provide a design remedy and corrective modification kit or replacement item, with the costs being shared on a sliding scale, with Embraer's share declining to zero by the end of the guarantee period.

Embraer has also provided a package of other guarantees relating to the aircraft's performance and maintenance, comprising "Performance and Weight Guarantees" (covering take-off, climb and landing performance, the take-off, landing and zero fuel weights, together with certain mission payloads and trip fuel burn), a "Basic and Structural Maintenance Direct Labour Guarantee" (covering the labour involved in carrying out certain airframe checks) and a "Dispatch Reliability Guarantee" (covering the cancellation or delay of a revenue flight due to a component failure or corrective action).

9.26 Embraer E175 STD Purchase Agreement COM0139-10

Flybe Limited entered into the Purchase Agreement COM0139-10 with Embraer on 19 July 2010. It provided for the purchase by Flybe Limited of 35 new Embraer 175 STD aircraft, with options to purchase another 65 and purchase rights in respect of a further 40. Flybe has the right, on giving sufficient notice and subject to availability, to convert any firm option or purchase right aircraft

into other Embraer 190 STD or Embraer 195 STD aircraft. In addition, Flybe can request the conversion of any of the option or purchase right aircraft into new generation E-Jet family aircraft which may be certified by December 2020.

The first of the 35 firmly ordered aircraft was delivered in November 2011. The final firm aircraft is scheduled for delivery in December 2019. The 65 options were cancelled on 14 November 2013.

The price of each of the firm, option and purchase right aircraft is based in January 2010 US dollars. Flybe has agreed price escalation sharing with Embraer which controls any increase in price due to economic factors. If the price of an aircraft does escalate to a level unacceptable to Flybe, Flybe has the right to refuse delivery of that aircraft. In this event Embraer will return to Flybe any deposits paid against that aircraft.

Flybe has secured contractual commitments from Embraer to procure debt financing for the purchase of all of the 35 committed Embraer E175 aircraft deliveries. Under this contractual commitment with Embraer, if Embraer is not able to procure finance for the delivery of a particular aircraft by a specified date (which coincides with the delivery date of such aircraft), Flybe has the option (at its discretion) to terminate the delivery of that aircraft, or to defer delivery of such aircraft. If Embraer fails to procure the financing in respect of the delivery of a particular E175 aircraft, this default on the part of Embraer does not impact on the delivery or financing obligations agreed to by Embraer in respect of subsequent committed E175 aircraft deliveries.

The terms of the debt financing are to be in accordance with the OECD Aircraft Sector Understanding on Export Credits for Civil Aircraft (the "ASU"), save that Flybe has secured additional terms that cap the interest rate costs related to the lender's cost of funding. The debt financing is for 85 per cent. of the net aircraft price. The margin, based on Flybe's previous ASU financings, is likely to be less than 200 basis points. At Flybe's election, financing may be provided directly to Flybe (in order for Flybe to purchase the aircraft) or to a third party aircraft lessor nominated by Flybe who will purchase the aircraft and subsequently lease it back to Flybe under an operating lease structure.

In respect of the firmly ordered, option and purchase right aircraft, Embraer has granted (and will grant) the following warranty package:

- (a) freedom from defects in materials, workmanship, design and installation of parts manufactured by Embraer or its sub-contractors for 48 months from delivery of each aircraft;

- (b) freedom from defects in operation, installation and conformity with specification of vendor parts (excluding Engines, APU and their accessories) for 36 months from delivery of each aircraft; and
- (c) freedom from defects in materials, workmanship, manufacturing processes and design of spare parts or ground support equipment (excluding Engines, APU and their accessories) for 24 months from the date of the relevant invoice.

In the event of a breach of these warranties, Flybe Limited is entitled to have the defective part repaired or replaced free of charge, with the warranty period being suspended in the meantime. Flybe Limited also has the right to perform warranty repairs in-house and to receive a credit for the direct labour costs involved.

In addition, Embraer has granted (and will grant) a “Service Life Guarantee” which covers structural defects occurring within the first 30,000 cycles or 12 years (whichever is the earlier) in the main load-bearing elements of the fuselage, wings, pylon, empennage, landing gears and structural attachment

fittings. In the event of any such defect, Embraer is obliged to provide a design remedy and corrective modification kit or replacement item, with the costs being shared on a sliding scale, with Embraer’s share declining to zero by the end of the guarantee period.

Embraer has also provided a package of other guarantees relating to the aircraft’s performance and maintenance, comprising “Performance and Weight Guarantees” (covering take-off, climb and landing performance, the take-off, landing and zero fuel weights, together with certain mission payloads and trip fuel burn), a “Basic and Structural Maintenance Direct Labour Guarantee” (covering the labour involved in carrying out certain airframe checks) and a “Dispatch Reliability Guarantee” (covering the cancellation or delay of a revenue flight due to a component failure or corrective action).

9.27 **Flybe Limited E175 Export Credit Financing**

Flybe Limited has obtained a committed secured finance facility from Banco Nacional De Desenvolvimento Economico e Social (“**BNDES**”), the Brazilian Export Credit Agency, under which Flybe Leasing Cayman 1 Limited (“**Flybe Leasing**”) – a special purpose company incorporated in the Cayman Islands and owned by a charitable trust has entered into a funding agreement with, inter alia, BNDES. The facility can be used to finance any one or more of the first 20 E175 acquisitions. The Law Debenture Trust Corporation plc (“**Law Debenture**”) has been appointed as security trustee and acts as mortgagee of the aircraft and mortgagee of the shares in Flybe Leasing.

The BNDES facility has so far been used to finance the acquisition of six new E175 aircraft, bearing manufacturer’s airframe serial numbers 326, 327, 328, 329, 336 and 341. These aircraft were acquired between November 2011 and May 2012. They are owned by Flybe Leasing and leased to Flybe Limited. Flybe Limited has purchase options in respect of each of the aircraft. The manufacturers’ airframe and engine warranties have been assigned by way of security to Law Debenture.

Flybe Group plc has provided guarantees in respect of the obligations of Flybe Limited under its leases with Flybe Leasing.

9.28 **Flybe Limited aircraft subject to Aldus operating lease structure**

In 2012 Flybe Limited entered into a Common Terms Agreement (“**CTA**”) with Tiradentes Portfolio C Limited – a leasing company managed by Aldus Aviation.

The terms of the CTA were largely the same as the novated E195 leases.

Flybe Limited took delivery of Embraer E175 aircraft with manufacturer’s serial numbers 344 and 351 in June 2012 and September 2012 respectively. These aircraft were purchased by an Aldus Aviation managed company and leased to Flybe Limited (as sub-sub-lessee) pursuant to an “Aircraft Specific Lease Agreement” which also incorporates the terms of the CTA.

Flybe Group plc was also a party to each Aircraft Specific Lease Agreement, accepting joint and several liability with Flybe Limited for the performance of Flybe Limited's obligations under the Aircraft Specific Lease Agreement.

Flybe Limited is required to pay a fixed rate rent for each aircraft, monthly in advance and in US dollars. Flybe Limited was required to provide a security deposit equal to three months' rent under each Aircraft Specific Lease Agreement. Flybe Limited is also required to pay maintenance reserves

(characterised as supplemental rent) to each lessor, monthly in arrears. These are calculated to cover the cost of major airframe, engine, landing gear and APU maintenance and Flybe Limited is entitled to be reimbursed with the cost of such maintenance out of the accumulated reserves.

None of the Aircraft Specific Lease Agreements contains an extension or aircraft purchase option. At the end of each lease term, Flybe Limited is required to redeliver the aircraft to the lessor in compliance with a set of return conditions set out in the CTA. Flybe Limited has no interest in, nor exposure to, the residual value of the aircraft.

9.29 Flybe Limited two CF34-8E5G02 engines subject to GECAS operating lease structure

Flybe Limited entered into sale and leaseback transactions with GECAS in December 2011 and October 2012, pursuant to which Flybe Limited sold CF34- 8E5G02 engines (with msn 193842 and 193896 respectively) to Celestial Aviation Trading 100 Limited, an engine lessor managed by GECAS, and leased them back through operating leases. Celestial Aviation Trading 100 Limited is incorporated in Ireland.

Each of the engines are leased by Celestial Aviation Trading 100 Limited to Flybe Limited pursuant to an Engine Lease Agreement which incorporates the terms of an "Engine Lease Common Terms Agreement" entered into between Flybe Limited and GECAS in March 2008. The term of the leases are eight years in the case of the engine with msn 193842 and ten years in the case of the engine with msn 193896. Flybe Group plc is also a party to the Engine Lease Agreements, accepting joint and several liability with Flybe Limited for the performance of Flybe Limited's obligations under it. Under each Engine Lease Agreement Flybe Limited is required to pay a fixed rent. The rent is payable in US dollars monthly in advance.

Flybe Limited was required to provide a security deposit as set out in each Engine Lease Agreement. Flybe Limited is also required to pay maintenance reserves (characterised as supplemental rent) to Celestial Aviation Trading 100 Limited, monthly in arrears. These are calculated to cover the cost of each engine's refurbishment and life-limited part replacement. Flybe Limited is entitled to be reimbursed with the cost of such refurbishment and replacement out of the accumulated reserves.

The Engine Lease Agreements do not contain any purchase options. The Engine Lease Agreement for engine with msn 193842 contains an extension option whereby Flybe Limited has the right to extend the lease term from eight to ten years. The Engine Lease Agreement for engine with msn 193896 does not contain an extension option.

At the end of each lease term, Flybe Limited is required to redeliver the engine to the lessor in compliance with a set of detailed but industry standard return conditions. Flybe Limited has no interest in, nor exposure to, the residual value of the engines.

9.30 Slot Exchange Agreement

On 22 May 2013 Flybe Limited entered into a slot exchange agreement with easyJet Airline Company Limited ("easyJet") for the purposes of:

- effecting the transfer of the Summer Slots and Winter Slots from the Flybe Limited to easyJet; and
- allowing for the continued use of the Summer Slots by Flybe Limited for the remainder of the 2013 Summer Season.

Under the terms of the Exchange Agreement, Summer Slots were transferred to easyJet, and following registration of the Summer Slots in easyJet's name with ACL, those Summer Slots were immediately transferred back to Flybe Limited (the "**First Summer Slots Exchange**"), with easyJet granting Flybe Limited permission to use the Summer Slots for the remainder of the 2013 Summer Season.

After completion of the 2013 Summer Season, the Summer Slots were then permanently transferred from Flybe Limited to easyJet (the "**Final Slots Exchange**").

Flybe Limited will operate the Winter Slots during the 2013/2014 Winter Season. After completion of the 2013/2014 Winter Season and no later than the end of the June 2014 Slot Conference, the Winter Slots will be permanently transferred from Flybe Limited to easyJet (the "**Winter Slots Exchange**").

Following the Winter Slots Exchange all of the Gatwick Slots will have been transferred to easyJet and registered in easyJet's name with ACL, with the right to the use and disposal of the Gatwick Slots having vested in easyJet.

easyJet's use of the Gatwick Slots is subject to various Slot use conditions as set out under the Exchange Agreement, including restrictions on the re-timing of the Gatwick Slots and a requirement to use the Gatwick Slots for more than 80 per cent. of the 2013/2014 Winter Season so as to preserve Flybe Limited's right under the EU Slot Regulation to have the Summer Slots and Winter Slots allocated to it by ACL for the next Summer Season and Winter Season respectively following the completion of the exchanges contemplated under the Exchange Agreement.

The Exchange Agreement:

- is subject to standard confidentiality provisions;
- provides for cooperation between easyJet and Flybe Limited in the event of (i) any litigation by a third party or (ii) any regulatory investigation in respect of the Gatwick Slots or the Exchanges contemplated by the Exchange Agreement; and
- preserves the right for either Party to apply for any available injunctive relief in respect of the other Party's default of the Exchange Agreement.

The total consideration payable by easyJet to Flybe Limited for the sale of the Gatwick Slots was £20,000,000 (the "**Total Consideration**"), payable in the following tranches:

- a £7,500,000 advance payment (the "**Advance Payment**");
- £10,000,000 payable immediately upon ACL confirming that the Summer Slots have been transferred to easyJet as part of the Final Slots Exchange (the "**Second Payment**"); and
- £2,500,000 payable immediately upon confirmation from ACL that the Winter Slots have been transferred to easyJet as part of the Winter Slots Exchange (the "**Third Payment**").

The Second Payment will be subject to a reduction where Flybe Limited considers that the operation of up to six pairs of Summer Slots is not economically viable and (at easyJet's election) effects an early return of the relevant Summer Slots to easyJet or returns them to ACL. In such circumstances a reduction of up to £475,200 will be applied to the Second Payment, depending on the number and class of Summer Slots involved.

If Flybe Limited fails to return some or all of the Summer Slots as required under the Exchange Agreement, the Flybe Limited shall pay liquidated damages of:

- £63,800 or £27,500 per unreturned daily Summer Slot on the basis of the pre-defined Slot values under the Exchange Agreement (save for those in respect of which the early return option described above applies); or
- up to £10,000,000 in circumstances where the unreturned Summer Slots are of a sufficient number and class as prescribed in the Exchange Agreement (with such thresholds principally based on the timings and days of the week on which the unreturned Summer Slots fall). Such liquidated damages will be reduced by (i) any amount paid by Flybe Limited to easyJet in the exercise of the early return option described above and (ii) the proceeds of any sale of all or part

of the Summer Slots to a third party in breach of the Exchange Agreement, which proceeds would be payable to easyJet under the terms of the Exchange Agreement and the related security documents granting a charge over such sales proceeds.

easyJet may demand the early return of the Summer Slots pursuant to its rights under the Exchange Agreement on the basis that (*inter alia*) Flybe Limited; has breached warranties or Slot use conditions in relation to the Summer Slots under the Exchange Agreement; is the subject of litigation in respect of the Summer Slots; ceases or threatens to cease its flying operations; or is subject to a bankruptcy event which could jeopardise the return of the Summer Slots to easyJet. In such circumstances easyJet's reasonable costs in operating the Summer Slots for the remainder of the Summer Season (net of any revenue generated through such operation) will be deducted from the Second Payment. The deduction of such costs is capped at the aggregate value of the Slots which are subject to an early return, with each having been ascribed a pre-defined value of either £63,800 or £27,500 under the Exchange Agreement.

easyJet and Flybe Limited considered the exchanges contemplated under the Exchange Agreement to be zero rated for VAT purposes. Should HM Revenue and Customs deem VAT to be payable, such VAT will be payable by easyJet, subject to the Flybe Limited having (*inter alia*) given easyJet sufficient notice of such VAT liability pursuant to the terms of the Exchange Agreement.

Late payment of any sums due under the Exchange Agreement will be subject to interest at LIBOR plus four per cent.

9.31 **Assignment by way of security**

On 28 June 2013, Flybe Limited entered into an assignment of receivables with easyJet Airline Company Limited (the "**Assignment**"). The Assignment secures the obligations of Flybe under the Exchange Agreement and was entered into in accordance with the terms of the Exchange Agreement. The Assignment relates to the proceeds of any transfer of the Summer Slots other than in accordance with the Exchange Agreement made by the Group to a third party.

If Flybe transfers the Summer Slots, or any of them, to a third party in breach of the Exchange Agreement, the Assignment requires Flybe Limited to immediately pay the proceeds of any such transfer to easyJet. The Assignment is governed by English law.

10. **Related Party Transactions**

The following related party transactions (which for these purposes are those set out in the standards adopted according to Regulation (EC) No 1606/2002) have either been entered into by the Group during the three financial years ended 31 March 2013 and the current financial year to date, or, where entered into prior to such financial years, there exist outstanding commitments in respect of such transactions:

- (a) during the 2010/11 Financial Year, such transactions are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 36 on page 88 of the Company's report and accounts for the year ended 31 March 2011 which is hereby incorporated by reference into this document;
- (b) during the 2011/12 Financial Year, such transactions are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 37 on page 96 of the Company's report and accounts for the year ended 31 March 2012 which is hereby incorporated by reference into this document;
- (c) during the 2012/13 Financial Year, such transactions are disclosed in accordance with the respective standard adopted according to Regulation (EC) No 1606/2002 in note 37 on page 98 of the Company's report and accounts for the year ended 31 March 2013 which is hereby incorporated by reference into this document;
- (d) between 31 March 2013 and 17 February 2014, being the latest practicable date prior to the date of this document:

- (i) the Group provided management and other central services to Flybe Finland Oy, its 60 per cent. owned operation. The amount charged by the Group for such services was £3.6 million. As at 17 February 2014, Flybe Finland Oy owed the Group £2.6 million;
 - (ii) the Group provided revenue collection services to Flybe Finland Oy. As at 17 February 2014, the Group owed £4.3 million to Flybe Finland Oy in respect of revenue collected on its behalf;
 - (iii) the Group has purchased property services from Edenfield Investments Limited with a value of £0.3 million and from Downham Properties Limited for a value of £0.3 million. The transactions with Edenfield Investments Limited and Downham Properties Limited are disclosed although there is no holding or subsidiary company relationship between these two companies and Rosedale Aviation Holdings Limited. These two companies are owned and controlled by the EJ Walker 1964 settlement, established by the former wife of the late Mr Jack Walker; this trust is separate for tax purposes from the Jack Walker Settlement which controls Rosedale Aviation Holdings Limited; and
- (e) between 31 March 2013 and 13 February 2014, being the date that Preston Travel (CI) Limited ceased trading, the Group provided travel services to Preston Travel (CI) Limited which, together with Rosedale Aviation Holdings Limited, is a subsidiary of Rosedale (J.W.) Investments Limited. The amount charged by the Group for such services was £1.2 million. As at 13 February 2014, Preston Travel (CI) Limited owed the Group £0.2 million.

11. Investments

Other than the investments of the Company in its subsidiary and joint venture undertakings, as described in paragraph 2 of this Part 7 of the document, and the current investment by Flybe in the Flybe Training Academy, there has been no material acquisition nor other principal investment made by the Company or the Group in the 3 years immediately preceding the date of this document. As at the date of this document the Company has made no firm commitments on any principal future investments.

12. Property and Environmental Issues

The Group's principal establishments are as follows:

12.1 Freehold

The Group owns and occupies land to the South of Exeter Airport, Clyst Honiton, registered at HM Land Registry under title number DN384010 with Title Absolute via JEA Engineering (UK) Limited (the registered proprietor).

The Group owns and occupies land at the Flybe Training Academy, registered at HM Land Registry under title number DN596678 with Title Absolute via Flybe Limited (the registered proprietor).

12.2 Leasehold

<i>Premises</i>	<i>Date of expiry of lease</i>	<i>Current rent</i>	<i>Approximate size (m²)</i>
Terminal 2 office and crew room, Birmingham Airport	22.07.2014	£146,575	460
Terminal 2 lounge, Birmingham Airport	07.07.2017 ⁱ	£134,200	290
SE Pier 1/726a, 1/739 and 1/726, Edinburgh Airport	3 months' notice	£80,131	250
Hangar 2, Exeter International Airport	31.10.2029	£277,158	4,700
Unit 2, Exeter International Office Park, Exeter	29.09.2018	£140,000	912
Unit 1, Exeter International Office Park, Exeter	25.12.2020	£92,900	605
Hangar 21, Exeter International Airport	31.03.2024	£69,875	3,484
Hangar 1 ground rent, Exeter International Airport	31.10.2154	£44,514	7,370
Crew room, Manchester Airport	3 months' notice	£70,176	303
Lounge, Southampton Airport	12.01.2016 ⁱⁱ	£59,362	134
Crew room, Southampton Airport	08.07.2014	£55,760	134
Engineering accommodation, Southampton Airport	08.05.2014	£53,804	211

i Notice has been given. Premises to be vacated by 13.05.14.

ii Notice has been given. Premises to be vacated by 15.06.14.

12.3 Contractual

The Group's occupation of property at Belfast City Airport is subject to a commercial agreement (rather than a formal property lease / licence) on which there is no end date:

<i>Premises</i>	<i>Current payment</i>	<i>Approximate size (m²)</i>
Executive Lounge ⁱⁱⁱ	£98,579	208
Crew room	£93,450	199
Engineers line station	£68,785	206

iii Notice has been given. Premises to be vacated when airport finds an alternative supplier of Executive Lounge services.

12.4 Save as disclosed in paragraph 12.5 below, the Group's properties are not subject to any major encumbrances (meaning that the Group's properties are not subject to anything that materially interferes with the ordinary conduct and operation of the Group's business). The Group does not currently plan to acquire any material tangible fixed assets.

12.5 The leasehold interest in the land known as Hangar 1 at Exeter International Airport is owned by Flybe Limited and is subject to a legal charge created on 27 February 2008 and registered on 4 March 2008 in favour of Barclays Bank plc, the amount secured against the charge being all monies due or to become due from Flybe Limited to Barclays Bank plc on any account whatsoever.

12.6 To the best of the Company's knowledge, the Company is unaware of any environmental issues that may affect the Company's utilisation of its tangible fixed assets described in this paragraph 12 of this Part 7 of the document.

13. Capitalisation and Indebtedness

The following table sets out the consolidated indebtedness of the Group, based on the Group's unaudited internal management accounts, as at 30 September 2013:

	<i>£m</i>
Non-current financial receivable	
Restricted cash	5.6
Current financial receivable	
Cash and cash equivalents	19.1
Restricted cash	39.5
Current financial debt	
Current portion of non-current debt	12.5
Non-current financial debt	
Non-current bank loans	85.7
Net debt	<u>34.0</u>

The Group was contractually committed to purchase 26 new aircraft with a total list price of £596.5 million as at 30 September 2013, however two aircraft were delivered in December 2013 therefore reducing this capital commitment to 24 new aircraft with a total list price of £538.4 million as at 31 December 2013. The Group has entered into arrangements to guarantee the Group's credit card arrangements for £29.0 million and has placed bonds in favour of various handling agents, fuel suppliers and customs offices for £7.9 million as at 30 September 2013. £36.9 million of cash, which is classified as restricted cash, has been deposited with the Group's bankers to secure these arrangements.

Save as disclosed above, and excluding intra-group liabilities, at the close of business on 30 September 2013, the Group had no loan capital (including term loans) outstanding or created but unissued, and no mortgages, charges or any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits or finance lease obligations, hire purchase commitments, guarantees or contingent liabilities.

The following table sets out the consolidated capitalisation of the Group, based on the Group's unaudited results, as at 30 September 2013:

	<i>£m</i>
Current debt	
Secured	12.5
Non-current debt	
Secured	85.7
Total debt	98.2
Other reserves	50.6
Total equity	50.6
Total capitalisation	<u>148.8</u>

Material changes in the capitalisation of the Group since 30 September 2013 in relation to secured debt are:

- repayment of pre-delivery deposits of £2.3 million on delivery of the aircraft in December 2013; and
- additional loans of £13.7 million drawn down for an E175 aircraft acquired in December 2013.

14. Working Capital

The Company is of the opinion that, taking into account existing cash balances and the net proceeds of the Firm Placing and Placing and Open Offer receivable by the Company, the Group has sufficient working capital for its present requirements, that is, at least 12 months following the publication of this document.

15. Mandatory bids, squeeze-out and sell-out rules relating to the Ordinary Shares

The Company is subject to the City Code. There is not in existence any current mandatory takeover bid in relation to the Company. Were there to be a takeover offer for the Company (as defined in section 974 of the Companies Act), compulsory purchase provisions in the Companies Act would be triggered, subject to, amongst other things, the offeror achieving certain thresholds in terms of acquired shares and subject to serving certain notices within prescribed time limits, which would give the offeror the right to buy out minority Shareholders (in accordance with section 979 of the Companies Act). The Companies Act also contains provisions allowing, in certain circumstances, for a right for a minority Shareholder to be bought out by an offeror. Other than as provided by the Companies Act and the City Code, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules in relation to the Ordinary Shares.

16. Taxation

16.1 UK taxation

The following paragraphs are intended as a general guide only to current United Kingdom tax law and HMRC published practice as at the date of this document (both of which are subject to change, possibly with retrospective effect). They relate only to certain limited aspects of the United Kingdom taxation treatment of the holders of Existing Ordinary Shares and apply only to Shareholders who are the absolute beneficial owners of their Existing Ordinary Shares which they hold as an investment and who are resident (and, in the case of individuals only, domiciled) solely or ordinarily resident in the United Kingdom for tax purposes (except where the position of an overseas resident Shareholder is expressly referred to). Certain categories of Shareholders, such as traders, broker-dealers, insurance companies and collective investment schemes, and Shareholders who have (or are deemed to have) acquired their Existing Ordinary Shares by virtue of an office or employment, may be subject to special rules and this summary does not apply to such Shareholders. Any person who is in any doubt about his own tax position, or is subject to taxation in a jurisdiction other than the United Kingdom, should consult an appropriate independent professional adviser.

(a) **Taxation of capital gains**

(i) *New Ordinary Shares acquired pursuant to the Open Offer*

As a matter of UK law, the acquisition of Open Offer Shares by Shareholders pursuant to the Open Offer may not be regarded as a reorganisation of the share capital of the Company for the purposes of UK taxation of chargeable gains. The published practice of HMRC to date has been to treat an acquisition of shares by an existing shareholder up to his pro-rata entitlement pursuant to the terms of an open offer as a reorganisation but it is understood that HMRC may not apply this practice in circumstances where an open offer is not made to all Shareholders. Specific confirmation as to whether the Open Offer will be treated as a reorganisation has not been requested from HMRC.

To the extent that the issue of the New Ordinary Shares by the Company will be regarded as a reorganisation of the Company's share capital for the purposes of UK taxation on chargeable gains a Shareholder should not be treated as acquiring a new asset nor will it be treated as making a disposal of any part of their corresponding holding of Existing Ordinary Shares by reason of taking up all or part of their Open Offer Entitlement. No liability to UK taxation on chargeable gains should arise in respect of the issue of New Ordinary Shares to the extent that a Shareholder takes up their Open Offer Entitlement.

If, or to the extent that, the acquisition of Open Offer Shares under the Open Offer is not regarded by HMRC as a reorganisation, the Open Offer Shares acquired by each Qualifying Shareholder under the Open Offer will, for the purposes of UK taxation of chargeable gains,

be treated as acquired as part of a separate acquisition of shares when computing any gain or loss on any subsequent disposal.

(ii) *New Ordinary Shares acquired pursuant to the Placing or Firm Placing*

The issue of New Ordinary Shares under the Placing or the Firm Placing which are not subject to the Open Offer will not constitute a reorganisation of share capital for the purposes of the UK taxation of chargeable gains and, accordingly, any New Ordinary Shares acquired pursuant to the Placing or the Firm Placing will be treated as acquired as part of a separate acquisition of shares and share identification provisions would need to be taken into consideration when computing any gain or loss on a subsequent disposal of such Ordinary Shares.

(iii) *Disposal of Ordinary Shares*

A subsequent disposal of Ordinary Shares by a Shareholder may, depending on the Shareholder's circumstances, and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

(b) **Taxation of dividends**

Under current UK tax legislation, Flybe is not required to withhold tax at source when paying a dividend.

A Shareholder who is an individual resident in the UK for tax purposes and who receives a dividend from Flybe will be entitled to a tax credit which such Shareholder may set off against his total income tax liability on the dividend. The tax credit will be equal to 10 per cent. of the aggregate of the dividend and the tax credit (the gross dividend), which is also equal to one-ninth of the cash dividend received.

A UK resident individual Shareholder who is liable to income tax at the basic rate will be subject to tax on the dividend at the rate of 10 per cent. of the gross dividend, so that the tax credit will satisfy in full such Shareholder's liability to income tax in respect of the gross dividend.

A UK resident individual Shareholder who is liable to income tax at the higher rate will be subject to income tax at the rate applicable to dividends for such Shareholders (currently 32.5 per cent.) on the gross dividend. After taking into account the 10 per cent. tax credit such Shareholders will have to account for additional tax equal to 22.5 per cent. of the gross dividend (an effective tax rate of 25 per cent. of the cash dividend received).

A UK resident individual Shareholder who is liable to income tax at the additional rate will be taxed at the rate of 37.5 per cent. on the dividend plus the tax credit. After taking into account the tax credit such Shareholders will have to account for additional tax equal to 27.5 per cent. of the gross dividend (an effective rate of 30.6 per cent. of the cash dividend received).

A UK resident individual Shareholder who is not liable to income tax in respect of the gross dividend will not be entitled to repayment of the tax credit.

United Kingdom resident taxpayers who are not liable to United Kingdom tax on dividends, including pension funds and charities, will not be entitled to claim repayment of the tax credit attaching to dividends paid by Flybe.

United Kingdom resident corporate Shareholders will generally not be subject to tax on dividends paid by Flybe. Those Shareholders will not be able to claim repayment of tax credits attaching to dividends.

A Shareholder who is not resident in the UK for tax purposes will not generally be entitled to claim any part of the tax credit attaching to a dividend, although such Shareholders may be entitled to offset the tax credit against their liability to tax in their country of residence. This will depend in each case on their personal circumstances and the terms of any double taxation agreement which exists between their country of residence and the UK. A Shareholder who is

not resident in the UK (for tax purposes) should consult his own tax adviser concerning his tax liability on dividends received, his entitlement to reclaim any part of any tax credit or tax withheld and, if he is so entitled, the procedure for doing so. A Shareholder resident outside the UK may also be subject to foreign taxation on any dividends received under local law.

(c) **Stamp duty and stamp duty reserve tax (SDRT)**

No stamp duty or stamp duty reserve tax will be payable on the allotment, issue or registration of New Ordinary Shares (except in relation to a depositary receipt arrangements and clearance services where special rules apply). The Company will not be responsible for payment of stamp duty or stamp duty reserve tax in any such case. Deposits of the New Ordinary Shares into CREST will generally not be subject to stamp duty or SDRT unless such deposit is made by way of transfer for consideration in money or money's worth, in which case a liability to SDRT will usually arise at 0.5 per cent. of the value of the consideration given.

THE ABOVE DESCRIPTION OF TAXATION IS GENERAL IN CHARACTER. IF YOU ARE IN ANY DOUBT AS TO YOUR TAX POSITION OR YOU ARE SUBJECT TO TAX IN A JURISDICTION OTHER THAN THE UNITED KINGDOM, YOU SHOULD CONSULT AN APPROPRIATE INDEPENDENT PROFESSIONAL ADVISER WITHOUT DELAY.

16.2 Guernsey taxation

Please note that the summary of the tax implications set out below is based on existing law and on what is understood to be current practice in Guernsey as at the date of this document. Certain categories of Shareholders, such as traders, brokers, dealers, insurance companies and collective investment schemes, and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment, may be subject to special rules and this summary does not apply to such Shareholders. The summary is intended as a general guide only and applies only to Shareholders who are resident for tax purposes in Guernsey (which for these purposes includes Alderney and Herm). If you are in any doubt about your individual taxation position, or you are resident or otherwise subject to taxation in a jurisdiction outside Guernsey, you should consult an appropriate independent professional adviser.

The acquisition of New Ordinary Shares pursuant to the Placing and Placing and Open Offer by or on behalf of a person who is resident in Guernsey for Guernsey purposes will not give rise to any income tax consequences for that person in Guernsey, unless the acquisition forms part of the varying of investments and the turning of such investments to account as a business or part of a business.

Distributions (including dividends) paid to or for the benefit of a Shareholder who is resident in Guernsey for Guernsey tax purposes would be assessable to Guernsey income tax in the relevant period at the applicable rate for that Guernsey resident Shareholder.

Guernsey currently does not levy taxes upon capital inheritances, capital gains, gifts, sales or turnover (unless the varying of investments and the turning of such investments to account is a business or part of a business), nor are there any estate duties (save for registration fees and ad valorem duty for a Guernsey Grant of Representation where the deceased dies leaving assets in Guernsey which require presentation of such a grant). No stamp duty is chargeable in Guernsey on the issue or transfer of Ordinary Shares in the Company.

16.3 Jersey taxation

Please note that the summary of the tax implications set out below is based on existing law and on what is understood to be current practice in Jersey as at the date of this document. Certain categories of Shareholders, such as traders, brokers, dealers, insurance companies and collective investment schemes, and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment, may be subject to special rules and this summary does not apply to such Shareholders. The summary is intended as a general guide only and applies only to Shareholders who are resident for tax purposes in Jersey. If you are in any doubt about your individual taxation position, or you are resident or otherwise subject to taxation in a jurisdiction outside Jersey, you should consult an appropriate independent professional adviser.

The acquisition of New Ordinary Shares pursuant to the Placing and Placing and Open Offer by or on behalf of a person who is resident in Jersey for Jersey purposes will not give rise to any income tax consequences for that person in Jersey.

Distributions (including dividends) paid to or for the benefit of a Shareholder who is resident in Jersey for Jersey tax purposes would be assessable to Jersey income tax in the relevant period at the applicable rate for that Jersey resident Shareholder.

Jersey currently does not levy taxes upon capital inheritances, capital gains or gifts, nor are there any estate duties (save for registration fees and ad valorem duty for a Jersey Grant of Representation where the deceased dies leaving assets in Jersey which require presentation of such a grant). No stamp duty is chargeable in Jersey on the issue or transfer of Ordinary Shares in the Company.

16.4 Taxation – Isle of Man resident individuals

A Shareholder who is an individual resident in the Isle of Man for tax purposes will be charged to tax on their worldwide income, unless they are subject to a concessionary treatment agreed with the Isle of Man Income Tax Division. Where an Isle of Man resident individual Shareholder is taxed on their worldwide income, this would include dividends from Flybe. No relief is granted for the tax credit which attaches to the dividend for UK tax purposes. The Isle of Man does not tax genuine capital gains. As such, any gain arising on a subsequent disposal of shares in the Company should not be subject to tax.

16.5 Taxation – Isle of Man resident companies

Isle of Man resident corporate Shareholders will generally be subject to corporate income tax at a zero percent rate on dividends received from the Company.

17. Litigation

Save as described below, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware) during the previous 12 months preceding the date of this document which may have, or have had in the recent past significant effects on the Company's financial position or profitability.

Flybe is, as at 18 February 2014, being the latest practicable date prior to the date of this document, the subject of claims by 720 pilots (comprising both current and former employees) in relation to the calculation of their holiday pay. Flybe is defending these proceedings and a defence has been lodged at the employment tribunal. The claims against Flybe have been stayed in the employment tribunal pending the outcome of a similar case being brought against British Airways (British Airways plc v Williams and others), it being anticipated that the outcome of the British Airways claim will form the basis of the decision in the claims against Flybe.

Initially, the Court of Appeal found in favour of British Airways in the case mentioned above. However, the claimants appealed the decision of the Court of Appeal to the Supreme Court. The Supreme Court neither upheld nor dismissed the appeal and instead referred various questions of interpretation of European law to the European Court of Justice ("ECJ"). Upon receiving a judgment from the ECJ, the Supreme Court ruled in favour of Williams and others in respect of certain elements of the case, and remitted the claims back to the employment tribunal to determine the appropriate payments to be made to the pilots.

The rulings in the British Airways case noted above do not provide detailed guidance in relation to the holiday pay claims outstanding against Flybe. It is likely that a payment will have to be made to the claimants.

The claim that has been brought against Flybe is stayed to allow the parties further time to explore settlement options. The employment tribunal has also offered the parties judicial mediation, in the event the ongoing settlement negotiations are unsuccessful.

No schedules of loss have been issued by the various claimants and consequently, as at the date of this document, the claims against Flybe remain unquantifiable.

18. General

- 18.1 Liberum Capital Limited is registered in England and Wales (with number 5912554) and has its registered office at Ropemaker Place Level 12, 25 Ropemaker Street, London EC2Y 9LY. Liberum Capital Limited has given and has not withdrawn its written consent to the issue of this document and the references to its name in the form and context in which they are included.
- 18.2 Deloitte LLP of 2 Hardman Square, Manchester M60 2AT has given and has not withdrawn its written consent to the inclusion of its report on the unaudited pro forma financial information in Section B of Part 6 of this document in the form and context in which it appears and has authorised the contents of that report for the purposes of item 5.5.3R(2)(f) of the Prospectus Rules.
- 18.3 Flybe's registrars are Capita Asset Services of The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU.
- 18.4 Flybe's accounts for the three financial periods ended 31 March 2011, 31 March 2012 and 31 March 2013, upon which unqualified reports have been given, were audited by Deloitte LLP, chartered accountants. Deloitte LLP is a member of the Institute of Chartered Accountants in England and Wales.
- 18.5 There has been no significant change in the financial or trading position of the Group since 30 September 2013, being the date of the Group's half year report for H1 2013/14, incorporated by reference in Part 4 of this document.
- 18.6 The total expenses payable by Flybe in connection with the Firm Placing and Placing and Open Offer are expected to amount to approximately £5.61 million, excluding VAT.
- 18.7 The Existing Ordinary Shares are listed on the Official List and traded on the market for listed securities of the London Stock Exchange. Application has been made for the New Ordinary Shares to be so listed and traded.
- 18.8 The Offer Price represents a discount of 7.2 per cent. to the Closing Price of an Existing Ordinary Share at 19 February 2014.

19. Documents available for inspection

Copies of the following documents will be available for inspection during normal business hours on any weekdays (Saturdays, Sundays and public holidays excepted) at the Company's registered office, Jack Walker House, Exeter International Airport, Exeter, Devon EX5 2HL and the offices of Eversheds LLP, One Wood Street, London EC2V 7WS, until Admission:

- (a) the Articles of Association;
- (b) the consent letter provided by Deloitte LLP referred to in paragraph 18.2 above;
- (c) the report from Deloitte LLP on the unaudited pro forma financial information of the Group in Section B of Part 6 of this document; and
- (d) the audited consolidated accounts of the Group for the three financial years ended 31 March 2011, 31 March 2012 and 31 March 2013 and the half-year report of the Group for the six months ended 30 September 2013.

AS REQUIRED BY THE PROSPECTUS RULES CHECKLIST OF DOCUMENTATION INCORPORATED BY REFERENCE

The table below sets out the various sections of such documents which are incorporated by reference into this document, so as to provide the information required pursuant to the Prospectus Rules and to ensure that Shareholders and others are aware of all information which, according to the particular nature of the Company and of the New Ordinary Shares is necessary to enable Shareholders and others to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company, and of the rights attaching to the New Ordinary Shares.

<i>Information incorporated by reference</i>	<i>Page number in document incorporated by reference</i>	<i>Page number in this document</i>
Annual Report and Accounts of Flybe for the year ended 31 March 2011, including:		
balance sheet	56	71
income statement	54	71
changes in equity statements	55	71
cash flow statements	57	71
accounting policies and notes	58-95	71
auditors report	53	71
related party transactions	88-89, 95	71
Annual Report and Accounts of Flybe for the year ended 31 March 2012, including:		
balance sheet	62	71
income statement	60	71
changes in equity statements	61	71
cash flow statements	63	71
accounting policies and notes	69-101	71
auditors report	59	71
related party transactions	96-97, 101	71
Annual Report and Accounts of Flybe for the year ended 31 March 2013, including:		
balance sheet	64	71
income statement	62	71
changes in equity statements	63	71
cash flow statements	65	71
accounting policies and notes	66-105	71
auditors report	61	71
related party transactions	98-99, 103	71
Half-year report of Flybe for the six months ended 30 September 2013, including:		
balance sheet	23	71
income statement	21	71
changes in equity statements	22	71
cash flow statements	24	71
accounting policies and notes	25-31	71
auditors report	20	71

Any statement contained in a document which is deemed to be incorporated by reference in this document shall be deemed to be modified or superseded for the purposes of this document to the extent that a statement contained in this document (or in a later document which is incorporated by reference in this document) modifies or supersedes such earlier statement (whether expressly, by implication or otherwise).

Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this document.

To the extent that any information incorporated by reference itself incorporates any information by reference, either expressly or impliedly, such information will not form part of this document for the purposes of the Prospectus Rules, except where such information is stated within this document as specifically being incorporated by reference or where this document is specifically defined as including such information.

Except as set out above, no other portion of these documents is incorporated by reference into this document. Those portions which are not specifically incorporated by reference in this document are either not relevant for prospective investors or the relevant information is included elsewhere in this document.

DEFINITIONS

In this document and the Notice of General Meeting and accompanying Form of Proxy, the following expressions have the following meanings, unless the context otherwise requires:

“2010/11 Financial Year”	1 April 2010 to 31 March 2011
“2011/12 Financial Year”	1 April 2011 to 31 March 2012
“2012/13 Financial Year”	1 April 2012 to 31 March 2013
“2013/14 Financial Year”	1 April 2013 to 31 March 2014
“2014/15 Financial Year”	1 April 2014 to 31 March 2015
“Admission”	admission (i) to the Official List and (ii) to trading on the London Stock Exchange’s main market for listed securities
“Admission and Disclosure Standards”	the requirements contained in the publication “Admission and Disclosure Standards” dated 1 November 2007 containing, among other things, the admission requirements to be observed by companies seeking admission to trading on the London Stock Exchange’s main market for listed securities
“Admission Date”	the date of Admission of the New Ordinary Shares
“Aero Nigeria”	Aero Contractors Company of Nigeria Limited, a state-controlled Nigerian aviation company
“Air France”	Societe Air France (a French joint stock company (Societe Anonyme) registered in France, with registered number 420495178 RCS Bobigny)
“Application Form”	the personalised application form which accompanies this document for Qualifying non-CREST Shareholders for use in connection with the Open Offer
“Articles” or “Articles of Association”	the articles of association of Flybe in force as at the date of this document
“BA Connect”	the legacy “BA Connect” business acquired by Flybe from British Airways in March 2007
“BALPA”	the British Airline Pilots Association, the union with its head office at 5 Heathrow Boulevard, 278 Bath Road, West Drayton UB7 0DQ
“Bombardier”	Bombardier Inc. (a public quoted company registered in Canada, with CUSIP number 097751)
“BA Connect”	the legacy “BA Connect” business acquired by Flybe from British Airways in March 2007
“BMI”	British Midland plc (a public limited company registered in England and Wales with registered number 02107441)
“BMI Baby”	the low fares airline subsidiary of BMI
“British Airways” or “BA”	British Airways plc (a public limited company registered in England and Wales with registered number 1777777)

“British European Airways” or “British European”	a former trading name of Flybe
“business day”	a day (excluding Saturdays and Sundays or public holidays in England and Wales) on which banks generally are open for business in London for the transaction of normal banking business
“CAA” or “Civil Aviation Authority”	the UK Civil Aviation Authority
“Capita Asset Services”	a trading name of Capita Registrars Limited
“certificated” or “in certificated form”	where a share or other security is not in uncertificated form
“City Code”	The City Code on Takeovers and Mergers
“Closing Price”	the closing middle market quotation of an Existing Ordinary Share as derived from the daily official list published by the London Stock Exchange
“Companies Act” or “CA 2006”	the Companies Act 2006, as amended including any statutory modification or re-enactment thereof for the time being in force
“Company” or “Flybe”	Flybe Group plc, registered in England and Wales under number 1373432
“CREST”	the relevant system, as defined in the CREST Regulations (in respect of which Euroclear is operator as defined in the CREST Regulations)
“CREST Applications Host”	the CREST core processor
“CREST member”	a person who has been admitted by Euroclear as a system member (as defined in the CREST Regulations)
“CREST Participant”	a person who is, in relation to CREST, a system participant (as defined in the CREST Regulations)
“CREST personal member”	a CREST member who holds their securities in dematerialised electronic form in CREST in their own name
“CREST Regulations”	the Uncertificated Securities Regulations 2001 (SI 2001/3755), as amended
“CREST Shareholders”	Shareholders holding Existing Ordinary Shares in uncertificated form
“CREST sponsor”	a CREST participant admitted to CREST as a CREST sponsor
“CREST sponsored member”	a CREST member admitted to CREST as a sponsored member (which includes all CREST personal members)
“Dealing Day”	a day on which the London Stock Exchange is open for the transaction of business
“Directors” or “Board”	the Directors of Flybe whose names appear on page 28 of this document
“Disclosure and Transparency Rules”	the disclosure and transparency rules made by the FCA in exercise of its functions as competent authority pursuant to Part VI of FSMA

“EASA”	the European Aviation Safety Agency
“easyJet”	easyJet plc (a public limited company registered in England and Wales with registered number 03959649)
“Embraer”	Empresa Brasileira de Aeronautica SA (a public limited company registered in Brazil, with ISIN number BREMBRACNOR 4)
“Enlarged Share Capital”	the issued ordinary share capital of the Company following the Firm Placing and Placing and Open Offer
“Etihad”	Etihad Airways, the flag carrier airline of the United Arab Emirates
“EU”	the European Union
“EU Slot Regulation”	EC Regulation 95/93 on common rules for the allocation of Slots at Community airports, as amended and supplemented from time to time
“EUR”	the European Euro
“Euroclear”	Euroclear UK & Ireland Limited (formerly CrestCo Limited), the operator of CREST
“European Economic Area”	the member states of the European Union, Iceland, Norway and Liechtenstein
“Excess Application Facility”	the facility for Qualifying Shareholders to apply for Excess Shares in excess of their Open Offer Entitlements
“Excess Open Offer Entitlements”	in respect of each Qualifying CREST Shareholder who has taken up his Open Offer Entitlement in full, the entitlement (in addition to the Open Offer Entitlement) to apply for Excess Shares up to the number of Open Offer Shares credited to his stock account in CREST pursuant to the Excess Application Facility, which may be subject to scaling down according to the Directors’ discretion
“Excess Shares”	Open Offer Shares which may be applied for in addition to Open Offer Entitlements
“Executive Directors”	Saad Hammad and Andrew Knuckey
“Exchange Agreement”	the conditional agreement dated 22 May 2013 between Flybe Limited and easyJet Airline Company Limited for the exchange of the Gatwick Slots, described in more detail in Part 7 of this document
“Excluded Territories”	Canada, Japan, Australia, South Africa and any other jurisdiction where the availability of the Firm Placing and Placing and Open Offer would breach any applicable law
“Existing Ordinary Shares”	the 75,152,881 existing ordinary shares of 1 pence each in nominal value in the capital of the Company as at the date of this document
“FCA”	the Financial Conduct Authority
“Finnair”	Finnair Oyj, the flag carrier and largest airline of Finland
“Firm Placees”	any person who have agreed or shall agree to subscribe for Firm Placed Shares pursuant to the Firm Placing

“Firm Placed Shares”	the 91,400,000 New Ordinary Shares which the Company is proposing to issue pursuant to the Firm Placing
“Firm Placing”	the subscription by Firm Placees for the Firm Placed Shares
“Flybe Aviation Services”	the aviation maintenance, repair and overall division of Flybe
“Flybe Finland”	Flybe Finland Oy (formerly Finnish Commuter Airlines Oy)
“Flybe Holdings”	Flybe Holdings Limited
“Flybe Nordic AB”	parent company of Flybe Finland Holdings Oy which in turn owns 100 per cent. of Flybe Finland
“Flybe UK”	this business segment comprising the Group’s main scheduled UK domestic and UK-Europe passenger operations and revenue ancillary to the provision of those services
“Flag carrier airlines”	an airline (typically currently or historically state owned) particularly associated with a specific country (for example British Airways in relation to the United Kingdom or Air France in relation to France)
“Form of Proxy”	the form of proxy accompanying this document for use in connection with the General Meeting
“FSMA”	the Financial Services and Markets Act 2000 (as amended) and all regulations promulgated thereunder from time to time
“FTE”	full time equivalent
“Gatwick”	London Gatwick Airport
“Gatwick Slots”	the Summer Slots and the Winter Slots
“General Electric”	General Electric Company (a public quoted company registered in the state of New York, United States of America)
“General Meeting”	the General Meeting of the Company convened for the purpose of passing the Resolutions, to be held on 11 March 2014, including any adjournment thereof
“Group” or “Flybe Group”	Flybe and its subsidiaries at the date of this document
“H1 2012/13”	being the six months to 30 September 2012
“H1 2013/14”	being the six months to 30 September 2013
“H1 2014/15”	being the six months to 30 September 2014
“H2 2014/15”	being the six months to 31 March 2015
“HMRC”	H.M. Revenue & Customs
“IATA”	International Air Transport Association
“IFRS”	International Financial Reporting Standards as adopted by the European Union
“Immediate Actions”	the actions to be taken by the Group as described in paragraph 2 of Part 1 of this document

“Initial Listing”	the initial Admission of the Company’s shares on 10 December 2010
“Independent airline”	a non flag carrier airline
“IP”	intellectual property
“IPO”	the admission, through an initial public offering, of the Company’s shares to the Official List on 15 December 2010
“ITEPA”	the Income Tax (Earnings and Pensions Act) 2003
“Jet2”	Jet2.com Limited (a private limited company registered in England and Wales with registered number: 02739537)
“KPI”	Key performance indicator
“Liberum Capital”	Liberum Capital Limited of Ropemaker Place Level 12, 25 Ropemaker Street, London EC2Y 9LY
“Listing Rules”	the listing rules made by the FSA in exercise of its functions as competent authority pursuant to Part VI of FSMA
“Loganair”	Loganair Limited (a private company limited by shares registered in Scotland, with registered number SC170072)
“London Stock Exchange”	London Stock Exchange plc
“LTIP”	the Flybe Long Term Incentive Plan 2013 (as described in paragraph 6.4 of Part 7 “Additional Information” of this document
“Model Code”	the rules governing dealings by directors in the securities of the Company as set out in the Annex to chapter 9 of the Listing Rules
“Money Laundering Regulations”	the Money Laundering Regulations 2003 as may be amended from time to time
“MRO”	maintenance, repair and overhaul
“New Ordinary Shares”	the 141,501,920 new Ordinary Shares of 1 pence each in nominal value in the capital of the Company to be issued in connection with the Firm Placing and Placing and Open Offer
“New Route Planning Selection Model”	the route planning selection model adopted by the Group during Q3 2013/14
“Non-CREST Shareholders”	Shareholders holding Ordinary Shares in certificated form
“Non-executive Directors”	Simon Laffin, Charlie Scott, Alan Smith and David Longbottom
“Norwegian”	Norwegian Air Shuttle ASA, the third largest low-cost carrier in Europe and the second-largest airline in Scandinavia
“Notice of General Meeting”	the notice of General Meeting set out at the end of this document
“Offer Price”	110 pence per New Ordinary Share
“Official List”	the Official List of the FSA

“Olympic Air”	Olympic Air (a company registered in Greece with its registered office at 1st klm Varis-Koropiou and Ifaistou, 19400, Koropi Attiki, Greece)
“Open Offer”	the conditional invitation to Qualifying Shareholders to apply for up to 50,101,920 New Ordinary Shares at the Offer Price on a pre-emptive basis
“Open Offer Entitlement”	the <i>pro rata</i> entitlement to subscribe for Open Offer Shares allocated to a Qualifying Shareholder pursuant to the Open Offer
“Open Offer Shares”	the 50,101,920 New Ordinary Shares for which Qualifying Shareholders are being invited to apply at the Offer Price to be issued pursuant to the terms of the Open Offer
“Operating Licence”	a licence granted by the CAA under EC Regulation 1008/2008
“Ordinary Share”	ordinary shares of 1 pence each in the capital of the Company from time to time
“Overseas Shareholders”	Qualifying Shareholders who have registered addresses outside the United Kingdom
“Panel”	the Panel on Takeovers and Mergers
“PD Regulation”	European Union Prospectus Directive (2003/71/EC)
“PDP”	a pre delivery payment
“Phase 1”	phase 1 of the Group’s turnaround strategy announced on 23 January 2013
“Phase 2”	phase 2 of the Group’s turnaround strategy announced on 23 January 2013
“Placing”	the conditional placing by Liberum Capital of the Placing Shares, subject to clawback pursuant to the Open Offer, on behalf of the Company on the terms and subject to the conditions contained in the Underwriting and Sponsor Agreement
“Placing Shares”	the 50,101,920 New Ordinary Shares for which placees are being invited to subscribe at the Offer Price pursuant to the Placing, subject to clawback to satisfy applications from Qualifying Shareholders under the Open Offer
“Pratt & Whitney”	the aircraft engine manufacturing division of United Technologies Corporation, a company registered in the United States of America
“Prospect”	an independent union for professionals, with over 122,000 members
“Prospectus Rules”	the prospectus rules made by the FSA in exercise of its functions as competent authority pursuant to Part VI of FSMA
“PSP”	the Flybe Performance Share Plan
“Q3 2012/13”	being the 3 months to 31 December 2012
“Q3 2013/14”	being the 3 months to 31 December 2013
“Q4 2013/14”	being the 3 months to 31 March 2014

“Qualifying CREST Shareholders”	Qualifying Shareholders whose Existing Ordinary Shares on or deemed to be on the register of members of the Company at the close of business on the Record Date are in uncertificated form
“Qualifying non-CREST Shareholders”	Qualifying Shareholders whose Existing Ordinary Shares on or deemed to be on the register of members of the Company at the close of business on the Record Date are in certificated form
“Qualifying Shareholders”	holders of Existing Ordinary Shares on the register of members of the Company on the Record Date (other than certain Overseas Shareholders as described in Part 2 of this document)
“Receiving Agent”	Capita Asset Services
“Record Date”	close of business on 18 February 2014
“Registrar”	Capita Asset Services
“Regulation S”	Regulation S under the Securities Act
“Related Party”	a “related party” as defined in Chapter 11 of the Listing Rules, where there is more than one Related Party, the “Related Parties”
“Resolutions”	the resolutions to be proposed at the General Meeting, as set out in the Notice of General Meeting
“Route Licence”	a licence granted by the UK CAA under section 65 of the Civil Aviation Act 1982
“Ryanair”	Ryanair Holdings plc (a public limited company registered in Ireland with registered number 249885)
“SAYE Scheme”	the Flybe Sharesave
“Securities Act”	the United States Securities Act of 1933, as amended
“SEK”	the Swedish Krona
“Shareholder”	a holder of Existing Ordinary Shares
“Senior Managers”	Mr Paul Simmons, Mr Chris Simpson, Mr John Palmer, Mr Simon Charles, Mr Matt Bennett and Mr Matt Linsey
“Share Schemes”	the PSP, the SIP Scheme and the SAYE Scheme
“SIP Scheme”	the Flybe Share Incentive Plan
“Slot”	an authorisation to arrive at or depart from a stand at a particular airport at a specific time on a particular day
“SN Brussels”	SN Brussels Airlines (now merged with Virgin Express to form Brussels Airlines)
“Sponsor” or “Liberum Capital”	Liberum Capital Limited
“Summer Season”	the last Saturday in March until the last Saturday in October in any particular year
“Summer Slots”	the series of Slots operated by Flybe at Gatwick for the Summer Season forming part of the Gatwick Slots, as detailed in the Exchange Agreement

“Takeover Code”	the City Code on Takeovers and Mergers issued by the Panel
“TRAFI”	the civil aviation regulatory authority of Finland
“Turnaround Plan”	Phases 1, 2 and 3 of Flybe’s turnaround plan, as presented to investors on 23 January 2013 and 23 May 2013
“UK Listing Authority”	the FCA in its capacity as the competent authority for the purposes of Part VI of FSMA
“uncertificated” or “in uncertificated form”	recorded on the relevant register of the share or security concerned as being held in uncertificated form in CREST, and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST
“Underwriting and Sponsor Agreement”	the underwriting and sponsor agreement dated 20 February 2014 between Liberum Capital and the Company relating to the Firm Placing, the principal terms of which are summarised in paragraph 9.1 of Part 7 of this document
“UK Corporate Governance Code”	the UK Corporate Governance Code issued by the Financial Reporting Council
“Uncertificated Securities Regulations”	the Uncertificated Securities Regulations 2001, SI 2001 no. 3755
“UNITE”	Unite, the union with its head office at 35 King Street, Covent Garden, London WC2E 8JG
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland
“US” or “United States”	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia
“Winter Season”	the IATA winter season for the northern hemisphere as specified in the IATA Worldwide Slot Guidelines, commencing on the last Sunday in October and ending on the Saturday before the last Sunday in March
“Winter Slots”	the series of Slots as detailed in the Exchange Agreement, or Slots which are substantially similar to those Slots, forming part of the Gatwick Slots
“Wizzair”	Wizz Air Hungary Airlines Limited (a private limited company registered in Hungary with registered number 13-09-096209)

For the purposes of this document “subsidiary”, “subsidiary undertaking” and “parent undertaking” shall, unless the context otherwise requires, have the respective meanings given to them by the Companies Act.

All references to “pounds”, “pound sterling”, “sterling”, “£”, “pence”, “penny” and “p” are to the lawful currency of the United Kingdom.

All references to “Euros”, “EUR” and “€” are to the lawful currency of the member states of the European Union that adopt a single currency in accordance with the Treaty establishing the European Community as amended by the Treaty on European Union.

All references to “USD”, “US\$”, “US dollars” and “United States dollars” are to the lawful currency of the United States.

GLOSSARY OF TECHNICAL TERMS

In this document, the following technical terms have the following meanings, unless the context otherwise requires:

“Adjusted EBITDAR”	EBITDAR adjusted for restructuring costs, IPO costs, unrealised gains and losses on fuel and foreign exchange hedges and estimated impact of disruption from volcanic ash and weather as reported in the income statement
“Adjusted EBITDAR margin”	Adjusted EBITDAR for the relevant period divided by the Group’s revenues for the same period
“ATR 42”	the series 42 aircraft manufactured by ATR
“ATR 72”	the series 72 aircraft manufactured by ATR
“available seat kilometres”	the number of seats flown multiplied by the distance travelled in kilometres
“block hours”	the time interval between “brakes off” on an aircraft departure to “brakes on” at an aircraft’s arrival
“constant currency”	constant currency for the previous periods by applying the effective exchange rates that prevailed for reporting the H1 2013/14 results of \$1.53 and €1.19
“cost per available seat kilometre” or “CASK”	operating costs excluding restructuring, IPO costs, costs incurred as a result of disruption from weather or volcanic ash clouds incurred divided by the number of available seat kilometres
“E145”	the series 145 aircraft manufactured by Embraer
“E170”	the series 170 aircraft manufactured by Embraer
“E175”	the series 175 aircraft manufactured by Embraer
“E190”	the series 190 aircraft manufactured by Embraer
“E195”	the series 195 aircraft manufactured by Embraer
“EBITDAR”	profit or loss before tax after adding back net finance costs, taxation, depreciation, amortisation and aircraft rental costs
“EBITDAR margin”	EBITDAR for the relevant period divided by the Group’s revenues for the same period
“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
“effective fuel price per tonne”	calculation of the average price based on the price paid for the fuel the Group acquires after accounting for receipts or payments on fuel hedges that were closed during the Financial Year.
“European LCCs”	European low-cost carriers, such as easyJet, BMI Baby, Ryanair, Jet2, Norwegian and Wizzair
“fuel burn per seat”	jet kerosene used, divided by number of seats flown

“load factor”	the number of seats sold divided by seat capacity (and “flown” load factor, the number of seats flown divided by seat capacity, shall be construed accordingly)
“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 ticket and ancillary revenue per passenger (after the deduction of government taxes and levies)
“passenger revenue per seat”	passenger revenue generated divided by scheduled seat capacity
“Q400”	the Q400 series turboprop aircraft manufactured by Bombardier
“revenue per available seat kilometre” or “RASK”	passenger revenue generated divided by the number of available seat kilometres
“regional aircraft”	turboprop aircraft and regional jets
“regional airline”	an airline that flies predominantly regional aircraft
“regional branded airline”	a regional airline flying aircraft under its own name and colours
“regional jet”	an aircraft, powered by jet engines, with certain characteristics that make it particularly suitable for regional routes
“scheduled risk flying”	scheduled flying under the Flybe brand, on which Flybe takes full revenue, cost and operational risk
“scheduled sectors flown”	the total number of aircraft flights per annum, excluding positioning, charter, and training flights
“seat capacity”	the average number of seats per aircraft multiplied by the number of scheduled sectors flown
“UK domestic routes”	routes where both the departure and destination airports are within the United Kingdom, the Isle of Man or the Channel Islands
“UK regional domestic air passenger sector”	a route where both of the departure and destination airports is in a UK regional location
“UK regional location”	the United Kingdom (excluding London), the Channel Islands and the Isle of Man
“wet leased”	a leasing agreement whereby an aircraft (together with its operating crew), maintenance, support and insurance are provided from one party to another
“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

NOTICE OF GENERAL MEETING

Flybe Group plc

(incorporated in England and Wales with registered number 1373432)

Notice is hereby given that a General Meeting of Flybe Group plc (the “**Company**”) will be held at the offices of Instinctif Partners, 65 Gresham Street, London EC2V 7NQ at 11.00 a.m. on 11 March 2014 for the purpose of considering and, if thought fit, passing the following resolutions of which Resolution 1 will be proposed as an ordinary resolution and Resolution 2 will be proposed as a special resolution.

1. THAT, the directors of the Company (the “**Directors**”) be and they are hereby generally and unconditionally authorised pursuant to section 551 of the Companies Act 2006 (the “**Act**”) to exercise all the powers of the Company to allot shares in the Company and to grant rights to subscribe for or to convert any security into such shares (all of which transactions are hereafter referred to as an allotment of “relevant securities”) up to an aggregate nominal amount of £1,415,020 pursuant to the Firm Placing and Placing and Open Offer (as defined in the documents to which this Notice is attached) which authority shall be in addition to the existing authority conferred, which shall continue in full force and effect. The authority conferred by this resolution shall expire (unless previously revoked or varied by the Company in general meeting) on the conclusion of the next annual general meeting of the Company or the date 15 months from the date of passing of this resolution, whichever is the earlier, save that the Company may before such expiry, revocation or variation make an offer or agreement which would or might require relevant securities to be allotted after such expiry, revocation or variation and the Directors may allot relevant securities in pursuance of such offer or agreement as if the authority hereby conferred had not expired or been revoked or varied.
2. THAT conditional upon the passing of Resolution 1 above, in addition to all other existing powers of the Directors under section 570 of the Act which shall continue in full force and effect, the Directors are empowered under the said section 570 to allot equity securities as defined by section 560 of the Act for cash pursuant to the authority conferred by Resolution 1 above as if section 561 of the Act did not apply to any such allotment. Such power shall, subject to the continuance of the authority conferred by Resolution 1, expire on the conclusion of the next annual general meeting of the Company or the date 15 months from the date of passing of this resolution, whichever is the earlier, but may be revoked or varied from time to time by Special Resolution so that the Company may before such expiry, revocation or variation make an offer or agreement which would or might require equity securities to be allotted after such expiry, revocation or variation and the Directors may allot equity securities in pursuance of such offer or agreement as if such power had not expired or been revoked or varied.

BY ORDER OF THE BOARD

Company Secretary
Registered office

Chris Simpson
Jack Walker House
Exeter International Airport
Exeter
Devon
EX5 2HL

Dated: 20 February 2014

Notes

1. Any member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and to vote instead of the member. Completion and return of a Form of Proxy will not preclude a member from attending and voting at the meeting in person, should he subsequently decide to do so.
2. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 ("**nominated persons**"). Nominated persons may have a right under an agreement with the registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.
3. In order to be valid, any Form of Proxy and a power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, in order to be valid, must reach, by post, the Company's Registrars, Capita Asset Services, PXS, Beckenham Road, Beckenham, Kent, BR3 4TU or electronically at www.flybe-shares.com not less than 48 hours (excluding any part of a day which is a nonworking day) before the time of the meeting or of any adjournment of the meeting.
4. Any member attending the general meeting is entitled, pursuant to section 319A of the Companies Act 2006 to ask any question relating to the business being dealt with at the meeting. The Company will answer any such questions unless (i) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information; or (ii) the answer has already been given on a website in the form of an answer to a question; or (iii) it is undesirable in the interests of the company or the good order of the meeting that the question be answered.
5. From the date of this notice and for the following two years the following information will be available on the Company's website and can be accessed at www.flybe.com/corporate/investors:
 - (i) the matters set out in this notice of meeting;
 - (ii) the total numbers of shares in the Company and shares of each class, in respect of which members are entitled to exercise voting rights at the meeting; and
 - (iii) the totals of the voting rights that members are entitled to exercise at the meeting in respect of the shares of each class.

Any members' statements, members' resolutions and members' matters of business received by the Company after the date of this notice will be added to the information already available on the website as soon as reasonably practicable and will also be made available for the following two years.

6. A form to be used for appointing a proxy or proxies for this meeting to vote on your behalf accompanies this notice.
7. In order to attend and vote at this meeting you must comply with the procedures set out in notes 8, 9 and 10 by the dates specified in those notes.
8. Votes can be cast electronically for this meeting. In order to cast your vote you must visit www.flybeshares.com and follow the instructions. To use this service you will need to log in to your share portal account or register for the share portal if you have not already done so. To register for the share portal you will need your Investor Code (IVC) which can be found on your share certificate. The use by members of the electronic proxy appointment service will be governed by the terms and conditions of use which appear on the website.

Electronic proxies must be completed and lodged in accordance with the instructions on the website by no later than 48 hours before the time appointed for the meeting (or, in the case of an adjournment, not later than 48 hours before the time fixed for the holding of the adjourned meeting).

9. To appoint a proxy or to give or amend an instruction to a previously appointed proxy via the CREST system, the CREST message must be received by the issuer's agent RA10 by 11.00 a.m. on 7 March 2014. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message. After this time any change of instructions to a proxy appointed through CREST should be communicated to the proxy by other means. CREST Personal Members or other CREST sponsored members, and those CREST Members who have appointed voting service provider(s) should contact their CREST sponsor or voting service provider(s) for assistance with appointing proxies via CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST Manual. We may treat as invalid a proxy appointment sent by CREST in the circumstances set out in Regulation 35(5) (a) of the Uncertificated Securities Regulations 2001. In any case your proxy form must be received by the company's registrars no later than 11.00 a.m. on 7 March 2014.
10. The right of members to vote at the meeting is determined by reference to the register of members. As permitted by section 360B(3) of the Companies Act 2006 and Regulation 41 of the Uncertificated Securities Regulations 2001, shareholders (including those who hold shares in uncertificated form) must be entered on the Company's share register at 6.00 p.m. on 18 February 2014 in order to be entitled to attend and vote at the meeting. Such shareholders may only cast votes in respect of shares held at such time. Changes to entries on the relevant register after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
11. The total number of ordinary shares of £0.01 in issue as at 18 February 2014, the latest practicable date before printing this document was 75,152,881 ordinary shares and the total level of voting rights was 75,152,881, none of which were attached to shares held in treasury by the Company.

