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Q1 2018/19 TRADING STATEMENT

Released : 26/07/2018 07:00

RNS Number : 7988V
Flybe Group PLC
26 July 2018

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Flybe Group plc

('Flybe' or 'the Group') 26th July 2018

Q1 2018/19 TRADING STATEMENT

Record Q1 load factors achieved as passenger numbers grow despite capacity reduction

Our strategy to reduce fleet size and develop our profitable routes continues to progress strongly. Reinvigorated pricing and marketing campaigns, together with capacity reductions, delivered a record 81.3% load factor in the first quarter, up 8.8ppts on last year. Passenger numbers increased by 3.3% and passenger revenue per seat grew by 9.4%. Capacity was reduced by 7.9%, so total passenger revenue rose by 0.8%.

The quarterly passenger revenue performance is outlined below:

- 8.8ppts improvement in load factor to 81.3% (2017/18: 72.5%)
- 3.3% increase in passengers to 2.5 million (2017/18: 2.4 million)
- 9.4% increase in passenger revenue per seat to £57.06 (2017/18 restated[1]: £52.14]
- 7.9% reduction in seat capacity to 3.1 million (2017/18: 3.4 million)
- 0.8% growth in passenger revenue to £176.8m (2017/18 restated[1]: £175.4m)
- 2.4% decline in passenger yield to £70.16 (2017/18 restated[1]: £71.89)

[1] The prior period has been restated to reflect the introduction of IFRS 15 'Revenue from Contracts with Customers' (see Appendix 2). The change is however immaterial.

Cost control remains a key area of focus and the benefits are beginning to come through. Underlying group cost per seat ('CPS') at constant currency and excluding any benefit from releases of the E195 onerous lease rose by 8.4%. This is affected by the additional costs of handling the higher load factors, higher fuel prices and adjusts for additional maintenance costs not recognised until the end of H1 last year. This is now below the 9.4% increase in passenger revenue per seat.

Underlying CPS at actual currency increased by 14.1%, reflecting the impact of the lower value of sterling. The increase in cost per seat is expected to slow significantly in the remainder of the year, due to savings in aircraft lease costs (both lower capacity and cheaper contracts), lower maintenance costs and other cost savings and the non-repeat of one-off items last year.

In terms of the fleet, one Q400 and the first of this year's three end-of-lease E195 handbacks have been returned to lessors reducing the fleet size to 78 at 30th June 2018. The next two E195 handbacks are scheduled for late 2018. As announced last month, we have extended the leases on five Q400 aircraft by a further five years on significantly reduced lease payments with benefits starting immediately. The optimum fleet size (of 70 aircraft) is expected to be achieved in 2020.

The implementation of the new digital platform is progressing well and is already being rolled out, to be operational in H2 2018/19. Once introduced, we expect the new platform will improve the booking experience, attract new customers, enhance our customer relationship management and assist in revenue management.

In line with the industry, on-time performance ('OTP') has been affected by air traffic control issues and the hot weather in Q1, with Flybe OTP reducing from 80.9% to 78.4%. Returning to being consistently above 80% remains a top priority in order to improve both customer experience and cost efficiency.

Q2 2018/19 current trading

The forward booking position for Q2, as at 23rd July 2018 shows:

- 9.0% decrease in seat capacity vs. prior year

- 55% of seats sold vs. 51% in the prior year
- 6.8% increase in passenger revenue per seat vs. prior year

For H1, capacity is expected to reduce by around 8.5%. The reduction in fleet size will slow down in the second half, giving a full year projected capacity reduction of around 6%.

Revenue is expected to stabilise, as capacity reductions are offset by improvements in load factor. Total costs will reflect the reduction in the number of aircraft.

Christine Ourmières-Widener, Chief Executive Officer, said:

"The improvement in our revenue per seat continues to demonstrate the success of our commercial strategy and the record load factors show that passengers value the benefits of regional connectivity with Flybe. We are working hard on costs, with unit cost growth now starting to slow whilst unit revenue remains strong. Our digital platform once fully rolled out, along with enhancing our operational effectiveness are key to improving our customer proposition at Flybe.

The year has started well. We are on track and looking forward to further progress towards sustainable profitability."

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Appendix 1 - Q1 performance and hedging position

	Quarter to 30th June 2018	Quarter to 30th June 2017 (restated)*	*Change %*
Flybe UK revenue KPIs			
Seats and passengers			
Seat capacity[1] (million)	**3.1**	3.4	*(7.9)*
Passengers[2] (million)	**2.5**	2.4	*3.3*
Load factor[3] (%)	**81.3**	72.5	*8.8ppts*
Revenue			
Passenger revenue[4] (£m)	**176.8**	175.4	*0.8*
White Label flying revenue (£m)	**8.0**	8.9	*(9.8)*
Revenue from other activities (£m)	**6.4**	4.7	*35.7*
Total Flybe UK revenue (£m)	**191.2**	189.0	*1.2*
Yield			
Passenger yield[5] (£)	**70.16**	71.89	*(2.4)*
Passenger revenue per seat[6] (£)	**57.06**	52.14	*9.4*
Flybe group revenue KPIs			
Total group revenue per seat[7]	**62.74**	58.03	8.1

* The prior period has been restated to reflect the introduction of IFRS 15 'Revenue from Contracts with Customers'. The change is however immaterial.

Total group cost per seat ('CPS')[8]:

- At constant currency: Underlying CPS (adjusted for H1 2017/18 maintenance costs) rose by 8.4%. Reported CPS increased by 10.7%. Excluding fuel, Group CPS increased by 10.5%.
- At actual currency: Underlying CPS rose by 14.1%. Reported CPS rose by 16.6%. Excluding fuel, Group CPS increased 16.4%.

Hedging

Flybe UK's current hedge books at 23rd July 2018 are summarised below:

Jet fuel

- Q2 2018/19 - 91% hedged at USD 549 per tonne
- H2 2018/19 - 95% hedged at USD 607 per tonne
- H1 2019/20 - 71% hedged at USD 722 per tonne

US Dollar

- Q2 2018/19 - 85% hedged at USD 1.33

- H2 2018/19 - 74% hedged at USD 1.35
- H1 2019/20 - 47% hedged at USD 1.37

Carbon

- Calendar year 2018 - 61% hedged at €4.65 per tonne (net of free allowances)
- Calendar year 2019 - 0% hedged

Flybe UK's exposure to Euros has been steady and remains under review for hedging.

Appendix 2 - Impact of restatements on prior year accounting

The prior period has been restated following the implementation of the new IFRS 15 'Revenue from contract with customers' for the financial year 2018/19. Overall, the impact is immaterial, with certain ancillary revenues now being recognised on transportation rather than on booking. Otherwise, the main changes are:

- EU261 compensation is now reduced from revenue to the extent that the cost represents the value of the original ticket and any surplus remains in ground operations costs; and
- Previously hardblock routes with codeshare partners were recognised as revenue net of costs. Under IFRS 15, hardblock revenues are now recognised gross with costs recognised in aircraft rental costs.

The restatement of Flybe UK's revenue line items is shown in the table below:

	Q1 2017/18 Before IFRS15	Q1 2017/18 IFRS15 impact	Q1 2017/18 Total (restated)
	£m	£m	£m
Passenger revenue	174.0	1.4	175.4
White Label flying revenue	8.9	-	8.9
Revenue from other activities	4.7	-	4.7
Total Flybe UK revenue	187.6	1.4	189.0

END

LEI: GB00B4QMVR10

Notes:

The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse Regulation ("MAR") EU no.596/2014. Upon the publication of this announcement via Regulatory Information Service ("RIS"), this inside information is now considered to be in the public domain.

Forward-looking statements:

Certain information included in these statements is forward-looking and involves risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the forward-looking statements.

Forward-looking statements include, without limitation, projections relating to results of operations and financial conditions and Flybe Group plc ("the Group") plans and objectives for future operations, including, without limitation, discussions of the Group's business plan, expected future revenues, financing plans and expected expenditures. All forward-looking statements in this report are based upon information known to the Group on the date of this Trading Statement. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

It is not reasonably possible to itemise all the many factors and specific events that could cause the Group's forward-looking statements to be incorrect or that could otherwise have a material adverse effect on the future operations or results of the business. Further information on the primary risks of the business and the risk management process of the Group is given in the Annual Report and Accounts 2017/18. This document is available from http://www.flybe.com/investors.

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[1] Seat capacity represents the average number of seats per aircraft multiplied by the number of scheduled sectors flown.

[2] Passengers are customers with an issued ticket where the ticket has charged a fare and/or a passenger surcharge and tax (if applicable).

[3] Load factor is sold seats (Flybe ticketed passengers on either Flybe operated scheduled services or hardblock routes operated by the codeshare partner) divided by scheduled available seats (seats available for passenger occupancy on scheduled services).

[4] Passenger revenue represents total ticket and ancillary revenue (including unflown APD less refunds) plus revenue from hardblock codeshare arrangements.

[5] Passenger yield represents total passenger revenue (as defined in note 4) per passenger after the deduction of government taxes and levies.

[6] Passenger revenue per seat is passenger revenue generated divided by scheduled available seats.

[7] Total group revenue per seat is total group revenue (passenger revenue, white label, revenue from other activities including third party MRO revenue) divided by scheduled available seats.

[8] Total group cost per seat is total group operating costs (total group costs minus costs relating to revaluation on USD loans, finance costs and investment income) divided by scheduled available seats.