

## RECOMMENDED CASH OFFER FOR FLYBE GROUP

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Stobart Group Limited  
11 January 2019

### PART I

**NOT FOR RELEASE, PUBLICATION OR DISTRIBUTION, IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, IN OR INTO OR FROM ANY JURISDICTION WHERE TO DO SO WOULD CONSTITUTE A VIOLATION OF THE RELEVANT LAWS OR REGULATIONS OF SUCH JURISDICTION**

**FOR IMMEDIATE RELEASE**

**THIS ANNOUNCEMENT CONTAINS INSIDE INFORMATION FOR THE PURPOSES OF ARTICLE 7 OF THE MARKET ABUSE REGULATION (EU) NO. 596/2014**

11 January 2019

### RECOMMENDED CASH OFFER

for

**FLYBE GROUP PLC**

by

**CONNECT AIRWAYS LIMITED**

**(a company jointly-owned by DLP Holdings S.à. r.l., Stobart Aviation Limited and Virgin Travel Group Limited, a wholly-owned subsidiary of Virgin Atlantic Limited)**

### Summary

- Following the announcement on 14 November 2018 and the launch of the Formal Sale Process with respect to Flybe, the Boards of Flybe and Connect Airways announce that they have reached agreement on the terms of a recommended cash offer for Flybe by Connect Airways pursuant to which Connect Airways will acquire the entire issued and to be issued share capital of Flybe.
- Under the terms of the Acquisition, Flybe Shareholders will be entitled to receive:

**one (1) pence in cash for each Flybe Share**

which values the entire issued and to be issued share capital of Flybe at approximately £2.2 million on the basis of the fully diluted share capital of 216,656,776 Flybe Shares.

- Cyrus, Stobart Group and Virgin Atlantic have engaged with Flybe in a collaborative due diligence process since the commencement of the Formal Sale Process, and have formulated the Offer Price after careful review of the due diligence information, the capital needs of Flybe, the challenging trading environment and prevailing market conditions.
- Concurrently with announcing the Acquisition, Cyrus, Stobart Group and Virgin Atlantic have committed to make available a £20 million bridge loan facility to support Flybe's ongoing working capital and operational requirements.
- In addition, following completion of the Acquisition, Cyrus, Stobart Group and Virgin Atlantic are intending to provide up to £80 million of further funding to the Combined Group to invest in its business and support its growth, as well as a

contribution of Stobart Air.

- It is intended that the Acquisition will be effected by means of a Court-sanctioned scheme of arrangement between Flybe and the Scheme Shareholders under Part 26 of the Companies Act.
- The Acquisition is subject to a number of Conditions and further terms, including the approval of the Scheme by the Scheme Shareholders by the requisite majorities and the sanctioning of the Scheme by the Court. The Conditions are set out in full in Part A of Appendix 1 to this Announcement.

#### **Connect Airways**

- Connect Airways is a joint venture company the share capital of which is owned 40% by DLP Holdings, S.à. r.l., a company wholly-owned by funds managed by Cyrus, 30% by Stobart Aviation, a wholly-owned subsidiary of Stobart Group, and 30% by Virgin Travel Group Limited, a wholly-owned subsidiary of Virgin Atlantic, the holding company of Virgin Atlantic Airways Limited and Virgin Holidays Limited.
- It is also expected that, immediately prior to completion of the Acquisition, Connect Airways will acquire Stobart Air, Stobart Group's regional airline and aircraft leasing business. The combined group is expected to bring benefits to customers, suppliers and employees, providing stability in a tough trading environment.

#### **Combined Group**

- Cyrus, Stobart Group and Virgin Atlantic believe that combining Flybe and Stobart Air in a more integrated commercial cooperation with Virgin Atlantic's long-haul operations will create a fully-fledged UK network carrier under the Virgin Atlantic brand, alongside Stobart Air's wet lease operations and aircraft leasing business which will continue to operate as it does today.
- Such a combination would be a compelling proposition with a comprehensive regional network in the UK and Ireland coupled with an enhanced European footprint, providing greater choice and connectivity for customers to travel to destinations all over the world.
- The Acquisition will enable Flybe to benefit from committed strategic investment partners in terms of Cyrus, Stobart Group and Virgin Atlantic (through Connect Airways) and from an enhanced presence at London Heathrow Airport and Manchester Airport with potential to grow further in London Southend Airport.
- The Acquisition and combination with franchise airline, Stobart Air, will provide the Combined Group with an opportunity to increase passenger numbers at London Southend Airport, accelerating its growth for UK and European air travel.

#### **Recommendation and support for the offer**

- The Flybe Board, who have been advised by Evercore (who are providing independent financial advice to the Flybe Board for the purposes of Rule 3 of the Code) as to the financial terms of the Acquisition, considers the terms of the Acquisition to be fair and reasonable. In providing its financial advice to the Flybe Directors, Evercore has taken into account the commercial assessments of the Flybe Directors.
- Accordingly, the Flybe Directors believe that the terms of the Acquisition are in the best interests of Flybe Shareholders as a whole and **unanimously recommend that Flybe Shareholders vote in favour of the resolutions to be proposed at the Court Meeting and the Flybe General Meeting** (or, in the event that the Acquisition is implemented by way of a Takeover Offer, to accept or procure the acceptance of such Takeover Offer).
- Each Flybe Director who holds Flybe shares has irrevocably undertaken to vote in favour of the resolutions in respect of their own beneficial holdings of Flybe Shares, amounting to, in aggregate, 871,664 Flybe Shares representing approximately 0.40% of Flybe's share capital in issue on 10 January 2019 (being the latest practicable date before the release of this Announcement).

#### **Comment on the Acquisition**

- Commenting on the Acquisition, Christine Ourmières-Widener, CEO of Flybe said:

"Flybe plays a vital role in the UK's transport infrastructure with a UK regional network which positions it well to benefit from growing demands from long haul carriers for passenger feeder traffic. We have successfully implemented a clear strategy in recent years focused on tighter fleet management, improving revenue per seat and increasing load factors. The pursuit of operational excellence has reduced maintenance times and increased efficiencies and customer satisfaction.

"However, the industry is suffering from higher fuel costs, currency fluctuations and significant uncertainties presented by Brexit. We have been affected by all of these factors which have put pressure on short-term financial performance. At the same time, Flybe suffered from a number of legacy issues that are being addressed but are still adversely affecting cashflows.

"By combining to form a larger, stronger, group, we will be better placed to withstand these pressures. We aim to provide an even better service to our customers and secure the future for our people."

- Commenting on the Acquisition, Warwick Brady, CEO of Stobart Group said:

"The Board of Stobart Group believes that bringing Stobart Air together with Flybe and partnering with Virgin Atlantic and Cyrus Capital is the best way for us to play an active role in UK regional flying.

"The combined entity will be a powerful combination with sufficient scale to compete effectively in the UK and European airline markets. It will allow us to continue to work with Flybe and provides an excellent opportunity to continue to grow passenger numbers at London Southend Airport."
- Commenting on the Acquisition, Shai Weiss, CEO of Virgin Atlantic said:

"The Virgin Atlantic brand is built on the foundation of putting customers at the heart of everything, providing customers with the choice they deserve and a travel experience they love.

We are pleased to have this opportunity to partner with Stobart Group and Cyrus to bring Virgin Atlantic service excellence to Flybe's customers. Together, we can provide excellent connectivity to our extensive long haul network and that of our joint venture partner, Delta Air Lines, at London Heathrow Airport and Manchester Airport for the benefit of our customers. In the near future, this will only increase, through our expanded joint venture partnership with Air France-KLM."
- Commenting on the Acquisition, Lucien Farrell, Partner of Cyrus said:

"We are delighted to be working once again with the Virgin Group following our successful partnership in the launch and eventual sale of Virgin America to Alaska Airlines. We believe Flybe's UK regional focus and high quality management, together with Virgin Atlantic's dedication to the best customer experience and Stobart Group's expertise in regional flying, will produce a world-class airline."

#### The Scheme process

- The Scheme will be put to Scheme Shareholders at the Court Meeting and the Flybe General Meeting. In order to become Effective, the Scheme must be approved by a majority in number of the holders of Scheme Shares present and voting, either in person or by proxy, representing not less than 75% in value of the Scheme Shares held by such holders. In addition, resolutions to deal with certain ancillary matters must be passed at the Flybe General Meeting to be held immediately after the Court Meeting.
- The Scheme Document, containing further information about the Acquisition and notices of the Court Meeting and the Flybe General Meeting, together with the Forms of Proxy, will be published as soon as practicable and, in any event, within 28 days of this Announcement and that, subject to the satisfaction, or where relevant waiver, of all relevant Conditions, the Scheme will become Effective and the Acquisition completed early in Q2 2019.

#### Advisers

- Barclays is acting as financial adviser to Stobart Group and Connect Airways in respect of the Acquisition. Morgan, Lewis & Bockius UK LLP is acting as legal adviser to Connect Airways and Cyrus in respect of the Acquisition. Hill Dickinson is acting as legal adviser to Connect Airways and Stobart Aviation in respect of the Acquisition.
- Rothschild & Co is acting as financial adviser to Virgin Atlantic in respect of the Acquisition. Herbert Smith Freehills LLP is acting as legal adviser to Virgin Atlantic in respect of the Acquisition.
- Evercore is acting as financial adviser to Flybe in respect of the Acquisition. Bryan Cave Leighton Paisner LLP is acting as legal adviser to Flybe in respect of the Acquisition.

**This summary should be read in conjunction with, and is subject to, the full text of this Announcement (including the Appendices). The Acquisition will be subject to the Conditions and certain further terms set out in Appendix 1 to this Announcement and to the full terms and conditions which will be set out in the Scheme Document. Appendix 2 contains details of the irrevocable undertakings received in relation to the Acquisition that are referred to in this Announcement. Appendix 3 contains definitions of certain terms used in this summary and this Announcement.**

#### Enquiries

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### **Important notices relating to financial advisers**

*Evercore, which is authorised and regulated by the FCA in the United Kingdom, is acting solely for Flybe as financial adviser in relation to the matters referred to in this Announcement and for no one else. Evercore will not be responsible to anyone other than Flybe for providing the protections afforded to its clients or for providing advice in relation to the contents of this Announcement or any arrangement referred to herein. Neither Evercore, nor any of its affiliates, owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person other than Flybe in connection with this Announcement, any statement contained herein or otherwise. Evercore has given, and not withdrawn, its consent to the inclusion in this Announcement of the references to its name and the advice it has given to Flybe in the form and context in which they appear.*

*Barclays, which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively as financial adviser to Stobart Group and Connect Airways and for no one else in connection with the matters referred to in this Announcement and will not be responsible to anyone other than Stobart Group and Connect Airways for providing the protections afforded to its clients or for providing advice in relation to the matters referred to in this Announcement. Neither Barclays, nor any of its affiliates, owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Barclays in connection with this Announcement, any statement contained herein or otherwise. Barclays has given, and not withdrawn, its consent to the inclusion in this Announcement of the references to its name in the form and context in which they appear.*

*Rothschild & Co, which is authorised and regulated by the FCA in the United Kingdom, is acting for Virgin Atlantic and no-one else in connection with the Acquisition and will not be responsible to anyone other than Virgin Atlantic for providing the protections afforded to clients of Rothschild & Co nor for providing advice in relation to the Acquisition. Neither Rothschild & Co nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Rothschild & Co in connection with this Announcement, any statement contained herein or otherwise. Rothschild has given, and not withdrawn, its consent to the inclusion in this Announcement of the references to its name in the form and context in which they appear.*

### **Further information**

*This Announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to the Acquisition or otherwise. The Acquisition will be implemented solely pursuant to the terms of the Scheme Document (or, in the event that the Acquisition is to be implemented by means of a Takeover Offer, the Offer Document), which will contain the full terms and conditions of the Acquisition, including details of how to vote in respect of the Acquisition.*

*Any response to the Acquisition should be made only on the basis of information contained in the Scheme Document or the Offer Document (as applicable). Flybe Shareholders are advised to read the formal documentation in relation to the Acquisition carefully once it has been despatched.*

*In accordance with the Code, normal United Kingdom market practice and Rule 14e-5(b) of the US Exchange Act, Barclays and its affiliates will continue to act as exempt principal trader in Flybe Group plc securities on the London Stock Exchange. These purchases and activities by exempt principal traders which are required to be made public in the United Kingdom pursuant to the Code will be reported to a Regulatory Information Service and will be available on the London Stock Exchange website at [www.londonstockexchange.com](http://www.londonstockexchange.com). This information will also be publicly disclosed in the United States to the extent that such information is made public in the United Kingdom.*

### **Overseas jurisdictions**

*The release, publication or distribution of this Announcement in or into jurisdictions other than the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe, any applicable legal or regulatory requirements. In particular, the ability of persons who are not resident in the United Kingdom to vote their Flybe Shares with respect to the Scheme at the Court Meeting and the Flybe General Meeting, or to execute and deliver forms of proxy appointing another person to vote at the Court Meeting or the Flybe General Meeting on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located. Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Acquisition disclaim any responsibility or liability for the violation of such restrictions by any person. This Announcement has been prepared for the purpose of complying with English law, the rules of the London Stock Exchange and the Code and the information disclosed may not be the same as that which would have been disclosed if this Announcement had been prepared in accordance with the laws of jurisdictions outside of England & Wales.*

Unless otherwise determined by Connect Airways or required by the Code, and permitted by applicable law and regulation, the Acquisition will not be made available, directly or indirectly, in, into or from a Restricted Jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Acquisition by any such use, means, instrumentality or form within a Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the laws of that jurisdiction. Accordingly, copies of this Announcement and any formal documentation relating to the Acquisition are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction or any other jurisdiction where to do so would constitute a violation of the laws of that jurisdiction, and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send such documents in or into or from any Restricted Jurisdiction. Doing so may render invalid any related purported vote in respect of the Acquisition. If the Acquisition is implemented by way of a Takeover Offer (unless otherwise permitted by applicable law and regulation), the Takeover Offer may not be made directly or indirectly, in or into, or by the use of mails or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission or telephone) of interstate or foreign commerce of or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Takeover Offer may not be capable of acceptance by any such use, means, instrumentality or facilities or from within any Restricted Jurisdiction.

Further details in relation to Flybe Shareholders in overseas jurisdictions will be contained in the Scheme Document.

#### **Notice to US holders of Flybe Shares**

The Acquisition relates to the shares of an English company and is being made by means of a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition is subject to the disclosure requirements and practices applicable in the United Kingdom to schemes of arrangement which differ from the disclosure requirements of United States tender offer and proxy solicitation rules. If in the future, Connect Airways exercises the right to implement the Acquisition by way of a Takeover Offer and determines to extend such Takeover Offer into the United States, the Acquisition will be made pursuant to applicable UK tender offer rules and securities laws and otherwise in accordance with the requirements of the Code. Accordingly, any such Takeover Offer will be subject to disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments, that are different from those applicable to tender offers made in accordance with US procedures and law. Financial information included in this Announcement and the Scheme Document has been or will be prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

It may be difficult for US holders of Flybe Shares to enforce their rights and any claim arising out of the US federal securities laws, since Flybe is located in a non-US jurisdiction, and some or all of its officers and directors may be residents of a non-US jurisdiction. US holders of Flybe Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

Neither the SEC nor any securities commission of any state of the United States has approved the Acquisition, passed upon the fairness of the Acquisition or passed upon the adequacy or accuracy of this Announcement. Any representation to the contrary is a criminal offence in the United States.

In accordance with normal UK practice and pursuant to Rule 14e-5(b) of the US Exchange Act, Connect Airways or its nominees or brokers (acting as agents) may from time to time make certain purchases of or arrangements to purchase, Flybe Shares outside the United States, other than pursuant to the Acquisition, until the date on which the Takeover Offer and/or Scheme becomes effective, lapses or is otherwise withdrawn. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be disclosed as required in the UK, will be reported to an RIS and will be available on the London Stock Exchange website.

#### **Forward-looking statements**

This Announcement contains statements about the Connect Airways Group and the Flybe Group which are, or may be deemed to be, "forward-looking statements" and which are prospective in nature. All statements other than statements of historical fact included in this Announcement may be forward-looking statements. They are based on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "is expected", "is subject to", "budget", "scheduled", "estimates", "forecasts", "predicts", "intends", "anticipates", "believes", "targets", "aims", "projects", "future-proofing" or words or terms of similar substance or the negative of such words or terms, as well as variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Forward-looking statements may include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of the Connect Airways Group's or the Flybe Group's operations and potential synergies resulting from the Acquisition; and (iii) the effects of global economic conditions and governmental regulation on the Connect Airways Group's or the Flybe Group's business.



Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors may cause the actual results, performance or achievements of the Connect Airways Group or the Flybe Group to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These factors include changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or disposals. For a discussion of important factors which could cause actual results to differ from forward-looking statements in relation to the Flybe Group, refer to the annual report and accounts of the Flybe Group for the financial year ended 31 March 2018. Each of the Connect Airways Group and the Flybe Group, and each of their respective members, directors, officers, employees, advisers and persons acting on their behalf expressly disclaims any intention or obligation to update or revise any forward-looking or other statements contained in this Announcement, whether as a result of new information, future events or otherwise, except as required by applicable law.

No member of the Connect Airways Group, nor the Flybe Group, nor any of their respective associates, directors, officers, employees or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur.

Except as expressly provided in this Announcement, no forward-looking or other statements have been reviewed by the auditors of the Connect Airways Group or the Flybe Group. All subsequent oral or written forward-looking statements attributable to any member of the Connect Airways Group or Flybe Group, or any of their respective associates, directors, officers, employees or advisers, are expressly qualified in their entirety by the cautionary statement above.

#### **No profit forecast and profit estimate**

No statement in this Announcement is intended as a profit forecast or estimate for any period and no statement in this Announcement should be interpreted to mean that earnings or earnings per share for Flybe or Connect Airways, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for Flybe or Connect Airways, as appropriate.

#### **Disclosure requirements of the Code**

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) of the Code applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the Announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror, save to the extent that these details have previously been disclosed under Rule 8 of the Code. A Dealing Disclosure by a person to whom Rule 8.3(b) of the Code applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3 of the Code.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4 of the Code).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk) including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

#### **Rule 2.9 disclosure**

In accordance with Rule 2.9 of the Code, Flybe announces that its issued share capital consists of 216,656,779 ordinary shares of one pence each, all of which are admitted to trading on the London Stock Exchange's Main Market for listed

securities. The ISIN for the Flybe Shares is GB00B4QMVR10.

The total number of shares attracting voting rights in Flybe is therefore 216,656,776.

#### **Information relating to Flybe Shareholders**

Please be aware that addresses, electronic addresses and certain other information provided by Flybe Shareholders, persons with information rights and other relevant persons for the receipt of communications from Flybe may be provided to Connect Airways during the Offer Period as required under Section 4 of Appendix 4 to the Code to comply with Rule 2.11(c) of the Code.

#### **Publication on website**

In accordance with Rule 26.1 of the Code, a copy of this Announcement will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, for inspection on Flybe's website at [www.flybe.com/investors](http://www.flybe.com/investors) promptly and in any event by no later than 12 noon (London time) on the Business Day following the date of this Announcement. For the avoidance of doubt the contents of that website is not incorporated into, and does not form part of this Announcement.

In accordance with Rule 30.3 of the Code, Flybe Shareholders may request a hard copy of this Announcement, free of charge, by contacting Flybe's registrar, Link Asset Services, on +44(0)871 664 0300. Flybe Shareholders may also request that all future documents, announcements and information to be sent to them in relation to the Acquisition should be in hard copy form.

#### **Rounding**

Certain figures included in this Announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

## **PART II**

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**11 January 2019**

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#### **1. Introduction**

Following the announcement on 14 November 2018 by Flybe and the launch of the Formal Sale Process, the Boards of Flybe and Connect Airways are pleased to announce that they have reached agreement on the terms of a recommended cash offer for Flybe by Connect Airways pursuant to which Connect Airways will acquire the entire issued and to be issued share capital of Flybe.

#### **2. The Acquisition**

Under the terms of the Acquisition, Flybe Shareholders will be entitled to receive:

**one (1) pence in cash for each Flybe Share**

which values the entire issued and to be issued share capital of Flybe at approximately £2.2 million on the basis of the fully diluted share capital of 216,656,776 Flybe Shares.

Cyrus, Stobart Group and Virgin Atlantic have engaged with Flybe in a collaborative due diligence process since the commencement of the Formal Sale Process, and have formulated the Offer Price after careful review of the due diligence information, the capital needs of Flybe, the challenging trading environment and prevailing market conditions.

Concurrently with announcing the Acquisition, Cyrus, Stobart Group and Virgin Atlantic have committed to make available a £20 million bridge facility to support Flybe's ongoing working capital and operational requirements.

In addition, following completion of the Acquisition, Cyrus, Stobart Group and Virgin Atlantic are intending to provide up to £80 million of further funding to the Combined Group to invest in its business and support its growth, as well as a contribution of Stobart Air.

It is intended that the Acquisition will be implemented by way of a Court-sanctioned scheme of arrangement between Flybe and the Scheme Shareholders under Part 26 of the Companies Act, further details of which are contained in this Announcement and will be set out in the Scheme Document.

The Acquisition is conditional upon, amongst other things, the approval of the Scheme by the Scheme Shareholders and the sanction of the Scheme by the Court. Part A of Appendix 1 to this Announcement sets out the Conditions and further terms to which the Acquisition will be subject.

### **3. Background to and reasons for the Acquisition**

Virgin Atlantic, Stobart Group and Cyrus represent an exciting combination:

- The Virgin Atlantic brand is built on the foundation of putting customers at the heart of everything, providing customers with the choice they deserve and a travel experience they love. Virgin Atlantic's extensive long-haul network will provide enhanced connectivity for regional traffic at London Heathrow Airport and Manchester Airport;
- Stobart Group has significant aviation experience both from its own regional airline, Stobart Air, and from having successfully developed London Southend Airport. The Acquisition and combination with franchise airline, Stobart Air, will provide the Combined Group with an opportunity to increase passenger numbers at London Southend Airport, accelerating its growth for UK and European air travel; and
- Cyrus is an experienced investor in public and private airlines, including Virgin America.

The combination of Flybe and Stobart Air and a deep partnership with Virgin Atlantic will create a fully-fledged UK network carrier under the Virgin Atlantic brand, alongside the Stobart Air wet lease operations and aircraft leasing business which will continue to operate as it does today. The Combined Group will maintain Flybe's current UK regional focus, and enhance its European footprint, providing a strong foundation to secure the long-term future of Flybe, to the benefit of local communities, customers and its people.

The Combined Group intends for Flybe to continue as an independent operating carrier with a separate UK Air Operator Certificate (AOC) under the Virgin Atlantic brand. Stobart Air is intended to continue under a separate Irish AOC.

The Combined Group will operate with a single management structure benefiting from the expertise and scale of its partners.

### **4. Recommendation**

The Flybe Directors, who have been so advised by Evercore (who are providing independent financial advice to the Flybe Board for the purposes of Rule 3 of the Code) as to the financial terms of the Acquisition, consider the terms of the Acquisition to be fair and reasonable. In providing its financial advice to the Flybe Directors, Evercore has taken into account the commercial assessments of the Flybe Directors.

Accordingly, the Flybe Directors **unanimously recommend that Flybe Shareholders vote in favour of the Scheme at the Court Meeting and the resolutions relating to the Acquisition at the Flybe General Meeting** (or, in the event that the Acquisition is implemented by way of a Takeover Offer, to accept or procure acceptance of such Takeover Offer).

Each of Simon Laffin, Christine Ourmières-Widener, Ian Milne, Heather Lawrence and Elizabeth McMeikan have irrevocably undertaken to vote in favour of the Scheme at the Court Meeting and in favour of the resolutions relating to the Acquisition at the Flybe General Meeting in respect of their own beneficial holdings of Flybe Shares, amounting to, in aggregate, 871,664 Flybe Shares representing approximately 0.40% of Flybe's share capital in issue on 10 January 2019 (being the last practicable date before the release of this Announcement). Further details are set out in Appendix 3 to this Announcement.



Evercore has given and not withdrawn its consent to the inclusion in this Announcement of references to its advice to the Flybe Directors in the form and context in which it appears.

## **5. Background to and reasons for the recommendation of the Flybe Directors**

The Flybe Directors have evaluated the offer by Connect Airways on behalf of the Flybe Shareholders as a whole. In deciding to recommend the Acquisition to the Flybe Shareholders, the Flybe Directors have taken into account a range of factors, including those outlined below.

Flybe plays a vital role in the UK's transport infrastructure. Since the appointment of Christine Ourmières-Widener as CEO, Flybe has implemented a clear strategy focused on tighter fleet management, improving revenue per seat performance and increasing load factors. Delivering this new strategy has required management to address several material legacy issues such as engine and aircraft contracts, which have significantly increased cash requirements.

Flybe's pursuit of operational excellence has led to a significant reduction in maintenance lead-times and higher customer satisfaction. In addition, Flybe's UK regional network positions itself well to benefit from growing demand by long-haul carriers for passenger feeder traffic, as evidenced by Flybe's growing revenues from airline partnerships.

The current broader market for air travel remains challenging for all parties. There have been a number of airlines who have gone out of business over the past year. While Flybe has made tangible progress in delivering its strategy, maintaining momentum has been hampered by the challenging market environment: Ongoing fuel and currency impacts have presented particularly significant headwinds for Flybe as has the rapid and significant tightening on Flybe's liquidity from the card acquirer market. In addition, the general economic outlook and conditions have impacted the business recently leading to a further weakening in consumer demand, affecting cash, revenues and profit adversely.

The Company's card acquirers normally pass on cash for credit card bookings for future flights, less a proportion retained as security. However they are contractually entitled to retain enough cash to ensure that they are fully secured. The Company's card acquirers have recently begun to retain significantly more cash against their exposure and this change in position has materially and rapidly weakened the Company's unrestricted cash position.

The Flybe Directors have taken into careful consideration the risks inherent to the successful execution of Flybe's business plan given these developing factors versus the opportunity that a cash bid and the offer of funding for the business provides. Such risks include further softening in demand in the short-haul market, potential for further cash flow challenges in the short-term, weather events and further adverse movements in fuel prices, sterling and customer sentiment.

On 17 October 2018, Flybe announced that, due to weak consumer demand in domestic and near-continent markets, together with higher fuel prices and a weaker sterling, the Company's profit performance would be lower than previously expected. On 14 November 2018, Flybe announced that it was undertaking a comprehensive strategic review of its options, including a potential sale of Flybe by way of a Formal Sale Process under the Code.

Following the announcement of the Formal Sale Process, Flybe received a number of expressions of interest. These expressions of interest included proposals for the acquisition of Flybe as a whole and also for parts of the business or certain assets. After initial discussions with the interested parties, Flybe shortlisted a smaller number of potential offerors to conduct initial due diligence based on a range of criteria, including deliverability, financial capability and strategic fit. The selected potential offerors were asked to submit proposals for Flybe and subsequently Flybe entered into detailed discussions with a small number of parties. These discussions have led to the current offer.

The Flybe Directors see a business combination with Connect Airways as one that will be highly attractive to Flybe's customers, employees and the wider community. Flybe's access to increased scale and significant financial resources through such a combination would deliver greater stability during times of market turbulence and enable the business to focus on profitable growth. The Flybe Directors believe that adding the long-haul network, connectivity experience, successful airline partnerships and the wet lease operations of the owners of Connect Airways will provide the opportunity to develop enhanced customer experience, optimise operational performance and accelerate partnerships with other airline operators. It also confirms Flybe's feeder capabilities at key airports including Manchester Airport and London Heathrow Airport.

The Flybe Board therefore believes that, taking into account Flybe's current difficult financial position and the expectation that the pressure on Flybe's cash flow will continue, the Acquisition and funding from Connect Airways represent the most realistic means of securing Flybe's future and deliver an attractive option for Flybe's employees, pension scheme members and creditors.

## **6. Irrevocable undertakings**

Connect Airways has received irrevocable undertakings to vote, or procure a vote, in favour of the Scheme at the Court Meeting and the resolutions relating to the Acquisition at the Flybe General Meeting (or, in the event that the Acquisition is implemented by way of a Takeover Offer, to accept or procure the acceptance of such Takeover Offer) from each of the Flybe Directors who hold Flybe Shares in respect of their own shareholdings, amounting to, in aggregate, 871,664 Flybe Shares representing approximately 0.40% of Flybe's share capital in issue on 10 January 2019 (being the latest practicable date before the release of this Announcement). The irrevocable undertakings from the Flybe Directors remain binding in the event of a competing offer being made for Flybe.

Further details of these undertakings are set out in Appendix 3 to this Announcement. Copies of the irrevocable undertakings will be on display on the investor section of Flybe's website ([www.flybe.com/investors/](http://www.flybe.com/investors/)) by no later than 12 pm on the Business Day immediately following the date of this Announcement until the Effective Date.

#### **7. Information on Flybe**

Flybe is the UK's largest regional airline and flies more UK domestic flights than any other airline: 54.9% of all UK flights within mainland Britain (excluding London). Flybe currently operates 190 routes serving 12 countries from 73 departure points in the UK (29) and Europe (44) (flown under the Flybe brand including all routes on sale November 2018 - August 2019) and is the largest scheduled airline by air traffic movements at Aberdeen, Anglesey, Belfast City, Birmingham, Cardiff, Doncaster Sheffield, Exeter, Glasgow, Isle of Man, Jersey, Manchester, Newquay, Southampton, Southend and Wick airports. Flybe operates a fleet of 76 aircraft and was recognised as the joint most punctual UK-based airline in the latest report on 'Best and Worst Airlines' issued by leading consumer watchdog Which? in January 2019.

As well as its scheduled passenger regional airline services, charter and cargo transport services and white-label flying for third party airlines, Flybe's training academy provides pilot, crew, engineering and other training services in-house and to third parties and Flybe Aviation Services owns a maintenance, repair and overhaul facility servicing both internal and third party customers.

#### **8. Information about Connect Airways**

Connect Airways is an English limited company the share capital of which is owned 30% by Virgin Travel Group Limited, a wholly owned subsidiary of Virgin Atlantic, 30% by Stobart Aviation, a wholly-owned subsidiary of Stobart Group and 40% by DLP Holdings, a company wholly-owned by funds managed by Cyrus.

It is also expected that, immediately prior to completion of the Acquisition, Connect Airways will acquire Stobart Air's regional airline and aircraft leasing business. The Combined Group is expected to bring benefits to customers, suppliers and employees, providing stability in a tough trading environment.

The ownership of entities in the Connect Airways Group will be structured in a manner which ensures compliance with applicable European and UK aviation regulations with respect to ownership and effective control of Stobart Air (which holds an air operator certificate issued by the government of the Republic of Ireland) and Flybe (which holds an air operator certificate issued by the government of the United Kingdom).

#### **9. Information about Stobart Group**

Stobart Group is listed on the London Stock Exchange under ticker STOB. It is focused on delivering growth in its Aviation, Energy and Rail & Civils divisions. Stobart Group also holds a portfolio of infrastructure assets and investments, and aims to add value to this portfolio, selling when appropriate.

Stobart Group's Aviation division invests in, develops and operates a number of aviation-related businesses focused on meeting the growing demand for airport capacity in London and improved customer experience. The Aviation division comprises London Southend Airport, the Stobart Jet Centre, Stobart Aviation Services, and Stobart Air's wet lease operations and aircraft leasing business (until Stobart Air is acquired by Connect Airways).

#### **10. Information about Virgin Atlantic**

Virgin Atlantic is the ultimate holding company of Virgin Atlantic Airways Limited and Virgin Holidays Limited. Virgin Travel Group Limited is a wholly-owned subsidiary of Virgin Atlantic and the immediate parent company of Virgin Atlantic Airways Limited and Virgin Holidays Limited.

Virgin Atlantic Airways was founded by entrepreneur Sir Richard Branson 35 years ago with innovation and customer service at its core. Today Virgin Atlantic carries over 5 million customers annually, and was named the UK's favourite long haul carrier by Skytrax, Best Transatlantic Airline at the British Travel Awards 2017 and one of the Top 5 Airlines in the World by Airline Ratings.

Headquartered in Crawley, Virgin Atlantic employs around 10,000 people worldwide and operates a fleet of 46 aircraft serving 25 destinations across four continents. Alongside joint venture partner Delta Air Lines it operates a leading transatlantic network offering around 40 flights per day between the UK and US with onward connections to over 200 US and international cities. In 2019 Virgin Atlantic Airways Limited will take delivery of its first Airbus A350-1000 aircraft - helping to transform the fleet into one of the quietest and most fuel efficient in the sky.

On 15 May 2018 Air France-KLM, Delta Air Lines and Virgin Atlantic signed definitive agreements to combine the existing trans-Atlantic joint ventures. This transaction is in the process of regulatory clearance. Upon completion the airlines' expanded joint venture will become the preferred choice for customers travelling across the Atlantic offering the most comprehensive route network, convenient flight schedules, competitive fares and reciprocal frequent flyer benefits, including the ability to earn and redeem miles across all carriers. Customers will also benefit from the co-location of facilities at key airports to improve connectivity and access to each carrier's airport lounges for premium passengers.

#### **11. Information about Cyrus**

Cyrus was founded in 1999 and has offices in New York and London, managing over \$4.4 billion on a global basis in securities and loans issued by corporates and sovereigns. Its client base is predominantly endowments, foundations and family offices with a significant portion of the assets under management being partner and employee capital.

## 12. Intentions with respect to Flybe's management, employees and business

Following the Acquisition, the Combined Group intends to focus on three principal areas:

- (a) simplifying and focusing on improving the performance of Flybe's core network whilst recognising the importance of regional connectivity;
- (b) adjusting Flybe's network to improve connectivity with Virgin Atlantic's long-haul network, particularly at London Heathrow Airport and Manchester Airport, bringing more choice to customers; and
- (c) operating the Combined Group as an independent company, and optimising the combined commercial, operational and functional expertise and scale of Virgin Atlantic and the Stobart Group.

### *Optimising the Network and Improving Connectivity*

The Combined Group plans to optimise Flybe's network and operations to focus on key routes with the aim of continuing to enhance regional connectivity across the UK and Ireland.

The Combined Group also intends to bring benefits for customers through linking an enhanced Flybe regional network with Virgin Atlantic's long-haul operations particularly at Manchester Airport and London Heathrow Airport.

### *Leveraging the expertise of Flybe, Stobart Group and Virgin Atlantic*

Through the combination of Flybe and Stobart Air, and partnering with Virgin Atlantic, the Combined Group intends to continue as an independent operating carrier with a separate UK Air Operator Certificate ("AOC") under the Virgin Atlantic brand. Stobart Air is intended to continue under a separate Irish AOC with its franchise and aircraft leasing operations as exists today.

The Combined Group intends to operate independently of Virgin Atlantic with only support functions having some overlap. The Combined Group intends to maintain separate teams for Flybe's pilots and cabin crew. Flybe and Stobart Air will operate under a single management team, with commercial and back office support staff being integrated into a single team. This will include reducing or removing any unnecessary overlap, including any operating costs associated with being a listed company. The detailed plans for such integration are not yet known but the planning exercise will commence immediately after the Acquisition and will include plans to retain the best talent across the Combined Group. The Combined Group attaches great importance to the skills and experience of Flybe's and Stobart Air's employees but acknowledges that the proposals will likely involve some headcount reduction where there are duplicate roles and functions.

There are no plans to materially change the overall balance of skills and functions across the Combined Group. There is no research and development function at either Flybe or Stobart Air and the Combined Group does not intend to create one following the Acquisition. There is a limited research and development function at Virgin Atlantic; however no impact is expected on it as a result of the Acquisition.

The Combined Group confirms that, following implementation of the Acquisition, the existing contractual and statutory employment rights, including in relation to pensions, of all Flybe's, Virgin Atlantic's and Stobart Air's employees will be honoured.

### *Locations and Fixed Assets for the Combined Group*

As part of the integration process, the Combined Group will consider the most appropriate locations for the headquarters and engineering centre. However, it is expected that the Combined Group will maintain a material presence at each of Flybe's existing Exeter headquarters and Stobart Air's Dublin headquarters.

In addition, the Combined Group intends to maintain people and presence at the airports at which Flybe, Stobart Air and Virgin Atlantic have operations, subject to changes arising from any alterations to the network.

The network and route optimisation will likely include a limited reduction in the number of Flybe's aircraft to right size the fleet for the Combined Group going forward.

### *Rebranding*

All flying operations except Stobart Air will operate under the Virgin Atlantic brand to the extent possible. This will be timed to coincide with a refurbishment programme for Flybe's fleet to provide a seamless customer experience in keeping with Virgin Atlantic's heritage.

There will be no change to the brands under which Stobart Air flies today which will continue to be maintained and operated separately.

### *Defined benefit pensions scheme*

Flybe operates the British Regional Airlines Group Pension Scheme (the "BRAG") which is a defined benefit occupational pension scheme. The BRAG is closed to all new members with no employees accruing further benefits under the BRAG. The Scheme is currently administered by a corporate trustee, BRAL Trustees (IOM) Limited (the "Trustee").

Connect Airways has engaged with the Trustee to discuss ongoing scheme funding following the Acquisition, and has agreed in principle to a package of measures which will increase employer contributions, and is designed in the view of Connect Airways and the Trustee to provide sustainable funding for the BRAG post Acquisition and eliminate the

Scheme's deficit over time. In particular it has been agreed in principle:

- (a) to bring forward the BRAG's actuarial valuation from 31 March 2019 to 31 December 2018 in order that a new schedule of contributions and recovery plan may be put in place within good time following the Acquisition;
- (b) that contributions payable by Flybe Limited to the BRAG for the first three years following the effective date of the new schedule of contributions and recovery plan will increase to £3 million per annum, with payments of at least £4.5 million per annum in the following years of the recovery plan (in both cases payable in equal monthly instalments);
- (c) that Connect Airways will guarantee the payment of the first three years of employer contributions (£9 million) into the BRAG; and
- (d) that the Scheme will have the benefit of a first ranking charge over a property post-completion of the Acquisition.

#### *Money purchase pension scheme*

Flybe operates a money purchase pension arrangement for current and new employees in compliance with automatic enrolment legislation. There is no intention to make any changes to the contributions payable under this arrangement other than to allow the arrangement to continue to be compliant with automatic enrolment requirements.

#### *Directors*

Upon completion of the Acquisition, it is proposed that the Flybe Non-Executive Directors will be asked to resign from the Board and will be replaced by directors appointed by Connect Airways.

#### *Interim funding to support future growth*

Concurrently with announcing the Acquisition, Cyrus, Stobart Group and Virgin Atlantic have committed to make available a £20 million bridge loan facility to support Flybe's ongoing working capital and operational requirements, the terms of which are described further at paragraph 19(d) below.

In addition, following completion of the Acquisition, Cyrus, Stobart Group and Virgin Atlantic are intending to provide up to £80 million of further funding to the Combined Group to invest in its future business and support its growth, as well as the contribution of Stobart Air.

No statements in this paragraph 12 constitute "post-offer undertakings" for the purposes of Rule 19.5 of the Code.

### **13. Flybe Share Schemes**

The Acquisition will extend to any Flybe Shares which are unconditionally allotted or issued before the Scheme Record Time, including those allotted or issued as a result of the exercise of options or vesting of awards under the Flybe Share Schemes.

The Scheme will not extend to Flybe Shares issued after the Scheme Record Time. However, it is proposed to amend Flybe's articles of association at the Flybe General Meeting to provide that, if the Scheme becomes Effective, any Flybe Shares issued to any person after the Scheme Record Time (including in satisfaction of an option exercised under one of the Flybe Share Schemes) will be automatically transferred to Connect Airways in consideration for the payment by Connect Airways to such persons of 1 pence in cash for each Flybe Share so transferred.

### **14. Financing of the Acquisition**

The cash consideration payable by Connect Airways to Flybe Shareholders under the Acquisition will be financed through cash resources of Connect Airways, raised through an issue of shares in Connect Airways to DLP Holdings, Stobart Aviation and Virgin Atlantic prior to completion of the Acquisition.

Barclays, as financial advisor to Connect Airways, is satisfied that resources available to Connect Airways are sufficient to satisfy in full the cash consideration payable to Flybe Shareholders under the terms of the Acquisition.

### **15. Structure and Conditions of the Acquisition**

It is intended that the Acquisition will be implemented by means of a Court-sanctioned scheme of arrangement of Flybe under Part 26 of the Companies Act.

The purpose of the Scheme is to provide for Connect Airways to become the owner of the entire issued and to be issued share capital of Flybe. In order to achieve this, the Scheme Shares will be transferred to Connect Airways under the Scheme. In consideration for this transfer, the Scheme Shareholders will receive cash on the basis set out in paragraph 2 of this Announcement. The transfer to Connect Airways of the Scheme Shares will result in Flybe becoming a wholly-owned subsidiary of Connect Airways.

The Scheme requires approval by Scheme Shareholders by the passing of a resolution at the Court Meeting. This resolution must be approved by a majority in number of the holders of Scheme Shares present and voting, either in person or by proxy, representing not less than 75% in value of the Scheme Shares held by such holders. In addition, resolutions to deal with certain ancillary matters must be passed at the Flybe General Meeting to be held immediately after the Court Meeting.

The Scheme must also be sanctioned by the Court. Any Scheme Shareholder is entitled to attend the Scheme Court Hearing in person or through counsel to support or oppose the sanctioning of the Scheme. The Scheme will only become Effective upon delivery to the Registrar of Companies of a copy of the Scheme Court Order.

The Scheme is also subject to certain Conditions and certain further terms referred to in Appendix 1 of this Announcement and to be set out in the Scheme Document. The Conditions in Appendix 1 provide that the Acquisition will lapse if, amongst other things:

- (a) the Court Meeting and Flybe General Meeting are not held on or before the 22nd day after the expected date of the meetings, which will be set out in the Scheme Circular in due course (or such later date as may be agreed by Flybe and Connect Airways);
- (b) the Scheme Court Hearing is not held on or before the 22nd day after the expected date of the hearing, which will be set out in the Scheme Document in due course (or such later date as may be agreed by Flybe and Connect Airways); or
- (c) the Scheme does not become Effective by the Long Stop Date (or such later date as may be agreed by Flybe and Connect Airways),

provided that these deadlines may be waived by Connect Airways.

The Acquisition is also conditional upon there not being any Phase 2 CMA Reference or Phase 2 European Commission Proceedings, which are terms of the Acquisition which cannot be waived by Connect Airways. The Acquisition is also conditional upon:

- (a) in the event that the Flybe Group ceases to be able to maintain its operating licence issued pursuant to Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 as a result of the UK ceasing to be a member state of the European Union, that Flybe Group is able to obtain any operating licence or any equivalent authorisation in the United Kingdom;
- (b) the Civil Aviation Authority not revoking or not suspending Flybe Group's operating licence issued pursuant to Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 or any equivalent or replacement authorisation in the United Kingdom; and
- (c) no member of the wider Flybe Group taking steps or having steps taken against them for their winding-up or for the commencement of any other insolvency related process,

and each of these conditions is capable of being waived by Connect Airways.

Once the Scheme becomes Effective, it will be binding on all Scheme Shareholders, whether or not they voted at the Court Meeting and the Flybe General Meeting and, if they did vote, whether or not they voted in favour of or against the resolutions proposed at those meetings.

The terms of the Scheme will provide that the Flybe Shares will be acquired under the Scheme fully paid and free from all liens, equitable interests, charges, encumbrances, options, rights of pre-emption and any other third party rights or interests of any nature whatsoever and together with all rights attaching thereto, including the right to receive and retain all dividends and other distributions and returns of value declared, paid or made after the Effective Date.

The Offer Price has been agreed by the Flybe Board and Connect Airways on the basis that no dividend for the financial year ending 31 March 2019 will be paid by Flybe to Flybe Shareholders.

If any dividend or other distribution or return of value is proposed, declared, made, paid or becomes payable by Flybe in respect of a Flybe Share on or after the date of this Announcement and prior to the Scheme becoming Effective, Connect Airways will have the right to reduce the value of the consideration payable for each Flybe Share by up to the amount per Flybe Share of such dividend, distribution or return of value except where the Flybe Share is or will be acquired pursuant to the Scheme on a basis which entitles Connect Airways to receive the dividend, distribution or return of value and to retain it.

If any such dividend, distribution or return of value is paid or made after the date of this Announcement and Connect Airways exercises its rights described above, any reference in this Announcement to the consideration payable under the Scheme shall be deemed to be a reference to the consideration as so reduced. Any exercise by Connect Airways of its rights referred to in this paragraph shall be the subject of an announcement and, for the avoidance of doubt, shall not be regarded as constituting any revision or variation of the terms of the Scheme.

Connect Airways reserves the right, subject to the prior consent of the Panel, to elect to implement the acquisition of the Flybe Shares by way of a Takeover Offer. In such event, such Takeover Offer will be implemented on the same terms (subject to appropriate amendments as described in Part 2 of Appendix 1), so far as applicable, as those which would apply to the Scheme. Furthermore, if such Takeover Offer is made and sufficient acceptances of such offer are received, when aggregated with Flybe Shares otherwise acquired by Connect Airways, it is the intention of Connect Airways to apply the provisions of section 979 of the Companies Act to acquire compulsorily any outstanding Flybe Shares to which such Takeover Offer relates.

## **16. Acquisition of Stobart Air**

Connect Airways proposes to enter into two conditional agreements on or about the date of this Announcement with



Stobart Aviation to effect the acquisition of Stobart Air.

Completion of these acquisition agreements is expected immediately prior to the completion of the Acquisition.

#### 17. De-listing and re-registration

It is intended that the last day of dealings in, and for registration of transfers of, Flybe Shares (other than the registration of the transfer of the Scheme Shares to Connect Airways pursuant to the Scheme) will be the last Business Day prior to the Effective Date, following which all of Flybe's Shares will be suspended from the Official List and from trading on the London Stock Exchange's Main Market for listed securities, and Flybe Shares will be disabled in CREST.

After the Scheme Record Time and before the Scheme becomes Effective, entitlements to Flybe Shares in CREST will be cancelled and such entitlements materialised. On the Effective Date, all share certificates in respect of Flybe will cease to be valid and should be destroyed.

Flybe Shares are currently listed on the Official List and admitted to trading on the London Stock Exchange.

Subject to the Scheme becoming Effective, application will be made to the UK Listing Authority for the cancellation of the standard listing of the Flybe Shares on the Official List and to the London Stock Exchange for the cancellation of the admission to trading of Flybe Shares on the London Stock Exchange's Main Market for listed securities. It is expected that such de-listing and cancellation of admission to trading would take effect on the Business Day after the Effective Date.

If the Scheme is sanctioned, any Flybe Shares held in treasury will be cancelled prior to the Scheme becoming Effective.

It is intended that as soon as possible after the Effective Date, Flybe will be re-registered as a private limited company under the relevant provisions of the Companies Act and Flybe Shareholders will be asked to approve this during the Flybe General Meeting.

#### 18. Disclosure of interests in Flybe Shares

The following persons acting in concert with Connect Airways hold interests, short positions and rights to subscribe (including directors' and other employee options) in Flybe Shares:

Director	Number of Ordinary Shares Held	Percentage of Issued Share Capital
Warwick Brady and his close relatives	16,666	0.0077%

Save as set out above and in respect of the irrevocable undertakings referred to in paragraph 6, as at the close of business on 10 January 2019, being the latest practicable date before the release of this Announcement, neither Connect Airways, nor any of the Connect Airways Directors, nor, so far as Connect Airways is aware, any person acting in concert (within the meaning of the Code) with Connect Airways has:

- any interest in, or right to subscribe for, any Flybe Shares nor does any such person have any short position in Flybe Shares, including any short position (whether conditional or absolute and whether in the money or otherwise), any short position under a derivative, any agreement to sell, any delivery obligation or right to require another person to purchase or take delivery of Flybe Shares or any dealing arrangement of the kind referred to in Note 11 of the definition of acting in concert in the Code;
- borrowed or lent any Flybe Shares or entered into any financial collateral arrangements relating to Flybe Shares; or
- procured an irrevocable commitment or letter of intent in respect of Flybe Shares to vote in favour of the Scheme or accept any Takeover Offer.

Furthermore, no arrangement exists between Connect Airways and Flybe or any person acting in concert with Connect Airways or Flybe in relation to Flybe Shares. For this purpose, "arrangement" includes any indemnity or option arrangement, any agreement or understanding, formal or informal, of whatever nature relating to Flybe Shares which may be an inducement to deal or refrain from dealing in such securities.

#### 19. Offer-related arrangements

(a) *Confidentiality Agreement with Stobart Group and Cyrus*

Stobart Group, Cyrus and Flybe entered into a confidentiality agreement on 3 November 2018 (the "**Stobart and Cyrus Confidentiality Agreement**") pursuant to which Stobart Group and Cyrus have undertaken to keep confidential information relating to Flybe and not to disclose it to third parties (other than to permitted disclosees) unless required by law or regulation.

The Stobart and Cyrus Confidentiality Agreement also contains undertakings from Stobart Group and Cyrus that

until Tuesday 30 April 2019, neither Stobart Group nor Cyrus shall, without the prior written consent of Flybe and except pursuant to the Acquisition, acquire or offer to acquire any interest in securities of Flybe and that for a period of 12 months from the date of the Stobart and Cyrus Confidentiality Agreement neither Stobart Group nor Cyrus shall solicit any senior person or pilot of Flybe, subject to customary carve-outs. These confidentiality obligations will cease to have effect on completion of the Acquisition. If the Acquisition does not complete, the confidentiality obligations shall remain in force for a period of two years from the date of the Stobart and Cyrus Confidentiality Agreement.

(b) *Confidentiality Agreement with Virgin Atlantic*

Flybe and Virgin Atlantic entered into a confidentiality agreement on 8 November 2018 (the "**Virgin Atlantic Confidentiality Agreement**"), pursuant to which Flybe and Virgin Atlantic have mutually undertaken to keep information relating to the other party confidential and not to disclose it to third parties (other than permitted recipients) save to the extent required by law or otherwise permitted in the agreement. The confidentiality obligation will remain in force until the Acquisition becomes unconditional in all respects.

(c) *Cooperation Agreement*

Flybe and Connect Airways have entered into the Cooperation Agreement pursuant to which, among other things, they have agreed:

- Connect Airways will provide Flybe with such information as may be necessary for Flybe to prepare the Scheme Document;
- to implement certain proposals with regards to the Flybe Share Schemes; and
- to cooperate with each other and to provide such information as may be necessary to obtain any required regulatory clearances.

The Cooperation Agreement records the intention of Flybe and Connect Airways to implement the Acquisition by way of the Scheme, subject to the ability of Connect Airways to proceed by way of a Takeover Offer in certain circumstances, subject to the consent of the Panel.

The Cooperation Agreement will terminate in a number of customary circumstances, including if:

- the Flybe Directors withdraw or adversely modify their recommendation of the Acquisition;
- the Flybe Meetings are not held on or before the 22nd day after the expected date of such meeting as set out in the Scheme Document (or such later date as may be agreed in writing between the parties with the consent of the Panel and, if required, the approval of the Court);
- the Scheme Shareholders fail to pass by the required majority the resolutions to be proposed at the Flybe Meetings;
- the Court refuses to sanction the Scheme; or
- the Scheme Document does not include a unanimous and unconditional recommendation from the Flybe Directors that Flybe Shareholders vote in favour of the resolutions to be proposed at the Court Meeting and the Flybe General Meeting.

(d) *Flybe Bridge Loan Facility*

Flybe, DLP Holdings, Virgin Travel Group Limited and Stobart Aviation have entered into a secured bridge loan facility on the date of this Announcement (the "**Bridge Facility Agreement**") pursuant to which DLP and Virgin Atlantic Airways Limited will make available a committed credit facility of up to £20 million to Flybe.

It is a condition of the Bridge Facility Agreement that a firm of accountants is appointed as an independent monitor who will be granted full access to Flybe's systems and working capital information.

The Bridge Facility Agreement contains a number of conditions precedent, including that Flybe concludes agreements with its card acquirers / bankers in relation to normalising the operation of Flybe's merchant services facilities.

No utilisation may be requested under the Bridge Facility Agreement unless:

- Flybe has unrestricted cash of less than US\$5,000,000; and
- the independent monitor has confirmed to DLP Holdings, Stobart Aviation and Virgin Atlantic Airways Limited that the loan requested is for permitted working capital.

The Bridge Facility Agreement also contains customary representations, undertakings and events of default.

(e) *Joint Bid Agreement*

DLP Holdings, Stobart Aviation, and Virgin Atlantic have entered into a joint bid agreement on or about the date of this Announcement (the "**Joint Bid Agreement**"), pursuant to which they have agreed (among other things):

- to cooperate together with respect to, proceed with, and support Connect Airways in respect of its obligations to proceed with, the Acquisition (including the preparation of relevant documentation);
- to make decisions with respect to the Acquisition jointly;
- to cooperate together with respect to anti-trust and other regulatory clearances necessary or expedient for the purposes of the transaction;
- to share the administrative costs of proceeding with the Acquisition, up to a cap of £3 million plus VAT;
- to not to pursue an alternative form of transaction to the Acquisition without the prior consent of the other parties.

The Joint Bid Agreement also records the certain commercial terms with respect to the funding, structure and operations of the Combined Group which Cyrus, Stobart Group and Virgin Atlantic have agreed between them and which will be documented more fully prior to completion of the Acquisition.

The Joint Bid Agreement will terminate if:

- the Acquisition does not proceed;
- the Scheme lapses or terminates (if necessary, with the Panel's consent), unless DLP Holdings, Stobart Aviation, and Virgin Atlantic have elected prior to such time for Connect Airways to implement the Acquisition by way of a Takeover Offer;
- DLP Holdings, Stobart Aviation, and Virgin Atlantic elect for Connect Airways to implement the Acquisition by way of a Takeover Offer, the Takeover Offer is withdrawn or lapses (if necessary, with the Panel's consent); or
- DLP Holdings, Stobart Aviation, and Virgin Atlantic so agree in writing.

**20. Expected timetable**

Further details of the Scheme, including an indicative timetable for its implementation, will be contained in the Scheme Circular. The Scheme Circular will be published as soon as reasonably practicable and within 28 days of this Announcement.

The Scheme Circular will also include the notices of the Court Meeting and the Flybe General Meeting and specify the necessary actions to be taken by Flybe Shareholders, and will be made available to Flybe Shareholders at no charge to them.

**21. Documents available on websites**

Copies of the following documents will be published promptly, and in any event by no later than 12 noon (London time) on the Business Day following this Announcement on Flybe's website at [www.Flybe.com/investors/](http://www.Flybe.com/investors/) and will be made available until the end of the Offer Period:

- a copy of this Announcement;
- the irrevocable undertakings described in paragraph 7 and set out in Appendix 3 to this Announcement;
- the Confidentiality Agreements;
- the Cooperation Agreement;
- the Joint Bid Agreement;
- the Bridge Facility Agreement;
- the consent letter of Barclays;
- the consent letter of Rothschild & Co; and
- the consent letter of Evercore.

The contents of Flybe's website are not incorporated into and do not form part of this Announcement.

## 22. General

This Announcement does not constitute an offer or an invitation to purchase or subscribe for any securities. Your attention is drawn to the further information contained in the Appendices which form part of, and should be read in conjunction with, this Announcement.

**The Acquisition will be subject to the Conditions and further terms set out in Appendix 1 to this Announcement and to the full terms and conditions which will be set out in the Scheme Document. Appendix 2 contains details of the irrevocable undertakings received in relation to the Acquisition that are referred to in this Announcement. Appendix 3 contains definitions of certain terms used in this Announcement.**

### Enquiries

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### **Important notices relating to financial advisers**

*Evercore, which is authorised and regulated by the FCA in the United Kingdom, is acting solely for Flybe as financial adviser in relation to the matters referred to in this Announcement and for no one else. Evercore will not be responsible to anyone other than Flybe for providing the protections afforded to its clients or for providing advice in relation to the contents of this Announcement or any arrangement referred to herein.*

*Neither Evercore, nor any of its affiliates, owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person other than Flybe in connection with this Announcement, any statement contained herein or otherwise. Evercore has given, and not withdrawn, its consent to the inclusion in this Announcement of the references to its name and the advice it has given to Flybe in the form and context in which they appear.*

*Barclays, which is authorised and regulated by the FCA in the United Kingdom, is acting exclusively as financial adviser to Stobart Group and Connect Airways and for no one else in connection with the matters referred to in this Announcement and will not be responsible to anyone other than Stobart Group and Connect Airways for providing the protections afforded to its clients or for providing advice in relation to the matters referred to in this Announcement. Neither Barclays, nor any of its affiliates, owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Barclays in connection with this Announcement, any statement contained herein or otherwise. Barclays has given, and not withdrawn, its consent to the inclusion in this Announcement of the references to its name in the form and context in which they appear.*

*Rothschild & Co, which is authorised and regulated by the FCA in the United Kingdom, is acting for Virgin Atlantic and no-one else in connection with the Acquisition and will not be responsible to anyone other than Virgin Atlantic for providing the protections afforded to clients of Rothschild & Co nor for providing advice in relation to the Acquisition. Neither Rothschild & Co nor any of its subsidiaries, branches or affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Rothschild & Co in connection with this Announcement, any statement contained herein or otherwise.*

### **Further information**

*This Announcement is not intended to, and does not, constitute or form part of any offer, invitation or the solicitation of an offer to purchase, otherwise acquire, subscribe for, sell or otherwise dispose of any securities, or the solicitation of any vote or approval in any jurisdiction, pursuant to the Acquisition or otherwise. The Acquisition will be implemented solely pursuant to the terms of the Scheme Document (or, in the event that the Acquisition is to be implemented by means of a Takeover Offer, the Offer Document), which will contain the full terms and conditions of the Acquisition, including details of how to vote in respect of the Acquisition. Any response to the Acquisition should be made only on the basis of information contained in the Scheme Document or the Offer Document (as applicable). Flybe Shareholders are advised to read the formal documentation in relation to the Acquisition carefully once it has been despatched.*

*In accordance with the Code, normal United Kingdom market practice and Rule 14e-5(b) of the US Exchange Act,*

Barclays and its affiliates will continue to act as exempt principal trader in Flybe Group plc securities on the London Stock Exchange. These purchases and activities by exempt principal traders which are required to be made public in the United Kingdom pursuant to the Code will be reported to a Regulatory Information Service and will be available on the London Stock Exchange website at [www.londonstockexchange.com](http://www.londonstockexchange.com). This information will also be publicly disclosed in the United States to the extent that such information is made public in the United Kingdom.

#### **Overseas jurisdictions**

The release, publication or distribution of this Announcement in or into jurisdictions other than the United Kingdom may be restricted by law and therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom should inform themselves about, and observe, any applicable legal or regulatory requirements. In particular, the ability of persons who are not resident in the United Kingdom to vote their Flybe Shares with respect to the Scheme at the Court Meeting and the Flybe General Meeting, or to execute and deliver forms of proxy appointing another person to vote at the Court Meeting or the Flybe General Meeting on their behalf, may be affected by the laws of the relevant jurisdictions in which they are located. Any failure to comply with the applicable restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Acquisition disclaim any responsibility or liability for the violation of such restrictions by any person. This Announcement has been prepared for the purpose of complying with English law, the rules of the London Stock Exchange and the Code and the information disclosed may not be the same as that which would have been disclosed if this Announcement had been prepared in accordance with the laws of jurisdictions outside of England & Wales.

Unless otherwise determined by Connect Airways or required by the Code, and permitted by applicable law and regulation, the Acquisition will not be made available, directly or indirectly, in, into or from a Restricted Jurisdiction where to do so would violate the laws in that jurisdiction and no person may vote in favour of the Acquisition by any such use, means, instrumentality or form within a Restricted Jurisdiction or any other jurisdiction if to do so would constitute a violation of the laws of that jurisdiction. Accordingly, copies of this Announcement and any formal documentation relating to the Acquisition are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in or into or from any Restricted Jurisdiction or any other jurisdiction where to do so would constitute a violation of the laws of that jurisdiction, and persons receiving such documents (including custodians, nominees and trustees) must not mail or otherwise forward, distribute or send such documents in or into or from any Restricted Jurisdiction. Doing so may render invalid any related purported vote in respect of the Acquisition. If the Acquisition is implemented by way of a Takeover Offer (unless otherwise permitted by applicable law and regulation), the Takeover Offer may not be made directly or indirectly, in or into, or by the use of mails or any means or instrumentality (including, but not limited to, facsimile, e-mail or other electronic transmission or telephone) of interstate or foreign commerce of or of any facility of a national, state or other securities exchange of any Restricted Jurisdiction and the Takeover Offer may not be capable of acceptance by any such use, means, instrumentality or facilities or from within any Restricted Jurisdiction.

Further details in relation to Flybe Shareholders in overseas jurisdictions will be contained in the Scheme Document.

#### **Notice to US holders of Flybe Shares**

The Acquisition relates to the shares of an English company and is being made by means of a scheme of arrangement provided for under English company law. A transaction effected by means of a scheme of arrangement is not subject to the tender offer rules or the proxy solicitation rules under the US Exchange Act. Accordingly, the Acquisition is subject to the disclosure requirements and practices applicable in the United Kingdom to schemes of arrangement which differ from the disclosure requirements of United States tender offer and proxy solicitation rules. If in the future, Connect Airways exercises the right to implement the Acquisition by way of a Takeover Offer and determines to extend such Takeover Offer into the United States, the Acquisition will be made pursuant to applicable UK tender offer rules and securities laws and otherwise in accordance with the requirements of the Code. Accordingly, any such Takeover Offer will be subject to disclosure and other procedural requirements, including with respect to withdrawal rights, offer timetable, settlement procedures and timing of payments, that are different from those applicable to tender offers made in accordance with US procedures and law. Financial information included in this Announcement and the Scheme Document has been or will be prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

It may be difficult for US holders of Flybe Shares to enforce their rights and any claim arising out of the US federal securities laws, since Flybe is located in a non-US jurisdiction, and some or all of its officers and directors may be residents of a non-US jurisdiction. US holders of Flybe Shares may not be able to sue a non-US company or its officers or directors in a non-US court for violations of the US securities laws. Further, it may be difficult to compel a non-US company and its affiliates to subject themselves to a US court's judgement.

Neither the SEC nor any securities commission of any state of the United States has approved the Acquisition, passed upon the fairness of the Acquisition or passed upon the adequacy or accuracy of this Announcement. Any representation to the contrary is a criminal offence in the United States.

In accordance with normal UK practice and pursuant to Rule 14e-5(b) of the US Exchange Act, Connect Airways or its nominees or brokers (acting as agents) may from time to time make certain purchases of or arrangements to purchase, Flybe Shares outside the United States, other than pursuant to the Acquisition, until the date on which the Takeover Offer and/or Scheme becomes effective, lapses or is otherwise withdrawn. These purchases may occur either in the open



market at prevailing prices or in private transactions at negotiated prices. Any information about such purchases will be disclosed as required in the UK, will be reported to an RIS and will be available on the London Stock Exchange website.

### **Forward-looking statements**

This Announcement contains statements about the Connect Airways Group and the Flybe Group which are, or may be deemed to be, "forward-looking statements" and which are prospective in nature. All statements other than statements of historical fact included in this Announcement may be forward-looking statements. They are based on current expectations and projections about future events, and are therefore subject to risks and uncertainties which could cause actual results to differ materially from the future results expressed or implied by the forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of forward-looking words such as "plans", "expects", "is expected", "is subject to", "budget", "scheduled", "estimates", "forecasts", "predicts", "intends", "anticipates", "believes", "targets", "aims", "projects", "future-proofing" or words or terms of similar substance or the negative of such words or terms, as well as variations of such words and phrases or statements that certain actions, events or results "may", "could", "should", "would", "might" or "will" be taken, occur or be achieved. Such statements are qualified in their entirety by the inherent risks and uncertainties surrounding future expectations. Forward-looking statements may include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of the Connect Airways Group's or the Flybe Group's operations and potential synergies resulting from the Acquisition; and (iii) the effects of global economic conditions and governmental regulation on the Connect Airways Group's or the Flybe Group's business.

Such forward-looking statements involve known and unknown risks and uncertainties that could significantly affect expected results and are based on certain key assumptions. Many factors may cause the actual results, performance or achievements of the Connect Airways Group or the Flybe Group to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. These factors include changes in the global, political, economic, business, competitive, market and regulatory forces, future exchange and interest rates, changes in tax rates and future business combinations or disposals. For a discussion of important factors which could cause actual results to differ from forward-looking statements in relation to the Flybe Group, refer to the annual report and accounts of the Flybe Group for the financial year ended 31 March 2018. Each of the Connect Airways Group and the Flybe Group, and each of their respective members, directors, officers, employees, advisers and persons acting on their behalf expressly disclaims any intention or obligation to update or revise any forward-looking or other statements contained in this Announcement, whether as a result of new information, future events or otherwise, except as required by applicable law.

No member of the Connect Airways Group, nor the Flybe Group, nor any of their respective associates, directors, officers, employees or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Announcement will actually occur.

Except as expressly provided in this Announcement, no forward-looking or other statements have been reviewed by the auditors of the Connect Airways Group or the Flybe Group. All subsequent oral or written forward-looking statements attributable to any member of the Combined Group or Flybe Group, or any of their respective associates, directors, officers, employees or advisers, are expressly qualified in their entirety by the cautionary statement above.

### **No profit forecast and profit estimate**

No statement in this Announcement is intended as a profit forecast or estimate for any period and no statement in this Announcement should be interpreted to mean that earnings or earnings per share for Flybe or Connect Airways, as appropriate, for the current or future financial years would necessarily match or exceed the historical published earnings or earnings per share for Flybe or Connect Airways, as appropriate.

### **Disclosure requirements of the Code**

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) of the Code applies must be made by no later than 3.30 pm (London time) on the 10th Business Day following the commencement of the Offer Period and, if appropriate, by no later than 3.30 pm (London time) on the 10th Business Day following the Announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror, save to the extent that

these details have previously been disclosed under Rule 8 of the Code. A Dealing Disclosure by a person to whom Rule 8.3(b) of the Code applies must be made by no later than 3.30 pm (London time) on the Business Day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3 of the Code.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4 of the Code).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made can be found in the Disclosure Table on the Panel's website at [www.thetakeoverpanel.org.uk](http://www.thetakeoverpanel.org.uk), including details of the number of relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

#### **Information relating to Flybe Shareholders**

Please be aware that addresses, electronic addresses and certain other information provided by Flybe Shareholders, persons with information rights and other relevant persons for the receipt of communications from Flybe may be provided to Connect Airways during the Offer Period as required under Section 4 of Appendix 4 to the Code to comply with Rule 2.11(c) of the Code.

#### **Publication on website**

In accordance with Rule 26.1 of the Code, a copy of this Announcement will be available, subject to certain restrictions relating to persons resident in Restricted Jurisdictions, for inspection on Flybe's website at [www.flybe.com/investors/](http://www.flybe.com/investors/) promptly and in any event by no later than 12 noon (London time) on the Business Day following the date of this Announcement. For the avoidance of doubt the contents of that website is not incorporated into, and does not form part of this Announcement.

In accordance with Rule 30.3 of the Code, Flybe Shareholders may request a hard copy of this Announcement, free of charge, by contacting Flybe's registrar, Link Asset Services, on +44(0)871 664 0300. Flybe Shareholders may also request that all future documents, announcements and information to be sent to them in relation to the Acquisition should be in hard copy form.

#### **Rounding**

Certain figures included in this Announcement have been subjected to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

## **APPENDIX 1**

### **Conditions of the Acquisition and certain further terms**

#### **Part A: Conditions of the Scheme and the Acquisition**

1. The Scheme will be conditional upon:
  - (a) the Court Meeting and Flybe General Meeting being held on or before the 22nd day after the expected date of the meetings to be set out in the Scheme Circular in due course or such later date (if any) as Flybe and Connect Airways may agree;
  - (b) the Scheme Court Hearing being held on or before the later of (i) the 22nd day after the expected date of the hearing date to be set out in the Scheme Circular in due course and (ii) seven days after the date on which the conditions relating to regulatory clearance in this Appendix I are satisfied, or such later date (if any) as Flybe and Connect Airways may agree and (if required) the Court may allow; and
  - (c) the Scheme becoming unconditional and becoming Effective by no later than the Long Stop Date or such later date (if any) as Flybe and Connect Airways may agree and (if required) the Court may allow.

2. The Scheme will be conditional upon:
  - (a) its approval by a majority in number of the holders of Scheme Shares who are on the register of members of Flybe and present, entitled to vote and voting at the Court Meeting, or at any adjournment thereof, either in person or by proxy, representing not less than 75% in value of the Scheme Shares held by such holders;
  - (b) all resolutions required to approve and implement the Scheme (including, without limitation, to amend Flybe's articles of association) being duly passed by the requisite majority or majorities of the Flybe Shareholders at the Flybe General Meeting, or at any adjournment thereof;
  - (c) the sanction of the Scheme by the Court (with or without modifications, on terms reasonably acceptable to Flybe and Connect Airways); and
  - (d) delivery of an office copy of the Scheme Court Order for registration to the Registrar of Companies.
3. The Scheme is also conditional on the following conditions having been satisfied or, where applicable, waived prior to the Scheme Court Hearing and accordingly the delivery of an office copy of the Scheme Court Order shall not be delivered to Companies House unless such conditions have been so satisfied or waived:

#### **Merger clearance**

- (a) insofar as the Acquisition constitutes a relevant merger situation for the purpose of the Enterprise Act 2002, the CMA issuing a decision in terms satisfactory to Connect Airways that it is not the CMA's intention to make a Phase 2 CMA Reference, such decision being either unconditional or conditional on the CMA's acceptance of undertakings in lieu under Section 73 Enterprise Act 2002 which are satisfactory to Connect Airways (or the applicable time period for the CMA to issue either decision having expired without it having done so and without it having made a Phase 2 CMA Reference);
- (b) insofar as the Acquisition constitutes a concentration with a Union dimension within the meaning of the EU Merger Regulation, or is otherwise subject to notification to the European Commission under the EU Merger Regulation, the European Commission: (i) issuing a decision in terms satisfactory to Connect Airways not to initiate Phase 2 European Commission Proceedings (or having been deemed to do so under the EU Merger Regulation); and (ii) not having referred (or having been deemed to have referred) any part of the Acquisition to the Merger Control Authority of one or more Member States of the European Union under Article 9 of the EU Merger Regulation;
- (c) any other necessary or expedient merger control filings and notifications identified by Connect Airways having been made to the competent Merger Control Authority in each relevant jurisdiction and all approvals, consents or clearances necessary or appropriate having been obtained from such competent Merger Control Authorities in terms satisfactory to Connect Airways (in each case within the relevant preliminary review period ('phase 1' or equivalent) without the relevant Merger Control Authority having initiated further in-depth proceedings ('phase 2' or equivalent)).

#### **Brexit**

- (d) in the event that the Flybe Group ceases to be able to maintain its operating licence issued pursuant to Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 as a result of the UK ceasing to be a member state of the European Union, Flybe Group is able to obtain any operating licence or any equivalent authorisation in the United Kingdom;

#### **Insolvency**

- (e) no steps having been taken or legal proceedings started by or threatened against a member of the Wider Flybe Group, for its winding-up or dissolution or for it to enter into any arrangement or composition for the benefit of its creditors, or for the appointment of a receiver, administrator, trustee or similar officer of it or any material part of its assets (or any analogous proceedings or appointment in any overseas jurisdiction);

#### **Loss of licence**

- (f) the Civil Aviation Authority not revoking or suspending Flybe Group's operating licence issued pursuant to Regulation (EC) No 1008/2008 of the European Parliament and of the Council of 24 September 2008 or any equivalent or replacement equivalent authorisation in the United Kingdom;

#### **General third party clearances**

- (g) no Relevant Authority having decided, threatened or given notice of a decision to take, institute, implement or threaten any action, proceeding, suit, investigation, enquiry or reference (and in each case, not having withdrawn the same), or having required any action to be taken or otherwise having done anything, or having enacted, made or proposed any statute, regulation, decision, order or change to published practice (and in each case, not having withdrawn the same) and there not continuing to be outstanding any statute, regulation, decision or order which would or might reasonably be expected to:

- (i) make the Acquisition, or the acquisition of any Flybe Shares or control of Flybe by Connect Airways void, unenforceable and/or illegal under the laws of any relevant jurisdiction, or otherwise, directly or indirectly, prevent or prohibit, restrict, restrain or delay or otherwise interfere with the implementation of, or impose additional conditions or obligations with respect to, or otherwise challenge, impede, interfere or require material amendment to the terms of the Acquisition;
- (ii) require, prevent or materially delay the divestiture or materially alter the terms envisaged for such divestiture by any member of the Wider Connect Airways Group or by any member of the Wider Flybe Group of all or any part of their respective businesses, assets, property or any shares or other securities (or the equivalent) in any member of the Wider Flybe Group or any member of the Wider Connect Airways Group or impose any limitation on the ability of all or any of them to conduct their respective businesses (or any part thereof) or to own, control or manage any of their respective assets or properties (or any part thereof);
- (iii) impose any limitation on, or result in a delay in, the ability of any member of the Wider Connect Airways Group, directly or indirectly, to acquire, hold or exercise effectively all or any rights of ownership in respect of shares or loans or securities convertible into shares or other securities (or the equivalent) in Flybe or on the ability of any member of the Wider Flybe Group or any member of the Wider Connect Airways Group, directly or indirectly, to hold or exercise effectively all or any rights of ownership in respect of shares or loans or any other securities (or the equivalent) in, or to exercise voting or management control over, the Wider Flybe Group;
- (iv) except pursuant to sections 974 to 991 of the Companies Act in the event that Connect Airways elects to implement the Acquisition by way of a Takeover Offer, require any member of the Wider Connect Airways Group or the Wider Flybe Group to acquire or offer to acquire any shares, other securities (or the equivalent) or interest in any member of the Wider Flybe Group owned by any Relevant Authority (other than in connection with the implementation of the Acquisition);
- (v) result in any member of the Wider Flybe Group or any member of the Wider Connect Airways Group ceasing to be able to carry on business under any name under which it currently does so in any jurisdiction;
- (vi) impose any limitation on, or result in any delay in, the ability of any member of the Wider Connect Airways Group or any member of the Wider Flybe Group to conduct, integrate or co-ordinate all or any part of its business with all or any part of the business of any other member of the Wider Connect Airways Group and/or the Wider Flybe Group;
- (vii) require any member of the Wider Flybe Group to terminate or amend in any material way any material contract to which any member of the Wider Flybe Group is a party; or
- (viii) otherwise materially adversely affect all or any of the business, assets, liabilities, profits, financial or trading position or prospects of any member of the Wider Flybe Group or any member of the Wider Connect Airways Group,

and all applicable waiting and other time periods (including any extensions thereof) during which any such Relevant Authority could institute, implement or threaten any such action, proceeding, suit, investigation, enquiry or reference or take any other step under the laws of any jurisdiction in respect of the Acquisition having expired, lapsed or been terminated;

#### **Notifications, waiting periods and authorisations**

- (h) all necessary notifications, filings or applications which are necessary having been made in connection with the Acquisition and all necessary waiting and other time periods (including any extensions thereof) under any applicable legislation or regulation of any jurisdiction having expired, lapsed or been terminated (as appropriate) and all statutory and regulatory obligations in any jurisdiction having been complied with, in each case, in respect of the Scheme, the Acquisition, and the acquisition of any Flybe Shares, or of control of Flybe, by Connect Airways and all Authorisations deemed reasonably necessary by Connect Airways in any jurisdiction for or in respect of the Scheme, the Acquisition, and the acquisition of any Flybe Shares, or of control of Flybe, by Connect Airways having been obtained in terms and in a form reasonably satisfactory to Connect Airways from all appropriate third parties or (without prejudice to the generality of the foregoing) from any person or bodies with whom any member of the Wider Flybe Group or the Wider Connect Airways Group has entered into contractual arrangements and all such Authorisations necessary to carry on the business of any member of the Wider Flybe Group in any jurisdiction having been obtained and all such Authorisations remaining in full force and effect at the time at which the Acquisition becomes otherwise wholly unconditional and there being no notice of an intention to revoke or not to renew such Authorisations;

#### **Flybe Shareholder resolution**

- (i) except with the consent or the agreement of Connect Airways, no resolution of Flybe Shareholders in relation to any acquisition or disposal of assets or shares (or the equivalent thereof) in any undertaking or undertakings (or in

relation to any merger, demerger, consolidation, reconstruction, amalgamation or scheme) being passed at a meeting of Flybe Shareholders after the date of this Announcement other than in relation to the Acquisition or the Scheme and, other than with the consent or the agreement of Connect Airways, no member of the Wider Flybe Group after the date of this Announcement having taken (or agreed or proposed to take) any action that requires, or would require, the consent of the Panel or the approval of Flybe Shareholders in accordance with, or as contemplated by, Rule 21.1 of the Code;

**Certain matters arising as a result of any arrangement, agreement, etc.**

- (j) except as Disclosed, there being no provision of any arrangement, agreement, lease, licence, franchise, permit or other instrument to which any member of the Wider Flybe Group is a party or by or to which any such member of the Wider Flybe Group or any of its assets is or may be bound, entitled or subject, or any event or circumstance which, as a consequence of the Acquisition or the acquisition or proposed acquisition of any Flybe Shares, or control of Flybe, by Connect Airways or otherwise would or might reasonably be expected to result in (in each case to an extent or in a manner which is material in the context of the Wider Flybe Group taken as a whole):
- (i) any monies borrowed by, or any other indebtedness or liabilities, actual or contingent, of, or any grant available to, any such member of the Wider Flybe Group being or becoming repayable, or capable of being declared repayable, immediately or prior to its or their stated maturity date or repayment date, or the ability of any such member to borrow monies or incur any indebtedness being withdrawn or inhibited or being capable of becoming or being withdrawn or inhibited;
  - (ii) the creation, save in the ordinary and usual course of business, or enforcement of any mortgage, charge or other security interest over the whole or any part of the business, property or assets of such member or any such mortgage, charge or other security interest (whenever created, arising or having arisen) becoming enforceable;
  - (iii) any assets of any such member being disposed of, or right arising under which any such asset could be required to be disposed of, other than in the ordinary course of business;
  - (iv) any such arrangement, agreement, lease, licence, franchise, permit or other instrument or the rights, liabilities, obligations or interests of any such member in or with any other person (or any arrangement or arrangements relating to any such interests or business) being adversely modified or adversely affected or any obligation or liability arising or any adverse action being taken or arising thereunder;
  - (v) the rights, liabilities, obligations, interests or business of any such member or any member of the Wider Flybe Group under any such arrangement, agreement, licence, permit, lease or instrument or the interests or business of any such member or any member of the Wider Flybe Group in or with any other person or body or firm or company (or any arrangement relating to any such interests or business) being terminated, or adversely modified or adversely affected or any onerous obligation or liability arising or any adverse action being taken thereunder;
  - (vi) any such member ceasing to be able to carry on business under any name under which it presently carries on business;
  - (vii) the creation or acceleration of any liability (actual or contingent) by any such member other than trade creditors or other liabilities incurred in the ordinary course of business,
  - (viii) the financial or trading position or prospects of, any such member being prejudiced or adversely affected; or
  - (ix) any liability of any such member to make any severance, termination, bonus or other payment to any of its directors or other officers,

and no event having occurred which, under any provision of any arrangement, agreement, licence, permit, franchise, lease or other instrument to which any member of the Wider Flybe Group is a party or by or to which any such member or any of its assets are bound, entitled or subject, would or might reasonably be expected to result in any of the events or circumstances as are referred to in Conditions (j)(i) to (ix) above;

**Certain events occurring since 30 September 2018**

- (k) except as Disclosed, no member of the Wider Flybe Group having since 30 September 2018:
- (i) issued or agreed to issue or authorised or proposed or announced its intention to authorise or propose the issue, of additional shares of any class, or securities or securities convertible into, or exchangeable for, or rights, warrants or options to subscribe for or acquire, any such shares, securities or convertible securities or transferred or sold or agreed to transfer or sell or authorised or proposed the transfer or sale of Flybe Shares out of treasury (except, where relevant, as between Flybe and wholly-owned subsidiaries of Flybe or between the wholly-owned subsidiaries of Flybe and except for the issue of or transfer out of treasury of Flybe Shares on the exercise of employee share options or vesting of employee share awards



in the ordinary course under the Flybe Share Schemes before the date hereof) or redeemed, purchased or reduced any part of its share capital;

- (ii) recommended, declared, paid or made or proposed to recommend, declare, pay or make any bonus, dividend or other distribution (whether payable in cash or otherwise) other than dividends (or other distributions whether payable in cash or otherwise) lawfully paid or made by any wholly-owned subsidiary of Flybe to Flybe or any of its wholly-owned subsidiaries;
- (iii) other than pursuant to the Acquisition (and except for transactions between Flybe and its wholly-owned subsidiaries or between the wholly-owned subsidiaries of Flybe and transactions in the ordinary course of business) implemented, effected, authorised or proposed or announced its intention to implement, effect, authorise or propose any merger, demerger, reconstruction, amalgamation, scheme, commitment or acquisition or disposal of assets or shares or loan capital (or the equivalent thereof) in any undertaking or undertakings in any such case to an extent which is material in the context of the Wider Flybe Group taken as a whole or in the context of the Acquisition;
- (iv) except for transactions between Flybe and its wholly-owned subsidiaries or between the wholly-owned subsidiaries of Flybe and transactions in the ordinary course of business, disposed of, or transferred, mortgaged or created any security interest over any material asset or any right, title or interest in any material asset or authorised, proposed or announced any intention to do so;
- (v) except for transactions between Flybe and its wholly-owned subsidiaries or between the wholly-owned subsidiaries of Flybe issued, authorised or proposed or announced an intention to authorise or propose, the issue of or made any change in or to the terms of any debentures or become subject to any contingent liability or incurred or increased any indebtedness which in any such case is material in the context of the Wider Flybe Group taken as a whole or in the context of the Acquisition;
- (vi) except in the ordinary course of business, entered into or varied or authorised, proposed or announced its intention to enter into or vary any material contract, arrangement, agreement, transaction or commitment (whether in respect of capital expenditure or otherwise) which is of a long term, unusual or onerous nature or magnitude or which is or which involves an obligation of such a nature or magnitude;
- (vii) entered into or varied the terms of, or made any offer (which remains open for acceptance) to enter into or vary to a material extent the terms of any contract, service agreement, commitment or arrangement with any director or senior executive of any member of the Wider Flybe Group, otherwise than in the ordinary course of business;
- (viii) proposed, agreed to provide or modified the terms of any share option scheme, incentive scheme or other benefit relating to the employment or termination of employment of any employee of the Wider Flybe Group, otherwise than in the ordinary course of business;
- (ix) purchased, redeemed or repaid or announced any proposal to purchase, redeem or repay any of its own shares or other securities or reduced or made any other change to any part of its share capital (except, in each case, where relevant, as between Flybe and wholly-owned subsidiaries of Flybe or between the wholly-owned subsidiaries of Flybe and except for the issue or transfer out of treasury of Flybe Shares on the exercise of employee share options or vesting of employee share awards under the Flybe Share Schemes as Disclosed);
- (x) other than pursuant to the Acquisition (and except for transactions between Flybe and its wholly-owned subsidiaries or between the wholly-owned subsidiaries of Flybe and transactions entered into in the ordinary course of business) entered into or proposed or announced its intention to enter into or proposed any reconstruction or amalgamation;
- (xi) waived, compromised or settled any claim which is material in the context of the Wider Flybe Group as a whole or in the context of the Acquisition;
- (xii) (other than in respect of a member of the Wider Flybe Group which is dormant and was solvent at the relevant time) taken any action nor having had any steps taken or legal proceedings started or threatened against it for its winding-up or dissolution or for it to enter into any arrangement or composition for the benefit of its creditors, or for the appointment of a receiver, administrator, trustee or similar officer of it or any material part of its assets (or any analogous proceedings or appointment in any overseas jurisdiction), which in each case is material in the context of the Wider Flybe Group taken as a whole;
- (xiii) terminated or varied the terms of any agreement or arrangement between any member of the Wider Flybe Group and any other person in a manner which would or might reasonably be expected to have a material adverse effect on the financial position of the Wider Flybe Group taken as a whole;
- (xiv) save as required in connection with the Acquisition, made any material alteration to its memorandum, articles of association or other incorporation documents or any material alteration to the memorandum, articles of association or other incorporation documents of any other member of the Wider Flybe Group;

- (xv) made or agreed or consented to any material change to:
  - (A) the terms of the trust deeds and rules constituting the pension scheme(s) established by any member of the Wider Flybe Group for its directors, employees or their dependents;
  - (B) the contributions payable to any such scheme(s) or to the benefits which accrue, or to the pensions which are payable, thereunder;
  - (C) the basis on which qualification for, or accrual or entitlement to, such benefits or pensions are calculated or determined; or
  - (D) the basis upon which the liabilities (including pensions) of such pension schemes are funded, valued, made, agreed or consented to, to an extent which is in any such case material in the context of the Wider Flybe Group taken as a whole or in the context of the Acquisition;
- (xvi) been unable, or admitted in writing that it is unable, to pay its debts generally or commenced negotiations with one or more of its creditors with a view to rescheduling or restructuring any of its indebtedness generally, or having stopped or suspended (or threatened to stop or suspend) payment of its debts generally or ceased or threatened to cease carrying on all or a substantial part of its business, which in each case is material in the context of the Wider Flybe Group taken as a whole;
- (xvii) entered into, implemented or authorised the entry into, any joint venture, asset or profit sharing arrangement, partnership or merger of business or corporate entities, which in any such case is material in the context of the Wider Flybe Group as a whole or in the context of the Acquisition;
- (xviii) waived, compromised or settled any claim which is material in the context of the Wider Flybe Group; or
- (xix) entered into any agreement, arrangement, commitment or contract or passed any resolution or made any offer (which remains open for acceptance) with respect to or announced an intention to, or to propose to, effect any of the transactions, matters or events referred to in this Condition (k);

**No adverse change, litigation, regulatory enquiry or similar**

- (l) except as Disclosed, there having been:
  - (i) no adverse change and no circumstance having arisen which would reasonably be expected to result in any adverse change in the business, assets, liabilities, shareholders' equity, financial or trading position or profits, operational performance or prospects of any member of the Wider Flybe Group which is material in the context of the Wider Flybe Group taken as a whole or in the context of the Acquisition;
  - (ii) no litigation, arbitration proceedings, prosecution or other legal proceedings to which any member of the Wider Flybe Group is or may become a party (whether as a claimant, defendant or otherwise) having been threatened, announced, implemented or instituted by or against or remaining outstanding against or in respect of, any member of the Wider Flybe Group, in each case which would reasonably be expected to have a material adverse effect on the Wider Flybe Group taken as a whole or in the context of the Acquisition;
  - (iii) no enquiry, review or investigation by, or complaint or reference to, any Relevant Authority against or in respect of any member of the Wider Flybe Group (or any person in respect of which any such member has or may have responsibility or liability) having been threatened, announced, implemented or instituted or remaining outstanding by, against or in respect of any member of the Wider Flybe Group, in each case, which would reasonably be expected to have a material adverse effect on the Wider Flybe Group taken as a whole or in the context of the Acquisition;
  - (iv) no contingent or other liability having arisen, been incurred or become apparent or increased other than in the ordinary course of business which is reasonably likely to adversely affect the business, assets, financial or trading position or profits of any member of the Wider Flybe Group to an extent which is material in the context of the Wider Flybe Group taken as a whole or in the context of the Acquisition; and
  - (v) no steps having been taken and no omissions having been made which are likely to result in the withdrawal, cancellation, termination or modification of any licence held by any member of the Wider Flybe Group which is necessary for the proper carrying on of its business and the withdrawal, cancellation, termination or modification of which is material and has had or would reasonably be expected to have a material adverse effect on the Wider Flybe Group taken as a whole or in the context of the Acquisition;

**No discovery of certain matters regarding information and corruption**

- (m) except as Disclosed, Connect Airways not having discovered that:

- (i) any financial, business or other information concerning the Wider Flybe Group which has been publicly disclosed through RIS at any time by or on behalf of any member of the Wider Flybe Group, either is misleading, contains a misrepresentation of any fact, or omits to state a fact necessary to make that information not misleading, in any such case which is material in the context of the Wider Flybe Group taken as a whole or in the context of the Acquisition;
- (ii) any past or present member, director, officer or employee of the Wider Flybe Group (in their capacity as such) or any person that performs or has performed services for or on behalf of the Wider Flybe Group (in performing such services) is engaging in or has at any time during the course of such person's employment with, or performance of services for or on behalf of, the Wider Flybe Group engaged in an activity, practice or conduct which would constitute an offence under, or has not otherwise complied with, the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions and any laws implementing the same, the UK Bribery Act 2010 and/or the US Foreign Corrupt Practices Act of 1977;
- (iii) any material asset of any member of the Wider Flybe Group constitutes criminal property as defined by section 340(3) of the Proceeds of Crime Act 2002 (but disregarding paragraph (b) of that definition);
- (iv) any past or present member, director, officer or employee of the Wider Flybe Group (in their capacity as such), or any other person for whom any such person may be liable or responsible, has engaged in any business with or made any investment in, or made any funds or assets available to or received any funds or asset from to: (A) any government, entity or individual in respect of which US or EU persons, or persons operating in those territories, are prohibited from engaging in activities or doing business, or from receiving or making available funds or economic resources, by US or EU laws or regulations, including the economic sanctions administered by the United States Office of Foreign Assets Control or HM Revenue & Customs, or (B) any government, entity or individual targeted by any of the economic sanctions of the United Nations, the United States or the European Union or any of their respective member states; or
- (v) any member of the Flybe Group being engaged in any transaction which would cause Connect Airways to be in breach of any law or regulation upon its acquisition of Flybe, including the economic sanctions of the United States Office of Foreign Assets Control, or HM Revenue & Customs, or any government, entity or individual targeted by any of the economic sanctions of the United Nations, the United States, the European Union or any of its member states;

Conditions 3(a) (*Merger Clearances*) to (m) (*No discovery of certain matters regarding information and corruption*) of Part A (inclusive) must be fulfilled, be determined by Connect Airways to be or remain satisfied, or (if capable of waiver) be waived by Connect Airways by no later than 11:59 pm on the date immediately preceding the date of the Scheme Court Hearing, failing which the Scheme will lapse or, if the Acquisition is implemented by way of a Takeover Offer, no later than as permitted by the Panel. Connect Airways shall be under no obligation to waive or treat as fulfilled any of the Conditions which are capable of being waived by a date earlier than the latest date specified above in Condition 1 for the fulfilment or waiver thereof, notwithstanding that any such Condition or other Conditions of the Acquisition may at such earlier date have been waived or fulfilled and that there are at such earlier date no circumstances indicating that any of such Conditions may not be capable of fulfilment.

To the extent permitted by law and subject to the requirements of the Panel, Connect Airways reserves the right in its sole discretion to waive (if capable of waiver) in whole or part all or any of the above Conditions 3(a) (*Merger Clearances*) to (m) (*No discovery of certain matters regarding information and corruption*) of Part A (inclusive).

Each of the Conditions shall be regarded as a separate Condition and shall not be limited by reference to any other Condition.

The Scheme will not proceed if the CMA makes a Phase 2 CMA Reference in respect of the Acquisition or the European Commission either initiates Phase 2 European Commission Proceedings in respect of the Acquisition or makes a referral of any part of the Acquisition to a competent authority of the UK under Article 9(1) of the EU Merger Regulation and there is subsequently a Phase 2 CMA Reference in respect of the Acquisition before the date of the Court Meeting. In such event neither Flybe, Connect Airways nor any Flybe Shareholder will be bound by any term of the Scheme.

#### **Part B: Certain further terms of the Acquisition**

1. Connect Airways reserves the right to elect to implement the Acquisition by way of a Takeover Offer. In such event, such offer will be implemented on the same terms and conditions (or, if Connect Airways otherwise determines and subject to the consent of the Panel) as the Scheme, subject to appropriate amendments to reflect the change in method of effecting the Acquisition, which may include changing the consideration structure under the terms of the Acquisition and (without limitation and subject to the consent of the Panel) an acceptance condition set at 75% (or such lesser percentage, being more than 50% as Connect Airways may decide) of the voting rights then exercisable at a general meeting of Flybe, including, for this purpose, any such voting rights attaching to Flybe Shares that are unconditionally allotted or issued, and to any Treasury Shares which are unconditionally transferred or sold by Flybe, before the Takeover Offer becomes or is declared unconditional as to acceptances, whether pursuant to the exercise of any outstanding subscription or conversion rights or otherwise.
2. If Connect Airways is required by the Panel to make an offer for Flybe Shares under the provisions of Rule 9 of the

Code, Connect Airways may make such alterations to the Conditions and certain further terms of the Acquisition as are necessary to comply with the provisions of that Rule.

3. The Acquisition, the Scheme and the Forms of Proxy and any dispute or claim arising out of, or in connection with, them (whether contractual or non-contractual in nature) will be governed by English law and will be subject to the jurisdiction of the Courts of England.
4. The Flybe Shares shall be acquired with full legal title and beneficial ownership by Connect Airways fully paid and free from all liens, equitable interests, charges, encumbrances, rights of pre-emption and any other third party rights and interests whatsoever and together with all rights existing at the Effective Date or thereafter attaching thereto, including (without limitation) the right to receive and retain, in full, all dividends and other distributions (if any) declared, made or paid or any other return of capital (whether by way of reduction of share capital or share premium account or otherwise) made on or after the Effective Date in respect of the Flybe Shares. If any dividend or other distribution or return of value is proposed, declared, made, paid or becomes payable by Flybe in respect of a Flybe Share on or after the date of this Announcement and prior to the Effective Date, Connect Airways will have the right to reduce the value of the consideration payable for each Flybe Share by up to the amount per Flybe Share of such dividend, distribution or return of value except where the Flybe Share is or will be acquired pursuant to the Scheme on a basis which entitles Connect Airways to receive the dividend, distribution or return of value and to retain it. If any such dividend or distribution or return of value is paid or made after the date of this Announcement and Connect Airways exercises its rights described above, any reference in this Announcement to the consideration payable under the Scheme shall be deemed to be a reference to the consideration as so reduced. Any exercise by Connect Airways of its rights referred to in this paragraph shall be the subject of an announcement and, for the avoidance of doubt, shall not be regarded as constituting any revision or variation of the terms of the Scheme.
5. Under Rule 13.5 of the Code, Connect Airways may not invoke a Condition so as to cause the Acquisition not to proceed, or to lapse, or to be withdrawn, unless the circumstances which give rise to the right to invoke the Condition are of material significance to Connect Airways in the context of the Acquisition. Condition 1, 2 and 3(a) of Part A are not subject to this provision of the Code.
6. Connect Airways reserves the right for any other entity directly or indirectly owned by Connect Airways from time to time to implement the Acquisition.
7. The availability of the Acquisition to persons not resident in the United Kingdom may be affected by the laws of relevant jurisdictions. Therefore any persons who are subject to the laws of any jurisdiction other than the United Kingdom and any Flybe Shareholders who are not resident in the United Kingdom will need to inform themselves about and observe any applicable requirements.
8. Unless otherwise determined by Connect Airways or required by the Code and permitted by applicable law and regulations, the Acquisition is not being, and will not be, made, directly or indirectly, in, into or by the use of the mails of, or by any other means or instrumentality (including, but not limited to, facsimile, email or other electronic transmission, telex or telephone) of interstate or foreign commerce of, or of any facility of a national, state or other securities exchange of, any Restricted Jurisdiction and will not be capable of acceptance by any such use, means, instrumentality or facility or from or within any Restricted Jurisdiction.

## APPENDIX 2

### Details of irrevocable undertakings

#### Flybe Directors' irrevocable undertakings

Name	Number of Flybe Shares	Per cent. of Flybe Shares	
			In issue
Simon Laffin	479,404		0.221
Christine Ourmières-Widener	219,760		0.101
Ian Milne	100,000		0.046
Heather Lawrence	62,500		0.029
Elizabeth McMeikan	10,000		0.005
<b>TOTAL</b>	<b>871,664</b>		<b>0.40</b>

The irrevocable undertakings from the Flybe Directors will only cease to be binding if:

- the Scheme Document is not published within 28 days of the day of release of the Announcement (or within such longer period as the Panel may agree); or

- the Scheme is withdrawn or lapses, save for where the Scheme is withdrawn or lapses solely as a result of Connect Airways exercising its right to implement the Acquisition by way of a Takeover Offer rather than the Scheme or where it is replaced by a new or revised scheme of arrangement.

### APPENDIX 3

#### Definitions

The following definitions apply throughout this Announcement, unless the context otherwise requires:

<b>£, p, pence</b>	the lawful currency of the United Kingdom from time to time.
<b>Acquisition</b>	the proposed acquisition by Connect Airways of the entire issued and to be issued share capital of Flybe, to be effected by the Scheme as described in this Announcement (or by a Takeover Offer under certain circumstances described in this Announcement).
<b>Announcement</b>	this announcement made under Rule 2.7 of the Code regarding the Acquisition.
<b>Authorisations</b>	authorisations, orders, recognitions, grants, consents, clearances, confirmations, certificates, licences, permissions, determinations, exemptions or approvals.
<b>Barclays</b>	Barclays Bank plc, acting through its Investment Bank.
<b>Board</b>	as the context requires, the board of directors of Connect Airways or the board of directors of Flybe and the terms Connect Airways Board and Flybe Board shall be construed accordingly.
<b>Business Day</b>	a day on which banks are generally open for business in London (apart from Saturdays, Sundays and bank holidays).
<b>CMA</b>	the UK Competition and Markets Authority.
<b>Code</b>	the UK City Code on Takeovers and Mergers.
<b>Combined Group</b>	Connect Airways, Stobart Air and Flybe, and their respective subsidiary undertakings.
<b>Companies Act</b>	the UK Companies Act 2006, as amended from time to time.
<b>Conditions</b>	the conditions to the Acquisition as set out in Part A of Appendix 1 of this Announcement and to be set out in the Scheme Document.
<b>Confidentiality Agreements</b>	the Stobart and Cyrus Confidentiality Agreement and the Virgin Atlantic Confidentiality Agreement.
<b>Connect Airways</b>	Connect Airways Limited, a company incorporated in England and Wales with company number 11732177.
<b>Connect Airways Directors</b>	the directors of Connect Airways as at the date of this Announcement or, where the context so requires, the directors of Connect Airways from time to time.
<b>Connect Airways Group</b>	Connect Airways and its subsidiaries and subsidiary undertakings from time to time.
<b>Cooperation Agreement</b>	the cooperation agreement entered into between Connect Airways and Flybe dated 11 January 2019 relating to the Acquisition.
<b>Court</b>	the High Court of Justice in England and Wales.
<b>Court Meeting</b>	the meeting(s) of the Scheme Shareholders to be convened by order of the Court pursuant to section 896 of the Companies Act, notice of which will be set out in the Scheme Document, for the purpose of considering, and if thought fit, approving the Scheme (with or without amendment) and any adjournment, postponement or reconvention of such meeting.



<b>CREST</b>	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755) (the Regulations)) in respect of which Euroclear UK and Ireland Limited is the Operator (as defined in the Regulations) in accordance with which securities may be held and transferred in uncertificated form.
<b>Cyrus</b>	Cyrus Capital Partners L.P. a limited partnership incorporated under the laws of the state of Delaware.
<b>Dealing Disclosure</b>	has the same meaning as in Rule 8 of the Code.
<b>Disclosed</b>	information which has been fairly disclosed by or on behalf of Flybe: <ul style="list-style-type: none"> <li>• in the annual report and accounts of the Flybe Group for the financial year ended 31 March 2018;</li> <li>• in Flybe's announcement dated 14 November 2018 of its half year results;</li> <li>• in this Announcement;</li> <li>• in any other public announcement made by Flybe by way of RIS (including information the availability of which has been announced by way of any Regulatory Services Announcement) between 1 January 2016 and the date of this Announcement; or</li> <li>• in the virtual data room operated by or on behalf of Flybe and which Connect Airways or its advisers are able to access in relation to the Acquisition before the date of this Announcement.</li> </ul>
<b>DLP Holdings</b>	DLP Holdings S.à. r.l., a company incorporated under the laws of Luxembourg registered with the Luxembourg Trade Companies Register under number 3228825.
<b>Effective</b>	in the context of the Acquisition: <ol style="list-style-type: none"> <li>(i) if the Acquisition is implemented by way of the Scheme, means the Scheme having become effective in accordance with its terms; or</li> <li>(ii) if the Acquisition is implemented by way of a Takeover Offer, such offer having become or been declared unconditional in all respects in accordance with its terms.</li> </ol>
<b>Effective Date</b>	the date on which the Acquisition becomes Effective.
<b>EU Merger Regulation</b>	Council Regulation (EC) No 139/2004 of 20 January 2004 on the control of concentrations between undertakings.
<b>EU or European Union</b>	the European Union.
<b>Evercore</b>	Evercore Partners International LLP.
<b>FCA</b>	the United Kingdom Financial Conduct Authority.
<b>Flybe</b>	Flybe Group plc, a company incorporated under the laws of England and Wales with the registered number 01373432 and listed on the London Stock Exchange's Main Market for listed securities.
<b>Flybe Directors</b>	the directors of Flybe as at the date of this Announcement or, where the context so requires, the directors of Flybe from time to time.
<b>Flybe General Meeting</b>	the general meeting of Flybe Shareholders (including any adjournment, postponement or reconvention of it) to be convened for the purpose of considering, and if thought fit, approving the shareholder resolutions necessary to enable Flybe to implement the Acquisition, notice of which will be set out in the Scheme

	Document.
<b>Flybe Group</b>	Flybe and its subsidiaries and subsidiary undertakings from time to time.
<b>Flybe Meetings</b>	the Court Meeting and the Flybe General Meeting.
<b>Flybe or Company</b>	Flybe Group plc, a company incorporated in England and Wales with registered number 01373432.
<b>Flybe Share Schemes</b>	the PSP, the SIP Scheme and the SAYE Scheme.
<b>Flybe Shareholders</b>	the holders of the Flybe Shares.
<b>Flybe Shares</b>	the ordinary shares of one pence each in the capital of Flybe.
<b>Forms of Proxy</b>	either or both (as the context demands) of the form of proxy in relation to the Court Meeting and the form of proxy in relation to the Flybe General Meeting, which will accompany the Scheme Document.
<b>Formal Sale Process</b>	the process by which Flybe announced on 14 November 2018 that it was seeking one or more potential bidders to acquire Flybe by means of a formal sale process.
<b>ISIN</b>	International Securities Identification Number.
<b>London Stock Exchange</b>	London Stock Exchange plc.
<b>Long Stop Date</b>	30 September 2019, or such later date (if any) as Connect Airways and Flybe may agree, with the consent of the Panel, and the Court may allow.
<b>Market Abuse Regulation</b>	the Market Abuse Regulation (2014/596/EU).
<b>Merger Control Authority</b>	any national, supra-national or regional, government or governmental, quasi-governmental, statutory, regulatory or investigative body or court, in any jurisdiction, responsible for the review or approval of mergers, acquisitions, concentrations, joint ventures, or any other similar matter.
<b>Offer Document</b>	should the Acquisition be implemented by means of a Takeover Offer, the document to be sent to Flybe Shareholders containing the full terms and conditions of such Takeover Offer.
<b>Offer Period</b>	the offer period (as defined in the Code) relating to Flybe, which commenced on 14 November 2018.
<b>Offer Price</b>	one (1) pence per Flybe Share.
<b>Opening Position Disclosure</b>	an announcement containing details of interests or short positions in, or rights to subscribe for, any relevant securities of a party to the Offer if the person concerned has such a position.
<b>Panel</b>	the UK Panel on Takeovers and Mergers.
<b>Phase 2 CMA Reference</b>	a reference pursuant to Section 22 or 33 of the Enterprise Act 2002 of the Acquisition to the chair of the CMA for the constitution of a group under Schedule 4 to the Enterprise and Regulatory Reform Act 2013.
<b>Phase 2 European Commission Proceedings</b>	proceedings initiated by the European Commission under Article 6(1)(c) of the EU Merger Regulation in respect of the Acquisition.
<b>PSP</b>	the Flybe Performance Share Plan.
<b>Registrar of Companies</b>	the registrar of companies in England and Wales.
<b>Relevant Authority</b>	each of a government or governmental, quasi-governmental, supranational, statutory, regulatory, environmental or investigative body, court, trade agency, association or any other similar body or person whatsoever in any jurisdiction.

<b>Restricted Jurisdiction</b>	any jurisdiction where local laws or regulations may result in significant risk of civil, regulatory or criminal exposure if information concerning the Acquisition is sent or made available to Flybe Shareholders in that jurisdiction (in accordance with Rule 30.3 of the Code).
<b>RIS</b>	a service approved by the London Stock Exchange for the distribution to the public of announcements and included within the list maintained on the London Stock Exchange's website.
<b>SAYE Scheme</b>	the Flybe Share Save Scheme.
<b>Scheme</b>	the proposed scheme of arrangement under Part 26 of the Companies Act between Flybe and the Scheme Shareholders to implement the Acquisition with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Flybe and Connect Airways.
<b>Scheme Court Hearing</b>	the hearing of the Court to sanction the Scheme under section 899 of the Companies Act.
<b>Scheme Court Order</b>	the order of the Court sanctioning the Scheme under section 899 of the Companies Act.
<b>Scheme Document</b>	the document to be dispatched to (among others) Flybe Shareholders containing and setting out, among other things, the full terms and conditions of the Scheme and notices convening the Court Meeting and the Flybe General Meeting and including the particulars required by section 897 of the Companies Act.
<b>Scheme Record Time</b>	the time and date specified as such in the Scheme Document, expected to be 6.00 pm on the Business Day immediately preceding the Effective Date.
<b>Scheme Shareholders</b>	holders of Scheme Shares.
<b>Scheme Shares</b>	<p>the Flybe Shares:</p> <ol style="list-style-type: none"> <li>1. in issue at the date of the Scheme Document and which remain in issue at the Scheme Record Time;</li> <li>2. (if any) issued after the date of the Scheme Document and before the Voting Record Time and which remain in issue at the Scheme Record Time; and</li> <li>3. (if any) issued at or after the Voting Record Time but at or before the Scheme Record Time on terms that the holder thereof shall be bound by the Scheme or in respect of which the original or any subsequent holders thereof are, or have agreed in writing to be, bound by the Scheme and, in each case, which remain in issue at the Scheme Record Time,</li> </ol> <p>excluding, in any case, any Flybe Shares held by or on behalf of Connect Airways or the Connect Airways Group at the Scheme Record Time.</p>
<b>SEC</b>	US Securities and Exchange Commission.
<b>Significant Interest</b>	in relation to an undertaking, a direct or indirect interest of 20% or more of: (i) the total voting rights conferred by the equity share capital (as defined in section 548 of the Companies Act) of such undertaking; or (ii) the relevant partnership interest.
<b>SIP Scheme</b>	the Flybe Share Incentive Plan.
<b>Stobart Air</b>	<p>The group comprising each of the following entities and all direct and indirect subsidiaries of such entities:</p> <ol style="list-style-type: none"> <li>1. Stobart Air ULC, a company incorporated under the laws of the Republic of Ireland with the registered number 28858;</li> <li>2. Propius Holding Limited, a company incorporated under the</li> </ol>

laws of the Republic of Ireland with the registered number 907306; and

3. Everdeal Holdings Limited, a company incorporated under the laws of the Republic of Ireland with the registered number 520459.

<b>Stobart and Cyrus Confidentiality Agreement</b>	the confidentiality agreement dated 3 November 2018 entered into between Cyrus, Stobart Group and Flybe.
<b>Stobart Aviation</b>	Stobart Aviation Limited, a company incorporated under the laws of England and Wales with the registered number 10756283.
<b>Stobart Group</b>	Stobart Group Limited, a company incorporated under the laws of Guernsey with the registered number 39117.
<b>subsidiary and subsidiary undertaking</b>	have the meanings given to them in the Companies Act.
<b>Takeover Offer</b>	should the Acquisition be implemented by way of a takeover offer as defined in Chapter 3 of Part 28 of the Companies Act, the offer to be made by or on behalf of Connect Airways to acquire the entire issued and to be issued share capital of Flybe not already owned by Connect Airways and, where the context permits, any subsequent revision, variation, extension or renewal of such takeover offer.
<b>Treasury Shares</b>	shares held as treasury shares as defined in section 724(5) of the Companies Act.
<b>UK or United Kingdom</b>	the United Kingdom of Great Britain and Northern Ireland.
<b>US Exchange Act</b>	US Securities Exchange Act of 1934, as amended.
<b>US or United States</b>	the United States of America, its territories and possessions, any state of the United States and the District of Columbia.
<b>Virgin Atlantic</b>	Virgin Atlantic Limited, a company incorporated under the laws of England and Wales with the registered number 08867781.
<b>Virgin Atlantic Confidentiality Agreement</b>	the confidentiality agreement entered into between Flybe and Virgin Atlantic dated 8 November 2018.
<b>Voting Record Time</b>	the date and time specified in the Scheme Document by reference to which entitlement to vote on the Scheme will be determined, expected to be 6.00 p.m. on the day two days before the date of the Court Meeting or any adjournment of it (as the case may be), in each case excluding any day that is not a Business Day.
<b>Wider Connect Airways Group</b>	Connect Airways and its subsidiaries, subsidiary undertakings, associated undertakings and any other body corporate, partnership, joint venture or person in which Connect Airways and all such undertakings (aggregating their interests) have a Significant Interest.
<b>Wider Flybe Group</b>	Flybe and its subsidiaries, subsidiary undertakings, associated undertakings and any other body corporate, partnership, joint venture or person in which Flybe and all such undertakings (aggregating their interests) have a Significant Interest.

References to an enactment include references to that enactment as amended, replaced, consolidated or re-enacted by or under any other enactment before or after the date of this Announcement.

All references to time in this Announcement are to London time unless otherwise stated. References to the singular include the plural and vice versa.

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