Regional Express

REGIONAL EXPRESS HOLDINGS LIMITED
ACN 099547270 (ASX CODE:REX)

31 DECEMBER 2017

Half-Year Financial Report

REGIONAL EXPRESS HOLDINGS LIMITED

ACN 099 547 270 (ASX Code: REX)

Appendix 4D: Results For Announcement To The Market
& Half-Year Financial Report
For The Half-Year Ended 31 December 2017

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 Dec 2017 $M	31 Dec 2016 $M	Change $M	Change %
Revenue	151.0	144.3	6.7	4.6
Profit from ordinary activities after tax attributable to members	9.1	6.2	2.9	46.8
Net profit for the period attributable to members	9.1	6.2	2.9	46.8

In respect of the financial year ended 30 June 2017, the directors recommended a fully franked final dividend of 10 cents per share to holders of fully paid ordinary shares which was paid during the period.

In respect of the half year ended 31 December 2017, the directors have recommended a fully franked dividend of 4 cents per share to holders of fully paid ordinary shares to be paid on 31 May 2018 to shareholders registered on 17 May 2018 record date. This dividend was declared on 27 February 2018.

	31 Dec 2017 $	31 Dec 2016 $	Change %
Net tangible assets per ordinary share	1.76	1.75	0.6

This report is based on the condensed consolidated financial statements which have been subject to review by Deloitte Touche Tohmatsu. The review report is included in the attached half year financial report. For a brief explanation of the figures above, please refer to the Announcements on the results for the half year ended 31 December 2017 and notes to the financial statements.

EXPLANATION OF RESULTS

The first half of Financial Year 2018 (1H FY18) saw Regional Express Holdings Limited ('Rex') report an after tax statutory profit of $9.1M, representing an operating Profit After Tax improvement of 47% over the prior period. Group revenue increased by 4.6% to $151M, and passengers carried increased by 3.6% to 634,103. This was attributed to improvements in load factors and yield in the traditional network.

Total costs over the period increased by 1.1% to $137.7M. Rex was fully hedged for Jet Fuel for July to November 2017 which resulted in a $1.7M reduction on the previous year's fuel cost.

This page has been intentionally left blank

The directors of Regional Express Holdings Limited ('Rex') submit herewith the financial report for the half-year ended 31 December 2017.

The names and details of the Company's directors in office during the half-year and until the date of this report are as below:

Name	Title
Lim Kim Hai	Executive Chairman
The Hon. John Sharp	Deputy Chairman and Independent Director
Neville Howell	Chief Operating Officer and Executive Director
Chris Hine	Executive Director
James Davis	Independent Director
Lee Thian Soo	Non-Executive Director
Ronald Bartsch	Independent Director

REVIEW OF OPERATIONS

SUMMARY REVIEW

Network capacity saw an -2.22% reduction in Available Seat Kilometres (ASKs) with passenger numbers increasing by a corresponding 3.6%. The load factor improved by 3.3% points and was 59.9% for the period. The half-year reporting period included one new port, Port Augusta SA, which is linked by two new services to Adelaide and Coober Pedy. The services commenced on 11 September 2017.

Pilot attrition rates were higher than the previous year due to a surge in domestic and international recruitment. For the period under review, attrition surpassed recruitment by 7. Total establishment at the end of the period was 260 with 18 pilots employed over the period. Internal training for upgrade to rank of Captain was at full capacity and saw 25 pilots being checked to line.

DIRECTORS' REPORT

KEY PERFORMANCE INDICATORS TABLE

	1H FY 2018	1H FY 2017	Change
Passengers	634,103	612,284	+3.6%
ASKs (M)	413.5	423.0	(-2.2%)
Average Fare ($)	214.6	213.5	+0.5%
Load Factor	59.9%	56.6%	+3.3%
Pax Revenue / ASK (cents)	32.9	30.9	+6.5%
Total Cost / ASK (cents)	30.6	29.5	+3.8%
Fuel % Total Cost	11.1%	12.3%	(1.2%)

ROUTE NETWORK DEVELOPMENTS

1H FY18 was the first six-month reporting period of Rex operating services to Port Augusta in SA. The service links Port Augusta with Adelaide and Coober Pedy through the provision of three return weekly services, which provides some 10,000 seats per year.

Rex commenced servicing Port Augusta on 11 September 2017 following a competitive tender process by the SA Government, which came on the back of Sharp Airlines exiting the Port Augusta to Adelaide route in May 2017.

In partnership with Eurobodalla Shire Council, a new direct (non-shared) morning service between Sydney and Moruya was implemented from 30 October 2017. The original morning service that operated from Sydney to Moruya to Merimbula was rescheduled to operate from Sydney to Cooma to Merimbula and the number of flights between Merimbula and Sydney on Saturday were also reduced.

Under a 12-month trial approved by the Queensland Government's Department of Transport and Main Roads (DTMR), Rex has scheduled one return Gulf route flight to operate via Karumba with effect from 31 October 2017. This follows an earlier three month Government approved trial that operated between April and June in 2017. Rex is contracted by DTMR to operate the Gulf Route from Cairns to Normanton to Mornington Island to Burketown to Doomadgee to Mount Isa with 5 return services each week. The 12-month trial sees one return service in each direction stopping at Karumba.

Effective 29 December 2017, Air Link, a wholly owned subsidiary of the Regional Express Group, ceased all Regular Public Transport (RPT) services between Dubbo and Cobar. Air Link operated RPT air services between Cobar and Dubbo with connections to Sydney since August 2015 under a close working arrangement with local stakeholders in Cobar. These arrangements concluded which led to the Cobar services being withdrawn.

On 21 December 2017, The West Australian (WA) Government announced Rex as the preferred tenderer for the regulated Perth to Carnarvon / Monkey Mia route. The announcement followed an extensive competitive tender process by the WA Government and came on the back of Rex commencing operations in WA in February 2016 to operate the regulated Perth to Albany and Perth to Esperance routes. In early 2018 Rex will enter into a deed of agreement with the Department of Transport to operate the Perth to Carnarvon / Monkey Mia route for a five-year licence period commencing 2 July 2018.

DIRECTORS' REPORT

FLEET CHANGES

During the reporting period, Rex took delivery of one Saab 340Bplus aircraft. The acquisition brought the number of Saab 340 aircraft in the Rex group to 56; with 39 fully paid for, 15 on mortgage with about two years left to run and two are on lease.

COMMUNITY, ENVIRONMENT AND SERVICE STANDARDS

In 1H FY18, Rex's On Time Departure rate of 83.0% was ranked in second position of all the major carriers and first of all regional carriers in Australia according to the Bureau of Infrastructure, Transport and Regional Development (BITRE). Rex's cancellation rate of 1.8 % was ranked third of all major carriers and first of all regional carriers in Australia. In comparison, Rex's major competitor QantasLink recorded a cancellation rate of 3.0% which was ranked seventh and almost double that recorded by Rex.

Rex continued to support various community events and charities across the network, contributing over $140,000 to many worthy causes, ranging from community fundraisers, local charities, cases of personal hardship and important community events.

Rex registered for the EEO (Energy Efficient Opportunities) programme on 11 November 2007 and has since embarked on various initiatives to reduce energy consumption, in turn reducing emissions.

Six public reports on the initiatives undertaken by Rex in response to the Energy Efficient Opportunities programme have been submitted to the Department of Resources, Energy and Tourism and are available on the Rex website. The government's decision to repeal the Energy Efficiency Opportunities Regulations 2006 on 13 June 2014 removes reporting obligations for companies registered under the programme. In light of this, no further public reports are available.

Rex registered for the NGER (National Greenhouse and Energy Reporting) programme on 25 February 2009 and has since submitted NGER reports for FY 2009 through to FY 2017.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 8 of the half-year report.

ROUNDING OFF OF AMOUNTS

In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the directors' report and financial statements, amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.306 (3) of the Corporations Act 2001.

On behalf of the Directors

Neville Howell

Director

Sydney, 28 February 2018

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001

The Board of Directors
Regional Express Holdings Limited
81 – 83 Baxter Road
MASCOT NSW 2020

28 February 2018

Dear Board Members

Regional Express Holdings Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Regional Express Holdings Limited.

As lead audit partner for the review of the financial statements of Regional Express Holdings Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie Gatt
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
A.C.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1217 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001

Independent Auditor's Review Report to the members of Regional Express Holdings Limited

We have reviewed the accompanying half-year financial report of Regional Express Holdings Limited and its controlled entities (the "consolidated entity"), which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of profit and loss, the condensed consolidated statement of other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Regional Express Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT AUDITOR'S REVIEW REPORT

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Regional Express Holdings Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Regional Express Holdings Limited is not in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie Gatt

Jamie Gatt
Partner
Chartered Accountants
Sydney, 28 February 2018

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Half-year ended	
	31 Dec 2017 $'000	31 Dec 2016 $'000
Passenger revenue	133,278	127,852
Freight revenue	712	707
Charter revenue	13,131	12,109
Other passenger services and amenities	1,293	1,325
Other revenue	2,615	2,275
Total revenue	**151,029**	**144,268**
Finance income	**547**	**361**
Other (losses) / gains	**(97)**	**164**
Flight and port operation costs (excluding fuel)	(28,518)	(28,126)
Fuel costs	(15,243)	(16,729)
Salaries and employee-related costs	(55,844)	(54,103)
Selling and marketing costs	(3,915)	(3,588)
Engineering and maintenance costs	(21,049)	(20,806)
Office and general administration costs	(3,925)	(3,688)
Finance costs	(987)	(987)
Depreciation and amortisation	(8,187)	(8,141)
Total costs and expenses	**(137,668)**	**(136,168)**
Profit before tax	**13,811**	**8,625**
Tax expense	(4,724)	(2,435)
Profit after tax	**9,087**	**6,190**
Profit attributable to:		
Members of the parent	9,087	6,190
	9,087	**6,190**

Earnings per share	cents per share	cents per share
Basic	8.5	5.7
Diluted	8.5	5.7

Notes to the financial statements are included on pages 16 to 21.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

		Half-year ended	
	Note	31 Dec 2017 $'000	31 Dec 2016 $'000
Profit after tax		**9,087**	**6,190**
Other comprehensive (loss) / income			
Hedging reserve			
Revaluation of cash flow hedges	6	(270)	493
Income tax effect	6	81	(148)
Other comprehensive (loss) / income net of tax		**(189)**	**345**
Total comprehensive income		**8,898**	**6,535**

Notes to the financial statements are included on pages 16 to 21.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Consolidated 31 Dec 2017 $'000	Consolidated 31 Jun 2017 $'000
Current assets			
Cash and bank balances		17,984	26,257
Trade and other receivables		10,351	10,805
Inventories		24,832	24,645
Other financial assets	12	-	140
Total current assets		**53,167**	**61,847**
Non-current assets			
Other receivables		6,473	6,515
Available for sale investments carried at fair value – shares		9	9
Property, plant and equipment			
Aircraft		94,906	96,712
Other property, plant and equipment		110,550	106,872
Goodwill and other intangible assets		887	853
Total non-current assets		**212,825**	**210,961**
Total assets		**265,992**	**272,808**
Current liabilities			
Trade and other payables		19,579	18,330
Unearned revenue		18,858	22,698
Borrowings		7,270	7,075
Provisions		8,185	7,172
Current tax payable		985	1,172
Other financial liabilities	12	200	70
Total current liabilities		**55,077**	**56,517**
Non-current liabilities			
Borrowings		12,864	16,551
Provisions		806	1,371
Deferred tax liabilities		2,035	1,924
Total non-current liabilities		**15,705**	**19,846**
Total liabilities		**70,782**	**76,363**
Net assets		**195,210**	**196,445**
Equity			
Issued capital	5	72,024	72,024
Reserved shares	5	(2,256)	(3,246)
Retained earnings		123,026	124,670
Share-based payments reserve		966	1,358
Other reserves	6	1,450	1,639
Total equity		**195,210**	**196,445**

Notes to the financial statements are included on pages 16 to 21.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Note	Half-year ended 31 Dec 2017 $'000	Half-year ended 31 Dec 2016 $'000
Receipts from customers		162,989	157,066
Payments to suppliers, employees and others		(141,461)	(148,502)
Interest paid		(1,188)	(980)
Tax paid		(4,719)	(2,351)
Net cash flows from operating activities		**15,621**	**5,233**
Interest received		547	361
Payments for property, plant and equipment - aircraft and other		(9,938)	(11,630)
Payments for property, plant and equipment - software		(193)	(109)
Net cash flows used in investing activities		**(9,584)**	**(11,378)**
Dividends paid		(10,731)	-
Shares purchased as reserve shares		(87)	(935)
Repayment of borrowings – non-related parties	3	(3,492)	(3,288)
Net cash flows used in financing activities		**(14,310)**	**(4,223)**
Net decrease in cash held		**(8,273)**	**(10,368)**
Cash at the beginning of the period		**26,257**	**26,821**
Cash at the end of the period		**17,984**	**16,453**

Notes to the financial statements are included on pages 16 to 21.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2017

	Attributable to equity holders of the Company						
	Issued capital $'000	Reserved shares $'000	Retained earnings $'000	Share-based payments reserve $'000	Cash flow hedge reserve $'000	General reserve $'000	Total equity $'000
At 1 July 2016	**72,024**	**(1,821)**	**112,995**	**1,587**	678	**1,590**	**187,053**
Profit for the period	-	-	6,190	-	-	-	6,190
Other comprehensive income net of tax	-	-	-	-	345	-	345
Total comprehensive income	-	-	6,190	-	345	-	6,535
Shares purchased as reserve shares	-	(935)	-	-	-	-	(935)
Share gift issued - gift	-	1,063	-	(1,063)	-	-	-
Share gift plan provision	-	-	-	680	-	-	680
At 31 December 2016	**72,024**	**(1,693)**	**119,185**	**1,204**	**1,023**	**1,590**	**193,333**
At 1 July 2017	**72,024**	**(3,246)**	**124,670**	**1,358**	**49**	**1,590**	**196,445**
Profit for the period	-	-	9,087	-	-	-	9,087
Other comprehensive loss net of tax	-	-	-	-	(189)	-	(189)
Total comprehensive income / (loss)	-	-	9,087	-	(189)	-	8,898
Dividends paid	-	-	(10,731)	-	-	-	(10,731)
Shares purchased as reserve shares	-	(87)	-	-	-	-	(87)
Share gift issued - gift	-	1,077	-	(1,077)	-	-	-
Share gift plan provision	-	-	-	685	-	-	685
At 31 December 2017	**72,024**	**(2,256)**	**123,026**	**966**	**(140)**	**1,590**	**195,210**

Notes to the financial statements are included on pages 16 to 21.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 'Interim Financial Reporting'. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'. The half-year financial report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the rounding off of amounts in the financial statements, amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2017 annual financial report for the financial year ended 30 June 2017, except for the impact of the new and revised Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

Application of new and revised Accounting Standards not yet effective

At the date of authorisation of the financial statements, the Standards and Interpretations that were issued but not yet effective are listed below. The potential impact of these Standards and Interpretations has not yet been fully determined. The Group does not intend to adopt any of these announcements before their effective dates.

Standard/Interpretation and nature of the change and impact	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 'Financial Instruments' (and the relevant amending standards) (AASB 9): The standard introduces a number of new and revised classifications of financial assets and liabilities compared to AASB 139 'Financial Instruments: Recognition and Measurement' and addresses the classification, measurement and de recognition of these financial assets and financial liabilities. AASB 9 introduces new rules for hedge accounting and a new methodology for measurement of impairment of financial assets including accounting for expected credit loss. The Group classifies fuel swap derivatives and forward exchange contracts as cash flows hedges, and recognises material financial assets and liabilities to which AASB 9 will apply at amortised cost under AASB 139. The Group has commenced an assessment of the impact of this change on the recognition and measurement of financial assets and liabilities and related disclosures in the financial statements. At the date of this report this assessment is not complete.	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15' (AASB 15): AASB 15 will replace AASB 118 'Revenue' which covers revenue arising from the sale of goods and the rendering of services and AASB 111 'Construction Contracts' which covers construction contracts. The new standard introduces a five-step model to determine when and how much revenue should be recognised. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Group has commenced an assessment of the impact of this change on the recognition and measurement of revenues of the Group and related disclosures in the financial statements. At the date of this report this assessment is not yet complete. The preliminary assessment of the existing contractual arrangements that deal with revenue indicate that the changes from the new standard are not expected to have a material impact on the Group.	1 January 2018	30 June 2019
AASB 16 'Leases' (AASB 16): AASB 16 introduces new requirements in relation to lease classification and recognition, measurement and presentation and disclosures of leases for lessees and lessors. For lessees a (right-of-use) asset and a lease liability will be recognised on the balance sheet in respect of all leases subject to limited exceptions. The accounting for lessors will not significantly change. The Group is not a party to any significant operating lease agreements (as lessee) and significant change to the recognition and measurement of the Group's finance leases is not expected. On the basis that there are no changes to lease arrangements, the new standard is not expected to have a material impact on the recognition and measurement of lease-related expenses, assets or liabilities. The Group has commenced an assessment of the impact of this change on disclosures in the financial statements. At the date of this report this assessment is not complete.	1 January 2019	30 June 2020

2. SEGMENT INFORMATION

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Group's Executive Chairman for the purposes of resource allocation and assessment of performance is more specifically focused on the category of customer for each type of service.

The Group's reportable segments under AASB 8 are as follows:

- Regular public transport
- Charter and other

The accounting policies of the reportable segments are the same as the Group's accounting policies.

The following is an analysis of the Group's revenue and results by reportable operating segment for the period under review:

	Revenue Half-year ended		Segment result Half-year ended	
	31 Dec 2017 $'000	31 Dec 2016 $'000	31 Dec 2017 $'000	31 Dec 2016 $'000
Continuing operations				
Regular public transport	136,581	130,950	15,537	13,203
Charter and other	14,448	13,318	2,736	(428)
	151,029	**144,268**	**18,273**	**12,775**
Finance income			547	361
Other (losses) / gains			(97)	164
Central administration costs and directors' salaries			(3,925)	(3,688)
Finance costs			(987)	(987)
Profit before tax			13,811	8,625
Tax expense			(4,724)	(2,435)
Total revenue and profit after tax	**151,029**	**144,268**	**9,087**	**6,190**

The revenue reported above represents revenue generated from external customers. There were no intersegment sales.

Segment result represents the profit earned or loss incurred by each segment without allocation of central administration costs and directors' salaries. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets and liabilities by reportable operating segment as at the end of the period:

	Assets		Liabilities	
	31 Dec 2017 $'000	30 Jun 2017 $'000	31 Dec 2017 $'000	30 Jun 2017 $'000
Continuing operations				
Regular public transport	207,158	213,100	41,490	45,329
Charter and other	58,834	59,708	29,292	31,034
Total assets and liabilities	**265,992**	**272,808**	**70,782**	**76,363**

3. BORROWINGS

During the period, the Group repaid bank loans to the amount of $3.492M (2016: $3.288M). These were made in line with previously disclosed repayment terms.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. DIVIDENDS

In respect of the financial year ended 30 June 2017, the directors recommended a fully franked final dividend of 10 cents per share to holders of fully paid ordinary shares. During the period, the Group paid dividends of $11.015M of which $284 thousands relate to shares held by the Group under the Employee Share Gift Scheme.

	31 Dec 2017		31 Dec 2016	
	Cents per share	Total $'000	Cents per share	Total $'000
Fully paid ordinary shares				
Dividends paid	10	11,015	-	-
Dividends received for shares in the Employee Share Gift Scheme	10	(284)	-	-
Final dividend	10	10,731	-	-

In respect of the half year ended 31 December 2017, the directors have recommended a fully franked dividend of 4 cents per share to holders of fully paid ordinary shares to be paid on 31 May 2018 to shareholders registered on 17 May 2018 record date. This dividend was declared on 27 February 2018.

5. ISSUED CAPITAL

	31 Dec 2017 $'000	30 Jun 2017 $'000
Ordinary shares		
Issued and fully paid	72,024	72,024
	72,024	**72,024**
Reserved shares	**(2,256)**	**(3,246)**
	No. '000	No. '000
Issued and fully paid	110,155	110,155
Reserved shares	1,857	2,766

6. OTHER RESERVES

	31 Dec 2017 $'000	30 Jun 2017 $'000
Cash flow hedge reserve		
Balance at 1 July	49	678
Net revaluation of cash flow hedges, net of tax	(189)	(629)
	(140)	49
General reserve		
Balance at 1 July	1,590	1,590
Movement during the period	-	-
	1,590	1,590
Total other reserves	**1,450**	**1,639**

The cash flow hedge reserve represents hedging gains and losses recognised on the effective portion of cash flow hedges. The cumulative deferred gain or loss on the hedge is recognised in profit or loss when the hedged transaction impacts the profit or loss, or is included as a basis adjustment to the non-financial hedged item, consistent with the applicable accounting policy.

The general reserve is used from time to time to transfer profits from retained profits. There is no policy of regular transfer.

.

7. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

Under the Employee Share Gift Scheme, 987,687 shares were issued to employees (2016: 1,398,209), and no new shares were issued (2016: nil).

During FY 2008, the Group executed a publicly announced share buy-back programme. All shares purchased under the programme are cancelled. During the current reporting period, no shares were bought back.

There were no other movements in the issued and fully paid share capital of the Company in the current and prior reporting periods.

8. KEY MANAGEMENT PERSONNEL

Remuneration arrangements of key management personnel are disclosed in the annual financial report. In addition, during the interim period, a cash bonus amounting to $569 thousand was recommended by the Remunerations, Nominations and Disciplinary Committee to be paid to key management personnel.

9. CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments to report.

10. SUBSEQUENT EVENTS

In January 2018, Rex acquired an additional Saab 340B aircraft for approximately $2.5M to supplement operations in Western Australia.

11. VALUATION OF ASSETS

The Group has identified the following Cash Generating Units (CGUs) for the purposes of assessing the carrying value of the Group's assets:

- Air Link Pty Limited (Air Link)
- Pel-Air Aviation Pty Limited (Pel-Air)
- Regional Express Holdings Limited (Rex)

Goodwill of $518 thousand has been allocated to Air Link CGU for impairment testing purposes (2016: $518 thousand).

(A) FAIR VALUE LESS COST TO SELL: AIRCRAFT ASSETS

The recoverable amount of Air Link CGU was fair value less cost to sell. Cost to sell has been estimated at 10% of the fair value of the aircraft. The fair value of Air Link has been determined based on sales price per industry database and independent valuations of similar aircraft.

(B) REX AND PEL-AIR CGUS

The recoverable amount of Pel-Air and REX CGUs has been determined based on value-in-use calculations.

The value in use calculations of Rex and Pel-Air use cash flow projections based on financial budgets approved by the Board covering a 5 year forecast period, and a terminal value based upon an extrapolation of cash flows beyond the 5 year period using a constant growth rate which does not exceed the long term inflation rate. The cash flows are based on management's expectations regarding the market, fleet plans including the purchase of aircraft and operating costs. The discount rate applied reflects the weighted average cost of capital based on the risk-free rate for ten year Australia government bonds adjusted for a risk premium to reflect the risk of each CGU.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Key assumptions

The following key assumptions were used in determining the value-in-use valuation models for the Rex and Pel-Air CGUs:

Key Assumptions	Rex CGU	Pel-Air CGU
Discount rate (i)	11.0%	10.5%
Revenue growth (ii)	1.5%	1.5%
Fuel cost escalation (iii)	1.0%	1.0%
Operating cost escalation (iv)	1.5%	1.5%

(i) Post-tax discount rate applied to the cash flow projections.

(ii) Revenue growth based on historical experience and market conditions, fleet plans and competitor behaviour.

(iii) The fuel cost escalation has been set with regard to the prevailing purchase price of fuel to the extent fuel costs cannot be recovered from customers.

(iv) Operating cost escalation has been estimated with regard to CPI adjustment for domestic costs and prevailing spot rate for overseas purchases.

SENSITIVITY ANALYSIS

The Group has performed a sensitivity analysis by considering reasonable changes in key assumptions, including discount rate, revenue growth, operating cost escalation, fuel cost escalation and capital expenditure.

The changes in the following table to assumptions used in the impairment review would, in isolation, lead to an increase or decrease in the recoverable amount. Changes in one assumption could be accompanied by a change in another assumption, which may increase or decrease the recoverable amount of the CGU.

		Rex		Pel-Air	
	Change in factor	(Decrease) / Increase in recoverable amount $'000	Increase / (Decrease) in recoverable amount $'000	(Decrease) / Increase in recoverable amount $'000	Increase / (Decrease) in recoverable amount $'000
Post tax discount rate	0.5%	(12,399)	13,843	(950)	982
Revenue	0.5%	48,310	(47,447)	1,274	(1,238)
Operating cost escalation	0.5%	(36,337)	35,688	(1,673)	1,627
Fuel cost escalation	0.5%	(5,103)	5,012	(59)	57
Capital expenditure	5.0%	(271)	271	(132)	132

12. FINANCIAL INSTRUMENTS

FORWARD FOREIGN CURRENCY CONTRACTS

During the half-year, the Group entered into forward exchange contracts to hedge against fluctuations in foreign currency purchases. The Group enters into these contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the consolidated entity against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually no longer than 12 months.

The Group has significant USD requirements relating to its operational activities. These relate to an engine maintenance contract with General Electric Company (GE), insurance premiums and other engineering expenses. As at reporting date the aggregate amount of unrealized losses under forward foreign exchange contracts deferred in the hedging reserve relating to exposure on these anticipated future transactions is $200 thousand (30 June 2017: $nil). It is anticipated that these transactions will take place over a period of 12 months.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of fuel swap contracts and forward exchange contracts are determined using a generally accepted pricing model based on discounted cash flow analysis using assumptions supported by observing market rates.

Except as disclosed below, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the consolidated financial statements approximate their fair values.

The following table represents material financial assets and liabilities that were measured and recognised at fair value:

	31 Dec 2017 $'000	30 Jun 2017 $'000
Derivative assets		
Fuel swaps	-	140
Derivative liabilities		
Forward exchange contracts	200	-
Fuel swaps	-	70

The Group had no fuel swap contracts outstanding at 31 December 2017.

FAIR VALUE HIERARCHY

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

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

Financial instruments carried at fair value are classified as follows:

	Classification	31 Dec 2017 $'000	30 Jun 2017 $'000
Derivative assets			
Fuel swaps	Level 2	-	140
Derivative liabilities			
Forward exchange contracts	Level 2	200	-
Fuel swaps	Level 2	-	70

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Fuel swap hedging contracts and forward exchange contracts are financial instruments that use valuation techniques with only observable market inputs and are included in Level 2 above. Future cash flows are estimated based on forward rates (from observable forward rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

The Group does not have any material Level 1 or Level 3 financial instruments.

DIRECTORS' DECLARATION

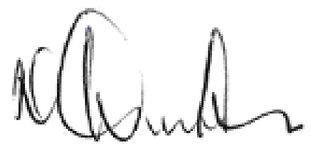
The directors declare that:

(a) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

(b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s.303 (5) of the Corporations Act 2001.

On behalf of the Directors



Neville Howell

Director

Sydney, 28 February 2018

REX GROUP OF COMPANIES

rex.

PEL-AIR

AIR LINK

AAPA
AUSTRALIAN AIRLINE PILOT ACADEMY