Regional Express

# Facing Turbulence


## ANNUAL REPORT

**FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013**

**REGIONAL EXPRESS HOLDINGS LIMITED**

# Regional Express Value Statement

What does it profit a company if it gains the whole world and loses its soul

## Customer

We are committed to providing our customers with safe and reliable air transportation with heartfelt hospitality.

As a regional carrier, we constantly strive to keep fares low through our commitment to simplicity, efficiency and good value.

We are committed to treating our customers as individuals and will respond to all their comments and complaints.

## Community

Rex is mindful of the tremendous social and economic impact its services have on the regional communities and works in partnership with these communities to balance their needs against Rex commercial imperatives.

We are also committed to giving back to the regional communities by supporting worthwhile charitable causes which are focused on helping the less fortunate.

We are committed to preserving the environment to the measure of our capabilities.

## Contractors

We believe that our suppliers are partners in our business.

In all our dealings with suppliers we will seek to be fair and honest and will strive to work only with like-minded suppliers.

## Company

Staff members are part of the Rex family. This comes with both privileges and responsibilities.

We expect every staff member to take ownership of issues encountered:

- Ownership means that if something is wrong then it is everyone's job to fix it.
- Matters that cannot be handled by the staff member ought to be pursued further with senior management.
- Staff have the right to make mistakes if they act in the best interest of the customer and the company.

We strive to be a learning organisation where we actively seek to identify issues no matter how small in order to continually transform ourselves to a better organisation:

- This entails a culture where issues are highlighted as learning experiences even though they may place our colleagues in a bad light.
- An excellent airline is one that is outstanding in a thousand small ways.

We believe that we can only count on ourselves for our continued success:

- All staff members must embrace the 'can do' and 'will do' spirit that has been the defining characteristic of our initial success.
- Hard work is the cornerstone of our work ethic.
- All staff share in the profits and so all staff are expected to contribute his/her fair share.

We value open communication and will strive to create an environment that removes barriers to communication:

- Staff members have a right to be heard regardless of their position.
- Staff members are encouraged to contact directly the members of the Management Committee and Board if they see the need.

We respect the dignity of each staff member and will treat each other with respect and fairness:

- The customer does not always come first and we will stand by our staff member if the customer is unreasonable.
- While we can be single-minded in tackling issues and problems, we will focus on the issue and not the person.
- We accept that staff members may have different talents and capabilities and will strive to fit the job to the person rather than the other way around.
- Important decisions concerning staff matters are always referred to the Management Committee to ensure transparency, fairness and consistency.

We are committed to standing behind our staff members and their families and will do all we can to help them in their times of special need:

- We believe in the value of the family and will strive to create a working environment that is supportive of the family.
- All staff members have the right to appeal to the Management Committee if special assistance or consideration is needed.

## Capital

Rex believes that its shareholders' interest is best served by pursuing a path of steady but sustainable growth of its earnings.

We believe that maximizing shareholders' returns in the long term is not incompatible with our duties and responsibilities towards our other stakeholders outlined above.

## FACING TURBULENCE

For the second year running, Rex is the most profitable airline in Australia. This would ordinarily be grounds for much jubilation but instead we at Rex are all too painfully aware that this pole position is an aberration arising from one of the most toxic environments ever to face aviation in Australia.

Indeed for Rex, we barely had time to celebrate our 10 year anniversary and record profit in FY 12, when we saw sales plunge almost immediately from 1 July 2012 after the Federal Government's carbon tax was implemented, together with a whole host of policies hostile to regional aviation. Minister Albanese's claim that the impact of the carbon tax would be little more than the cost of a cup of coffee became the understatement of the aviation year, when both businesses and households cut back on flying due to the rising costs in the economy.

Rex ended the year with profits down 45% and passenger numbers down 6.8%. At least we could still make a profit of $19 million with our net earnings double that of Qantas.

Rex is a very efficient, formidable and operationally excellent airline. However there is little we can do when the Federal Government appears to be hell-bent on destroying regional aviation and along with it, pretty much the rest of the economy.

The Board believes that Australia continues to have great potential under good governance and has authorised an unprecedented $50 million capital expenditure in the FY 14 to be ready for the expected upswing. I hope next year when I write this foreword I can bring more cheer and hope.

*Lim Kim Hai*
*Executive Chairman*
*29 August 2013*

# FOREWORD

# corporate information

This annual report covers both Regional Express Holdings Limited as an individual entity and the consolidated entity comprising Regional Express Holdings Limited and its subsidiaries.

The Group's functional and presentation currency is AUD ($).

## Directors

Lim Kim Hai
The Hon. John Sharp
James Davis
Chris Hine
Lee Thian Soo
Ronald Bartsch
Garry Filmer

## Company Secretaries

Irwin Tan
Benjamin Ng

## Registered Office

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Mascot, NSW 2020
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## Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

## Solicitor

Baker & McKenzie
Level 27, AMP Centre
50 Bridge Street
Sydney, NSW 2000

## Banker

Westpac Banking Corporation

## Auditor

Deloitte Touche Tohmatsu

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Photo by Karen Scrimes

# directors' report

# 01 BOARD OF DIRECTORS

In compliance with the provisions of the Corporations Act 2001, the directors of Regional Express Holdings Limited ('Rex') submit herewith the annual report for Rex and its consolidated entities (the 'Group') for the financial year (FY) ended 30 June 2013.

The names and particulars of the directors of Rex during or since the end of the FY are:

### 1. LIM KIM HAI
**Executive Chairman**
*Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009 and 27 November 2012*

Mr. Lim started his career as a Defence Engineer specialising in underwater warfare. After 10 years he left to start his own business. Currently he has a portfolio of investment and business interests in diverse sectors and countries. He is also the Chairman of a biomedical company in Singapore, Lynk Biotechnologies Pte Ltd as well as Chairman of WooWorld Pte Ltd, a supplier of mobile games and content to telecommunication companies in Japan and South East Asia.

Mr. Lim obtained his Masters in Electronics Engineering from the prestigious 'Grande Ecoles' engineering colleges in France where he was sent on a French Government scholarship. He later returned to France to complete a Masters of Public Administration at the elite Ecole Nationale d'Administration in Paris on a Singapore Government scholarship. Mr. Lim also has a Masters of Business Administration from the National University of Singapore.

Mr. Lim was one of the founding shareholders and directors of Rex.

### 2. THE HON. JOHN SHARP
**Deputy Chairman and Independent Director**
*Appointed 14 April 2005 and re-appointed 19 November 2008 and 23 November 2011*

The Honourable John Sharp is an aviator, having been a licensed pilot of both fixed wing and rotary wing aircraft. Mr. Sharp was a member of the House of Representatives of the Commonwealth Parliament for 14 years (1984 – 1998). He retired from the House of Representatives in 1998 and established his own high level aviation and transport consulting company. Mr. Sharp is a former Chairman of the Aviation Safety Foundation of Australia and a director of Australian Aerospace, a wholly-owned subsidiary of European Aeronautics Defence and Space (EADS) representing Airbus (the aircraft manufacturer of ATR, CASA, Eurocopter and Astrium satellites). He has recently retired as Chairman of Parsons Brinkerhoff Advisory Board, an engineering and design company operating throughout Australia and the region. He is also Chairman of Power and Data Corporation Pty Limited and Chairman of Pel-Air Aviation Pty Ltd. Mr. Sharp is a Trustee and Board Member of John McKeown House, Honorary Federal Treasurer, National Party of Australia and has retired as Chairman of Winifred West Schools Foundation. He is a member of the University of Wollongong Vice Chancellor's Advisory Board. Recently, he was appointed a director of the Flight Safety Foundation following his receipt of the Foundation's Presidential Citation for Aviation Safety; the first Australian to receive this award. Mr. Sharp's extensive experience of aviation, regional air services and as the former Federal Minister for Transport and Regional Development in the Federal Government, adds significantly to the expertise and standing of the Board.

### 3. JAMES DAVIS
**Independent Director**
*Appointed 26 August 2004 as Executive Director and re-appointed 23 November 2011 as an Independent Director. Appointed Managing Director on 27 May 2008 and retired 1 July 2011*

Mr. Davis has a degree in Aeronautical Engineering and commenced his aviation career with the Civil Aviation Safety Authority (CASA) before obtaining his Air Transport Pilot Licence. He has flown with airlines in Australia and overseas for 26 years, accumulating some 12,500 flying hours. He joined Hazelton Airlines in 1999 as Flight Operations and Standards Manager and later Chief Pilot. He has been with Rex since its beginning in 2002, occupying the positions of Executive General Manager Operations, Managing Director Operations, Chief of Staff of the Chairman's Office and Managing Director. Mr. Davis is a former Chairman of the Australian Airline Pilot Academy Pty Ltd (AAPA) and a former Director of Rex Group companies Pel-Air Aviation Pty Ltd and Air Link Pty Ltd. He currently sits on the Board of the Regional Aviation Association of Australia (RAAA) as Vice Chairman.

### 4. GARRY FILMER
**Chief Operating Officer**
*Appointed 1 March 2012 as Executive Director and re-appointed 27 November 2012*

Mr. Filmer is a Licensed Aircraft Maintenance Engineer with over 36 years experience and has been involved in Regional Airline and Maintenance Repair Organisation management over the last 20 years, holding positions such as Engineering Manager and General Manager Engineering. He joined Rex in 2007 as Engineering Advisor in the Chairman's Office and as a member of the Engineering Management Committee was involved in the coordination of projects such as the management of Ground Support Equipment, review of engineering resources and the recruitment of staff. He became General Manager Engineering in June 2008 and then Chief Operating Officer in March 2012. As Chief Operating Officer Mr. Filmer is responsible for Regional Express operations including flight operations, continuing airworthiness, maintenance control, airport operations and the human factors group.


### 5. CHRIS HINE
**Chief Operating Officer**
*until 29 February 2012 and subsequently on extended leave since 12 March 2012. Appointed 1 March 2011 as Executive Director and re-appointed 23 November 2011*

Mr. Hine has over 20 years of aviation experience including 15 years as a First Officer and Captain of Metroliner and Saab 340 aircraft and is a well-accomplished and knowledgeable instructor. He has been with the Company since its inception in August 2002 and prior to his role as Chief Operating Officer was General Manager Flight Operations and Chief Pilot. Prior to Rex he worked for Kendell Airlines from 1995 during which time he held various Check and Training Captain positions. As Chief Operating Officer he was responsible for the Company's operations including flight operations, maintenance control, airport operations and the human factors group. Mr. Hine has also had experience as a lecturer in Cockpit Systems Management for the Bachelor of Applied Science (Civil Aviation) degree at the University of South Australia. He was the Chairman of the Australian Airline Pilot Academy Pty Ltd (AAPA).

### 6. RONALD BARTSCH
**Independent Director**
*Appointed 23 November 2010 and re-appointed 23 November 2011*

Mr. Bartsch has over 30 years experience in the aviation industry in a variety of senior operational, safety and regulatory roles. He was head of safety and regulatory compliance for Qantas Airways' Limited AOC and manager of the CASA Sydney Airline Transport Field Office.

In addition, Mr. Bartsch is an experienced pilot and has extensive legal and regulatory experience. Mr. Bartsch has formal qualifications in law, education and science, and is the author of the definitive legal textbook on aviation law. Mr. Bartsch is an international aviation safety consultant and senior visiting fellow with the Department of Aviation at the University of New South Wales.

### 7. LEE THIAN SOO
**Non-Executive Director**
*Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009 and 27 November 2012*

Mr. Lee has extensive international business experience and currently is the Chairman and owner of a company supplying specialty medical devices, systems and drugs to healthcare institutions in the ASEAN region. He is also on the board of a biomedical company and a mobile/internet gaming company.

Mr. Lee was one of the founding shareholders and directors of Rex.

## 02 SENIOR MANAGEMENT EXECUTIVES

The names and particulars of the senior management executives of Rex during or since the end of the FY are:

### GARRY FILMER
**Chief Operating Officer**

Garry is a member of the Rex Management Committee. A description of his qualifications, skills and experience is included on page 6.

### WARRICK LODGE
**General Manager, Network Strategy & Sales**

Warrick manages a team responsible for scheduling, pricing, revenue management, sales and commercial analysis. His duties include the monitoring of network performance and analysis of both existing and new market opportunities. Warrick has more than 20 years of regional airline experience in the specialised areas of scheduling, pricing and revenue management and held the position of Manager Network Planning with Kendell Airlines, having joined that company in 1992. Warrick has been with Rex since its inception in 2002 and is also a member of the Rex Management Committee.

### IRWIN TAN
**General Manager, Corporate Services**

Irwin's background was originally in genetic research after graduating with first class honours in biotechnology from the University of New South Wales in Sydney. Irwin left the field of genetic research when he joined Morrison Express Logistics in 1999 and then Singapore Airlines in 2001. He was later transferred to Singapore Airlines Cargo as an executive where he took on various appointments in product development, advertising, sales and airline alliances before taking on the role of Regional Marketing Manager in South West Pacific in 2003. Irwin joined Rex in July 2005 and was appointed the Company Secretary on 7 September 2005. Irwin is also a member of the Rex Management Committee.

### MAYOORAN THANABALASINGHAM
**General Manager, Information Technology and Communications**

Mayooran completed his Associate Diploma of Electrical Engineering / Computer Engineering in 2001. He commenced with Rex in April 2004 and leads a team of Information Technology (IT) professionals responsible for ensuring day-to-day operations of the airline. With over 11 years experience and an extensive background in information technology, Mayooran has managed a range of IT projects and initiatives for Rex including the Internet Booking Engine, the Amend Booking Engine and Web Check-in. Mayooran is a member of the Rex Management Committee and a Director of the Australian Airline Pilot Academy (AAPA).

### DALE HALL
**General Manager, Engineering**

Dale has over 32 years of aviation engineering experience. He began his career as an apprentice in the Royal Australian Air Force where he served for nine years. He then spent the next 17 years in the industry working in turbine engine and component overhaul facilities, on and offshore gas and petroleum helicopter industries and maintaining aero-medical charter aircraft. Dale joined Kendell Airlines in 1999 as a Licensed Aircraft Maintenance Engineer and held the position of a Technical Support Engineer with both Kendell and Rex. In late 2006 Dale was appointed as a Maintenance Controller for Rex and took up the position of Maintenance Control Manager in 2007. In March 2012, he was appointed GM Engineering and Chairman of the Australian Airline Pilot Academy (AAPA). As GM Engineering, he became Part 145 Accountable Manager for both Rex and Air Link Approved Maintenance Organisations (AMOs) in June 2013. He is a member of the Rex Management Committee.

### NEVILLE HOWELL
**General Manager, Flight Operations and Chief Pilot**

Neville has over 32 years of aviation experience and has been with the Company since its inception in August 2002. He has operated the Saab 340 as a First Officer and Captain for over 18 years for both Hazelton Airlines and Regional Express. Prior to his role as GM Flight Operations (GMFO) and Chief Pilot, Neville was Manager Training & Checking and Deputy Chief Pilot. He is an extensively qualified and experienced simulator and aircraft instructor and has held positions as both Training and Check Captain. Neville was the Chief Flying Instructor and Chief Pilot for the first integrated pilot training academy in Australia and has provided cadet pilot training for both domestic and international carriers. Neville is a qualified lecturer in a number of aviation subjects and has a Diploma of Aviation. He holds a number of Civil Aviation Safety Authority (CASA) delegations and has done since 1984. As GMFO he is responsible for all facets of the Company's flight operations and all operational matters affecting the safety of flight operations. Neville is a member of the Rex Management Committee.

### PNG YEOW TAT
**Deputy General Manager, Engineering**

Tat has been in aviation engineering for more than 30 years and has many years of experience in various senior management positions. He graduated with an Honours Degree in Electrical and Electronic Engineering from the UK. Tat joined Rex in mid 2007 as the Logistics Advisor and subsequently as the Engineering Advisor in the Chairman's Office. He is a member of the Rex Engineering Management Committee and a member of the Rex Management Committee. As Deputy GM Engineering, he became Part 145 Alternate Accountable Manager for both Rex and Air Link Approved Maintenance Organisations (AMOs) in June 2013.

## 03 DIRECTORSHIPS OF OTHER LISTED COMPANIES

During the year under review, no directors appointed as at 30 June 2013 served as a director with any other company listed on the ASX.

## 04 DIRECTORS' SHAREHOLDINGS

The following table sets out each director's relevant interest in shares and options of Rex as at the date of this report. No debentures or rights exist.

| Directors | Fully paid ordinary shares direct interest | Fully paid ordinary shares indirect interest | Share options |
|---|---|---|---|
| Lim Kim Hai | 18,480,630 | 5,755,513 | - |
| The Hon. John Sharp | 150,000 | 250,000 | - |
| James Davis | 200,866 | - | - |
| Chris Hine | 172,205 | - | - |
| Lee Thian Soo | 7,722,181 | 3,727,181 | - |
| Ronald Bartsch | - | - | - |
| Garry Filmer | 15,166 | - | - |

## 05 DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the FY and the number of meetings attended by each director (while they were a director or committee member). During the FY, 4 Board meetings, 2 Remuneration and Nomination Committee meetings, 2 Audit and Corporate Governance Committee meetings and 4 Safety and Risk Management Committee meetings were held.

| Directors | Board | Remuneration & Nomination Committee | Audit & Corporate Governance Committee | Safety & Risk Management Committee |
|---|---|---|---|---|
| No. of Meetings Held: | 4 | 2 | 2 | 4 |
| Attendance: | | | | |
| Lim Kim Hai | 4 | - | - | - |
| The Hon. John Sharp | 4 | 2 | 2 | - |
| James Davis | 4 | 2 | - | 4 |
| Chris Hine | 4 | - | - | 1 |
| Lee Thian Soo | 4 | - | 2 | - |
| Ronald Bartsch | 3 | - | - | 3 |
| Garry Filmer | 4 | - | - | - |

## 06 REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 19 to 22.

## 07 SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

No options were granted or exercised in FY 2013.

## 08 FORMER PARTNERS OF THE AUDIT FIRM

No directors or officers in Rex or the Group have been a partner or director of Deloitte Touche Tohmatsu, the Group's auditor.

## 09 COMPANY SECRETARIES

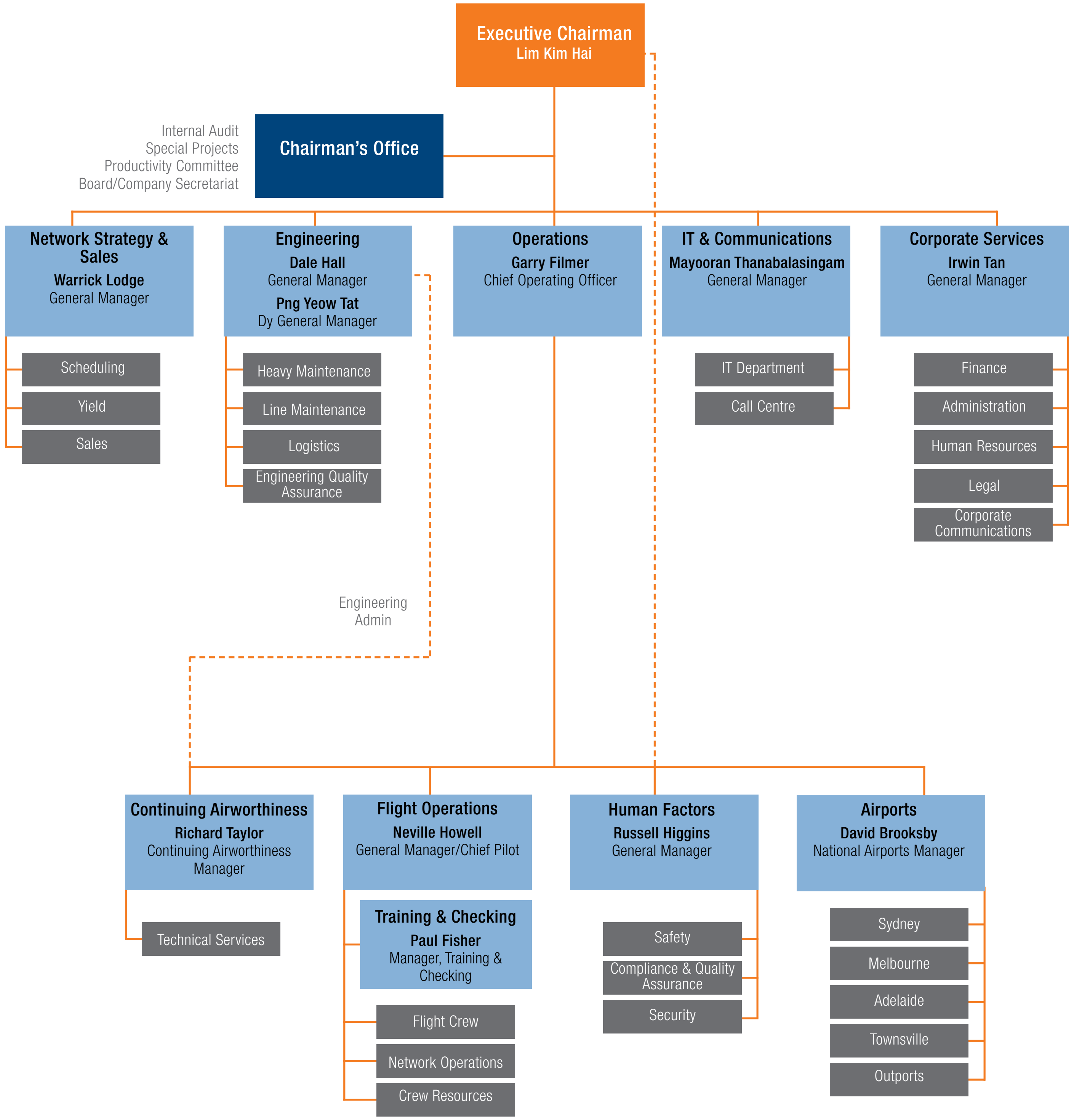
Mr. Irwin Tan holds the position of Rex Company Secretary. A description of his qualifications, skills and experience is included on page 8.

Mr. Benjamin Ng, having completed his Bachelor of Science followed by an MBA in the UK, started his career with the German multi-national chemical company, Henkel in Malaysia. In his eight years with Henkel/Cognis, he held various positions ranging from sales, marketing, business analysis and cost controlling. In 2001, he was posted to headquarters in Germany for just over a year where he was cost controller for the Asia Pacific Region. Upon his return to Malaysia, he headed up the controlling department of Cognis for three years. Benjamin joined Rex in April 2006 and was appointed Company Secretary on 10 October 2007.

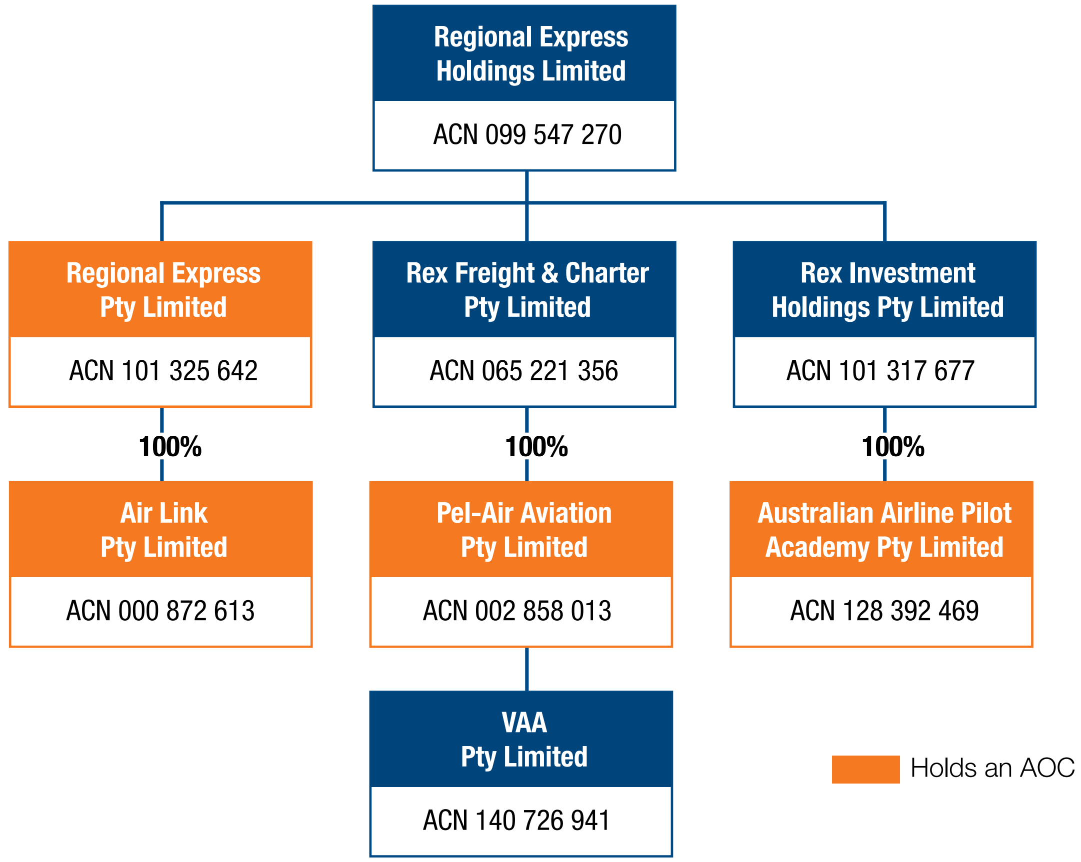
## 10 PRINCIPAL ACTIVITIES

The Group's principal activity during the FY was air transportation of passengers and freight.

## 11 ORGANISATION & GROUP STRUCTURES




Regional Express Airline Organisation Structure




Regional Express Group Holding Structure

## 12 REVIEW OF OPERATIONS

### SUMMARY

The Group continued to work in collaboration with many regional communities throughout the Rex passenger network and there were numerous partnership agreements with regional airports and local councils that were both entered into or renewed.

At the beginning of the year under review, partnership agreements were renewed with the regional councils that own and operate the following regional airports: Broken Hill, Bathurst, Ballina, Ceduna, Coober Pedy, Grafton, Griffith, Lismore, Mildura, Narrandera, Newcastle, Parkes, Taree and Wagga Wagga.

The Broken Hill partnership agreement was terminated in December 2012 and there were no partnership agreements during the FY with the following regional airports: Albury, Burnie, Dubbo, Kangaroo Island, King Island, Merimbula, Moruya, Mount Gambier, Orange, Port Lincoln and Whyalla.

The flight cancellation rate for the FY was 0.66%. This rate is slightly higher than last FY and our usual cancellation rate of 0.2%. As with the final few months of the last FY the higher rate of cancellations was influenced by Captain resources due to leave and sickness.

The Pilot attrition rate for the FY was lower than historical averages; with the lowest number of resignations in seven years. However due to the increased Rex Cadet numbers in the First Officer ranks, Captains made up a higher percentage of the overall pilot attrition. Another 17 Cadets from the Australian Airline Pilot Academy (AAPA) commenced employment with Rex during the year through the successful Cadet Programme, bringing the total number of Rex cadets on-line in the group to 106 as at 30 June 2013, including six Flying Instructors at AAPA and seven who have joined Pel-Air. The deployment within the group saw four upgrading to the rank of Captain and 95 flying as First Officers by the end of the FY.

Last FY saw the introduction of the Pilot In Command Under Supervision Programme (PICUSP) which was ratified by the Civil Aviation Safety Authority (CASA). The programme provides specific training and personal development for First Officers (especially the Cadet First Officers who do not have the requisite Command hours) to meet with regulatory requirements to become Captains. In the first half of this FY, four First Officers from the Cadet Programme have successfully attained Command (Captain) positions across the Group. PICUSP is gaining momentum and there are currently 39 enrolled in the programme as at 30 June 2013. As the programme matures it will provide added protection to our Captain establishment requirements for the Group.

During the year Rex actively recruited overseas for suitable direct entry Captains. Six from the USA are now already flying as Captains for Rex while nine European Captains have been shortlisted and are due to commence their training at the start of the next FY.

During the FY Rex signed an agreement for the acquisition of a Saab 340 Full Flight Simulator (FFS) with FlightSafety International. The FFS is the youngest of its type in the world. The simulator will be installed at the Australian Airline Pilot Academy (AAPA) in Wagga Wagga. A purpose built training facility will be constructed at AAPA to accommodate the simulator and will boast the latest training technology to ensure effective pilot training. Plans for the building are well under way and construction is planned to be completed by October 2013.

Pel-Air's provision of fixed wing services to Air Ambulance Victoria progressed into the second year of operations. Mission tasking and flying hours progressively increased with greater familiarity with and improvement to the operations. Likewise, the fast jet support service provision to the Australian Defence Force moved into steady-state operations.

Turboprop charters using the Saab aircraft remained steady throughout the year with Saab charters operated by Rex crew when demand exceeded Pel-Air's capability.

Over at AAPA, the Rex Cadet Programme continued with 17 cadets graduating in the FY. As at 30 June 2013, AAPA has enrolled a total of 155 cadets under Rex's Cadet Programme and graduated a total of 124. This FY also saw AAPA continue its partnership with the Alpha Aviation Group for the training of international students, with 70 graduating since the programme's inception.

Air Link has continued to carry out regular and ad hoc charters, as well as FIFO for the resource sector. Air Link Engineering continues to carry out external aircraft maintenance.

## ROUTE NETWORK DEVELOPMENTS

On 9 July 2012 Rex commenced a range of new air services for the cities of Mildura and Broken Hill. Mildura was re-connected with direct flights to Adelaide and Sydney, in addition to two daily return flights to Broken Hill. The latter saw its flights to Sydney boosted from two to three return flights each week day and a revised flight schedule that enables professionals from Sydney to make a day return trip to Broken Hill. In addition, Broken Hill, for the first time, received a new air service to Melbourne via Mildura.

In November 2012 Rex was awarded all eight NSW intrastate Air Transport licences that it was previously holding. This conferred on Rex the sole right to continue to operate on these routes for the next licence period of March 2013 until March 2018.

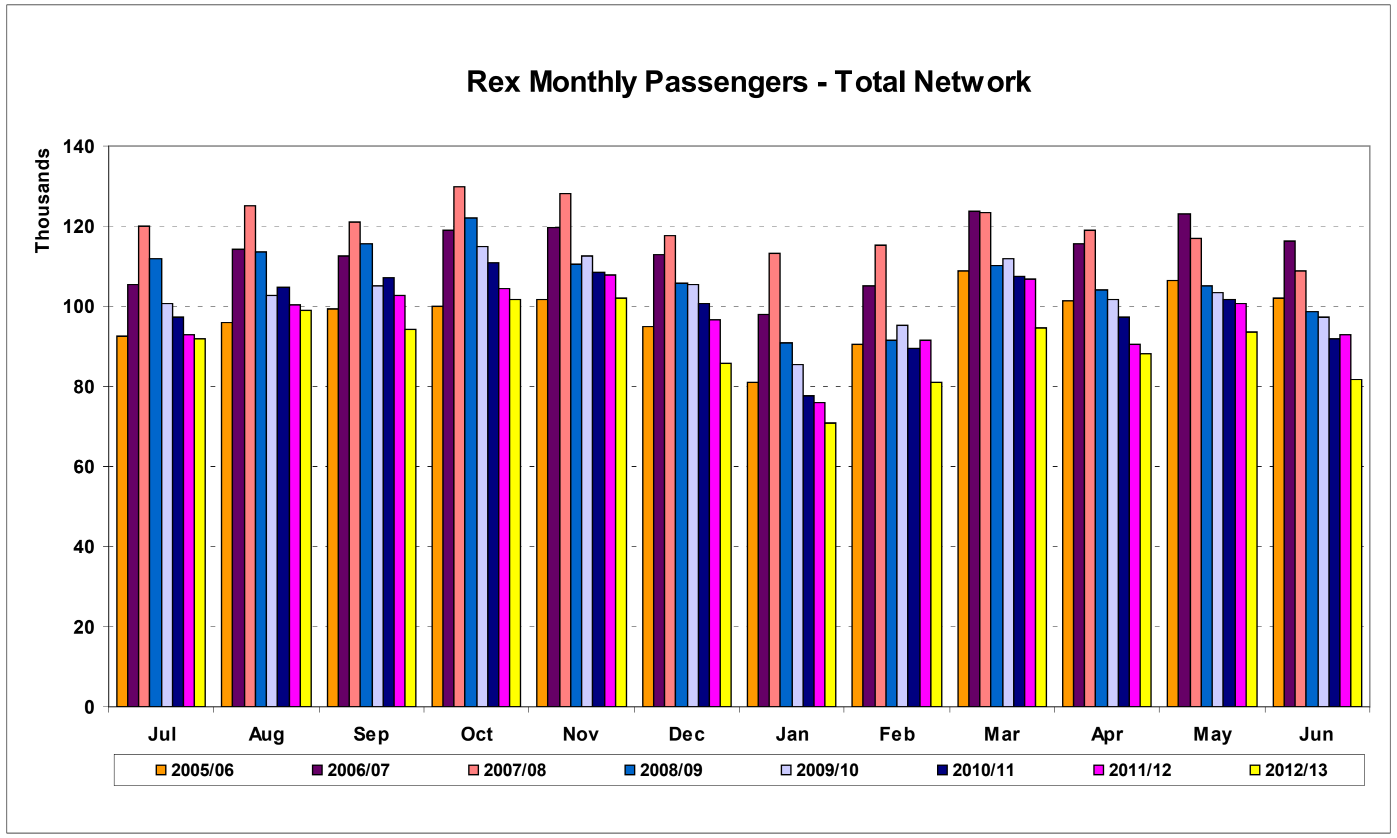
The list of licensed NSW routes awarded to Rex:

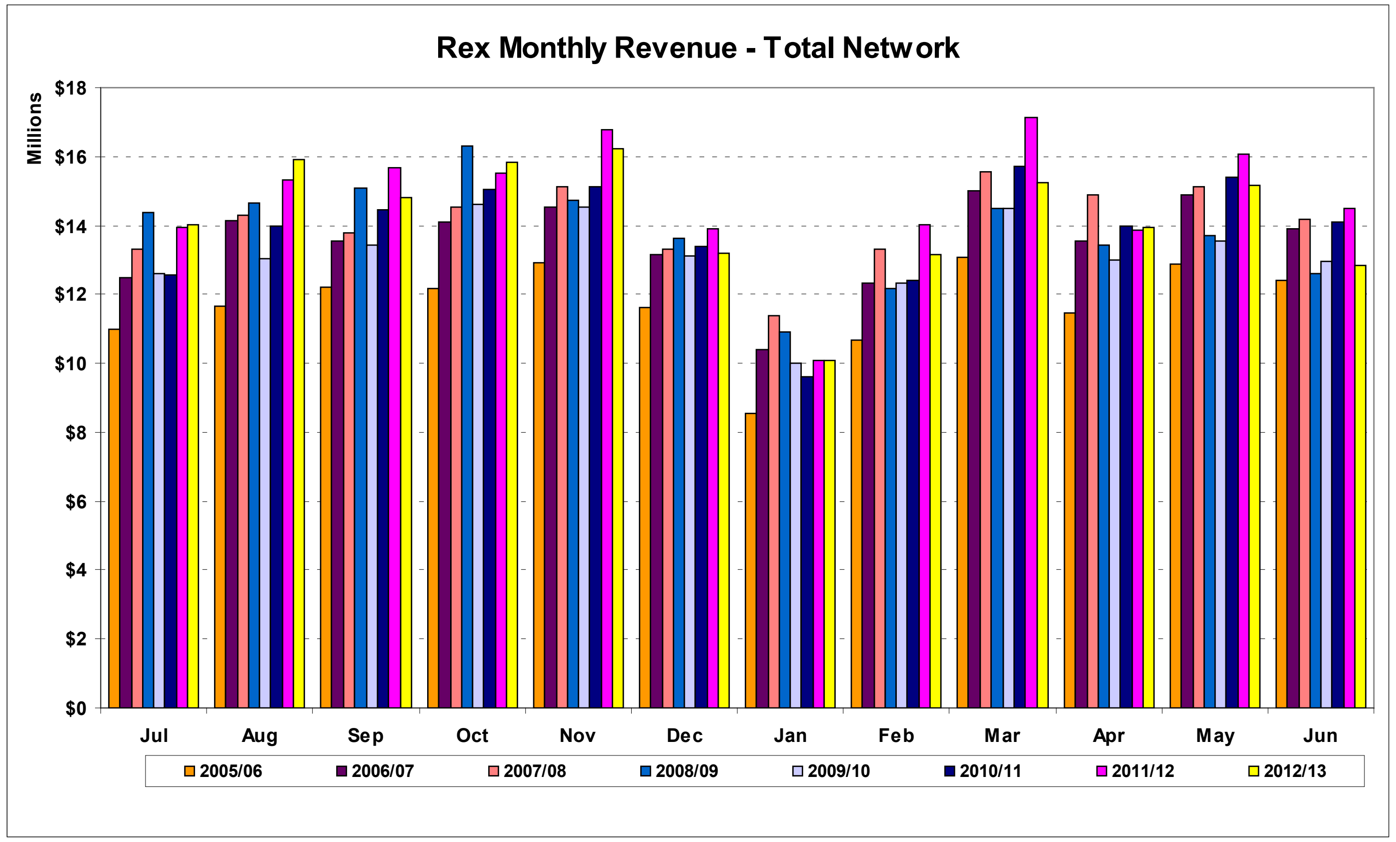
- Bathurst to Sydney
- Broken Hill to Sydney
- Grafton to Sydney
- Merimbula to Sydney
- Moruya to Sydney
- Narrandera to Sydney
- Parkes to Sydney
- Taree to Sydney

From April 2013 Rex redeployed services from the Dubbo to Sydney route to the Wagga Wagga to Sydney route. This was in response to a material step-change in operating costs at Dubbo regional airport that were associated with airport security screening. This followed a decision by Dubbo City Council (DCC) that required Rex passengers to be screened and to pay screening charges of about $9.00 per departing passenger which equates to an additional cost of some $300,000.00 per year for a requirement that is only legally applicable to the QantasLink Q-400 operated services that newly commenced on the Dubbo to Sydney route from March 2013.

With effect from April 2013, the number of Rex services between Dubbo and Sydney were reduced from 82 weekly services to 73 weekly services, equating to a reduction in annual seats of some 16,000. The Dubbo to Sydney cutbacks saw week day services reduced from seven return services to six return services and the reduction of nine weekly services were all linked to peak Sydney airport slots which were reallocated to Rex's Wagga Wagga to Sydney route.

The tables below set out the evolution in monthly passenger carriage and monthly passenger revenue over the last eight FYs.



# 12 REVIEW OF OPERATIONS (CONTINUED)

## FLEET CHANGES

During the reporting period, Air Link sold one Piper Chieftain.

During the reporting period, Rex signed an agreement to purchase four Saab 340B*plus* model aircraft on or before the expiry of their leases in July 2013 and March 2014. This brings the total number of Saab 340B*plus* model aircraft that Rex has committed to purchase at lease expiry in FY 2014 to eight.

In May 2013 AAPA purchased a Reims Cessna 150 Aerobat aircraft in support of the Alpha Aviation contract.

## IMPROVING PRODUCTIVITY

The Group's Productivity Committee continued its efforts throughout the year with the launch of its ninth consecutive productivity drive. The committee ended the year with a total realised savings of over $3.9M.

## ENTERPRISE AGREEMENTS (EA)

All Rex EA and the Regional Express Airlines Services Collective Agreements were successfully voted in and approved by Fair Work Australia in 2012. The next rounds of negotiations are due to commence in February 2014.

## OPERATIONAL AND SERVICE STANDARDS

In FY 2013 Rex continued to deliver exceptional on-time performance and service reliability. As reported by the BITRE, Rex recorded 85.8% on-time departure performance which ranked Rex as the top performing Australian airline in FY 2013.

In addition, Rex completed FY 2013 with a low cancellation rate of 0.7% which bettered all Australian airlines with the exception of the traditional Skywest Airlines network in Western Australia that excludes the ATR operations for Virgin Australia.

| | On Time Departure | | Cancellation Rate (%) | |
|---|---|---|---|---|
| Airline | FY 2013 | FY 2012 | FY 2013 | FY 2012 |
| rex Regional Express | 1st | 3rd | 0.7% | 0.4% |
| QantasLink | 6th | 7th | 2.5% | 2.0% |
| Qantas | 2nd | 2nd | 1.6% | 1.7% |
| Jetstar | 8th | 8th | 1.3% | 1.6% |
| Virgin Australia | 3rd | 4th | 1.7% | 1.3% |
| Virgin ATR Operations | 4th | 6th | 2.4% | 1.5% |
| Skywest* | 7th | 5th | 0.2% | 0.2% |
| Tiger Airways | 5th | 1st | 1.2% | 0.5% |

*Skywest incorporated into Virgin Regional Airlines effective 7 May 2013*

Rex again received both national and international recognition this FY through several accolades.

AVIATIONWEEK TOP PERFORMING AIRLINE ASIA-PACIFIC 2013

AVIATIONWEEK TOP PERFORMING Regional airline 2009-12

On 1 July 2013, Aviation Week and Space Technology ranked Rex as the Top Performing Airline in the Asia-Pacific region and second for all carriers worldwide, in a study based on performance categories covering liquidity, financial health, earnings performance, fuel management and capital efficiency over the 2012 calendar year. This result is a continuation of Rex's solid performance in previous years, where since 2009 Rex was ranked as the world's top performing regional airline, a category which no longer exists as of the 2013 rankings.

Rex was also ranked as the Best Domestic Airline for Customer Satisfaction for the months of July 2012 and August 2012 in the Roy Morgan Customer Satisfaction Awards. In July, Rex received an 88% satisfaction rating in the surveys, ranking ahead of Qantas, Jetstar, Virgin Australia and Tiger Airways. In the subsequent month of August, Rex received an 86% rating, ranking ahead of Virgin Australia, Qantas and Jetstar.

CUSTOMER SATISFACTION AWARD No.1 Roy Morgan Research REX (REGIONAL EXPRESS) BEST DOMESTIC AIRLINE AUSTRALIA JULY 2012

CUSTOMER SATISFACTION AWARD No.1 Roy Morgan Research REX (REGIONAL EXPRESS) BEST DOMESTIC AIRLINE AUSTRALIA August 2012



## COMMUNITY INVOLVEMENT

Rex is mindful of the tremendous social and economic impact its services have on regional communities and works in partnership with these communities to balance their needs against Rex's commercial imperatives. We are also committed to giving back to regional communities by supporting worthwhile charitable causes which are focused on helping the less fortunate.


*Proceeds from the Rex Open Day were presented to Can Assist and Country Hope by Rex GM Network Strategy & Sales Warrick Lodge. Marie Papworth (left) is from Can Assist and Chris Blake (right) is from Country Hope.*

Throughout the year, Rex contributed over a quarter of a million dollars in sponsorships to worthy charitable and community projects across our network, giving back to regional communities to the measure of our capabilities. The causes that Rex have supported include the Julia Creek Dirt n Dust Festival, House With No Steps, the Chad Hancock Cancer Foundation for Young Adults and Kidney Health Australia. We have also provided support to several Rotary Club fundraisers and Relay for Life events across the network.

In August 2012, Rex celebrated its 10th anniversary of operations with an open day in Wagga Wagga. All proceeds from the open day were donated to Country Hope and Can Assist, two charities based in Wagga Wagga. The 10th anniversary was also marked by the production of a coffee table book entitled *The Rex Story: The First 10 Years*. All profits from the sale of this book also go towards supporting these two organisations.

*Past management of Hazelton, Kendell & Rex – (L-R): Geoff Breust (Kendell GM 1988-97, Kendell CEO 1997-2000 & Rex MD 2004-07), James Davis (Hazelton Chief Pilot 2001-02 & Rex MD 2008-11), Max Hazelton (Hazelton founder & CEO 1953-95), Garry Filmer (Rex COO from 2012), Lim Kim Hai (Rex Executive Chairman from 2003), Michael Jones (Rex CEO 2002-03), Andrew Drysdale (Hazelton CEO 1999-2002), Greg Russell (Hazelton MD 1996-1998), Chris Hine (Rex Chief Pilot & GM Flight Ops 2002-11 & Rex COO 2011-12).*

*Balloons giveaway at the Rex Open Day.*

# 13 CHANGES IN STATE OF AFFAIRS

In late June 2013 Rex received its CASA CASR Part 145 and Part 147 engineering approvals. The 145 is an approval of our engineering facilities and operations to carry out aircraft maintenance under the new CASA CASR regulations. The 147 approval is to carry out engineering training including some aircraft type training which we were previously not approved to do.

All divisions of the Rex Flight Operations Group are confronted with significant Regulatory Reform mandated by CASA. This reform program will be rolled out over the next three years and is designed to modernise CASA rules and regulations which will affect Australia's aviation industry. Rex has assigned project managers to facilitate the implementation of these reforms across the Rex Group.

## TENDERS

Pel-Air previously submitted a bid for a Commonwealth of Australia tender for Replacement for Air Defence Targets (JP66) and Pel-Air's bid was preferred. After prolonged negotiations however, an agreement could not be reached and the Commonwealth of Australia terminated the tender for JP66 without award of contract. Pel-Air continues to be the contractor for Fast Jet support to the Australian Defence Force under a contract secured in 2011.

During the year, Pel-Air participated in several tender submissions for Fly In, Fly Out charters and secured a short-term contract to provide air charter services to Coober Pedy, South Australia.

# 14 SUBSEQUENT EVENTS

On 1 July 2013, Rex purchased, at a steep discount, the entire Saab 340 spare parts holdings from Pinnacle Airlines in the USA which had over 215,000 items including engines, propellers and undercarriages.

On 2 July 2013, Rex took ownership of seven of the 25 leased Saab 340B*plus* model aircraft bringing the total owned Saab aircraft in the fleet to 33.

On 3 July 2013, Rex signed an agreement to purchase eight Saab 340B*plus* model aircraft off lease on or before expiry of their leases in March 2014.

# 15 FUTURE DEVELOPMENTS

In early July 2013 Air Link completed the CASA assessments required to transition to CASR Part 42 and 145. It is expected that these approvals will be granted in the first quarter.

The iPad installation project throughout the Saab fleet continues and is expected to be completed in 2014. This initiative will improve communication and data access flow while bringing other operational efficiencies to the pilots. The iPads with 3G connectivity will store the full suite of company manuals and have the capability to generate performance data for take-off and landing. In addition, the iPads will provide automatic transfer of all engine trend data analysis to engineering.

# 16 ENVIRONMENTAL REGULATIONS

Rex continues to be an active participant in programs aimed at maximising energy efficiency and reducing Greenhouse gas emissions in accordance with the Energy Efficient Opportunities Act 2006 (EEO) and the National Greenhouse Energy Reporting Act 2007 (NGER).

Since its registration with the EEO program in November 2007, five public reports on the initiatives undertaken by Rex have been made available on the Rex website at www.rex.com.au

Since its registration with the NGER program in January 2009, Rex has submitted four NGER reports and the fifth report is due in October 2013.



# 17 DIVIDENDS

In respect of the FY ended 30 June 2012, a fully franked dividend of 9.0 cents per share was paid to the holders of fully paid ordinary shares on 30 November 2012.

In respect of the FY ended 30 June 2013, the Directors have recommended no dividends to be paid out in view of the planned substantial investments in FY 2014 namely:

- purchase of Saab 340B*plus* aircraft coming off lease;
- purchase of the entire spares holdings of Pinnacle airlines comprising over 215,000 line items;
- purchase of a full flight simulator;
- construction of a purpose built building to house the simulator.

# 18 INDEMNIFICATION OF OFFICERS AND AUDITORS

During the FY, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the company secretaries (as named above), and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Company has not otherwise, during or since the FY, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate against a liability incurred as such an officer or auditor.

# 19 REMUNERATION REPORT

## REMUNERATION AND NOMINATION COMMITTEE

Rex's board of directors has established a Remuneration and Nomination Committee for the purpose of determining and reviewing compensation arrangements for the directors and the senior management executives of the Group. This committee has a process for performance evaluation of the board, its committees and key executives of Rex. The committee's role is to assess the appropriateness of the nature and amount of remuneration of directors and senior management executives on a periodic basis.

## REMUNERATION POLICY

Remuneration levels are set to enable Rex and its subsidiaries to attract and retain appropriately qualified and experienced directors and senior management executives, who will create sustainable value for shareholders and other stakeholders. They also fairly and responsibly reward directors and senior management, having regard to the performance of the Group, the performance of the individual and the external compensation environment.

## REMUNERATION STRUCTURE

In accordance with best practice corporate governance, a distinction has been drawn between the remuneration structure of Rex's non-executive directors and that of its senior management executives. This enables Rex to maintain the independence of non-executive directors and reward senior management executives for their performance of duties and their dedication.

Rex has set in place a remuneration model for all staff which calls for staff accepting a lower fixed annual salary increase in exchange for a profit share and a share plan.

- Profit Share Incentive Plan

  Rex has established a profit share incentive scheme which has run for seven FYs. Under this scheme, eligible employees are awarded a share of Rex's profit before tax (PBT) based on an agreed percentage (excluding contributions from subsidiaries and associates) for the FY immediately preceding the award. The profit share is allocated on an equal share basis. Permanent part time employees receive an amount proportional to their employment hours. The Board decided that this plan will be offered to all non-Enterprise Bargaining Agreement (EBA) employees who are not the subject of an adverse recommendation by the Remuneration and Nomination Committee.

- Share Gift Plan

  Rex has established the share gift plan for its executive directors and eligible employees. The share plan, which has run from FY 2006, was offered to all the EBA groups. In FY 2013, two groups, namely the pilots and the engineers agreed as part of the EBA to receive the share gift whilst the Airline Services EBA staff and flight attendants opted not to receive the share gift in lieu of higher base salaries. The pilot's EBA also allows that each individual can choose between receiving the share gift or receiving the equivalent value in cash. The Board decided that this plan will also be offered to all non-EBA employees who are not the subject of an adverse recommendation by the Remuneration and Nomination Committee. This plan is not based on any performance measures (other than eligibility for non-EBA employees) as it was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders. As such, the share gift plan entitles eligible employees to a fixed value of shares in exchange for a percentage of their base salaries. Therefore there are no vesting conditions attached to the share gift.

## DIRECTOR AND SENIOR MANAGEMENT DETAILS

The following persons acted as directors of the Company during or since the end of the FY:

Lim Kim Hai (Chairman)

The Hon. John Sharp (Deputy Chairman)

James Davis

Chris Hine

Lee Thian Soo

Ronald Bartsch

Garry Filmer

The term 'senior management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the FY and since the end of the FY:

Garry Filmer (Chief Operating Officer)

Warrick Lodge (General Manager, Network Strategy & Sales)

Irwin Tan (General Manager, Corporate Services / Company Secretary)

Mayooran Thanabalasingham (General Manager, Information Technology and Communications)

Dale Hall (General Manager, Engineering)

Neville Howell (General Manager, Flight Operations & Chief Pilot)

Png Yeow Tat (Deputy General Manager, Engineering)



## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The directors and other nominated key management personnel received the following amounts as compensation for their services as directors and executives of the Company and/or the Group during the year:

| | | Short-term benefits | | | Post employment benefits | Long-term benefits | Share-based payments | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Directors/Executives | FY | Cash salary & fees $ | Cash profit sharing & other bonuses $ | Non-monetary $ | Pension & super-annuation $ | Long service leave $ | Options & rights $ | Share gift provision $ | Total $ | % Consisting of options % |
| **EXECUTIVE DIRECTORS** | | | | | | | | | | |
| **LIM KIM HAI** (1) | 2013 | - | - | - | - | - | - | - | - | 0% |
| Executive Chairman | 2012 | - | - | - | - | - | - | - | - | 0% |
| **CHRIS HINE** (2) | 2013 | 31,391 | 2,542 | - | 3,054 | 186 | - | 3,471 | 40,644 | 0% |
| Chief Operating Officer (up to 29 Feb 2012) | 2012 | 195,369 | 51,927 | - | 19,226 | 3,233 | - | 3,360 | 273,115 | 0% |
| **GARRY FILMER** (3) | 2013 | 164,439 | 62,771 | - | 14,919 | - | - | 2,685 | 244,814 | 0% |
| Chief Operating Officer (from 1 March 2012) | 2012 | 141,529 | 51,927 | - | 16,481 | - | - | 2,600 | 212,537 | 0% |
| **NON-EXECUTIVE DIRECTORS** | | | | | | | | | | |
| **JOHN SHARP** | 2013 | 90,000 | - | - | 8,100 | - | - | - | 98,100 | 0% |
| Deputy Chairman | 2012 | 90,000 | - | - | 8,100 | - | - | - | 98,100 | 0% |
| **LEE THIAN SOO** | 2013 | 29,039 | - | - | - | - | - | - | 29,039 | 0% |
| Non-Executive Director | 2012 | 25,000 | - | - | - | - | - | - | 25,000 | 0% |
| **RONALD BARTSCH** | 2013 | 35,000 | - | - | 3,150 | - | - | - | 38,150 | 0% |
| Non-Executive Director | 2012 | 35,000 | - | - | 3,150 | - | - | - | 38,150 | 0% |
| **JAMES DAVIS** (4) | 2013 | 29,038 | - | - | 2,614 | - | - | - | 31,652 | 0% |
| Non-Executive Director | 2012 | 31,005 | - | - | 2,250 | - | - | 3,157 | 36,412 | 0% |
| **SENIOR MANAGEMENT EXECUTIVES** | | | | | | | | | | |
| **WARRICK LODGE** | 2013 | 153,530 | 52,771 | - | 14,211 | 2,559 | - | 2,995 | 226,066 | 0% |
| GM, Network Strategy & Sales | 2012 | 149,600 | 51,927 | - | 17,101 | 2,440 | - | 2,900 | 223,968 | 0% |
| **IRWIN TAN** | 2013 | 166,606 | 52,771 | - | 15,025 | 2,646 | - | 2,995 | 240,043 | 0% |
| GM, Corporate Services | 2012 | 154,600 | 51,927 | - | 17,516 | 2,524 | - | 2,900 | 229,467 | 0% |
| **MAYOORAN THANABALASINGHAM** | 2013 | 157,568 | 52,771 | - | 14,454 | 2,563 | - | 2,995 | 230,351 | 0% |
| GM, ITC | 2012 | 149,600 | 51,927 | - | 17,101 | 2,442 | - | 2,900 | 223,970 | 0% |
| **DALE HALL** | 2013 | 155,725 | 52,771 | - | 14,309 | 2,295 | - | 2,685 | 227,785 | 0% |
| GM, Engineering | 2012 | 137,087 | 51,927 | - | 16,081 | 2,188 | - | 2,600 | 209,883 | 0% |
| **NEVILLE HOWELL** (5) | 2013 | 167,515 | 57,771 | - | 15,131 | 2,777 | - | 3,630 | 246,824 | 0% |
| GM, Flight Operations & Chief Pilot | 2012 | 50,286 | - | - | 4,510 | 887 | - | - | 55,683 | 0% |
| **PNG YEOW TAT** (6) | 2013 | 135,104 | 32,543 | - | 13,000 | 2,251 | - | 2,636 | 185,534 | 0% |
| Deputy GM, Engineering | 2012 | 40,557 | - | - | 3,650 | - | - | - | 44,207 | 0% |
| **TOTAL** | **2013** | **1,314,955** | **366,711** | **-** | **117,967** | **15,277** | **-** | **24,092** | **1,839,002** | 0% |
| | **2012** | **1,199,633** | **311,562** | **-** | **125,166** | **13,714** | **-** | **20,417** | **1,670,491** | 0% |

(1) Lim Kim Hai undertook to forfeit his Director's fee in November 2008 in response to the global economic crisis and continued to do so in this reporting period in the light of the continuing difficult environment.

(2) Chris Hine was appointed as Chief Operating Officer & Director with effect from 1 March 2011. He relinquished this position on 1 March 2012 and commenced Long Service Leave from 12 March 2012.

(3) Garry Filmer was appointed as Chief Operating Officer & Director with effect from 1 March 2012.

(4) James Davis retired as Managing Director on 1 July 2011. He remains a member of the Board as a Director.

(5) Neville Howell was appointed as a member of the Rex Management Committee from 1 March 2012.

(6) Png Yeow Tat was appointed as a member of the Rex Management Committee from 1 March 2012.

# 19 REMUNERATION REPORT (CONTINUED)

## VALUE OF OPTIONS ISSUED TO DIRECTORS AND EXECUTIVES

No options lapsed, were granted or were exercised during the FY 2013.

## RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

In addition to the profit share and share gift schemes that apply to all non-EBA staff, Garry Filmer also received an additional Key Manager bonus as he is part of executive management. The Key Manager bonus amount given to each member of executive management was fixed by the Remuneration Committee on a discretionary basis, based on an assessment of the recipient's performance during the year. Senior management executives also received a share gift as set out in Note 28 of the financial statements.

## RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

The tables below set out summary information about the Group's earnings and movements in shareholder wealth for the five years to June 2013:

| | 30 June 2013 $'000 | 30 June 2012 $'000 | 30 June 2011 $'000 | 30 June 2010 $'000 | 30 June 2009 $'000 |
|---|---|---|---|---|---|
| Revenue | 258,311 | 273,145 | 238,488 | 228,843 | 250,963 |
| Net profit before tax | 19,177 | 35,077 | 24,095 | 26,254 | 30,789 |
| Net profit after tax | 14,018 | 25,497 | 17,593 | 24,627 | 22,982 |

| | 30 June 2013 | 30 June 2012 | 30 June 2011 | 30 June 2010 | 30 June 2009 |
|---|---|---|---|---|---|
| Share price at start of year | $1.07 | $0.83 | $1.005 | $0.80 | $1.06 |
| Share price at end of year | $1.125 | $1.07 | $0.83 | $1.005 | $0.80 |
| Interim dividend | - | - | - | - | - |
| Final dividend[1,2] | - | 9.0cps | 7.1cps | 6.6 cps | - |
| Basic earnings per share | 12.8 cps | 23.1cps | 15.8cps | 22.2 cps | 20.4 cps |
| Diluted earnings per share | 12.8 cps | 23.1cps | 15.8cps | 22.2 cps | 20.4 cps |

1 The final dividend is per share fully franked and after corporate tax of 30%.
2 Declared after the balance date and reflected in the financial statements of the year of payment.

## KEY TERMS OF EMPLOYMENT CONTRACTS

Employment contracts between the senior management executives and the Group do not have a specified duration. A notice of four weeks must be given for senior management executives to terminate their contract. There are no extraordinary termination payments set out in the contracts of the senior management executives of the Group.

# 20 PROCEEDINGS ON BEHALF OF THE COMPANY

Regional Express Holdings Limited (Rex) commenced legal proceedings against Dubbo City Council (DCC) in the fourth quarter of the FY in the Land and Environment Court New South Wales. Rex is opposed to two decisions made by Dubbo City Council, namely that on 22 October 2012 DCC decided to conduct security screening services at Dubbo airport on a full cost recovery basis to be charged to all regular passenger transport operators using the airport, that is, Rex and QantasLink; and that on 23 February 2013 DCC made the decision to adopt a fee to be charged to those airlines for the security screening services. By law, aircraft which are under 20,000kg MTOW operating RPT services are not required to be screened. It is Rex's view that DCC failed to comply with the requirements of due process and procedural fairness in reaching each decision, and in respect of the second decision, failed to comply with the statutory process required pursuant to ss 608, 610D and 610F of the Local Government Act 1993.



# 21 NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 30 to the financial statements.

The directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in Note 30 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

# 22 ROUNDING OFF OF AMOUNTS

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the Financial Statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.298 (2) of the Corporations Act 2001.

On behalf of the Directors

Garry Filmer

Chief Operating Officer

Sydney, 29 August 2013

Deloitte.

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

29 August 2013

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 audit of the financial statements of Regional Express Holdings Limited for the financial year ended 30 June 2013, 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 audit; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Catherine Hill

Catherine Hill
Partner
Chartered Accountants





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# financial statements

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Passenger revenue | | 207,884 | 214,751 |
| Freight revenue | | 960 | 982 |
| Charter revenue | | 37,869 | 45,488 |
| Other passenger services and amenities | | 2,550 | 2,789 |
| Other revenue | 5 | 9,048 | 9,135 |
| **Total revenue** | | **258,311** | **273,145** |
| **Finance income** | 5 | **1,987** | **1,580** |
| **Other gains and losses** | 6 | **1,902** | **1,207** |
| Flight and port operation costs (excluding fuel) | | (48,947) | (48,719) |
| Fuel costs | | (38,603) | (38,560) |
| Salaries and employee-related costs | 5 | (94,164) | (93,645) |
| Selling and marketing costs | | (5,412) | (5,359) |
| Engineering and maintenance costs | | (31,887) | (29,919) |
| Office and general administration costs | | (6,530) | (7,312) |
| Finance costs | 5 | (1,531) | (1,531) |
| Depreciation and amortisation | 5 | (15,949) | (15,810) |
| **Total costs and expenses** | | **(243,023)** | **(240,855)** |
| **Profit before income tax** | | **19,177** | **35,077** |
| Income tax expense | 7 | (5,159) | (9,580) |
| **Profit after tax** | | **14,018** | **25,497** |
| **Profit attributable to:** | | | |
| Members of the parent | | 14,018 | 25,497 |
| | | **14,018** | **25,497** |
| **Earnings per share (cents per share)** | | | |
| Basic | 20 | 12.8 | 23.1 |
| Diluted | 20 | 12.8 | 23.1 |

Notes to the financial statements are included on pages 33 to 68

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit after tax | 14,018 | 25,497 |
| Other comprehensive income for the year, net of income tax | - | - |
| **Total profit and other comprehensive income for the year** | **14,018** | **25,497** |

Notes to the financial statements are included on pages 33 to 68

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## AS AT 30 JUNE 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current assets** | | | |
| Cash and bank balances | 26 | 44,155 | 43,272 |
| Trade and other receivables | 8 | 18,652 | 13,219 |
| Available for sale investments carried at fair value – shares | | 10 | 10 |
| Inventories | 9 | 13,218 | 11,946 |
| **Total current assets** | | **76,035** | **68,447** |
| **Non-current assets** | | | |
| Other financial assets | 10 | 11 | 11 |
| Other receivables | 8 | 7,002 | 7,038 |
| Property, plant and equipment | 11 | | |
| Aircraft | | 93,409 | 100,739 |
| Other property, plant and equipment | | 75,261 | 75,937 |
| Goodwill and other intangible assets | 12 | 8,311 | 7,399 |
| **Total non-current assets** | | **183,994** | **191,124** |
| **Total assets** | | **260,029** | **259,571** |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 22,691 | 19,595 |
| Unearned revenue | 16 | 19,446 | 19,189 |
| Borrowings | 14 | 2,235 | 2,042 |
| Current tax payable | 7 | 990 | 6,265 |
| Provisions | 15 | 7,483 | 7,716 |
| Other liabilities | 16 | 11 | 37 |
| **Total current liabilities** | | **52,856** | **54,844** |
| **Non-current liabilities** | | | |
| Borrowings | 14 | 22,864 | 25,100 |
| Provisions | 15 | 2,579 | 2,031 |
| Deferred tax liabilities | 7 | 789 | 897 |
| **Total non-current liabilities** | | **26,232** | **28,028** |
| **Total liabilities** | | **79,088** | **82,872** |
| **Net assets** | | **180,941** | **176,699** |
| **Equity** | | | |
| Issued capital | 17 | 71,959 | 71,959 |
| Reserved shares | 18 | (1,439) | (1,816) |
| Retained earnings | 19 | 108,155 | 103,960 |
| Share-based payments reserve | 18 | 676 | 1,006 |
| Other reserves | 18 | 1,590 | 1,590 |
| **Total equity** | | **180,941** | **176,699** |

Notes to the financial statements are included on pages 33 to 68

# CONSOLIDATED STATEMENT OF CASH FLOWS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

| | Note | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| Receipts from customers | | 279,690 | 299,283 |
| Payments to suppliers, employees and others | | (246,979) | (249,426) |
| Interest paid | | (2,390) | (2,573) |
| Income tax paid | | (10,542) | (5,525) |
| **Net cash flows from operating activities** | 26 (B) | **19,779** | **41,759** |
| Interest received | | 1,987 | 1,580 |
| Proceeds from disposal of property, plant and equipment | | 480 | 3,541 |
| Payments for property, plant and equipment - aircraft and other | | (8,635) | (10,253) |
| Payments for property, plant and equipment - software | | (549) | (30) |
| **Net cash flows used in investing activities** | | **(6,717)** | **(5,162)** |
| Dividends paid | | (9,823) | (7,806) |
| Share buy-back | | - | (2,700) |
| Shares purchased as reserve shares | | (316) | - |
| Salary sacrifice - payment for shares | | 3 | 7 |
| Repayment of borrowings - non-related parties | | (2,043) | (1,858) |
| **Net cash flows used in financing activities** | | **(12,179)** | **(12,357)** |
| **Net increase in cash held** | | **883** | **24,240** |
| **Cash at the beginning of the financial year** | | **43,272** | **19,032** |
| **Cash at the end of the financial year** | 26 (A) | **44,155** | **43,272** |

Notes to the financial statements are included on pages 33 to 68

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

| | Attributable to equity holders of the Company | | | | | |
|---|---|---|---|---|---|---|
| | Issued capital $'000 | Reserved shares $'000 | Retained earnings $'000 | Share-based payments reserve $'000 | General reserve $'000 | Total equity $'000 |
| **At 1 July 2011** | **74,659** | **(2,358)** | **86,269** | **607** | **1,590** | **160,767** |
| Profit for the year | - | - | 25,497 | - | - | 25,497 |
| Other comprehensive income (net of tax) | - | - | - | - | - | - |
| Total comprehensive income for the year | **-** | **-** | **25,497** | **-** | **-** | **25,497** |
| Dividends paid | - | - | (7,806) | - | - | (7,806) |
| Share buy-back | (2,700) | - | - | - | - | (2,700) |
| Share gift issued - gift | - | 535 | - | (535) | - | - |
| Share gift issued - salary sacrifice | - | 7 | - | - | - | 7 |
| Share gift plan provision | - | - | - | 934 | - | 934 |
| **At 30 June 2012** | **71,959** | **(1,816)** | **103,960** | **1,006** | **1,590** | **176,699** |
| | | | | | | |
| **At 1 July 2012** | **71,959** | **(1,816)** | **103,960** | **1,006** | **1,590** | **176,699** |
| Profit for the year | - | - | 14,018 | - | - | 14,018 |
| Other comprehensive income (net of tax) | - | - | - | - | - | - |
| Total comprehensive income for the year | **-** | **-** | **14,018** | **-** | **-** | **14,018** |
| Dividends paid | - | - | (9,823) | - | - | (9,823) |
| Shares purchased as reserve shares | - | (316) | - | - | - | (316) |
| Share gift issued - gift | - | 690 | - | (690) | - | - |
| Share gift issued - salary sacrifice | - | 3 | - | - | - | 3 |
| Share gift - transfer to provision on amendment of EBA | - | - | - | (549) | - | (549) |
| Share gift plan provision | - | - | - | 909 | - | 909 |
| **At 30 June 2013** | **71,959** | **(1,439)** | **108,155** | **676** | **1,590** | **180,941** |

Notes to the financial statements are included on pages 33 to 68

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013


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# 01 GENERAL INFORMATION

Regional Express Holdings Limited (the Company) is listed on the Australian Securities Exchange (Trading under symbol 'REX'), incorporated and operating in Australia. The Company's registered office and its principal place of business is at 81 – 83 Baxter Road, Mascot, NSW 2020, Australia. Principal activities of the Company and its subsidiaries are described in Note 32.

# 02 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

### Standards and Interpretations issued not yet effective

| Standard/Interpretation | 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 | 1 January 2015 | 30 June 2016 |
| AASB 10 'Consolidated Financial Statements', AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards' | 1 January 2013 | 30 June 2014 |
| AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards' | 1 January 2013 | 30 June 2014 |
| AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards' | 1 January 2013 | 30 June 2014 |
| AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13' | 1 January 2013 | 30 June 2014 |
| AASB 119 'Employee Benefits'(2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)' | 1 January 2013 | 30 June 2014 |
| AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards' | 1 January 2013 | 30 June 2014 |
| AASB 128 'Investments in Associates and Joint Ventures'(2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards' | 1 January 2013 | 30 June 2014 |
| AASB 2011-4 'Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements' | 1 July 2013 | 30 June 2014 |
| AASB 2012-2 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities' | 1 January 2013 | 30 June 2014 |
| AASB 2012-3 'Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities' | 1 January 2014 | 30 June 2015 |
| AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle' | 1 January 2013 | 30 June 2014 |
| AASB 2012-10 'Amendments to Australian Accounting Standards – Transition Guidance and Other Amendments' | 1 January 2013 | 30 June 2014 |

A number of Australian Accounting Standards and Interpretations are in issue but are not effective for the current year end. The following existing Group accounting policies will change on adoption of these pronouncements:

- AASB 9 issued in December 2009 introduces new requirements for the classification and measurement of financial assets. AASB 9 amended in December 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of AASB 9 are described as follows:

  - o AASB 9 requires all recognised financial assets that are within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under AASB 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The directors anticipate that the application of AASB 9 in the future may have an impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of AASB 9 until a detailed review has been completed.

- In August 2011, a package of six Standards on consolidation, joint arrangements, associates and disclosures was issued, including AASB 10, AASB 11, AASB 12, AASB 127 (2011), AASB 128 (2011) and AASB 2011-7.

Key requirements of these six Standards are described below.

  - o AASB 10 replaces the parts of AASB 127 'Consolidated and Separate Financial Statements' that deal with consolidated financial statements. Interpretation 112 'Consolidation – Special Purpose Entities' will be withdrawn upon the effective date of AASB 10. Under AASB 10, there is only one basis for consolidation, that is control. In addition, AASB 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in AASB 10 to deal with complex scenarios.
  - o AASB 11 replaces AASB 131 'Interests in Joint Ventures'. AASB 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Interpretation 113 'Jointly Controlled Entities – Non-monetary Contributions by Venturers' will be withdrawn upon the effective date of AASB 11. Under AASB 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under AASB 131, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under AASB 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under AASB 131 can be accounted for using the equity method of accounting or proportionate accounting.
  - o AASB 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in AASB 12 are more extensive than those in the current standards.
  - o AASB 2011-7 contains consequential amendments to a range of Australian Accounting Standards and Interpretations in light of the issuance of the 5 Standards above. These six standards are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided all of these standards are applied at the same time.

The directors anticipate that the application of these six standards will not have an impact on amounts reported in the consolidated financial statements.

- AASB 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of AASB 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other Australian Accounting Standards require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in AASB 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under AASB 7 'Financial Instruments: Disclosures' will be extended by AASB 13 to cover all assets and liabilities within its scope.

AASB 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that AASB 13 will be adopted in the Group's consolidated financial statements for the annual period ending 30 June 2014 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

- The amendments to AASB 132 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments to AASB 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

- The amendments to AASB 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should be provided retrospectively for all comparative periods. However, the amendments to AASB 132 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The directors anticipate that the application of these amendments to AASB 132 and AASB 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

- The Annual Improvements to AASBs 2009 – 2011 Cycle include a number of amendments to various AASBs. The amendments are effective for annual periods beginning on or after 1 January 2013. Amendments to AASBs include:
  - o amendments to AASB 116 'Property, Plant and Equipment'; and
  - o amendments to AASB 132 'Financial Instruments: Presentation'.

The amendments to AASB 116 clarify that spare parts, stand-by equipment and servicing equipment should be classified as property, plant and equipment when they meet the definition of property, plant and equipment in AASB 116 and as inventory otherwise. The directors do not anticipate that the amendments to AASB 116 will have a significant effect on the Group's consolidated financial statements.

The amendments to AASB 132 clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with AASB 112 'Income Taxes'. The directors anticipate that the amendments to AASB 132 will have no effect on the Group's consolidated financial statements as the Group has already adopted this treatment.

Other than as noted above, the adoption of the various Australian Accounting Standards and Interpretations in issue but not yet effective will not impact the Group's accounting policies. However, the pronouncements will result in changes to information currently disclosed in the financial statements. The Group does not intend to adopt any of these pronouncements before their effective dates."

# 03 SIGNIFICANT ACCOUNTING POLICIES

## (A) STATEMENT OF COMPLIANCE

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law. The financial statements include the consolidated financial statements of the Group. For the purpose of preparing the consolidated statements, the Company is a for-profit entity.

Accounting Standards include Australian Accounting Standards. Compliance with Australian Accounting Standards ensures that the financial statements and notes of the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 29 August 2013.

## (B) BASIS OF PREPARATION

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical 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.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order, amounts in the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

## (C) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) (referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owner of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group's losing control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any differences between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Company had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable Standards). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139 'Financial instruments: Recognition and Measurement' or, where applicable, the cost on initial recognition of an investment in an associate or jointly controlled entity.

## (D) REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for rebates and other similar allowances.

### RENDERING OF SERVICES

Revenue from providing air passenger and freight services is recognised when the relevant flights are made.

### DIVIDEND AND INTEREST INCOME

Dividend from investments is recognised when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Interest income from or financial assets is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

## (E) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

## (F) CASH AND CASH EQUIVALENTS

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the consolidated statement of financial position.

## (G) FOREIGN CURRENCIES

The individual financial statements of each Group entity are presented in its functional currency being the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars ('$'), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to Note 27).

## (H) DERIVATIVE FINANCIAL INSTRUMENTS

The Group is only authorised by the Board to enter into forward contracts for the purchase of US dollars (USD) and is only authorised to purchase amounts not exceeding the annual USD requirements of the Group. The Group does not engage in any derivative financial instruments speculatively.

The Group enters into forward contracts where it agrees to buy specified amounts of USD 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 USD, 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. Further details of these USD contracts are disclosed in Note 27 to the financial statements.

The USD contracts are initially recognised at fair value at the date the contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately unless the foreign currency contracts are designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The fair value of USD contracts are classified as a non-current asset or a non-current liability if the remaining maturity of the hedge relationship is more than 12 months and as a current asset or a current liability if the remaining maturity of the hedge relationship is less than 12 months.

USD contracts not designated into an effective hedge relationship are classified as a current asset or a current liability.

### HEDGE ACCOUNTING

Hedges of foreign exchange risk on highly probable forecast transactions or firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship the entity documents the relationship between the USD contract and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the USD contract that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 27 contains details of the fair values of the USD contracts used for hedging purposes. Movements in the hedging reserve in equity are also detailed in Note 18.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is included in profit or loss from that date.

### CASH FLOW HEDGE

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of cash flow hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other gains and losses.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

## (I) EMPLOYEE BENEFITS

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short term employee benefits are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities recognised in respect of long term employee benefits are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Payments to defined contribution retirement benefits plans are recognised as an expense when employees have rendered service entitling them to the contributions.

## (J) FINANCIAL ASSETS

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, net of transaction costs except for those financial assets classified as at fair value through profit or loss which are initially measured at fair value.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', 'available-for-sale' financial assets, and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

### EFFECTIVE INTEREST METHOD

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate basis for debt instruments other than those financial assets 'at fair value through profit or loss'.

### FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets are classified as financial assets at fair value through profit or loss where the financial asset:

(i) has been acquired principally for the purpose of selling in the near future;

(ii) is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

(iii) is a derivative that is not designated and effective as a hedging instrument.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

Fair value is determined in the manner described in Note 27.

### AVAILABLE-FOR-SALE FINANCIAL ASSETS

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 27. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

Dividends on available-for-sale equity instruments are recognised in profit and loss when the Group's right to receive payments is established.

### LOANS AND RECEIVABLES

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

Interest is recognised by applying the effective interest rate.

### IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity instruments, any subsequent increase in fair value after an impairment loss is recognised directly in equity.

## (K) FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

### CLASSIFICATION OF DEBT OR EQUITY

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity Instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

### FINANCIAL LIABILITIES

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

### FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 27.

### OTHER FINANCIAL LIABILITIES

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

## (L) GOODWILL

Goodwill acquired in a business combination is carried at cost established at date of the acquisition of the business less accumulated impairment losses if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or groups of CGUs, expected to benefit from the synergies of the business combination. CGUs (or groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to the other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

## (M) GOVERNMENT GRANTS

Government grants are assistance by the government in the form of transfers of resources to the Group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the Group other than the requirement to operate in certain regions or industry sectors.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred revenue in the statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

The benefit of a government loan at a below-market rate of interest is treated as a government grant, measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Government assistance which does not have conditions attached specifically relating to the operating activities of the entity is recognised in accordance with the accounting policies above.

## (N) IMPAIRMENT OF OTHER TANGIBLE AND INTANGIBLE ASSETS OTHER THAN GOODWILL

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

## (O) TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

### CURRENT TAX

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated [statement of profit or loss and other comprehensive income/statement of profit or loss] because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax liabilities and assets are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The directors reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to AASB 12 is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of the investment properties as the Group is not subject to any income taxes on disposal of its investment properties.

### CURRENT AND DEFERRED TAX FOR THE PERIOD

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

## (P) INTANGIBLE ASSETS

### INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite lives that are acquired separately are recorded at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period, with any changes in these accounting estimates being accounted for on a prospective basis. Intangible assets with indefinite lives that are acquired separately are carried at cost less accumulated impairment losses.

A summary of the policies applied to the Group's finite intangible assets is as follows:

| Intangible asset | Computer software |
|---|---|
| Amortisation method used | 4 years straight line |
| Impairment test / recoverable amount testing | where an indicator of impairment exists |

## (Q) INVENTORIES

Inventories are valued at the lower of cost and net realisable value. Costs of inventories are determined on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs necessary to make the sale.

## (R) LEASING

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

### GROUP AS LESSOR

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight line basis over the lease term.

### GROUP AS LESSEE

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised immediately in profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to Note 3E. Contingent rentals are recognised as expenses in the periods in which they are incurred. Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## (S) PROPERTY, PLANT AND EQUIPMENT

Land and buildings, plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the amounts payable in the future to their present value as at the date of acquisition.

Depreciation is provided on property, plant and equipment, including freehold buildings but excluding land. Depreciation is calculated on a straight line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

The rates applied are as follows:

| | |
|---|---|
| Aircraft | 15,000 to 60,000 hours |
| Building | 20 to 30 years |
| Computer Equipment | 4 to 5 years |
| Furniture & Fittings | 8 to 10 years |
| Leasehold Improvements | over the unexpired lease period |
| Motor Vehicles | 7 years |
| Plant & Equipment | 8 years |
| Rotable Assets | 5 to 20 years |

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising in the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

## (T) PROVISIONS

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

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cashflows estimated to settle the present obligation, its carrying amount is the present value of those cashflows (where the effect of the time value of money is material).

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

## (U) SHARE-BASED PAYMENTS

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of the equity-settled share-based transactions are set out in Note 18.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest with and corresponding to increase in equity.

Equity-settled share-based payment transactions with other parties other than employees are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

For cash-settled share-based payments, a liability is recognised for the goods or services acquired, measured initially at the fair value of the liability. At the end of each reporting period until the liability is settled, and the date of settlement, the fair value of the liability is measured, with any changes in fair value recognised in profit or loss for the year.

Share-based payments for which this is a choice of equity-settled or cash-settled are accounted for as cash-settled share-based payment.

## (V) GOODS AND SERVICES TAX

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or

ii. for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from

# 04 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

## CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

The following are the critical judgements (apart from those involving estimations, which are dealt with below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

### EMPLOYEE ENTITLEMENTS

Management judgement is applied in determining the following key assumptions used in the calculation of long service leave at balance date:

- future increases in wages and salaries;
- future on-cost rates; and
- experience of employee departures and period of service.

## KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### IMPAIRMENT OF GOODWILL

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance date was $7,190 thousand (2012: $7,190 thousand) with no impairment loss recognised during the current financial year.

### FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

As described in Note 27, management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

# 05 REVENUES AND EXPENSES

## FOR THE FINANCIAL YEAR ENDED 30 JUNE 2013

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Finance income** | | |
| Interest | 1,987 | 1,580 |
| | **1,987** | **1,580** |
| **Other revenue** | | |
| Training income | 3,297 | 3,881 |
| Engineering services | 327 | 354 |
| Insurance claim | 366 | 230 |
| Grant – Department of Transport | 2,900 | 2,941 |
| Other income | 2,158 | 1,729 |
| | **9,048** | **9,135** |
| **Salaries and employee-related costs** | | |
| Wages and salaries (excluding bonus – profit share scheme) | (85,017) | (83,818) |
| Bonus – profit share scheme | (1,458) | (2,369) |
| Workers' compensation costs | (923) | (822) |
| Superannuation costs - defined contribution plan | (5,857) | (5,702) |
| Expense of share-based payments | (909) | (934) |
| | **(94,164)** | **(93,645)** |
| **Finance costs** | | |
| Interest on bank overdrafts and loans | 2,390 | 2,573 |
| less: amounts amortised over future contract periods | (859) | (1,042) |
| Interest expense | **(1,531)** | **(1,531)** |
| The weighted average capitalisation rate on funds borrowed generally is 9.1% per annum (2012: 9.1%) | | |
| **Depreciation and amortisation** | | |
| Depreciation and amortisation | (15,790) | (15,704) |
| Amortisation of development costs and software | (159) | (106) |
| | **(15,949)** | **(15,810)** |
| **Lease payments included in consolidated statement of profit or loss** | | |
| Included in flight and port operation costs | | |
| Minimum lease payments – operating lease | (7,337) | (7,470) |
| | **(7,337)** | **(7,470)** |
| **Office and general administrative costs** | | |
| Bad debts | - | (191) |
| | **-** | **(191)** |

# 06 PROFIT FOR THE YEAR

## GAINS AND LOSSES

Profit for the year has been arrived at after crediting the following gains:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Net gain on disposal of property, plant and equipment | 156 | 599 |
| Net foreign currency gain | 1,746 | 608 |
| | **1,902** | **1,207** |

# 07 INCOME TAX

## INCOME TAX RECOGNISED IN PROFIT OR LOSS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Income tax expense comprises: | | |
| Current tax expense | 5,267 | 9,330 |
| Deferred tax expense/(income) relating to the origination and reversal of temporary differences | (108) | 250 |
| Total income tax expense | **5,159** | **9,580** |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: | | |
| Profit before tax from operations | 19,177 | 35,077 |
| Income tax expense calculated at 30% | 5,753 | 10,523 |
| Tax on non deductible expense/(non assessable income) | (15) | 94 |
| Previously unrecognised and unused tax losses and tax offsets now recognised as deferred tax assets | (579) | (1,037) |
| | **5,159** | **9,580** |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

# 07 INCOME TAX (CONTINUED)

The following current and deferred tax balances have been recognised in the statement of financial position.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current tax assets and liabilities** | | |
| **Current tax payable** | | |
| Income tax attributable: | | |
| Parent entity | 990 | 6,265 |
| | **990** | **6,265** |
| **Deferred tax balances** | | |
| Deferred tax assets comprise: | | |
| Temporary differences | 5,443 | 5,225 |
| | **5,443** | **5,225** |
| Deferred tax liabilities comprise: | | |
| Temporary differences | (6,232) | (6,122) |
| | **(6,232)** | **(6,122)** |
| Net deferred tax assets/(liabilities) | **(789)** | **(897)** |

Taxable and deductible temporary differences arise from the following:

| 30 June 2013 | Opening balance $'000 | Charged to income $'000 | Charged to equity $'000 | Acquisitions / disposals $'000 | Exchange differences $'000 | Changes in tax rate $'000 | Closing balance $'000 |
|---|---|---|---|---|---|---|---|
| **Gross deferred tax liabilities** | | | | | | | |
| Inventories | (3,588) | (381) | - | - | - | - | (3,969) |
| Other items | (2,534) | 271 | - | - | - | - | (2,263) |
| | **(6,122)** | **(110)** | **-** | **-** | **-** | **-** | **(6,232)** |
| **Gross deferred tax assets** | | | | | | | |
| Employee-related provisions | 2,799 | (168) | - | - | - | - | 2,631 |
| Provision for doubtful debts | 3 | - | - | - | - | - | 3 |
| Other items | 2,423 | 386 | - | - | - | - | 2,809 |
| | **5,225** | **218** | **-** | **-** | **-** | **-** | **5,443** |
| **Net deferred tax** | **(897)** | **108** | **-** | **-** | **-** | **-** | **(789)** |

| 30 June 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Gross deferred tax liabilities** | | | | | | | |
| Inventories | (3,117) | (471) | - | - | - | - | (3,588) |
| Other items | (1,294) | (1,240) | - | - | - | - | (2,534) |
| | **(4,411)** | **(1,711)** | **-** | **-** | **-** | **-** | **(6,122)** |
| **Gross deferred tax assets** | | | | | | | |
| Employee-related provisions | 2,256 | 543 | - | - | - | - | 2,799 |
| Provision for doubtful debts | 4 | (1) | - | - | - | - | 3 |
| Other items | 1,504 | 919 | - | - | - | - | 2,423 |
| | **3,764** | **1,461** | **-** | **-** | **-** | **-** | **5,225** |
| **Net deferred tax** | **(647)** | **(250)** | **-** | **-** | **-** | **-** | **(897)** |

Deferred tax assets of $717 thousand (2012: $1,298 thousand) from tax losses have not been brought to accounts as assets.

# 08 TRADE AND OTHER RECEIVABLES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Trade receivables | 8,472 | 7,901 |
| Provision for doubtful debts | (8) | (8) |
| | **8,464** | **7,893** |
| Sundry debtors and other debtors | 2,366 | 2,138 |
| Prepayments | 3,994 | 2,892 |
| Deposits and other assets | 3,828 | 296 |
| | **18,652** | **13,219** |

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for doubtful debts is made when there is objective evidence that a trade receivable is impaired. The amount of the provision has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors. The Group has provided fully for all receivables deemed irrecoverable based on historical experience.

Before accepting new customers, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

Majority of the Group's revenue is derived from sales made through credit cards where counterparties are either banks or the credit card companies.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Ageing of past due but not impaired** | | |
| 60 - 90 days | 84 | 50 |
| 90 - 120 days or more | 310 | 174 |
| **Total** | **394** | **224** |
| Average age (days) | 268 | 169 |
| **Movement in the provision for doubtful debts** | | |
| Balance at the beginning of the year | (8) | (38) |
| Impairment losses written back on receivables | - | 30 |
| **Balance at the end of the year** | **(8)** | **(8)** |
| **Ageing of impaired trade receivables** | | |
| 60 - 90 days | - | - |
| 90 - 120 days | - | - |
| 120+ days | (8) | (8) |
| **Total** | **(8)** | **(8)** |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Non-current** | | |
| Trade receivables – at amortised cost | 7,002 | 7,038 |
| | **7,002** | **7,038** |

# 09 INVENTORIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Consumable spares at cost | 13,218 | 11,946 |

# 10 OTHER FINANCIAL ASSETS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Non-current** | | |
| Investments carried at fair value | 11 | 11 |

## 11 PROPERTY, PLANT AND EQUIPMENT

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Aircraft** | | |
| At cost | 144,427 | 141,837 |
| Accumulated depreciation and impairment | (51,018) | (41,098) |
| **Net carrying value** | **93,409** | **100,739** |
| **Other property, plant and equipment** | | |
| **Rotable assets** | | |
| At cost | 50,796 | 46,985 |
| Accumulated depreciation and impairment | (13,231) | (10,506) |
| **Net carrying value** | **37,565** | **36,479** |
| **Leasehold improvements** | | |
| At cost | 1,368 | 1,273 |
| Accumulated depreciation and impairment | (1,060) | (912) |
| **Net carrying value** | **308** | **361** |
| **Motor vehicles** | | |
| At cost | 2,353 | 2,410 |
| Accumulated depreciation and impairment | (857) | (696) |
| **Net carrying value** | **1,496** | **1,714** |
| **Furniture and fittings** | | |
| At cost | 1,335 | 1,314 |
| Accumulated depreciation and impairment | (928) | (781) |
| **Net carrying value** | **407** | **533** |
| **Computer equipment** | | |
| At cost | 2,024 | 2,408 |
| Accumulated depreciation and impairment | (1,560) | (1,289) |
| **Net carrying value** | **464** | **1,119** |
| **Plant and equipment – ground service equipment** | | |
| At cost | 8,977 | 8,647 |
| Accumulated depreciation and impairment | (6,009) | (5,209) |
| **Net carrying value** | **2,968** | **3,438** |
| **Land and buildings** | | |
| At cost | 29,822 | 28,729 |
| Accumulated depreciation and impairment | (3,153) | (2,423) |
| **Net carrying value** | **26,669** | **26,306** |
| **Engines** | | |
| At cost | 8,527 | 8,527 |
| Accumulated depreciation and impairment | (3,143) | (2,540) |
| **Net carrying value** | **5,384** | **5,987** |
| **Other property, plant and equipment** | | |
| Total other property, plant and equipment | | |
| At cost | 105,202 | 100,293 |
| Accumulated depreciation and impairment | (29,941) | (24,356) |
| **Net carrying value** | **75,261** | **75,937** |
| **Total property, plant and equipment** | | |
| **At cost** | **249,629** | **242,130** |
| **Accumulated depreciation and impairment** | **(80,959)** | **(65,454)** |
| **Net carrying value** | **168,670** | **176,676** |

### RECONCILIATIONS

| 2013 | Opening net carrying value $'000 | Additions $'000 | Disposals $'000 | Reclassification $'000 | Depreciation charge for the year $'000 | Closing net carrying value $'000 |
|---|---|---|---|---|---|---|
| Aircraft | 100,739 | 2,865 | (38) | - | (10,157) | 93,409 |
| Rotable assets | 36,479 | 4,104 | (281) | - | (2,737) | 37,565 |
| Leasehold improvements | 361 | 103 | (6) | - | (150) | 308 |
| Motor vehicles | 1,714 | - | (2) | (26) | (190) | 1,496 |
| Furniture and fittings | 533 | 13 | - | - | (139) | 407 |
| Computer equipment | 1,119 | 139 | - | (522) | (272) | 464 |
| Plant and equipment – ground service equipment | 3,438 | 318 | (2) | 26 | (812) | 2,968 |
| Land and buildings | 26,306 | 1,093 | - | - | (730) | 26,669 |
| Engines | 5,987 | - | - | - | (603) | 5,384 |
| **Total property, plant and equipment** | **176,676** | **8,635** | **(329)** | **(522)** | **(15,790)** | **168,670** |

| 2012 | Opening net carrying value $'000 | Additions $'000 | Disposals $'000 | Reclassification $'000 | Depreciation charge for the year $'000 | Closing net carrying value $'000 |
|---|---|---|---|---|---|---|
| Aircraft | 112,163 | 2,978 | (2,917) | (1,263) | (10,222) | 100,739 |
| Rotable assets | 34,195 | 4,887 | (3) | - | (2,600) | 36,479 |
| Leasehold improvements | 506 | 46 | - | - | (191) | 361 |
| Motor vehicles | 1,787 | 139 | (21) | - | (191) | 1,714 |
| Furniture and fittings | 646 | 28 | - | - | (141) | 533 |
| Computer equipment | 616 | 819 | (1) | - | (315) | 1,119 |
| Plant and equipment – ground service equipment | 3,648 | 572 | - | - | (782) | 3,438 |
| Land and buildings | 26,942 | 101 | - | - | (737) | 26,306 |
| Engines | 5,229 | 683 | - | 600 | (525) | 5,987 |
| **Total property, plant and equipment** | **185,732** | **10,253** | **(2,942)** | **(663)** | **(15,704)** | **176,676** |

No impairment loss has been recognised over items of property plant and equipment for the year ended 30 June 2013 (2012: nil). Computer equipment is reclassified to computer software and disclosed in Note 12. The reclassification for FY 2012 is due to an aircraft being split into its component parts and reclassified as engines and inventory.

# 12 GOODWILL AND OTHER INTANGIBLE ASSETS

| | Goodwill $'000 | Software and Development Cost $'000 |
|---|---|---|
| **At 30 June 2013** | | |
| Cost | 7,190 | 2,011 |
| Accumulated amortisation and impairment | - | (890) |
| **Net carrying amount** | **7,190** | **1,121** |
| **Total goodwill and other intangible assets** | | **8,311** |
| | | |
| **Reconciliation** | | |
| At 1 July 2012, net of accumulated amortisation | 7,190 | 209 |
| Additions | - | 549 |
| Reclassification | - | 522 |
| Amortisation at 30 June 2013 | - | (159) |
| **At 30 June 2013, net of accumulated amortisation** | **7,190** | **1,121** |
| **Total goodwill and other intangible assets** | | **8,311** |
| | | |
| **At 30 June 2012** | | |
| Cost | 7,190 | 940 |
| Accumulated amortisation and impairment | - | (731) |
| **Net carrying amount** | **7,190** | **209** |
| **Total goodwill and other intangible assets** | | **7,399** |
| | | |
| **Reconciliation** | | |
| At 1 July 2011, net of accumulated amortisation | 7,190 | 285 |
| Additions | - | 30 |
| Amortisation at 30 June 2012 | - | (106) |
| **At 30 June 2012, net of accumulated amortisation** | **7,190** | **209** |
| **Total goodwill and intangible assets** | | **7,399** |

During the financial year, the Group assessed the recoverable amount of goodwill and determined that there was no impairment of goodwill.

Goodwill has been allocated for impairment testing purposes to the individual cash generating units as follows:

| | |
|---|---|
| Air Link ($'000) – Charter | 58 |
| Air Link ($'000) – Passenger routes | 518 |
| Pel-Air ($'000) | 6,614 |
| Total ($'000) | 7,190 |

### PEL-AIR

Pel-Air was purchased by the Group in the financial periods 2006 (50%) and 2007 (50%). The recoverable amount of the Pel-Air cash-generating unit has been determined based on a 5% revenue growth with 2.5% cost escalation and appropriate capital investment, and a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period, and a discount rate of 12.5% p.a. Cash flows beyond that five year period are extrapolated using a steady 2.5% p.a. growth rate.

### AIR LINK

Air Link is a regional passenger airline that was acquired by the Group in the 2006 financial year. The recoverable amount of the Air Link cash-generating unit is determined based on a 5% revenue growth with 2.5% cost escalation and appropriate capital investment, and a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a five-year period and a discount rate of 12.5% p.a. Cash flows beyond that five year period are extrapolated using a steady 2.5% p.a. growth rate.

# 13 TRADE AND OTHER PAYABLES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Trade payables | 13,595 | 11,833 |
| Other payables | 9,096 | 7,762 |
| **Total** | **22,691** | **19,595** |

Trade payables are non-interest bearing and are normally settled on 7 to 30-day terms. Other payables are non-interest bearing and have an average term of 7 to 30 days.

# 14 BORROWINGS

| | Effective interest rate % | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **Current** | | | |
| Loan facility | 9.1% | 2,235 | 2,042 |
| | | | |
| **Non-current** | | | |
| Loan facility | 9.1% | 22,864 | 25,100 |

The loan facility was used by VAA Pty Ltd to fund a number of aircraft assets. The liabilities are secured over the assets being funded the value of which exceeds the outstanding liability. The loan is repayable over 10 years from July 2012 to June 2021.

# 15 PROVISIONS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| **Employee benefits** | | |
| Profit share and bonus | 3,112 | 3,616 |
| Annual leave and long service leave | 4,371 | 4,100 |
| | **7,483** | **7,716** |
| **Non-current** | | |
| **Employee benefits** | | |
| Long service leave | 2,579 | 2,031 |
| **Total employee benefits provisions** | **10,062** | **9,747** |

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Annual leave and long service leave** | | |
| Balance at the beginning of the year | 6,131 | 4,522 |
| Arising during the year | 6,832 | 7,311 |
| Utilised | (6,013) | (5,702) |
| **Balance at the end of the year** | **6,950** | **6,131** |

## 16 OTHER LIABILITIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Current** | | |
| Unearned passenger and charter revenue | 19,446 | 19,189 |
| | | |
| Unearned training revenue | 11 | 37 |

## 17 ISSUED CAPITAL

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Fully paid ordinary shares | 71,959 | 71,959 |

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | No. '000 | $'000 | No. '000 | $'000 |
| **Fully paid ordinary shares** | | | | |
| Balance at 1 July | 110,090 | 71,959 | 112,902 | 74,659 |
| Share buy-back | - | - | (2,812) | (2,693) |
| Cost of share buy-back | - | - | - | (7) |
| **Balance at 30 June** | **110,090** | **71,959** | **110,090** | **71,959** |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

During the Financial Year 2008, the Group executed a publicly announced share buy-back programme. All the shares purchased under the programme are cancelled. During the current year, no shares were bought back (2012: 2,812,139).

Share units held as reserved shares by subsidiary company was 616,684 (2012: 953,992).

## 18 RESERVES AND OTHER RESERVES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Reserved shares | (1,439) | (1,816) |
| Share-based payments reserve | 676 | 1,006 |
| General reserve | 1,590 | 1,590 |
| | **827** | **780** |
| | | |
| **Reserved shares** | | |
| Balance at 1 July | (1,816) | (2,358) |
| Purchase of shares on market | (316) | - |
| Share gift issued - gift | 690 | 535 |
| Share gift issued - salary sacrifice | 3 | 7 |
| **Balance at 30 June** | **(1,439)** | **(1,816)** |

Reserved shares are ordinary shares in the Company which are re-acquired for later payment as employee share-based payment awards and are deducted from equity.

| | | |
|---|---|---|
| **Share-based payments reserve** | | |
| Balance at 1 July | 1,006 | 607 |
| Share gift issued | (690) | (535) |
| Share gift - transfer to provision on amendment of EBA | (549) | - |
| Share gift plan provision | 909 | 934 |
| **Balance at 30 June** | **676** | **1,006** |

The share-based payments reserve arises on the grant of shares to executives and employees under the employee share gift plan. Amounts are transferred out of the reserve when the shares are issued. Rex has established the share gift plan for its executive directors and eligible employees since FY 2006.

During FY 2013, 2 groups namely the Flight Attendants and the Airline Services EBA staff opted not to receive share gift in lieu of higher base salaries. Pilots may elect to take cash payment in lieu of the share gift.

The board decided that this plan will be offered to all non-EBA employees who are not the subject of an adverse recommendation by the Remuneration and Nomination Committee. This plan is not based on any performance measures as it was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders.

Eligible employees who accept an offer of shares under the share plan will be entitled to receive the equivalent of 2% of their base salary in shares each financial year. Such shares will be issued to eligible employees on the relevant award dates. Non eligible employees are given the opportunity to salary sacrifice amounts to acquire Rex shares, with allocation of shares equal to 2% of the their base salary.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **General reserve** | | |
| Balance at 1 July | 1,590 | 1,590 |
| **Balance at 30 June** | **1,590** | **1,590** |
| **Total other reserves** | **1,590** | **1,590** |

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

## 19 RETAINED EARNINGS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Balance at 1 July | 103,960 | 86,269 |
| Dividends provided for or paid (Note 21) | (9,823) | (7,806) |
| Net profit for the year | 14,018 | 25,497 |
| **Balance at 30 June** | **108,155** | **103,960** |

## 20 EARNINGS PER SHARE

| | 2013 Cents per share | 2012 Cents per share |
|---|---|---|
| **Basic earnings per share** | | |
| Basic earnings per share | 12.8 | 23.1 |
| **Diluted earnings per share** | | |
| Diluted earnings per share | 12.8 | 23.1 |

**Basic earnings per share**
The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share (EPS) are as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Net profit | 14,018 | 25,497 |
| Earnings used in the calculation of basic EPS | 14,018 | 25,497 |

| | 2013 No.'000 | 2012 No.'000 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of basic EPS | 109,387 | 110,179 |

**Diluted earnings per share**
The earnings and weighted average number of ordinary shares used in the calculation of diluted earnings per share (EPS) are as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Net profit | 14,018 | 25,497 |
| Earnings used in the calculation of diluted EPS | 14,018 | 25,497 |

| | 2013 No.'000 | 2012 No.'000 |
|---|---|---|
| Weighted average number of ordinary shares for the purpose of diluted EPS | 109,387 | 110,179 |

## 21 DIVIDENDS

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Cents per share | Total $'000 | Cents per share | Total $'000 |
| **Unrecognised amounts** | | | | |
| Dividends on fully paid ordinary shares proposed for approval at AGM: | | | | |
| Fully franked final dividend | - | - | 9.0 | 9,823 |

In respect of financial year ended 30 June 2013, the directors have recommended no dividends to be paid out in view of the planned substantial investments in FY 2014 namely:

- purchase of Saab 340B*plus* aircraft coming off lease;
- purchase of the entire spares holdings of Pinnacle airlines comprising over 215,000 line items;
- purchase of a flight simulator;
- construction of a building to house the simulator.

Fully franked dividends paid in respect of the past financial years ended 30 June, were:

- FY 2011, 6.0 cents per share, paid on 30 November 2011
- FY 2010, 6.6 cents per share, paid on 30 November 2010
- FY 2009, nil

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Adjusted franking account balance | 29,170 | 22,838 |
| Franking credit that will arise from income tax payable as at the end of financial year | 990 | 6,265 |
| Impact on franking account balance of dividends not recognised | - | (4,246) |

## 22 COMMITMENTS FOR EXPENDITURE

The Group's commitments as at end of the financial year are as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **(A) Capital Expenditure Commitments** | | |
| **Property, plant and equipment – aircraft** | | |
| Not longer than one year | 31,599 | 5,774 |
| | **31,599** | **5,774** |
| **(B) Non-Cancellable Operating Lease Commitments** | | |
| Not longer than one year | 4,483 | 7,278 |
| Longer than one year and not longer than five years | - | 3,979 |
| | **4,483** | **11,257** |

# 23 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

As at 30 June 2013, no contingent liabilities or assets existed.

# 24 SUBSIDIARIES

| Name of entity | Country of incorporation | Ownership interest 2013 % | 2012 % |
|---|---|---|---|
| **Parent entity** | | | |
| Regional Express Holdings Limited | Australia | | |
| **Subsidiaries** | | | |
| Regional Express Pty Limited | Australia | 100 | 100 |
| Rex Freight & Charter Pty Limited | Australia | 100 | 100 |
| Rex Investment Holdings Pty Limited | Australia | 100 | 100 |
| Air Link Pty Limited | Australia | 100 | 100 |
| Pel-Air Aviation Pty Limited | Australia | 100 | 100 |
| Australian Airline Pilot Academy Pty Limited | Australia | 100 | 100 |
| VAA Pty Ltd | Australia | 100 | 100 |

Regional Express Holdings Limited is the head entity within the tax-consolidated group. These subsidiary companies are members of the tax-consolidated group.

# 25 ACQUISITION OF BUSINESSES

No business was acquired during the financial year.

# 26 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

## (A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents include cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows is reconciled to the related items in the statement of financial position as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Cash and bank balances | 44,155 | 43,272 |

## (B) RECONCILIATION OF PROFIT FOR THE PERIOD TO NET CASH FLOWS FROM OPERATING ACTIVITIES

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit for the year | 14,018 | 25,497 |
| Depreciation and amortisation | 15,949 | 15,810 |
| Share-based payment | 865 | 803 |
| Difference in market value on share-based payment | 44 | 131 |
| Unrealised foreign exchange (gain)/loss | 315 | (34) |
| Gain on disposal of non-current assets | (156) | (599) |
| Movement in bad debt provision | - | (30) |
| Interest received and receivable | (1,987) | (1,580) |
| Increase in receivables | (5,999) | (3,869) |
| Increase in inventories | (1,272) | (904) |
| Increase/(decrease) in deferred tax | (108) | 250 |
| Increase/(decrease) in current tax | (5,275) | 3,805 |
| Increase in trade payables | 3,096 | 229 |
| Increase in provisions | 315 | 2,908 |
| Decrease in other liabilities | (26) | (658) |
| | **19,779** | **41,759** |

## (C) FINANCING FACILITIES

| | 2013 Used $'000 | 2013 Limit $'000 | 2012 Used $'000 | 2012 Limit $'000 |
|---|---|---|---|---|
| Maximum facilities available and reviewed annually: | | | | |
| Loan facility | 25,100 | 25,281 | 27,142 | 27,306 |
| Merchant prepayments | - | 12,500 | - | 11,500 |
| Tape negotiations authority | - | 2,900 | 2,900 | 2,900 |
| Letter of credit | 1,619 | 1,809 | 1,475 | 1,809 |
| Set off | - | 1,000 | - | 1,000 |
| Guarantee | 2,551 | 4,170 | 2,310 | 3,950 |
| Exposure mitigation - Cash | - | 3,600 | - | 3,380 |
| Credit card | 78 | 620 | 415 | 620 |
| | **29,348** | **51,880** | **34,242** | **52,465** |

The facilities are secured by the Group's operating cash flows and properties located in Adelaide, New South Wales at Don Kendell Drive Forest Hill, and Robey Street Mascot.

# 27 FINANCIAL INSTRUMENTS

## (A) CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to stakeholders.

The Group's overall strategy remains unchanged from 2012.

The capital structure of the Group consists of debt as disclosed in Note 14. Equity attributable to equity holders of the parent comprises issued capital, reserves and retained earnings as disclosed in Notes 17, 18 and 19 respectively.

Operating cash flows are used to acquire assets required for the Group's operations, tax, dividends, share buy-backs and repayment of maturing debt. The Group's policy is to borrow centrally only if required.

### GEARING RATIO

The Group's Board reviews the capital structure on a semi-annual basis. As a part of this review the Board considers the cost of capital and the risks associated with each class of capital. The Board will balance its overall capital structure through the payment of dividends, new share issue and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Following a successful tender, the Group was awarded the contract to provide fixed wing air ambulance aircraft to Ambulance Victoria. The Group took on a $30 million loan facility to acquire and equip 4 King Air B200C aircraft to fulfill the requirements of the contract. The Group drew down $26 million of the facility during the financial year 2010, and $4 million during the financial year 2011. At the end of the financial year 2011, the loan was fully paid back and replaced by a $29 million loan facility which is fixed-interest bearing and repayable over 10 years from July 2012 to June 2021.

The net cash position at the end of the financial year was as follows:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Financial assets** | | |
| Debt [i] | (25,099) | (27,142) |
| Cash and cash equivalents | 44,155 | 43,272 |
| Excess of cash and cash equivalents over debt/(net debt) | **19,056** | **16,130** |
| Equity [ii] | **180,941** | **176,699** |
| Net debt to equity ratio | **10.5%** | **9.1%** |

[i] Debt is defined as long- and short-term borrowings, as detailed in Note 14.

[ii] Equity includes all capital and reserves of the Group that are managed as capital.

## (B) CATEGORIES OF FINANCIAL INSTRUMENTS

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Financial assets** | | |
| Loans and receivables | 21,660 | 17,365 |
| Cash and bank balances | 44,155 | 43,272 |
| Available-for-sale financial assets | 21 | 21 |
| **Financial liabilities** | | |
| Amortised cost | 47,790 | 46,737 |

## (C) FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group's financial risk is essentially in US dollars (USD) exposure and hence its main objective is to minimize the impact of USD fluctuation on its operations through spot purchases and/or hedges of the USD currency. The use of these financial instruments is governed by the Group's policy approved by the Board of Directors, which provides written principles on foreign exchange risk. Compliance with policies and exposure limits is reviewed by the Audit and Corporate Governance Committee and the Board on an ongoing basis. The Group does not enter into trade or financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function, which co-ordinates the hedging of foreign currency risks, is managed by the Group's Finance Department and reports regularly to the Board and Audit and Corporate Governance Committee.

## (D) FOREIGN CURRENCY RISK MANAGEMENT

The Group undertakes certain transactions denominated in USD, hence exposures to exchange rate fluctuations arise. Exchange rate exposures are managed using forward foreign exchange contracts.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the financial year is as follows:

| Liabilities | | Assets | |
|---|---|---|---|
| 2013 USD'000 | 2012 USD'000 | 2013 USD'000 | 2012 USD'000 |
| 3,136 | 1,749 | - | 252 |

### FOREIGN CURRENCY SENSITIVITY ANALYSIS

The Group is mainly exposed to USD for the following main purchases, approximate amounts per annum are:

- USD 15 million for engineering purchases
- USD 12 million for engine care and maintenance
- USD 8 million for operating leases
- USD 5 million for airline reservation systems usage
- USD 1 million for aircraft insurance policies

The Group is also exposed to fuel price risk which is nominally denominated in USD. The Group does not consider that this is a foreign currency risk as the final cost of fuel in AUD forms the basis for the determination of the fuel levy which is charged to the passenger when deemed necessary.

The following table details the Group's sensitivity to a 10% increase and 10% decrease in the Australian Dollar against the USD. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates. A positive number indicates an increase in profit or loss and other equity where the Australian Dollar strengthens against the respective currency. For a weakening of the Australian Dollar against the respective currency there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| Profit or loss | 34 | 14 |

The Group's sensitivity to foreign currency has increased due to the increase in USD denominated monetary liabilities.

### FORWARD FOREIGN EXCHANGE CONTRACTS

The Group may enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions up to twelve months and up to 100% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place.

## (E) INTEREST RATE RISK MANAGEMENT

The Group has very little exposure to interest rate risk as its borrowings detailed in Note 14 are at a fixed interest rate. As such the Group does not hedge its interest rate exposure. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

## (F) CREDIT RISK MANAGEMENT

The Group has limited exposure to credit risk as the majority of its revenue is derived from sales made through credit cards where counterparties are either banks or the credit card companies. The disputes to the credit card charges amount to less than $50,000 a year.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

## (G) LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity

# 27 FINANCIAL INSTRUMENTS (CONTINUED)

risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's operating activities generate positive annual cash flow. The Group tries to maintain a $10 million cash balance by the end of each financial year. As and when required, the Group uses financing facilities as detailed in Note 26.

### LIQUIDITY AND INTEREST RISK TABLES

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The amounts disclosed are based on the contractual undiscounted principal and interest cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | Weighted average effective interest rate % | 1 month $'000 | 1-3 months $'000 | 3 months to a year $'000 | 1-5 years $'000 | 5+ years $'000 |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| Non-interest bearing | - | 22,691 | - | - | - | - |
| Interest bearing | 9.1% | 369 | 739 | 3,324 | 17,726 | 13,294 |
| | | **23,060** | **739** | **3,324** | **17,726** | **13,294** |
| **2012** | | | | | | |
| Non-interest bearing | - | 19,595 | - | - | - | - |
| Interest bearing | 9.1% | 369 | 739 | 3,324 | 17,726 | 17,726 |
| | | **19,964** | **739** | **3,324** | **17,726** | **17,726** |

The following table details the Group's expected maturity for its non-derivative financial assets. The amounts disclosed are based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

| | Weighted average effective interest rate % | 1 month $'000 | 1-3 months $'000 | 3 months to a year $'000 | 1-5 years $'000 | 5+ years $'000 |
|---|---|---|---|---|---|---|
| **2013** | | | | | | |
| Non-interest bearing | - | 39 | 77 | 341 | 1,004 | 119 |
| Interest bearing | 5.0% | 69 | 106 | 648 | 3,687 | 1,550 |
| | | **108** | **183** | **989** | **4,691** | **1,669** |
| **2012** | | | | | | |
| Non-interest bearing | - | 39 | 78 | 347 | 1,300 | 121 |
| Interest bearing | 5.0% | 24 | 64 | 395 | 2,692 | 1,575 |
| | | **63** | **142** | **742** | **3,992** | **1,696** |

The Group does not hold any other derivative financial instruments.

### (H) FAIR VALUE OF FINANCIAL INSTRUMENTS

The Directors consider that the carrying amounts of the financial assets and financial liabilities recorded at the amortised cost in the financial statements approximate their fair values.

# 28 KEY MANAGEMENT PERSONNEL COMPENSATION

The aggregate compensation made to directors and other members of key management personnel of the Group is set out below:

| | 2013 $ | 2012 $ |
|---|---|---|
| Short-term benefits | 1,681,666 | 1,511,195 |
| Post-employment benefits | 117,967 | 125,166 |
| Other long-term benefits | 15,277 | 13,714 |
| Share-based payment | 24,092 | 20,417 |
| | **1,839,002** | **1,670,491** |

# 29 RELATED PARTY TRANSACTIONS

### (A) EQUITY INTERESTS IN SUBSIDIARIES

Details of interests in subsidiaries are disclosed in Note 24 to the consolidated financial statements.

### (B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

(i) KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel compensation are disclosed in Note 28 to the consolidated financial statements.

(ii) LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made to key management personnel.

(iii) KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS

The following table details the shareholdings (total of direct and indirect shareholdings) of directors and key management personnel in the Group:

| | Balance at 1 July 2012 | Shares gifted during the year | Balance at 30 June 2013 |
|---|---|---|---|
| **Directors:** | | | |
| Lim Kim Hai | 24,236,143 | - | 24,236,143 |
| The Hon. John Sharp | 400,000 | - | 400,000 |
| Lee Thian Soo | 11,449,362 | - | 11,449,362 |
| James Davis | 200,866 | - | 200,866 |
| Chris Hine | 169,458 | 3,247 | 172,705 |
| Garry Filmer | 12,654 | 2,512 | 15,166 |
| **Key management personnel:** | | | |
| Warrick Lodge | 137,853 | 2,802 | 140,655 |
| Irwin Tan | 13,637 | 2,802 | 16,439 |
| Dale Hall | 28,425 | 2,512 | 30,937 |
| Mayooran Thanabalasingham | 66,215 | 2,802 | 69,017 |
| Neville Hodge | 11,998 | 3,058 | 15,056 |
| Png Yeow Tat | 8,972 | 2,466 | 11,438 |

During the financial year, no options were granted to (2012: nil), nor exercised (2012: nil) by key management personnel for ordinary Rex shares. No options remained unpaid or to be exercised at the year end.

## 30 REMUNERATION OF AUDITORS

| | 2013 $ | 2012 $ |
|---|---|---|
| Audit and review of the consolidated financial statements | 256,000 | 248,000 |
| Other non-audit services - tax compliance | 37,800 | 69,010 |
| | **293,800** | **317,010** |

The auditor of the Group is Deloitte Touche Tohmatsu.

## 31 EVENTS AFTER THE REPORTING PERIOD

On 1 July 2013, Rex purchased, at a steep discount, the entire Saab 340 spare parts holdings from Pinnacle Airlines in the USA which had over 215,000 items including engines, propellers and undercarriages.

On 2 July 2013, Rex took ownership of seven of the 25 leased Saab 340B*plus* model aircraft bringing the total owned Saab aircraft in the fleet to 33.

On 3 July 2013, Rex signed an agreement to purchase eight Saab 340B*plus* model aircraft off lease on or before expiry of their leases in March 2014.

## 32 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 Chief Executive Officer 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 therefore as follows:

- Regular public transport
- Charter
- Training

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 year:

| | Revenue | | Segment result | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Continuing operations** | | | | |
| Regular public transport | 216,656 | 223,771 | 20,586 | 37,062 |
| Charter | 37,869 | 45,488 | 2,825 | 4,214 |
| Training | 3,786 | 3,886 | (62) | (143) |
| | **258,311** | **273,145** | **23,349** | **41,133** |
| Finance income | 1,987 | 1,580 | 1,987 | 1,580 |
| Other gains and losses | 1,902 | 1,207 | 1,902 | 1,207 |
| Central administration costs and directors' salaries | | | (6,530) | (7,312) |
| Finance costs | | | (1,531) | (1,531) |
| Profit before tax | | | 19,177 | 35,077 |
| Income tax expense | | | (5,159) | (9,580) |
| **Consolidated segment revenue and profit** | **262,200** | **275,932** | **14,018** | **25,497** |

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

Segment result represents the profit earned 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 by reportable operating segment as at the end of the year:

| | 2013 $'000 | 2012 $'000 |
|---|---|---|
| **Continuing operations** | | |
| Regular public transport assets | 171,941 | 169,630 |
| Charter assets | 79,637 | 81,367 |
| Training assets | 8,451 | 8,574 |
| **Total assets** | **260,029** | **259,571** |

Other segment information for the year is as follows:

| | Depreciation and amortisation | | Additions to non-current assets | |
|---|---|---|---|---|
| | 2013 $'000 | 2012 $'000 | 2013 $'000 | 2012 $'000 |
| **Continuing operations** | | | | |
| Regular public transport | 9,702 | 9,682 | 6,670 | 5,153 |
| Charter | 5,977 | 5,824 | 2,439 | 5,084 |
| Training | 270 | 304 | 75 | 46 |
| | **15,949** | **15,810** | **9,184** | **10,283** |

## 33 PARENT ENTITY DISCLOSURES

| | | 2013 $'000 | 2012 $'000 |
|---|---|---|---|
| **(A)** | **Financial position** | | |
| | **Assets** | | |
| | Current assets | 61,994 | 54,645 |
| | Non-current assets | 139,175 | 148,422 |
| | **Total assets** | **201,169** | **203,067** |
| | | | |
| | **Liabilities** | | |
| | Current liabilities | 44,343 | 48,186 |
| | Non-current liabilities | 2,000 | 1,500 |
| | **Total liabilities** | **46,343** | **49,686** |
| | | | |
| | **Equity** | | |
| | Issued capital | 71,959 | 71,959 |
| | Retained earnings | 82,090 | 80,332 |
| | Share-based payments reserve | 461 | 774 |
| | General reserve | 316 | 316 |
| | **Total equity** | **154,826** | **153,381** |
| | | | |
| **(B)** | **Financial performance** | | |
| | Profit for the year | 11,666 | 21,116 |
| | Other comprehensive income | - | - |
| | **Total comprehensive income** | **11,666** | **21,116** |

### (C) Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

During the financial year 2011, the parent entity entered into a deed of cross guarantee in relation to the debts of Pel-Air Aviation Pty Ltd, Rex Freight and Charter Pty Ltd, Rex Investment Holdings Pty Ltd and Australian Airline Pilot Academy Pty Ltd.

By entering into the deed, the wholly owned entities have been relieved from the requirements to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Regional Express Holdings Limited, they also represent the 'Extended Closed Group'.

The statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group' can be found in the consolidated statement of profit or loss and other comprehensive income and statement of financial position along with the note on Regional Express Holdings Limited as parent found in Note 33 (A) and (B).

### (D) Contingent liabilities of the parent entity

As at 30 June 2013, no contingent liabilities or assets existed (2012: nil).

### (E) Commitments for the acquisition of property, plant and equipment by the parent entity

As at 30 June 2013, the parent entity has commitment of USD28,900 thousand for aircraft acquisition payable within one year (2012: USD5,950 thousand).



## 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;

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 3 to the consolidated financial statements;

(c) 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; and

(d) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

At the date of this declaration, the Company is within the class of companies affected by ASIC Class Order 98/1418. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 33 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors made pursuant to s.295 (5) of the Corporations Act 2001.

On behalf of the Directors

Garry Filmer

Chief Operating Officer

Sydney, 29 August 2013

# regulatory reports

Deloitte.

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# Independent Auditor's Report to the Members of Regional Express Holdings Limited

**Report on the Financial Report**

We have audited the accompanying financial report of Regional Express Holdings Limited, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 28 to 69.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the consolidated financial statements comply with International Financial Reporting Standards.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the company's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





Deloitte.

*Auditor's Independence Declaration*

In conducting our audit, 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 report.

*Opinion*

In our opinion:

(a) the financial report of Regional Express Holdings Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 2.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in Note 19 of the directors' report for the year ended 30 June 2013. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Opinion*

In our opinion the Remuneration Report of Regional Express Holdings Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Catherine Hill

Catherine Hill
Partner
Chartered Accountants
Sydney, 29 August 2013

# CORPORATE GOVERNANCE STATEMENT

The Board is committed to sound corporate governance to ensure shareholder expectations are met and that Regional Express Holdings (the Company) is in compliance with the Australian Securities Exchange (ASX) Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Recommendations).

As required by the ASX Listing Rules this statement sets out the extent to which the Company has complied with the ASX Recommendations during the financial year to 30 June 2013 and identifies any of the ASX Recommendations not followed and the reason why the Company has not adopted the ASX Recommendations. This statement adopts the ordering and numbering of the ASX Recommendations.

## PRINCIPLE 1: LAY SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a charter that details the roles and responsibilities of the Board and its members and their relationship with the Management Committee to achieve the objectives of delivering shareholder value. The Board's Charter, Board Committee Charters, Continuous Disclosure Policy and Code of Conduct are available for access by shareholders and the general public in the corporate governance section of the Company's website (ASX Recommendation 1.1).

The performance of each Management Committee member is evaluated against goals and objectives at least once a year with the assistance of the Remuneration and Nomination Committee (ASX Recommendation 1.2). The performance of the Management Committee was reviewed in FY 2013 (ASX Recommendation 1.3).

## PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are set out in the Directors' Report.

The membership of the Board during the year ended 30 June 2013, including independence status was as follows:

| Director | Status | Date of Appointment |
|---|---|---|
| Lim Kim Hai | Executive Chairman | Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009 and 27 November 2012. |
| The Hon. John Sharp | Deputy Chairman and Independent Director | Appointed 14 April 2005 and re-appointed 19 November 2008 and 23 November 2011. |
| James Davis | Independent Director | Appointed 26 August 2004 as Executive Director and re-appointed 23 November 2011. |
| Garry Filmer | Chief Operating Officer (from 1 March 2012)<br>Executive Director | Appointed 1 March 2012 and re-appointed 27 November 2012. |
| Chris Hine | Chief Operating Officer (until 29 February 2012)<br>Executive Director | Appointed 1 March 2011 and re-appointed 23 November 2011. |
| Lee Thian Soo | Non-Executive Director | Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009 and 27 November 2012. |
| Ronald Bartsch | Independent Director | Appointed 23 November 2010 and re-appointed 23 November 2011. |

The Board feels that James Davis's recent prior role as Managing Director will not affect the independence of his decision making as a Director and as such has deemed him independent. The Board acknowledges the ASX Recommendation that a majority of the Board should be independent directors (ASX Recommendation 2.1). Although the Board has only three directors out of seven that qualify as independent non-executive directors, Lee Thian Soo is non-executive and is only considered non-independent by virtue of his share ownership. The Board believes that every director on the current Board will make decisions in the best interests of all shareholders and in accordance with their duties as directors.

The Board also acknowledges that it is desirable that the Chairman be an independent director and for his role to be segregated from that of the Chief Executive Officer (ASX Recommendations 2.2 and 2.3), however, the Board views the Chairman's history of leadership of the Company as an advantage, both at the management level and at the Board level. This has resulted in performance that matches the best airlines in the world.

The Board is responsible for the management of the affairs of the Company and its subsidiaries (the Group), including:

### (a) Strategic and Financial Performance

- Developing and approving the corporate strategy.
- Evaluating, approving and monitoring the strategic and financial plans and objectives of the Group.
- Evaluating, approving and monitoring the annual budgets and business plans.
- Determining the Company's dividend policy, the operation of the Company's dividend re-investment plan (if any), and the amount and timing of all dividends.
- Evaluating, approving and monitoring major capital expenditure, capital management and all major acquisitions, divestitures and other corporate transactions, including the issue of securities of the Company.
- Approving all accounting policies, financial reports and material reporting and external communications by the Group.
- Appointment of the Chairman of the Company.

### (b) Executive Management

- Appointing, monitoring, managing the performance of the Chief Operating Officer or Managing Director and other executive directors.
- Managing succession planning for the executive directors and such other key management positions which may be identified from time to time.
- Appointing the Company Secretary.
- With the advice and assistance of the Remuneration & Nomination Committee, reviewing and approving the performance and remuneration of the individual Board members and policies with respect to remuneration of any employees.

### (c) Audit

- Upon the recommendation of the Audit and Corporate Governance Committee, appointing the external auditor and determining its remuneration and terms of appointment.
- Ensuring that effective audit and regulatory compliance programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's audit framework. Approving and, with the assistance and advice of the Audit and Governance Committee, monitoring compliance with the Group's audit policies and protocol.
- Monitoring the Group's operations in relation to, and compliance with relevant regulatory and legal requirements.

### (d) Corporate Governance

At least once per year the Board will, with the assistance and advice of the Audit and Corporate Governance Committee, review the performance and effectiveness of the Company's corporate governance policies and procedures and, if appropriate, amend those policies and procedures as necessary.

The Board will review and approve all disclosures related to any departures from the ASX Principles of Good Corporate Governance.

- The Board will review and approve the public disclosure of any of the Group's policies and procedures.
- The Board will supervise the public disclosure of all matters that the law and ASX Listing Rules require to be publicly disclosed, consistent with the Continuous Disclosure Compliance Policy approved by the Board.
- The Board will approve the appointment of directors to committees established by the Board.
- The Board will approve and monitor delegations of authority.

### (e) Risk Management

The Company recognises that the management of business and economic risk is an integral part of its operations and has for many years integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance. The Board has established a sound system of risk oversight and management and internal control which involve the Safety and Risk Management Committee and the Audit and Corporate Governance Committee.

- Ensuring that effective risk management programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's risk framework, including (but not limited to) systems of risk management and internal control.
- Approving and, with the assistance and advice of the Risk Management Committee, monitoring compliance with the Group's risk.

The Charters of both committees are available on the Company's website.

### (f) Strategic Planning

- The Board will be actively and regularly involved in strategic planning.
- Strategic planning will be based on the identification of opportunities and the full range of business risks that will determine which of those opportunities are most worth pursuing.
- The Board will, on an ongoing basis, review how the strategic environment is changing, what key business risks and opportunities are appearing, how they are being managed and what, if any, modifications in strategic direction should be adopted.

### (g) Performance Evaluation

- At least once per year the Board will, with the advice and assistance of the Remuneration and Nomination Committee, review and evaluate the performance of the Board, each Board Committee, and each individual director against the relevant Charters, corporate governance policies, and agreed goals and objectives (ASX Recommendation 2.5).
- Following each review and evaluation the Board will consider how to improve its performance.
- The Board will agree and set the goals and objectives for the Board and its Committees each year, and if necessary, amend the relevant Charters and policies.
- With the advice and assistance of the Remuneration and Nomination Committee, the Board will review and approve the remuneration of the Company's executive and non-executive directors.

The evaluation of the Board, its committees and directors was carried out during the financial year as set out above.

A Director of the Company is entitled to seek independent professional advice (including, but not limited to, legal, accounting and financial advice) at the Company's expense on any matter connected with the discharge of his or her responsibilities, in accordance with the procedures and subject to the conditions set out in the Board Charter.

The **Remuneration and Nomination Committee** has been established by the Board of the Company (ASX recommendations 2.4 and 8.1) and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by endeavouring to ensure that:

- the directors and senior management of the Group are remunerated fairly and appropriately;
- the Group's remuneration policies and outcomes strike an appropriate balance between the interests of the Company's shareholders, and rewarding and motivating the Group's executives and employees in order to secure the long term benefits of their energy and loyalty;
- the human resources policies and practices are consistent with and complementary to the strategic direction and objectives of the Company as determined by the Board;
- review and advise the Board on the composition of the Board and its Committees;
- review the performance of the Board, the chairman of the Board, the executive and non-executive directors, and other individual members of the Board; and
- ensure that proper succession plans are in place for consideration by the Board.

This Committee is chaired by the Hon. John Sharp and has one other member, James Davis. The Committee had two meetings during the financial year attended by all members of the Committee. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report.

The Board acknowledges the ASX recommendations to have the Committee compose of a majority of independent directors and have at least 3 members.

The Committee is currently made up of two directors. The Board feels at this stage that two members are sufficient for the Remuneration and Nomination committee given the size of the Company and Board. The Board also feels that James Davis, while not considered an independent director due to him holding an executive position up till 1 July 2011, will still make decisions that are in the best interests of the shareholders in his duty as Remuneration and Nomination committee member. Having had first hand experience working with the members of the Management Committee and various members of the Company's management, during his three years as Managing Director, he would be in the best position to make recommendations to the Board based on those experiences.

The Remuneration and Nomination Committee has a formal Charter which is available on the Company's website.

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Directors and the Management Committee are required to maintain the highest legal, moral and ethical standards of conduct. The Board has adopted the Code of Conduct which provides guidance to all staff on compliance with legal and other obligations (ASX Recommendation 3.1).

The Company has established a Share Trading Policy. Under this policy, Directors and Management Committee are prohibited from trading in securities of the Company without prior approval from the Board.

The Company employs all staff on their merits and is committed to recognising and valuing the contributions of staff from diverse backgrounds. The Company has established a Diversity Policy (ASX Recommendation 3.2).

The Company does not believe in an affirmative action policy and setting of artificial targets for staff of various backgrounds (gender, religious, cultural, racial etc) but rather in ensuring that all staff are able to develop to their full extent of their capabilities and contributions (ASX Recommendation 3.3).

The Company was compliant with the Workplace Gender Equality Act 2012 as reported by the Workplace Gender Equality Agency.

As at the end of the reporting period the proportion of female employees in the Company was 33%. There were nine women holding key manager positions in the Company. There were no female Board members or Management Committee members (ASX Recommendation 3.4).

In accordance with the requirements of the Workplace Gender Equality Act 2012 (Act), Regional Express Holdings Limited lodged its annual public report (2013) with the Workplace Gender Equality Agency (Agency).

To access a copy of the report refer to the Rex website under Corporate and Social Responsibilities.

Details on the reporting process can be located at the Workplace Gender Equality Website: www.wgea.gov.au

The Code of Conduct, Share Trading Policy and Diversity Policy are available on the Company's website
(ASX Recommendation 3.5).

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

The **Audit and Corporate Governance Committee** has been established by the Board of the Company (ASX recommendation 4.1) to assist the Board in fulfilling its commitment to ensure the integrity of the Company's financial reports and Corporate Governance policies:

- assisting the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control relating to all matters affecting the Group's financial performance, the audit process, and the Company's process for monitoring compliance with laws and regulations and the code of conduct;
- advising the Board on good governance standards and appropriate corporate governance policies for the Group; and
- critically reviewing the Group's performance against its corporate governance policies.

This Committee is chaired by Lee Thian Soo and has one other member, the Hon. John Sharp. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report. The Committee had two meetings during the financial year attended by all members of the Committee.

The Board acknowledges the ASX recommendations to have the Committee composed of a majority of independent directors, chaired by an independent director and have at least three members (ASX Recommendation 4.2).

The Committee is currently made up of two non-executive directors of which one is independent. The non-independent director, who is also the chair of the committee, is only considered non-independent by virtue of his share ownership. The Board feels that the directors in the audit committee will make decisions that are in the best interests of the shareholders in their duties as audit committee members and directors of the company. The Board also feels at this stage that two members are sufficient for the audit committee given the size of the company and Board.

The Audit and Corporate Governance Committee has a formal Charter which is available on the Company's website (ASX Recommendation 4.3).

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company complies with the continuous disclosure obligations of the ASX Listing Rules and, in doing so, immediately notifies the market of any material price sensitive information. The Company has adopted and implemented a Continuous Disclosure Policy which sets out the procedure for the identification of material price sensitive information and reporting of such information to the company secretaries for review (ASX Recommendations 5.1 and 5.2). The Continuous Disclosure Policy is available on the Company's website.

## PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

It is the Company's policy that the principal communication with shareholders apart from the Company website is the provision of the Annual Report, including the Financial Statements, half-yearly investor briefings and the Annual General Meeting (and any extraordinary meetings held by the Company). Shareholders are encouraged to participate in half-yearly investor briefings either by attendance or by dialling in through the Company's teleconferencing facilities and are invited to put questions to the Chairman of the Board in that forum. The Company's website provides additional information and greater detail about the Company, including ASX and media releases and access to statements regarding corporate governance related matters (ASX Recommendation 6.1).

The directors have ensured that the Company's External Auditor attends all Annual General Meetings and is available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's report thereon.

## PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Company has integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance.

The Board has established policies for a sound system of risk oversight and management and internal control which involve the Safety and Risk Management Committee (Recommendation 7.1).

The **Safety and Risk Management Committee** has been established by the Board of the Company and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by:-

- assisting the Board in fulfilling its development, oversight and review responsibilities for the safety culture and safety management processes as defined by the separate safety policies published for each Air Operator Certificate holder within the Group; and
- implementing and supervising the Group's operational risk assessment framework.

The Committee is chaired by Ronald Bartsch. James Davis is the other Board member on the Committee. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report.

The Safety and Risk Management Committee has a formal Charter which sets out the responsibilities of the Committee as well as the Company's policies on risk oversight and management. The Charter is available on the Company's website.

The Board reviews the safety and risk management report prepared by the Group's Safety Manager at each Board meeting (ASX Recommendation 7.2).

The Chief Operating Officer and the General Manager (GM) Corporate Services who oversees the finance department, provide written assurance to the Board as to the integrity of the financial statements and that they are founded on a sound system of risk management and internal controls which are operating effectively and efficiently (ASX Recommendation 7.3).

The Board acknowledges the ASX Recommendation to have the Chief Executive Officer and Chief Financial Officer provide this statement to the Board. The Board believes that it is appropriate for Chief Operating Officer and GM Corporate Services to provide the statement.

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The Board has established a Remuneration and Nomination Committee. The membership, responsibilities and number of meetings held have been set out under Principle 2. Also set out under Principle 2 is the explanation as to why the membership of the Committee differs from the ASX Recommendations.

Details of the Board and Management Committee remuneration structures are contained in the Remuneration Report (ASX Recommendations 8.2 and 8.3).

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# ASX ADDITIONAL INFORMATION AS AT 23 SEPTEMBER 2013

This is required by the ASX, but falls outside of the audit opinion and therefore has no impact on the audit report issued.

## NUMBER OF HOLDERS OF EQUITY SECURITIES

### Ordinary share capital

110,089,430 fully paid ordinary shares are held by 2,933 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends.

## DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

| | Fully Paid Ordinary Shares | | |
|---|---|---|---|
| | Investors | Securities | Issued Capital (%) |
| 1 - 1,000 | 823 | 471,288 | 0.43 |
| 1,001 - 5, 000 | 1,401 | 3,923,071 | 3.56 |
| 5,001 - 10, 000 | 325 | 2,669,849 | 2.43 |
| 10, 001 - 100, 000 | 327 | 9,462,469 | 8.60 |
| 100, 001 and over | 57 | 93,562,753 | 84.99 |
| **Total** | **2,933** | **110,089,430** | **100.00** |
| Unmarketable Parcels | 295 | 60,870 | 0.06 |

## SUBSTANTIAL SHAREHOLDERS

| | Fully Paid | |
|---|---|---|
| Ordinary Shareholders | Number | Percentage |
| Mr Kim Hai Lim | 18,480,630 | 16.79% |
| Mr Joe Tiau Tjoa | 16,234,094 | 14.75% |
| Thian Soo Lee | 7,722,181 | 7.01% |
| Ming Yew See Toh & Hui Ing Tjoa | 7,454,362 | 6.77% |
| Joo Chye Chua | 7,454,362 | 6.77% |
| Ms Hui Ling Tjoa | 5,755,513 | 5.23% |

## TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

| | Fully Paid | |
|---|---|---|
| Ordinary Shareholders | Number | Percentage |
| Mr Kim Hai Lim | 18,480,630 | 16.79% |
| Mr Joe Tiau Tjoa | 16,234,094 | 14.75% |
| Thian Soo Lee | 7,722,181 | 7.01% |
| Ming Yew See Toh & Hui Ing Tjoa | 7,454,362 | 6.77% |
| Joo Chye Chua | 7,454,362 | 6.77% |
| Ms Hui Ling Tjoa | 5,755,513 | 5.23% |
| Citicorp Nominees Pty Limited | 4,144,968 | 3.77% |
| Lay Khim Ng | 3,727,181 | 3.39% |
| RBC Investor Services Australia Nominees Pty Limited | 2,201,755 | 2.00% |
| Rex Investment Holdings Pty Limited | 1,598,095 | 1.45% |
| Mr Thian Song Tjoa | 1,254,727 | 1.14% |
| Strategic Value Pty Ltd | 1,028,658 | 0.93% |
| SCJ Pty Ltd | 1,000,000 | 0.91% |
| Strategic Value Pty Ltd | 932,615 | 0.85% |
| Mastar Pty Limited | 900,000 | 0.82% |
| Brazil Farming Pty Ltd | 890,000 | 0.81% |
| Jowong Pty Limited | 846,950 | 0.77% |
| Gwynvill Trading Pty Limited | 800,000 | 0.73% |
| Phillip Securities Pte Ltd | 790,940 | 0.72% |
| HSBC Custody Nominees (Australia) Limited | 776,622 | 0.71% |
| Rex Investment Holdings Pty Limited | 617,652 | 0.56% |


Photo by Maikha Ly


Photo by Tim Ongley of TOP Imagery

***REX GROUP OF COMPANIES:***

Regional Express · PEL-AIR · AIR LINK · AAPA