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Regional Express

REGIONAL EXPRESS HOLDINGS LIMITED
ACN 099 547 270 (ASX CODE: REX)

17

31 December 2016

Half-Year Financial Report

REGIONAL EXPRESS HOLDINGS LIMITED

ACN 099 547 270 (ASX Code: REX)

Appendix 4D: Results For Announcement To The Market
& Half-Year Financial Report
For The Half-Year Ended 31 December 2016

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 Dec 2016 $M	31 Dec 2015 $M	Change $M	Change %
Revenue	144.3	132.6	11.7	8.8
Profit / (loss) from ordinary activities after tax attributable to members	6.2	(11.4)	17.6	154.4
Net profit / (loss) for the period attributable to members	6.2	(11.4)	17.6	154.4

	Amount per share	Franked amount per share
Interim dividend	-	-
Final dividend	-	-
Record date for determining entitlements	-	-

	31 Dec 2016 $	31 Dec 2015 $	Change %
Net tangible assets per ordinary share	1.75	1.65	5.8

This report is based on the condensed consolidated financial statements which have been subject to review by Deloitte Touche Tohmatsu. The review report is included in the attached half year financial report. For a brief explanation of the figures above, please refer to the Announcements on the results for the half year ended 31 December 2016 and notes to the financial statements.

EXPLANATION OF RESULTS

The first half of Financial Year 2017 (1H FY17) saw Regional Express Holdings Limited ('Rex') report an after tax statutory profit of $6.2M, representing an operating Profit After Tax improvement of 88% over the prior period.

Group revenue increased by 8.8% to $144M, and passengers carried increased by 11.3% to 612,284.

This was attributed to contributions from the new Western Australian routes, the strengthening of the Australian dollar, lower fuel costs, Pel-Air international medivac operations out of Singapore and slight improvements in load factors and yield in the traditional network.

Total costs (excluding impairments) over the period increased by 6.5% to $136.2M, mainly driven by the new activities in Western Australia and Singapore.

Rex was fully hedged for Jet Fuel for 1H FY17 which resulted in a $2.5M reduction on the previous year's fuel cost on the traditional network (excluding the new routes in Western Australia).

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22 Directors' Declaration

The directors of Regional Express Holdings Limited ('Rex') submit herewith the financial report for the half-year ended 31 December 2016.

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

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

REVIEW OF OPERATIONS

FINANCIAL RESULTS

Underlying profit is used to provide a better understanding of Rex's operational performance and provides a meaningful comparison of performance between financial periods. It is a non-IFRS measure which excludes the balances that are unrelated to the underlying performance of the business to reflect the Director's assessment, having regard to the guidance from ASIC's RG 230 Disclosing Non-IFRS information, of Rex's underlying business activities. These principles include providing clear reconciliation between statutory profit or loss and underlying profit in the Director's report maintaining consistency between reporting periods. The adjustments between statutory profit or loss after income tax and underlying profit after tax are set out below:

Underlying Profits	1H FY 2017 $M	1H FY 2016 $M
Statutory (loss) / profit after tax	6.2	(11.4)
Impact of goodwill impairment	-	6.6
Impact of asset impairment	-	6.8
Impact of fair value loss on fuel swap	-	4.7
Tax impact of the above	-	(3.4)
Underlying profit after tax	6.2	3.3

SUMMARY REVIEW

Network capacity saw an 11.4% increase in Available Seat Kilometres (ASKs) with passenger numbers increasing by a corresponding 11.3%. The load factor improved by 1.8% points and was 56.6% for the period. The half-year reporting period included two new routes in Western Australia, being Perth to Albany and Perth to Esperance, which commenced on 28 February 2016.

Pilot attrition rates were above previous years because of expansion in the high capacity Regular Public Transport (RPT) sector both locally and internationally. Attrition outpaced recruitment for the period under review, resulting in a net reduction of six in the total pilot establishment of 271. During this time, internal promotions saw the captain numbers increase by six.

KEY PERFORMANCE INDICATORS TABLE

Key Assumptions	1H FY 2017	1H FY 2016	Change
Passengers	612,284	550,323	+11.3%
ASK	423.0M	379.7M	+11.4%
Load Factor	56.6%	54.8%	+1.8% pts
Passenger Revenue/ASK	30.9c	30.5c	+1.4%
Other Revenue/ASK	0.5c	0.7c	(25.8%)
Total Pax Cost/ASK	29.5c	30.1c	(2.1%)
Fuel % Total Cost	12.3%	13.9%	+1.6% pts

ROUTE NETWORK DEVELOPMENTS

1H FY17 was the first six-month reporting period of Rex operating to the Snowy Mountains (Cooma) from Sydney, as well as operating in Western Australia with services linking Albany and Esperance to Perth.

Rex commenced operating the Perth to Albany and Perth to Esperance routes with effect from 28 February 2016 under a deed of agreement with the Western Australian (WA) government. This confers onto Rex the sole right to operate on the Perth to Albany and Perth to Esperance routes for a five year term beginning on 28 February 2016. This was a major milestone for Rex, as this resulted in Rex establishing operations in WA for the first time, and making it the first time that Rex has operations in all the States of Australia. From Perth, Rex operates 23 weekly return services to Albany and 18 weekly return services to Esperance.

Rex also commenced new services between Sydney and Snowy Mountains (Cooma) in March 2016 in partnership with Snowy Mountains Airport Corporation. This saw the Snowy Mountains air service operate throughout 1H FY17, which included additional flight frequencies from July 2016 to October 2016 to accommodate the increased demand associated with the winter ski season.

In late October 2016, Rex, in partnership with the Northern Peninsula Area Regional Council (NPARC), expanded the week-day Cairns to Bamaga schedule to include an additional non-stop service between Cairns and Bamaga each Sunday.

Also in late October 2016, Rex introduced an improved schedule between Cairns and Townsville. Rex has been operating services between Cairns and Townsville since January 2015. The improved schedule was the result of listening to government and business customers in both Cairns and Townsville which resulted in the reversal of the flight schedule to operate an earlier flight from Cairns to Townsville in the morning, and a later flight from Townsville back to Cairns in the afternoon. This in turn provides the ability to undertake a full day's business in both cities with day-return travel made possible in each direction.

FLEET CHANGES

There were no changes to the fleet in the period under review. Of the 55 Saab 340 aircraft in the Rex Group, 38 are fully paid for, 15 are on mortgage with about two and a half years left to run and two are on lease.

SUBSEQUENT EVENTS

In January 2017, Pel-Air Aviation Pty Ltd entered into an agreement with a private company for the sale of four Learjets (with the corresponding spares) for a total consideration of $2.95M.

In January 2017, the Group also completed the acquisition of a hangar in Wagga Wagga for aircraft painting activities and paid in full to Wagga Wagga City Council the $2.73M purchase price.

COMMUNITY, ENVIRONMENT AND SERVICE STANDARDS

In 1H FY17, Rex's On Time Departure rate of 86.5% was ranked in first position of all the major carriers in Australia according to the Bureau of Infrastructure, Transport and Regional Development (BITRE). Rex's cancellation rate of 0.55% was the lowest of all the major carriers in Australia. In comparison, Rex's major competitor QantasLink was ranked 5th with 84.3% On Time Departures and cancellation rate of 2.44%, more than 400% higher than Rex's.

Rex continued to support various community events and charities across the network, contributing over $130,000 to many worthy causes, ranging from community fundraisers, local charities, cases of personal hardship and important community events.

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

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

Rex registered for the NGER (National Greenhouse and Energy Reporting) programme on 25 February 2009 and has since submitted NGER reports for FY 2009 through to FY 2016.

AUDITOR'S INDEPENDENCE DECLARATION

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

ROUNDING OFF OF AMOUNTS

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

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

On behalf of the Directors

Neville Howell

Director

Sydney, 28 February 2017

Deloitte.

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

28 February 2017

Dear Board Members

Regional Express Holdings Limited

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

As lead audit partner for the review of the financial statements of Regional Express Holdings Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie Gatt

Jamie Gatt
Partner
Chartered Accountants

Deloitte.

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

We have reviewed the accompanying half-year financial report of Regional Express Holdings Limited (the "consolidated entity"), which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit and loss, the condensed consolidated statement of other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 11 to 22.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Regional Express Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

INDEPENDENT AUDITOR'S REVIEW REPORT

Deloitte.

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie Gatt

Jamie Gatt
Partner
Chartered Accountants
Sydney, 28 February 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Half-year ended	
	31 Dec 2016 $'000	31 Dec 2015 $'000
Passenger revenue	127,852	113,174
Freight revenue	707	640
Charter revenue	12,109	13,853
Other passenger services and amenities	1,325	1,161
Other revenue	2,275	3,754
Total revenue	**144,268**	**132,582**
Finance income	**361**	**329**
Other gains / (losses)	**164**	**(198)**
Flight and port operation costs (excluding fuel)	(28,126)	(23,794)
Fuel costs	(16,729)	(17,801)
Salaries and employee-related costs	(54,103)	(51,475)
Selling and marketing costs	(3,588)	(3,332)
Engineering and maintenance costs	(20,806)	(18,838)
Office and general administration costs	(3,688)	(3,519)
Finance costs	(987)	(1,086)
Depreciation and amortisation	(8,141)	(7,969)
Asset impairment	-	(6,803)
Goodwill impairment	-	(6,615)
Fair value loss on fuel swap	-	(4,685)
Total costs and expenses	**(136,168)**	**(145,917)**
Profit / (loss) before tax	**8,625**	**(13,204)**
Tax (expense) / benefit	(2,435)	1,815
Profit / (loss) after tax	**6,190**	**(11,389)**
Profit / (loss) attributable to:		
Members of the parent	6,190	(11,389)
	6,190	**(11,389)**

Earnings / (loss) per share	cents per share	cents per share
Basic	5.7	(10.6)
Diluted	5.7	(10.6)

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		Half-year ended	
	Note	31 Dec 2016 $'000	31 Dec 2015 $'000
Profit / (loss) after tax		**6,190**	**(11,389)**
Other comprehensive income / (loss)			
Hedging reserve			
Revaluation of cash flow hedges	6	493	(1,153)
Income tax effect	6	(148)	346
Other comprehensive income / (loss) net of tax		**345**	**(807)**
Total comprehensive income / (loss)		**6,535**	**(12,196)**

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		Consolidated	
	Note	31 Dec 2016 $'000	30 Jun 2016 $'000
Current assets			
Cash and bank balances		16,453	26,821
Trade and other receivables		9,682	9,626
Inventories		23,830	22,964
Other financial assets	12	1,462	1,105
Total current assets		**51,427**	**60,516**
Non-current assets			
Other receivables		6,623	7,448
Available for sale investments carried at fair value – shares		9	9
Property, plant and equipment			
Aircraft		103,535	108,572
Other property, plant and equipment		102,827	94,296
Goodwill and other intangible assets		976	1,026
Total non-current assets		**213,970**	**211,351**
Total assets		**265,397**	**271,867**
Current liabilities			
Trade and other payables		17,928	25,912
Unearned revenue		16,950	19,341
Borrowings		6,860	6,641
Provisions		6,177	5,413
Current tax payable		1,096	1,069
Other financial liabilities	12	-	136
Total current liabilities		**49,011**	**58,512**
Non-current liabilities			
Borrowings		20,131	23,638
Provisions		1,910	1,857
Deferred tax liabilities		1,012	807
Total non-current liabilities		**23,053**	**26,302**
Total liabilities		**72,064**	**84,814**
Net assets		**193,333**	**187,053**
Equity			
Issued capital	5	72,024	72,024
Reserved shares	5	(1,693)	(1,821)
Retained earnings		119,185	112,995
Share-based payments reserve		1,204	1,587
Other reserves	6	2,613	2,268
Total equity		**193,333**	**187,053**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

		Half-year ended	
	Note	31 Dec 2016 $'000	31 Dec 2015 $'000
Receipts from customers		157,066	144,973
Payments to suppliers, employees and others		(148,502)	(134,755)
Interest paid		(980)	(1,265)
Tax (paid) / refunded		(2,351)	1,609
Net cash flows from operating activities		**5,233**	**10,562**
Interest received		361	329
Proceeds from investment - capital reduction		-	1
Proceeds from disposal of property, plant and equipment		-	198
Payments for property, plant and equipment - aircraft and other		(11,630)	(11,818)
Payments for property, plant and equipment - software		(109)	(21)
Net cash flows used in investing activities		**(11,378)**	**(11,311)**
Shares purchased as reserve shares		(935)	(333)
Repayment of borrowings – non-related parties	3	(3,288)	(4,523)
Net cash flows used in financing activities		**(4,223)**	**(4,856)**
Net decrease in cash held		**(10,368)**	**(5,605)**
Cash at the beginning of the period		**26,821**	**23,360**
Cash at the end of the period		**16,453**	**17,755**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2016

	Attributable to equity holders of the Company						
	Issued capital $'000	Reserved shares $'000	Retained earnings $'000	Share-based payments reserve $'000	Cash flow hedge reserve $'000	General reserve $'000	Total equity $'000
At 1 July 2015	**72,024**	**(2,273)**	**122,552**	**948**	**-**	**1,590**	**194,841**
Loss for the period	-	-	(11,389)	-	-	-	(11,389)
Other comprehensive loss net of tax	-	-	-	-	(807)	-	(807)
Total comprehensive loss	-	-	(11,389)	-	(807)	-	(12,196)
Shares purchased as reserve shares	-	(333)	-	-	-	-	(333)
Share gift issued - gift	-	1,120	-	(688)	-	-	432
Share gift plan provision	-	-	-	668	-	-	668
At 31 December 2015	**72,024**	**(1,486)**	**111,163**	**928**	**(807)**	**1,590**	**183,412**
At 1 July 2016	72,024	(1,821)	112,995	1,587	678	1,590	187,053
Profit for the period	-	-	6,190	-	-	-	6,190
Other comprehensive income net of tax	-	-	-	-	345	-	345
Total comprehensive income	-	-	6,190	-	345	-	6,535
Shares purchased as reserve shares	-	(935)	-	-	-	-	(935)
Share gift issued - gift	-	1,063	-	(1,063)	-	-	-
Share gift plan provision	-	-	-	680	-	-	680
At 31 December 2016	**72,024**	**(1,693)**	**119,185**	**1,204**	**1,023**	**1,590**	**193,333**

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

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

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Company's 2016 annual financial report for the financial year ended 30 June 2016, except for the impact of the new and revised Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

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

Application of new and revised Accounting Standards not yet effective

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

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 2016-1 Recognition of Deferred Tax Assets for Unrealised Losses	1 January 2017	30 June 2018
AASB 2016-2 Disclosure Initiative: Amendments to AASB 107	1 January 2017	30 June 2018
AASB 9 'Financial Instruments', and the relevant amending standards	1 January 2018	30 June 2019
AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15'	1 January 2018	30 June 2019
AASB 2016-5 Classification and Measurement of Share-based Payment Transactions	1 January 2018	30 June 2019
IFRS 2 Share-based Payment – amendments clarifying how to account for certain types of share-based payment transactions	1 January 2018	30 June 2019
AASB 16 'Leases'	1 January 2019	30 June 2020

2. SEGMENT INFORMATION

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

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

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

- Regular public transport
- Charter and other

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

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

	Revenue Half-year ended		Segment result Half-year ended	
	31 Dec 2016 $'000	31 Dec 2015 $'000	31 Dec 2016 $'000	31 Dec 2015 $'000
Continuing operations				
Regular public transport	130,950	117,692	13,203	(2,232)
Charter and other	13,318	14,890	(428)	(6,498)
	144,268	**132,582**	**12,775**	**(8,730)**
Finance income			361	329
Other gains / (losses)			164	(198)
Central administration costs and directors' salaries			(3,688)	(3,519)
Finance costs			(987)	(1,086)
Profit / (loss) before tax			8,625	(13,204)
Tax (expense) / benefit			(2,435)	1,815
Total revenue and profit / (loss) after tax	**144,268**	**132,582**	**6,190**	**(11,389)**

The revenue reported above represents revenue generated from external customers. There was no single customer making up more than 10% of revenue in the current or prior periods. There were no intersegment sales.

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

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

	Assets		Liabilities	
	31 Dec 2016 $'000	30 Jun 2016 $'000	31 Dec 2016 $'000	30 Jun 2016 $'000
Continuing operations				
Regular public transport	203,836	208,558	39,236	50,573
Charter and other	61,561	63,309	32,828	34,241
Total assets and liabilities	**265,397**	**271,867**	**72,064**	**84,814**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. BORROWINGS

During the period, the Group repaid bank loans to the amount of $3.288M (2015: $4.523M). These were made in line with previously disclosed repayment terms.

4. DIVIDENDS

During the current and prior periods, no dividends were provided for or paid.

5. ISSUED CAPITAL

	31 Dec 2016 $'000	30 Jun 2016 $'000
Ordinary shares		
Issued and fully paid	72,024	72,024
	72,024	**72,024**
Reserved shares	**(1,693)**	**(1,821)**

	No. '000	No. '000
Issued and fully paid	110,155	110,155
Reserved shares	1,092	1,309

6. OTHER RESERVES

	31 Dec 2016 $'000	30 Jun 2016 $'000
Cash flow hedge reserve		
Balance at 1 July	678	-
Net revaluation of cash flow hedges, net of tax	345	678
	1,023	678
General reserve		
Balance at 1 July	1,590	1,590
Movement during the period	-	-
	1,590	1,590
Total other reserves	**2,613**	**2,268**

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

7. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

Under the Employee Share Gift Scheme, 1,398,209 shares were issued to employees (2015: 1,076,641), and no new shares were issued (2015: nil).

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

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

8. KEY MANAGEMENT PERSONNEL

Remuneration arrangements of key management personnel are disclosed in the annual financial report. In addition, during the interim period, a cash bonus amounting to $372 thousand was recommended by the Remunerations, Nominations and Disciplinary Committee to be paid to key management personnel.

9. CONTINGENCIES AND COMMITMENTS

There are no contingencies and commitments to report.

10. SUBSEQUENT EVENTS

In January 2017, Pel-Air Aviation Pty Ltd entered into an agreement with a private company for the sale of the Group's four Learjets (with the corresponding spares) for a total consideration of $2.95M.

In January 2017, the Group also completed the acquisition of a hangar in Wagga Wagga for aircraft painting activities and paid in full to Wagga Wagga City Council the $2.73M purchase price.

11. VALUATION OF ASSETS

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

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

(A) VALUE-IN-USE: REX AND PEL-AIR CGUs

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

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

Certain aircraft assets which were utilised in the Australian Defence Force contract are idle and as at balance date are not generating cash flows. Accordingly these have been recognised on a fair value less cost to sell basis. This has been determined based on historical sales price information for comparable aircraft, less historical aircraft brokerage commissions.

Key assumptions

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

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

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

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

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

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

SENSITIVITY ANALYSIS

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

The changes in the following table to assumptions used in the impairment review would, in isolation, lead to a reduction of or additional impairment charge in the half year ended 31 December 2016. Changes in one assumption could be accompanied by a change in another assumption, which may increase or decrease the recoverable amount of the CGU.

		Rex		Pel-Air	
	Change in factor	(Decrease) / Increase in recoverable amount $'000	Increase / (Decrease) in recoverable amount $'000	(Decrease) / Increase in recoverable amount $'000	Increase / (Decrease) in recoverable amount $'000
Post tax discount rate %	0.5%	(9,070)	10,069	(316)	296
Revenue %	0.5%	43,420	(42,648)	1,238	(1,216)
Operating cost escalation %	0.5%	(32,967)	32,381	(1,714)	1,684
Fuel cost escalation %	0.5%	(5,074)	4,984	(46)	45
Capital expenditure %	5.0%	(1,001)	1,101	(127)	127

12. FINANCIAL INSTRUMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

	31 Dec 2016 $'000	30 Jun 2016 $'000
Derivative assets		
Fuel swaps	1,462	1,105
Derivative liabilities		
Fuel swaps	-	136

The Group has one outstanding fuel swap contract, which manages the risk of exposure to volatility in fuel costs for the Group. The contract qualified for hedge accounting and therefore movements in fair value have been deferred in the cash flow hedge reserve ($1.462M before tax).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FAIR VALUE HIERARCHY

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

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

There were no transfers between levels during the period.

	31 Dec 2016 $'000	30 Jun 2016 $'000
Financial assets/(liabilities) carried at fair value		
Fuel swap hedging contracts		
Level 1	-	-
Level 2	1,462	(969)
Level 3	-	-
Total	**1,462**	**(969)**

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

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

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

DIRECTORS' DECLARATION

The directors declare that:

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

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

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

On behalf of the Directors

Neville Howell

Director

Sydney, 28 February 2017

REX GROUP OF COMPANIES

rex.

PEL-AIR

AIR LINK

AAPA

AUSTRALIAN AIRLINE PILOT ACADEMY