Regional Express

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

19

31 DECEMBER 2018

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 2018

ASX APPENDIX 4D

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 Dec 2018 $M	31 Dec 2017 $M	Change $M	Change %
Revenue	163.8	151.0	12.8	8.5
Profit from ordinary activities after tax attributable to members	9.8	9.1	0.7	7.7
Net profit for the period attributable to members	9.8	9.1	0.7	7.7

In respect of the financial year ended 30 June 2018, the directors recommended a fully franked final dividend of 8 cents per share to holders of fully paid ordinary shares which was paid during the period.

In respect of the half year ended 31 December 2018, the directors have recommended a fully franked dividend of 4 cents per share to holders of fully paid ordinary shares to be paid on 1 April 2019 to shareholders registered on 15 March 2019 record date. This dividend was declared on 26 February 2019.

	31 Dec 2018 $	31 Dec 2017 $	Change %
Net tangible assets per ordinary share	1.81	1.76	2.8

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 2018 and notes to the financial statements.

EXPLANATION OF RESULTS

The first half of Financial Year 2019 (1H FY19) saw Regional Express Holdings Limited ('Rex') report an after tax statutory profit of $9.8M, representing an operating Profit After Tax improvement of 7.7% compared to the prior period. Group revenue increased by 8.5% to $163.8M, and passengers carried increased by 4.8% to 664,832. This was attributed to improvements in load factors and yield in the traditional network and the new Perth-Carnarvon/Monkey Mia route which commenced in July 2018.

Total costs over the period increased by $13.4M (9.7%) to $151.1M. $7.8M of this increase was due to higher jet fuel prices while the new operations to Carnarvon/Monkey Mia contributed $0.8M to the cost increase.

In September 2018, the Group disposed of Air Link Pty Limited. The contribution of this entity to net profit in the current and prior periods was not material.

DIRECTORS' REPORT

The directors of Regional Express Holdings Limited ('Rex') submit herewith the financial report for the half-year ended 31 December 2018.

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 AM	Deputy Chairman and Independent Director
Neville Howell	Chief Operating Officer and Executive Director
Chris Hine	Executive Director
James Davis	Independent Director
Lee Thian Soo	Non-Executive Director
Ronald Bartsch	Independent Director

REVIEW OF OPERATIONS

SUMMARY REVIEW

Network capacity saw a 1% increase in Available Seat Kilometres (ASKs) with passenger numbers increasing by 4.8%, which exceeded ASK growth. As a result, the load factor improved by 4.3% points and was 64.2% for the period.

The half-year reporting period included the commencement of services from Perth to Carnarvon and Monkey Mia (Shark Bay) from 2 July 2018. Rex also exited the Sydney to Taree route in February 2018 and the Sydney to Mildura route in November 2018.

1H FY19 saw the pilot attrition rate lower than the previous year due to a slowing in domestic and international recruitment. For the period under review, Rex recruitment surpassed attrition by 20 pilots. Total pilot establishment at the end of the half-year reporting period was 280 (compared to 260 at the start of the half-year) with 39 pilots commencing employment over the period. Internal training was operating at full capacity and saw 16 pilots upgraded to the rank of Captain and 40 pilots checked to line as First Officers.

DIRECTORS' REPORT

KEY PERFORMANCE INDICATORS TABLE

	1H FY 2019	1H FY 2018	Change
Passengers	664,832	634,103	+4.8%
ASKs (M)	417.5	413.5	+1.0%
Average Fare ($)	221.0	214.6	+3.0%
Load Factor	64.2%	59.9%	+4.3% pts
Pax Revenue / ASK (cents)	35.2	32.9	+7.0%
Total Cost / ASK (cents)	33.4	30.6	+9.2%
Total Pax Cost / ASK (cents) less fuel	28.4	27.0	+5.2%
Fuel % Total Cost	15.2%	11.1%	+4.1% pts

ROUTE NETWORK DEVELOPMENTS

1H FY19 was the first six-month reporting period in which Rex did not operate services between Sydney and Taree. Rex serviced the Taree to Sydney route since February 2007, following the collapse of Big Sky Express Airlines in late 2006. The Sydney to Taree route was loss making and Rex had earlier given the Mid Coast Council, owner of Taree airport, one year to find a replacement airline.

The half-year reporting period was also the first full reporting period of increased capacity between Sydney and Orange. Effective February 2018, Rex increased services from four return flights each weekday to five return flights each weekday, resulting in 58 weekly services and an additional 18,000 seats a year.

On 2 July 2018 Rex commenced services from Perth to Carnarvon and Monkey Mia (Shark Bay) under a Deed of Agreement with the West Australian (WA) government which conferred on Rex the sole right to operate on the route for a term of five-years.

Rex is servicing the route with 24 weekly services between Perth and Carnarvon and 12 weekly services between Perth and Monkey Mia, representing a 20% increase in flight frequency for Carnarvon and a 50% increase in flight frequency for Monkey Mia in comparison with the flight frequency offered by the previous operator. Rex has also established the successful Rex Community Fare scheme on the Perth to Carnarvon ($198) and Monkey Mia ($157) route. This has been a catalyst for 13% passenger growth between Perth and Carnarvon and 72% passenger growth between Perth and Monkey Mia.

Rex exited the Sydney to Mildura route with the last service operating on 27 October 2018 following a notice from Mildura Airport Pty Ltd (MAPL) of a 22.5% increase to the Mildura Airport head tax. The aircraft, crew and Sydney airport slots were redeployed to the Sydney to Griffith route that had been experiencing solid passenger growth.

The additional service to Griffith was the catalyst for a new 5-year partnership agreement with Griffith City Council which saw an additional 10 weekly Rex flights between Griffith and Sydney with effect from 28 October 2018, adding 17,000 seats to the route annually. In addition, Griffith now benefits from a service to Broken Hill, bringing benefits to both communities. The new partnership agreement with Griffith City Council also resulted in the introduction of a $129.00 'Rex Community Fare' between Griffith and Sydney.

FLEET CHANGES

During the reporting period, Rex took delivery of one Saab 340B+ aircraft, bringing the Rex group Saab 340 fleet to 58 aircraft . Rex sold Air Link's fleet of 5 piston aircraft along with the divestment of the company. In addition, Rex fully repaid 15 aircraft on mortgage in November 2018, making its entire fleet of aircraft fully paid for except for two that are on lease.

COMMUNITY, ENVIRONMENT AND SERVICE STANDARDS

In 1H FY19, Rex's On Time Departure rate of 81.39% was ranked second in comparison with all the major carriers and second of all regional carriers in Australia according to the Bureau of Infrastructure, Transport and Regional Development (BITRE). Rex's cancellation rate of 1.2% was ranked first of all carriers (major and regional) in Australia. Comparatively, all of the major carries recorded a cancellation rate of greater than 2% with Jetstar and Tiger exceeding 3% and 4% respectively.

In 1H FY19 Rex expanded its successful 'Rex Community Fare' scheme (already operating at Albany (WA), Esperance (WA), Broken Hill (NSW), Mount Isa (QLD), Moruya (NSW), Burnie (TAS) and Parkes (NSW)) to the regional communities of Carnarvon (WA), Monkey Mia / Shark Bay (WA), Orange (NSW), Mt Gambier (SA), Griffith (NSW) and Narrandera (NSW) which were all achieved in partnership with the local council / regional airport owner.

Rex continued to support various community events and charities across the network, contributing over $154,000 to worthy causes ranging from fundraisers, local charities, cultural events and cases of personal hardship. Additionally, Rex responded in August 2018 to the devastating effect of the worst drought to hit regional Australia in 50 years, by establishing a $1 million Rex Drought Relief Fund to assist community groups working to alleviate the impact of the drought. In partnership with the Foundation for Rural & Regional Renewal (FRRR), a network wide collection drive both in-flight and on the ground resulted in over $23,000 of funds raised with money going towards activities and services identified by communities as most pressing.

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, 27 February 2019

Deloitte.

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

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

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

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

27 February 2019

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 2018, 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.

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

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

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

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

We have reviewed the accompanying half-year financial report of Regional Express Holdings Limited and its controlled entities (the "consolidated entity"), which comprises the condensed consolidated statement of financial position as at 31 December 2018, the condensed consolidated statement of profit and loss, the condensed consolidated statement of other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 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 2018 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, 27 February 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Half-year ended 31 Dec 2018 $'000	Half-year ended 31 Dec 2017 $'000
Passenger revenue	1	145,403	133,278
Freight revenue		754	712
Charter revenue		14,238	13,131
Other passenger services and amenities	1	565	1,293
Other revenue		2,872	2,615
Total revenue		**163,832**	**151,029**
Finance income		**529**	**547**
Other gains / (losses)		**983**	**(97)**
Flight and port operation costs (excluding fuel)		(29,552)	(28,518)
Fuel costs		(23,042)	(15,243)
Salaries and employee-related costs		(57,510)	(55,844)
Selling and marketing costs		(4,380)	(3,915)
Engineering and maintenance costs		(23,050)	(21,049)
Office and general administration costs		(3,930)	(3,925)
Finance costs		(1,190)	(987)
Depreciation and amortisation		(8,471)	(8,187)
Total costs and expenses		**(151,125)**	**(137,668)**
Profit before tax		**14,219**	**13,811**
Tax expense		(4,389)	(4,724)
Profit after tax		**9,830**	**9,087**
Profit attributable to:			
Members of the parent		9,830	9,087
		9,830	**9,087**
Earnings per share		**cents per share**	**cents per share**
Basic		9.0	8.5
Diluted		9.0	8.5

Notes to the financial statements are included on pages 15 to 23.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Half-year ended 31 Dec 2018 $'000	31 Dec 2017 $'000
Profit after tax		**9,830**	**9,087**
Other comprehensive loss			
Hedging reserve			
Revaluation of cash flow hedges	6	(1,266)	(270)
Income tax effect	6	380	81
Other comprehensive loss net of tax		**(886)**	**(189)**
Total comprehensive income		**8,944**	**8,898**

Notes to the financial statements are included on pages 15 to 23.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Consolidated 31 Dec 2018 $'000	30 Jun 2018 $'000
Current assets			
Cash and bank balances		17,619	25,965
Trade and other receivables		11,969	12,081
Inventories		12,546	11,778
Other financial assets	11	159	-
Total current assets		**42,293**	**49,824**
Non-current assets			
Other receivables		5,142	5,808
Inventories		12,443	12,356
Investments - fair value through equity		9	9
Deferred tax assets		2,189	1,585
Property, plant and equipment			
Aircraft		90,980	93,091
Other property, plant and equipment		111,031	111,714
Goodwill and other intangible assets		772	824
Total non-current assets		**222,566**	**225,387**
Total assets		**264,859**	**275,211**
Current liabilities			
Trade and other payables		22,472	18,813
Unearned revenue		18,996	24,693
Borrowings		3,684	7,509
Provisions		8,631	8,124
Current tax payable		1,110	5,728
Other financial liabilities	11	1,266	-
Total current liabilities		**56,159**	**64,867**
Non-current liabilities			
Borrowings		6,191	9,045
Provisions		1,898	1,815
Total non-current liabilities		**8,089**	**10,860**
Total liabilities		**64,248**	**75,727**
Net assets		**200,611**	**199,484**
Equity			
Issued capital	5	72,024	72,024
Reserved shares	5	(1,163)	(2,256)
Retained earnings		127,841	126,521
Share-based payments reserve		1,205	1,605
Other reserves	6	704	1,590
Total equity		**200,611**	**199,484**

Notes to the financial statements are included on pages 15 to 23.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	Note	Half-year ended 31 Dec 2018 $'000	31 Dec 2017 $'000
Receipts from customers		175,187	162,989
Payments to suppliers, employees and others		(154,001)	(141,824)
Interest paid		(644)	(825)
Income tax paid		(9,307)	(4,719)
Net cash flows from operating activities		**11,235**	**15,621**
Interest received		529	547
Proceeds from disposal of business	12	908	-
Proceeds from disposal of property, plant and equipment		17	-
Payments for property, plant and equipment - aircraft and other		(5,682)	(9,938)
Payments for property, plant and equipment - software		(10)	(193)
Net cash flows used in investing activities		**(4,238)**	**(9,584)**
Dividends paid		(8,664)	(10,731)
Shares purchased as reserve shares		-	(87)
Repayment of borrowings – non-related parties	3	(6,679)	(3,492)
Net cash flows used in financing activities		**(15,343)**	**(14,310)**
Net decrease in cash held		**(8,346)**	**(8,273)**
Cash at the beginning of the period		**25,965**	**26,257**
Cash at the end of the period		**17,619**	**17,984**

Notes to the financial statements are included on pages 15 to 23.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2018

	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 2017	**72,024**	**(3,246)**	**124,670**	**1,358**	**49**	**1,590**	**196,445**
Profit for the period	-	-	9,087	-	-	-	9,087
Other comprehensive loss net of tax	-	-	-	-	(189)	-	(189)
Total comprehensive income / (loss)	-	-	9,087	-	(189)	-	8,898
Dividends paid	-	-	(10,731)	-	-	-	(10,731)
Shares purchased as reserve shares	-	(87)	-	-	-	-	(87)
Share gift issued - gift	-	1,077	-	(1,077)	-	-	-
Share gift plan provision	-	-	-	685	-	-	685
At 31 December 2017	**72,024**	**(2,256)**	**123,026**	**966**	**(140)**	**1,590**	**195,210**
At 1 July 2018	**72,024**	**(2,256)**	**126,521**	**1,605**	**-**	**1,590**	**199,484**
Profit for the period	-	-	9,830	-	-	-	9,830
Other comprehensive loss net of tax	-	-	-	-	(886)	-	(886)
Total comprehensive income / (loss)	-	-	9,830	-	(886)	-	8,944
Dividends paid	-	-	(8,664)	-	-	-	(8,664)
Share gift issued - gift	-	1,093	-	(1,093)	-	-	-
Share gift plan provision	-	-	-	693	-	-	693
Adjustment on adoption of AASB 15 Revenue	-	-	154	-	-	-	154
At 31 December 2018	**72,024**	**(1,163)**	**127,841**	**1,205**	**(886)**	**1,590**	**200,611**

Notes to the financial statements are included on pages 15 to 23.

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 2017/191 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 2018 annual financial report for the financial year ended 30 June 2018, 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 EFFECTIVE FOR THE CURRENT YEAR

A number of new accounting standards have been implemented in the current year. The impact of these are summarised as follows.

AASB 15 Revenue from contracts with customers ("AASB 15")

AASB 15, which replaces AASB 118 Revenue, is based on the principle that revenue is recognised when control of a good or service transfers to a customer, and introduces a five-step model to determine when and how much revenue should be recognised. The Group has applied the modified retrospective approach to the adoption of AASB 15 and accordingly comparatives have not been restated. The adoption of AASB 15 from 1 July 2018 resulted in changes in accounting policies, the effect of which are detailed below.

The Group has identified the following changes to revenue recognition on adoption of the standard:

PASSENGER REVENUE

The changes to revenue recognition of passenger revenue are as follows:

- Under AASB 118 Revenue, revenue arising from expired tickets or "breakage" was typically recognised once the customer is no longer able to refund or reschedule their ticket booking. Under AASB 15, revenues arising from expired tickets relate to a portion of contractual rights captured under contract liabilities that the Group does not expect to be exercised. As a result, expired ticket revenue is recognised earlier to match the timing of revenue recognition with the underlying performance obligations.

  As a result of this change in accounting policy, the Group has calculated an increase in retained earnings at 1 July 2018 of $326 thousand net of tax.

- Ancillary services such as booking fees or change fees were previously recognised on issuance of tickets to customers. Under AASB 15, revenues relating to ancillary services are not considered as distinct from the passenger flight, and so are deferred and recognised at the time of the related passenger revenue.

As a result of this change in accounting policy, the Group has calculated a decrease in retained earnings at 1 July 2018 of $172 thousand net of tax.

The net of these two changes to accounting policies is $154 thousand as at 1 July 2018. This has been recognised as an adjustment to increase retained earnings at 1 July 2018.

IMPACT OF ADOPTION

	31 Dec 2018 as reported $'000	Impact of adoption $'000	Amount without AASB 15 $'000
Passenger revenue	145,403	(1,033)	144,370
Freight revenue	754	-	754
Charter revenue	14,238	-	14,238
Other passenger services and amenities	565	1,059	1,624
Other revenue	2,872	-	2,872
Total revenue	**163,832**	**26**	**163,858**
Finance income	**529**	**-**	**529**
Other gains / (losses)	**983**	**-**	**983**
Flight and port operation costs (excluding fuel)	(29,552)	-	(29,552)
Fuel costs	(23,042)	-	(23,042)
Salaries and employee-related costs	(57,510)	-	(57,510)
Selling and marketing costs	(4,380)	-	(4,380)
Engineering and maintenance costs	(23,050)	-	(23,050)
Office and general administration costs	(3,930)	-	(3,930)
Finance costs	(1,190)	-	(1,190)
Depreciation and amortisation	(8,471)	-	(8,471)
Total costs and expenses	**(151,125)**	**-**	**(151,125)**
Profit before tax	**14,219**	**26**	**14,245**
Tax expense	(4,389)	(8)	(4,397)
Profit after tax	**9,830**	**18**	**9,848**

AASB 9 Financial Instruments ("AASB 9")

Effective 1 July 2018 the Company adopted AASB 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under AASB 139 Financial Instruments: Recognition and Measurement ("AASB 139"). This standard also requires the use of a single impairment method as opposed to the multiple methods in AASB 139. The approach in AASB 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The standard also adds guidance on the classification and measurement of financial liabilities. The Group has adopted AASB 9 on a fully retrospective basis.

Trade and other receivables that were classified as loans and receivables under AASB 139 are classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Group's financial assets. Impairment of financial assets is based on an expected credit loss ("ECL") model under AASB 9, rather than the incurred loss model under AASB 139. ECLs are a probability-weighted estimate of credit losses. The Group calculated ECLs based on consideration of customer-specific factors and actual credit loss experience over the past five years. The Group's actual credit loss experience has not been material.

The adoption of AASB 9 has not had an effect on the Group's accounting policies related to financial liabilities.

The Group designates certain derivatives as hedges of highly probable forecast transactions (cash flow hedges). At the inception of the hedge, the Group documents the relationship between hedging instruments and hedged items, including the risk management objective and strategy for undertaking each hedge. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the hedging instruments that are used in hedge transactions have been and will continue to be highly effective. The adoption of AASB 9 has resulted in changes to the documentation of hedging relationships and the assessment of hedge effectiveness, but has not resulted in a change to derivative financial instruments recognised or the classification of these derivatives as cash flow hedges.

APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS NOT YET EFFECTIVE

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

STANDARD/INTERPRETATION AND NATURE OF THE CHANGE AND IMPACT

AASB 16 Leases ("AASB 16") introduces new requirements in relation to lease classification and recognition, measurement and presentation and disclosures of leases for lessees and lessors. For lessees a (right-of-use) asset and a lease liability will be recognised on the balance sheet in respect of all leases subject to limited exceptions. The accounting for lessors will not significantly change.

The Group is a party to a small number of operating lease agreements and significant change to the recognition and measurement of the Group's finance leases is not expected. On the basis that there are no changes to lease arrangements, the new standard is expected to have some impact on the recognition and measurement of lease-related expenses, assets and liabilities.

The Group has commenced an assessment of the impact of this change on disclosures in the financial statements. At the date of this report this assessment is not complete.

The Group will apply the standard from 1 July 2019.

At the date of report, there are no pronouncements approved by the IASB/IFRIC that have yet to be issued by the AASB.

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 2018 $'000	31 Dec 2017 $'000	31 Dec 2018 $'000	31 Dec 2017 $'000
Continuing operations				
Regular public transport	149,494	136,581	15,445	15,537
Charter and other	14,338	14,448	2,382	2,736
	163,832	**151,029**	**17,827**	**18,273**
Finance income			529	547
Other gains / (losses)			983	(97)
Central administration costs and directors' salaries			(3,930)	(3,925)
Finance costs			(1,190)	(987)
Profit before tax			14,219	13,811
Tax expense			(4,389)	(4,724)
Consolidated segment revenue and profit	**163,832**	**151,029**	**9,830**	**9,087**

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

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

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

	Assets		Liabilities	
	31 Dec 2018 $'000	30 Jun 2018 $'000	31 Dec 2018 $'000	30 Jun 2018 $'000
Continuing operations				
Regular public transport	209,754	220,161	38,598	50,859
Charter and other	55,105	55,050	25,650	24,868
Total assets and liabilities	**264,859**	**275,211**	**64,248**	**75,727**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. BORROWINGS

During the period, the Group repaid bank loans to the amount of $3.679M (2017: $3.492M) in line with previously disclosed repayment terms. In addition, $3M was repaid to fully discharge the finance leases for purchase of Saab aircraft, ahead of the original expiry date of August 2019.

The outstanding loan of $9,875 thousand relates to the facility used by the subsidiary VAA Pty Ltd for funding aircraft purchases, and is repayable over 10 years from July 2011 to June 2021.

4. DIVIDENDS

In respect of the financial year ended 30 June 2018, the directors have recommended a fully franked final dividend of 8 cents per share to holders of fully paid ordinary shares. During the period, the Group paid dividends of $8.812M of which $148 thousand relate to shares held by the Group under the Employee Share Gift Scheme.

	31 Dec 2018		31 Dec 2017	
	Cents per share	**Total $'000**	**Cents per share**	**Total $'000**
Fully paid ordinary shares				
Dividends paid	8	8,812	10	11,015
Dividends received for shares in the Employee Share Gift Scheme	8	(148)	10	(284)
Final dividend	8	8,664	10	10,731

In respect of the half year ended 31 December 2018, the directors have recommended a fully franked dividend of 4 cents per share to holders of fully paid ordinary shares to be paid on 1 April 2019 to shareholders registered on 15 March 2019 record date. This dividend was declared on 26 February 2019.

5. ISSUED CAPITAL

	31 Dec 2018 $'000	30 Jun 2018 $'000
Ordinary shares		
Issued and fully paid	72,024	72,024
	72,024	**72,024**
Reserved shares	**(1,163)**	**(2,256)**
	No. '000	**No. '000**
Issued and fully paid	110,155	110,155
Reserved shares	(1,093)	(1,857)

Reserved share account represents on market purchase of shares by the Group which is eventually granted to employees under the Employee Share Gift Scheme.

6. OTHER RESERVES

	31 Dec 2018 $'000	30 Jun 2018 $'000
Cash flow hedge reserve		
Balance at 1 July	-	49
Revaluation of cash flow hedges, net of tax	(886)	(49)
	(886)	-
General reserve		
Balance at 1 July	1,590	1,590
Movement during the period	-	-
	1,590	1,590
Total other reserves	**704**	**1,590**

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

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

7. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

Under the Employee Share Gift Scheme, 764 thousand shares were issued to employees (2017: 988 thousand), and no new shares were issued (2017: 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. CONTINGENCIES AND COMMITMENTS

(A) Capital Expenditure Commitments

There are no commitments for the acquisition of property, plant and equipment as at 31 December 2018 (2017: nil).

(B) Operating Lease Commitments

	31 Dec 2018 $'000	30 Jun 2018 $'000
Not later than one year	895	848
Later than one year and not later than five years	1,184	1,535
Later than five years	640	665
	2,719	**3,048**

9. EVENTS AFTER THE REPORTING PERIOD

There are no subsequent events to be reported at the date of the report.

10. 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:

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

REX AND PEL-AIR CGUS

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

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

Key assumptions

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

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

(i) Post-tax discount rate applied to the cash flow projections.
(ii) Revenue growth based on historical experience and market conditions, fleet plans and competitor behaviour.
(iii) The fuel cost escalation has been set with regard to the prevailing purchase price of fuel to the extent fuel costs cannot be recovered from customers.
(iv) Operating cost escalation has been estimated with regard to CPI adjustment for domestic costs and prevailing spot rate for overseas purchases.

SENSITIVITY ANALYSIS

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

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

		Rex recoverable amount		Pel-Air recoverable amount	
	Increase / (Decrease) by	(Decrease) / Increase $'000	Increase / (Decrease) $'000	(Decrease) / Increase $'000	Increase / (Decrease) $'000
Post tax discount rate	0.50%	(13,625)	15,315	(681)	702
Revenue	0.50%	50,703	(49,769)	2,026	(1,982)
Operating cost escalation	0.50%	(37,569)	36,891	(1,227)	1,200
Fuel cost escalation	0.50%	(7,053)	6,925	(331)	323
Capital expenditure	5.00%	(4,229)	4,027	(136)	125

11. FINANCIAL INSTRUMENTS

The Group entered into foreign exchange derivatives during the half year to partially mitigate against fluctuations in foreign currency purchases. These derivatives have not been hedge accounted and the fair value at 31 December 2018 has been recognised in other gains and losses.

The Group uses jet fuel swap contracts to hedge exposure to movements in the price of aviation fuel. Jet fuel swaps are taken out from time to time to hedge exposures to a maximum of 12 months in accordance with the Group's risk management policies. The Group uses fuel swaps linked to the Platts Singapore Kerosene benchmark.

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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 2018 $'000	30 Jun 2018 $'000
Derivative assets		
Foreign exchange derivative contracts	159	-
Derivative liabilities		
Fuel swaps	(1,266)	-

FAIR VALUE HIERARCHY

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

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

Financial instruments carried at fair value are classified as follows:

	Classification	31 Dec 2018 $'000	30 Jun 2018 $'000
Derivative assets			
Foreign exchange derivative contracts	Level 2	159	-
Derivative liabilities			
Fuel swaps	Level 2	(1,266)	-

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

12. DISPOSAL OF BUSINESS

In September 2018, the Group disposed of the Air Link business through the sale of the shares in Air Link Pty Limited and related aircraft for total consideration of $1,009 thousand. Details of the disposal are presented below.

	31 Dec 2018 $'000
Consideration on sale	1,009
Less: cash disposed	(101)
Net cash received on disposal	**908**
Assets and liabilities disposed:	
Inventories	200
Trade and other receivables	4
Deferred tax assets	11
Trade and other payables	(115)
Net assets disposed	**100**
Gain on disposal	**808**

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, 27 February 2019

REX GROUP OF COMPANIES

AUSTRALIAN AIRLINE PILOT ACADEMY