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

16

31 DECEMBER 2015

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 2015

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 Dec 2015 $M	31 Dec 2014 $M	Change $M	Change %
Revenue	132.6	129.8	2.8	2.2
(Loss) / profit from ordinary activities after tax attributable to members	(11.4)	3.9	(15.3)	(392.3)
Net (loss) / profit for the period attributable to members	(11.4)	3.9	(15.3)	(392.3)

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

	31 Dec 2015 $	31 Dec 2014 $	Change %
Net tangible assets per ordinary share	1.65	1.68	(1.8)

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 2015 and notes to the financial statements.

EXPLANATION OF RESULTS

The first half of Financial Year (FY) 2016 saw Regional Express Holdings Limited ('Rex') record its first statutory loss since FY 2003 with an after tax statutory loss of $11.4M. The loss was brought about by impairment of goodwill and assets and fair value accounting entries. These entries are non-cash in nature. Rex's underlying profit after tax for the period was $3.3M. Revenue improved 2.1% to $132.6M and capacity increased 1.7% to 379.7M ASKs.

Total costs (excluding impairments) over this period increased 2.7% to $127.7M. This was mainly attributable to increased activity in Queensland as well as a higher USD exchange rate.

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The directors of Regional Express Holdings Limited ('Rex') submit herewith the financial report for the half-year ended 31 December 2015.

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
Chris Hine	Executive Director
James Davis	Independent Director
Lee Thian Soo	Non-Executive Director
Ronald Bartsch	Independent Director
Garry Filmer	Alternate Director to Chris Hine

REVIEW OF OPERATIONS

FINANCIAL RESULTS

Underlying profit is used to provide a better understanding of Rex's financial performance and comparison of performance between financial periods. It is a non-IFRS measure which adjusts the balances that are unrelated to the underlying performance of the business to reflect the Director's assessment of Rex's underlying business activities having regard to the guidance from ASIC's RG 230 Disclosing Non-IFRS information. 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 are non-cash movements. The adjustments between statutory profit or loss after income tax and underlying profit after tax are set out below:

Underlying Profits	1H FY 2016 $M	1H FY 2015 $M
Statutory (loss) / profit after tax	(11.4)	3.9
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	3.3	3.9

SUMMARY REVIEW

Network capacity saw a 1.7% increase in Available Seat Kilometres (ASKs). Passenger numbers were stable with a modest 0.7% increase. The load factor improved by 0.2% points and was 54.8% for the period.

The Company was fully hedged over the period and fuel costs reduced by $0.9M compared to the same period last year despite the increased level of flying activity.

Pilot attrition for the period under review was consistent with the previous year, continuing to be below long term averages. Recruitment outweighed resignations with the Saab pilot ranks increasing by nine. Internal promotions saw the Saab captains numbers strengthen by thirteen during the period under review.

DIRECTORS' REPORT

KEY PERFORMANCE INDICATORS TABLE

Key Assumptions	1H FY 2016	1H FY 2015	Change
Passengers	550,323	546,668	+0.7%
ASK	379.7 M	373.4 M	+1.7%
Load Factor	54.8%	54.6%	+0.2% pt
Passenger Revenue/ASK	30.5c	29.5c	+3.4%
Other Revenue/ASK	0.7c	0.7c	-
Total Pax Cost/ASK	30.1c	29.3c	+2.7%
Fuel % Total Cost	12.6%	15.0%	-2.4% pt

ROUTE NETWORK DEVELOPMENTS

Rex had been heavily solicited by businesses and individuals to start a competitive air service on the Cairns to Townsville route following Virgin Australia's exit from that route in January 2014. In response, Rex undertook a market sounding exercise to gauge business community support for Rex to break the incumbent monopoly on the route. On 6 July 2015 Rex commenced three return flights each weekday from Cairns to Townsville, adding some 60,000 seats on the route with 34 weekly flights. This followed Rex operating a modest weekend service between the two destinations from 3 January 2015.

The Group, with strong support from Cobar Management Pty Ltd (CSA), commenced RPT services between Cobar and Sydney via Dubbo using Air Link's Beechcraft 1900D aircraft. The Cobar RPT service commenced on 31 August 2015.

On 19 November 2015, in partnership with Snowy Mountains Airport Corporation Pty Ltd (SMAC), Rex announced the commencement of RPT services between Sydney and the Snowy Mountains (Cooma) in March 2016. Services commence from Wednesday 23 March 2016 for the Easter period, with the core schedule of five return services per week commencing from Monday 28 March 2016. Additional services on Fridays, Saturdays, Sundays and Mondays will operate through the Winter ski season.

On 9 December 2015, the Western Australian (WA) Government announced the award to Rex of two WA routes (Perth to Albany and Perth to Esperance) in its review of regulated Regular Public Transport (RPT) air services in the state. This confers on Rex the sole right to operate on these routes for the next five years beginning on 28 February 2016.

From 23 March 2016, Rex will operate to 58 destinations across Australia.

FLEET CHANGES

During the reporting period, Rex took delivery of one Saab 340B*plus* aircraft to help with the company's forthcoming expansion into Western Australia. The acquisition brought the number of Saab 340 aircraft in the Rex group to 53, with 41 of them fully paid for in cash and the rest on a short mortgage.

	SAAB 340A Owned	SAAB 340A Freighters Owned	SAAB 340B Owned	SAAB 340B+ Owned	Total Owned	Total Fleet
As at 31 Dec 2015	1	3	22	27	41	53

COMMUNITY, ENVIRONMENT AND SERVICE STANDARDS

In the first half of FY 2016, Rex's On Time Departure rate of 88.4% was ranked in third position of all the major carriers in Australia according to the Bureau of Infrastructure, Transport and Regional Development (BITRE). Rex's cancellation rate of 0.36% was the lowest of all the major carriers in Australia. In comparison, Rex's major competitor QantasLink was ranked 4th with 87.1% On Time Departures, and had a cancellation rate of 2.77%, more than 7 times higher than the Rex cancellation rate in the same period.

Rex continued to support various community events and charities across the network, contributing over $145,000 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.

Rex registered for the NGER (National Greenhouse and Energy Reporting) programme on 25 February 2009 and has since submitted NGER reports for FY 2009, FY 2010, FY 2011, FY 2012, FY 2013, FY 2014 and FY 2015.

The first, second, third, fourth, fifth and sixth 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.

AUDITOR'S INDEPENDENCE DECLARATION

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

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 half-year financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

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, 24 February 2016

Deloitte.

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

24 February 2016

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 2015, 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

AG Collinson
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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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 2015, and the condensed consolidated statement of profit and loss and 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 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Regional Express Holdings Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

INDEPENDENT AUDITOR'S REVIEW REPORT

Auditor's Independence Declaration

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

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 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

AG Collinson
Partner
Chartered Accountants
Sydney, 24 February 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2015

	Note	Half-year ended 31 Dec 2015 $'000	Half-year ended 31 Dec 2014 $'000
Passenger revenue		113,174	106,536
Freight revenue		640	408
Charter revenue		13,853	17,619
Other passenger services and amenities		1,161	1,253
Other revenue		3,754	4,013
Total revenue		**132,582**	**129,829**
Finance income		**329**	**557**
Other losses		**(198)**	**(694)**
Flight and port operation costs (excluding fuel)		(23,794)	(21,477)
Fuel costs		(17,801)	(18,657)
Salaries and employee-related costs		(51,475)	(51,160)
Selling and marketing costs		(3,332)	(2,695)
Engineering and maintenance costs		(18,838)	(18,003)
Office and general administration costs		(3,519)	(3,091)
Finance costs		(1,086)	(1,086)
Depreciation and amortisation		(7,969)	(8,027)
Asset impairment	11	(6,803)	-
Goodwill impairment	11	(6,615)	-
Fair value loss on fuel swap	12	(4,685)	-
Total costs and expenses		**(145,917)**	**(124,196)**
(Loss) / profit before tax		**(13,204)**	**5,496**
Tax benefit / (expense)		1,815	(1,551)
(Loss) / profit after tax		**(11,389)**	**3,945**
(Loss) / profit attributable to:			
Members of the parent		(11,389)	3,945
		(11,389)	**3,945**

(Loss) / earnings per share	cents per share	cents per share
Basic	(10.6)	3.6
Diluted	(10.6)	3.6

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 2015

	Note	Half-year ended 31 Dec 2015 $'000	Half-year ended 31 Dec 2014 $'000
(Loss) / profit after tax		**(11,389)**	**3,945**
Other comprehensive loss			
Hedging reserve			
Revaluation of cash flow hedges	6	(1,153)	-
Income tax effect	6	346	-
Other comprehensive loss (net of tax)		**(807)**	**-**
Total comprehensive (loss) / income		**(12,196)**	**3,945**

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 2015

	Note	Consolidated 31 Dec 2015 $'000	Consolidated 30 Jun 2015 $'000
Current assets			
Cash and bank balances		17,755	23,360
Trade and other receivables		9,153	11,742
Inventories		22,545	20,170
Current tax assets		-	96
Total current assets		**49,453**	**55,368**
Non-current assets			
Other receivables		8,007	7,966
Available for sale investments carried at fair value – shares		9	10
Property, plant and equipment			
Aircraft		114,495	125,987
Other property, plant and equipment		90,522	83,707
Goodwill and other intangible assets		1,132	7,893
Total non-current assets		**214,165**	**225,563**
Total assets		**263,618**	**280,931**
Current liabilities			
Trade and other payables		21,128	23,127
Unearned revenue		14,614	18,208
Borrowings		9,495	9,200
Current tax payable		1,074	-
Provisions		4,910	5,418
Other financial liabilities	12	5,838	-
Total current liabilities		**57,059**	**55,953**
Non-current liabilities			
Borrowings		21,411	26,229
Provisions		822	1,115
Deferred tax liabilities		914	2,793
Total non-current liabilities		**23,147**	**30,137**
Total liabilities		**80,206**	**86,090**
Net assets		**183,412**	**194,841**
Equity			
Issued capital	5	72,024	72,024
Reserved shares	5	(1,486)	(2,273)
Retained earnings		111,163	122,552
Share-based payments reserve		928	948
Other reserves	6	783	1,590
Total equity		**183,412**	**194,841**

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 2015

	Note	Half-year ended 31 Dec 2015 $'000	Half-year ended 31 Dec 2014 $'000
Receipts from customers		144,973	145,390
Payments to suppliers, employees and others		(134,755)	(134,219)
Interest paid		(1,265)	(1,656)
Tax refunded / (paid)		1,609	(1,473)
Net cash flows from operating activities		**10,562**	**8,042**
Interest received		329	557
Proceeds from investment - capital reduction		1	-
Proceeds from disposal of property, plant and equipment		198	1,401
Payments for property, plant and equipment - aircraft and other		(11,818)	(4,584)
Payments for property, plant and equipment - software		(21)	(43)
Net cash flows used in investing activities		**(11,311)**	**(2,669)**
Shares purchased as reserve shares		(333)	(1,038)
Repayment of borrowings – non-related parties	3	(4,523)	(4,247)
Net cash flows used in financing activities		**(4,856)**	**(5,285)**
Net (decrease) / increase in cash held		**(5,605)**	**88**
Cash at the beginning of the period		**23,360**	**21,967**
Cash at the end of the period		**17,755**	**22,055**

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 2015

	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 2014	**72,024**	**(1,182)**	**115,880**	**789**	**-**	**1,590**	**189,101**
Profit for the period	-	-	3,945	-	-	-	3,945
Other comprehensive income (net of tax)	-	-	-	-	-	-	-
Total comprehensive income	-	-	3,945	-	-	-	3,945
Shares purchased as reserve shares	-	(1,038)	-	-	-	-	(1,038)
Share gift issued - gift	-	756	-	(642)	-	-	114
Share gift plan provision	-	-	-	379	-	-	379
At 31 December 2014	**72,024**	**(1,464)**	**119,825**	**526**	**-**	**1,590**	**192,501**
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**

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.

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 half-year financial report are rounded off to the nearest thousand dollars, 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 2015 annual financial report for the financial year ended 30 June 2015, 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 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.

New and revised Standards and amendments thereof and Interpretations effective for the current half-year that are relevant to the Group include:

- **AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality**

  Completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations, allowing that Standard to effectively be withdrawn.

- **AASB 2015-4 Amendments to Australian Accounting Standards – Financial Reporting Requirements for Australian Groups with a Foreign Parent**

  Amends AASB 128 Investments in Associates and Joint Ventures to align the relief available in AASB 10 Consolidated Financial Statements and AASB 128 in respect of the financial reporting requirements for Australian groups with a foreign parent. Amendments are made to AASB 128 to require that the ultimate Australian entity shall apply the equity method in accounting for interests in associates and joint ventures if either the entity or the group is a reporting entity, or both the entity and group are reporting entities.

  Adoption of the above standards had no material impact on the financial statements.

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. For the purposes of AASB 8, the chief operating decision maker is considered to be the Group's Chief Executive Officer.

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 and other

Information regarding these segments is presented below. 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 2015 $'000	31 Dec 2014 $'000	31 Dec 2015 $'000	31 Dec 2014 $'000
Continuing operations				
Regular public transport	117,692	111,825	(2,232)	8,633
Charter and other	14,890	18,004	(6,498)	1,177
	132,582	**129,829**	**(8,730)**	**9,810**
Finance income			329	557
Other losses			(198)	(694)
Central administration costs and directors' salaries			(3,519)	(3,091)
Finance costs			(1,086)	(1,086)
(Loss) / profit before tax			(13,204)	5,496
Tax benefit / (expense)			1,815	(1,551)
Total revenue and (loss) / profit after tax	**132,582**	**129,829**	**(11,389)**	**3,945**

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 or loss 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 and liabilities by reportable operating segment as at the end of the period:

	Assets		Liabilities	
	31 Dec 2015 $'000	30 Jun 2015 $'000	31 Dec 2015 $'000	30 Jun 2015 $'000
Continuing operations				
Regular public transport	197,550	205,064	44,525	45,232
Charter and other	66,068	75,867	35,681	40,858
Total assets and liabilities	**263,618**	**280,931**	**80,206**	**86,090**

3. BORROWINGS

During the period, the Group repaid bank loans to the amount of $4,523 thousand (2014: $4,247 thousand). 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 2015 $'000	30 Jun 2015 $'000
Ordinary shares		
Issued and fully paid	72,024	72,024
	72,024	**72,024**
Reserved shares	**(1,486)**	**(2,273)**
	No. '000	**No. '000**
Issued and fully paid	110,155	110,155
Reserved shares	878	1,594

6. OTHER RESERVES

	31 Dec 2015 $'000	30 Jun 2015 $'000
Cash flow hedge reserve		
Balance at 1 July	-	-
Revaluation of cash flow hedges (net of tax)	(807)	-
	(807)	-
General reserve		
Balance at 1 July	1,590	1,590
Movement during the period	-	-
	1,590	1,590
Total other reserves	**783**	**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.

7. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

Under the Employee Share Gift Scheme, 1,076,641 shares were issued to employees (2014: 990,002), and no new shares were issued (2014: 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 $330,000 was recommended by the Nomination and Remuneration Committee to be paid to key management personnel.

9. CONTINGENCIES AND COMMITMENTS

The Group has signed an agreement with Wagga Wagga City Council to acquire a hangar in Wagga Wagga for aircraft painting activities. It is expected the acquisition will be completed during the year ending 30 June 2017. The cost of the hangar is $2,800,000.

10. SUBSEQUENT EVENTS

There has not been any matter or circumstance that has arisen since the end of the half-year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

11. IMPAIRMENT OF ASSETS

The contract between Pel-Air and the Australian Defence Force ended and was not renewed. As a result of the non-renewal of this contract, the Group considered there to be an indicator of impairment in this Cash Generating Unit (CGU) and undertook a review of the recoverable amounts of the Pel-Air CGU determined through a value in use calculation detailed at (a) below. As a result of the impairment testing performed, the Group assessed that the recoverable amount was less than the carrying value of the assets and accordingly an impairment charge of $6,615,000 relating to the Goodwill previously held in Pel-Air has been recognised.

In addition to the above, certain aircraft assets which were used in the Australian Defence Force contract are idle. The recoverable amount of these aircraft has been measured using fair value less cost to sell and an impairment of $6,803,000 has been recognised. Refer to (b) below for further information.

(A) VALUE-IN-USE: PEL-AIR CGU

The value in use calculation of Pel-Air uses 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 the CGU.

The following key assumptions were used in determining the value-in-use:

Key Assumptions	Pel-Air
(i) Discount rate	11.5%
(ii) Revenue growth	2.5%
(iii) Fuel cost escalation	1.0%
(iv) Operating cost escalation	2.5%

(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 and fuel cost escalation.

The changes in the following table to assumptions used in the impairment model would, in isolation, lead to a reduction of or additional impairment charge in the half year ended 31 December 2015. Changes in one assumption could be accompanied by a change in another assumption, which may increase or decrease the recoverable amount of the CGU.

	Increase / Decrease by	(Decrease)/ Increase in recoverable amount $'000	Increase/ (Decrease) in recoverable amount $'000
Post tax discount rate %	0.5%	(1,736)	1,935
Revenue %	0.5%	2,629	(2,593)
Operating cost escalation %	0.5%	(2,327)	2,295
Fuel cost escalation %	0.5%	(21)	21
Capital expenditure %	5.0%	(873)	873

(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.

An impairment relating to the carrying value of these aircraft assets of $6,803,000 has been recognised in profit and loss.

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 financial assets and liabilities that were measured and recognised at fair value:

	31 Dec 2015 $'000	30 Jun 2015 $'000
Derivative liabilities		
Fuel swaps	5,838	-

The Group has two outstanding fuel swap contracts which manage the risk of exposure to volatility in fuel costs for the Group. The first of these contracts which was entered into in June 2015 did not qualify for hedge accounting due to certain option features in the contract. The terms were amended in December 2015 which removed these option features, and another fuel swap was entered into in December 2015. As at 31 December 2015 both of the outstanding contracts qualified for hedge accounting and therefore the movements in fair value from the date of qualification to balance date have been deferred in the cash flow hedge reserve ($1,153,000 before tax). The movement in fair value of the swap on foot at 30 June 2015 to the date of amendment in its terms of $4,685,000 has been recorded in profit and loss as it did not meet the requirements of hedge accounting.

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 2015 $'000	30 Jun 2015 $'000
Financial liabilities carried at fair value		
Fuel swap hedging contracts		
Level 1	-	-
Level 2	5,838	-
Level 3	-	-
Total	**5,838**	**-**

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.

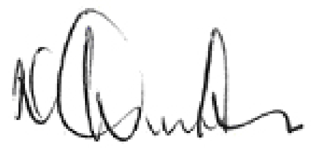
The directors declare that:

(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, 24 February 2016

REX GROUP OF COMPANIES:

rex. Regional Express

PEL-AIR

AIR LINK

AAPA AUSTRALIAN AIRLINE PILOT ACADEMY