Regional Express

Regional Express Holdings Limited
ACN 099547270 (ASX CODE: REX)

Half-Year Financial Report

31 December 2019

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 2019

ASX APPENDIX 4D

RESULTS FOR ANNOUNCEMENT TO THE MARKET

	31 Dec 2019 $M	31 Dec 2018 $M	Change $M	Change %
Revenue	166.2	163.8	2.4	1.5
Profit from ordinary activities after tax attributable to members	6.9	9.8	(2.9)	(29.6)
Net profit for the period attributable to members	6.9	9.8	(2.9)	(29.6)

In respect of the financial year ended 30 June 2019, 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.

	31 Dec 2019 $	31 Dec 2018 $	Change %
Net tangible assets per ordinary share	1.84	1.81	1.7

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 2019 and notes to the financial statements.

EXPLANATION OF RESULTS

The first half of Financial Year 2020 (1H FY20) saw Regional Express Holdings Limited (Rex) report an after tax statutory profit of $6.9M representing a 29.6% reduction in profit year on year as foreshadowed in the profit guidance issued on 21 November 2019. Excluding the once off gain of $0.8M in the 1H FY19 from the sale of Air Link, the after tax statutory profit reduction is 23.3% year on year. The Group's revenue increased 1.5% to $166.2M and passengers carried decreased by 0.9% to 659,053.

Operational costs increased 3.6% against last year to $156.5M. This was largely driven by a weaker AUD which accounted for $2M of the increase. Other cost increases were a result of an increased fleet size, increased port costs mainly related to new security screening costs, and increased flying.

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DIRECTORS' REPORT

The directors of Regional Express Holdings Limited ('Rex') submit herewith the financial report for the half-year ended 31 December 2019.

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 marginal 0.9% increase in Available Seat Kilometres (ASKs) with passenger numbers decreasing by 0.9%. As a result, the load factor declined by -1.7% points and was 62.5% for the period.

1H FY 20 saw a pilot attrition rate 2.5% lower than the previous year due to a slowing in domestic and international recruitment. For the period under review, total pilot establishment at the end of the half-year reporting period was 271 (compared to 272 at the start of the half-year). Internal training was operating at full capacity and saw 13 pilots upgraded to the rank of Captain and 24 pilots checked to line as First Officers.

KEY PERFORMANCE INDICATORS TABLE

	1H FY 2020	1H FY 2019	Change
Passengers	659,053	664,832	-0.9%
ASKs (M)	421.4	417.5	0.9%
Average Fare ($)	223.00	220.99	0.9%
Load Factor	62.5%	64.2%	-1.7% pts
Total RPT Revenue/ASK (cents)	35.4	35.8	-1.1%
Total Pax Cost/ASK (cents)	35.2	33.4	5.4%
Fuel % Total Cost	13.7%	15.2%	-1.5% pts

DIRECTORS' REPORT

ROUTE NETWORK DEVELOPMENTS

As indicated in the Review of Operation, network capacity expressed in Available Seat Kilometres (ASKs) was stable during the 1H FY20 due to no material Route Network changes being made during the reporting period.

On 23 December 2019, Rex announced an increase in the number of Cape York services between Bamaga and Cairns, in the wake of Skytrans exiting the route, with effect from January 6, 2020, bringing a 33% increase in capacity.

FLEET CHANGES

During the reporting period, the Group acquired Aviation Training Academy Australia Pty Ltd (formally known as STAA (A)) and its wholly owned subsidiary AAPA Victoria Pty Ltd along with a fleet of 14 Cessna 172, 5 Piper Seminole and one Cessna 152, with an additional three Cessna 172 and two Piper Seminole on lease.

COMMUNITY, ENVIRONMENT AND SERVICE STANDARDS

Prior to the reporting period the highly successful 'Rex Community Fare Scheme' had already been made available in the following regional communities serviced by Rex:

1. Albany (WA);
2. Esperance (WA);
3. Broken Hill (NSW);
4. Mount Isa (QLD);
5. Moruya (NSW);
6. Burnie (TAS);
7. Parkes (NSW);
8. Carnarvon (WA);
9. Monkey Mia / Shark Bay (WA);
10. Orange (NSW);
11. Mount Gambier (SA);
12. Griffith (NSW);
13. Narrandera (NSW);
14. Mildura (VIC); and
15. Kangaroo Island (SA).

In 1H FY20 Rex more than doubled the number of regional communities that receive the 'Rex Community Fare Scheme' to forty in total. The 'Rex Community Fare Scheme' was rolled out to the following regional communities in partnership with local councils and airport owners during the six month reporting period:

16. Ceduna (SA);
17. Wellcamp / Toowoomba (QLD);
18. St George (QLD);
19. Cunnamulla (QLD);
20. Thargomindah (QLD);
21. Charleville (QLD);
22. Quilpie (QLD);
23. Windorah (QLD);
24. Birdsville (QLD);
25. Bedourie (QLD);
26. Boulia (QLD);
27. Townsville (QLD);

DIRECTORS' REPORT

28. Winton (QLD);
29. Longreach (QLD);
30. Hughenden (QLD);
31. Richmond (QLD);
32. Julia Creek (QLD);
33. Normanton (QLD);
34. Karumba (QLD);
35. Burketown (QLD);
36. Doomadgee (QLD);
37. Albury (NSW);
38. King Island (TAS);
39. Port Lincoln (SA); and
40. Armidale (NSW).

The 'Rex Community Fare Scheme' offers a deeply discounted price if booked at least 30 days prior to departure subject to Community Fare availability, in addition to all remaining unsold seats within 24 hours before departure. In the 1H FY20 there were more than 250,000 passengers that benefited from the 'Rex Community Fare Scheme', directly benefiting the socio-economic fabric of regional Australia.

In 1H FY20, Rex's On Time Departure rate of 80.09% was ranked second in comparison with all carriers (major and regional) in Australia according to the Bureau of Infrastructure, Transport and Regional Development (BITRE). Rex's cancellation rate of 1.16% was also ranked second of all carriers (major and regional) in Australia. Rex's On Time Departure and cancellation rate was only bettered by Virgin Australia Regional Airlines who operated 4,690 sectors in comparison to 37,181 sectors flown by Rex.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 7 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 2020

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

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

28 February 2020

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 2019, 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

Damien Cork
Partner
Chartered Accountants

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Member of Deloitte Asia Pacific Limited and the Deloitte Network.

INDEPENDENT AUDITOR'S REVIEW REPORT

Deloitte.

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Regional Express Holdings Limited (the "Company") and its controlled entities (the "Group"), which comprises the condensed consolidated statement of financial position as at 31 December 2019, the condensed consolidated statement of profit and loss, the condensed consolidated statement of 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, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Group comprising the Company and the entities it controlled at the end of the half-year or from time to time during the half-year.

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 Group's financial position as at 31 December 2019 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.

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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 Group's financial position as at 31 December 2019 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

Damien Cork
Partner
Chartered Accountants
Sydney, 28 February 2020

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Half-year ended	
	31 Dec 2019 $'000	31 Dec 2018 $'000
Passenger revenue	145,077	145,403
Freight revenue	754	754
Charter revenue	14,372	14,238
Other passenger services and amenities	809	565
Other revenue	5,231	2,872
Total revenue	**166,243**	**163,832**
Finance income	**412**	**529**
Other gains / (losses)	**(177)**	**983**
Flight and port operation costs (excluding fuel)	(30,641)	(29,552)
Fuel costs	(21,375)	(23,042)
Salaries and employee-related costs	(58,041)	(57,510)
Selling and marketing costs	(4,720)	(4,380)
Engineering and maintenance costs	(27,012)	(23,050)
Office and general administration costs	(4,331)	(3,930)
Finance costs	(915)	(1,190)
Depreciation and amortisation	(9,475)	(8,471)
Total costs and expenses	**(156,510)**	**(151,125)**
Profit before tax	**9,968**	**14,219**
Tax expense	(3,118)	(4,389)
Profit after tax	**6,850**	**9,830**
Profit attributable to:		
Members of the parent	6,850	9,830
	6,850	**9,830**
Earnings per share	**cents per share**	**cents per share**
Basic	6.2	9.0
Diluted	6.2	9.0

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME OR LOSS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Half-year ended	
		31 Dec 2019 $'000	31 Dec 2018 $'000
Profit after tax		**6,850**	**9,830**
Other comprehensive loss			
Hedging reserve			
Revaluation of cash flow hedges	8	(164)	(1,266)
Income tax effect	8	49	380
Other comprehensive loss net of tax		**(115)**	**(886)**
Total comprehensive income		**6,735**	**8,944**

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Consolidated	
		31 Dec 2019 $'000	30 Jun 2019 $'000
Current assets			
Cash and bank balances		9,816	21,727
Trade and other receivables		15,001	16,674
Inventories		14,697	13,439
Other financial assets	13	196	360
Total current assets		**39,710**	**52,200**
Non-current assets			
Other receivables		5,932	6,679
Inventories		9,680	8,055
Investments - fair value through equity		9	9
Deferred tax assets		1,114	1,897
Property, plant and equipment			
Aircraft		97,133	89,178
Other property, plant and equipment		116,910	114,100
Right-of-use assets	3	2,904	-
Goodwill and other intangible assets		785	731
Total non-current assets		**234,467**	**220,649**
Total assets		**274,177**	**272,849**
Current liabilities			
Trade and other payables		23,906	20,939
Unearned revenue		20,735	24,502
Borrowings	4	4,713	3,852
Lease liabilities	5	215	-
Provisions		8,547	9,217
Current tax payable		843	2,452
Total current liabilities		**58,959**	**60,962**
Non-current liabilities			
Borrowings	4	5,808	4,220
Lease liabilities	5	3,251	-
Provisions		2,614	2,248
Total non-current liabilities		**11,673**	**6,468**
Total liabilities		**70,632**	**67,430**
Net assets		**203,545**	**205,419**
Equity			
Issued capital	7	72,024	72,024
Reserved shares	7	(191)	(1,163)
Retained earnings		128,907	131,165
Share-based payments reserve	8	1,078	1,551
Other reserves	8	1,727	1,842
Total equity		**203,545**	**205,419**

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	Note	Half-year ended 31 Dec 2019 $'000	31 Dec 2018 $'000
Receipts from customers		185,409	175,187
Payments to suppliers, employees and others		(167,689)	(154,001)
Interest paid		(478)	(644)
Income tax paid		(4,617)	(9,307)
Net cash flows from operating activities		**12,625**	**11,235**
Interest received		412	529
Proceeds from disposal of property, plant and equipment		26	17
Payments for acquisition/proceeds from disposal of business	14	(8,650)	908
Payments for property, plant and equipment - aircraft and other		(9,594)	(5,682)
Payments for property, plant and equipment - software		(65)	(10)
Net cash flows used in investing activities		**(17,871)**	**(4,238)**
Dividends paid		(8,725)	(8,664)
Shares purchased as reserve shares		(184)	-
Repayment of borrowings – non-related parties	4	(2,100)	(6,679)
Proceeds from borrowings - non-related parties	4	4,549	-
Lease liabilities paid		(205)	-
Net cash flows used in financing activities		**(6,665)**	**(15,343)**
Net decrease in cash held		**(11,911)**	**(8,346)**
Cash at the beginning of the period		**21,727**	**25,965**
Cash at the end of the period		**9,816**	**17,619**

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE HALF-YEAR ENDED 31 DECEMBER 2019

	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 2018	**72,024**	**(2,256)**	**126,521**	**1,605**	**-**	**1,590**	**199,484**
Adjustment on adoption of AASB 15 Revenue	-	-	154	-	-	-	154
Restated balance at 1 July 2018	72,024	(2,256)	126,675	1,605	-	1,590	199,638
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
At 31 December 2018	**72,024**	**(1,163)**	**127,841**	**1,205**	**(886)**	**1,590**	**200,611**
At 1 July 2019	**72,024**	**(1,163)**	**131,165**	**1,551**	**252**	**1,590**	**205,419**
Adjustment on adoption of AASB 16 Leases	-	-	(383)	-	-	-	(383)
Restated balance at 1 July 2019	72,024	(1,163)	130,782	1,551	252	1,590	205,036
Profit for the period	-	-	6,850	-	-	-	6,850
Other comprehensive loss net of tax	-	-	-	-	(115)	-	(115)
Total comprehensive income / (loss)	-	-	6,850	-	(115)	-	6,735
Dividends paid	-	-	(8,725)	-	-	-	(8,725)
Shares purchased as reserve shares	-	(184)	-	-	-	-	(184)
Share gift issued - gift	-	1,156	-	(1,156)	-	-	-
Share gift plan provision	-	-	-	683	-	-	683
At 31 December 2019	**72,024**	**(191)**	**128,907**	**1,078**	**137**	**1,590**	**203,545**

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

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 condensed consolidated financial statements have been prepared on a going concern basis. In preparing the condensed consolidated financial statements the directors note that the Group and Company are in a net current asset deficiency position, due to the nature of the operations whereby customers make payment for booked flights prior to the flights being taken. The directors have prepared a cash flow forecast which indicates that the Group will have sufficient cash flows to meet all commitments and working capital requirements for the 12 month period from the date of signing this financial report. Based on the cash flow forecasts and other factors referred to above, the directors are satisfied that the going concern basis of preparation is appropriate.

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 2019 annual financial report for the financial year ended 30 June 2019, 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 16 LEASES ("AASB 16")

AASB 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. AASB 16 supersedes AASB 117 Leases and the related Interpretations effective for accounting periods beginning on or after 1 January 2019. From 1 July 2019, the Group applied AASB 16 on a modified retrospective basis and consequently does not restate the comparative information.

IMPACT OF THE NEW DEFINITION OF A LEASE

The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the lessee. Control is considered to exist if the lessee has the right to obtain substantially all of the economic benefits from the use of an identified asset and the right to direct the use of that asset. The Group assessed the new definition in AASB 16 and determined that the scope of the contracts meets the definition of a lease for the Group.

IMPACT OF ACCOUNTING FOR LEASES

AASB 16 changes how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. In accordance with the modified retrospective basis of adoption, on initial application of AASB 16, for all

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

leases (except as noted below), the Group has:

a) Recognised right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments on a prospective basis at the date of initial application (i.e. 1 July 2019);
b) Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated state ment of profit or loss;
c) Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts. For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group recognises such lease expense on a straight-line basis as permitted by AASB 16.

IMPACT OF ADOPTION

The reconciliation of non-cancellable operating lease commitments to the lease liability recognised on adoption is as follows:

	$'000
Operating lease commitments at 30 June 2019	6,027
Discounted using the incremental borrowing rate at 1 July 2019	(2,073)
Lease obligations recognised at 1 July 2019	3,954

On adoption, right-of-use assets of $3,327 thousand were recognised. A net deferred tax asset of $132 thousand was recognised on acquisition with an adjustment to retained earnings of $383k.

Operating EBITDA will increase by $230k in FY2020. The decrease in expected impact on operating EBITDA from that reported at 30 June 2019 of $1.1M is due to the acquisition of two aircraft previously classified as operating leases during the half-year.

The following table summarises the impact of adopting AASB 16 on the Group's statement of financial position as at 31 December 2019 and its statement of profit or loss and other comprehensive income and statement of cash flows for the half year ended 31 December 2019.

STATEMENT OF FINANCIAL POSITION

	As reported $'000	AASB 16 impact $'000	without AASB 16 $'000
Right-of-use assets	2,904	(2,904)	-
Deferred tax assets	1,114	(164)	950
Current lease liabilities	(215)	215	-
Non-current lease liabilities	(3,251)	3,251	-
Net assets	203,545	398	203,147

The impact on the statement of profit or loss is not material.

Under AASB 117, all lease payments on operating leases were presented as part of cash flows from operating activities. Under AASB 16, the lease payments are presented as part of cash flows in financing activities.

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

Standard/Amendment	Effective for annual reporting periods beginning on or after
AASB 2018-6 *Amendments to Australian Accounting Standards - Definition of a Business*	1 January 2020
AASB 2018-7 *Amendments to Australian Accounting Standards – Definition of Material*	1 January 2020
AASB 2019-1 *Amendments to Australian Accounting Standards – References to the Conceptual Framework*	1 January 2020
AASB 2019-3 *Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform*	1 January 2020
AASB 2019-5 *Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia*	1 January 2020

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 2019 $'000	31 Dec 2018 $'000	31 Dec 2019 $'000	31 Dec 2018 $'000
Continuing operations				
Regular public transport	151,819	149,494	12,995	15,445
Charter and other	14,424	14,338	1,984	2,382
	166,243	**163,832**	**14,979**	**17,827**
Finance income			412	529
Other gains / (losses)			(177)	983
Central administration costs and directors' salaries			(4,331)	(3,930)
Finance costs			(915)	(1,190)
Profit before tax			9,968	14,219
Tax expense			(3,118)	(4,389)
Condensed segment revenue and profit	**166,243**	**163,832**	**6,850**	**9,830**

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 2019 $'000	30 Jun 2019 $'000	31 Dec 2019 $'000	30 Jun 2019 $'000
Continuing operations				
Regular public transport	237,588	220,967	48,732	46,034
Charter and other	36,589	51,882	21,900	21,396
Total assets and liabilities	**274,177**	**272,849**	**70,632**	**67,430**

3. RIGHT-OF-USE ASSETS

	Leased premises $'000	Plant and equipment $'000	Total $'000
Balance on initial adoption	2,021	1,306	3,327
Additions 2019	965	-	965
Disposals 2019	-	(1,120)	(1,120)
Depreciation 2019	(82)	(186)	(268)
Closing balance	**2,904**	**-**	**2,904**

The Group leases several assets including buildings and plant equipment. The lease terms vary from 3 to 41 years.

	30 December 2019 $'000
Amounts recognised in profit and loss	
Depreciation expense on right-of-use assets	268
Interest expense on lease liabilities	73
Expenses relating to short term leases	671

4. BORROWINGS

	Effective interest rate %	31 Dec 2019 $'000	30 Jun 2019 $'000
Current			
Loan facility	9.1%	4,032	3,852
Other borrowings	5.25%	681	-
		4,713	**3,852**
Non-current			
Loan facility	9.1%	2,159	4,220
Other borrowings	5.25%	3,649	-
		5,808	**4,220**

The loan facility was used by a subsidiary, VAA Pty Ltd, to fund a number of aircraft assets. The loan is repayable over 10 years from July 2011 to June 2021. The liabilities are secured over the assets being funded, the carrying value of which exceeds the outstanding liabilities. During the period, the Group repaid an amount of $1,881 thousand.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The other borrowings $4,330 thousand, relates to borrowings secured during the period to acquire two Saab aircraft in the operating fleet that were under an operating lease, and is repayable over 19 months from September 2019 to March 2021. During the period, the Group repaid an amount of $219 thousand.

5. LEASE LIABILITIES

	31 Dec 2019 $'000	30 Jun 2019 $'000
Current	215	-
Non-current	3,251	-
	3,466	-

The following table presents the contractual undiscounted cash flows for lease obligations as of 31 December 2019:

Within one year	379	-
After one year but not more than five years	1,279	-
More than five years	3,924	-
	5,582	-
Less interest	(2,116)	-
	3,466	-

6. DIVIDENDS

In respect of the financial year ended 30 June 2019, 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. During the period, the Group paid dividends of $8.812M of which $87 thousand relate to shares held by the Group under the Employee Share Gift Scheme.

	Half-year ended			
	31 December 2019		31 December 2018	
	Cents per share	Total $'000	Cents per share	Total $'000
Fully paid ordinary shares				
Dividends paid	8	8,812	8	8,812
Dividends received for shares in the Employee Share Gift Scheme	8	(87)	8	(148)
Final dividend	**8**	**8,725**	**8**	**8,664**

7. ISSUED CAPITAL AND RESERVED SHARES

	31 Dec 2019		30 Jun 2019	
	No. '000	$'000	No. '000	$'000
Ordinary shares				
Issued and fully paid	110,155	**72,024**	110,155	**72,024**
Reserved shares	(430)	**(191)**	(1,093)	**(1,163)**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

	31 Dec 2019 $'000	30 Jun 2019 $'000
Reserved Shares		
At the beginning of the year	(1,163)	(2,256)
Shares purchased as reserve shares	(184)	-
Share Gift issued	1,156	1,093
At the end of the period	**(191)**	**(1,163)**

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

8. SHARE-BASED PAYMENTS RESERVE AND OTHER RESERVES

	31 Dec 2019 $'000	30 Jun 2019 $'000
Share-based payments reserve		
At the beginning of the year	1,551	1,605
Share gift issued	(1,156)	(1,093)
Share gift plan provision	683	1,316
Share gift plan provision transfer	-	(277)
At the end of the period	**1,078**	**1,551**
Cash flow hedge reserve		
At the beginning of the year	252	-
Net revaluation of cash flow hedges, net of tax	(115)	252
At the end of the period	137	252
General reserve		
At the beginning of the year	1,590	1,590
Movement during the period	-	-
At the end of the period	1,590	1,590
Total other reserves	**1,727**	**1,842**

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.

9. ISSUANCES, REPURCHASES AND REPAYMENTS OF EQUITY SECURITIES

Under the Employee Share Gift Scheme, 820 thousand shares were issued to employees (2018: 764 thousand), and no new shares were issued (2018: 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

10. CONTINGENCIES AND COMMITMENTS

CAPITAL EXPENDITURE COMMITMENTS

There are no commitments for the acquisition of property, plant and equipment as at 31 December 2019 (2018: nil).

11. EVENTS AFTER THE REPORTING PERIOD

Rex's wholly owned subsidiary Pel-Air was awarded a contract to provide Fixed Wing Patient Transport Services to NSW Ambulance on the 13th February 2020. The contract has a 10-year operational phase beginning in January 2022 and involves the supply of five fixed-wing aircraft, pilots and engineering support to enable the aerial transport of NSW Ambulance medical personnel and patients throughout NSW regional communities.

In February 2020, Rex has entered into hedge contracts for Rex's Jet Fuel consumption for the remainder of CY20.

Apart from the above matter there are no other subsequent events to be reported at the date of this report.

12. 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)	10.25%	11.00%
Revenue growth (ii)	2.00%	1.5-2.00%
Fuel cost escalation (iii)	2.00%	2.00%
Operating cost escalation (iv)	2.00%	2.00%

(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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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.

	Increase/ (Decrease) by	Rex recoverable amount		Pel-Air recoverable amount	
		(Decrease)/ Increase $'000	Increase/ (Decrease) $'000	(Decrease)/ Increase $'000	Increase/ (Decrease) $'000
Post tax discount rate	0.50%	(10,468)	11,795	(1,858)	2087
Revenue	0.50%	70,716	(69,134)	5,361	(5,247)
Operating cost escalation	0.50%	(52,757)	51,600	(3,191)	3,122
Fuel cost escalation	0.50%	(8,521)	8,334	(750)	734

13. 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 been classified as cash flow hedges and the fair value at 31 December 2019 has been recognised in other comprehensive 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 2019 $'000	30 Jun 2019 $'000
Derivative assets		
Foreign exchange derivative contacts	196	-
Fuel swaps	-	360

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).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Financial instruments carried at fair value are classified as follows:

	Classification	31 Dec 2019 $'000	30 Jun 2019 $'000
Derivative assets			
Foreign exchange derivative contacts	Level 2	196	-
Fuel swaps	Level 2	-	360

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.

14. ACQUISITION OF BUSINESS

In November 2019, the Group acquired Aviation Training Academy Australia Pty Ltd ("ATAA") business through the purchase of shares in ATAA and related aircraft for a total consideration of $9,425 thousand. ATAA through its wholly owned subsidiary AAPA Victoria Pty Ltd operates a pilot training academy. Details of the acquisition are presented below.

Acquisition accounting is provisional as at the date of this report. The Group is in the process of determining the acquisition date fair values of the assets and liabilities acquired, including adjustments to income tax related assets and liabilities on entry to the REX tax consolidated group.

	Provisional fair value $'000
Assets and liabilities acquired:	
Aircraft	7,734
Other property, plant and equipment	2,654
Right-of-use assets	965
Other intangible assets	49
Trade and other receivables	485
Trade and other payables	(989)
Lease liabilities	(965)
Deferred tax liabilities	(888)
Provisions	(395)
Net assets acquired	**8,650**
Consideration on acquisition	**9,425**
Less: cash required	**(775)**
Net cash paid on acquisition	**8,650**

DIRECTORS' DECLARATION

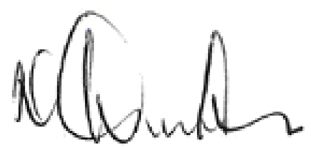
The directors declare that:

(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 2020

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REX GROUP OF COMPANIES: