Regaining Lost Ground

ANNUAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018
REGIONAL EXPRESS HOLDINGS LIMITED

rex.
Regional Express

REGIONAL EXPRESS VALUE STATEMENT

WHAT DOES IT PROFIT A COMPANY IF IT GAINS THE WHOLE WORLD AND LOSES ITS SOUL

COMPANY

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

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

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

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

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

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

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

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

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

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

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

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

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

CUSTOMER

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

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

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

COMMUNITY

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

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

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

CONTRACTORS

We believe that our suppliers are partners in our business.

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

CAPITAL

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

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

REGAINING LOST GROUND

LIM KIM HAI
EXECUTIVE CHAIRMAN

Last year, this Foreword was captioned "CLEARER SKIES AHEAD" as the resurgent Australian economy gave Rex confidence to forecast strong performance. True to form, Rex has turned in a 41% rise in profits, bringing its Profit Before Tax (PBT) for FY18 to $25M, a result not seen since 2012.

Rex joins the rarefied club of probably not more than five listed carriers worldwide that have not made a statutory loss (excluding write-downs) in the last 15 years. In fact, since the GFC of 2010, the Rex Group has still managed to generate an average Gross Return on revenue (PBT/Revenue) of 6.2% compared to 0.8% returns for the Qantas Group, while the Virgin Group is hopelessly entrenched in negative territory having close to $1.5 billion of accumulated statutory losses before tax.

Our strong results have generated healthy cash surplus, and with no major capital investments in sight, shareholders will be pleased to know that the Board has decided on a final dividend of 8 cents per share, bringing the total dividend for the FY to 12 cents per share. The Rex Board continues to affirm its support for a healthy dividend payout ratio for the new FY and will be recommending an interim dividend if the half-yearly results live up to expectations.

While celebrating our past successes, Rex is ever mindful of the brewing global and domestic strong headwinds ahead, the potential for fuel price to spiral up with the Iran oil sanctions, global trade war, acute pilot shortage and a devastating drought in regional Australia. Rex Management and Board will be extra vigilant, cautious and defensive in all strategic decisions so as not to be caught flat-footed. Having seen through equally tumultuous times in the last 15 years – record drought, SARS, wars, volcanic ash, stratospheric fuel prices, GFC – that has brought down 20 regional carriers in Australia, 3 in the recent months alone – I am quietly confident that we have the wherewithal to withstand the possible storm that could be coming if it does materialise.

In fact, the Rex Group today has a much larger network and better operational efficiencies than in FY 11/12 when we had our record PBT of $35M. We are also now training pilots for other international airlines. This plus the fact that the Australian economy continues to show strong signs of growth with a marked pick up in the resource sector give us the assurance that the best is yet to be. I am confident that Rex will continue to improve on its profitability in the new FY, albeit not at the giddy pace experienced in the last two years.

Here I would like to pause and pay compliment to all our staff who have had to go way above and beyond themselves to ensure that our schedule is disrupted as little as possible by the crippling pilot shortage hitting regional aviation, caused by the major domestic carriers' rapacious poaching of pilots. I would like to single out the pilot group in particular who have accepted last minute call-outs so that regional passengers do not miss their hospital appointments or the important business meeting. Rex, and indeed the regional communities we service, owe them a huge debt of gratitude.

I would also like to thank my Management Committee for turning in another sterling year under extremely stressful conditions and the Board for its continued guidance, wisdom and support.

Lim Kim Hai
Executive Chairman
29 August 2018

CORPORATE INFORMATION

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

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

DIRECTORS

Lim Kim Hai
The Hon. John Sharp AM
Lee Thian Soo
Neville Howell
Chris Hine
James Davis
Prof. Ronald Bartsch

COMPANY SECRETARIES

Irwin Tan
Benjamin Ng
Richard Kwan

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SOLICITOR

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

BANKER

Westpac Banking Corporation

AUDITOR

Deloitte Touche Tohmatsu

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DIRECTORS' REPORT

1 BOARD OF DIRECTORS

In compliance with the provisions of the Corporations Act 2001, the directors of Regional Express Holdings Limited ('Rex') submit herewith the annual report for Rex and its consolidated entities (the 'Group') for the Financial Year ended 30 June 2018 (FY18).

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

LIM KIM HAI

Executive Chairman

Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012 and 27 November 2015.

Mr. Lim started his career as a Defence Engineer specialising in underwater warfare. After 10 years he left to start his own business. Currently he has a portfolio of investment and business interests in diverse sectors and countries. He is also the Chairman of a biomedical company in Singapore, Lynk Biotechnologies Pte Ltd.

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

Mr. Lim was one of the founding shareholders and directors of Rex in August 2002. He has been the Executive Chairman of the Rex Group of companies since July 2003.

THE HON. JOHN SHARP AM

Deputy Chairman and Independent Director

Appointed 14 April 2005 and re-appointed 19 November 2008, 23 November 2011, 27 November 2013 and 29 November 2016.

The Honourable John Sharp AM is an aviator, having been a licensed pilot of both fixed wing and rotary wing aircraft. Mr. Sharp was a member of the House of Representatives of the Commonwealth Parliament for 14 years (1984 – 1998). He retired from the House of Representatives in 1998 and established his own high level aviation and transport consulting company. Mr. Sharp is a former Chairman of the Aviation Safety Foundation of Australia. In 2001, he became a director of Airbus Group, Australia Pacific, a position he retired from in June 2015. He has retired as Chairman of the Parsons Brinkerhoff Advisory Board, an engineering and design company operating throughout Australia and the region. He is Chairman of Pel-Air Aviation Pty Ltd and is also a director of Power and Data Corporation Pty Limited and a director of Lurssen Australia. Mr. Sharp is the Honorary Treasurer of John McEwan House and has retired as the Chairman of Winifred West Schools Foundation. He has been a member of the University of Wollongong Vice Chancellor's Advisory Board. He is also currently a director of the Tudor House Foundation. Mr. Sharp served as a director of the Flight Safety Foundation following his receipt of the Foundation's Presidential Citation for Aviation Safety, the first Australian to receive this award. He has also been a director of the French, Australian Chamber of Commerce and Industry, and Co-Chair of the Cancer Council of NSW Southern Highlands Branch. He is currently a director of the Climate Change Authority. Mr. Sharp's extensive experience in aviation, regional air services and as the former Federal Minister for Transport and Regional Development in the Federal Government, adds significantly to the expertise and standing of the Board.

Mr. Sharp was named a Member of the Order of Australia for significant service to the people and Parliament of Australia, to the aviation industry, and to the community during Queen's Birthday Honours in June 2018.

LEE THIAN SOO

Non-Executive Director

Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012 and 27 November 2015.

Mr. Lee has extensive international business experience and currently is the Chairman and owner of a company supplying specialty medical devices, systems and drugs to healthcare institutions in the ASEAN region.

Mr. Lee was one of the founding shareholders and directors of Rex in August 2002.

NEVILLE HOWELL

Chief Operating Officer

Appointed 1 July 2014 as Executive Director and re-appointed 26 November 2014 and 21 November 2017.

Mr. Howell has over 37 years of aviation experience and has been with the Company since its inception in August 2002. He operated the Saab 340 as a First Officer and Captain for over 18 years for both Hazelton Airlines and Regional Express. Prior to his role as GM Flight Operations (GMFO) and Chief Pilot, Mr. Howell was Manager Training & Checking and Deputy Chief Pilot. He is an extensively qualified and experienced simulator and aircraft instructor and has held positions as both Training and Check Captain. Mr. Howell was the Chief Flying Instructor and Chief Pilot for the first integrated pilot training academy in Australia and has provided cadet pilot training for both domestic and international carriers. He is a qualified lecturer in a number of aviation subjects and has a Diploma of Aviation. He has held a number of Civil Aviation Safety Authority (CASA) delegations since 1984. As GMFO Mr. Howell was responsible for all facets of the Company's flight operations and all operational matters affecting the safety of flight operations. Mr. Howell became Chief Operating Officer in July 2014. As Chief Operating Officer he is responsible for Regional Express operations including flight operations, continuing airworthiness, maintenance control, airport operations and the human factors group. Mr. Howell is the Accountable Manager for the Regional Express Air Operator Certificate (AOC).

CHRIS HINE

Group Flight Operations Advisor and Chairman, Australian Airline Pilot Academy

Appointed 1 March 2011 as Executive Director and re-appointed 23 November 2011.

Appointed 1 July 2014 as Non-Executive Director and re-appointed 26 November 2014.

Appointed Executive Director and Group Flight Operations Advisor 18 May 2015 , and re-appointed 21 November 2017.

Mr. Hine has over 25 years of aviation experience including 15 years as a First Officer and Captain of Metroliner and Saab 340 aircraft and is a well-accomplished and knowledgeable instructor. He has been with the Company since its inception in August 2002 and is the Group Flight Operations Advisor, Chairman's Office and Chairman of the Australian Airline Pilot Academy. Preceding his current role he was the Chief Operating Officer and General Manager Flight Operations and Chief Pilot. Prior to Rex he worked for Kendell Airlines from 1995, during which time he held various Check and Training Captain positions. As Chief Operating Officer he was responsible for the Company's operations including flight operations, maintenance control, airport operations and the human factors group. Mr. Hine has also had experience as a lecturer in Cockpit Systems Management for the Bachelor of Applied Science (Civil Aviation) degree at the University of South Australia.

JAMES DAVIS

Independent Director

Appointed 26 August 2004 as Executive Director.
Appointed Managing Director on 27 May 2008 and retired 1 July 2011.
Appointed 23 November 2011 as an Independent Director, re-appointed 26 November 2014, and 21 November 2017.

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

PROF. RONALD BARTSCH

Independent Director

Appointed 23 November 2010 and re-appointed 23 November 2011, 26 November 2014, and 21 November 2017.

Professor Bartsch has over 35 years' experience in the aviation industry in a variety of senior operational, safety and regulatory roles. He was head of safety and regulatory compliance for Qantas Airways Limited's AOC and manager of the CASA Sydney Airline Transport Field Office.

Professor Bartsch is an experienced pilot and has extensive legal and regulatory experience. He has formal qualifications in law, education, philosophy and science, and is the author of the definitive legal textbook on aviation law. Professor Bartsch is an international aviation safety consultant and senior visiting fellow with the School of Aviation at the University of New South Wales and the College of Law at the Australian National University. He is a former aviation specialist member of the Administrative Appeals Tribunal and author of several publications including Aviation Law in Australia, International Aviation Law and Drones in Society.

2 SENIOR MANAGEMENT EXECUTIVES

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

NEVILLE HOWELL

Chief Operating Officer

Mr. Howell is a member of the Rex Management Committee. A description of his qualifications, skills and experience is included on page 7.

WARRICK LODGE

General Manager, Network Strategy & Sales

Mr. Lodge manages a team responsible for scheduling, pricing, revenue management, sales and commercial analysis. His duties include the monitoring of network performance and analysis of both existing and new market opportunities. Mr. Lodge has more than 25 years of regional airline experience in the specialised areas of scheduling, pricing and revenue management and held the position of Manager Network Planning with Kendell Airlines, having joined that company in 1992. Mr. Lodge has been with Rex since its inception in 2002 and is also a member of the Rex Management Committee.

IRWIN TAN

General Manager, Corporate Services

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

MAYOORAN THANABALASINGAM

General Manager, Information Technology and Communications

Mr. Thanabalasingam leads a team of Information Technology (IT) professionals responsible for ensuring day-to-day operations of the airline. With over 15 years of experience and an extensive background in information technology, he has managed a range of IT projects and initiatives for Rex including the Internet Booking Engine, the Amend Booking Engine, Web Check-in and numerous Mobile/iPad applications. Mr. Thanabalasingam has a Master of Business Administration (Computing) from Charles Sturt University. He also has a Graduate Certificate in Management (Information Technology) as well as an Associate Diploma of Electrical Engineering / Computer Engineering. He commenced with Rex in April 2004. Mr. Thanabalasingam is a member of the Rex Management Committee and a Director of the Australian Airline Pilot Academy (AAPA).

PNG YEOW TAT

General Manager, Engineering

Mr Png. has been in aviation engineering for more than 35 years and has many years of experience in various senior management positions. He graduated with an Honours Degree in Electrical and Electronic Engineering from the UK. Mr. Png joined Rex in June 2007 as the Logistics Advisor and subsequently as the Engineering Advisor in the Chairman's Office. He became the Deputy General Manager and Part 145 Alternate Accountable Manager for both Rex and Air Link Approved Maintenance Organisations (AMOs) in June 2013. He is a member of the Rex Engineering Management Committee and a member of the Rex Management Committee.

MARK BURGESS

Deputy General Manager, Engineering

Mr. Burgess is a Licensed Aircraft Maintenance Engineer with over 30 years' experience and has been with the Company since its inception in 2002.

Mr. Burgess' career began as an apprentice in the British Armed Forces where he maintained helicopters for 12 years and left as a Senior Rank. He continued his career in the oil and gas industry with CHC Helicopters and also British Midland Regional Prop and Jet regular public transport (RPT) services. He migrated to Australia in 2001 to work for Kendell Airlines in Wagga Wagga and became Production Leader co-ordinating maintenance and manpower on heavy checks for Saab 340 aircraft. In 2008 Mr. Burgess moved to Adelaide as the Line Maintenance Supervisor and oversaw expansion of Rex maintenance activities from line to heavy maintenance. He is a member of the Rex Engineering Management Committee.

DAVID BROOKSBY

National Airports Manager
Chief Operating Officer, Air Link

Mr Brooksby holds dual roles within the company as both the National Airports Manager for Rex and the Chief Operating Officer for Air Link. Mr. Brooksby has held previous senior roles in a management and operational capacity at each of Rex's major airports including Adelaide, Sydney, Brisbane and Melbourne since joining the company in April 2006. Prior to commencing employment with Rex, Mr. Brooksby worked as a contracted outport agent with his family's business at Mount Gambier airport where his father is the Company's longest standing contracted ground handling agent, having been contracted by Rex/Kendell since 1982 to provide ground handling services. Mr. Brooksby graduated from the University of South Australia with a Bachelor of Management in 2003. Mr. Brooksby is also a member of the Rex Management Committee.

PAUL FISHER

General Manager, Flight Operations and Chief Pilot

Mr. Fisher has over 28 years of aviation experience and has been with the Company since its inception in August 2002. He has operated the Saab 340 as a First Officer and Captain for over 14 years for both Hazelton Airlines and Regional Express. Prior to his role as GM Flight Operations (GMFO) and Chief Pilot, Mr. Fisher served in various roles within the Training and Checking department including the Adelaide Flight Operations Manager, Flight Standards Manager and the Training & Checking Manager / Deputy Chief Pilot. He holds a number of Civil Aviation Safety Authority (CASA) delegations. As GMFO he is responsible for all facets of the Company's flight operations and all operational matters affecting the safety of flight operations.

03 DIRECTORSHIPS OF OTHER LISTED COMPANIES

During the year under review, no directors appointed as at 30 June 2018 served as a director with any other company listed on the ASX.

04 DIRECTORS' SHAREHOLDINGS

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

Directors	Fully paid ordinary shares direct interest	Fully paid ordinary shares indirect interest	Share options
Lim Kim Hai	18,998,346	5,755,513	-
The Hon. John Sharp AM	50,000	275,032	-
Lee Thian Soo	7,722,181	3,727,181	-
Neville Howell	30,499	-	-
Chris Hine	76,346	-	-
James Davis	200,866	-	-
Ronald Bartsch	-	-	-

05 DIRECTORS' MEETINGS

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

Directors	Board	Remunerations, Nominations and Disciplinary Committee	Audit & Corporate Governance Committee	Safety & Risk Management Committee
No. of Meetings Held:	4	2	2	4
Attendance:				
Lim Kim Hai	4	-	-	-
The Hon. John Sharp AM	4	2	2	-
Lee Thian Soo	3	-	-	-
Neville Howell	4	-	-	4
Chris Hine	4	-	-	4
James Davis	4	2	2	-
Ronald Bartsch	4	-	-	4

06 REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Information about the remuneration of directors and senior management is set out in the remuneration report of this directors' report, on pages 21 to 24.

07 SHARES UNDER OPTION OR ISSUED ON EXERCISE OF OPTIONS

No options were granted or exercised in FY18.

08 FORMER PARTNERS OF THE AUDIT FIRM

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

09 COMPANY SECRETARIES

Mr. Irwin Tan holds the position of Rex Company Secretary. A description of his qualifications, skills and experience is included on page 9.

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

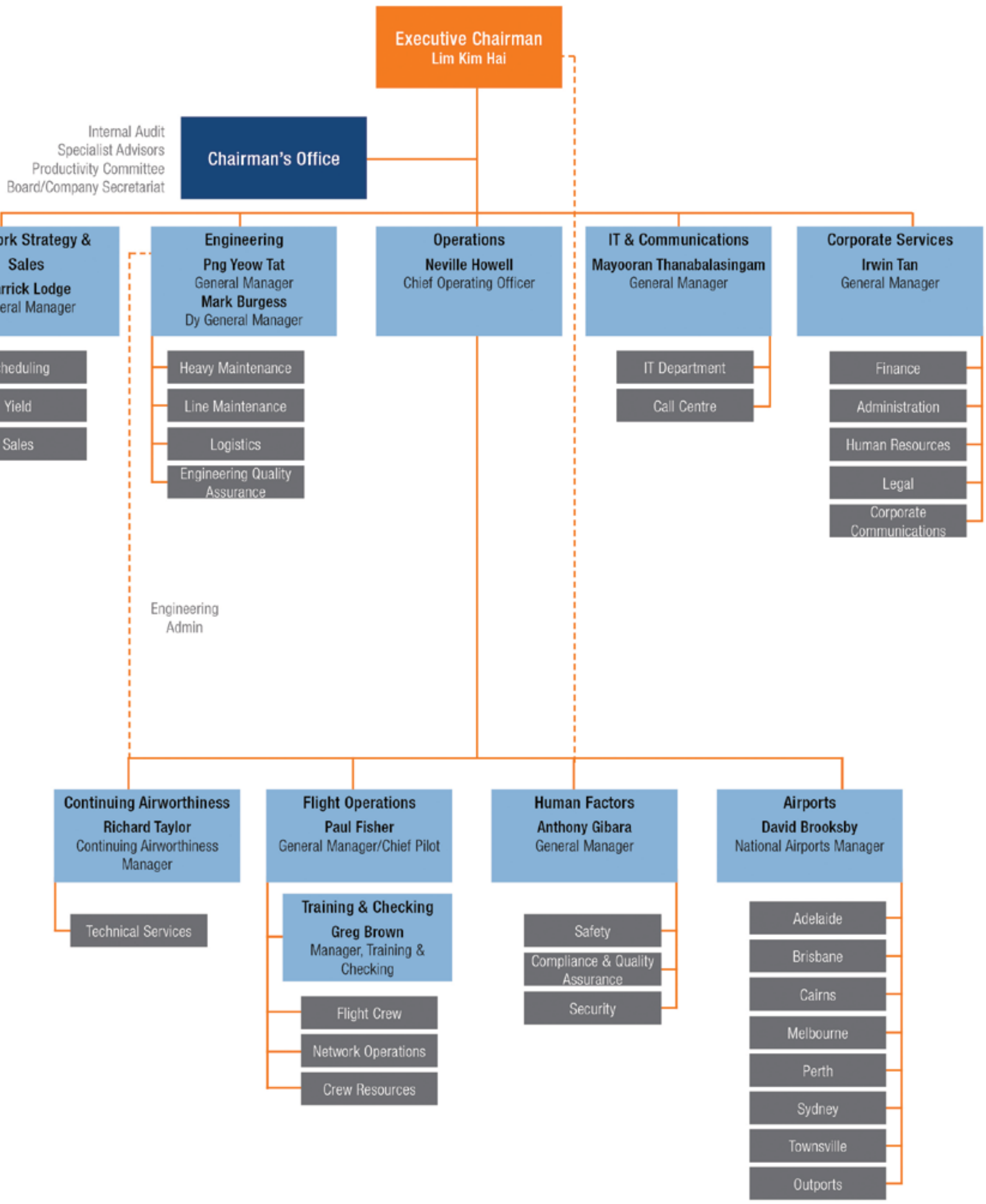
Mr. Richard Kwan started his career with Rex after graduating with a Bachelor of Aviation (Hons) from the University of New South Wales (UNSW) in 2010. He has held various roles within the Corporate Services and Network Strategy & Sales departments. Specifically, Richard focusses on analysis, project and contract management within the Rex Group of companies, including the Queensland & Western Australia regulated routes and Pel-Air contracts. He has subsequently obtained a Master of Commerce from UNSW and has been certified as a PRINCE2 Practitioner. Richard was appointed Company Secretary on 26 September 2016.

10 PRINCIPAL ACTIVITIES

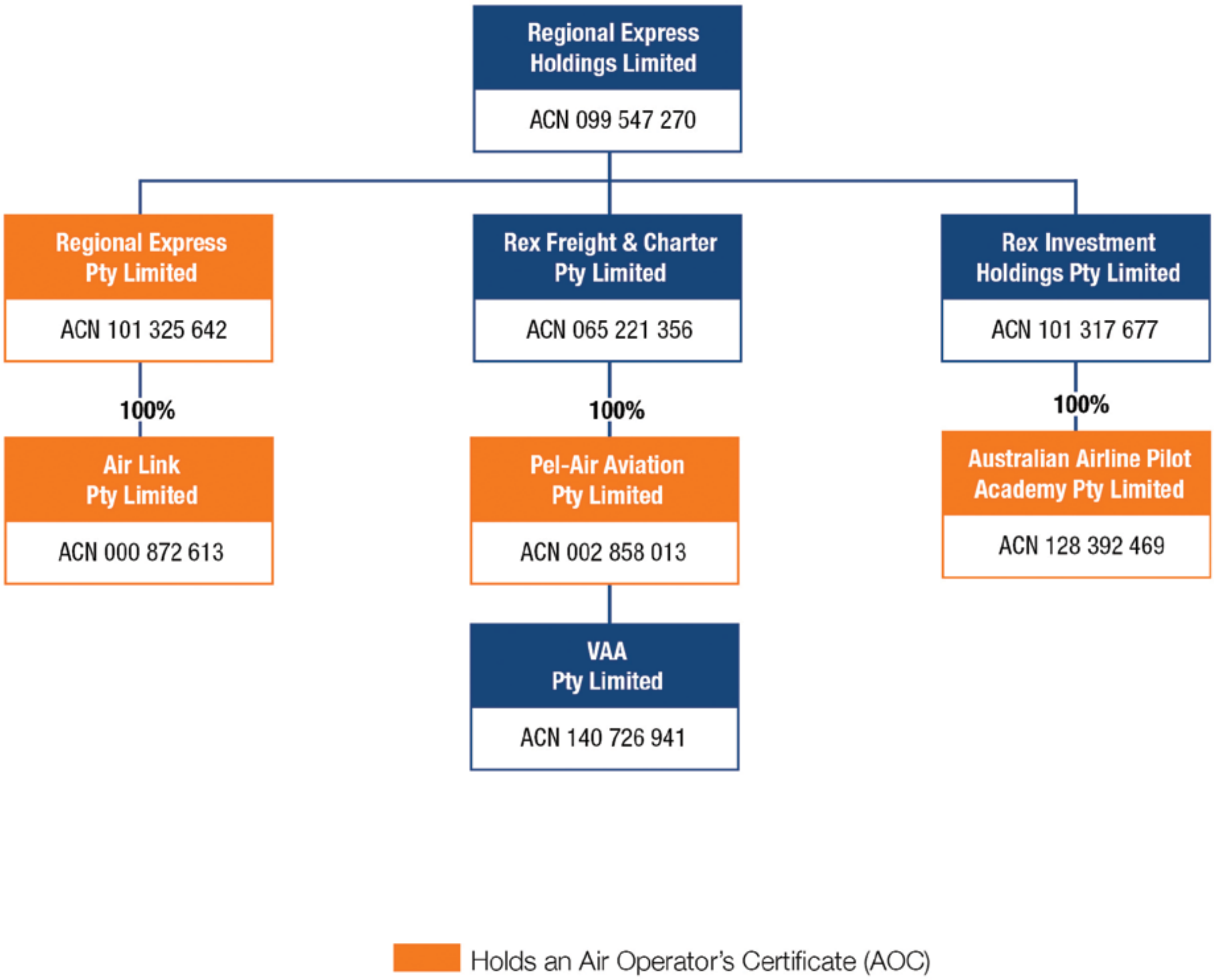
The Group's principal activity during the FY was the provision of air services principally for the transportation of passengers and freight.

11 ORGANISATION & GROUP STRUCTURES

REGIONAL EXPRESS AIRLINE ORGANISATION STRUCTURE



REGIONAL EXPRESS GROUP HOLDINGS STRUCTURE



SUMMARY

At the commencement of FY18, the Rex RPT network serviced 58 airports throughout all states of Australia. FY18 was the second full year of Rex's Western Australian operations having commenced service on the WA State Government regulated routes of Perth/Albany and Perth / Esperance in February 2016.

In FY18, partnership agreements were either renewed or entered into with the regional councils that own and operate the following regional airports: Albany, Armidale, Bamaga (NPA), Bathurst, Ballina, Broken Hill, Burnie, Ceduna, Coober Pedy, Esperance, Grafton, Mildura, Moruya, Narrandera, Newcastle, Orange, Parkes, Snowy Mountains, Taree, Wagga Wagga and Whyalla.

There were no partnership agreements during the FY with the following regional airports: Albury, Dubbo, Griffith, Kangaroo Island, King Island, Lismore, Merimbula, Mount Gambier, Port Lincoln or any of the regional airports associated with the Queensland regulated routes.

The Rex Community Fare Scheme is a Rex initiative to ensure fare affordability and to foster passenger growth. As a result of partnership agreements with local councils and airport owners, Rex implemented the Rex Community Fare Scheme on the following routes during FY18;

- Broken Hill to Adelaide ($139)
- Burnie to Melbourne ($129)
- Moruya to Sydney ($119)
- Parkes to Sydney ($99)
- Cairns to Mount Isa ($200)
- Orange to Sydney ($109)

The above Rex Community Fares were in addition to those that were in place prior to the commencement of FY18 which included Albany to Perth ($129), Esperance to Perth ($129) and Broken Hill to Sydney ($200).

This FY saw an additional 12 Rex cadets inducted as First Officers (FOs), taking the number of former cadets flying in the Group to 108, of which 32 have already reached the rank of Captain. Since the inception of the Rex cadet programme conducted at the Group's pilot training academy, the Australian Airline Pilot Academy (AAPA), in excess of 220 cadet graduates have been trained to meet with the demands of the Rex Group. In order to combat the high attrition rates, Rex was compelled to recruit pilots externally and 45 direct entry pilots were inducted. A total of 49 First Officers were upgraded to the rank of Captain this FY of which 28 were former cadets and 21 direct entry.

In December 2017, Rex celebrated the 10th Anniversary of AAPA. The event coincided with a graduation ceremony of the 21st cohort of Rex Cadet Pilots and the graduation of a Vietnamese cadet, destined for Vietnam Airlines.

The Ceremony was officiated by Guest of Honour, the Hon. Peter Dutton MP, Minister for Immigration and Border Protection, and attended by other distinguished guests from the aviation and local community .

The Saab 340 Full Flight Simulator (FFS) located at AAPA has been in high demand this FY as a result of the high attrition rates associated with the global pilot shortage. The FFS completed 1855 hours of initial and recurrent pilot training. The FFS provides significant cost savings, allowing Rex Pilots to be trained and checked in accordance with new Civil Aviation Safety Authority (CASA) regulatory reform requirements that would otherwise have been completed in the aircraft. CASA has renewed the Flight Simulator Qualification Certificate until April 2019.

The in-house designed Electronic Flight Bag (EFB) continues to provide savings and operational efficiencies to all Saab 340 aircraft in the Rex Group. All Saab 340 flight decks are equipped with two iPads containing operational apps and access to the full suite of company and aircraft manuals. The evolution of the EFB has allowed Rex Flight Operations to expand the suite of applications to incorporate a customized Navigation, Weather and Chart Service that provides unprecedented access to information with the tap of a button. The progressive removal of hard copy manuals allows the aircraft to shed unnecessary weight which translates to significant fuel savings.

Rex21 Cadets, pictured alongside a Viet Flight Training (VFT) Cadet at the Australian Airline Pilot Academy (AAPA) Graduation Ceremony and 10th Anniversary Celebrations

MATERIAL RISK AND RISK MANAGEMENT

The Company recognises that it has a responsibility to conduct its activities in an environmentally and socially responsible manner. The Group's Environmental Management Program available on the Rex website details the Environmental Management Program (EMP), incorporating the Group's environmental policy, targets, prevention of pollution, management strategies to mitigate the risk of environmental impact and continuous environmental improvement (ASX Recommendation 7.4).

Like all Australian airlines, the Company is subject to economic risks. The Company identifies the following risks that could adversely affect the entity's prospects for future FYs (ASX Recommendation 7.1):

- Fuel price – The Group hedged part of its fuel requirements in FY18 which delivered over $1M in savings. The Group continues to closely monitor Brent Crude prices.
- Foreign exchange rates – The Group's main financial risk is its exposure to the US dollar and hence its main objective is to minimise the impact of USD fluctuation on its operations. However with significant purchases in spares in prior years, as well as the acquisition of the majority of its fleet as opposed to leasing, the Group's exposure to USD expenditure is reduced. The Group will continue to monitor the exchange rate closely and will hedge whenever the rates are favourable.

The Company has also highlighted the risk of pilot attrition. The Company runs its own pilot cadet training programme which has been operating successfully from its pilot training academy AAPA in Wagga Wagga, NSW. More than half of the active pilot strength within Rex is made up of graduates from this programme.

ROUTE NETWORK DEVELOPMENTS

On 11 September 2017, Rex commenced servicing the Port Augusta to Adelaide route with 3 return flights weekly resulting in capacity of 10,000 seats per year. This followed the exit of Sharp airlines from the Port Augusta to Adelaide route on 31 May 2017. The Rex Port Augusta service extends through to Coober Pedy which means, for the first time, air services linking Port Augusta to Coober Pedy.

Effective 30 October 2017, Rex redeployed proposed flight schedule improvements for the Merimbula to Sydney route across to the Moruya to Sydney route. This followed Rex publicly withdrawing an earlier offer to expand the air services between Merimbula and Sydney due to Rex not being able to reach a partnership agreement with the Bega Valley Shire Council (BVSC), the owner of Merimbula airport. Rex had entered into a five year partnership agreement with the Eurobodalla Shire Council (Moruya) in FY16, making Moruya the natural choice when the additional Sydney airport slots and capacity became available.

In addition to the flight schedule improvements between Moruya and Sydney, Rex also implemented a new $119 Community Fare between Moruya and Sydney under the umbrella of the 5 year partnership agreement with the local council.

In December 2017, the West Australian (WA) Government announced Rex as the preferred tenderer for the regulated Perth to Carnarvon / Monkey Mia (Shark Bay) route. The announcement followed an extensive competitive tender process by the WA Government and comes on the back of Rex commencing operations in WA in February 2016 to operate the regulated Perth to Albany and Perth to Esperance routes.

This was followed by an announcement by the WA Government on 28 February, that Rex was the successful tenderer to operate the Regular Public Transport (RPT) air services on the Perth – Carnarvon / Monkey Mia route. This conferred on Rex the sole right to operate on the route for a term of five years, commencing on 2 July 2018. Rex will service the route with 24 weekly services between Perth and Carnarvon and 12 weekly services between Perth and Monkey Mia, representing a 20 per cent increase in flight frequency for Carnarvon and a 50% increase in flight frequency for Monkey Mia in comparison to the current flight frequency offered by the previous operator.

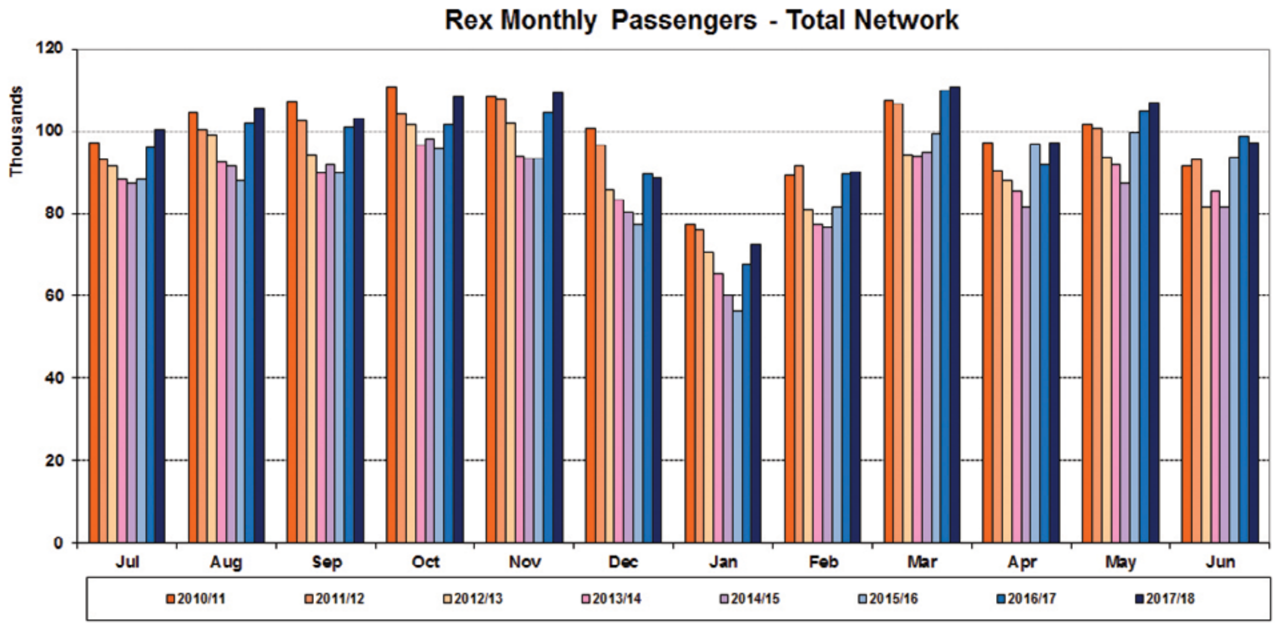
In January 2018, Rex exited the Taree to Sydney route with the last service operating on Saturday 27 January 2018. Rex had serviced the Taree to Sydney route for almost 10 years following the collapse of Big Sky Express Airlines in late 2006. The Taree to Sydney route was loss-making for Rex, however the impetus to withdraw was triggered by the Mid Coast Council's refusal to supply necessary infrastructure at the airport. Rex had earlier given the Mid Coast council one year to find a replacement airline and when Rex was informed by the council that a replacement had been found, Rex publicly announced its intention to withdraw from the route.

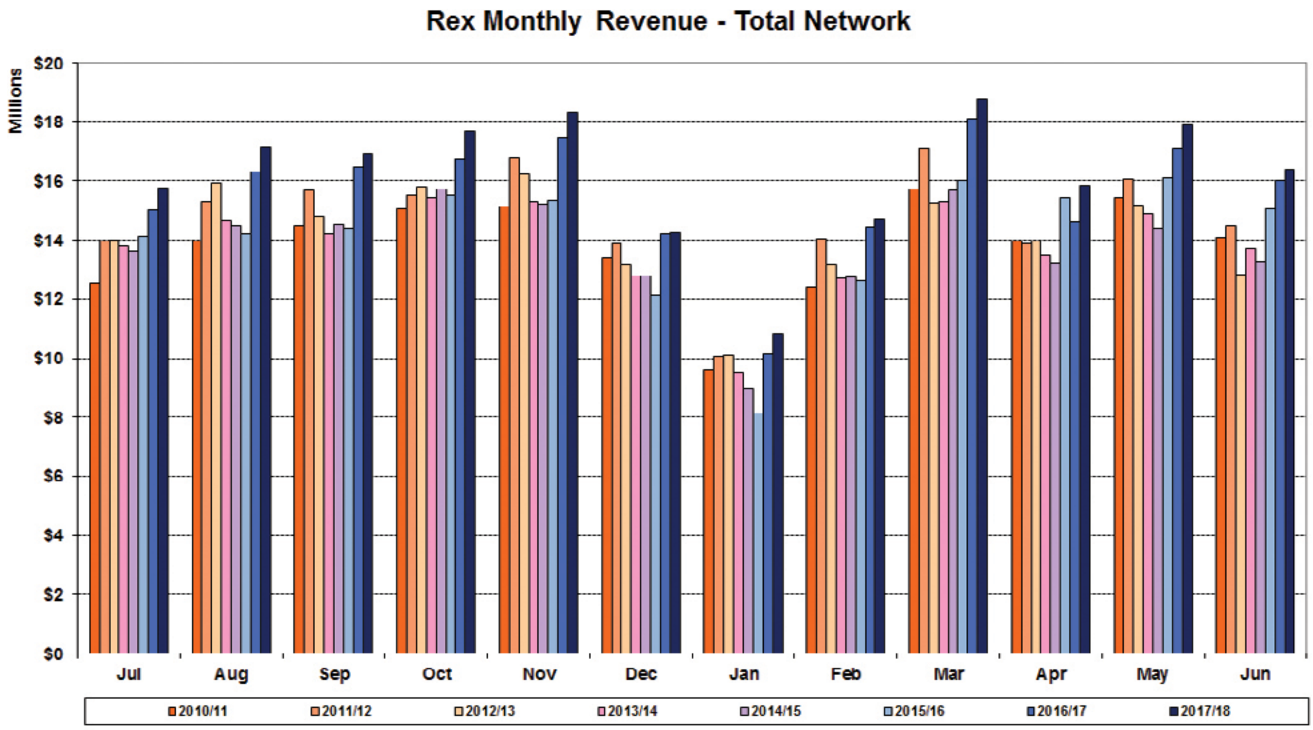
The Rex services between Taree and Sydney had been shared with Newcastle so with effect from 28 January Rex began servicing the Newcastle to Sydney route with 36 weekly dedicated services.

Effective 29 January Rex increased the number of weekday flights between Orange and Sydney from four return services to five return services daily. This resulted in a total of 58 weekly services between Orange and Sydney which represents close to 18,000 additional seats per year, taking the annual seats to approximately 100,000 per year.

In May 2018, Rex reduced services between Mount Gambier and Adelaide in a bid to better utilise scarce resources amid the industry-wide pilot shortage. Rex cancelled five return weekly services between Mt Gambier and Adelaide which leaves in place thirty six flights per week or approximately 61,000 seats per year which is more than sufficient for the 47,000 annual passengers on the route.

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





FLEET CHANGES

In February 2018, Air Link sold its only Beech 1900 aircraft. Two additional Saab 340 B+ aircraft were acquired in FY18, bringing the total Saab fleet to 57 aircraft. Of the 57 Saab 340 aircraft in the Rex Group, 40 are fully owned, 15 are mortgaged with approximately one year left to run and two are on lease.

ENTERPRISE AGREEMENTS (EA)

The Rex Flight Attendant Enterprise Agreement (EA) has been successfully voted in and is currently with the Fair Work Commission for approval. The Airline Services Collective Agreement was successfully voted in on 22 August 2018.

OPERATIONAL AND SERVICE STANDARDS

In FY18, Rex recorded 83.8% on-time departure performance as reported by the Bureau of Infrastructure, Transport and Regional Economics (BITRE).

Rex completed FY18 with the lowest cancellation rate of all Australian airlines, recording 1.3% of all flights cancelled. Other main regional carriers QantasLink and Virgin Australia Regional Airlines ranked 5th and 7th respectively.

	On-Time Departure		Cancellation Rate (%)	
Airline	FY 2018	FY 2017	FY 2018	FY 2017
rex Regional Express	3rd	4th	1.3%	0.8%
QantasLink	2nd	5th	2.3%	2.6%
Virgin Australia Regional Airlines	5th	2nd	2.6%	1.5%
Qantas	4th	1st	1.5%	1.2%
Virgin Australia	1st	3rd	1.6%	2.2%
Jetstar	6th	7th	1.3%	1.8%
Tigerair	7th	6th	2.6%	1.3%

COMMUNITY INVOLVEMENT

During FY18 Rex contributed $322 thousand in sponsorships to worthy charitable and community causes across the network.

Rex is committed to regional and remote Australia and is proud to be able to give directly back to the local communities we service. From corporate partnerships to sponsoring local events, by providing flights to raffle, or air travel for locals, guests and performers, Rex continues to support the unique vibrancy of regional Australia. Connecting the country to the city by providing valuable fare assistance to medical passengers highlights that our ethos of 'Our Heart is in the Country' remains strong.

Some of the activities Rex supported during the FY:

- Tunarama Festival, Port Lincoln SA
- Relay for Life, Cancer Council, Orange NSW
- Ceduna Area School's Kokoda Trail Expedition, Reconciliation SA, Ceduna SA
- Royal Flying Doctors Service and Angel School, Doomadgee, Normanton and Mornington Island QLD
- Parkes Elvis Festival, Parkes NSW
- Dirt n Dust Festival, Julia Creek QLD
- Table Tennis Exhibition, Cooper Pedy Table Tennis Club, Coober Pedy SA
- Order of the Outback Ball, Burke Shire Council, Burketown QLD
- Lingalonga Early Years Learning Centre, Esperance WA

Julia Creek Dirt n Dust Festival, Queensland

13 CHANGES IN STATE OF AFFAIRS

No changes in the state of affairs were observed by the Group during the reporting period apart from what is reported in the Operational Review.

14 SUBSEQUENT EVENTS

On 2 July 2018 Rex commenced operations on the Regular Public Transport (RPT) air services on the Perth – Carnarvon / Monkey Mia route.

15 FUTURE DEVELOPMENTS

Rex Flight Attendants (FA) will be issued with company iPad's in the coming months. The iPads will contain the full suite of company manuals, reducing further the burden of maintaining hard copy manuals and the associated costs. FA iPad's will initially be used in conjunction with the Pilots' iPad's and their new 'Briefcase App' which allows crew to retrieve the last completed trim and passenger seating plan. The long term plan will be the development of applications for cashless bar sales and catering orders.

Rex Flight Operations and Information Technology departments are trialling a new application developed in-house for the calculation of weight and balance and performance data for the Saab 340 fleet. This new application will be incorporated in the aircrafts Electronic Flight Bag (EFB). Given the speed of the iPad's internet connection, this application will reduce the time taken to generate weight and balance and performance data. There will no longer be a requirement for printed trim sheets as the data will be saved to a server and transmitted via Bluetooth to the FA iPads so they have an electronic copy of the passenger seating plan. The new application has been approved by a Civil Aviation Safety Authority (CASA) delegate. This initiative along with the transition to electronic documents will facilitate the ongoing implementation of our weight deduction program with a weight savings greater than 50kg which transfers to improved operational efficiencies and fuel savings.

16 ENVIRONMENTAL REGULATIONS

During FY18, Rex continued to be an active participant in programs aimed at maximising energy efficiency and reducing greenhouse gas emissions in accordance with the National Greenhouse Energy Reporting Act 2007 (NGER).

Rex is due to submit its 9th NGER report to the Clean Energy Regulator in October 2018.

17 DIVIDENDS

In the light of a clear trend of the recovery of the Australian economy, the Directors have decided on a final dividend payout of 8 cents for every share to be paid out in November 2018.

18 INDEMNIFICATION OF OFFICERS AND AUDITORS

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

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

REMUNERATIONS, NOMINATIONS AND DISCIPLINARY COMMITTEE

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

REMUNERATION POLICY

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

REMUNERATION STRUCTURE

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

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

- **Profit Share Incentive Plan**

  The profit share incentive scheme, established in FY06, continues to award eligible employees a share of Rex's profit before tax (PBT) based on an agreed percentage (excluding contributions from subsidiaries and associates) for the FY immediately preceding the award. The profit share is allocated on an equal share basis. Permanent part time employees receive an amount proportional to their employment hours. The Board continues to offer this to all non-Enterprise Agreement (EA) employees who are not the subject of an adverse recommendation by the Remunerations, Nominations and Disciplinary Committee.

- **Share Gift Plan**

  Rex established the share gift plan (effective from FY06) for its executive directors and eligible employees. The plan is offered to EA groups that opt for the plan and all non-EA employees who are not the subject of an adverse recommendation by the Remunerations, Nominations and Disciplinary Committee. This plan is not based on any performance measures (other than eligibility for non-EA employees). The plan was established to show its recognition of employees' contribution to Rex by providing an opportunity to share in its future growth and profitability and to align the interests of the employees more closely with the interests of the shareholders. As such, the share gift plan entitles eligible employees to a fixed value of shares in exchange for a percentage of their base salaries. Therefore there are no vesting conditions attached to the share gift.

During the FY, 79 thousand fully paid ordinary shares were acquired by the Rex Tax Exempt Employee Share Plan Trust and Rex Tax Deferred Employee Share Plan Trust which are managed by Rex Investment Holdings in accordance to the Rex Tax Exempt Employee Share Plan Trust Deed and Rex Tax Deferred Employee Share Plan Trust Deed. The shares purchased are solely for the benefit of employees as part of the employee share plan. The Group does not have a beneficial interest in the trust.

DIRECTOR AND SENIOR MANAGEMENT DETAILS

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

Lim Kim Hai (Chairman)

The Hon. John Sharp AM (Deputy Chairman)

Lee Thian Soo

Neville Howell

Chris Hine

James Davis

Prof. Ronald Bartsch

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

Neville Howell (Chief Operating Officer)

Warrick Lodge (General Manager, Network Strategy & Sales)

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

Mayooran Thanabalasingam (General Manager, Information Technology and Communications)

Png Yeow Tat (General Manager, Engineering)

Mark Burgess (Deputy General Manager, Engineering)

Paul Fisher (General Manager, Flight Operations & Chief Pilot)

David Brooksby (National Airports Manager, Rex & Chief Operating Officer, Air Link)

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

		Short-term benefits		Post employment benefits	Long-term benefits	Share gift provision	
		Cash salary & fees	Cash profit sharing & other bonuses	Pension & super-annuation	Long service leave	Share gift issued	Total
Directors/Executives	FY	$	$	$	$	$	$
EXECUTIVE DIRECTORS							
LIM KIM HAI (1)	2018	-	-	-	-	-	-
Executive Chairman	2017	-	-	-	-	-	-
CHRIS HINE	2018	137,829	933	13,183	1,797	2,114	155,856
Excecutive Director & Group Flight Operations Advisor	2017	135,643	16	12,887	1,760	2,113	152,419
NEVILLE HOWELL	2018	224,711	41,167	19,862	3,497	3,899	293,136
Executive Director & Chief Operating Officer	2017	209,876	25,019	19,005	3,247	3,849	260,996
NON-EXECUTIVE DIRECTORS							
JOHN SHARP	2018	90,000	-	8,550	-	-	98,550
Deputy Chairman	2017	90,000	-	8,550	-	-	98,550
LEE THIAN SOO	2018	30,000	-	-	-	-	30,000
Non-Executive Director	2017	30,000	-	-	-	-	30,000
RONALD BARTSCH	2018	35,000	-	3,325	-	-	38,325
Non-Executive Director	2017	35,000	-	3,325	-	-	38,325
JAMES DAVIS	2018	40,000	-	3,800	-	-	43,800
Non-Executive Director	2017	40,000	-	3,800	-	-	43,800
SENIOR MANAGEMENT EXECUTIVES							
WARRICK LODGE	2018	174,833	41,167	17,145	2,914	3,327	239,386
GM, Network Strategy & Sales	2017	166,249	25,019	16,443	2,770	3,284	213,765
IRWIN TAN	2018	184,929	40,875	17,849	2,831	3,327	249,811
GM, Corporate Services	2017	181,249	25,019	17,485	2,770	3,284	229,807
MAYOORAN THANABALASINGAM	2018	179,833	41,167	17,492	2,831	3,327	244,650
GM, ITC	2017	171,249	25,019	16,790	2,770	3,284	219,112
PAUL DAVID FISHER	2018	199,705	38,458	18,766	5,000	3,694	265,623
GM, Flight Operations & Chief Pilot	2017	184,619	33,642	17,718	4,618	3,647	244,244
PNG YEOW TAT	2018	169,750	41,167	16,790	2,831	3,140	233,678
GM, Engineering	2017	156,938	25,019	15,797	2,615	3,100	203,469
MARK BURGESS	2018	139,517	23,998	14,695	3,491	2,735	184,436
Deputy GM, Engineering	2017	136,688	18,284	14,391	3,419	2,700	175,482
DAVID BROOKSBY	2018	149,614	31,167	15,389	2,498	2,282	200,950
National Airports Manager	2017	129,868	22,850	13,918	1,900	2,253	170,789
TOTAL	2018	1,755,721	300,099	166,846	27,690	27,845	2,278,201
	2017	1,667,379	199,887	160,109	25,869	27,514	2,080,758

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

VALUE OF OPTIONS ISSUED TO DIRECTORS AND EXECUTIVES

No options lapsed, were granted or were exercised during the year.

RELATIONSHIP BETWEEN THE REMUNERATION POLICY AND COMPANY PERFORMANCE

In addition to the profit share and share gift schemes that apply to all non-EA staff, a Key Manager bonus, fixed by the Remunerations, Nominations and Disciplinary Committee, was given to selected members of executive management based on an assessment of the recipient's performance during the year.

The tables below set out summary information about the Group's results and movements in shareholder wealth for the five years to June 2018:

	30 June 2018 $'000	30 June 2017 $'000	30 June 2016 $'000	30 June 2015 $'000	30 June 2014 $'000
Revenue	295,537	280,967	261,906	256,217	253,336
Net profit / (loss) before tax	25,075	17,810	(10,703)	9,296	10,662
Net profit / (loss) after tax	16,913	12,620	(9,557)	6,672	7,725

	30 June 2018	30 June 2017	30 June 2016	30 June 2015	30 June 2014
Share price at start of year	$1.11	$0.77	$1.04	$0.75	$1.125
Share price at end of year	$1.43	$1.11	$0.77	$1.04	$0.75
Interim dividend	$0.04	-	-	-	-
Final dividend [1,2]	$0.10	-	-	-	-
Basic earnings / (loss) per share	15.7 cps	11.7 cps	(8.8) cps	6.2 cps	7.0 cps
Basic earnings / (loss) per share	15.7 cps	11.7 cps	(8.8) cps	6.2 cps	7.0 cps

[1] The final dividend is per share fully franked and after corporate tax of 30%.

[2] Declared after the balance date and reflected in the financial statements of the year of payment.

KEY TERMS OF EMPLOYMENT CONTRACTS

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

KEY MANAGEMENT PERSONNEL EQUITY HOLDINGS

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

	Balance at 1 July 2017	Increase / (Decrease) during the year	Balance at 30 June 2018
Directors:			
Lim Kim Hai	24,753,859	-	24,753,859
The Hon. John Sharp	313,032	12,000	325,032
Lee Thian Soo	11,449,362	-	11,449,362
Neville Howell	30,922	(423)	30,499
Chris Hine	74,407	1,939	76,346
James Davis	200,866	-	200,866
Key management personnel:			
Warrick Lodge	155,348	3,052	158,400
Irwin Tan	31,132	3,052	34,184
Mayooran Thanabalasingam	83,710	3,052	86,762
Paul Fisher	40,054	3,389	43,443
Png Yeow Tat	24,644	2,881	27,525
Mark Burgess	18,106	3,408	21,514
David Brooksby	19,467	2,094	21,561

During the financial year, no options were granted to (2017: nil), nor exercised (2017: nil) by key management personnel for ordinary Rex shares. No options remained unpaid or to be exercised at the year end.

20 PROCEEDINGS ON BEHALF OF THE COMPANY

No proceedings have been brought on behalf of the Group, nor has any application been made in respect of the Group under s.237 of the Corporations Act 2001.

21 NON-AUDIT SERVICES

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 26 to the financial statements.

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

The directors are of the opinion that the services as disclosed in Note 26 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit Committee, for the following reasons:

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

22 ROUNDING OFF OF AMOUNTS

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 hundred thousand dollars in accordance with that Legislative instrument, unless otherwise indicated.

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

On behalf of the Directors

Neville Howell
Chief Operating Officer
29 August 2018

Deloitte.

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

29 August 2018

Dear Board Members

Regional Express Holdings Limited

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

As lead audit partner for the audit of the financial statements of Regional Express Holdings Limited for the financial year ended 30 June 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 audit; and

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

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie C. Gatt
Partner
Chartered Accountant

CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE STATEMENT

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

As required by the ASX Listing Rules this statement sets out the extent to which the Company has complied with the ASX Recommendations during the FY to 30 June 2018 and identifies any of the ASX Recommendations not followed and the reason why the Company has not adopted the ASX Recommendations. This statement adopts the ordering and numbering of the ASX Recommendations.

PRINCIPLE 1: LAY SOLID FOUNDATION FOR MANAGEMENT AND OVERSIGHT

The Board has adopted a charter that details the roles and responsibilities of the Board and those of the Management Committee to achieve the objectives of delivering shareholder value. The Board regularly reviews the division of functions between the Board and management to ensure that it continues to be appropriate to the needs of the company (ASX Recommendation 1.1). The Remunerations, Nominations and Disciplinary Committee undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director. The biography of each director standing for election or re-election is expressly mentioned in the Notice of Meeting of the company's AGM (ASX Recommendation 1.2). The Directors and Management Committee have a clear understanding of their roles and responsibilities and of the company's expectations of them as set out in their employment contracts (ASX Recommendation 1.3). The Company Secretaries are integral in advising the Board and its committees on governance matters, ensuring that board and committee policy and procedures and followed, and helping to organise and minuting discussions of board and committee meetings (ASX Recommendation 1.4).

The performance of each Management Committee member is evaluated against goals and objectives with the assistance of the Remunerations, Nominations and Disciplinary Committee. The performance of the Management Committee was reviewed in FY 17 (ASX Recommendation 1.7). The performance of the Directors and Board Committees are reviewed periodically with the assistance of the Remunerations, Nominations and Disciplinary Committee. The performance and the composition of the Board Committees were reviewed in FY17 (ASX Recommendation 1.6).

The Board's Charter, Board Committee Charters, Share Trading Policy, Continuous Disclosure Policy and Code of Conduct are available for access by shareholders and the general public in the corporate governance section of the Company's website (ASX Recommendation 3.5).

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The **Remunerations, Nominations and Disciplinary Committee** has been established by the Board of the Company (ASX recommendation 2.1) and applies to the Company and its subsidiaries to support and advise the Board in fulfilling its responsibilities to shareholders, employees and other stakeholders of the Company by endeavouring to ensure that:

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

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

The Board acknowledges the ASX recommendations to have the Committee compose of a majority of independent directors and have at least three members. The Committee is currently made up of two independent directors. The Board feels at this stage that two members are sufficient for the Remunerations, Nominations and Disciplinary Committee given the size of the Company and Board.

The Remunerations, Nominations and Disciplinary Committee has a formal charter which is available on the Company's website.

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

Below is the Rex Board skills matrix outlining the skills that the board currently has (ASX Recommendation 2.2):

		LIM KIM HAI	JOHN SHARP	LEE THIAN SOO	RONALD BARTSCH	JAMES DAVIS	CHRIS HINE	NEVILLE HOWELL
BUSINESS / ENTREPRENEURIAL EXPERIENCE		X	X	X	X			
POLITICAL EXPERIENCE			X					
CORPORATE GOVERNANCE		X	X	X	X			
SAFETY AND RISK MANAGEMENT					X	X	X	X
FINANCE		X						
LEGAL					X			
INDUSTRY EXPERIENCE	REGULATORY KNOWLEDGE AND EXPERIENCE				X	X	X	X
	PILOT		X		X	X	X	X
	ENGINEERING KNOWLEDGE					X		

The membership of the Board during the year ended 30 June 2018, including independence status was as follows (ASX Recommendation 2.3):

Director	Status	Date of Appointment
Lim Kim Hai	Executive Chairman	Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012 and 27 November 2015.
The Hon. John Sharp AM	Deputy Chairman and Independent Director	Appointed 14 April 2005 and re-appointed 19 November 2008, 23 November 2011, 27 November 2013 and 29 November 2016.
Lee Thian Soo	Non-Executive Director	Appointed 27 June 2003 and re-appointed 16 November 2006, 25 November 2009, 27 November 2012 and 27 November 2015.
Neville Howell	Chief Operating Officer & Executive Director	Appointed 1 July 2014 and re-appointed 26 November 2014, and 21 November 2017.
Chris Hine	Executive Director & Group Flight Operations Advisor	Appointed 1 March 2011 and re-appointed 23 November 2011 as Executive Director, Appointed 26 November 2014 as Non-Executive Director, Appointed 18 May 2015 as Executive Director and Group Flight Operations Advisor, re-appointed 21 November 2017.
James Davis	Independent Director	Appointed 26 August 2004 as Executive Director and re-appointed 23 November 2011, and Re-appointed as Independent Director 26 November 2014 and 21 November 2017.
Ronald Bartsch	Independent Director	Appointed 23 November 2010 and re-appointed 23 November 2011, 26 November 2014, and 21 November 2017.

The Board acknowledges the ASX Recommendation that a majority of the Board should be independent directors (ASX Recommendation 2.4). Although the Board has only three directors out of seven that qualify as independent non-executive directors, Lee Thian Soo is only considered non-independent by virtue of his share ownership and is considered by the Board to be effectively an independent Director. The Board believes that every director on the current Board will make decisions in the best interests of all shareholders and in accordance with their duties as directors.

The Board also acknowledges that it is desirable that the Chairman be an independent director and for his role to be segregated from that of the Chief Executive Officer (ASX Recommendations 2.5). However, the Board views the Chairman's history of leadership of the Company as an advantage, both at the management level and at the Board level. This has resulted in performance that matches the best airlines in the world. The Board acknowledges that if the Chair is not an independent director, the Deputy Chairman should be an independent director, which is the case.

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

(A) STRATEGIC AND FINANCIAL PERFORMANCE

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

(B) EXECUTIVE MANAGEMENT

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

(C) AUDIT

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

(D) CORPORATE GOVERNANCE

- At least once every two years the Board will, with the assistance and advice of the Audit and Corporate Governance Committee, review the performance and effectiveness of the Company's corporate governance policies and procedures and, if appropriate, amend those policies and procedures as necessary.
- The Board will review and approve all disclosures related to any departures from the ASX Principles of Good Corporate Governance.
- The Board will review and approve the public disclosure of any of the Group's policies and procedures.
- The Board will supervise the public disclosure of all matters that the law and ASX Listing Rules require to be publicly disclosed, consistent with the Continuous Disclosure Compliance Policy approved by the Board.
- The Board will approve the appointment of directors to committees established by the Board.
- The Board will approve and monitor delegations of authority.

(E) RISK MANAGEMENT

- The Company recognises that the management of business and economic risk is an integral part of its operations and has for many years integrated risk management processes into its operations to ensure continuity of the business and to minimise any impact on its performance. The Board has established a sound system of risk oversight and management and internal control which involve the Safety and Risk Management Committee and the Audit and Corporate Governance Com mittee.
- Ensuring that effective risk management programmes are in place to protect the Group's assets and shareholder value.
- Approving and monitoring the Group's risk framework, including (but not limited to) systems of risk management and internal control.
- Approving and, with the assistance and advice of the Risk Management Committee, monitoring compliance with the Group's risk.
- The Charters of both committees are available on the Company's website.

(F) STRATEGIC PLANNING

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

(G) PERFORMANCE EVALUATION

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

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

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

The Board believes that its members have the appropriate skill set and knowledge to effectively perform their roles as directors without requiring further professional development. Our board members have a vast wealth of experience in the aviation industry and beyond as a majority of them have aircraft pilot qualifications.

The Company has a program for inducting new Directors.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

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

The Company has established a Share Trading Policy (ASX Recommendation 1.3). Under this policy, Directors and Management Committee are prohibited from trading in securities of the Company without prior approval from the Board.

The Company employs all staff on their merits and is committed to recognising and valuing the contributions of staff from diverse backgrounds. The Company has established a Diversity Policy (ASX Recommendation 1.5).

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

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

As at the end of the reporting period the proportion of female employees in the Company was 34.9%. There were twelve women holding management positions in the Company. There were no female Board members or Management Committee members.

In accordance with the requirements of the Workplace Gender Equality Act 2012 (Act), Regional Express Holdings Limited lodged its annual public report (2017-2018) with the Workplace Gender Equality Agency (Agency).

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

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

The Code of Conduct, Share Trading Policy and Diversity Policy are available on the Company's website.

PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

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

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

In FY18, this Committee was chaired by the Hon. John Sharp AM and has one other member, James Davis. Descriptions of the members' qualifications, skills and experience are included in the Directors' Report. The Committee had two meetings during FY18 attended by all then-current members of the Committee.

The Board acknowledges the ASX recommendations to have the Committee composed of a majority of independent directors, chaired by an independent director and have at least three members (ASX Recommendation 4.1).

The Committee is currently made up of two non-executive directors of which both are independent. The Board feels that the directors in the audit committee will make decisions that are in the best interests of the shareholders in their duties as audit committee members and directors of the company. The Board also feels at this stage that two members are sufficient for the audit committee given the size of the company and Board.

The Audit and Corporate Governance Committee has a formal Charter which is available on the Company's website (ASX Recommendation 4.1).

The Chief Operating Officer and the General Manager (GM) Corporate Services who oversees the finance department, provide written assurance to the Board as to the integrity of the financial statements and that they are founded on a sound system of risk management and internal controls which are operating effectively and efficiently (ASX Recommendation 4.2).

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

The directors have ensured that the Company's External Auditor attends all Annual General Meetings and is available to answer shareholders' questions about the conduct of the audit and the preparation and content of the Auditor's report thereon (ASX Recommendation 4.3).

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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

PRINCIPLE 6: RESPECT THE RIGHTS OF SHAREHOLDERS

It is the Company's policy that the principal communication with shareholders apart from the Company website is the provision of the Annual Report, including the Financial Statements, half yearly investor briefings and the Annual General Meeting (and any extraordinary meetings held by the Company). Shareholders are encouraged to participate in half-yearly investor briefings either by attendance or by dialling in through the Company's teleconferencing facilities and are invited to put questions to the Chairman of the Board in that forum (ASX Recommendation 6.3). The Company's website provides additional information and greater detail about the Company, including ASX and media releases and access to statements regarding corporate governance related matters (ASX Recommendation 6.1).

The Board acknowledges the ASX recommendation of facilitating effective two-way communication with investors. Shareholders are able to contact the company through the company secretaries (ASX Recommendation 6.2).

The Company acknowledges that some security holders prefer the speed, convenience and environmental friendliness of electronic communications over more traditional methods of communication. To this end the Company provides its security holders with the option of receiving either a hard or soft copy of its annual report and notice of meeting for its Annual General Meeting (ASX Recommendation 6.4).

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

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

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

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

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

The Board acknowledges the ASX recommendation to have the Committee composed of a majority of independent directors and chaired by an independent director and have at least three members (ASX Recommendation 7.1).

The Committee is currently made up of one independent director. The Board feels that the directors in the Safety and Risk Management Committee will make decisions that are in the best interests of the shareholders in their duties as Safety and Risk Management Committee members and directors of the company. The Board also feels at this stage that two members are sufficient for the Safety and Risk Management Committee given the size of the company and Board.

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

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

Being an airline, Rex is required by the Civil Aviation Safety Authority to have a safety and compliance department. Staffed by approximately 12 full time equivalent employees, this department conducts internal audits of all Rex's operations including flight operations, engineering and airport operations. The head of this department, the GM Human Factors, has a direct reporting line to the Board and Chairman (ASX Recommendation 7.3).

The Company has outlined its main material risk sources that could adversely affect the entity's prospects for future FYs and has explained how these risks are managed in the Directors' Report (ASX Recommendations 7.1 and 7.4).

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

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

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

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 $'000	2017 $'000
Passenger revenue		260,302	249,349
Freight revenue		1,437	1,418
Charter revenue		25,735	22,983
Other passenger services and amenities		2,601	2,601
Other revenue	4	5,462	4,616
Total revenue		**295,537**	**280,967**
Finance income	4	**1,153**	**770**
Other gains / (losses)	4	**289**	**194**
Flight and port operation costs (excluding fuel)		(55,341)	(54,476)
Fuel costs		(32,690)	(30,928)
Salaries and employee-related costs	4	(107,726)	(105,533)
Selling and marketing costs		(7,948)	(7,465)
Engineering and maintenance costs		(42,325)	(39,936)
Office and general administration costs		(7,681)	(7,540)
Finance costs	4	(1,975)	(1,975)
Depreciation and amortisation	4	(16,218)	(16,268)
Total costs and expenses		**(271,904)**	**(264,121)**
Profit before tax		**25,075**	**17,810**
Tax expense	5	(8,162)	(5,190)
Profit after tax		**16,913**	**12,620**
Profit attributable to			
Members of the parent		16,913	12,620
		16,913	**12,620**
Earnings per share		cents per share	cents per share
Basic	16	15.7	11.7
Diluted	16	15.7	11.7

Notes to the financial statements are included on pages 39 to 71.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME OR LOSS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 $'000	2017 $'000
Profit after tax		**16,913**	**12,620**
Other comprehensive loss			
Hedge reserve			
Revaluation of cash flow hedges	15	(70)	(899)
Income tax effect	15	21	270
Other comprehensive loss, net of tax		**(49)**	**(629)**
Total comprehensive income		**16,864**	**11,991**

Notes to the financial statements are included on pages 39 to 71.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2018

	Note	2018 $'000	2017 $'000
Current assets			
Cash and bank balances	22	25,965	26,257
Trade and other receivables	6	12,081	10,805
Inventories	7	11,778	12,793
Other financial assets	23	-	140
Total current assets		**49,824**	**49,995**
Non-current assets			
Other receivables	6	5,808	6,515
Inventories	7	12,356	11,852
Available for sale investments carried at fair value – shares		9	9
Deferred tax assets	5	1,585	-
Property, plant and equipment	8		
Aircraft		93,091	96,712
Other property, plant and equipment		111,714	106,872
Goodwill and other intangible assets	9	824	853
Total non-current assets		**225,387**	**222,813**
Total assets		**275,211**	**272,808**
Current liabilities			
Trade and other payables	10	18,813	18,330
Unearned revenue	11	24,693	22,698
Borrowings	12	7,509	7,075
Provisions	13	9,328	7,172
Current tax payable	5	5,728	1,172
Other financial liabilities	23	-	70
Total current liabilities		**66,071**	**56,517**
Non-current liabilities			
Borrowings	12	9,045	16,551
Provisions	13	611	1,371
Deferred tax liabilities	5	-	1,924
Total non-current liabilities		**9,656**	**19,846**
Total liabilities		**75,727**	**76,363**
Net assets		**199,484**	**196,445**
Equity			
Issued capital	14	72,024	72,024
Reserved shares	15	(2,256)	(3,246)
Retained earnings		126,521	124,670
Share-based payments reserve	15	1,605	1,358
Other reserves	15	1,590	1,639
Total equity		**199,484**	**196,445**

Notes to the financial statements are included on pages 38 to 70.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	Note	2018 $'000	2017 $'000
Receipts from customers		326,068	312,112
Payments to suppliers, employees and others		(279,926)	(280,218)
Interest paid		(1,526)	(1,912)
Income tax paid		(7,115)	(3,869)
Net cash flows from operating activities	22 (B)	**37,501**	**26,113**
Interest received		1,153	770
Proceeds from disposal of property, plant and equipment		1,951	2,262
Payments for property, plant and equipment - aircraft and other		(18,484)	(20,446)
Payments for property, plant and equipment - software		(193)	(130)
Net cash flows used in investing activities		**(15,573)**	**(17,544)**
Dividends paid		(15,062)	-
Shares purchased as reserve shares		(86)	(2,488)
Repayment of borrowings – non-related parties		(7,072)	(6,645)
Net cash flows used in financing activities		**(22,220)**	**(9,133)**
Net decrease in cash held		**(292)**	**(564)**
Cash at the beginning of the financial year		**26,257**	**26,821**
Cash at the end of the financial year	22 (A)	**25,965**	**26,257**

Notes to the financial statements are included on pages 38 to 70

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE FINANCIAL YEAR ENDED 30 JUNE 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 2016	**72,024**	**(1,821)**	**112,050**	**1,587**	**678**	**1,590**	**186,108**
Profit for the year	-	-	12,620	-	-	-	12,620
Other comprehensive loss, net of tax	-	-	-	-	(629)	-	(629)
Total comprehensive income / (loss)	-	-	12,620	-	(629)	-	11,991
Shares purchased as reserve shares	-	(2,488)	-	-	-	-	(2,488)
Share gift issued - gift	-	1,063	-	(1,063)	-	-	-
Share gift plan provision transfer	-	-	-	(521)	-	-	(521)
Share gift plan provision	-	-	-	1,355	-	-	1,355
At 30 June 2017	**72,024**	**(3,246)**	**124,670**	**1,358**	**49**	**1,590**	**196,445**
At 1 July 2017	**72,024**	**(3,246)**	**124,670**	**1,358**	**49**	**1,590**	**196,445**
Profit for the year	-	-	16,913	-	-	-	16,913
Other comprehensive loss, net of tax	-	-	-	-	(49)	-	(49)
Total comprehensive income / (loss)	-	-	16,913	-	(49)	-	16,864
Dividends paid	-	-	(15,062)	-	-	-	(15,062)
Shares purchased as reserve shares	-	(86)	-	-	-	-	(86)
Share gift issued - gift	-	1,076	-	(1,076)	-	-	-
Share gift plan provision	-	-	-	1,323	-	-	1,323
At 30 June 2018	**72,024**	**(2,256)**	**126,521**	**1,605**	**-**	**1,590**	**199,484**

Notes to the financial statements are included on pages 38 to 70

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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5	Income Tax
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01 GENERAL INFORMATION

Regional Express Holdings Limited (the Company) is listed on the Australian Securities Exchange (Trading under symbol 'REX'), incorporated and operating in Australia. The Company's registered office and its principal place of business is at 81 – 83 Baxter Road, Mascot, NSW 2020, Australia. Principal activities of the Group are the provision of air services principally for the transportation of passengers and freight.

02 APPLICATION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the Group has applied all amendments to AASBs issued by the Australian Accounting Standards Board (AASB) that are mandatorily effective for an accounting period that begins on or after 1 July 2017, and therefore relevant for the current year end. The application of these amendments does not have any material impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

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 9 'Financial Instruments' (and the relevant amending standards) (AASB 9): The standard introduces a number of new and revised classifications of financial assets and liabilities compared to AASB 139 'Financial Instruments: Recognition and Measurement' and addresses the classification, measurement and de recognition of these financial assets and financial liabilities. AASB 9 introduces new rules for hedge accounting and a new methodology for measurement of impairment of financial assets including accounting for expected credit loss.

The Group classifies fuel swap derivatives as cash flows hedges, and recognises material financial assets and liabilities to which AASB 9 will apply at amortised cost under AASB 139. The classification of financial assets and liabilities to which AASB 9 will apply are as follows:

Classification under AASB 139	Classification under AASB 9
Cash and cash equivalents	Cash and cash equivalents
Financial assets and liabilities at amortised cost	Financial assets and liabilities at amortised cost
Derivatives designated as cash flow hedges	Derivatives designated as cash flow hedges
Investment – available for sale	Investment – fair value through other comprehensive income

Based on a review of these instruments, the recognition and measurement of these instruments is not expected to change apart from the investment classified as available for sale which will now be "investment – fair value through other comprehensive income". If and when this investment is derecognised, the cumulative gain or loss will not be recognised in profit or loss and will be recognised in other comprehensive income. Changes to hedging requirements for cash flow hedges such as jet fuel swaps and foreign exchange contracts are not likely to result in a change in recognition and measurement of these instruments.

Apart from these impacts, it is anticipated that the financial statements of the Group will not be significantly impacted by these amendments. The expected credit loss model for calculating impairment of financial assets is not expected to have a material impact on the Group.

The Group will apply the standard from 1 July 2018.

AASB 15 'Revenue from Contracts with Customers', AASB 2014-5 'Amendments to Australian Accounting Standards arising from AASB 15', AASB 2015-8 'Amendments to Australian Accounting Standards – Effective date of AASB 15' (AASB 15): AASB 15 will replace AASB 118 'Revenue' which covers revenue arising from the sale of goods and the rendering of services and AASB 111 'Construction Contracts' which covers construction contracts.

The new standard introduces a five-step model to determine when and how much revenue should be recognised. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The Group has assessed the impact of this change on the recognition and measurement of revenues of the Group and related disclosures in the financial statements. Based on a review of the Group's revenue streams and contracts, the adoption of the new standard will not have a material impact on the financial results. However some changes in the presentation of certain revenue items and additional disclosure may be required.

The Group will apply the standard from 1 July 2018.

AASB 16 'Leases' (AASB 16): 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 or 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.

03 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 30, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

KEY SOURCES OF ESTIMATION UNCERTAINTY

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

IMPAIRMENT OF GOODWILL

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

The carrying amount of goodwill at the balance date was $518 thousand (2017: $518 thousand) with no impairment loss recognized during the year (2017: nil).

FAIR VALUE OF DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

As described in Note 23, management uses their judgment in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument.

USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

As described in Note 30 (S), the Group reviews the estimated useful lives of property, plant and equipment at the end of each reporting period. During the current year, it is determined that the useful lives of property, plant and equipment correctly reflected the rate at which the assets are consumed.

EMPLOYEE ENTITLEMENTS

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

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

04 REVENUES AND EXPENSES

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

	2018 $'000	2017 $'000
Other revenue		
Training income	3,338	2,697
Net sales proceeds (engineering parts)	761	709
Rental income	266	123
Insurance claim	168	262
Training subsidy	112	217
Engineering services	110	80
Other income	707	528
	5,462	**4,616**
Finance income		
Interest	1,153	770
	1,153	**770**
Other gains / (losses)		
Net foreign currency (loss) / gain	(394)	348
Gain / (loss) on disposal of property, plant and equipment	683	(154)
	289	**194**
Salaries and employee-related costs		
Wages and salaries (including bonus – profit share scheme)	(98,622)	(96,103)
Workers' compensation costs	(981)	(1,223)
Superannuation costs - defined contribution plan	(6,800)	(6,852)
Expense of share-based payments	(1,323)	(1,355)
	(107,726)	**(105,533)**
Office and general administrative costs		
Bad debts recovered / (written-off)	38	(92)
	38	**(92)**
Finance costs		
Interest on bank borrowings and finance leases	(1,975)	(1,975)
Interest expense	**(1,975)**	**(1,975)**
The weighted average interest rate on borrowings is 9.1% per annum, and 4.2% per annum for finance leases.		
Depreciation and amortisation		
Depreciation and amortisation of property, plant and equipment	(15,996)	(15,965)
Amortisation of development costs and software	(222)	(303)
	(16,218)	**(16,268)**
Lease payments included in consolidated statement of profit or loss		
Included in flight and port operation costs		
Minimum lease payments – operating lease	(783)	(801)
	(783)	**(801)**

05 INCOME TAX

INCOME TAX RECOGNISED IN PROFIT OR LOSS

	2018 $'000	2017 $'000
Tax expense comprises:		
Current tax expense	11,300	3,399
Prior period tax expense	581	-
Deferred tax (benefit) / expense relating to the origination and reversal of temporary differences	(3,719)	1,791
Total tax expense	**8,162**	**5,190**
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Profit / (loss) before tax from operations	25,075	17,810
Tax expense calculated at 30%	7,523	5,343
Tax on non-deductible expense / (non-assessable income)	58	(37)
Prior period tax expense	581	-
Previously unrecognised and unused tax losses and tax offsets now recognised as deferred tax assets	-	(116)
Tax expense	**8,162**	**5,190**
Effective tax rates	32.5%	29.1%

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

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

	2018 $'000	2017 $'000
Current tax assets and liabilities		
Current tax payable		
Income tax attributable:		
Parent entity	5,728	1,172
	5,728	**1,172**
Deferred tax balances		
Deferred tax assets comprise:		
Temporary differences	7,276	6,922
	7,276	**6,922**
Deferred tax liabilities comprise:		
Temporary differences	(5,691)	(8,846)
	(5,691)	**(8,846)**
Net deferred tax assets / (liabilities)	**1,585**	**(1,924)**

Taxable and deductible temporary differences arise from the following:

	Opening balance $'000	Charged to income $'000	Charged to equity $'000	Closing balance $'000
30 June 2018				
Gross deferred tax liabilities				
Inventories	(6,445)	2,912	-	(3,533)
Prepayments	(1,165)	122	-	(1,043)
Grant receivable	(303)	37	-	(266)
Property, plant & equipment	(761)	18	-	(743)
Other items	(172)	45	21	(106)
	(8,846)	**3,134**	**21**	**(5,691)**
Gross deferred tax assets				
Employee-related provisions	2,987	499	-	3,486
Property, plant & equipment	2,063	48	-	2,111
Payables	901	(138)	-	763
Other liabilities	659	151	-	810
Other items	312	(206)	-	106
	6,922	**354**	**-**	**7,276**
Net deferred tax	**(1,924)**	**3,488**	**21**	**1,585**
30 June 2017				
Gross deferred tax liabilities				
Inventories	(5,910)	(535)	-	(6,445)
Prepayments	(1,294)	129	-	(1,165)
Grant receivable	(280)	(23)	-	(303)
Property, plant & equipment	(393)	(368)	-	(761)
Other items	(24)	(417)	269	(172)
	(7,901)	**(1,214)**	**269**	**(8,846)**
Gross deferred tax assets				
Employee-related provisions	2,673	314	-	2,987
Property, plant & equipment	2,918	(855)	-	2,063
Payables	951	(50)	-	901
Other liabilities	599	60	-	659
Other items	358	(46)	-	312
	7,499	**(577)**	**-**	**6,922**
Net deferred tax	**(402)**	**(1,791)**	**269**	**(1,924)**

06 TRADE AND OTHER RECEIVABLES

	2018 $'000	2017 $'000
Current		
Trade receivables	7,504	6,304
Provision for doubtful debts	(31)	(31)
	7,473	**6,273**
Sundry debtors and other debtors	2,693	3,258
Prepayments	1,915	1,274
	12,081	**10,805**
Non-current		
Other receivables – at amortised cost	5,808	6,515
	5,808	**6,515**

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

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

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

	2018 $'000	2017 $'000
Ageing of past due but not impaired		
60 - 90 days	5	-
91 - 120 days or more	-	-
Total	**5**	**-**
Average age (days)	30	30
Movement in the provision for doubtful debts		
Balance at the beginning of the year	(31)	(31)
Impairment losses on receivables	-	-
Balance at the end of the year	**(31)**	**(31)**
Ageing of impaired trade receivables		
120+ days	(31)	(31)
Total	**(31)**	**(31)**

07 INVENTORIES

	2018 $'000	2017 $'000
Consumable spares at cost		
Current	11,778	12,793
Non-current	12,356	11,852

08 PROPERTY, PLANT AND EQUIPMENT

	Opening gross carrying amount $'000	Additions $'000	Disposals / Reclassification $'000	Closing gross carrying amount $'000
At 30 June 2018				
Aircraft	185,249	6,536	(4,364)	187,421
Other property, plant and equipment				
Rotable assets	79,273	8,654	(4,616)	83,311
Engines	9,944	1,183	(219)	10,908
Plant and equipment	11,888	762	(630)	12,020
Land and buildings	36,160	1,006	-	37,166
Leasehold improvements	1,340	17	-	1,357
Motor vehicles	2,574	166	(44)	2,696
Furniture and fittings	1,080	64	(123)	1,021
Computer equipment	2,791	96	(996)	1,891
Other property, plant and equipment	145,050	11,948	(6,628)	150,370
Total property, plant and equipment	**330,299**	**18,484**	**(10,992)**	**337,791**
At 30 June 2017				
Aircraft	194,344	264	(9,359)	185,249
Other property, plant and equipment				
Rotable assets	71,498	7,959	(184)	79,273
Engines	6,171	4,090	(317)	9,944
Plant and equipment	11,478	828	(418)	11,888
Land and buildings	29,973	6,187	-	36,160
Leasehold improvements	1,408	10	(78)	1,340
Motor vehicles	2,503	86	(15)	2,574
Furniture and fittings	1,108	58	(86)	1,080
Computer equipment	2,340	964	(513)	2,791
Other property, plant and equipment	126,479	20,182	(1,611)	145,050
Total property, plant and equipment	**320,823**	**20,446**	**(10,970)**	**330,299**

	Opening accumulated depreciation and impairment $'000	Disposals / Reclassification $'000	Depreciation charge for the year $'000	Closing accumulated depreciation and impairment $'000
At 30 June 2018				
Aircraft	(88,537)	3,462	(9,255)	(94,330)
Other property, plant and equipment				
Rotable assets	(17,554)	4,426	(3,337)	(16,465)
Engines	(2,759)	58	(721)	(3,422)
Plant and equipment	(6,810)	627	(1,044)	(7,227)
Land and buildings	(5,845)	-	(970)	(6,815)
Leasehold improvements	(1,165)	-	(54)	(1,219)
Motor vehicles	(1,536)	33	(192)	(1,695)
Furniture and fittings	(926)	121	(48)	(853)
Computer equipment	(1,583)	996	(373)	(960)
Other property, plant and equipment	(38,178)	6,261	(6,739)	(38,656)
Total property, plant and equipment	**(126,715)**	**9,723**	**(15,994)**	**(132,986)**
At 30 June 2017				
Aircraft	(85,772)	7,110	(9,875)	(88,537)
Other property, plant and equipment				
Rotable assets	(14,548)	29	(3,035)	(17,554)
Engines	(2,521)	317	(555)	(2,759)
Plant and equipment	(6,118)	408	(1,100)	(6,810)
Land and buildings	(4,991)	-	(854)	(5,845)
Leasehold improvements	(1,196)	78	(47)	(1,165)
Motor vehicles	(1,373)	15	(178)	(1,536)
Furniture and fittings	(941)	85	(70)	(926)
Computer equipment	(1,845)	513	(251)	(1,583)
Other property, plant and equipment	(33,533)	1,445	(6,090)	(38,178)
Total property, plant and equipment	**(119,305)**	**8,555**	**(15,965)**	**(126,715)**

	Opening net carrying amount $'000	Closing net carrying amount $'000
At 30 June 2018		
Aircraft	96,712	93,091
Other property, plant and equipment		
Rotable assets	61,719	66,846
Engines	7,185	7,486
Plant and equipment	5,078	4,793
Land and buildings	30,315	30,351
Leasehold improvements	175	138
Motor vehicles	1,038	1,001
Furniture and fittings	154	168
Computer equipment	1,208	931
Other property, plant and equipment	106,872	111,714
Total property, plant and equipment	**203,584**	**204,805**
At 30 June 2017		
Aircraft	108,572	96,712
Other property, plant and equipment		
Rotable assets	56,950	61,719
Engines	3,650	7,185
Plant and equipment	5,360	5,078
Land and buildings	24,982	30,315
Leasehold improvements	212	175
Motor vehicles	1,130	1,038
Furniture and fittings	167	154
Computer equipment	495	1,208
Other property, plant and equipment	92,946	106,872
Total property, plant and equipment	**201,518**	**203,584**

No impairment loss has been recognised over items of property, plant and equipment during the year (2017: nil).

09 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill $'000	Software and development costs $'000
At 30 June 2018		
Cost	518	2,351
Accumulated amortisation	-	(2,045)
Net carrying amount	**518**	**306**
Total goodwill and other intangible assets		**824**
Reconciliation		
At 1 July 2017, net of accumulated amortisation	518	335
Additions	-	193
Amortisation at 30 June 2018	-	(222)
At 30 June 2018, net of accumulated amortisation	**518**	**306**
Total goodwill and other intangible assets		**824**
At 30 June 2017		
Cost	518	2,158
Accumulated amortisation	-	(1,823)
Net carrying amount	**518**	**335**
Total goodwill and other intangible assets		**853**
Reconciliation		
At 1 July 2016, net of accumulated amortisation	518	508
Additions	-	130
Amortisation at 30 June 2017	-	(303)
At 30 June 2017, net of accumulated amortisation	**518**	**335**
Total goodwill and other intangible assets		**853**

IMPAIRMENT TESTING OF GOODWILL AND NON-CURRENT ASSETS

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

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

Goodwill of $518 thousand relating to the passenger routes acquired in the acquisition of Air Link Pty Limited was transferred into the Rex CGU, as these routes are now operated by Rex.

VALUE-IN-USE CALCULATIONS

The recoverable amount of Pel-Air and Rex 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
(i) Discount rate	11.0%	10.5%
(ii) Revenue growth	1.5%	1.5%
(iii) Fuel cost escalation	1.0%	1.0%
(iv) Operating cost escalation	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.

As a result of the impairment testing performed at the CGU level, the Group assessed that the recoverable amount was greater than carrying amount and no impairment loss on these CGUs has been recognised in the current year (FY2017: nil).

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 %	0.5%	(10,275)	11,479	(712)	735
Revenue %	0.5%	47,079	(46,238)	2,478	(2,412)
Operating cost escalation %	0.5%	(35,426)	34,793	(1,774)	1,725
Fuel cost escalation %	0.5%	(5,599)	5,500	(76)	74
Capital expenditure %	5.0%	(4,378)	4,378	(129)	129

10 TRADE AND OTHER PAYABLES

	2018 $'000	2017 $'000
Current		
Trade payables	9,537	8,919
Other payables	9,276	9,411
Total	**18,813**	**18,330**

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

11 UNEARNED REVENUE

	2018 $'000	2017 $'000
Current		
Unearned passenger and charter revenue	24,037	22,447
Unearned training revenue	656	251
Total	**24,693**	**22,698**

12 BORROWINGS

	Effective interest rate %	2018 $'000	2017 $'000
Current			
Loan facility	9.1%	3,519	3,214
Finance leases	4.2%	3,990	3,861
		7,509	**7,075**
Non-current			
Loan facility	9.1%	8,072	11,591
Finance leases	4.2%	973	4,960
		9,045	**16,551**

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 finance leases were for purchase of Saab aircraft. The aircraft has been part of the operational fleet and was acquired at their lease end in March 2014. The leases expire in August 2019.

The liabilities are secured over the assets being funded, the carrying value of which exceeds the outstanding liabilities.

13 PROVISIONS

	2018 $'000	2017 $'000
Current		
Employee benefits		
Profit share, pilot retention bonus	4,080	3,247
Annual leave and long service leave	5,248	3,925
	9,328	**7,172**
Non-current		
Employee benefits		
Long service leave	611	1,371
Total employee benefits provisions	**9,939**	**8,543**
Profit share, pilot retention bonus		
Balance at the beginning of the year	3,247	1,911
Arising during the year	2,768	2,198
Utilised	(1,935)	(862)
Balance at the end of the year	**4,080**	**3,247**
Annual leave and long service leave		
Balance at the beginning of the year	5,296	5,359
Arising during the year	6,900	6,785
Utilised	(6,337)	(6,848)
Balance at the end of the year	**5,859**	**5,296**

14 ISSUED CAPITAL

	2018		2017	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
At the beginning of the year	110,155	72,024	110,155	72,024
Movement during the year	-	-	-	-
At the end of the year	**110,155**	**72,024**	**110,155**	**72,024**

Share units held as reserved shares by subsidiary company was 1,857 thousand (2017: 2,766 thousand).

15 RESERVED SHARES AND OTHER RESERVES

	2018 $'000	2017 $'000
Share-based payments reserve		
Balance at the beginning of the year	1,358	1,587
Share gift issued	(1,076)	(1,063)
Share gift plan provision transfer	-	(521)
Share gift plan provision recognised	1,323	1,355
Balance at the end of the year	**1,605**	**1,358**
Cash flow hedge reserve		
Balance at the beginning of the year	49	678
Revaluation of cash flow hedges, net of tax	(49)	(629)
Balance at the end of the year	**-**	**49**
General reserve		
Balance at the beginning of the year	1,590	1,590
Movement during the year	-	-
Balance at the end of the year	**1,590**	**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.

Reserved share account represents on market purchase of shares by the Group which is eventually granted to executives and employees as part of their remuneration.

The share-based payments reserve arises on the grant of shares to executives and employees under the employee share gift plan. Amounts are transferred out of the reserve and into issued capital when the shares are issued. Rex has established the share gift plan for its executive directors and eligible employees since FY 06.

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

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

16 EARNINGS PER SHARE

	2018 Cents per share	2017 Cents per share
Basic earnings per share	15.7	11.7
Diluted earnings per share	15.7	11.7

The earnings used in the calculation of basic and diluted earnings per share are as follows:

	2018 $'000	2017 $'000
Net profit	16,913	12,620
Earnings used in the calculation of basic earnings per share	16,913	12,620
Earnings used in the calculation of diluted earnings per share	16,913	12,620

The weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

	2018 No. '000	2017 No. '000
Weighted average number of ordinary shares for the purpose of basic earnings per share	107,966	107,644
Weighted average number of ordinary shares for the purpose of diluted earnings per share	107,966	107,644

17 DIVIDENDS

During the financial year, a fully franked interim dividend of 4 cents per share was paid to holders of fully paid ordinary shares on 31 May 2018, and amounted to $4,406 thousand.

In respect of financial year ended 30 June 2018, the directors have recommended a fully franked final dividend of 8 cents per share be paid to holders of fully paid ordinary shares (2017: 10 cents). This has not been included as a liability in these financial statements and the dividend will be paid to all shareholders on the Register of Members. The total estimated dividend to be paid is $8,812 thousand (2017: $11,015 thousand).

The movement in the franking account balance, including impact for dividends declared after the year end, is noted below:

	2018 $'000	2017 $'000
Adjusted franking account balance	38,213	37,574
Franking credit recognised that will arise from income tax payable as at the end of financial year	5,728	1,172
Impact on franking account balance of dividends not recognised	(3,777)	(4,721)

18 COMMITMENTS FOR EXPENDITURE

(A) CAPITAL EXPENDITURE COMMITMENTS

There are no commitments for the acquisition of property, plant and equipment as at 30 June 2018 (2017: nil).

(B) OPERATING LEASE COMMITMENTS

	2018 $'000	2017 $'000
Not later than one year	848	848
Later than one year and not later than five years	1,535	2,346
Later than five years	776	813
	3,159	**4,007**

(C) FINANCE LEASE LIABILITIES

Some aircraft were purchased under finance leases. The leases expire in August 2019. The Group takes ownership of the aircraft at the end of the lease terms. The Group's obligations under the finance leases are secured by the lessors' title to the leased aircraft.

The fair value of the finance lease liabilities is approximately equal to their carrying amount.

	Minimum lease payments		Present value of minimum lease payments	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Not later than one year	4,140	4,140	3,990	3,861
Later than one year and not later than five years	984	5,120	973	4,960
	5,124	9,260	4,963	8,821
Less future finance charges	(161)	(439)	-	-
Present value of minimum lease payments	4,963	8,821	4,963	8,821
Included in the consolidated financial statements as (Note 12)				
Current borrowings			3,990	3,861
Non-current borrowings			973	4,960
			4,963	**8,821**

19 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities nor contingent assets as at 30 June 2018 (2017: nil).

20 SUBSIDIARIES

		Ownership Interest %	
Name of entity	Country of incorporation	2018	2017
Parent entity			
Regional Express Holdings Limited	Australia		
Subsidiaries			
Regional Express Pty Limited	Australia	100	100
Rex Freight & Charter Pty Limited	Australia	100	100
Rex Investment Holdings Pty Limited	Australia	100	100
Air Link Pty Limited	Australia	100	100
Pel-Air Aviation Pty Limited	Australia	100	100
Australian Airline Pilot Academy Pty Limited	Australia	100	100
VAA Pty Ltd	Australia	100	100

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

21 ACQUISITION OF BUSINESS

No business was acquired during the year.

22 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(A) RECONCILIATION OF CASH AND CASH EQUIVALENTS

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

	2018 $'000	2017 $'000
Cash and bank balances	10,965	16,257
Short term deposits	15,000	10,000
	25,965	**26,257**

(B) RECONCILIATION OF PROFIT / (LOSS) FOR THE YEAR TO NET CASH FLOWS FROM OPERATING ACTIVITIES

	2018 $'000	2017 $'000
Profit for the year	16,913	12,620
Depreciation and amortisation	16,218	16,268
Share-based payment	1,323	1,355
Unrealised foreign exchange loss / (gain)	34	(65)
(Gain) / loss on disposal of non-current assets	(683)	154
Interest received	(1,153)	(770)
Increase in receivables	(569)	(246)
Decrease / (increase) in inventories	511	(1,681)
Decrease in other financial assets	140	965
(Decrease) / increase in deferred tax	(3,509)	1,218
Increase in current tax payable	4,556	103
Decrease in other financial liabilities	(70)	(66)
Increase / (decrease) in trade payables	2,443	(4,386)
Increase in provisions	1,396	1,273
Decrease in other liabilities	(49)	(629)
Net cash flows from operating activities	**37,501**	**26,113**

(C) FINANCING FACILITIES

	2018		2017	
	Used $'000	Limit $'000	Used $'000	Limit $'000
Maximum facilities available and reviewed annually:				
Loan facility (fund aircraft purchases)	11,595	12,699	14,809	15,064
Leases (fund aircraft purchases)	5,035	5.519	8,870	9,339
Tape negotiations authority	-	2,900	-	2,900
Letter of credit	-	559	-	559
Set off	-	1,000	-	1,000
Guarantee	4,099	4,537	4,117	4,237
Credit card	92	620	84	620
	20,821	**27,834**	**27,880**	**33,719**

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

There were no non-cash movements in borrowings in the year (2017:nil) See Note 12 for movements in borrowings.

23 FINANCIAL INSTRUMENTS

(A) CAPITAL RISK MANAGEMENT

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

The Group's overall strategy remains unchanged from 2017.

The capital structure of the Group consists of debt as disclosed in Note 12 and attributable to equity holders of the parent comprising issued capital, reserves as disclosed in Notes 14, 15 respectively, and retained earnings.

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

GEARING RATIO

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

The Group's financing facilities include a $29 million loan facility which is fixed-interest bearing and repayable over 10 years from July 2012 to June 2021.

During FY 14, the Group finalised the purchase of 25 latest generation Saab 340B + aircraft. These aircraft were originally operating in the Rex fleet under a lease. The acquisition was partly funded by operating cash flows with the rest from bank finance leases.

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

	2018 $'000	2017 $'000
Debt [i]	16,554	23,626
Cash and cash equivalents	25,965	26,257
Excess cash and cash equivalents over debt	**9,411**	**2,631**
Equity [ii]	**199,484**	**196,445**
Excess cash to equity ratio	**4.7%**	**1.3%**

[i] Debt is defined as long- and short-term borrowings, as detailed in Note 12.

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

(B) CATEGORIES OF FINANCIAL INSTRUMENTS

	2018 $'000	2017 $'000
Financial assets		
Loans and receivables	15,974	16,046
Cash and bank balances	25,965	26,257
Derivative financial instruments	-	140
Available-for-sale financial assets	9	9
Financial liabilities		
Amortised cost	35,367	41,956
Derivative financial instruments	-	70

(C) FINANCIAL RISK MANAGEMENT OBJECTIVES

The Group is exposed to foreign exchange, fuel price, interest rate and liquidity risk. Management of these risks is governed by the Group's policy approved by the Board of Directors, which provides written principles on the management of financial risks. Compliance with policies and exposure limits is reviewed by the Audit and Corporate Governance Committee and the Board on an ongoing basis. The Group does not enter into trade financial instruments, including derivative financial instruments, for speculative purposes. The Treasury function, which co-ordinates the hedging of financial risks from time to time, is managed by the Group's Corporate Services Department and reports regularly to the Board and Audit and Corporate Governance Committee.

(D) FOREIGN CURRENCY RISK MANAGEMENT

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

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

Liabilities		Assets	
2018 USD$'000	2017 USD$'000	2018 USD$'000	2017 USD$'000
1,394	1,448	-	-

FOREIGN CURRENCY SENSITIVITY ANALYSIS

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

- USD 16 million for engineering purchases
- USD 16 million for engine care and maintenance
- USD 4 million for airline reservation systems usage
- USD 1 million for aircraft insurance policies
- USD 1 million for operating leases

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

	2018 $'000	2017 $'000
Profit or loss	190	190

The Group's sensitivity to foreign currency has remained constant

FORWARD FOREIGN EXCHANGE CONTRACTS

The Group may enter into forward foreign exchange contracts to manage the risk associated with anticipated sales and purchase transactions up to twelve months and up to 100% of the exposure generated. Basis adjustments are made to the carrying amounts of non-financial hedged items when the anticipated sale or purchase transaction takes place. No foreign exchange contracts were outstanding at 30 June 2018.

(E) FUEL PRICE RISK MANAGEMENT

The Group may use 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 to hedge exposures to jet fuel. No jet fuel swaps were outstanding at 30 June 2018.

The following table sets out the timing of the notional amount and the hedged jet fuel price of the Group's fuel hedging instruments:

	Hedged price $ per L	Notional amount L'000	Less than 1 year L'000	1 to 2 years L'000	2 to 5 years L'000
AUD fuel costs					
2018	-	-	-	-	-
2017	0.4830	19,898	19,898	-	-

The following table details the sensitivity of the Group's financial assets and liabilities to a 20% increase and 20% decrease in the jet fuel price. A positive number indicates an increase in profit or loss and other equity where the jet fuel price weakens. For an increase in the jet fuel price there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative. This analysis assumes that all other variables remain constant and based on the designated hedge relationship at the reporting date.

		20% increase		20% decrease	
	Carrying amount $'000	Profit/(loss) $'000	Equity $'000	Profit/(loss) $'000	Equity L'000
2018					
Derivative asset – jet fuel swap	-	-	-	-	-
Derivative liability – jet fuel swap	-	-	-	-	-
	-	**-**	**-**	**-**	**-**
2017					
Derivative asset – jet fuel swap	140	-	1,092	-	(1,092)
Derivative liability – jet fuel swap	(70)	-	830	-	(830)
	70	**-**	**1,922**	**-**	**(1,922)**

(F) INTEREST RATE RISK MANAGEMENT

The Group has very little exposure to interest rate risk as its borrowings detailed in Note 12 are at a fixed interest rate. As such the Group does not hedge its interest rate exposure. The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

(G) CREDIT RISK MANAGEMENT

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

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

(H) LIQUIDITY RISK MANAGEMENT

Ultimate responsibility for liquidity risk management rests with the Board of Directors, who has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group's operating activities generate positive annual cash flow. The Group tries to maintain a $10 million cash balance by the end of each financial year. As and when required, the Group uses financing facilities as detailed in Note 22.

LIQUIDITY AND INTEREST RISK TABLES

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

	1 month $'000	1-3 months $'000	3 months to a year $'000	1-5 years $'000	5+ years $'000
2018					
Non-interest bearing	18,813	-	-	-	-
Interest bearing	369	1,774	6,429	9,847	-
	19,182	**1,774**	**6,429**	**9,847**	**-**
2017					
Non-interest bearing	18,330	-	-	-	-
Interest bearing	369	1,774	6,429	18,414	-
	18,699	**1,774**	**6,429**	**18,414**	**-**

The interest-bearing liabilities have a weighted average effective interest rate of 9.1% per annum for the 10-year bank loan (FY2012 to FY2021), and 4.2% per annum for the bank finance leases maturing in August 2019.

(I) FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(J) FAIR VALUE HEIRARCHY

The table below analyses financial instruments carried at fair value. 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 year.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
30 June 2018				
Financial assets carried at fair value				
Derivative asset – jet fuel swap	-	-	-	-
Financial liabilities carried at fair value				
Derivative liability – jet fuel swap	-	-	-	-
30 June 2017				
Financial assets carried at fair value				
Derivative asset – jet fuel swap	-	140	-	140
Financial liabilities carried at fair value				
Derivative liability – jet fuel swap	-	(70)	-	(70)

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 3 financial instruments.

24 KEY MANAGEMENT PERSONNEL COMPENSATION

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

	2018 $	2017 $
Short-term benefits	2,055,820	1,867,266
Post-employment benefits	166,846	160,109
Other long-term benefits	27,690	25,869
Share-based payment	27,845	27,514
	2,278,201	**2,080,758**

25 RELATED PARTY TRANSACTIONS

(A) EQUITY INTERESTS IN SUBSIDIARIES

Details of interests in subsidiaries are disclosed in Note 20 to the consolidated financial statements.

(B) TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL

(I) KEY MANAGEMENT PERSONNEL COMPENSATION

Details of key management personnel compensation are disclosed in Note 24 to the consolidated financial statements.

(II) LOANS TO KEY MANAGEMENT PERSONNEL

There have been no loans made to key management personnel.

(C) OTHER RELATED PARTY TRANSACTIONS

The Branksome Residences Pty Ltd ("Branksome"), a related entity of the Chairman, provides hotel, conference and venue hire services to the Group. Total purchases of goods and services from Branksome were $177 thousand during the year (2017: $nil). In addition, the Group provides administrative support services to Branksome and Greatland Development Pty Ltd, a related entity of the Chairman. The total income earned by the Group from these entities was $50,000 and $10,000 respectively (2017: $0 and $40 thousand).

26 REMUNERATION OF AUDITORS

	2018 $'000	2017 $'000
Audit and review of the consolidated financial statements	305,550	315,000
Other non-audit services - tax compliance, tax advice	36,225	37,800
	341,775	**352,800**

The auditor of the Group is Deloitte Touche Tohmatsu.

27 EVENTS AFTER THE REPORTING PERIOD

On 2 July 2018 Rex commenced operations on the Regular Public Transport (RPT) air services on the Perth – Carnarvon / Monkey Mia route.

In August 2018, Rex signed a Memorandum of Understanding (MOU) with Ansett Aviation Training (AAT), headquartered in Melbourne, to relocate their Saab 340 Full Flight Simulator (FFS) to Sydney. Rex has been utilising the AAT FFS for initial and recurrent pilot training since 2002. Sydney is the largest pilot crew base in the Rex network and moving the AAT FFS to Sydney will provide significant operational efficiencies and restrain the associated costs in transport and accommodation when sending flight crew to Melbourne. The FFS will be housed in an existing Rex building adjacent to its Sydney headquarters.

28 SEGMENT INFORMATION

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

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

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

- Regular public transport
- Charter

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

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

	Revenue		Segment result	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Continuing operations				
Regular public transport	269,802	257,984	28,994	24,048
Charter	25,735	22,983	4,295	2,313
	295,537	**280,967**	**33,289**	**26,361**
Finance income			1,153	770
Other gains / (losses)			289	194
Central administration costs and directors' salaries			(7,681)	(7,540)
Finance costs			(1,975)	(1,975)
Profit before tax			25,075	17,810
Tax expense / benefit			(8,162)	(5,190)
Consolidated segment revenue and profit	**295,537**	**280,967**	**16,913**	**12,620**

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

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

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

	Assets		Liabilities	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Continuing operations				
Regular public transport	220,161	213,100	50,859	45,329
Charter	55,050	59,708	24,868	31,034
Total assets / liabilities	**275,211**	**272,808**	**75,727**	**76,363**

Other segment information for the year is as follows:

	Depreciation and amortisation		Additions to non-current assets	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Continuing operations				
Regular public transport	11,860	11,178	18,591	20,097
Charter	4,358	5,090	86	479
	16,218	**16,268**	**18,677**	**20,576**

29 PARENT ENTITY DISCLOSURES

	2018 $'000	2017 $'000
(A) FINANCIAL POSITION		
Assets		
Current assets	40,470	39,320
Non-current assets	185,931	179,181
Total assets	**226,401**	**218,501**
Liabilities		
Current liabilities	57,471	48,258
Non-current liabilities	3,144	2,099
Total liabilities	**60,615**	**50,357**
Equity		
Issued capital	72,024	72,024
Retained earnings	91,972	94,555
Share-based payments reserve	1,474	1,200
Cash flow hedge reserve	-	49
General reserve	316	316
Total equity	**165,786**	**168,144**
(B) FINANCIAL PERFORMANCE		
Profit for the year	12,840	10,335
Other comprehensive income	(49)	(629)
Total comprehensive income	**12,791**	**9,706**

(C) GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

During FY 11, the parent entity entered into a deed of cross guarantee in relation to the debts of Pel-Air Aviation Pty Ltd, Rex Freight and Charter Pty Ltd, Rex Investment Holdings Pty Ltd and Australian Airline Pilot Academy Pty Ltd.

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

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

The statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group' can be found in the consolidated statement of profit or loss and other comprehensive income and statement of financial position along with the note on Regional Express Holdings Limited as parent found in note 29 (A) and (B).

(D) CONTINGENT LIABILITIES OF THE PARENT ENTITY

As at 30 June 2018, no contingent liabilities or assets existed (2017: nil).

(E) COMMITMENTS FOR THE ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT BY THE PARENT ENTITY

As at 30 June 2018, the parent entity has no commitment for the acquisition of property, plant and equipment.

30 SIGNIFICANT ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

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

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

The financial statements were authorised for issue by the directors on xx August 2018.

(B) BASIS OF PREPARATION

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The consolidated financial statements have been prepared on a going concern basis. In preparing the consolidated financial statements the directors note that the Group is 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.

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 hundred thousand dollars in accordance with that Legislative Instrument, unless otherwise indicated.

(C) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary. Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable AASBs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under AASB 139, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(D) REVENUE

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

RENDERING OF SERVICES

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

DIVIDEND AND INTEREST INCOME

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

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

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

(E) BORROWING COSTS

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

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

(F) CASH AND CASH EQUIVALENTS

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

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

(G) FOREIGN CURRENCIES

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

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

Exchange differences are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks (refer to Note 23).

(H) DERIVATIVE FINANCIAL INSTRUMENTS

The Group enters into jet fuel swap derivatives to hedge exposures to jet fuel prices. It is the Group's policy not to enter into or hold derivative financial instruments for speculative trading purposes. Derivative financial instruments are recognised at fair value both initially and on an ongoing basis. Transaction costs attributable to the derivative are recognised in profit or loss when incurred.

HEDGE ACCOUNTING

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

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

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

Any derivative financial instruments not designated into an effective hedge relationship are classified as a current asset or a current liability at fair value through profit and loss.

(I) EMPLOYEE BENEFITS

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

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

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

(J) FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

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

EFFECTIVE INTEREST METHOD

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

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

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

Fair value is determined in the manner described in Note 23.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Certain shares and redeemable notes held by the Group are classified as being available-for-sale and are stated at fair value. Fair value is determined in the manner described in Note 23. Gains and losses arising from changes in fair value are recognised directly in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

LOANS AND RECEIVABLES

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

Interest is recognised by applying the effective interest rate.

IMPAIRMENT OF FINANCIAL ASSETS

When an available for sale asset is considered to be impaired, cumulative gains/losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

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

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

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

DERECOGNITION OF FINANCIAL ASSETS

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

(K) FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

CLASSIFICATION OF DEBT OR EQUITY

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

FINANCIAL LIABILITIES

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

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability. Fair value is determined in the manner described in Note 23.

OTHER FINANCIAL LIABILITIES

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

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

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

(L) GOODWILL

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

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

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

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

(M) GOVERNMENT GRANTS

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

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

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

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

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

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

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

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

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

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

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

(O) TAXATION

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

CURRENT TAX

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

DEFERRED TAX

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

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

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

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

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

CURRENT AND DEFERRED TAX FOR THE PERIOD

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

(P) INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

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

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

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

(Q) INVENTORIES

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

Consumables expected to be consumed within 12 months are classified as current or non-current where consumption are expected in a period beyond 12 months.

During the year, the Group undertook a review of the usage rates of consumables, and reclassified those consumables for which consumption is not expected within 12 months to non-current. Comparatives have been restated to reflect consistency of presentation.

(R) LEASING

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

GROUP AS LESSOR

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

GROUP AS LESSEE

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised immediately in profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Refer to Note 30E. Contingent rentals are recognised as expenses in the periods in which they are incurred. Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

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

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

(S) PROPERTY, PLANT AND EQUIPMENT

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

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

The rates applied are as follows:

Aircraft	15,000 to 60,000 hours
Building	20 to 40 years
Computer Equipment	4 to 5 years
Engines	10 to 20 years
Furniture & Fittings	8 to 10 years
Leasehold Improvements	over the unexpired lease period
Motor Vehicles	7 years
Plant & Equipment	8 years
Rotable Assets	5 to 20 years

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

(T) PROVISIONS

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

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

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

(U) SHARE-BASED PAYMENTS

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Details regarding the determination of the fair value of the equity-settled share-based transactions are set out in Note 15.

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

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

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

Reserved share account represents on market purchase of shares by the Group which are eventually granted to executives and employees as part of their remuneration.

(V) GOODS AND SERVICES TAX

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

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

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

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

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

DIRECTORS' DECLARATION

The directors declare that:

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

(b) the attached financial statements are in compliance with International Financial Reporting Standards, as stated in Note 30 to the consolidated financial statements;

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

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

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

In the directors' opinion, there are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in Note 29 to the financial statements will, as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

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

On behalf of the Directors

Neville Howell

Chief Operating Officer

29 August 2018

Deloitte.

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Regional Express Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2018, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion the accompanying financial report of the Group, is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended; and

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

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

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Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit addressed the Key Audit Matter
Valuation of unearned revenue As at 30 June 2018, the Group recognised unearned revenue of $24.693 million in the consolidated statement of financial position. The Group's calculation of unearned revenue in respect of flights purchased but not yet flown requires significant judgment, requiring significant volumes of data from flight booking systems and passenger reports to be analysed and matched, along with estimated adjustments to unearned revenue such as the level of no-shows.	Our procedures included, but were not limited to: • Assessing the accounting policies adopted by the Group in relation to revenue recognition; • Testing a sample of controls in the determination of unearned revenue; • Testing the integrity of the flight booking systems and passenger reports by comparing a sample of flight information to the cash receipt and flight data; • Agreeing the inputs in the reconciliation of unearned revenue to external flight booking systems; and • Challenging the assumptions used by management in relation to the rate of no-shows to assess the no-show revenue to be recognised in profit or loss. We also assessed the appropriateness of the disclosures in Note 4, Note 11 and Note 30 to the financial statements.

Deloitte.

Key Audit Matter	How the scope of our audit addressed the Key Audit Matter
Carrying value of aircraft and other property plant & equipment As at 30 June 2018 the Group has recognised aircraft and other property plant & equipment of $93.091 million and $111.714 million respectively in the consolidated statement of financial position. Management conducts impairment tests annually (or more frequently if impairment indicators exist) to assess the recoverability of the carrying value of aircraft and other property, plant & equipment. Impairment indicators are assessed with reference either to the asset in question or the cash-generating unit (CGU) to which the asset relates. The Group has identified two CGUs for the purposes of assessing the carrying value of aircraft and other property, plant & equipment: • Pel-Air Aviation Pty Limited (Pel-Air); and • Regional Express Holdings Limited (REX). The Group measures the recoverable amount of the CGUs through value in use models. As disclosed in Note 9 to the financial statements, there are a number of key estimates made which require significant judgement in determining the inputs into these models which include: • Growth rates for revenue, operating costs and fuel costs; • Capital expenditure; and • Discount rate.	Our procedures included, but were not limited to: • Assessing identification of the CGUs and determining whether indicators of impairment exist; • Assessing management's assertions and estimates regarding estimated useful lives and residual values using valuation reports published by third party specialists, industry data and the Group's historical experience and future operating plans; • Challenging the assumptions used in management's impairment analysis by assessing the reliability of management's past estimates and taking into account recent industry developments and each CGU's future operating plans; • Assessing the reasonableness of the basis adopted by management in determining the other key inputs and assumptions underlying the calculations in the models; and • Performing sensitivity analysis on the key model inputs and assumptions. We also assessed the appropriateness of the disclosures in Note 9 to the financial statements.

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Other Information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, but does not include the financial report and our auditor’s report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor’s Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves a fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 21 to 24 of the Directors' Report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Regional Express Holdings Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of Regional Express Holdings Limited are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jamie Gatt

Jamie Gatt
Partner
Chartered Accountants
Sydney, 29 August 2018

ASX ADDITIONAL INFORMATION AS AT 13 SEPTEMBER 2018

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

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary share capital

110,154,375 fully paid ordinary shares are held by 2,091 individual shareholders.

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

DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

	Fully Paid Ordinary Shares		
	Investors	Securities	Issued Capital (%)
1 – 1,000	684	363,922	0.33
1,001 – 5,000	966	2,609,114	2.37
5,001 – 10,000	189	1,483,667	1.35
10,001 – 100,000	203	5,611,638	5.09
100,001 and over	49	100,086,034	90.86
Total	**2,091**	**110,154,375**	**100.00**
Unmarketable Parcels	194	21,130	0.02

SUBSTANTIAL SHAREHOLDERS

	Fully Paid	
Ordinary Shareholders	Number	Percentage
KIM HAI LIM	18,998,346	17.25
JOE TIAU TJOA	16,234,094	14.74
THIAN SOO LEE	7,722,181	7.01
MING YEW SEE TOH & HUI ING TJOA	7,454,362	6.77
JOO CHYE CHUA	7,454,362	6.77
HUI LING TJOA	5,755,513	5.22
ANACACIA PTY LTD	5,740,601	5.21

TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

	Fully Paid	
Ordinary Shareholders	Number	Percentage
KIM HAI LIM	18,998,346	17.25
JOE TIAU TJOA	16,234,094	14.74
THIAN SOO LEE	7,722,181	7.01
MING YEW SEE TOH & HUI ING TJOA	7,454,362	6.77
JOO CHYE CHUA	7,454,362	6.77
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	7,216,753	6.55
HUI LING TJOA	5,755,513	5.22
ANACACIA PTY LTD	5,740,601	5.21
REX INVESTMENT HOLDINGS PTY LIMITED	4,908,666	4.46
LAY KHIM NG	3,727,181	3.38
PACIFIC CUSTODIANS PTY LIMITED	1,812,362	1.65
STRATEGIC VALUE PTY LTD	1,673,632	1.52
J P MORGAN NOMINEES AUSTRALIA LIMITED	1,501,698	1.36
CITICORP NOMINEES PTY LIMITED	1,440,616	1.31
MICHAEL KARL KORBER	1,120,000	1.02
THIAN SONG TJOA	800,000	0.73
B & R JAMES INVESTMENTS PTY LIMITED	600,000	0.54
GUY FARROW	557,616	0.51
NEWECONOMY COM AU NOMINEES PTY LIMITED	460,244	0.42
BOON HUAT GOH	394,500	0.36

REX GROUP OF COMPANIES