Alliance Aviation Services Limited
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ALLIANCE AVIATION SERVICES LIMITED
ACN 153 361 525

INTERIM FINANCIAL REPORT
For the half year ended 31 December 2018

Contents

This Interim Financial Report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Alliance Aviation Services Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

Alliance Aviation Services Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is at 81 Pandanus Avenue, Brisbane Airport Queensland, 4009. The company's shares are listed on the Australian Stock Exchange under the ticker code AQZ.

Director’s report
for the half year ended 31 December 2018

Your directors are pleased to present their report on Alliance Aviation Services Limited (the “Company” or “Alliance”) and its controlled entities, (referred to hereafter as the “Group”) for the half year ended 31 December 2018.

Principal Activities

The principal activities of the Group are the provision of contract, charter and allied aviation services to the mining, energy, tourism and government sectors both domestically and internationally. The Group also provides specialised aviation services to other airlines and clients including the wet leasing of aircraft, aerodrome management services, aircraft trading, parts sales, engine leasing and engineering services.

Directors

The following persons were directors of Alliance Aviation Services Limited during the whole of the half year ended 31 December 2018 and up to the date of this report:

Name	Role	Period of directorship
Steve Padgett	Chairman, Non-executive Director	Appointed 26 October 2011
Scott McMillan	Managing Director	Appointed 26 October 2011
Peter Housden	Independent non-executive Director	Appointed 26 October 2011
David Crombie	Independent non-executive Director	Appointed 26 October 2011
Lee Schofield	Chief Executive Officer	Appointed 28 May 2015

Key Messages

The key messages from this report are:

- The half year statutory profit before tax of the Group is $14.1 million (2017: $10.3 million) which is an increase on the previous corresponding half year result of 38%;
- Flight hours increased by 21% or 3,463 flight hours when compared to the prior comparative half year result (2017: 16,207 flight hours);
- Operating cash flows for the half year were stable at $21.4 million (2017: $21.3 million). This amount included $5.2 million for one off inventory purchases;
- Debt in the half year reduced by $3.6 million (2017: $6 million) bringing the net debt balance to $48.5 million (2017: $60.5 million);
- Capital additions for the half year were $26.2 million which included $10.3 million to introduce an additional four aircraft into the fleet and $1.9 million for additional engines; and
- The Directors have declared a fully franked interim dividend of 6.8 cents per ordinary share for the half year ended 31 December 2018.

Summary of Financial Results

Alliance Aviation Services Limited has recorded an increased statutory net profit before tax of $14.1 million and a statutory net profit after tax of $9.8 million for the financial half year ended 31 December 2018. This is an improvement in net profit before tax of $3.9 million (or 38%) when compared to the half year ended 31 December 2017.

The results are summarised below to show a direct comparison with the prior half year results.

Item	Half year ended 31 December 2018 Actual $m	Half year ended 31 December 2017 Actual $m
Revenue	137.8	117.2
EBITDA	31.2	27.5
Depreciation	(15.6)	(15.4)
Financing costs	(1.5)	(1.8)
EBT	14.1	10.3
Income tax*	(4.3)	(3.2)
NPAT	9.8	7.1

* Cash tax of $14k was paid during the period on behalf of an overseas subsidiary. There is no cash payment required for the remaining income tax expense amount as the remainder of the Group is currently realising available tax losses. It is forecast that the remainder of the Group will be in a cash tax payable position during the financial year ending 30 June 2020.

Revenue

Revenue for the half year ended 31 December 2018 was $137.8 million (2017: $117.2 million) with the majority of the Group's varied revenue streams demonstrating growth when compared to prior years.

- Wet lease revenue increased by 104.5% to $26.6 million in the half year (2017: $13.0 million). This increase was attributable to increased flying requests from both existing and new domestic and international wet lease customers throughout the period;
- Contract revenue in the first half of year was stable when compared to the half year ended 31 December 2017, however increased by 7.5% when compared to the second half of the 2018 financial year;
- Charter revenue for the half year was $4.6 million which is an 8.5% increase on the prior comparative period (2017: $4.2 million); and
- The increase in RPT revenue of $3.4 million to $21.3 million for the half (2017: $17.9 million) is a result of increased flight hours on the Adelaide to Olympic Dam route and the full year impact of the Group commencing flying to Gladstone, Port Macquarie and Bundaberg.

Key Metrics

The key metrics below represent the flight hours per revenue type and a number of other key indicators of performance.

Detail	31 December 2018	31 December 2017	Increase/ (decrease)
Aircraft in service	38	31	23%
Contract flight hours	9,596	9,647	(1%)
Wet lease flight hours	6,683	3,506	91%
RPT flight hours	2,611	2,347	11%
Charter flight hours	507	522	(3%)
Other (incl. Maintenance)	273	185	48%
Total Flight Hours	**19,670**	**16,207**	**21%**

Average Staff Numbers	529	473	12%
Revenue per employee ($k)	260	247	5%
Contract % of Total Revenue	59%	65%	14%

As at 31 December 2018 there were a total of 532 full time equivalent staff (FTE), up from 512 FTE as at 30 June 2018. This increase in FTE is predominately for flight crew and engineering staff required for the increased flying activity as reflected in the metrics above.

Operating Cash Flow

Operating cash flows for the half year ended 31 December 2018 were stable at $21.4 million (2017: $21.3 million).

During the half year the Group incurred payments of $5.2 million for a large tranche of Fokker spare parts and engines.

Capital Expenditure

Capital expenditure for the period was $26.2 million (2017: $12.9 million).

Capital expenditure for heavy maintenance on the existing fleet for the half year was $9.3 million and $10.3 million was incurred on bringing an additional four aircraft into the fleet. The Group also introduced additional Fokker 70 aircraft engines into the fleet at a cost of $1.9 million.

A reconciliation of this investment including the relationship with the cash flow is included below.

Reconciliation of Capital Expenditure and Cash Flow	**HY19**	**FY18**
Cash Payments for maintenance capital expenditure including Austrian Technik Bratislava (ATB) and Rolls Royce	10.8	8.4
Aircraft and engines from inventory as an expansion of property, plant and equipment	4.9	17.9
Transfer of parts from inventory and used in the heavy maintenance program	5.9	4.0
Operating costs capitalised as part of the heavy maintenance program	4.2	3.5
Other Capital Expenditure	0.4	0.9
Total Capital Expenditure	**26.2**	**34.7**

Business Strategies and Outlook

Alliance continues to be the industry leader in the provision of safe, reliable and cost effective charter services to a broad client base. It is these three characteristics that have enabled the Group to renew contracts during the half year with BHP Nickel West, Tauck, Incitec Pivot Limited and St Barbara Limited.

The Group's ability to react quickly to requests for services was evident in the first half of the financial year with the Group operating a number of wet lease services to other domestic and international carriers with minimum notice to the Group. These ad-hoc services combined with our contracted wet lease hours gave rise to a 91% increase in wet lease flying hours for the half year (2017: 104.8% increase).

The Group continues to focus on securing long term domestic and inbound tourism contracts with a number of tourism operators seeking to test the concept with ad-hoc tours that will see their clients travel to a number of destinations throughout Australia and New Zealand.

The Directors maintain a positive outlook due to the following:

- The Group forecasts an increase in flying activity for contract clients in the second half of the year. This will be as a result of extensive mine maintenance programs being scheduled during the period. Clients are also continuing to increase existing schedules and request more capacity;
- Contract flight hours are also forecast to benefit from a number of new niche resource sector contracts that the Company are currently bidding on;
- Wet lease hours are forecast to be stable throughout the second half of the year;
- With the introduction of additional aircraft into the fleet, there will be more capacity to fulfil ad-hoc charter requests that may currently be lost due to capacity restraints; and
- Aviation services will continue to increase its contribution to the Group's profit through part sales and engine leasing.

Other Important Facts

Safety

Safety will always be the most important operational requirement for Alliance and is paramount to the Group's success. Alliance continues to be recognised as one of only a few IATA operational safety audit (IOSA) certified operators in Australia. IOSA certification is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline. The Company also has the Flight Safety Foundation "BARS Gold" status and is Wyvern accredited.

Operational Performance

Alliance continues with its enviable industry leading on time performance record with an average of 95% (2017: 95%) for the half year ended 31 December 2018. This is one of the major criteria that sets our performance apart from our competitors.

Dividends
The Directors have resolved to declare a fully franked interim dividend of 6.8 cents per ordinary share for the half year ended 31 December 2018. The record date for the dividend is 19 March 2019 and the dividend re-investment plan is available and will operate with no discount. The dividend is payable on 18 April 2019.

Capital Management

The Directors continue to focus on the capital management structure of the Group to ensure that any excess capital is returned to shareholders.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

Rounding of amounts

The Company is of a kind referred to in Australian Securities and Investment Commission (ASIC) Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' Report and Financial Report. Amounts in the Directors' Report and Financial Report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Significant Changes in the State of Affairs

There were no significant changes in the state of affairs of the Group during the half year ended 31 December 2018.

This report is made in accordance with a resolution of the directors of Alliance Aviation Services Limited.

S Padgett
Chairman
Sydney
6 February 2019

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Auditor's Independence Declaration

As lead auditor for the review of Alliance Aviation Services Limited for the half-year ended 31 December 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Alliance Aviation Services Limited and the entities it controlled during the period.

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
6 February 2019

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Consolidated income statement
for the half year ended 31 December 2018

	Notes	31 December 2018 $'000	31 December 2017 $'000
Revenue and income			
Revenue from continuing operations	A1	137,785	117,224
Net foreign exchange gains/(losses)		(341)	218
Other income		81	23
Total revenue and income		**137,525**	**117,465**
Expenses			
Direct flight costs		(51,121)	(42,155)
Parts and inventory costs		(10,873)	(9,246)
Labour and staff related costs		(38,618)	(33,334)
Repairs and maintenance costs		(499)	(323)
Accommodation and utility costs		(1,650)	(1,590)
IT and communication costs		(950)	(782)
Other administrative costs		(2,645)	(2,579)
Finance costs		(1,470)	(1,788)
Depreciation and amortisation		(15,568)	(15,392)
Total expenses		**(123,394)**	**(107,189)**
Profit/(Loss) before income tax for the period		**14,131**	**10,276**
Income tax (expense) / benefit	D1	(4,284)	(3,188)
Profit/(Loss) for the period		**9,847**	**7,088**

	Cents	Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company		
Basic earnings per share	7.93	5.78
Diluted earnings per share	7.89	5.76

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income

for the half year ended 31 December 2018

	Notes	**31 December 2018 $'000**	31 December 2017 $'000
Profit for the half year		**9,847**	**7,088**
Items that may be reclassified to profit or loss			
Other comprehensive income for the half year, net of tax		-	-
Total comprehensive income for the half year		**9,847**	**7,088**
Total comprehensive income for the period is attributable to:			
Owners of Alliance Aviation Services Limited		**9,847**	**7,088**

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet

as at 31 December 2018

	Notes	31 December 2018 $'000	30 June 2018 $'000
Current assets			
Cash and cash equivalents	B1	13,116	11,847
Receivables		31,735	31,257
Inventories	C1	49,071	50,828
Total current assets		**93,922**	**93,932**
Non-current assets			
Property, plant & equipment	C2	188,091	177,409
Intangibles	C3	517	489
Total non-current assets		**188,608**	**177,898**
Total assets		**282,530**	**271,830**
Current liabilities			
Trade and other payables		36,347	30,988
Borrowings	B2	3,111	3,111
Current tax liabilities		65	65
Provisions		7,958	7,436
Total current liabilities		**47,481**	**41,600**
Non-current liabilities			
Borrowings	B2	58,357	61,913
Provisions		1,685	1,538
Deferred tax liabilities		13,182	8,917
Total non-current liabilities		**73,224**	**72,368**
Total liabilities		**120,705**	**113,968**
Net assets		**161,825**	**157,862**
Equity			
Contributed equity		185,485	183,498
Reserves		(112,723)	(112,652)
Retained earnings		89,063	87,016
Total equity		**161,825**	**157,862**

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

for the half year ended 31 December 2018

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Total equity as at 1 July 2018		**183,498**	**(112,652)**	**87,016**	**157,862**
Comprehensive income					
Profit for the half year		-	-	9,847	9,847
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**-**	**-**	**9,847**	**9,847**
Transactions with owners in their capacity as owners:					
Dividends paid	B3	-	-	(7,800)	(7,800)
Dividend reinvestment plan	B4	1,987	-	-	1,987
Share-based payment reserve		-	(54)	-	(54)
Foreign currency translation reserve		-	(17)	-	(17)
Total equity as at 31 December 2018		**185,485**	**(112,723)**	**89,063**	**161,825**

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Total equity as at 1 July 2017		**181,035**	**(112,333)**	**75,660**	**144,362**
Comprehensive income					
Profit for the half year		-	-	7,088	7,088
Other comprehensive income					
Total comprehensive income for the period		**-**	**-**	**7,088**	**7,088**
Transactions with owners in their capacity as owners:					
Dividends paid		-	-	(3,669)	(3,669)
Dividend reinvestment plan		1,293	-	-	1,293
Share-based payment reserve		-	(402)	-	(402)
Settlement of performance incentive scheme rights		514	-	-	514
Foreign currency translation reserve		-	9	-	9
Total equity as at 31 December 2017		**182,842**	**(112,726)**	**79,079**	**149,195**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows
for the half year ended 31 December 2018

	Notes	31 December 2018 $'000	31 December 2017 $'000
Cash flow from operating activities			
Receipts from customers		151,022	129,951
Payments to suppliers		(128,327)	(106,745)
Interest received		70	21
Interest paid		(1,328)	(1,880)
Income taxes paid		(14)	(5)
Net cash inflow (outflow) from operating activities		**21,423**	**21,342**
Cash flows from investing activities			
Payments for property, plant and equipment		(10,789)	(7,793)
Net cash inflow (outflow) from investing activities		**(10,789)**	**(7,793)**
Cash flows from financing activities			
Proceeds from borrowings		-	4,149
Repayment of borrowings		(3,600)	(10,100)
Dividends paid		(5,813)	(2,376)
Net cash inflow (outflow) from financing activities		**(9,413)**	**(8,327)**
Net increase (decrease) in cash and cash equivalents		1,221	5,222
Cash and cash equivalents at the beginning of the year		11,847	3,462
Effects of currency translation on cash and cash equivalents		48	23
Cash and cash equivalents at the end of the year		**13,116**	**8,707**

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

A - Financial Overview

A1 - Revenue from continuing operations

The Group recognises revenue from the transfer of goods and the delivery of services over time or at various points in time. Revenue is derived from contract air charter services, ad-hoc air charter services, wet leasing services, regular passenger transport (RPT) services and a number of allied aviation services including part sales, engine and parts leasing, aerodrome management services and other engineering services.

In the following table revenue has been disaggregated by type of revenue.

	31 December 2018 $'000	31 December 2017 $'000
Contract revenue	80,756	77,798
Wet lease revenue	26,627	13,019
RPT revenue	21,280	17,885
Charter revenue	4,601	4,241
Aviation services revenue	3,934	4,123
Other revenue	587	158
Total revenue from continuing operations	**137,785**	**117,224**

B - Capital Management

B1 - Cash and cash equivalents

Cash and cash equivalents includes cash on hand and short-term deposits.

Short-term deposits are classified as those deposits with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

	Notes	**31 December 2018 $'000**	30 June 2018 $'000
Cash at bank and on hand		13,116	11,847
Total cash and cash equivalents		**13,116**	**11,847**

B2 - Interest bearing liabilities

The Group's debt structure as at 31 December 2018 consists of the following:

- Bank term loan facilities; and
- Working capital facility.

The balances and other details related to the Groups' interest bearing liabilities are shown below.

Funding Mechanism	**Financier Limit**		**Utilisation**	**Current Available**
	ANZ	**CBA**		
	$000's	$000's	$000's	$000's
Term loan	31,825	31,825	61,650	2,000
Working capital multi option facility	5,000	-	490	4,510
Total of all debt facilities	**36,825**	**31,825**	**62,140**	**6,510**

B2 - Interest bearing liabilities (continued)

The term loans are amortising loans with repayments due each quarter. Any voluntary repayments may be redrawn. The term loans have an expiration date of 15 January 2021.

The working capital multi option facility may be drawn at any time to its limit of $5 million and is subject to an annual review each December. The bank can withdraw the facility with 60 days written notice.

B3 – Dividends and franking credits

Ordinary Shares

	31 December 2018 $'000	31 December 2017 $'000
Dividends paid within the half-year reporting period		
In respect of the full year ended 30 June 2018, a fully franked final dividend of 6.3 cents per fully paid ordinary share was paid out of retained earnings on 18 October 2018 (2017: 3 cents).	**7,800**	3,669
Dividends disclosed but not recognised at the end of the half year reporting period		
An interim dividend of 6.8 cents per ordinary share (December 2017: 2.5 cents) has been declared by the Directors since the end of the half year reporting period. The interim dividend will be fully franked and paid out of retained earnings on 18 April 2019. This amount has not been recognised as a liability for the half year ended 31 December 2018.	**8,479**	3,086
Franking credits		
Franking credits available for subsequent reporting based on a tax rate of 30% (2018: 30%)	**15,082**	19,746

B4 - Equity securities issued

The movement in contributed equity during the period relates to shares issued under the dividend re-investment plan and shares that vested and were exercised as part of the Group's Long Term Incentive plan. Further details are publicly available via announcements published to the ASX.

Movement in ordinary share capital

	Notes	**31 December 2018 No of Shares**	30 June 2018 No of Shares	**31 December 2018 $'000**	30 June 2018 $'000
Balance at beginning of the period		123,808,489	121,725,894	183,498	181,035
Employee incentive scheme issues		-	570,709	-	514
Dividend re-investment plan issues		874,985	1,511,886	1,987	1,949
Balance at the end of the period		**124,683,474**	**123,808,489**	**185,485**	**183,498**

C - Inventory, property, plant and equipment and intangible assets

C1 - Inventory

Inventories consist of spare aircraft and engine parts, spare engines, components and whole aircraft where the intent of acquisition was to hold as inventory for sale or breakdown for spare parts.

	Notes	31 December 2018 $'000	30 June 2018 $'000
Inventory – Aircraft and engines		37,895	40,932
Inventory – Spares and consumables		11,176	9,896
		49,071	**50,828**

Amounts recognised in profit and loss

Costs for inventory items sold and disposed of during the half year ended 31 December 2018 amounted to $899k (2017: $728k), and is included in parts and inventories costs as shown in the Consolidate Income Statement.

C2 - Property, plant and equipment

	Aircraft Assets $'000	Property, plant and equipment $'000	Total property, plant and equipment $'000
At 30 June 2018			
Cost	348,876	19,926	368,802
Accumulated depreciation	(174,903)	(16,490)	(191,393)
Net book value	**173,973**	**3,436**	**177,409**
Half year ended 31 December 2018			
Opening net book amount	173,973	3,436	177,409
Additions	29,286	906	30,192
Transfers	(3,988)	-	(3,988)
Depreciation charge for period	(14,982)	(540)	(15,522)
Closing net book value	**184,289**	**3,802**	**188,091**
At 31 December 2018			
Cost	374,174	20,832	395,006
Accumulated depreciation	(189,885)	(17,030)	(206,915)
Net book value	**184,289**	**3,802**	**188,091**

Additions and transfers

Additions to property, plant and equipment for the period ended 31 December 2018 includes any aircraft introduced into service, all aircraft heavy maintenance and the addition of major modifications and significant components.

Transfers relate to the removal of rotable parts from the aircraft which are transferred back into inventory.

C3 - Intangible assets

	Notes	31 December 2018 $'000	30 June 2018 $'000
Opening net book amount		489	62
Additions		74	544
Amortisation charge		(46)	(117)
Closing net book value		**517**	**489**

Additions and amortisation

Intangible assets relate to certifications and internally generated software.

D – Taxation

D1 – Income tax expense

	31 December 2018 $'000	31 December 2017 $'000
Income tax expense		
Current tax expense	14	22
Adjustments for current tax of prior periods	-	5
	14	**27**
Deferred income tax expense included in the income tax expense comprises:		
Decrease/(increase) in deferred tax assets	1,856	2,344
Increase/(decrease) in deferred tax liabilities	2,414	817
	4,270	**3,161**
Income tax expense on profit from continuing operations	4,284	3,188
Effective tax rate	30%	30%
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit / (loss) before income tax expense	14,131	10,276
Tax at the Australian tax rate of 30% (2018: 30%)	4,239	3,083
Tax effect of amounts which are not deductible / (taxable) in calculation taxable income:		
Sundry	45	105
Income tax expense	**4,284**	**3,188**

E1 - Contingencies

Contingent liabilities

As at 31 December 2018, Alliance has on issue six bank guarantees relating to existing leases, totalling $0.49 million (2017: $0.33 million).

E2 - Related party transactions

Where transactions are entered into with key management personnel (KMP), these are approved by the Board. Board members who have an interest in the matter either directly or via a related party do not participate in the Board approval process.

In addition to the disclosures made in the Alliance Aviation Services Limited annual report for the period ended 30 June 2018, the following additional transactions have taken place between the Group and KMP.

An operating lease agreement was entered into between KBX Pty Ltd and the Group for the lease of a Fokker 70, VIP configured aircraft. This aircraft will be marketed by the Group for VIP charter operations both domestically and throughout Asia and the South Pacific.

The Group also leased two Tay650 Rolls Royce engines from VIF Aircraft Pty Ltd during the half year. These engines were leased at a time the Group were introducing additional aircraft into the fleet and a number of owned engines were undergoing maintenance checks.

The Managing Director and Chairman are both shareholders in KBX Pty Ltd and VIF Aircraft Pty Ltd. Both the above leases were contracted on normal commercial terms and conditions and contain mutual termination for convenience clauses.

During the period, a total of $464k of services were provided to related parties, while $564k of services were received from related parties.

E3 - Events occurring after the reporting period

The Directors of Alliance are not aware of any other matters or circumstances not otherwise dealt with in the interim financial report that has significantly affected or may significantly affect the operations of the consolidated Group, the results of those operations or the state of affairs of the consolidated Group in the period subsequent to the half year ended 31 December 2018.

F – Basis of preparation of half year report

F1 – Basis of preparation

This is the condensed interim financial report for Alliance Aviation Services Limited (the “Company”) and its controlled entities (collectively referred to as “Alliance” or “the Group”) for the half year ended 31 December 2018.

This interim financial report has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001.* The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

F1 – Basis of preparation (continued)

New and amended standards adopted by the Group

A number of new or amended standards became applicable for the current reporting period and the Group had to change its accounting policies as a result of adopting the following standards:

- AASB 9 Financial Instruments, and
- AASB 15 Revenue from Contracts with Customers.

F2

The impact of the adoption of these standards and the new accounting policies are disclosed in note F2 below. The other standards did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Impact of standards issued but not yet applied by the entity

Certain new accounting standards and interpretations have been published that are not mandatory for the half year ended 31 December 2018 and have not been early adopted by the Group. The Group's assessment of the impact of any new standards and interpretations, that will materially impact the Group, is set out below.

AASB 16 Leases

AASB 16 was issued in February 2016 and when applied will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The standard will primarily affect the accounting for the Group's operating leases. The Group has substantially completed the assessment of the new standard on the Group's Balance Sheet and Income Statement by discounting all non-cancellable operating leases back to their present value using the Company's incremental borrowing rate. Management has elected to adopt the cumulative retrospective approach.

The preliminary assessment of the impacts of AASB 16 concluded that the Group may be required to recognise a right of use asset and liability of approximately $8.5 million to $9.0 million on its Balance Sheet on adoption of the standard on 1 July 2019. This calculation is based on current operating contracts and is therefore subject to change.

The Group's preliminary assessment calculates the EBITDA is estimated to be positively impacted as lease costs will be reclassified to interest and depreciation, although the Group's profit before tax is expected to record an additional non-cash expense of between approximately $350,000 and $450,000.

Under the cumulative approach, higher depreciation and interest charges are recognised in the earlier years following adoption of the standard.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. The group does not intend to adopt the standard before its effective date.

F2 – Changes in accounting policies

This note explains the impact of the adoption of AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 July 2018, where they are different to those applied in prior periods.

AASB9 Financial Instruments – Accounting policy applied from 1 July 2018

The standard replaced the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities; de-recognition of financial instruments; impairment of financial assets; and hedge accounting.

F2 – Changes in accounting policies (continued)

Financial assets held at amortised cost

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Impairment of financial assets

A forward looking expected credit loss (ECL) review is required for trade receivables that give rise to an unconditional right to consideration. The new 'expected loss' approach to impairment requires more timely recognition of expected credit losses based on an allowance at an amount equal to lifetime expected credit losses.

Financial Liabilities

Borrowings and other financial liabilities (including trade payables) are recognised initially at fair value, net of transaction costs incurred, are subsequently measured at amortised cost.

Derivatives and Hedging Activities

The Group had previously elected to designate its foreign currency borrowings as a hedge of the foreign currency risk associated with the future cash proceeds from the sale of aircraft (cash flow hedge).

The amount accumulated in equity will be reclassified to profit or loss in periods when the hedged items affect profit or loss. This would occur as a result of either a sale of a hedged asset or upon the Directors considering that the hedge no longer meets the criteria for hedge accounting.

Impact of transition to AASB 9 Financial Instruments

Impairment of financial assets

The Group implemented the simplified approach to trade receivables and there is no material impact on the financial statements given the Group's historically low credit losses.

Financial Liabilities

There is no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

Derivatives and Hedging Activities

The revision to hedge accounting aligns the hedge accounting requirements with risk management activities. The Group confirms its current cash-flow hedge qualifies as an effective hedge upon adoption of AASB 9 and has determined there is no material impact on the financial statements. The Group has elected to apply IAS39 (financial instruments) under the accounting policy choice allowed in AASB 9.

F2 – Changes in accounting policies (continued)

AASB15 Revenue from contracts with customers – Accounting policy applied from 1 July 2018

The Group derives revenue at a point in time once control of the goods or service has passed to the customer as detailed below:

(i) *Contract air charter services*
The Group's primary business is the air transportation of workers and contractors to and from remote project sites of major mining and other resource sector companies. These services are subject to contractual arrangements with the clients and revenue is derived and recognised in accordance with an agreed flight schedule, based on completed flights at an agreed price.

Revenue is generally calculated on a price paid on a 'per round trip' basis with the contracts including cost pass-through mechanisms for movements in foreign currency exchange rates, fuel prices and consumer price index changes. These cost pass-through mechanisms are invoiced on a monthly or quarterly basis.

(ii) *Ad-hoc charter services*
The Group also utilises its fleet to provide ad-hoc charter services to a range of corporate, government, tourism, education and sporting customers. Revenue is derived in accordance with an agreed flight schedule based on completed flights.

(iii) *Wet leasing services*
Wet lease services are an arrangement whereby the Group provides an aircraft, crew, maintenance and insurance to a third party airline operator. Revenue is derived in accordance with an agreed flight schedule based on completed block hours per flight.

(iv) *Regular Passenger Transport (RPT)*
The Group also provides RPT services. RPT refers to services provided by Alliance to passengers who buy and pay for tickets on scheduled flights. Revenue is derived on a per passenger basis in accordance with an agreed flight schedule based on completed flights.

(v) *Aviation services*
Alliance has a large inventory balance of aircraft and aircraft parts. Revenue is generated by Alliance through the sale or lease of these aircraft or aircraft parts to third parties. Alliance also provides line and heavy maintenance services to other aircraft owners. These services include the provision of labour and parts and are invoiced based on typical market conditions of a cost plus margin on both components.

Engine lease revenue is recognised on either a per day lease rate or a per cycle lease rate. In some cases both rates are applicable.

Alliance also manages a number of aerodromes and provides related airport and ground handling services to support a number of contract clients of the Group. These services are invoiced on a monthly or per turn basis as a fee for service.

(vi) *Interest income*
Interest income is recognised using the effective interest method.

Impact of transition to AASB 15 Revenue from contracts with customers

AASB 15 replaces existing revenue recognition guidance and provides a comprehensive new framework for determining whether, how much and when revenue is recognised, based on the principle that revenue is recognised when control of a good or service transfers to the customer rather than the notion of risk and reward.

The underlying nature of revenues that the Group recognises had previously meant that the revenue accounting policies were already aligned to recognising revenues once control of the goods or service has passed to the customer. The transition provisions in AASB 15 require companies to adopt the new rules retrospectively. Following a comprehensive review of revenue recognised in the comparative period, the Group has determined that AASB 15 had no material impact on revenue recognised. Therefore, there are no adjustments or restatements of comparative information in the current year in relation to the new standard.

F2 – Changes in accounting policies (continued)

Impact of transition to AASB 15 Revenue from contracts with customers (continued)

The Group continues to recognise all flying revenue and allied aviation services revenue related to the transfer of promised goods or services when control of the goods or services passes to the customer for the agreed transaction price and in accordance with contractual terms and conditions.

Directors’ declaration

In the Directors' opinion:

- The financial statements and notes set out on pages 8 to 21 are in accordance with the *Corporations Act 2001,* including

- complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date, and

- there are reasonable grounds to believe that Alliance Aviation Services Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.

S Padgett
Chairman
Date: 6 February 2019
Sydney

Independent auditor's review report to the members of Alliance Aviation Services Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alliance Aviation Services Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Alliance Aviation Services Limited. The Group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alliance Aviation Services Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001.

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

1 giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

PricewaterhouseCoopers

Ben Woodbridge
Partner

Brisbane
6 February 2019