Alliance

**ALLIANCE AVIATION SERVICES LIMITED**
**ACN: 153 361 525**
**ASX Code: AQZ**

# ANNUAL REPORT

## Year ended 30 June 2019

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# DIRECTORS REPORT

Your Directors present their report on the consolidated entity (referred to hereafter as the “Group”) consisting of Alliance Aviation Services Limited (the “Company” or “Alliance”) and the entities it controlled at the end of, or during, the year ended 30 June 2019.

The following persons were Directors of Alliance for the entire financial year ended 30 June 2019:

| Name | Role | Period of Directorship |
|---|---|---|
| Stephen Padgett OAM | 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 AM | Independent non-executive Director | Appointed 26 October 2011 |
| Lee Schofield | Chief Executive Officer | Appointed 28 May 2015 |

## 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 aircraft wet leasing, airport management, aircraft trading, parts sales, engine leasing and engineering services.

## KEY MESSAGES

The key messages from this report are:

- The Group has delivered a profit before tax (PBT) for the year of $32.8 million, an increase on the previous year of 25.7% (2018: $26.1 million);
- Flight hours have increased 9.9% to 38,026 for the financial year (2018: 34,612 hours);
- Five additional aircraft were added to the existing fleet bringing the total fleet numbers to 38 as at 30 June 2019 (2018: 33);
- Debt reduced by $5.2 million during the year, bringing the debt balance to $60 million as at 30 June 2019 (2018: $65.2 million);
- The Directors have declared a fully franked final dividend of 8.8 cents per ordinary share. This brings the total dividend for the financial year ended 30 June 2019 to 15.6 cents per ordinary share, the highest in the Company’s history.

## SUMMARY OF FINANCIAL RESULTS

Alliance Aviation Services Limited has recorded an increased statutory net profit before tax of $32.8 million and a statutory net profit after tax of $22.7 million for the financial year ended 30 June 2019. This is an increase in net profit before tax of $6.7 million or 25.7% when compared to the year ended 30 June 2018.

Key financial metrics in respect of the current financial period are included in the table below with the prior financial period included to facilitate a direct comparison between years.

| Item | 2019 Actual $m | 2018 Actual $m | Change $m |
|---|---|---|---|
| Total Revenue ($m's) | **277.1** | 247.7 | 29.4 |
| Earnings Before Interest, Tax, Depreciation and Amortisation | **67.0** | 60.1 | 6.9 |
| Profit Before Tax | **32.8** | 26.1 | 6.7 |
| Income tax expense* | **10.1** | 8.0 | 2.1 |
| Net Profit after Tax | **22.7** | 18.1 | 4.6 |
| Earnings per Share - cents | **18.7** | 14.7 | 4.0 |
| Total Dividends paid / payable in relation to the financial period - cents | **15.6** | 8.8 | 6.8 |
| Net Assets | **168.9** | 157.9 | 11.0 |
| Net operating cashflow | **37.0** | 38.3 | (1.3) |

* It is forecast that the Australian tax Group will not pay tax until at least 2021 financial year.

## REVENUE

Revenue from operations increased 11.9% from $248 million in 2018 to $277 million in 2019 as a result of the Group's strategic focus of working with existing contract clients to maximise schedules, whilst also ensuring that the Group could take advantage of ad-hoc wet lease and charter opportunities.

The addition of five aircraft in the financial year has also increased the Group's operating capacity. This has allowed for the expansion of services operated for resource sector clients in a number of locations, the addition of new clients and the continued growth in the tourism sector from both existing and new clients.

- Contract revenues were $165 million for the year, an increase on last year of 8%. This growth was from both existing and new clients;
- Wet lease revenue rose by 22% in the year to $45 million. This is a direct result of increased demand in the sector from a number of domestic and international operators;
- Regular Passenger Transport (RPT) revenue increased by $5 million for the year, an increase on last year of 14%. This represents a consolidation of the strong performance in the previous year;
- Charter revenue rose by 69% when compared to the prior year. Specialist charter requests have increased throughout the year with significant growth coming from the tourism sector. The addition of aircraft throughout the year has significantly increased the Group's ability to operate more charter services than previous years. Charter revenue was also boosted in the financial year by winning the tender for the Federal election; and
- Aviation services revenue of $11 million (2018: $13 million) was generated in the financial year. This amount consisted of sales of engines and parts, engineering and aircraft maintenance services, aerodrome management operations and the lease of engines and rotables to other operators.

## FLYING HOURS AND KEY METRICS

The metrics below represent the key indicators used by the Company to monitor its operational performance.

| Details | 2019 | 2018 | % Change |
|---|---|---|---|
| Aircraft in Service | 38 | 33 | 15.2% |
| | | | |
| Contracted Flight Hours | 19,660 | 18,828 | 4.4% |
| Wet Lease Flight Hours | 11,555 | 9,447 | 22.3% |
| Regular Public Transport (RPT) Hours | 5,158 | 4,814 | 7.1% |
| Charter Flight Hours | 1,095 | 1,027 | 6.6% |
| Other Flight Hours (inc Maintenance) | 558 | 496 | 12.5% |
| **Total Flight Hours** | **38,026** | **34,612** | **9.9%** |
| | | | |
| Average Staff Numbers | 532 | 485 | 9.7% |
| Revenue per Employee | $520K | $511K | 1.7% |
| Contract Revenue as a % of Total Revenue | 60% | 62% | (3.4%) |

The addition of aircraft into the fleet in the financial year enabled the Group to increase flight hours by a total of 3,414 hours or 9.9% when compared to the prior financial year.

As at 30 June 2019, Alliance employed 534 full time equivalent staff which is an increase of 4.3% from the previous financial year (2018: 512). Increased flying requirements and increases in aircraft fleet units required the Group to recruit operational crew, operations support staff and engineers to facilitate the increased activity.

Alliance has a broad footprint, with operational bases in Brisbane, Townsville, Cairns, Adelaide, Melbourne, Perth, Darwin, and Rockhampton.

Alliance continues to hold an enviable industry leading on time performance record with an average of 95% (2018: 95%) for the year ended 30 June 2019. This is one of the major factors that set Alliance's performance apart from its competitors..

## CASH FLOW

Operating cash flow for the year was $37.0 million, a decrease from $38.3 million in the previous financial year. Whilst the increased activity would be expected to be reflected in increased cashflow, the following items negatively impacted operating cashflow throughout the year:

- A disproportionate number of aircraft required heavy maintenance or underwent entry into service compared to prior years increasing the expenditure on internal labour, inventory and consumables in the current financial year;
- The purchase of an inventory and spares package valued at $5.2 million in the year;
- Increased costs associated with additional flight crew, engineers and support staff to align staffing, capacity and activity;
- The above decreases were offset by:
    - increases in receipts from customers as a result of higher activity levels and increased margins; and
    - a number of large aviation services transactions.

The decrease in the operating cash flow is not expected to continue in the future with the normalisation of heavy maintenance activities and cessation of entry into service maintenance checks in the second half of financial year 2020.

The Group's debt amortisation profile will continue at its current level. The loan facilities are due for renewal in 2021.

## CAPITAL EXPENDITURE

Capital expenditure on pre-existing fleet and services was $37.3 million (2018: $15.3 million). Other capital expenditure incurred during the year for the expansion of the Alliance business was $18.5 million which brought the total capital expenditure for the FY19 year to $55.8 million. The investment in additional aircraft was to meet future operational requirements.

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

| **Reconciliation of Capital Expenditure and Cash Flow** | **2019 $m** | **2018 $m** |
|---|---|---|
| Cash Payments for capital expenditure | 22.0 | 8.4 |
| Aircraft and engines transferred from inventory as an expansion of property, plant and equipment | 10.0 | 17.9 |
| Transfer of parts from inventory and used in the heavy maintenance program | 15.7 | 4.0 |
| Operating costs capitalised as part of the heavy maintenance program | 8.1 | 3.5 |
| Other Capital Expenditure | - | 0.9 |
| **Total Capital Expenditure** | **55.8** | **34.7** |

# BUSINESS STRATEGIES AND OUTLOOK

## FLEET AND MAINTENANCE

Alliance operates a fleet of Fokker aircraft. The Alliance operational fleet consists of three types of Fokker aircraft, F100 - 100 seat jet aircraft, F70 - 80 seat jet aircraft and the F50 - 50 seat turboprop aircraft.

The total number of Alliance aircraft in service as at 30 June 2019 and the anticipated aircraft in service as at 30 June 2020 is shown below:

| **Aircraft** | **2020 (Est)** | **2019** | **2018** |
|---|---|---|---|
| F50 | 5 | 5 | 5 |
| F70 | 15 | 10 | 9 |
| F100 | 25 | 23 | 19 |
| **Total Aircraft** | **45** | **38** | **33** |

Alliance had previously forecast the addition of nine aircraft into the fleet prior to 30 June 2019. As a result of additional maintenance requirements on the existing fleet and the availability of maintenance slots for the additional aircraft, five of the forecast nine aircraft entered into the fleet in the year ended 30 June 2019, with the balance of the four aircraft and a further two Fokker 70 aircraft forecast to enter the fleet in FY2020. These aircraft are the last of the ex-Austrian aircraft that are currently held as inventory.

In July 2019, Alliance entered into a binding purchase agreement with Swiss airline Helvetic Airways AG ("Helvetic") for the purchase of five Fokker 100 aircraft and the entirety of Helvetic's spare engines, parts and tooling. This acquisition continues to build on the strategic rationale of Alliance's purchase of 21 Fokker aircraft from Austrian Airlines in December 2015. In particular it enhances:

- The ability to expand our fleet as more opportunities themselves in Australia and the South Pacific, particularly in contract aviation and wet lease services;
- The economic life of Alliance's fleet and reduces future capital expenditure requirements by securing low cost major components;
- Alliance's position as the largest supplier of engines and spare parts outside of Fokker; and
- The further diversification of Alliance's revenue streams.

The Group continues to utilise a number of base maintenance providers including Hawker Pacific in Cairns, KLM UK Engineering in the United Kingdom and Austrian Airlines Technik in Slovakia.

In February 2019, Alliance entered into an extension and expansion of its Rolls-Royce contract which will see the expanded fleet of 46 TAY650 engines covered under the Rolls-Royce Total Care Fractional Power Agreement.

Under this agreement operational risk for major engine maintenance, unplanned engine maintenance and shop visits rests with Rolls-Royce until at least 2024 with an option to extend to December 2026.

## SAFETY

Safety will always be the most important operational requirement for Alliance and is one of the Group's three core values and is paramount to the success of the Group in winning new contracts and renewing existing contracts. During the financial year, Alliance successfully passed an audit for Flight Safety Foundation "BARS Gold" status and maintained its Wyvern accreditation. These accreditations are two globally recognised aviation safety and risk management credentials required by a number of Alliance's clients.

During the year Alliance invested in a new electronic safety management system which has a strong focus on safety risks, reporting and management control measures. The investment in this program re-emphasises Alliance's commitment to safe, on time and reliable air transport services.

## OUTLOOK

Alliance retains a positive outlook for the business in the 2020 financial year. A number of opportunities exist that will assist the Group's growth:

- Scheduled services are expected to increase for a number of resource sector clients as a result of high commodity prices and increasing mine production levels;
- Tourism services continue to increase each year and Alliance will commence flights into Western Australia from Victoria in the new financial year, the newest addition to its tourism offering;
- Wet lease revenue is expected to increase in the financial year, with charter operations expected to continue to benefit from the increase in available capacity due to the additional aircraft being entered into service; and
- The growth in aviation services from part sales, engine and component leasing, and other engineering services.

## DIVIDEND

The Directors have resolved to declare a fully franked final dividend of 8.8 cents per ordinary share for the year ended 30 June 2019. This will bring the total declared dividend for FY19 to 15.6 cents per ordinary share. The Record Date is 19 September 2019 and shareholders will be able to utilise the dividend re-investment planwhich will include a 2% discount to the five day volume weighted average price of shares sold on the Australian Stock Exchange between the period of, and inclusive, of 18 September 2019 and 24 September 2019.

## CAPITAL MANAGEMENT

The Board maintains its focus on capital management. Significant expansion is forecast to occur in the first half of FY2020 with the addition five aircraft to the fleet. The settlement of the Helvetic fleet transaction will occur in the first quarter of the year. The Board will continue to monitor future dividend payouts along with the needs of the business now and into the future.

## OTHER RELEVANT FACTS

### ENVIRONMENTAL REGULATION

The Group's operations are subject to a significant range of Commonwealth, State, Territory and international environmental legislation. The Group is committed to environmental sustainability with high standards for environmental performance. The Board places particular focus on the environmental aspects of operations through the Executive Safety Action Group (ESAG) which is responsible for monitoring compliance with these regulations and reporting to the Directors.

The Directors are satisfied that the Group has adequate systems in place for the management of the Group's environmental exposure and environmental performance. The Directors are not aware of any breaches of any environmental legislation or of any material environmental incidents during the year.

### SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, there were no significant changes in the state of affairs of the Group which occurred during the reporting period that have not been disclosed previously in this report.

## CORPORATE GOVERNANCE STATEMENT

The Corporate Governance statement for Alliance Aviation Services Limited is located at http://www.allianceairlines.com.au/investor-centre/corporate-governance

# INFORMATION ON DIRECTORS

The following information is current as at the date of this report.

## MR STEPHEN PADGETT OAM (Chairman and Non-Executive Director)

### EXPERIENCE AND EXPERTISE

Mr Padgett was a founding shareholder and inaugural Chairman of entities formed in 2002 which were predecessors of the current Group.

Mr Padgett has extensive aviation experience in his own private companies since pre 1980, having founded Aeromil Australia / Aeromil Pacific which was the Cessna aircraft and parts distributor for Australasia and which was sold to Hawker Pacific where he was Deputy Chairman, Australia. Mr Padgett is a life member of the Regional Aviation Association of Australia, chairman of the Australian Aviation Hall of Fame (AAHOF) and member of the National Council for the Air Force cadets (AAFC). Mr Padgett was awarded the Medal of the Order of Australia (OAM) for services to the aviation industry in 2019.

### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None.

### FORMER LISTED DIRECTORSHIPS IN THE LAST THREE YEARS

None.

### SPECIAL RESPONSIBILITIES

Chairman of the Board and member of the Nomination and Remuneration and Risk and Audit committees.

### INTERESTS IN SHARES, OPTIONS AND RIGHTS

7,365,191 ordinary shares held.

## MR PETER HOUSDEN (Non-Executive Director)

### EXPERIENCE AND EXPERTISE

Mr Housden has over 40 years' experience in accounting, finance and management across a range of industries, including 20 years as a Director of ASX listed companies.

### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

GrainCorp Limited.

### FORMER LISTED DIRECTORSHIPS IN THE LAST THREE YEARS

Royal Wolf Holdings Limited, Seeing Machines Limited and Calibre Ltd.

### SPECIAL RESPONSIBILITIES

Chairman of the Risk and Audit committee and member of the Nomination and Remuneration committee.

### INTERESTS IN SHARES, OPTIONS AND RIGHTS

37,749 ordinary shares held.

## INFORMATION ON DIRECTORS (Continued)

### MR DAVID CROMBIE AM (Non-Executive Director)

#### EXPERIENCE AND EXPERTISE

Mr Crombie has extensive experience in the agricultural industry founding GRM International (now Palladium Group) a company managing development projects in Australia and overseas.

#### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

Barrack St Investments Limited.

#### FORMER LISTED DIRECTORSHIPS IN THE LAST THREE YEARS

Australian Agricultural Company Ltd.

#### SPECIAL RESPONSIBILITIES

Chairman of the Nomination and Remuneration committee and member of the Risk and Audit Committee.

#### INTERESTS IN SHARES, OPTIONS AND RIGHTS

162,804 ordinary shares held.

### MR SCOTT MCMILLAN (Managing Director)

#### EXPERIENCE AND EXPERTISE

Mr McMillan was a founding shareholder and Managing Director of the entities formed in 2002 which were the predecessors of the Group. He has extensive aviation experience as prior to joining Alliance he held senior positions with Ansett Australia and Flight West. Mr McMillan qualified as a chartered accountant with Peat Marwick Mitchell.

#### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None.

#### FORMER LISTED DIRECTORSHIPS IN THE LAST THREE YEARS

None.

#### SPECIAL RESPONSIBILITIES

Managing Director.

#### INTERESTS IN SHARES, OPTIONS AND RIGHTS

4,001,697 ordinary shares held and 92,641 rights that are performance qualified.

# INFORMATION ON DIRECTORS (Continued)

## MR LEE SCHOFIELD (Executive Director and Chief Executive Officer)

### EXPERIENCE AND EXPERTISE

Mr Schofield has broad experience as a solicitor working in corporate, commercial and transport matters. His specific aviation experience includes legal and commercial roles with an international aircraft leasing company and he was a member of the executive team at an Australian based airline prior to joining Alliance.

### OTHER CURRENT LISTED COMPANY DIRECTORSHIPS

None.

### FORMER LISTED DIRECTORSHIPS IN THE LAST THREE YEARS

None.

### SPECIAL RESPONSIBILITIES

Chief Executive Officer

### INTERESTS IN SHARES, OPTIONS AND RIGHTS

63,703 ordinary shares held and 86,017 rights that are performance qualified.

## COMPANY SECRETARIES

Mrs Nicola Clark and Mr Marc Devine were appointed as joint Company Secretaries on 18th August 2017. Mr Marc Devine is also the Chief Financial Officer of the Group.

# MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2019, and the number of meetings attended by each Director were:

| Directors | Full Meeting of Directors | | Meetings of Committees | | | |
|---|---|---|---|---|---|---|
| | | | Audit and Compliance | | Nomination and Remuneration | |
| | Attended | Held | Attended | Held | Attended | Held |
| S Padgett | 6 | 6 | 4 | 4 | 3 | 3 |
| P Housden | 6 | 6 | 4 | 4 | 3 | 3 |
| D Crombie | 6 | 6 | 4 | 4 | 3 | 3 |
| S McMillan | 6 | 6 | - | - | - | - |
| L Schofield | 6 | 6 | - | - | - | - |

# REMUNERATION REPORT

## DIRECTOR AND KEY MANAGEMENT PERSONNEL INCLUDED IN THE REMUNERATION REPORT

The following Non-Executive and Executive Directors and Key Management Personnel (KMP) are included in this Remuneration report:

### DIRECTORS

- Stephen Padgett — Non–Executive Chairman
- Peter Housden — Non-Executive Director
- David Crombie — Non-Executive Director
- Scott McMillan — Managing Director (MD)
- Lee Schofield — Executive Director and Chief Executive Officer (CEO)

### KEY MANAGEMENT PERSONNEL (KMP)

- Marc Devine — Chief Financial Officer and joint Company Secretary
- Shane Edwards — General Manager Commercial

There were no changes to Directors during the financial year.

## REMUNERATION GOVERNANCE

The Nomination and Remuneration committee is a committee of the Board. It assists the Board in fulfilling its responsibilities relating to the following:

- Remuneration of Non-Executive Directors;
- Remuneration of, and incentives for, the Executive Directors and other Key Management Personnel;
- The executive remuneration framework, strategies and practices; and
- The setting of appropriate key performance indicators and performance hurdles for the executive management team.

It is vital that the Nomination and Remuneration committee is independent of management when making decisions that affect employee remuneration. Accordingly, the Group's Nomination and Remuneration committee is comprised solely of the three Non-Executive Directors, namely Mr D Crombie (Chair), Mr P Housden and Mr S Padgett.

Their objective is to ensure that remuneration policies and structures are fair, equitable, competitive and aligned with the long-term interests of the Group and its shareholders. The Board has ultimate responsibility for approving remuneration policies, practices and outcomes.

The Corporate Governance Statement and the Nomination and Remuneration Committee Charter provide further information on the role of this committee. Please refer to the Group's website http://www.allianceairlines.com.au/investor-centre/corporate-governance

## NON-EXECUTIVE DIRECTOR REMUNERATION POLICY

Fees and payments made to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-Executive Directors' fees and payments are reviewed annually by the Board.

### NON-EXECUTIVE DIRECTOR'S FEES

An annual base fee has been set for the Chairman and other Directors. Additional fees are paid to Non-Executive Directors who chair a committee. The Chairman's remuneration is inclusive of committee fees.

Non-Executive Directors' fees are determined within an aggregate Directors' fee annual pool limit, which is periodically recommended for approval by shareholders. The approved maximum currently stands at $700,000 per annum.

This limit can only be changed by approval of shareholders at a general meeting.

The following table outlines the Non-Executive Director fee rates that were applicable during the financial year:

| Fee Type | 2019 (Fees inclusive of superannuation) $ | 2018 (Fees inclusive of superannuation) $ |
|---|---|---|
| Base Fees | | |
| Chair | 192,780 | 192,780 |
| Other Non-Executive Directors | 80,920 | 80,920 |
| Additional Fees | | |
| Committee - chair | 14,455 | 14,455 |

Superannuation contributions required under the Australian superannuation guarantee legislation will continue to be made and are inclusive to the Directors' overall fee entitlements.

Alliance does not pay benefits (other than statutory entitlements) on retirement of Directors.

## EXECUTIVE REMUNERATION STRATEGY AND FRAMEWORK

The Nomination and Remuneration committee reviews and determines the remuneration policy and structure annually to ensure it remains aligned to business needs, and meets the principles contained in the Nomination and Remuneration committee charter. From time to time, the committee may also engage external remuneration consultants to assist with remuneration reviews.

The Group's executive remuneration strategy is designed to attract, retain and motivate a highly qualified and experienced executive management team with the necessary skills required to lead the Group in achieving its business and strategic objectives.

The strategy also ensures that the executive management team is able to work towards meeting key performance targets that are clear, easily understood and aligned with the Group's overall objectives. The strategy also allows for identification of performance outcomes which are a direct result of the actions of the individual executive management team member.

The Board ensures that executive remuneration satisfies the following key criteria to ensure good remuneration practices are in place:

- competitive and reasonable, enabling the Company to attract and retain key talent;
- aligned to the Company's strategic and business objectives and the creation of shareholder value;
- transparent and easily understood, and
- acceptable to shareholders.

The executive remuneration and reward framework has a number of components:

- Base pay and benefits, including superannuation (referred to as "Total Fixed Annual Remuneration" or "TFAR"); and
- A target performance incentive plan that combines traditional short-term (cash) and long-term (equity) performance incentives (referred to as the "Performance Incentive" or "PIP" plan).

The combination of the above comprises an executive's target Total Target Annual Remuneration ("TTAR").

The Performance Incentive Plan also contains stretch targets, which if met, allow for additional remuneration to be provided to the employees covered under the plan.

## TOTAL FIXED ANNUAL REMUNERATION

Executives receive their base pay, superannuation and any other prescribed benefits as a total fixed annual remuneration (TFAR) package. Executives can elect to salary sacrifice certain items and may also receive non-monetary benefits.

The TFAR provides a base level of reward for each executive for completion of role and business specific accountabilities. The TFAR is set with reference to the role, qualifications, responsibilities, skill and prior experience.

There is no guaranteed TFAR increases included in any executive management employment contract. TFAR is reviewed annually by the Nomination and Remuneration committee.

## TOTAL ANNUAL REMUNERATION

| Key Management Personnel (KMP) | TFAR $ | Target Cash Bonus (PI Plan) $ | Target Equity PR (PI Plan) $ | Total Target PI Plan $ | Total Target Annual Remuneration $ | Total Stretch Target Annual Remuneration $ |
|---|---|---|---|---|---|---|
| S McMillan | 556,300 | 83,445 | 83,445 | 166,890 | **723,190** | **834,450** |
| L Schofield | 406,503 | 60,975 | 60,975 | 121,950 | **528,453** | **609,755** |
| M Devine | 290,175 | 43,526 | 43,526 | 87,052 | **377,227** | **435,263** |
| S Edwards | 310,782 | 46,617 | 46,617 | 93,234 | **404,016** | **466,173** |

## PERFORMANCE INCENTIVE PLAN

The Board is committed to a remuneration reward framework that is focused on creating sustainable shareholder value, which is supported by an equity ownership culture which is made available to Key Management Personnel ("KMP") and other members of the executive management team.

The Performance Incentive plan combines the features of short-term incentive (STI) and long-term incentive (LTI) plans and ensures alignment with longer term business strategy. The vesting and exercise requirements of the equity-based incentives ensures Key Management Personnel and executive management team members interests are aligned with the long term interests of the Group and its shareholders.

The PIP sets a target amount as a percentage of fixed remuneration (Target Opportunity) and an additional percentage for stretch performance (Stretch Target Opportunity). These targets are assessed against a scorecard of KPIs. This target amount is split into cash bonuses and performance rights ("PR").

The Board considers that this model achieves the goal of providing a transparent and simple remuneration framework.

## FY19 KEY MANAGEMENT PERSONNEL PIP TARGETS

| KMP | TFAR $ | Target % of TFAR | Total Target PI $ | Cash Bonus % of PI | Target Cash Bonus (PI) $ | PR % of PI | Target Value of PR (PI) $ | Target TAR $ | Target Number of PR Issued | Stretch Target Number of PR Issued |
|---|---|---|---|---|---|---|---|---|---|---|
| S McMillan | 556,300 | 30% | 166,890 | 50% | 83,445 | 50% | 83,445 | 723,190 | 38,138 | 63,563 |
| L Schofield | 406,503 | 30% | 121,950 | 50% | 60,975 | 50% | 60,975 | 528,453 | 27,868 | 46,447 |
| M Devine | 290,175 | 30% | 87,052 | 50% | 43,526 | 50% | 43,526 | 377,227 | 19,893 | 33,155 |
| S Edwards | 310,782 | 30% | 93,234 | 50% | 46,617 | 50% | 46,617 | 404,016 | 21,306 | 35,510 |

The performance right grant is based on a 5-day volume weighted average share price from of $2.188, calculated from 2 September 2018. The performance period is 1 July 2018 to 30 June 2019 and performance is assessed against a scorecard of internal key performance indicators as determined by the Board.

Once assessed, the PR's become performance qualified and vesting is then based purely on continuous service. These vesting periods assist the Group with its targeted retention strategy of Key Management Personnel and executive management team. The vesting schedule is 50% of the qualified rights vest in August 2020 and 50% vest in August 2021.

## PERFORMANCE INCENTIVE (PI) PLAN SUMMARY

The following outlines the key terms of the Performance Incentive plan which is effective from 1 July 2018. The Managing Director has been used as an example.

| | |
|---|---|
| **Performance incentive structure** | Performance Incentive Plan to be delivered in the form of up to 50% cash and 50% performance rights (each right equates to a right to one ordinary share) |
| **Performance incentive quantum** | Target Incentive for FY19:<br>Managing Director = 30% of Total Fixed Annual Remuneration (TFAR).<br>There is an opportunity to earn up to 50% of TFAR for exceptional performance. |

| | |
|---|---|
| **Grant date and allocation methodology** | Performance Incentive plan rights are allocated on an annual basis.<br>Performance rights will be granted at the start of each 12 month performance period (i.e. financial year) and where required shareholder approval will be sought.<br>The allocation methodology is as follows:<br>1. The value of the equity portion of the performance incentive is calculated;<br>2. The number of performance rights to be granted is calculated by dividing the maximum possible equity incentive award dollar value (i.e. include stretch targets) by a 5 day average VWAP from around the time of the grant date; and<br>3. The total number of Performance Rights is granted post shareholder approval and will vest subject to achievement of the required KPI's. |
| **Performance period** | Performance is assessed over the financial year – for this incentive plan allocation the financial year ends 30 June 2019. |
| **Performance criteria** | Performance will be assessed over a 12-month period against a scorecard of KPIs determined by the Board. These KPIs will include a majority of financial metrics (50% or more together with a small number of operational metrics). |
| **Performance Rights vesting conditions** | Once the performance rights become performance qualified, on assessment against the KPI targets, there are no further performance based vesting conditions.<br>Any performance rights which do not vest due to the holder not meeting the KPI targets will lapse.<br>For qualified performance rights, vesting is based purely on service i.e. for performance rights to vest the participant must remain continuously employed by the Group at each vesting date. The vesting schedule is as follows:<br>• 50% of the rights will vest on the later of 15th August 2020 or the date on which the Groups unqualified FY20 financial statements are released to the ASX.<br>• 50% of the rights will vest on the later of 15th August 2021 or the date on which the Groups unqualified FY21 financial statements are released to the ASX.<br>Should the financial statements be released on a "qualified" basis the rights will not vest. |
| **Exercise of rights** | The rights will be deemed exercised on the date of provision of the vesting and confirmation notice or, if the individual is not permitted to trade securities under the Groups securities trading policy on such date, the first subsequent day that the individual is permitted to trade such securities. |
| **Exercise price** | Nil |
| **Cash incentives** | Once performance has been assessed, the cash incentives payments are made post the release of Groups unqualified FY19 financial statements are released to the ASX. |

## ASSESSMENT OF PERFORMANCE

Performance against the performance targets is assessed by the Board. The Managing Director and the Executive Directors' performances are assessed against the individual KPIs by the Nomination and Remuneration committee which then makes recommendations to the Board. The performance of other Key Management Personnel against their individual KPIs is assessed by the Managing Director, who confers with the Nomination and Remuneration committee and then the Board regarding this assessment.

The Board believes the method of assessment is rigorous and provides a balanced evaluation of the Managing Director, Executive Director and other KMP performance.

The qualification of performance incentives is generally considered by the Nomination and Remuneration committee and the Board after the financial accounts for that performance period (financial year) have been audited. Post this review the Board approves the payment of any cash bonuses and confirms the quantum of performance rights that have become qualified rights. An estimation of these amounts is accrued in the financial year results.

## KEY MANAGEMENT PERSONNEL AND EXECUTIVE MANAGEMENT TEAM PERFORMANCE INCENTIVE OUTCOMES

To support the business plan for the financial year, the Board set performance targets for each member of the Key Management Personnel and the executive management team. These targets were linked to financial, safety and strategic objectives of the Group. Financial targets include the achievement of the forecast FY2019 PBT. Non-financial targets included a safety and on time performance targets.

The tables below show the performance incentive plan outcomes for Key Management Personnel:

## MR SCOTT MCMILLAN – MANAGING DIRECTOR

The performance incentive target opportunity is set 30% of TFAR and the stretch target opportunity is 50% of TFAR. These targets are measured against a scorecard of key performance indicators as shown below. 50% of the PIP will be delivered by way of a grant of performance rights and 50% by way of a cash bonus. TFAR is set at $556,300 and PIP target is set at $166,890 or $278,150 for stretch targets.

| | PI Target as per KPI<br>$ | KPI Outcome<br>% | Stretch Target per KPI | Stretch KPI Outcome | Total Payout<br>$ | Cash Bonus (50% of total pay-out)<br>$ | PR Value (50% of Total Payout)<br>$ |
|---|---|---|---|---|---|---|---|
| **KPI target results** | 166,890 | 100% | 278,150 | 50% | 222,520 | 111,260 | 111,260 |

The value of the performance rights incentive pay-out resulted in 50,850 performance rights becoming qualified.

## MR LEE SCHOFIELD – EXECUTIVE DIRECTOR & CHIEF EXECUTIVE OFFICER

The performance incentive target opportunity is set 30% of TFAR and the stretch target opportunity is 50% of TFAR. These targets are measured against a scorecard of key performance indicators as shown below. 50% of the PIP will be delivered by way of a grant of performance rights and 50% by way of a cash bonus. TFAR is set at $406,503 and PIP target is set at $121,950 or $203,252 for stretch targets.

| | PI Target as per KPI<br>$ | KPI Outcome<br>% | Stretch Target per KPI | Stretch KPI Outcome | Total Payout<br>$ | Cash Bonus (0% of Total Payout)<br>$ | PR Value (0% of Total Payout)<br>$ |
|---|---|---|---|---|---|---|---|
| **KPI target results** | 121,950 | 100% | 203,252 | 50% | 162,600 | 81,300 | 81,300 |

The value of the performance rights incentive pay-out resulted in 37,157 performance rights becoming qualified.

## MR MARC DEVINE – CHIEF FINANCIAL OFFICER

The performance incentive target opportunity is set 30% of TFAR and the stretch target opportunity is 50% of TFAR. These targets are measured against a scorecard of key performance indicators as shown below. 50% of the PIP will be delivered by way of a grant of performance rights and 50% by way of a cash bonus. TFAR is set at $290,175 and PIP target is set at $87,053 or $145,088 for stretch targets.

| | PI Target as per KPI<br>$ | KPI Outcome<br>% | Stretch Target per KPI | Stretch KPI Outcome | Total Payout<br>$ | Cash Bonus (0% of Total Payout)<br>$ | PR Value (0% of total pay-out)<br>$ |
|---|---|---|---|---|---|---|---|
| **KPI target results** | 87,052 | 100% | 145,088 | 50% | 116,069 | 58,035 | 58,035 |

The value of the performance rights incentive pay-out resulted in 26,524 performance rights becoming qualified.

## MR SHANE EDWARDS – GENERAL MANAGER, COMMERCIAL

The performance incentive target opportunity is set 30% of TFAR and the stretch target opportunity is 50% of TFAR. These targets are measured against a scorecard of key performance indicators as shown below. 50% of the PIP will be delivered by way of a grant of performance rights and 50% by way of a cash bonus. TFAR is set at $310,782 and PIP target is set at $93,234 or $155,391 for stretch targets.

| | PI Target as per KPI<br>$ | KPI Outcome<br>% | Stretch Target per KPI | Stretch KPI Outcome | Total Payout<br>$ | Cash Bonus (0% of Total Payout)<br>$ | PR Value (0% of Total Payout)<br>$ |
|---|---|---|---|---|---|---|---|
| **KPI target results** | 93,234 | 100% | 155,391 | 50% | 124,312 | 62,156 | 62,156 |

The value of the performance rights incentive pay-out resulted in 28,408 rights becoming qualified.

## CESSATION OF EMPLOYMENT

Under the service agreements for Key Management Personal and other members of the executive management team, if a member ceased employment with the Group before performance against targets were assessed, they would generally not be entitled to receive any awards, unless otherwise determined by the Board.

## DETAILS OF REMUNERATION PAID AND ACCRUED

The following tables show details of the remuneration received by the Directors and the Key Management Personnel of the Group for the current and previous financial year.

| 2019 | Short-term Employee Benefits | | | Post Employmnt Benefits | Long Term Benefits | Termination Benefits | Share Based Payments | Total |
|---|---|---|---|---|---|---|---|---|
| | Cash Salary and Allowances | Cash Bonus | Annual Leave | Super-annuation | Long Services Leave | Termination Benefits | Performance Rights | |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Non-Executive Directors | | | | | | | | |
| S Padgett | 176,055 | - | - | 16,725 | - | - | - | 192,780 |
| D Crombie | 87,100 | - | - | 8,275 | - | - | - | 95,375 |
| P Housden | 95,375 | - | - | - | - | - | - | 95,375 |
| **Sub-total Non-Executive Directors** | **358,530** | **-** | **-** | **25,000** | **-** | **-** | **-** | **383,530** |
| Executive Directors | | | | | | | | |
| S McMillan | 528,440 | 32,692 | (3,991) | 25,000 | 6,116 | - | 59,826 | 648,082 |
| L Schofield | 383,881 | 38,222 | 6,162 | 20,532 | 4,358 | - | 55,232 | 508,387 |
| Other Key Management Personnel | | | | | | | | |
| M Devine | 256,868 | 30,222 | 6,053 | 20,531 | 1,959 | - | 33,694 | 349,328 |
| S Edwards | 280,806 | 45,658 | (45) | 25,000 | 2,854 | - | 43,205 | 397,478 |
| **Sub-total Executive Directors and other Key Management Personnel** | **1,449,995** | **146,794** | **8,179** | **91,063** | **15,287** | **-** | **191,957** | **1,903,275** |
| **Total Key Management Personnel compensation (group)** | **1,808,525** | **146,794** | **8,179** | **116,063** | **15,287** | **-** | **191,957** | **2,286,805** |

| 2018 | Short-Term Employee Benefits | | | Post Employmnt Benefits | Long Term Benefits | Termination Benefits | Share Based Payments | Total |
|---|---|---|---|---|---|---|---|---|
| | Cash Salary and Allowances | Cash Bonus | Annual Leave | Super-annuation | Long Services Leave | Termination Benefits | Performance Rights | |
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Non-Executive Directors | | | | | | | | |
| S Padgett | 176,055 | - | - | 16,725 | - | - | - | 192,780 |
| D Crombie | 87,100 | - | - | 8,275 | - | - | - | 95,375 |
| P Housden | 95,375 | - | - | - | - | - | - | 95,375 |
| **Sub-total Non-Executive Directors** | **358,530** | **-** | **-** | **25,000** | **-** | **-** | **-** | **383,530** |
| Executive Directors | | | | | | | | |
| S McMillan | 519,858 | 108,972 | (16,219) | 25,000 | 8,647 | - | 17,271 | 663,529 |
| L Schofield | 377,993 | 111,480 | 1,398 | 20,150 | 8,505 | - | 20,192 | 539,718 |
| Other Key Management Personnel | | | | | | | | |
| M Devine | 230,752 | 70,518 | (1,248) | 20,049 | 1,296 | - | 10,644 | 332,011 |
| S Edwards | 279,390 | 79,141 | (9,622) | 25,000 | 2,238 | - | 16,081 | 392,228 |
| **Sub-total Executive Directors and other Key Management Personnel** | **1,407,993** | **370,111** | **(25,691)** | **90,199** | **20,686** | **-** | **64,188** | **1,927,486** |
| **Total Key Management Personnel compensation (group)** | **1,766,523** | **370,111** | **(25,691)** | **115,199** | **20,686** | **-** | **64,188** | **2,311,016** |

*Note: FY 18 figures have been amended to correctly reflect accounting standards, There was no material adjustment.*

## SERVICE AGREEMENTS

On appointment to the Board, all Non-Executive Directors enter into a service agreement with the Company in the form of a letter of appointment. This letter of appointment summaries the Board's policies and terms and includes remuneration details relevant to the Director.

Remuneration and other terms of employment for the Managing Director, Executive Director and the other Key Management Personnel are formalised in employment agreements. These agreements provide for remuneration in the form of TFAR and any other applicable benefits. The service agreements are summarised below:

| Name | Commencement Date | Term of Employment Contract | Base Salary and Allowances Including Super-annuation | Termination Benefits |
|---|---|---|---|---|
| **S McMillan**<br>Managing Director | 12-Apr-02 | On-going | 556,300 | Nil |
| **L Schofield**<br>Chief Executive Officer | 12-Jun-12 | On-going | 406,503 | Nil |
| **M Devine**<br>Chief Financial Officer / Company Secretary | 9-May-16 | On-going | 290,175 | Nil |
| **S Edwards**<br>General Manager – Commercial | 16-Feb-15 | On-going | 310,782 | Nil |

## OTHER KEY MANAGEMENT PERSONNEL DISCLOSURES

### KEY MANAGEMENT PERSONNEL – RIGHTS HOLDINGS

The number of performance rights held by Directors and other Key Management Personnel of the Group during the financial year are shown below:

| | | | FY 2019 | | |
|---|---|---|---|---|---|
| **Performance Rights** | **Balance at 1 July** | **Granted as Remuneration** | **Exercised** | **Forfeited** | **Balance at 30 June** |
| **Directors** | | | | | |
| S McMillan | 41,791 | 63,563 | - | (12,713) | 92,641 |
| L Schofield | 48,860 | 46,447 | - | (9,290) | 86,017 |
| **Other Key Management Personnel** | | | | | |
| M Devine | 25,756 | 33,155 | - | (6,631) | 52,280 |
| S Edwards | 38,911 | 35,510 | - | (7,102) | 67,319 |

| | | | FY 2018 | | |
|---|---|---|---|---|---|
| **Performance Rights** | **Balance at 1 July 2017** | **Granted as Remuneration** | **Exercised** | **Forfeited** | **Balance at 30 June 2018** |
| **Directors** | | | | | |
| S McMillan | 108,972 | 83,581 | (87,177) | (63,585) | 41,791 |
| L Schofield | 79,628 | 61,075 | (63,703) | (28,140) | 48,860 |
| **Other Key Management Personnel** | | | | | |
| M Devine | 38,708 | 32,195 | (30,967) | (14,180) | 25,756 |
| S Edwards | 60,878 | 38,911 | (48,702) | (12,176) | 38,911 |

### KEY MANAGEMENT PERSONNEL SHAREHOLDINGS

The number of ordinary shares held by Directors and Key Management Personnel (and their related parties) of the Group during the financial year are as follows:

| | | | FY 2019 | | |
|---|---|---|---|---|---|
| **Ordinary Shares** | **Balance at 1 July 2018** | **Exercise of Rights** | **Other Additions** | **Disposals** | **Balance at 30 June 2019** |
| **Directors** | | | | | |
| S McMillan | 4,678,391 | - | 201,697 | (878,391) | 4,001,697 |
| L Schofield | 68,704 | - | 1,906 | (6,907) | 63,703 |
| S Padgett | 7,577,113 | - | 188,078 | (400,000) | 7,365,191 |
| D Crombie | 154,364 | - | 8,440 | - | 162,804 |
| P Housden | 35,792 | - | 1,957 | - | 37,749 |
| **Other Key Management Personnel** | | | | | |
| M Devine | 36,643 | - | 1,010 | (33,138) | 4,515 |
| S Edwards | 61,600 | - | 1,488 | (37,433) | 25,655 |

| | | | FY 2018 | | |
|---|---|---|---|---|---|
| **Ordinary Shares** | **Balance at 1 July 2017** | **Exercise of Rights** | **Other Additions** | **Disposals** | **Balance at 30 June 2018** |
| **Directors** | | | | | |
| S McMillan | 4,509,953 | 87,177 | 214,712 | (133,451) | 4,678,391 |
| L Schofield | 2,280 | 63,703 | 2,721 | - | 68,704 |
| S Padgett | 10,226,172 | - | 350,941 | (3,000,000) | 7,577,113 |
| D Crombie | 148,250 | - | 6,114 | - | 154,364 |
| P Housden | 34,374 | - | 1,418 | - | 35,792 |
| **Other Key Management Personnel** | | | | | |
| M Devine | - | 30,967 | 5,676 | - | 36,643 |
| S Edwards | 60,000 | 48,702 | 4,432 | (51,534) | 61,600 |

## RIGHTS TO ORDINARY SHARES - REMUNERATION

For each grant of rights to ordinary shares, the percentage of the grant that vested in the financial year, and the percentage that was forfeited because the KMP did not meet the service and performance criteria is set out below. The minimum value of the rights yet to vest is nil, as the rights will be forfeited if the vesting conditions are not met. The maximum value of the rights yet to vest is determined as the amount of the grant date fair value that is yet to be expensed to the income statement.

## PERFORMANCE RIGHTS

| Name | FY Granted | Number Granted | Share Price at Grant Date | Vested % | Vested Number | Performance Qualified % | Forfeited % | FY in Which Shares May Vest | Estimated Maximum Value Yet to Vest ($) |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| S McMillan | 2019 | 63,563 | 2.38 | 0% | - | 80% | 20% | 2021 & 2022 | 76,612 |
| | 2018 | 83,581 | 1.50 | 0% | - | 50% | 50% | 2020 & 2021 | 13,590 |
| | 2017 | 108,972 | 0.78 | 80% | 87,177 | 0% | 20% | 2018 | - |
| L Schofield | 2019 | 46,447 | 2.38 | 0% | - | 80% | 20% | 2021 & 2022 | 55,983 |
| | 2018 | 61,075 | 1.50 | 0% | - | 80% | 20% | 2020 & 2021 | 15,888 |
| | 2017 | 79,628 | 0.78 | 80% | 63,703 | 0% | 20% | 2018 | - |
| **KMP** | | | | | | | | | |
| M Devine | 2019 | 33,155 | 2.38 | 0% | - | 80% | 20% | 2021 & 2022 | 39,962 |
| | 2018 | 32,195 | 1.50 | 0% | - | 80% | 20% | 2020 & 2021 | 8,376 |
| | 2017 | 38,708 | 0.78 | 80% | 30,967 | 0% | 20% | 2018 | - |
| S Edwards | 2019 | 35,510 | 2.38 | 0% | - | 80% | 20% | 2021 & 2022 | 42,800 |
| | 2018 | 38,911 | 1.50 | 0% | - | 100% | 0% | 2020 & 2021 | 12,653 |
| | 2017 | 60,878 | 0.78 | 80% | 48,702 | 0% | 20% | 2018 | - |

## LOANS TO DIRECTORS AND KEY MANAGEMENT PERSONNEL

There have been no loans to Directors or Key Management Personnel during the financial year.

## SHARES UNDER OPTION

There were no ordinary shares of Alliance Aviation Services Limited under option at the date of the report.

**The end of the audited remuneration report**

## INSURANCE AND INDEMNITY OF OFFICERS

The Company has indemnified the Directors and the Company Secretaries for costs incurred, in their capacity as officers of the Group, for which they may be held personally liable, except where any liability may be as a result of a lack of good faith.

During the financial year, Alliance and its controlled entities paid a premium of $372,593 (2018: $226,560) to insure the Directors and Company Secretaries of the Group companies.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the Company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

## PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001.*

## NON-AUDIT SERVICES

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (PwC) for audit and non-audit services provided during the year are set out in note J5 to the financial statements.

The Board of Directors has considered the position and, in accordance with advice received from the Audit and Compliance committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001.* The Directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the Audit and compliance committee to ensure they do not impact the impartiality and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants.*

## 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 21.

## ROUNDING OF AMOUNTS

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

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

**S Padgett**
**Chairman**
**Sydney**
**7 August 2019**

# *Auditor's Independence Declaration*

As lead auditor for the audit of Alliance Aviation Services Limited for the year ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

2. no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
7 August 2019

***PricewaterhouseCoopers, ABN 52 780 433 757***
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# FINANCIAL STATEMENTS



These financial statements are consolidated financial statements for the Group consisting of Alliance Aviation Services Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Alliance Aviation Services Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is

Alliance Aviation Services Limited
81 Pandanus Avenue
Brisbane Airport QLD 4009

The financial statements were authorised for issue by the Directors on 7 August 2019. The Directors have the power to amend and reissue the financial statements

All press releases, financial statements, corporate governance statements and additional information are available on our website: www.allianceairlines.com.au

## CONSOLIDATED INCOME STATEMENT

| | | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Revenue and Income** | ***Notes*** | | |
| Revenue from continuing operations | *A1* | **277,115** | 247,638 |
| Net foreign exchange (losses)/gains | | **(594)** | 201 |
| Other income | *A2* | **145** | 76 |
| | | **276,666** | **247,915** |
| **Expenses** | | | |
| Direct flight costs | *A3* | **(100,534)** | (88,332) |
| Parts and inventory costs | *A3* | **(21,456)** | (19,709) |
| Labour and staff related costs | *A3* | **(75,540)** | (68,541) |
| Repairs and maintenance costs | | **(2,088)** | (1,517) |
| Accommodation and utility costs | | **(3,211)** | (3,174) |
| IT and communication costs | | **(2,086)** | (1,644) |
| Other administrative costs | | **(5,320)** | (4,887) |
| Finance costs | | **(2,762)** | (3,402) |
| Depreciation | | **(30,848)** | (30,607) |
| | | **(243,845)** | **(221,813)** |
| **Profit/(Loss) before Income Tax for the Period** | | **32,821** | **26,102** |
| Income tax (expense) / benefit | | **(10,086)** | (7,991) |
| **Profit/(Loss) for the Period** | | **22,735** | **18,111** |

| | | | |
|---|---|---|---|
| **Earnings Per Share for Profit from Continuing Operations Attributable to the Ordinary Equity Holders of the Company** | *G3* | **Cents** | **Cents** |
| Basic earnings per share | | **18.65** | 14.72 |
| Diluted earnings per share | | **18.56** | 14.69 |

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Profit for the Period** | **22,735** | **18,111** |
| **Other Comprehensive Income** | | |
| Items that may be classified to profit or loss: | **-** | - |
| **Other Comprehensive Income for the Year net of Tax** | **-** | - |
| **Total Comprehensive Income for the Period** | **22,735** | 18,111 |
| **Total Comprehensive Income for the Period is Attributable to:** | | |
| Owners of Alliance Aviation Services Limited | **22,735** | 18,111 |

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

## CONSOLIDATED BALANCE SHEET

| | Notes | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current Assets** | | | |
| Cash and cash equivalents | *B1* | **9,607** | 11,847 |
| Receivables | *J1* | **39,927** | 31,483 |
| Inventories | *D1* | **49,060** | 50,828 |
| **Total Current Assets** | | **98,594** | 94,158 |
| **Non-Current Assets** | | | |
| Property, plant and equipment | *D2* | **202,458** | 177,409 |
| Intangibles | *D3* | **472** | 489 |
| **Total Non-Current Assets** | | **202,930** | 177,898 |
| **Total Assets** | | **301,524** | 272,056 |
| **LIABILITIES** | | | |
| **Current Liabilities** | | | |
| Trade and other payables | *J2* | **43,496** | 30,988 |
| Borrowings | *B2* | **3,650** | 3,200 |
| Current tax liabilities | | **17** | 65 |
| Provisions | *J3* | **8,572** | 7,436 |
| **Total Current Liabilities** | | **55,735** | 41,689 |
| **Non-Current Liabilities** | | | |
| Borrowings | *B2* | **56,400** | 62,050 |
| Provisions | *J3* | **1,524** | 1,538 |
| Deferred tax liability | *E2* | **18,992** | 8,917 |
| **Total Non-Current Liabilities** | | **76,916** | 72,505 |
| **Total Liabilities** | | **132,651** | 114,194 |
| **Net Assets** | | **168,873** | 157,862 |
| **EQUITY** | | | |
| Contributed equity | *G1* | **187,648** | 183,498 |
| Reserves | *G2* | **(112,247)** | (112,652) |
| Retained earnings | *G2* | **93,472** | 87,016 |
| **Total Equity Attributable to Ordinary Equity Holders of the Company** | | **168,873** | 157,862 |
| **Total Equity** | | **168,873** | **157,862** |

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Notes | Contributed Equity $'000 | Reserves $'000 | Retained Earnings $'000 | Total Equity $'000 |
|---|---|---|---|---|---|
| **Balance at 1 July 2017** | | 181,035 | (112,333) | 75,660 | 144,362 |
| Profit for the period | | - | - | 18,111 | 18,111 |
| **Total Comprehensive Income for the Period** | | **-** | **-** | **18,111** | **18,111** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Dividends paid | *C1* | - | - | (6,755) | (6,755) |
| Dividend reinvestment plan | | 1,949 | - | - | 1,949 |
| Share-based reserve | | - | 182 | - | 182 |
| Settlement of performance incentive scheme rights | | 514 | (514) | - | - |
| Foreign currency translation reserve | | - | 13 | - | 13 |
| | | **2,463** | **(319)** | **(6,755)** | **(4,611)** |
| **Balance at 30 June 2018** | | **183,498** | **(112,652)** | **87,016** | **157,862** |
| **Balance at 1 July 2018** | | 183,498 | (112,652) | 87,016 | 157,862 |
| Profit for the period | | - | - | 22,735 | 22,735 |
| Other comprehensive income | | - | - | - | - |
| **Total Comprehensive Income for the Period** | | **-** | **-** | 22,735 | 22,735 |
| **Transactions with owners in their capacity as owners** | | | | | |
| Dividends paid | *C1* | - | - | (16,279) | (16,279) |
| Dividend reinvestment plan | | 4,150 | - | - | 4,150 |
| Share-based reserve | | - | 420 | - | 420 |
| Settlement of performance incentive scheme rights | | - | - | - | - |
| Foreign currency translation reserve | | - | (15) | | (15) |
| | | **4,150** | **405** | **(16,279)** | **(11,724)** |
| **Balance at 30 June 2019** | | **187,648** | **(112,247)** | **93,472** | **168,873** |

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

## CONSOLIDATED STATEMENT OF CASH FLOWS

| | Notes | 2019 $'000 | 2018 $'000 |
|---|---|---|---|
| **Cash Flows From Operating Activities** | | | |
| Receipts from customers (inclusive of goods and services tax) | | **294,401** | 269,227 |
| Payments to suppliers (inclusive of goods and services tax) | | **(254,806)** | (227,526) |
| Interest received | | **145** | 76 |
| Interest paid | | **(2,674)** | (3,455) |
| Income tax paid | | **(56)** | (59) |
| **Net Cash Inflow (Outflow) from Operating Activities** | *B4* | **37,010** | **38,263** |
| **Cash Flows from Investing Activities** | | | |
| Payments for property, plant and equipment | | **(21,997)** | (14,859) |
| **Net Cash Inflow (Outflow) from Investing Activities** | | **(21,997)** | **(14,859)** |
| **Cash Flows from Financing Activities** | | | |
| Proceeds from borrowings | | **-** | 4,149 |
| Repayment of borrowings | | **(5,200)** | (14,100) |
| Dividends paid | | **(12,129)** | (4,805) |
| **Net Cash Inflow (Outflow) from Financing Activities** | | **(17,329)** | **(14,756)** |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | | **(2,316)** | **8,648** |
| Cash and cash equivalents at the beginning of the year | | **11,847** | 3,462 |
| Effects of currency translation on cash and cash equivalents | | **76** | (263) |
| **Cash and Cash Equivalents at End of the Year** | *B1* | **9,607** | **11,847** |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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# A. FINANCIAL OVERVIEW

## A1- REVENUE FROM CONTINUING OPERATIONS

The Group recognises revenue at a point in time once control of the goods or services passes to the customer. 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.

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Contract revenue | **165,283** | 152,932 |
| Charter revenue | **13,352** | 7,921 |
| Wet lease revenue | **45,380** | 37,115 |
| RPT revenue | **41,170** | 36,113 |
| Aviation services revenue | **10,887** | 12,892 |
| Other revenue | **1,043** | 665 |
| **Total Revenue generated at a point in time.** | **277,115** | 247,638 |

### ACCOUNTING POLICY

The Group derives revenue from the transfer of goods and the delivery of services at points in time 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 energy companies. Contract air charter services are subject to contracts with companies. Revenue is derived and recognised in accordance with an agreed flight schedule, based on completed flights.

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*

Alliance also utilises its fleet to provide ad-hoc charter services to a range of corporate, government, tourism, educational and sporting customers predominantly through surplus capacity. Revenue is derived in accordance with an agreed flight schedule based on completed flights.

*(iii) Wet leasing services*

The Group also utilises its fleet for wet lease contracts. A wet lease of an aircraft is 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)*

In addition, the Group utilises its fleet to provide 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 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.

# A. FINANCIAL OVERVIEW (CONTINUED)

## A1- REVENUE FROM CONTINUING OPERATIONS (CONTINUED)

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 as a fee for service and are generally invoiced on a monthly or per turn basis.

Revenue is measured at the fair value of the consideration received or receivable.

## A2- OTHER INCOME

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Interest Income | **145** | 76 |
| | **145** | 76 |

### ACCOUNTING POLICY

Interest income is recognised on a time proportioned basis using the effective interest method.

## A3- EXPENSES

Profit / (loss) before income tax includes the following specific expenses:

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Direct flight costs | **(100,534)** | (88,332) |
| General parts and inventory costs | **(21,456)** | (19,709) |
| Interest expense | **(2,762)** | (3,402) |
| **Labour and staff related costs** | | |
| Salaries and wages | **(64,663)** | (56,732) |
| Superannuation | **(5,485)** | (4,686) |
| Contractors | **(5,578)** | (3,874) |
| Travel and accommodation | **(717)** | (969) |
| WorkCover and Payroll Tax | **(3,786)** | (3,272) |
| Other employee expenses | **(3,505)** | (2,497) |
| Costs capitalised as part of heavy maintenance activities | **8,194** | 3,489 |
| | **(75,540)** | (68,541) |
| **Rental Expenses Relating to Operating Leases** | | |
| Minimum lease payments | **(1,955)** | (1,726) |
| Minimum sublease receipts | **275** | - |

# B. CASH MANAGEMENT

## B1- CASH AND CASH EQUIVALENTS

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Cash at bank and on hand | **9,607** | 11,847 |
| | **9,607** | 11,847 |

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits, other short-term, highly liquid investments 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.

## B. CASH MANAGEMENT (CONTINUED)

### B2- BORROWINGS

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Current Liabilities - Borrowings** | | |
| **Secured** | | |
| Bank Loans | **3,650** | 3,200 |
| **Total Current Borrowings** | **3,650** | 3,200 |
| | | |
| **Non Current Liabilities - Borrowings** | | |
| **Secured** | | |
| Bank Loans | **56,400** | 62,050 |
| **Total Non Current Borrowings** | **56,400** | 62,050 |
| **Total Borrowings** | **60,050** | 65,250 |

### SECURITY

The bank loans are secured by a fixed and floating charge over the Group's assets with specific charges over the aircraft and engines. In addition there is a negative pledge that imposes certain covenants on the Group including, subject to certain conditions, restrictions on the provision of security over assets to lenders.

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Current** | | |
| *Floating charge* | | |
| Cash and cash equivalents | **9,607** | 11,847 |
| Receivables | **39,927** | 31,483 |
| Inventories | **49,060** | 50,828 |
| Total current assets pledged as security | **98,594** | **94,158** |
| **Non-Current** | | |
| *First mortgage* | **198,382** | 173,973 |
| Aircraft and intangibles | **198,382** | 173,973 |
| *Floating charge* | | |
| Plant and equipment | **4,076** | 3,436 |
| Intangibles | **472** | 489 |
| Total Non-current assets pledged as security | **202,930** | 177,898 |
| **Total Assets Pledged as Security** | **301,524** | 272,056 |

### FACILITIES

The type of borrowing facilities available and utilised as at 30 June 2019 is shown below:

| Funding Mechanism | Financier Limit | | Current Available | Utilisation |
|---|---|---|---|---|
| | ANZ<br>$'000 | CBA<br>$'000 | $'000 | $'000 |
| Term Loan | 31,025 | 31,025 | 2,000 | 60,050 |
| Working capital multi option facility | 5,000 | - | 4,576 | 424 |
| **Total** | **36,025** | **31,025** | **6,576** | **60,474** |

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 annual review each December. The bank can withdraw the facility with 60 days written notice.

# B. CASH MANAGEMENT (CONTINUED)

## B2- BORROWINGS (CONTINUED)

The term loans and working capital multi option facility are subject to certain financial covenants and restrictions such as debt service cover ratios, leverage rations and others. During the year ended 30 June 2019, the Group maintained compliance with the financial covenants and restrictions of these facilities.

### ACCOUNTING POLICY

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the Consolidate Income Statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs.

To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period. B3- Net Debt Reconciliaiton

The net debt and the movements in net debt for each of the reporting period are presented below.

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Cash and cash equivalents | **9,607** | 11,847 |
| Borrowings – repayable within one year | **(3,650)** | (3,200) |
| Borrowings – repayable after one year | **(56,400)** | (62,050) |
| Net Debt | **(50,443)** | (53,403) |
| Cash and cash equivalents | **9,607** | 11,847 |
| Gross debt - variable interest rates | **(60,050)** | (65,250) |
| Net Debt | **(50,443)** | (53,403) |

## B4- RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Profit for the year (after tax) | **22,735** | 18,111 |
| Depreciation and amortisation | **30,848** | 30,607 |
| Costs incurred as part of heavy maintenance program | **8,194** | 3,489 |
| Net (gain)/loss on foreign exchange differences | **594** | (201) |
| Change in operating assets and liabilities, | | |
| (Increase)/decrease in trade debtors and bills of exchange | **(7,764)** | (449) |
| (Increase)/decrease in inventories and property, plant and equipment | **(40,573)** | (31,077) |
| (Increase)/decrease in prepayments | **(680)** | (399) |
| Increase/(decrease) in trade creditors | **10,475** | 6,994 |
| Increase/(decrease) in other operating liabilities | **2,033** | 1,634 |
| Increase/(decrease) in provision for income taxes payable | **(48)** | 11 |
| Increase/(decrease) in deferred tax | **10,074** | 7,924 |
| Increase/(decrease) in other provisions | **1,122** | 1,619 |
| **Net Cash Inflow (Outflow) from Operating Activities** | **37,010** | 38,263 |

## C. CAPITAL MANAGEMENT

The Group's objectives when managing capital is to safeguard the ability to continue as a going concern, so that the Group can continue to provide returns for shareholders and benefits for other stakeholders, and maintain an optimal capital structure. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

### C1- DIVIDENDS

#### ORDINARY SHARES

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **(a) Ordinary Shares**<br>In respect of financial year ended 30 June 2018, a fully franked dividend of 6.3 cents per fully paid ordinary shares was paid out of retained earnings on 18 October 2018. (2018: 3.0 cents) | 7,800 | 3,669 |
| In respect of financial year ended 30 June 2019, an fully franked interim dividend of 6.8 cents per fully paid ordinary shares was paid out of retained earnings on 18 April 2019. ( 2018: 2.5 cents) | 8,478 | 3,086 |

#### DIVIDENDS DELARED BUT NOT RECORDED

In respect of the full year ended 30 June 2019, a fully franked final dividend of 8.8 cents has been declared by the Directors. This dividend will be paid out of retained earnings on 14 November 2019. This amount has not been recognised as a liability for the year ended 30 June 2019.

#### ACCOUNTING POLICY

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

#### FRANKING CREDITS

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **(b) Franked Credits**<br>Franking credits available for subsequent reporting based on a tax rate of 30% (2018: 30%) | **12,387** | 18,424 |

#### ACCOUNTING POLICY

The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax;
- franking debits that will arise from the payment of dividends recognised as a liability at the end of each reporting period, and
- franking credits that will arise from the receipt of dividends recognised as receivables at the end of each reporting period.

The consolidated amounts include franking credits that would be available to the parent entity if distributable profits of subsidiaries were paid as dividends.

# D. INVENTORY, PROPERTY, PLANT & EQUIPMENT, AND INTANGIBLES

## D1- INVENTORIES

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Aircraft and Engines | **37,761** | 40,932 |
| Spares and consumables | **11,299** | 9,896 |
| | **49,060** | 50,828 |

### AMOUNTS RECOGNISED IN PROFIT OR LOSS

Inventory recognised as an expense during the year ended 30 June 2019 amounted to $2,948k (2018: $3,745k), and is included in parts and inventory costs.

### ACCOUNTING POLICY

Inventories are measured at the lower of cost and net realisable value. Costs have been assigned to inventory quantities on hand at the reporting date using the first-in-first-out basis. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. 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

Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The Group's maintenance program relies on access to spare parts (rotables) which are interchangeable with parts currently utilised on an aircraft. These rotables are parts that are removed from aircraft and transferred from property, plant and equipment into inventory at the lower of core value or net realisable value.

Rotables that are taken out of inventory and fitted to an aircraft are transferred onto the asset register as property plant and equipment at their current carrying value.

Note K5 discloses the critical estimates and judgements in relation to inventory value.

## D. INVENTORY, PROPERTY, PLANT & EQUIPMENT, AND INTANGIBLES (CONTINUED

D2- Property, Plant and Equipment

| | Aircraft Assets $'000 | Property, Plant & Equipment $'000 | Total $'000 |
|---|---|---|---|
| **At 30 June 2017** | | | |
| Cost | 315,067 | 19,057 | 334,124 |
| Accumulated depreciation | (145,716) | (15,239) | (160,955) |
| **Net Book Value** | **169,351** | **3,818** | **173,169** |
| **Year ended 30 June 2018** | | | |
| Opening net book amount | 169,351 | 3,818 | 173,169 |
| Additions | 46,276 | 933 | 47,209 |
| Transfers | (12,467) | - | (12,467) |
| Disposals - Cost | - | (64) | (64) |
| Disposals - Accumulated Depreciation | - | 52 | 52 |
| Depreciation charge | (29,187) | (1,303) | (30,490) |
| **Closing Net Book Value as at 30 June 2018** | **173,973** | **3,436** | **177,409** |
| **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** |
| **Year ended 30 June 2019** | | | |
| Opening net book amount | 173,973 | 3,436 | 177,409 |
| Additions | 63,305 | 1,704 | 65,009 |
| Transfers | (9,203) | - | (9,203) |
| Disposals - Cost | - | (132) | (132) |
| Disposals - Accumulated Depreciation | - | 132 | 132 |
| Depreciation charge | (29,693) | (1,064) | (30,757) |
| **Closing Net Book Value as at 30 June 2019** | **198,382** | **4,076** | **202,458** |

### ADDITIONS AND TRANSFERS

Additions to the property, plant and equipment register for year ended 30 June 2019 includes all aircraft heavy maintenance and the addition of any major and significant components. Transfers relate to the removal of rotable parts from the aircraft which are transferred to inventory.

### ACCOUNTING POLICY

All property, plant and equipment are recorded at historical cost less accumulated depreciation and accumulated impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation is calculated using both straight line and unit of usage method to allocate their cost, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as shown in the table below:

Note K5 discloses the critical estimates and judgements in relation to Property, Plant and Equipment.

# D. INVENTORY, PROPERTY, PLANT & EQUIPMENT, AND INTANGIBLES (CONTINUED)

## D2- PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

| Asset Class | Depreciation Calculation Method | Time-based Terms |
|---|---|---|
| Leasehold improvements | Calendar based | 5-18 years |
| Aircraft assets (subject to time based depreciation) | Calendar based | 5-12 years |
| Aircraft assets (subject to usage based depreciation) | Remaining flight cycles/hours | - |
| Vehicles | Calendar based | 5-8 years |
| Furniture, fittings & equipment | Calendar based | 3 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Alliance has contracted with Rolls-Royce to maintain F100 aircraft (Tay 650-15) engines as part of a total care program. Rolls-Royce supplies replacement aircraft engines, spare engines and parts in exchange of a monthly fee calculated by multiplying a contract rate to the total engine hours under the agreement.

Under this agreement, 46 F100 engines (Tay 650-15) are recognised as a single ‘pool of engines’ and recognised as part of property plant and equipment.

The monthly payments are capitalised to this single pool of engines as they are incurred as these payments represent an increase to the economic value of the engines. The pool of engines is then amortised using a unit of usage basis which takes into account the current net book value and the number of remaining flight cycles.

## D3- INTANGIBLE ASSETS

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Opening net book amount | **489** | 62 |
| Additions | **74** | 544 |
| Amortisation charge | **(91)** | (117) |
| **Closing Net Book Value** | **472** | 489 |

The Group amortises intangible assets over the following period:

| Classification | Amortisation Calculation Method | Time-based Terms |
|---|---|---|
| Certification | Calendar based | 2 years |
| Internally generated software | Calendar based | 3-5 years |

### ACCOUNTING POLICY

Intangible assets are stated at cost less accumulated amortisation. They are classified as having a useful life that is finite and are amortised on a straight line basis over the useful economic life.

# E. INCOME TAX EXPENSE AND DEFERRED TAX

This note provides an analysis of the Group’s income tax expense, shows what amounts are recognised directly in equity and how the tax expense is affected by non-assessable and non-deductible items. It also explains significant estimates made in relation to the Group’s tax position.

# E. INCOME TAX EXPENSE AND DEFERRED TAX (CONTINUED)

## E1- INCOME TAX EXPENSE

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **(a) Income Tax Expense** | | |
| Current tax | **25** | 66 |
| Deferred income tax (revenue) expense included in the income tax expense comprises: | | |
| Utilisation of unused tax losses | **1,254** | 7,295 |
| Decrease/(increase) in deferred tax assets | **(513)** | (784) |
| (Decrease)/increase in deferred tax liabilities | **9,320** | 1,414 |
| | **10,061** | 7,925 |
| Income tax expense on profit from continuing operations | 10,086 | 7,991 |
| Effective tax rate | **30.7%** | 30.6% |
| **(b) Numerical Reconciliation of Income Tax (Benefit) / Expense to Prima Facie Tax Payable** | | |
| Profit / (loss) before income tax expense | **32,821** | 26,102 |
| Tax at the Australian Corporate tax rate of 30% (2018:30%) | **9,846** | 7,831 |
| Tax effect of amounts which are not deductible (taxable) in calculating taxable income: | 240 | 160 |
| Sundry | | |
| | **10,086** | 7,991 |
| Deferred tax asset offset against deferred tax liabilities | | |
| **Income Tax (Benefit) / Expense** | **10,086** | 7,991 |

## E2- DEFERRED TAX ASSETS AND LIABILITIES

| **Deferred Tax Assets** | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **The Balance Comprises Temporary Differences Attributable to:** | | |
| Tax losses | 6,444 | 7,487 |
| Employee benefits | 3,029 | 2,676 |
| Property, plant and equipment | 781 | 843 |
| | 10,254 | 11,006 |
| **Other** | | |
| Unrealised foreign exchange | 292 | 293 |
| Accruals | 69 | 70 |
| **Sub-Total Other** | **361** | 363 |
| Total deferred tax assets | 10,615 | 11,369 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | 10,615 | 11,369 |
| **Net Deferred Tax Assets** | - | - |

## E. INCOME TAX EXPENSE AND DEFERRED TAX (CONTINUED)

### E2- DEFERRED TAX ASSETS AND LIABILITIES (CONTINUED)

| Deferred Tax Liabilities | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Balance Comprises Temporary Differences Attributable to:** | | |
| Property, plant and equipment | 28,707 | 19,431 |
| Prepayments | 9 | 11 |
| Other | 324 | 401 |
| Unrealised Foreign Exchange | 566 | 443 |
| **Sub-Total Other** | **29,606** | 20,286 |
| **Total Deferred Tax Liabilities** | **29,606** | **20,286** |
| Set-off of deferred tax assets pursuant to set off provisions | **10,615** | 11,369 |
| **Net Deferred Tax Liabilities** | **18,991** | 8,917 |

#### ACCOUNTING POLICY

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Directors periodically evaluate the position taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting or taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Alliance Aviation Services Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

# F. FINANCIAL RISK MANAGEMENT

## F1- FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including foreign exchange risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange rate risk and aging analysis for credit risk. The Group holds the following financial instruments:

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Financial Assets** | | |
| Cash and cash equivalents | **9,607** | 11,847 |
| Trade and other receivables | **39,927** | 31,483 |
| **Total Financial Assets** | **49,534** | 43,330 |
| **Financial Liabilities** | | |
| Trade and other payables | **43,496** | 30,988 |
| Borrowings | **60,050** | 65,250 |
| **Total Financial Liabilities** | **103,546** | 96,238 |
| **Net Financial Assets/(Liabilities)** | **(54,012)** | (52,908) |

### FOREIGN EXCHANGE RISK

The Group has transactional currency risks arising from receivables and payables in currencies other than the Group's functional currency. The currencies giving rise to this risk are primarily US dollar and the Euro. Where possible, the risk is managed by forecasting and structuring of receipt and payment timings, including invoicing clients in US dollars and the Euro where possible.

The Group's exposure to foreign currency risk in the foreign currency at the end of the reporting period, expressed in Australian dollars and a sensitivity impact of a 5% rate movement is shown in the tables below.

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | USD<br>$'000 | EUR<br>$'000 | GBP<br>$'000 | NZD<br>$'000 | USD<br>$'000 | EUR<br>$'000 | GBP<br>$'000 | NZD<br>$'000 |
| Trade and Other Receivables | **-** | **11** | **-** | **-** | 693 | - | - | - |

*Sensitivity*: As at 30 June 2019, if the Australian dollar had strengthened or weakened against other currencies by 5% and all other variables held constant, post-tax profit for the year would have been higher/lower by $1k ( 2018: +/- $23k)

| | 2019 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | USD<br>$'000 | EUR<br>$'000 | GBP<br>$'000 | NZD<br>$'000 | USD<br>$'000 | EUR<br>$'000 | GBP<br>$'000 | NZD<br>$'000 |
| Trade and Other Payables | **(6,841)** | **(2,683)** | **(422)** | **(225)** | (7,842) | (1,109) | - | - |

*Sensitivity*: As at 30 June 2019, if the Australian dollar had strengthened or weakened against other currencies by 5% and all other variables held constant, post-tax profit for the year would have been higher/lower by $509k ( 2018: +/- $323k)

### INTEREST RATE RISK

The Group's main interest rate risk arises from long-term borrowings with variable rates, which expose the Group to cash flow interest rate risk.

The Group's variable rate borrowings outstanding as at 30 June 2019 and a sensitivity analysis of movement of 25 basis points is shown in the tables below.

# F. FINANCIAL RISK MANAGEMENT (CONTINUED)

## INTEREST RATE RISK (CONTINUED)

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Weighted Ave Interest Rate | Balance | Weighted Ave Interest Rate | Balance |
| | % | $'000 | % | $'000 |
| Bank Loans | **3.7** | **60,050** | 3.2 | 65,250 |
| Net exposure to cash flow interest rate risk | | **60,050** | | 65,250 |
| Sensitivity +/- impact of 0.25% change: $'000 | | 150 | | 162 |

## CREDIT RISK

Credit risk arises from cash and cash equivalents, held to maturity investments, favourable derivative financial instruments and deposits with banks and financial institutions, as well as credits exposures to customers, including outstanding receivables. All available cash is held in financial institutions with a credit rating of A- or higher.

### RISK MANAGEMENT

Credit risk is managed on a Group basis by assessing the credit quality of counterparties by taking into account their financial position, past experience, credit rating and other factors. Counterparty information sourced from credit rating agencies is also utilised to support the management of credit risk. The Group's major customers are principally focused on the resources industry, albeit over a range of commodities.

### IMPAIRMENT OF TRADE RECEIVABLES

Individual receivables which are known to be uncollectible are written off by reducing the carrying amount directly. The other receivables are assessed collectively to determine whether there is objective evidence that impairment has been incurred but not yet identified. For these receivables the estimated impairment losses are recognised in a separate provision for impairment.

## LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the Group held no deposits at call (2018 – nil). Due to the dynamic nature of the underlying businesses, the Directors maintain flexibility in funding by maintaining availability under committed credit lines.

### RISK MANAGEMENT

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents (note B1) on the basis of expected cash flows. In addition, the Group's liquidity management policy involves managing credit risk relating to financial assets, comparing the maturity profile of financial liabilities with the realisation profile of financial assets, monitoring balance sheet liquidity ratios against internal requirements and maintaining debt financing plans.

### FINANCING ARRANGEMENTS

The Group has a number of debt facilities with financial institutions. The following undrawn borrowing facilities were available to the Group at the end of the reporting period:

## F. FINANCIAL RISK MANAGEMENT (CONTINUED)

### FINANCING ARRANGEMENTS (CONTINUED)

| | 2019 Balance $'000 | 2018 Balance $'000 |
|---|---|---|
| **Floating Rate** | | |
| - Expiring within one year | **6,576** | 4,510 |
| - Expiring beyond one year | **-** | - |
| | **6,576** | 4,510 |

The multi option working capital facility may be drawn at any time and may be terminated by the bank with 60 days written notice. The term loan facility may be redrawn at any time. All facilities expire in January 2021.

### MATURITIES OF FINANCIAL LIABILITIES

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities.

The amounts disclosed in the tables are the contractual undiscounted cash flows since the fair values are not materially different to their carrying amounts and amortisations payments (fixed repayments of principal) are scheduled quarterly until the expiration of the facilities. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The amounts below also include estimated interest payments where applicable.

**Liquidity Risk**

| Contractual Maturities of Financial Liabilities<br>As at 30 Jun 2019 | Less than 6 Months<br>$'000 | 6-12 Months<br>$'000 | Between 1 & 2 yrs<br>$'000 | Between 2 & 5 yrs<br>$'000 | Over 5 yrs<br>$'000 | Total Contractual Cash Flows<br>$'000 | Carrying Amount (Assets) /Liabilities<br>$'000 |
|---|---|---|---|---|---|---|---|
| Trade payables | 43,413 | 82 | 1 | - | - | 43,496 | 43,496 |
| Borrowings | 3,153 | 2,653 | 57,265 | - | - | 63,071 | 60,050 |
| **Total Non-Derivatives** | **46,566** | **2,735** | **57,266** | **-** | **-** | **106,567** | **103,546** |

| Contractual Maturities of Financial Liabilities<br>As at 30 Jun 2018 | Less than 6 Months<br>$'000 | 6-12 Months<br>$'000 | Between 1 & 2 yrs<br>$'000 | Between 2 & 5 yrs<br>$'000 | Over 5 yrs<br>$'000 | Total Contractual Cash Flows<br>$'000 | Carrying Amount (Assets) /Liabilities<br>$'000 |
|---|---|---|---|---|---|---|---|
| Trade payables | 30,998 | - | - | - | - | 30,998 | 30,998 |
| Borrowings | 2,787 | 2,758 | 5,428 | 59,920 | - | 70,893 | 65,250 |
| **Total Non-Derivatives** | **33,785** | **2,758** | **5,428** | **59,920** | **-** | **101,891** | **96,248** |

The carrying amounts of trade payables are assumed to approximate their fair values due to their short term nature.

### PRICE RISK

The Group is not exposed to any specific material commodity price risk.

## F2- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Judgements and estimates are made in determining the fair values of assets and liabilities that are recognised and measured at fair value in the financial statements. To provide an indication about the reliability of the inputs used in determining fair value, the Group has classified such assets and liabilities into the three levels prescribed under the accounting standards.

### FAIR VALUE HIERARCHY

Financial instruments that are measured subsequent to initial recognition at fair value are grouped into Levels 1 to 3, based on the degree to which the fair value is observable. The different levels have been identified as follows:

# F. FINANCIAL RISK MANAGEMENT (CONTINUED)

## F2- FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

- 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 (as prices) or indirectly (derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### RECOGNISED FAIR VALUE MEASUREMENTS

All of the Group's financial instruments measured at fair value are categorised as Level 2. There were no transfers between Levels 1, 2 and 3 fair value hierarchies during the current or prior six month period.

### DISCLOSED FAIR VALUES

#### RECEIVABLES

Due to the short term nature of the current receivables, their carrying amount is assumed to be the same as their fair value. For the majority of non-current receivables, the fair values are not materially different to their carrying amounts, since the interest on those receivables is close to current market rates.

#### TRADE AND OTHER PAYABLES

Due to the short term nature of the trade and other payables, their carrying amount is assumed to be the same as their fair value.

#### BORROWINGS

The Directors consider that for all borrowings, the fair values are the same as their carrying amounts, since the interest payable on these borrowings is either close to the market rates or the borrowings are of a short term nature.

# G. EQUITY

## G1- CONTRIBUTED EQUITY

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | No. of shares | $'000 | No. of shares | $'000 |
| **a) Share Capital** | | | | |
| Ordinary shares - fully paid | **125,516,945** | **187,648** | 123,808,489 | 183,498 |
| **Total Contributed Equity** | **125,516,945** | **187,648** | 123,808,489 | 183,498 |
| **b) Movement in Ordinary Share Capital Issued and Fully Paid Ordinary Shares:** | | | | |
| At the beginning of the financial period | **123,808,489** | **183,498** | 121,725,894 | 181,035 |
| Dividend reinvestment plan issues | **1,708,456** | **4,150** | 1,511,886 | 1,949 |
| Performance incentive shares vested and exercised | **-** | **-** | 570,709 | 514 |
| **Balance at the End of the Financial Year** | **125,516,945** | **187,648** | 123,808,489 | 183,498 |

### ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

# G. EQUITY (CONTINUED)

## G1- CONTRIBUTED EQUITY (CONTINUED)

### DIVIDEND REINVESTMENT PLAN

The Company has established a dividend reinvestment plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash.

## G2- RESERVES AND RETAINED EARNINGS

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **(a) Reserves** | | |
| Reorganisation reserve | (111,083) | (111,083) |
| Cash flow hedge reserve | (2,181) | (2,181) |
| Share-Based Payment Reserve | 1,005 | 585 |
| Foreign currency translation reserve | 12 | 27 |
| | **(112,247)** | (112,652) |
| Re-organisation Reserve | | |
| *Reorganisation* | | |
| Balance - 1 July | 111,083 | 111,083 |
| Balance - 30 June | | |
| **Movements:** | | |
| *Cash flow hedge reserve* | | |
| Balance - 1 July | (2,181) | (2,181) |
| Balance - 30 June | **(2,181)** | (2,181) |
| **(b) Retained Earnings** | | |
| Movement in retained earnings were as follows: | | |
| Balance - 1 July | 87,016 | 75,659 |
| Dividends paid | (16,279) | (6,754) |
| Net profit/(loss) for the year | 22,735 | 18,111 |
| Balance - 30 June | **93,472** | **87,016** |

### NATURE AND PURPOSE OF OTHER RESERVES

#### REORGANISATION RESERVE

This reserve is used to record the difference between the recognised equity of the parent entity and the net assets of the acquired controlled entities.

#### CASH FLOW HEDGE RESERVE

The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that is recognised in other comprehensive income. Amounts are reclassified to the profit or loss when the associated hedge transaction affects profit or loss.

#### SHARE BASED PAYMENT RESERVE

The Company has established a share based payment reserve which records the estimated amount of ordinary share capital to be issued as consideration for future transactions. The reserve records the grant date fair value of options issued to employees but not exercised.

# G. EQUITY (CONTINUED)

## G2- RESERVES AND RETAINED EARNINGS (CONTINUED)

### FOREIGN CURRENCY TRANSLATION RESERVE

Exchange differences arising on translation of the foreign controlled entity are accumulated in a separate reserve within equity.

## G3- EARNINGS PER SHARE

| | 2019 | 2018 |
|---|---|---|
| **Basic Earnings Per Share** | | |
| Total basic earnings per share attributable to the ordinary equity holders of the company. (cents) | **18.65** | 14.72 |
| **Diluted Earnings Per Share** | | |
| Total diluted earnings per share attributable to the ordinary equity holders of the company. (cents) | **18.56** | 14.69 |
| **Reconciliations of Earnings used in Calculating Earnings Per Share** | | |
| ***Basic earnings per share*** | | |
| Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share. ($'000) | **22,735** | 18,111 |
| ***Diluted earnings per share*** | | |
| Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating diluted earnings per share. ($'000) | **22,735** | 18,111 |
| **Weighted Average Number of Shares used as the Denominator** | | |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | **124,591,155** | 123,073,307 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | **125,247,776** | 123,322,799 |

### INFORMATION CONCERNING THE CLASSIFICATION OF SECURITIES

### PERFORMANCE RIGHTS

Performance rights granted to employees under the Alliance Aviation Services Limited LTI plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The rights have not been included in the determination of basic earnings per share. As at 30 June 2019 there were 705,643 qualified performance rights which have not vested or been exercised. Refer note H2.

### ACCOUNTING POLICY

### BASIC EARNINGS PER SHARE

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares; and
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

# G. EQUITY (CONTINUED)

## G3 EARNINGS PER SHARE (CONTINUED)

### DILUTED EARNINGS PER SHARE

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares; and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

# H. KEY MANAGEMENT PERSONNEL

## H1- KEY MANAGEMENT PERSONNEL DISCLOSURES

### KEY MANAGEMENT PERSONNEL COMPENSATION

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Short-term employee benefits | **1,963,498** | 2,110,943 |
| Post-employment benefits | **116,063** | 115,198 |
| Long-term benefits | **15,287** | 20,686 |
| Share based payments | **191,957** | 64,188 |
| | **2,286,805** | 2,311,015 |

Detailed remuneration disclosures are provided in the remuneration report on page 10.

## H2- SHARE – BASED PAYMENTS

### PERFORMANCE INCENTIVE PLAN

Alliance is committed to a reward framework that is focussed on creating shareholder value, which is supported by an equity ownership culture. The Group's Performance Incentive Plan (PIP) supports this goal by assisting with the attraction, motivation and retention of employees (including Executive Directors).

The PIP consists of two key remuneration elements namely the payment of cash incentives and the granting of performance rights. Under the plan, participants are granted rights which only vest if certain performance standards are met. Participation in the plan is at the Board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

The number of performance rights granted is calculated by dividing the dollar value of the participant's long term incentive by the ASX volume weighted average price of the shares in the period prior to the date of offer of the performance rights. Unless otherwise determined by the Board in its discretion, performance rights are issued for nil consideration.

The amount of performance rights that will vest depends upon the achievement of certain performance standards being met over the course of the performance period (the financial year). These performance metrics include achieving financial, operational and safety targets. Once the rights have become performance qualified, the only remaining vesting condition that must be met is one of continuous employment.

In the event of cessation of employment unvested rights are forfeited unless otherwise determined by the Board, in which case any service condition will be deemed to have been fulfilled as at the testing date and subject to performance testing along with other participants. It is noted that the Board has discretion to allow "Good Leavers" to retain their Participation in the PIP plan beyond the date of cessation of employment when deemed appropriate to the circumstances.

## H. KEY MANAGEMENT PERSONNEL (CONTINUED)

### H2- SHARE – BASED PAYMENTS (CONTINUED)

Performance rights will automatically vest on a day nominated by the Board after they determine the vesting conditions have all been satisfied (Vesting Determination Date).

The performance rights will automatically exercise on the Vesting Determination Date unless that date occurs outside a trading window permitted under the Company's Securities Trading Policy, in which case the performance rights will exercise upon the first day of the next trading window. Upon exercise of the performance rights, the Company must issue or procure the transfer of one share for each performance right, or alternatively may in its discretion elect to pay the cash equivalent value to the participant.

Rights are granted under the plan for no consideration and carry no dividend or voting rights. When exercised, each right is converted into one ordinary share.

Performance rights will lapse on the first to occur of:

- the expiry date;
- the vesting conditions not being satisfied by the Vesting Determination Date;
- unless the Board otherwise determines, by the cessation of the employment of the employee to whom the offer of performance rights was made. The Board determination will depend upon the reason for employment ceasing (resignation, dismissal for cause, death or illness).

Performance rights when issued under the LTIP are not entitled to receive a dividend and carry no voting rights.

The details of the Performance Rights granted are shown below:

| Employee Category | Number of performance rights granted (target and stretch targets) |
|---|---|
| Executive Directors^ | 110,010 |
| Other Key Management Personnel | 68,665 |
| Senior Management | 287,549 |
| | **466,224** |

^ The grant of the maximum amount of performance rights available to the Managing Director and Executive Director were approved by the shareholders at the Annual General Meeting held on 30 October 2018.

The movements of performance rights issued during the year are as follows:

| | 2019 '000 | 2018 '000 |
|---|---|---|
| **Rights at the Start of the Year** | **514** | 713 |
| Granted during the year | **466** | 514 |
| Vested and exercised | **-** | (571) |
| Forfeited | **(274)** | (142) |
| **Rights at the End of the Year** | **706** | 514 |

The performance rights granted as the equity portion of the employee incentive plan are assessed against a scorecard of key performance indicators set by the Board Nomination and Remuneration committee. This assessment occurs once the financial statements for the performance period (FY2019) have been audited and signed off by the Board. Once assessed the performance rights become qualified and vesting is then based on continuous service. These qualified rights then vest over a two year period being 50% in August 2020 and 50% in August 2021.

As at the date of signing this report 351,646 rights will become performance qualified and 138,444 performance rights were forfeited as the stretch targets were not met for the financial year ended 30 June 2019.

# H. KEY MANAGEMENT PERSONNEL (CONTINUED)

## H2 - SHARE – BASED PAYMENTS (CONTINUED)

### EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Performance rights - Long Term Incentive Plan | **429** | 173 |
| | **429** | 173 |

### ACCOUNTING POLICY

Share-based compensation benefits may be provided to employees via the Alliance Aviation Services Limited Performance Incentive plan (PI).

The fair value of rights granted under the performance incentive plan are recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

# I. RELATED PARTY TRANSACTIONS

## I1 - PARENT ENTITIES

The parent entity within the Group is Alliance Aviation Services Limited.

## I2 - SUBSIDIARIES

Interests in subsidiaries are set out in note J7.

## I3 - KEY MANAGEMENT PERSONNEL TRANSACTIONS WITH RELATED PARTIES

Disclosures relating to Key Management Personnel are set out below.

Where transactions are entered into with 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. No new arrangements have been entered into during FY2019.

A Director, Mr Steve Padgett, is a Director and Shareholder of Eternitie Pty Ltd. The Group has a contract with Eternitie Pty Ltd for the lease of office space in Sydney. This lease is based on normal commercial terms and conditions.

During the period, the Group provided storage maintenance, aircraft parking and other engineering maintenance services to KBX Pty Ltd and VIF Aircraft Pty Ltd, of which Chairman, Mr Steve Padgett and the Managing Director, Mr Scott McMillan, are shareholders. These services were provided on an arm’s length basis under normal commercial terms for the type of services provided.

## I. RELATED PARTY TRANSACTIONS (CONTINUED)

### I3 - KEY MANAGEMENT PERSONNEL TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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 is 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 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.

The following transactions occurred with related parties:

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Lease of Sydney Office | **(21,667)** | (18,333) |
| Aircraft lease fees - VH-KBX | **(438,536)** | - |
| Engine lease fees - VH-VIF | **(713,525)** | - |
| Purchase of 2 Tay260 engines | **-** | (3,130,855) |
| Sale of Tay260 engines to KBX Pty Ltd | **-** | 1,530,855 |
| Engineering and Maintenance services - VH - VIF | **230,697** | 95,062 |
| Engineering and Maintenance services - VH - KBX | **234,283** | 1,842,006 |
| **Total Cash Inflows / (Outflows)** | **(708,748)** | 318,735 |

The following balances are recognised in the financial statements as ooutstanding balances arising from sales/purchases of goods and services to related parties.

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| Trade receivables | | |
| VIF Aircraft Pty Ltd | **59** | - |
| **Total Key Management Trade Receivables** | **59** | - |
| Trade payables | | |
| KBX Pty Ltd | **(62)** | - |
| VIF Aircraft Pty Ltd | **(88)** | - |
| **Total Key Management Trade Payables** | **(150)** | - |
| **Net Balance Owed from/(Owing to) Key Management Personnel** | **(91)** | - |

# J. OTHER ITEMS

## J1- TRADE AND OTHER RECEIVABLES

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Trade receivables | **32,965** | 25,862 |
| | **32,965** | 25,862 |
| Other receivables | **3,754** | 3,093 |
| Prepayments | **3,208** | 2,528 |
| | **6,962** | 5,621 |
| | **39,927** | 31,483 |

| Contractual Maturities of Financial Assets | Less than 6 Months | 6-12 Months | Between 1 & 2 yrs | Between 2 & 5 yrs | Over 5 yrs | Total Contractual Cash Flows | Carrying Amount Assets /(Liabilities) |
|---|---|---|---|---|---|---|---|
| **As at 30 Jun 2019** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** | **$'000** |
| Trade receivables | 32,948 | 8 | 9 | - | - | 32,965 | 39,927 |
| **Total** | **32,948** | **8** | **9** | **-** | **-** | **32,965** | **39,927** |

### PAST DUE BUT NOT IMPAIRED

As at 30 June 2019, trade receivables of $11,480k (2018 - $4,595k) were past due but not impaired. These relate to number of independent customers for whom there is no recent history of default and as a result no adjustment has been made relating to AASB 9.

### OTHER RECEIVABLES

These are generally sundry debtors, deposits and accrued revenue held which arise during the normal course of business.

### ACCOUNTING POLICY

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30-45 days and therefore are all classified as current.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 month before 30 June 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables.

On that basis, the Group has concluded that a loss allowance does not need to be recognised for the year ended 30 June 2019.

# J. OTHER ITEMS (CONTINUED)

## J2- TRADE AND OTHER PAYABLES

| | 2019 $'000 | 2018 $'000 |
|---|---|---|
| Trade payables | **31,341** | 20,866 |
| Other payables | **12,155** | 10,122 |
| | **43,496** | 30,988 |

### ACCOUNTING POLICY

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are initially recognised at their fair value, and subsequently measured at amortised cost using the effective interest method.

In accordance with *AASB 15* from Contracts with Customers the Group records a Contract Liability for funds received from clients in advance of their travel date. The Contract Liability is valued based on the relevant contract or ticket terms. A review has confirmed that at balance date it is probable that all amounts held will be collected in FY2020 and therefore no adjustment has been made for the time value of money.

Revenue is released from the Contract Liability account to the Comprehensive Income Statement in the month in which the travel takes place. The Contract Liability was $2.4m in FY2019.

## J3- PROVISIONS

### AMOUNTS NOT EXPECTED TO BE SETTLED WITHIN THE NEXT 12 MONTHS

The current provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the annual leave provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

| **Provisions** | 2019 $'000 | 2018 $'000 |
|---|---|---|
| **Secured** | | |
| Employee benefits - Annual Leave | **5,943** | 5,144 |
| Employee benefits - Long Service Leave | **2,629** | 2,292 |
| **Total Current Provisions** | **8,572** | 7,436 |
| | | |
| Employee benefits - Long Service Leave | **1,524** | 1,538 |
| **Total Non-Current Provisions** | **1,524** | 1,538 |
| | | |
| **Total Provisions** | **10,096** | 8,974 |

### ACCOUNTING POLICY

Provisions are recognised when

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

# J. OTHER ITEMS (CONTINUED)

## J3- PROVISIONS (CONTINUED)

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the Directors' best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

## J4- CONTINGENCIES AND COMMITMENTS

### CONTINGENT LIABILITIES

Alliance has on issue six bank guarantees relating to existing leases totalling $0.45 million (2018: $0.49 million).

### CAPITAL COMMITMENTS

Alliance has no capital commitments at 30 June 2019 (2018: $NIL). The Group is party to a Total Care Services Agreement with Rolls-Royce for the maintenance of Tay 650-15 engines. The agreement is based on engine operating hours only.

### LEASE COMMITMENTS: GROUP AS LESSEE

*Non-cancellable operating leases*

The Group leases various hangars, offices and warehouses under non-cancellable operating leases expiring within two to fifteen years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated. If the lease period expires without agreement being reached the leases are holdover on a monthly basis.

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Commitments for Minimum Lease Payments in Relation to Non-Cancellable Operating Leases are Payable as Follows:** | | |
| Within one year | **1,484** | 1,468 |
| Later than one year but not older than five years | **3,927** | 4,645 |
| Later than five years | **3,328** | 3,945 |
| | **8,739** | 10,058 |
| **Commitments for Minimum Lease Receipts in Relation to Non-Cancellable Operating Subleases as Follows:** | **168** | - |

### ACCOUNTING POLICY

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. (Note A3). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

## J. OTHER ITEMS (CONTINUED)

### J5- REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

| | 2019<br>$ | 2018<br>$ |
|---|---|---|
| **PricewaterhouseCoopers** | | |
| **Audit and other Assurance Services** | | |
| Audit and review of financial statements | **220,005** | 246,500 |
| **Total Remuneration for Audit and other Assurance Services** | **220,005** | 246,500 |
| **Taxation Services** | **79,625** | 193,394 |
| **Other Non Assurance Services** | **89,239** | - |
| **Total Remuneration for Taxation and Non Assurance Services** | **168,864** | 193,394 |
| **Total Auditor's Remuneration** | **388,869** | 439,894 |

It is the Group's policy to employ PwC on assignments additional to their statutory audit duties where PwC's expertise and experience with the Group are important. PwC will not be used where it could affect their independence.

## J6- PARENT ENTITY FINANCIAL INFORMATION

The individual financial statements for the parent entity shows the following aggregate amounts for the reporting period ended 30 June 2019.

| | 2019<br>$'000 | 2018<br>$'000 |
|---|---|---|
| **Balance Sheet** | | |
| Current Assets | **1** | 2 |
| Non-current assets | **72,295** | 68,295 |
| **Total Assets** | **72,296** | 68,297 |
| Current Liabilities | **34** | 51 |
| Non-current liabilities | **18,966** | 8,628 |
| **Total Liabilities** | **19,000** | 8,679 |
| **Net Assets** | **53,296** | 59,618 |
| **EQUITY** | | |
| Issued Capital | **187,725** | 183,575 |
| Reserves | **(110,691)** | (110,691) |
| Share-based payments | **332** | 332 |
| Retained earnings | **(24,070)** | (13,598) |
| **Total Equity** | **53,296** | 59,618 |
| **Profit or (Loss) for the Year** | **5,807** | (1,490) |

# J. OTHER ITEMS (CONTINUED)

## J7- SUBSIDIARIES

### SIGNIFICANT INVESTMENTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note K2.

| Name of Entity | Country of Incorporation | Class of Shares | 2019 | 2018 |
|---|---|---|---|---|
| Alliance Airlines Pty Ltd | Australia | Ordinary | 100% | 100% |
| Alliance Leasing No.1 Pty Ltd | Australia | Ordinary | 100% | 100% |
| Alliance Leasing No.2 Pty Ltd | Australia | Ordinary | 100% | 100% |
| Alliance Leasing No.3 Pty Ltd | Australia | Ordinary | 100% | 100% |
| Jet Engine Leasing Pty Ltd | Australia | Ordinary | 100% | 100% |
| Avoco Pty Ltd | Australia | Ordinary | 100% | 100% |
| Alliance Aviation Slovakia s.r.o. | Slovakia | Ordinary | 100% | 100% |
| Alliance Airlines (NZ) Limited | New Zealand | Ordinary | 100% | 100% |

*The proportion of ownership interest is equal to the proportion of voting power held.*

## J8- EVENTS OCCURING AFTER THE REPORTING PERIOD

There have been no matters subsequent to the end of the financial year which the Directors are required to disclose.

# K - BASIS OF PREPARATION

## K1- COMPLIANCE

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001.* Alliance Aviation Services Limited is a for-profit entity for the purpose of preparing the financial statements.

### COMPLIANCE WITH IFRS

The consolidated financial statements of the Alliance Aviation Services Limited Group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

### HISTORICAL COST CONVENTION

These financial statements have been prepared under the historical cost convention.

### NEW AND AMENDED STANDARDS ADOPTED BY THE GROUP

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2018 materially affected any of the amounts recognised in the current period or any prior period.

## K2 - PRINCIPLES OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of Alliance Aviation Services Limited and its subsidiaries as at 30 June 2019.

### SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## K3 - SEGMENT REPORTING AND INFORMATION

The operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Alliance Aviation Limited Board of Directors.

The Board of Directors have determined the operating segment based on the reports reviewed and considers the business has one reportable segment, being the provision of aircraft charter services and aviation services for the reporting period ended 30 June 2019.

All operations are integral to and blended with each other and the Directors do not assess the financial performance any one part of the business but rather individual projects that the broader business undertakes.

The revenue from external parties reported to the Board of Directors is measured in a manner consistent with that in the income statement. The amounts provided to the Board of Directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset.

### FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Alliance Aviation Services Limited's functional and presentation currency.

# K - BASIS OF PREPARATION (CONTINUED)

## K4 - FOREIGN CURRENCY TRANSLATION

### TRANSACTIONS AND BALANCES

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges.

All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

## K5 - CRITICAL ESTIMATES, JUDGEMENTS AND ERRORS

The preparation of financial statements requires the use of accounting estimates which, by definition will seldom equal the actual results. The Directors also need to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involve a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. In addition this note also explains where there have been actual adjustments this year as a result of any changes to policy and changes to previous estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

### CARRYING VALUE OF AIRCRAFT

#### AIRCRAFT USEFUL LIFE AND DEPRECIATION

The aircraft useful life is based on estimates and assumptions which are derived from a combination of manufacturer guidelines, aircraft remaining cycles and future maintenance requirements.

There are four principle groups of components of each aircraft which assist with the determination of the useful lives and depreciation rates:

*(i)* The airframe;
*(ii)* Major components including the engines, landing gears and other significant value items which by their nature also have a maintenance constraint which affects the useful life;
*(iii)* Other significant components are also tracked individually which may also have a maintenance constraint; and
*(iv)* Other assets of each aircraft which are normally 'pooled' for which an effective life of five years is generally applied.

As aircrafts represent a significant portion of the assets of the Group, their useful life assumptions and estimates will impact the depreciation expense and the written down value of the aircrafts.

The useful life assumptions are reviewed on an annual basis, given consideration to variables, including historical and forecast usage rates, technological advancements and changes in legal and economic conditions.

The Group performs heavy maintenance checks on a number of existing fleet units each financial year. In addition to this the Group performs service maintenance checks on a number of aircraft held as inventory as operational requirements dictate. Both these checks result in an increase in the useful life of the asset.

The Directors assess the most appropriate depreciation method for each of the individual assets identified in component groups (i), (ii) and (iii). The balance of other assets in components group (iv) has been pooled. Refer to note D2 for details of current depreciation method and rates used.

#### CAPITALISATION OF OVERHEAD RELATING TO HEAVY MAINTENANCE

The group performs heavy maintenance checks on a number of existing fleet units each financial year. In addition to this the Group performs service maintenance checks on a number of aircraft held as inventory as operational requirements dictate. Both these checks result in an increase in the useful life of the asset.

## K - BASIS OF PREPARATION (CONTINUED)

### CARRYING VALUE OF AIRCRAFT (CONTINUED)

The Group capitalises labour and part costs for these checks to the aircraft asset. This capitalisation is based on invoices received from external suppliers and timesheets completed by the engineering staff.

In addition to the parts and labour costs incurred, the Group capitalises an amount of overhead (overhead burden) to the aircraft asset. The overhead burden rate per labour hour is calculated at the start of each financial year by reviewing the pool of overhead costs that can be directly attributed to maintenance checks. This pool of costs includes maintenance planners, technical records staff, freight costs and procurement time amongst others. Once this pool of costs has been calculated, it is then spread out over the number of labour hours incurred in that financial year. This calculated rate is then capitalised at the finalisation of the maintenance check to the aircraft asset.

### INDICATORS OF IMPAIRMENT OF ASSETS

The Group follows the guidance of AASB 136 Impairment of Assets each year to determine whether any indicators of Impairment exist i.e. whether assets are carried at amounts in excess of their recoverable value. Recoverable amount of an asset or Cash Generating Unit (CGU) is defined as the higher of its fair value less costs to sell or its value in use.

The Directors have reviewed the impairment indicators at the reporting date and based on their analysis there is no impairment required.

### TRANSFERS OF PROPERTY, PLANT AND EQUIPMENT TO/FROM INVENTORY

There are a number of parts that are removed from an aircraft which can be re-used either in their removed condition or re-used post repair or refurbishment. These parts are typically referred to as rotables. In some cases parts are removed in a serviceable condition for inspection only.

The rotables removed as unserviceable are transferred from property, plant and equipment into inventory at the lower of core value or net realisable value. Core value is a pre-determined benchmark that is representative of a marketable value of the part in its unserviceable condition. The benchmark values have been set historically and are adjusted as and when market conditions dictate.

Management assessment of these market conditions includes:

- Manufacturers service bulletins;
- Remaining useful life / cycles;
- Estimated repair and replacement costs;
- Availability of similar rotables in stock; and
- Availability of similar rotables on the open market.

Rotables that are removed for inspection purpose only are transferred at its carrying value until such time as the inspection is completed when any adjustments (if required) are made to the carrying value.

Note D1 discloses the accounting policy in relation to the Group's accounting treatment of Inventory.

### DEFERRED TAX ASSET

During the year the outright deduction of the ongoing capital maintenance program has resulted in an increase in the net deferred tax liability consistent with the previous year.

Tax losses relating to the deferred tax asset will be utilised in future periods.

## K6 - IMPAIRMENT OF ASSETS

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

# K - BASIS OF PREPARATION (CONTINUED)

## K7 - 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). These foreign currency borrowings were repaid in June 2015, and the remaining hedge amount of $2.2 million is being carried in equity.

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.

## K8 - GOODS AND SERVICES TAX (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the taxation authority, are presented as operating cash flows.

## K9 - ROUNDING OF AMOUNTS

The Company is of a kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

# CHANGES IN ACCOUNTING POLICIES

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP

The Group has applied the following standards and amendments for the first time for the financial reporting period commencing 1 July 2018.

### 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.

*Impact on the Group*

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. 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.

### AASB 9 FINANCIAL INSTRUMENTS AS AT 1 JULY 2018 – IMPACT OF TRANSITION

This note explains the impact of the adoption of AASB 9 Financial Instruments 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.

## CHANGES IN ACCOUNTING POLICIES (CONTINUED)

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP (CONT'D)

### 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.

#### 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. 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

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

### IFRIC 22 FOREIGN CURRENCY TRANSACTIONS AND ADVANCE CONSIDERATION.

Effective/application date 1 January 2018

This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency.

## NEW ACCOUNTING STANDARDS AND INTERPRETATIONS YET TO BE ADOPTED BY THE GROUP

The following new accounting standards and interpretations have been issued, but are not mandatory for financial year ended 30 June 2019 and have not been adopted in preparing the financial report for the year ended 30 June 2019. In all cases the entity intends to apply these standards applicable from the period first commencing after the effective date as indicated below.

The Group's assessment of the impact of these new standards and interpretations is set out below.

### AASB 16 LEASES

Effective/application date - 1 July 2019

Provides a new model for accounting for leases and will result in the recognition of almost all leases on the balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of

## CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### NEW ACCOUNTING STANDARDS AND INTERPRETATIONS YET TO BE ADOPTED BY THE GROUP (CONTINUED)

an asset (the right of use asset) and a financial liability to pay rentals for almost all lease contracts. The Group does not intend to adopt AASB 16 before its mandatory date.

*Impact on the Group*

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 between approximately $8.5 million to $9.5 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 $300,000 and $400,000.

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

### ACCOUNTING STANDARDS NOT YET EFFECTIVE BUT REQUIRED TO BE DISCLOSED

#### IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS.

Effective/application date - 1 July 2019

This IFRIC clarifies how the recognition and measurement requirements of IAS 12 'Income Taxes', are applied where there is uncertainty over income tax treatments.

#### AMENDMENTS TO IAS 19 EMPLOYEE BENEFITS ON PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT.

Effective/application date 1 July 2019.

These amendments require an entity to:

- Use updated assumptions to determine current service costs and net interest for the remainder of the period after a plan amendment, curtailment or settlement; and
- Recognise in profit or loss as part of past service cost, or a gain or loss on settlement, any reduction in a surplus, even if that surplus was not previously recognised because of the impact of the asset ceiling.

#### AMENDMENTS TO IFRS 2 SHARE BASED PAYMENTS ON CLARIFYING HOW TO ACCOUNT FOR CERTAIN TYPES OF SHARE-BASED PAYMENT TRANSACTIONS

Effective/application date 1 July 2019.

This amendment clarifies the measurement basis for cash-settled, share-based payment and the accounting for modifications that change an award from cash-settled to equity-settled.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

## PARENT ENTITY FINANCIAL INFORMATION

The financial information for the parent entity, Alliance Aviation Services Limited, disclosed in note J6 has been prepared on the same basis as the consolidated financial statements, except as set out below:

### INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE ENTITIES

Investments in subsidiaries are accounted for at cost in the financial statements of Alliance Aviation Services Limited.

### TAX CONSOLIDATION LEGISLATION

Alliance Aviation Services Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Alliance Aviation Services Limited, and the controlled entities are in the tax consolidated Group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated Group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Alliance Aviation Services Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated Group.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate Alliance Aviation Services Limited for any current tax payable assumed and are compensated by Alliance Aviation Services Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Alliance Aviation Services Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

## DIRECTORS DECLARATION

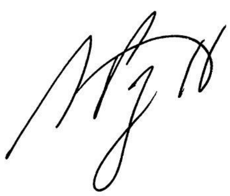
In the Directors' opinion:

The financial statements and notes set out on pages 22 to 61 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 30 June 2019 and of its performance for the financial year ended on that date, and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- note K1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001.*

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



**S Padgett**

**Chairman**

**Date: 7 August 2019**

**Sydney**

**INDEPENDENT AUDITOR'S REPORT**

# *Independent auditor's report*

To the members of Alliance Aviation Services Limited

## ***Report on the audit of the financial report***

### *Our opinion*

In our opinion:

The accompanying financial report of Alliance Aviation Services Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the year then ended

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

### ***What we have audited***

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2019
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

***PricewaterhouseCoopers, ABN 52 780 433 757***
*Riverside Centre, 123 Eagle Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001*
*T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au*

***Independence***

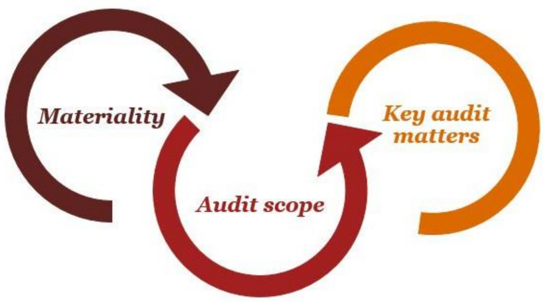
We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

## *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group provide tailored aircraft charters for the resource industry, inbound and domestic group travel, and regular passenger travel across Australia and New Zealand. The group have operational bases in Perth, Adelaide, Townsville, Melbourne, Cairns, Darwin, Rockhampton, Bratislava, and the head office is based in Brisbane.




| ***Materiality*** | ***Audit scope*** |
|---|---|
| • For the purpose of our audit we used overall Group materiality of $1.64 million, which represents approximately 5% of the Group's profit before tax.<br>• We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.<br>• We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.<br>• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds. | • Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.<br>• We performed most of our audit procedures at the head office in Brisbane. We attended stock counts in Brisbane, Perth, Adelaide and Townsville. |

## 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. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit and Risk Committee.

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Carrying value of Property, plant and equipment - Aircraft assets***<br>*(Refer to note D2) $198m*<br><br>At 30 June 2019 the Group held Property, plant and equipment - aircraft assets with a carrying value of $198 million.<br><br>Throughout the year the Group make judgements and estimates relating to the useful life and depreciation method of each component of an aircraft. Judgements as to whether specific aircraft refurbishment and maintenance costs are capitalised or expensed are also made.<br><br>As at 30 June 2019, the Group determined that the useful lives and depreciation methods applied to aircraft assets were appropriate and that no adjustment to remaining useful lives, or changes to depreciation methods from prior periods were required.<br><br>The Group also performed an impairment indicators assessment over aircraft assets and concluded that no such internal or external indicators were present and therefore no adjustment to the carrying value of aircraft was required.<br><br>Given the material significance of the aircraft assets balance on the Consolidated Balance Sheet, and the significant level of judgement involved in assessing the carrying value thereof, this was determined to be a key audit matter.<br><br>The key areas of judgement included:<br>• assessing the refurbishment and heavy maintenance costs eligible to be capitalised.<br>• assessing the useful lives and depreciation rates.<br>• assessing the aircraft for internal and external impairment indicators. | Our procedures in relation to the carrying value of aircraft assets, included, amongst others:<br><br>• Assessing the total costs of internal labour and overhead applicable to heavy maintenance by considering the nature of the direct costs identified to consider their eligibility to be capitalised.<br>• We assessed the proportion of total internal labour hours allocated to direct heavy maintenance by testing a sample of labour hours and costs to detailed pay run reports or third party invoices.<br>• Testing a sample of direct overhead costs to third party invoices.<br>• Testing a sample of aircraft asset additions to third party invoices.<br>• Assessing, on a sample basis, whether the useful lives and depreciation methods applied to aircraft assets are consistent with the Group's accounting policy; and recalculated the depreciation expense for the year.<br>• Assessing the Group's impairment assessment to determine if any internal or external indicators of impairment exist by evaluating the current year financial performance to budgets and forecasts, as well as external market data such as share price.<br>• Evaluated the adequacy of the disclosures made in Note D2 to the financial report, in light of the requirements of the Australian Accounting Standards. |

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Carrying value of Inventory - Aircraft and engines**<br>*(Refer to note D1) $38m*<br><br>At 30 June 2019 the Group held aircraft and engines inventory with a carrying value of $38 million. This inventory comprises rotable spare parts for aircraft and engines, spare engines and whole aircraft where the intent of acquisition was to hold as inventory for sale or to be broken down for spare parts.<br><br>Throughout the year the Group make judgements and estimates as to the carrying value allocated to rotable parts which are transferred from property, plant and equipment to inventory.<br><br>We focused on this area due to the materiality of the aircraft and engines inventory balance, and the judgements involved in determining the carrying value thereof. | Our procedures, on a sample basis, amongst others:<br><br>● Inspecting a sample of assets to consider existence and assessing the appropriateness of the classification of the sampled assets to inventory.<br><br>● Obtaining third party confirmations to assess the existence of inventory assets in the custody of the third parties.<br><br>● Testing a sample of aircraft and engine asset additions to third party invoices.<br><br>● Comparing a sample of transfers from property, plant and equipment to inventory at the lower of core value or net realisable value.<br><br>● Evaluated the adequacy of the disclosures made in Note D1 to the financial report, in light of the requirements of the Australian Accounting Standards. |

## 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 2019, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors report, Information of directors, Meeting of directors, Shareholder information, Company directory. We expect the remaining other information to be made available to us after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or 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 on the other information that we obtained prior to the date of this auditor's report, 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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

## *Responsibilities of the directors for the financial report*

The directors of the Company 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 ability of the Group 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

# ***Report on the remuneration report***

## *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 10 to 18 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Alliance Aviation Services Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

## *Responsibilities*

The directors of the Company 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.

PricewaterhouseCoopers

Ben Woodbridge
Partner

Brisbane
7 August 2019

## SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 30 June 2019.

### DISTRIBUTION OF EQUITY SECURITIES

Analysis of number of equity security holders by size of holding

| Size of Equity Holder | No. of holders |
|---|---|
| 1- 1,000 | 587 |
| 1,001 – 5,000 | 478 |
| 5,001– 10,000 | 178 |
| 10,001 – 100,000 | 222 |
| >100,000 | 44 |
| **Total** | **1,509** |

There were 70 holders of less than a marketable parcel of ordinary share.

### EQUITY SECURITY HOLDERS

The names of the twenty largest holders of quoted equity securities are listed below:

| | Ordinary Shares | |
|---|---|---|
| **Equity Holder** | **Number Held** | **% of issued shares** |
| Qantas Airways Limited | 24,812,011 | 19.8% |
| HSBC Custody Nominees (Australia) Limited | 23,544,161 | 18.8% |
| Citicorp Nominees Pty Limited | 9,925,507 | 7.9% |
| National Nominees Limited | 9,170,254 | 7.3% |
| Kiowa Two Thousand Corporate Trustee Company Limited | 8,940,741 | 7.1% |
| Airline Investments Australia Pty Limited ( Finehold & Pastoral Unit) | 7,365,191 | 5.9% |
| J P Morgan Nominees Australia Pty Limited | 6,360,286 | 5.1% |
| BNP Paribas Nominees Pty Ltd (Agency Lendinf DRP A/C) | 4,701,481 | 3.7% |
| BNP Paribas Noms Pty Ltd (DRP) | 4,298,343 | 3.4% |
| Bond Street Custodians Limited (CAJ - V03075 A/C) | 3,209,926 | 2.6% |
| Bond Street Custodians Limited (CAJ - D64993 A/C) | 2,565,513 | 2.0% |
| Capital Property Finance Pty Limited | 2,521,680 | 2.0% |
| BNP Paribas Noms (NZ) Ltd (DRP) | 1,240,038 | 1.0% |
| Bnp Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd Drp | 1,026,582 | 0.8% |
| Bond Street Custodians Limited (CAJ - D09461 A/C) | 653,000 | 0.5% |
| Bond Street Custodians Limited (CAJ - D68501 A/C) | 550,000 | 0.4% |
| Mrs Wanda Susan Drennan & Mr Geoffrey John Drennan (G J Supa Combo S/F A/C) | 458,000 | 0.4% |
| Bond Street Custodians Limited (CAJ - D46128 A/C) | 400,000 | 0.3% |
| Citicorp Nominees Pty Limited (Colonial First State INV A/C) | 382,531 | 0.3% |
| Dunecove Pty Limited (Pencars Super Fund A/C) | 275,000 | 0.2% |
| | **112,400,245** | **89.5%** |
| **Balance of Register** | **13,116,700** | 10.5% |
| **Total Equity Security Holding** | **125,516,945** | **100.0%** |

## SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below

| Name | Ordinary Shares<br>Number Held | <br>% of issued shares |
|---|---|---|
| Qantas Airways Limited | 24,812,011 | 19.8% |
| HSBC Custody Nominees (Australia) Limited | 23,544,161 | 18.8% |
| Citicorp Nominees Pty Limited | 9,925,507 | 7.9% |
| National Nominees Limited | 9,170,254 | 7.3% |
| Kiowa Two Thousand Corporate Trustee Company Limited | 8,940,741 | 7.1% |
| Airline Investments Australia Pty Limited ( Finehold & Pastoral Unit) | 7,365,191 | 5.9% |
| J P Morgan Nominees Australia Pty Limited | 6,360,286 | 5.1% |
| BNP Paribas Nominees Pty Ltd (Agency Lendinf DRP A/C) | 4,701,481 | 3.7% |
| **Total** | **94,819,632** | **75.6%** |

## VOTING RIGHTS

The voting rights attaching to each ordinary share are on a show of hands and every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

## COMPANY DIRECTORY

| | |
|---|---|
| **PRINCIPAL REGISTERED OFFICE IN AUSTRALIA** | Street: 81 Pandanus Avenue<br>Brisbane Airport QLD 4009<br>Website: www.allianceairlines.com.au<br>Phone: 07 3212 1212<br>Fax: 07 3212 1522<br>Email: executive@allianceairlines.com.au<br>ACN: 153 361 525<br>IATA Code: QQ |
| **DIRECTORS** | S Padgett — Non-Executive Chairman<br>S McMillan — Managing Director<br>P Housden — Independent Non-Executive Director<br>D Crombie — Independent Non-Executive Director<br>L Schofield — Executive Director |
| **SECRETARIES** | N Clark and M Devine |
| **SENIOR MANAGEMENT** | Chief Financial Officer — M Devine<br>General Manager Commercial — S Edwards |
| **SHARE REGISTER** | Link Market Services Limited<br>Level 21, 10 Eagle Street Brisbane QLD 4000 |
| **AUDITOR** | PricewaterhouseCoopers<br>480 Queen Street Brisbane QLD 4000 |
| **SOLICITORS** | Norton White<br>66 Hunter Street Sydney NSW 2000<br><br>Freehills Herbert Smith<br>101 Collins Street Melbourne VIC 3000 |
| **BANKERS** | Australia and New Zealand Banking Group Limited<br>111 Eagle Street Brisbane QLD 4000<br><br>Commonwealth Bank of Australia Limited<br>300 Murray Street Perth WA 6000<br><br>*Fiduciary Services*<br>Australia and New Zealand Banking Group Limited |
| **STOCK EXCHANGE** | Australian Securities Exchange<br>Exchange Centre 20 Bridge Street Sydney NSW 2000<br><br>ASX Code : AQZ |

An electronic copy of this Annual Report is available at www.allianceairlines.com.au