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

INTERIM REPORT
For the half year ended 31 December 2019

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Director's Report

for the half year ended 31 December 2019

DIRECTOR'S REPORT

Your Directors are pleased to 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 controlled at the end of, or during, the half year ended 31 December 2019.

DIRECTORS

The following persons were Directors of Alliance Aviation Services Limited during the whole of the half year and up to the date of this report:

- Stephen Padgett OAM
- Scott McMillan
- Peter Housden
- David Crombie AM
- Lee Schofield

FINANCIAL REVIEW

The Group has delivered a record first half statutory profit before tax (PBT) $15.5 million, an increase of 10% when compared to the prior comparative period (2018: $14.1 million). The Group's statutory net profit after tax (NPAT) result for the half year was $10.7 million, an increase of 9.2% on the prior comparative period (2018: $9.8 million).

The new accounting standard AASB 16 Leases was introduced in the half year. The Group adopted a modified transition approach to the implementation of the new standard which has resulted in no requirement to restate prior year comparatives. Statutory PBT excluding the impact of AASB 16 was $15.7 million, which is an 11.3% increase on the prior year comparative period.

REVENUE

Revenue from continuing operations increased 9.8% from $137.8 million for the half year to 31 December 2018 to $151.3 million for the half year ended 31 December 2019. The revenue growth has predominantly occurred in the contract revenue and ad-hoc charter revenue streams, with aviation services also contributing positively to the growth.

A review of the Group's various revenue streams is shown below:

- Contract revenue has increased 17.3% from $80.8 million for the half year to 31 December 2018 to $94.8 million for the half year ended 31 December 2019. This growth in revenue is the result of a combination of factors including increased scheduled services for a number of clients, mine maintenance programs which required additional flights and the full first half effect of change in yield.

- Charter revenue for the half year was $10.6 million, an increase of 130.1% when compared to the prior comparative period. A number of short term contracts for a varied client base made up the majority of this increase with multi sector tourism charters also increasing in the first half.

- Wet lease revenue experienced a decrease in the first half of 34.2% or $9.1 million when compared to the prior comparative period of $26.6 million. Exceptional growth in revenue occurred in the prior comparative period as the Group operated ad-hoc wet lease services for a number of domestic and international operators. This has not been repeated in the current reporting period. Contracted wet lease revenue has, however, increased by 10.2% when compared to the second half of the 2019 financial year.

- RPT revenue was stable for the half with growth of 2%.

- Aviation services revenue increased to $6 million an increase of 52% when compared to the prior comparative period. A general increase in part and component sales benefited the Group in the first half.

CASHFLOW

Operating cash flow for the half year was $14.6 million, a decrease of $7.7 million from the prior year comparative of $22.3 million. The following are factors that affected the operating cash flow in the first half:

- The purchase, maintenance and transportation charges associated with the Helvetic Airways one off inventory package purchase valued at $7.5 million; and
- Operating cash flows associated with the Group electing to increase the number of aircraft that required base maintenance over the interim period.

Cash outflow from investing activities in the half year were $19.8 million, an increase of $9 million or 82.4% on the prior year comparative. During the half year $2.6million was incurred on adding two aircraft to the fleet and $1.9 million was incurred as work in progress payments for an additional two aircraft (entering the fleet in February 2020). Base maintenance expenditure was $5.9 million and reflected the brought forward maintenance program that occurred in the first half. Other sustaining capital outflows were $8.9 million.

In August 2019, the Group increased its debt by $18 million which was fully utilised to settle the inventory purchase and assist in the funding of the intensive maintenance programs that occurred in the first half of the year.

CAPITAL EXPENDITURE

Capital expenditure for the period was $28.0 million (2018: $26.2 million)

Capital expenditure on pre-existing fleet and services was $21.4million. Other capital expenditure incurred during the year for the expansion of the Alliance business was $6.6 million which brought the total capital expenditure for the interim reporting period to 31 December 2019 to $28.0 million. The investment in expansion relates to two aircraft that were added into the fleet in the half year and two aircraft that are currently undergoing maintenance and will commence operations from February 2020. A summary of the capital expenditure is shown below.

Item	1H FY 2020 Actual - $m
Existing Fleet Maintenance	
Cash outflows	
Base maintenance providers	5.9
Engine care program	8.9
Other miscellaneous	0.5
Operating costs capitalised	1.5
Total cash outflows	**16.8**
Non-cash	
Parts from inventory used in base maintenance	4.6
Total existing fleet maintenance	**21.4**
Growth capital expenditure	
Cash outflows	
Entry into service maintenance providers	4.5
Operating costs capitalised	1.6
Total cash outflow	**6.1**
Non-cash	
Parts from inventory used in base maintenance	**0.5**
Total growth fleet maintenance	**6.6**
Total capital expenditure	**28.0**

Director's Report
for the half year ended 31 December 2019

SUMMARY OF FINANCIAL RESULTS

Key financial metrics in respect of the half year ended 31 December 2019 are included in the table below with the prior financial period included to facilitate a direct comparison between years.

Item	31 Dec 2019 $m	31 Dec 2018 $m	Change $m
Total Revenue	150.8	137.8	13.0
Earnings before Interest, Tax, Depreciation and Amortisation	34.7	31.2	3.5
Profit Before Tax	15.5	14.1	1.5
Income Tax Expense	(4.9)	(4.3)	(0.6)
Net Profit After Tax	10.7	9.8	0.9
Earnings Per Share – cents	8.5	7.9	0.6
Total Dividends Paid / payable in relation to the financial period – cents	7.3	6.6	0.7
Net Assets	172.9	161.8	11.1
Net Operating Cash Flow	13.7	21.4	(7.7)

SUMMARY OF OPERATIONAL METRICS

The metrics below represent the key indicators the Company uses to monitor operational performance.

Item	31 Dec 2019	31 Dec 2018	Change
Aircraft in Service	40	38	2
Contract Flight Hours	11,240	9,596	1,644
Wet Lease Flight Hours	4,547	6,683	(2,136)
RPT Flight Hours	2,634	2,611	23
Charter Flight Hours	931	507	424
Other (Includes maintenance)	358	273	85
Total Flight Hours	19,710	19,670	40
On Time Performance	95%	95%	-
Average Staff Numbers	593	529	64
Revenue Per Employee ($'000)	255	260	(5)
Contract Revenue % of Total Revenue	63%	59%	4.0%

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the half year ended 31 December 2019.

AUDITORS 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 5.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in the Australian Securities and Investment Commission (ASIC) Legislative Instrument 2016/91, relating to the ‘rounding off’ of amounts in the Directors’ Report and Financial Report. Amounts in the Directors’ Report and Financial Report have been rounded off in accordance with the instrument to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of the Directors of Alliance Airlines Services Limited.

S Padgett
Chairman
Sydney
5th February 2020

Auditors Independence Declaration

pwc

Auditor's Independence Declaration

As lead auditor for the review of Alliance Aviation Services Limited for the half-year ended 31 December 2019, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
5 February 2020

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Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the half year ended 31 December 2019

	Notes	31 December 2019 $'000	31 December 2018 $'000
Revenue and Income			
Revenue from continuing operations	A1	151,316	137,785
Net foreign exchange gains / (losses)		(526)	(341)
Other income		38	81
Total Revenue and Income		150,828	**137,525**
Expenses			
Direct flight costs		(55,078)	(51,121)
Parts and inventory costs		(14,461)	(10,873)
Labour and staff related costs		(40,911)	(38,618)
Repairs and maintenance costs		(564)	(499)
Accommodation and utility costs		(819)	(1,650)
IT and communications costs		(1,591)	(950)
Other administrative costs		(3,213)	(2,645)
Finance costs		(1,383)	(1,470)
Depreciation and amortisation		(17,261)	(15,568)
Total Expenses		**(135,281)**	**(123,394)**
Profit before income tax for the period		**15,547**	**14,131**
Income tax expense	E1	(4,889)	(4,284)
Profit for the period		**10,658**	**9,847**
Other Comprehensive Income			
Items that may be reclassified to profit and loss			
Other comprehensive income for the half year, net of tax		-	-
Total comprehensive income for the half year		**10,658**	**9,847**
Total comprehensive income for the period is attributable to:			
Owners of Alliance Aviation Services Limited		**10,658**	**9,847**

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

	31 December 2019 Cents	31 December 2018 Cents
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company		
Basic earnings per share	**8.45**	**7.93**
Diluted earnings per share	8.40	7.89

Consolidated Balance Sheet

For the half year ended 31 December 2019

	Notes	31 December 2019 $'000	30 June 2019 $'000
Assets			
Current Assets			
Cash and cash equivalents	B1	**12,087**	9,607
Receivables		**41,239**	39,927
Inventories	D1	**57,317**	49,060
Total Current Assets		**110,643**	**98,594**
Non-Current Assets			
Property, plant & equipment	D2	**214,151**	202,458
Intangibles	D3	**426**	472
Right of use assets	D4	**8,269**	
Total Non-Current Assets		**222,846**	**202,930**
Total Assets		**333,489**	**301,524**
Liabilities			
Current Liabilities			
Trade and other payables		**41,320**	43,496
Borrowings	B2	**21,200**	3,650
Current tax liabilities		**0**	17
Lease liabilities	D4	**1,764**	0
Provisions		**9,252**	8,572
Total Current Liabilities		**73,536**	**55,735**
Non-Current Liabilities			
Borrowings	B2	54,800	56,400
Provisions		1,664	1,524
Deferred tax liability		23,873	18,992
Lease liabilities	D4	6,674	0
Total Non-Current Liabilities		**87,011**	**76,916**
Total Liabilities		**160,547**	**132,651**
Net Assets		**172,942**	**168,873**
Equity			
Contributed equity	**F1**	**192,034**	187,648
Reserves		**(112,157)**	(112,247)
Retained earnings		**93,065**	93,472
Total Equity		**172,942**	**168,873**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the half year ended 31 December 2019

		31 December 2019 $'000	31 December 2018 $'000
Cash flow from operating activities			
Receipts from customers		**159,825**	151,022
Payments to suppliers		**(144,056)**	(127,477)
Interest received		**38**	70
Interest paid		**(1,183)**	(1,328)
Income taxes paid		**(23)**	(14)
Net cash inflow / (outflow) from operating activities		**14,601**	**22,273**
Cash flows from investing activities			
Payments for property, plant and equipment		**(19,848)**	(10,789)
Net cash inflow / (outflow) from investing activities		**(19,848)**	**(10,789)**
Cash flows from financing activities			
Proceeds from borrowings		**18,000**	-
Principal elements of lease payments (FY2019: Rent payments)		**(875)**	(850)
Repayment of borrowings		**(2,050)**	(3,600)
Dividends paid		**(7,342)**	(5,813)
Net cash inflow / (outflow) from financing activities		**7,733**	**(10,263)**
Net increase (decrease) in cash and cash equivalents		**2,486**	1,221
Cash and cash equivalents at the beginning of the half year		**9,607**	11,847
Effects of currency translation on cash and cash equivalents		**(6)**	48
Cash and cash equivalents as at 31 December 2019	B1	**12,087**	**13,116**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half year ended 31 December 2019

	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
Balance as at 1 July 2019	**187,648**	**(112,247)**	**93,472**	**168,873**
Comprehensive income				
Profit for the half year	**-**	**-**	**10,658**	**10,658**
Other comprehensive income	**-**	**-**		
Total comprehensive income for the period	**-**	**-**	**10,658**	**10,658**
Transactions with owners in their capacity as owners				
Dividends paid	**-**	**-**	**(11,061)**	**(11,061)**
Dividend reinvestment plan	**3718**	**-**	**-**	**3718**
Share-based payment reserve	**243**	**66**	**-**	**309**
Employee Share Plan	**425**	**-**	**-**	**425**
Foreign currency translation reserve	**-**	**24**	**(4)**	**20**
	4386	**90**	**(11,065)**	**(6,589)**
Closing Balance as at 31 December 2019	**192,034**	**(112,157)**	**93,065**	**172,942**

	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total Equity $'000
Balance as at 1 July 2018	**183,498**	**(112,652)**	**87,016**	**157,862**
Comprehensive income				
Profit for the half year	-	-	9,847	9,847
Other comprehensive income	-	-		
Total comprehensive income for the period	**0**	**0**	**9,847**	**9,847**
Transactions with owners in their capacity as owners				
Dividends paid	-	-	(7,800)	(7,800)
Dividend reinvestment plan	1,987		-	1,987
Share-based payment reserve	-	(54)	-	(54)
Foreign currency translation reserve	-	(17)	-	(17)
	1,987	**(71)**	**(7,800)**	**(5,884)**
Closing Balance as at 31 December 2018	**185,485**	**(112,723)**	**89,063**	**161,825**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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 revenue type.

	31 December 2019 $'000	31 December 2018 $'000
Contract revenue	**94,825**	80,756
Wet lease revenue	**17,525**	26,627
RPT revenue	**21,793**	21,280
Charter revenue	**10,588**	4,601
Aviation services revenue	**6,001**	3,934
Other revenue	**584**	587
Total revenue from continuing operations	**151,316**	137,785

B – CASH MANAGEMENT

B1 - CASH AND CASH EQUIVALENTS

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.

	31 December 2019 $'000	**30 June 2019 $'000**
Cash at bank and on hand	**12,087**	9,607
Total Cash and Cash Equivalents	**12,087**	**9,607**

B2 - BORROWINGS

The Group's borrowing facilities consist of term loans and a working capital facility. In August 2019 the Group entered into an additional term loan agreement with its financiers for an amount of $18 million. The funds were utilised to assist in the settlement of the Helvetic aircraft acquisition and to assist in funding the brought forward base maintenance program that occurred in half year ended 31 December 2019.

	31 December 2019 $'000	30 June 2019 $'000
Current Liabilities – Borrowings		
Secured		
Bank loans	**21,200**	3,650
Total Current Borrowings	**21,200**	**3,650**
Non-Current Borrowings		
Secured		
Bank loans	**54,800**	56,400
Total Non-Current Borrowings	**54,800**	**56,400**
Total Borrowings	**76,000**	**60,050**

FACILITIES

	Financier Limit		Current	Utilisation
	ANZ	CBA	Available	
	$'000	$'000	$'000	$'000
Term loan facility 1	29,000	29,000	-	58,000
Term loan facility 2	9,000	9,000	-	18,000
Working capital multi option facility	5,000	-	4,582	418
Total	**43,000**	**38,000**	**4,582**	**76,418**

C – CAPITAL MANAGEMENT

The Group's objective 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

	31 December 2019 $'000	31 December 2018 $'000
Dividends paid within half year reporting period		
In respect of the financial year ended 30 June 2019, a fully franked dividend of 8.8 cents per fully paid ordinary share was paid out of retained earnings on 14 November 2019 (2018: 6.3 cents)	**11,061**	7,800

DIVIDENDS DECLARED BUT NOT RECORDED

In respect of the half year ended 31 December 2019, a fully franked interim dividend of 7.3 cents has been declared by the Directors. This dividend will be paid out of the retained earnings on 21 May 2020. This amount has not been recognised as a liability for the half year ended 31 December 2019.

FRANKING CREDITS

	31 December 2019 $'000	31 December 2018 $'000
Franking Credits		
Franking credits available for subsequent reporting based on a tax rate of 30% (2018: 30%)	**7,647**	15,082

D – OTHER ASSETS

D1 - INVENTORY

Inventory consists 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.

Item	31 December 2019 $'000	30 June 2019 $'000
Inventory – Aircraft and engines	**44,940**	37,761
Inventory – Spares and Consumables	**12,377**	11,299
	57,317	**49,060**

AMOUNTS RECOGNISED IN PROFIT AND LOSS

Inventory recognised as an expense during the half year ended 31 December 2019 amounted to $1,421k ($899k: 2018) and is included in parts and inventories.

D2 - PROPERTY, PLANT & EQUIPMENT

Item	Aircraft Assets $'000	Property, Plant & Equipment $'000	Total $'000
As at 30 June 2019			
Cost	402,978	21,498	424,476
Accumulated Depreciation	(204,596)	(17,422)	(222,018)
Net Book Value	**198,382**	**4,076**	**202,458**
Half year ended 31 December 2019			
Opening net book amount	198,382	4,076	202,458
Additions	30,682	205	30,887
Transfers	(2,864)	0	(2,864)
Depreciation charge for period	(15,785)	(545)	(16,330)
Closing net book value	**210,415**	**3,736**	**214,151**
As at 31 December 2019			
Cost	430,796	21,703	452,499
Accumulated deprecation	(220,381)	(17,967)	(238,348)
Net book value	**210,415**	**3,736**	**214,151**

ADDITIONS AND TRANSFERS

Additions to property, plant & equipment for the period ended 31 December 2019 include any aircraft entered into service, all aircraft heavy maintenance and the addition of major modifications and significant components. Transfers relate to the removal of rotable parts from the aircraft which are transferred to inventory.

D3 – INTANGIBLES

Intangibles relate to certifications and internally generated software.

Item	Notes	31 December 2019 $'000	30 June 2019 $'000
Opening net book amount		472	489
Additions		-	74
Amortisation charge		(46)	(91)
Closing net book value		**426**	**472**

D4 - RIGHT OF USE ASSETS (LEASES)

The Group leases various offices, warehouses, and equipment. Rental contracts are typically made for fixed periods of six months to eight years, but may have extension options as described in below.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Until the 2019 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 July 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

In the previous year, the Group's policy was to only recognise lease assets and lease liabilities in relation to leases that were classified as 'finance leases' under AASB 117 Leases. The Group had no finance leases in the previous year.

This note provides information for leases where the Group is a lessee.

AMOUNTS RECOGNISED IN THE BALANCE SHEET

The Balance Sheet shows the following amounts in relation to leases:

	31 December 2019 $'000	1 July 2019 $'000
Right of use Assets		
Property, Plant & Equipment	8,269	9,154
Total Right of Use Assets	**8,269**	**9,154**
Lease Liabilities		
Current	1,296	1,572
Non-Current	7,142	7,582
Total Lease Liabilities	**8,438**	**9,154**

ADDITIONS

There has been no new finance leases entered into in the half year ended 31 December 2019.

AMOUNTS RECOGNISED IN THE CONSOLIDATED INCOME STATEMENT

The Consolidated Income Statement includes the following amounts relating to leases:

	31 December 2019 $'000
Depreciation Charge for Right of Use Assets	
Property, Plant & Equipment	**885**
Depreciation Charge for Right of Use Assets	**885**
Other Costs relating to Leases:	
Interest expense *(included in Finance Costs)*	**159**
Total Cash Outflow for Leases for half year ended 31 Dec 2019	**875**

ACCOUNTING POLICY

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by Alliance Aviation Services Limited, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g. term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate takes effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise airport apron licences.

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

E – INCOME TAX

E1 - INCOME TAX

	31 December 2019 $'000	31 December 2018 $'000
Income tax expense		
Current tax expense	**-**	14
Adjustments for current tax of prior periods	**4**	-
Total income tax expense	**4**	**14**
Deferred income tax expense included in the income tax expense comprises:		
Decrease / (Increase) in deferred tax assets	**(1,022)**	1856
Increase / (Decrease) in deferred tax liabilities	**5,907**	2414
	4,885	**4270**
Income tax expense from continuing operations	**4,889**	**4284**
Effective tax rate	**30%**	30%
Numerical reconciliation of income tax to prima facie tax payable		
Profit/(loss) before income tax expense	**15,547**	14,131
Tax at the Australian tax rate of 30% (2018: 30%)	**4,664**	4,239
Tax effect of amounts which are not deductible/(taxable) in the calculation of taxable income:		
Sundry	**225**	45
Income tax expense	**4,889**	**4,284**

F – EQUITY

F1 - CONTRIBUTED EQUITY

	31 December 2019		30 June 2019	
	No. Shares	**$000**	**No. Shares**	**$000**
Share Capital				
Ordinary shares – fully paid	127,470,102	192,034	125,516,945	187,648
Total Contributed Equity	**127,470,102**	**192,034**	**125,516,945**	**187,648**
Movement in ordinary share capital issued and fully paid shares:				
Balance at the beginning of the period	125,516,945	187,648	123,808,489	183,498
Dividend reinvestment plan issues	1,592,562	3,718	1,708,456	4,150
Performance incentive shares vested and exercised	176,995	243	0	0
Employee Share Plan	183,600	425	0	0
Balance at the end of the period	**127,470,102**	**192,034**	**125,516,945**	**187,648**

G – RELATED PARTY TRANSACTIONS

G1 - RELATED PARTY TRANSACTIONS

Where transactions are entered into with Key Management Personnel (KMP), these are approved by the Board. Board members who have an interest in the matter either directly or via related party do not participate in the Board approval process. No new arrangements have been entered into since the annual report for year ended 30 June 2019.

H – OTHER ITEMS

H1 - CONTINGENCIES

Alliance has on issue six bank guarantees relating to existing leases totalling $0.42 million (2018: $0.49million)

H2 - EVENTS OCCURRING AFTER BALANCE DATE

The Directors are not aware of any other matters or circumstances not otherwise dealt with in the interim financial report that have significantly affected or may significantly affect the operations of the consolidated Group, the results of those operations or the state of the consolidated Group in the period subsequent to the half year ended 31 December 2019.

I – BASIS OF PREPARATION

I1 - COMPLIANCE

This is the interim financial report for Alliance Aviation Services Limited (the "Company") and its controlled entities (collectively referred to as "Alliance" or "the Group") for the half year ended 31 December 2019.

The interim financial report has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*. The interim report does not include all the notes of the type normally included in an annual report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Group during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act. 2001*.

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

CHANGES IN ACCOUNTING POLICIES

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED BY THE GROUP

AASB 16 LEASES

This note explains the impact of the adoption of AASB 16 Leases on the group's financial statements and discloses the new accounting policies that have been applied from 1 July 2019.

As indicated in note D4 above, the Group has adopted AASB 16 Leases from 1 July 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 July 2019. The new accounting policies are disclosed in note D4.

On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of AASB 117 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 July 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 July 2019 was 3.91%.

The Group previously did not have any leases classified as finance leases.

PRACTICAL EXPEDIENTS APPLIED

In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 July 2019;
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and Interpretation 4 Determining whether an Arrangement contains a Lease

MEASUREMENT OF LEASE LIABILITIES

Description	**1 July 2019 $'000**
Operating lease commitments disclosed as at 30 June 2019	9,154
Discounted using the lessee's incremental borrowing rate at the date of initial application	9,803
Add: Finance leases liabilities recognised as at 01 July 2019	
(Less): short –term leases not recognised as a liability	(649)
Lease liability recognised as at 1 Jul 2019	**9,154**
Current lease liabilities	1,572
Non-current lease liabilities	7,582
Total Lease Liability as at 1 Jul 2019	**9,154**

MEASUREMENT OF RIGHT OF USE ASSETS

The right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2019.

ADJUSTMENTS RECOGNISED IN THE BALANCE SHEET ON 1 JULY 2019

The change in accounting policy affected the following items in the balance sheet on 1 July 2019:

Description	Increased by $'000	Decreased by $'000
Right of Use Assets	9,154	
Lease Liabilities	9,154	
Net Impact	Nil	

IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS

IFRIC 23 clarifies how the recognition and measurement of IAS 12 'Income Taxes', are applied where there is uncertainty over income tax treatments. In accordance with the Group's accounting policy on taxation the 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.

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

Effective application date – 1 July 2019

IAS 19 requires an entity to determine the amount of any past service cost, or gain or loss on settlement, by remeasuring the net defined benefit liability before and after the amendment, using current assumptions and the fair value of plan assets at the time of the amendment. The Group does not have any employees on a defined benefit plan. These amendments therefore have nil impact on the Group.

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

Effective application date – 1 July 2019

The Group has taken on board the clarifications provided by 'Amendments to IFRS 2 - Share Based Payments'. There is no material impact on the reporting of share based payments which need to be disclosed.

Directors' declaration

In the Directors' opinion:

- The financial statements and notes set out on pages 6 to 19 are in accordance with the *Corporations Act 2001*, including:
    - complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements, and
    - giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half year ended on that date, and
    - there are reasonable grounds to believe that Alliance Aviation Services Limited will be able to pay its debts as and when they become due and payable.

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

S Padgett

Chairman

Date: 5 February 2020

Sydney

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

Report on the interim report

We have reviewed the accompanying interim report of Alliance Aviation Services Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated balance sheet as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated balance sheet, consolidated statement of cash flows and consolidated statement of changes in equity for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the interim report

The directors of the Company are responsible for the preparation of the interim 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 interim report that gives a true and fair view and is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the interim report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alliance Aviation Services Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independence

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

Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

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Ben Woodbridge
Partner

Brisbane
5 February 2020