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Alliance Aviation Services (ASX code: AQZ)

Alliance Aviation creates a new business and establishes a European presence

- Alliance Aviation Services Limited (Alliance or the Company) today announced that it has contracted to purchase Austrian Airlines entire fleet of 21 Fokker Aircraft for a total consideration of USD 15 million (a combination of shares and deferred cash payments). This fleet consists of 15 Fokker 100 and 6 Fokker 70 aircraft.
- It provides Alliance with a cost effective and guaranteed supply of engines and parts for its existing fleet.
- This acquisition provides significant revenue opportunities in wet leasing, dry leasing, engine sales and leasing, spare parts sales and aircraft sales.
- It diversifies Alliance's revenue streams.
- No debt funding is required to undertake this acquisition.
- Austrian Airlines AG becomes a shareholder of Alliance.
- The transaction will be earnings accretive in future years.

Overview

Alliance Aviation Services Limited (Alliance or the Company) today announced that it has executed a binding contract to purchase Austrian Airlines entire fleet of 21 Fokker Aircraft for a total consideration of USD 15 million. This fleet consists of 15 Fokker 100 and 6 Fokker 70 aircraft.

Strategic Rationale

Over the last 18 months Alliance has undertaken a strategic review of its operations as a result of reduced activity in the resources sector. This has resulted in a number of measures being undertaken that have improved our cost base and the efficient delivery of our services to our clients whilst at the same time looking for revenue opportunities.

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Guaranteed and Cost effective spare parts

The purchase provides Alliance with a secure and cost effective supply of engines, spare parts and other major components for its own Fokker fleet of aircraft for the foreseeable future.

This transaction is therefore an important measure to preserve the economic life of the existing fleet and to manage the supply and cost of parts over the next 8 to 10 years.

This will also provide ongoing comfort to our Australian clients in relation to retaining our position as the number one on- time performer to the resources industry.

Revenue Opportunities

Alliance has also been investigating new business opportunities that will result in:

- diversifying our revenue streams;
- complementing our existing business; and
- most importantly improving return to the Company's shareholders.

Today Alliance Airlines has undertaken the above transaction with Austrian Airlines and is confident of achieving all 3 of the above objectives.

Announcing the acquisition, Alliance Managing Director Scott McMillan said:

"This purchase now provides Alliance with the opportunity to expand Alliance's revenue streams into new areas and geographies and also provides a cost effective long term supply of parts to our existing Fokker fleet.

These opportunities both in Australia and through the establishment of an office in Europe will allow Alliance to generate new income streams that are not directly related to the Australian 'Fly in and Fly out' (FIFO) resources sector"

This transaction will expand our footprint into Europe where we will be able to utilise these aircraft to provide cost effective:

- **Wet leasing** (complete with crew, maintenance and insurance) during the peak summer months when European Airlines experience heavy passenger demand. Alliance's research indicates that the high number of hours flown in the peak of the European summer provides significant wet leasing opportunities
- **Dry leasing** (aircraft only) particularly in Europe, Asia and the Pacific for periods of short duration to meet passenger demand and unexpected maintenance
- **Engine sales and leasing** as replacements to existing airlines or for reconditioning and resale
- **Spare parts** will generate significant revenue opportunities both in Australia and overseas as the Fokker aircraft are still in extensive use. Presently there are 69 Fokker jet Aircraft that are in service within Australia and Papua New Guinea. Other potential markets include **Europe, Asia and Africa**

- **Aircraft sales** – the number of Fokker aircraft operational in Australia and Papua New Guinea has increased significantly over the past few years and Alliance will be able to provide aircraft for purchase should this trend continue.

The Transaction

Alliance has contracted to purchase 15 Fokker 100 and 6 Fokker 70 aircraft from Austrian Airlines AG, a wholly owned subsidiary of Lufthansa AG. The aircraft will be delivered and purchased progressively over a 26 month period commencing in December 2015.

They will be delivered to and owned by Alliance Aviation Slovakia s.r.o. - a wholly owned subsidiary of Alliance Aviation Services Limited.

The total purchase consideration is USD 15 million, with adjustments based on the final delivery condition of each aircraft. Payment will comprise an issue of new shares in Alliance to Austrian Airlines AG for a total value of USD 5.5 million and a later cash component of approximately USD 9.5 million.

The share component of this transaction will be issued based upon the average share price for the last three months and a USD exchange rate of \$0.72. The total number of shares to be issued is 14,565,174 which means that Austrian Airlines AG will have a 12.04% interest in Alliance. The conditions of this issue also include a restriction that the shares will be held in escrow for 38 months from today. The cash component for the transaction will not commence until the second year of the delivery period and will be funded from the revenue opportunities generated by this transaction.

The transaction will not require an increase in the Company's debt. Alliance reduced total debt by AUD 11 million within the last twelve months and successfully refinanced the remaining debt this year with no significant change in terms. Alliance will continue with its strategy to reduce debt in the medium term.

Commenting on the purchase, Mr McMillan said,

“For Austrian Airlines, selling the entire fleet to one of their existing customers and the world's largest operator of Fokker aircraft in one transaction was a clean and attractive proposition.”

Strategic and Operational Advantages

Alliance has developed a strong technical and engineering relationship with Austrian Airlines. A subsidiary of Austrian Airlines, Austrian Technik Bratislava (ATB) was contracted this year to provide heavy maintenance servicing in Bratislava of the Alliance Fokker aircraft.

This contract and the closure of the heavy maintenance bases in Australia has resulted in immediate and continuing cost savings to Alliance.

Where the newly acquired aircraft are to be parted out, ATB will store the aircraft at Bratislava, and remove and store parts. Bratislava airport is 50km from Vienna airport. Alliance plans to operate its current fleet of Fokker aircraft in Australia and New Zealand for at least the next 8 to 10 years. Alliance has 15 F100 and 8 F70 jet aircraft (as well as 5 F50 turboprop aircraft) and is the largest global operator of the type.

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Shareholder value

As indicated in August 2015, Alliance does not expect any significant growth in the resources sector in this financial year. Alliance continues to provide the most reliable FIFO service in Australia and has recently continued to expand this offering to other industries particularly tourism and general charter.

Consistent with the strategy outlined in August 2015, Alliance has retained all contracts and continues to renew contracts in advance of their renewal date. This is a product of the flexibility of the Alliance, industry leading on time performance and reliability.

The resources industry continues to provide challenges for both schedule and margin, however Alliance has continued to respond and adapt to these challenges.

This new opportunity is consistent with our strategy as it is an important part of managing costs associated with the ongoing maintenance of the fleet and provides an opportunity to diversify its revenue as we support the Fokker fleet more broadly.

The proposal has received the consent of both financiers of Alliance, ANZ and CBA.

This proposal will increase earnings per share in subsequent years.

Alliance Aviation Services Limited

For more information contact:

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About Alliance Aviation

Alliance Aviation is Australia's leading provider of fly-in, fly-out ("FIFO") transportation.

The Company provides an essential service to the mining and energy industry – the safe and efficient air transportation of their employees and contractors to and from remote locations. Alliance is also focused on developing new markets with an increasing exposure to markets outside of the resources sector.

The company recently retained its Flight Safety Foundation "BARS Gold" status, the first such carrier in Australia to be so recognised.

The Company operates a fleet of 15 Fokker 100, 8 Fokker 70LR jet aircraft and 5 Fokker 50 turboprops at industry leading on time performance.

Alliance flies workers to and from some of the largest mining operations in Australia for a predominantly "blue chip" mining and energy customer base, and also provides ad-hoc charter, aircraft wet lease and aviation engineering services to a range of corporate, tourism and government customers throughout Australasia.

The Company has a national footprint with operations based in Brisbane, Townsville, Cairns, Melbourne, Adelaide, Perth and Auckland.