



May 2017

Corporate Governance Statement

Alliance Aviation Services Limited (The Company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The Board reviews the framework and practices to ensure they meet the interests of shareholders. The company and its controlled entities together are referred to as the group in this statement.

The Directors continue to monitor the ASX Corporate Governance Principles and Recommendations (3rd Edition).

Most policies below were established and approved by the Board when the company listed on the Australian Stock Exchange in 2011. All policies are reviewed on an on-going basis.

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board's role is to:

- Represent and serve the interests of shareholders by overseeing and appraising the group's strategies, policies and performance. This includes overseeing the financial and human resources the group has in place to meet its objectives and reviewing management performance;
- Protect and optimise group performance and build sustainable value for shareholders in accordance with any duties and obligations imposed on the Board by law and the group's constitution and within a framework of prudent and effective controls that enable risk to be assessed and managed;
- Set, review and ensure compliance with the group's values and governance framework (including establishing and observing high ethical standards); and
- Ensure shareholders are kept informed of the group's performance and major developments affecting its state of affairs.

The responsibilities/functions of the Board include:

- Selecting, appointing and evaluating from time to time the performance of, determining the remuneration of, and planning succession of, the Managing Director (MD), the Chief Executive Officer (CEO) and direct reports of both individuals;
- Contributing to and approving management development of corporate strategy, including setting performance objectives and approving operating budgets;
- Reviewing, ratifying and monitoring systems of risk management and internal control and ethical and legal compliance. This includes reviewing procedures to identify the main risks associated with the group's businesses and the implementation of appropriate systems to manage these risks;
- Monitoring corporate performance and implementation of strategy and policy;
- Approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- Monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting

- Developing and reviewing corporate governance principles and policies
- Promoting diversity within all levels of the group; and
- Performing such other functions as are prescribed by law or are assigned to the Board.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

The Board operates in accordance with the broad principles set out in its charter which is available from the corporate governance information section of the company website at www.allianceairlines.com.au. The charter details the Board's composition and responsibilities.

Board composition

- The Board is appointed by the shareholders. Non-executive directors are engaged through a letter of appointment;
- The Board determines the size and composition of the Board, subject to the terms of the company's constitution;
- It is intended that the Board should comprise a majority of non-executive directors and comprise directors with a broad range of skills, expertise and experience from a diverse range of backgrounds, including gender; and
- The Board, together with the nomination and remuneration committee, will review the skills represented by directors on the Board and determine whether the composition and mix of those skills remain appropriate for the group's strategy, subject to limits imposed by the constitution and the terms served by existing non-executive directors.

Directors' independence

- The Board regularly reviews the independence of each non-executive director in light of information relevant to this assessment as disclosed by each non-executive director to the Board;
- The Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to interfere with, the exercise of their unfettered and independent judgment;
- The Board does not believe that it should establish an arbitrary limit on tenure. While tenure limits can help to ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight in the group and its operation and, therefore, an increasing contribution to the Board as a whole. Accordingly, tenure is just one of the many factors that the Board takes into account when assessing the independence and ongoing contribution of a director in the context of the overall Board process.

Without limiting the Board's discretion, the Board has adopted the following guidelines to assist in considering the independence of directors. In general, directors will be considered to be "independent" if they are not management (a non-executive director) and they:

- are not material shareholders of the company, or officers of, or otherwise associated directly or indirectly with, material shareholders of the company;
- have not within the last three years been employed in an executive capacity by the company or another group member;
- were not appointed as a director of the company within three years of ceasing to be employed in an executive capacity by the company;

- have not within the last three years been a principal or employee of a material professional adviser or a material consultant to the company or another group member;
- are not a material supplier to or customer of the company or other group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- have no material contractual relationship with the company or another group member, other than as a director of the company; and
- are free from any interest, business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

Materiality thresholds

The Board will consider thresholds of materiality for the purposes of determining 'independence' on a case by case basis, having regard to both quantitative and qualitative principles. Without limiting the Board's discretion in this regard, the Board has adopted the following guidelines:

- The Board will determine the appropriate base to apply (e.g. revenue, equity or expenses), in the context of each situation;
- In general, the Board will consider a holding of 5% or more of the company's shares to be material;
- In general, the Board will consider an affiliation with a business which accounts for less than 5% of the relevant base to be immaterial for the purposes of determining independence. However, where this threshold is exceeded, the materiality of the particular circumstance with respect to the independence of the particular director should be reviewed by the Board; and
- Overriding the quantitative assessment is the qualitative assessment. Specifically, the Board will consider whether there are any factors or considerations which may mean that the director's interest, business or relationship could, or could be reasonably perceived to, materially interfere with the director's ability to act in the best interests of the company.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office, relationships affecting their independence and their independent status are set out in the directors' report under the heading "Information on directors".

At the date of this revision, there are two executive directors and three non-executive directors, two of whom have no relationships adversely affecting independence and so are deemed independent under the principles set out above.

Mr Padgett is a substantial shareholder of the company and deemed non-independent.

Chair and Non-executive directors

The Board currently has 5 Directors, 3 of which are non-executives, 2 of whom are considered independent.

The Group does not comply with Recommendation 2.4 to have a majority of independent Directors. The Board have considered the experience, skills, contribution and the relevant ownership interests of the Directors in the Group and believe that the Board has the necessary individuals to act in the best interests of the entity.

The Board also considers that the nature, scale and complexity of the Company's existing operations do not warrant the appointment of further Directors.

Periodically, non-executive directors will meet without executive directors or management present.

Term of office

The company's constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election.

Chair and managing director (MD)

The Chair is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the Board's relationship with the company's senior executives. In accepting the position, the Chair has acknowledged that it will require a significant time commitment and has confirmed that other positions will not hinder his effective performance in the role of Chair.

The MD is responsible for implementing group strategies and policies. The board charter specifies that these are separate roles to be undertaken by separate people.

The CEO is responsible for day to day operations of the Group.

The Group does not comply with Recommendation 2.5 to have independent Chair. Mr S Padgett is not considered independent because of his substantial shareholding in the Group. Mr Padgett does not have any current executive function nor has he had in the past.

The Board have considered the appointment of Mr Padgett on a number of occasions over the past few years and believe he has the most appropriate experience to support the Managing Director, CEO and the Board on strategy matters.

Mr Padgett is supported by senior independent Directors, Mr Housden and Mr Crombie who provide ongoing advice and support and act as Chairs of the two Board Committees.

Conflict of interests

Entities connected with Mr Padgett had business dealings with the group during the year, as described in note 25 of the most recent financial statements. In accordance with the board charter, the directors concerned declared their interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions. In addition, those directors did not receive any papers from the group pertaining to those dealings.

Independent professional advice

Directors and board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chair is required, but this will not be unreasonably withheld.

Performance assessment

The board undertakes regular self-assessment of its collective performance, the performance of the Chair and of its committees. The assessment also considers the adequacy of induction and continuing education and access to information.

Management are invited to contribute to this appraisal process which at the discretion of the Chair may be facilitated by an independent third party. The results and any action plans are documented together with specific performance goals which are agreed for the coming year.

The Chair undertakes an annual assessment of the performance of individual directors and meets privately with each director to discuss this assessment.

In the most recent year the Directors considered their collective performance and this was discussed individually with the Chair and with Management in August 2016. In the most recent year a facilitated session by an independent third party was not conducted although this is planned for the future.

A review of the performance of senior management is a structured process that is conducted annually in the August of each year. This formal and documented process is coordinated by the CEO and discussed with the Remuneration Committee and with the Board. This formally process has been completed annually.

Board committees

The Board has established two committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the nomination and remuneration and audit and compliance committees.

Each is comprised entirely of non-executive directors. The committee structure and membership is reviewed on an annual basis. A policy of rotation of committee members applies. It is common practice for all Directors to attend and contribute to all Committee meetings.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All of these charters are reviewed regularly and are available on the company website. All matters determined by committees are submitted to the full Board as recommendations for board decisions.

Minutes of committee meetings are tabled at the subsequent board meeting. Additional requirements for specific reporting by the committees to the Board are addressed in the charter of the individual committees.

Nomination and remuneration committee

The nomination and remuneration committee consists of the following non-executive directors (a majority of whom are independent):

- D Crombie (Chair)
- S Padgett
- P Housden

Details of these directors' attendance at nomination committee meetings are set out in the directors' report on page 11 of the most recent financial statements.

The nomination and remuneration committee operates in accordance with its charter which is available on the company website. The main responsibilities of the committee are to:

- Review and recommend to the Board the size and composition of the Board, including review of board succession plans and the succession of the Chairman and Managing Director, having regard to the objective that the Board comprise directors with a broad range of skills, expertise and experience from a broad range of backgrounds, including gender.
- Review and recommend to the Board the criteria for board membership, including:
 - the necessary and desirable competencies of Board members; and
 - the time expected to be devoted by non-executive directors in relation to the company's affairs.
- Review and recommend to the Board membership of the Board, including:
 - making recommendations for the re-election of directors, subject to the principle that a committee member must not be involved in making recommendations to the Board in respect of themselves; and
 - assisting the Board as required identifying individuals who are qualified to become board members (including in respect of executive directors).

- Assist the Board as required in relation to the performance evaluation of the Board, its committees and individual directors, and in developing and implementing plans for identifying, assessing and enhancing director competencies.
- Review and make recommendations in relation to any corporate governance issues as requested by the Board from time to time.
- Review the Board charter on a periodic basis, and recommend any amendments for Board consideration.
- Ensure that an effective induction process is in place and regularly review its effectiveness.
- On an annual basis, review the effectiveness of the Board's diversity policy.

PRINCIPLE 3: ACT ETHICALLY AND RESPONSIBLY

Code of conduct

The Board has adopted a code of conduct which sets out the group's commitment to maintaining high levels of integrity and ethical standards in its business practices. The code of conduct which is available on the company's website sets out for all directors, management and employees the standard of behaviour expected of them.

The code of conduct sets out policies in various matters including conflicts of interest, public and media communication, use of group's resources, security of information, discrimination and harassment, corrupt conduct, occupational health and safety, and insider trading.

In addition to their obligations under the Corporations Act in relation to inside information, all directors, employees and consultants have a duty of confidentiality to the group in relation to inside information they possess.

Diversity policy

Alliance has a well-established "Equal Employment Opportunity and Diversity" policy which incorporates a number of different factors including gender, ethnicity, disability, age and educational experience.

This policy has a documented objective to improve the representation of females within the Board and the senior management team. During the past 12 months there has been an improvement in the senior management team.

The policy includes a documented process for dealing with perceived or actual discrimination including the process for lodging complaints. This policy is a key part of the induction process within the Group.

The actual number of women employees in the organisation at 30 June 2016 was as follows:

	Number	%
Number of women employed in the whole organisation	159	36
Number of women employed in senior executive positions	2	25%
Number of women on the Board	-	-

PRINCIPLE 4: SAFEGUARD INTEGRITY IN CORPORATE REPORTING

Audit Committee

The audit committee consists of the following non-executive directors:

- P Housden (Chair)
- D Crombie
- S Padgett

Details of these directors' qualifications are set out in the directors' report on pages 9 and 10 of the 2016 financial statements.

All members of the committee are financially literate and have an appropriate understanding of the industry in which the group operates.

The committee's primary roles are:

- oversee the group's relationship with the external auditor and the external audit function generally;
- oversee the preparation of the financial statements and reports;
- oversee the group's financial controls and systems; and
- manage the process of identification and management of financial risk.

The committee's key responsibilities and functions include:

- to assist the Board in relation to the reporting of financial information;
- the appropriate application and amendment of accounting policies;
- the appointment, independence and remuneration of the external auditor;
- to provide a link between the external auditors, the Board and management of the group;
- engage in the proactive oversight of the group's financial reporting and disclosure processes and overseeing and reviewing the outputs of that process (including review of the group's financial statements for accuracy and to ensure they reflect a true and fair view, as a basis for recommendation to and adoption by the Board);
- assist the Board in determining the reliability and integrity of accounting policies and financial reporting and disclosure practices;
- review financial statements for adherence to accounting standards and policies and other requirements relating to the preparation and presentation of financial results and oversee the financial reports and the results of external audit of those reports (including assessing whether external reporting is consistent with the committee members' information and knowledge, and is adequate for shareholder needs);
- review the appropriateness of the accounting policies adopted by management in the composition and presentation of financial reports (or any changes made or contemplated in relation to the group's accounting policies) and assess the management processes supporting external reporting;
- establish procedures for the receipt, retention and treatment of complaints received by the Group regarding accounting, internal accounting controls and auditing matters, and procedures for the confidential, anonymous submission of concerns by employees regarding accounting and auditing matters;
- review management processes supporting external reporting, and any complaints or concerns raised internally regarding financial or accounting processes and practices;

- ensure that procedures are in place designed to verify the existence and effectiveness of accounting and financial systems and other systems of internal control which relate to financial risk management;
- approve the scope of the audit;
- review the effectiveness of the annual audit, placing emphasis on areas where the committee or the external auditors believe special attention is necessary;
- review the performance, independence and objectivity of the external auditors;
- review the procedures for selection and appointment of the external auditors and for the rotation of external audit engagement partners;
- assume responsibility for the appointment (including the termination of an engagement), compensation, the terms of engagement and other contractual terms of the external auditors;
- develop and oversee the implementation of the group's policy on the engagement of the external auditor to supply non audit services and ensure compliance with that policy;
- provide advice to the Board as to whether the committee is satisfied that the provision of non-audit services is compatible with the general standard of independence, and an explanation of why those non audit services do not compromise audit independence, in order for the Board to be in a position to make the statements required by the Corporations Act 2001 (Cth) to be included in the group's annual report.

The company does not have an internal audit function given the size and complexity of the business. The Group has a range of controls and systems in place to mitigate risk. The external audit plan has also been constructed recognising that the Company does not have an internal audit program.

External auditors

The company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PwC was appointed as the external auditor in 2011. It is the policy to rotate audit engagement partners on listed companies at least every five years. The most recent appointment occurred following the completion of the 2016 financial statements.

An analysis of fees paid to the external auditors, including a breakdown of fees for non-audit services, is provided in the directors' report and in note 26 to the financial statements. It is a legal requirement to provide an annual declaration of their independence to the audit committee.

The external auditor will attend the annual general meeting annually and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

The company has written policies and procedures on information disclosure that focus on continuous disclosure of any information concerning the group that a reasonable person would expect to have a material effect on the price of the company's securities. These policies and procedures also include the arrangements the company has in place to promote communication with shareholders and encourage effective participation at general meetings.

A summary of these policies and procedures is available on the company's website. They are also discussed in this statement.

The company secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and coordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the group's operations, the material used in the presentation is released to the ASX and posted on the company's website.

The company's annual and half yearly reports are posted to the company's website; shareholders can also nominate to receive a copy directly.

PRINCIPLE 6: RESPECT THE RIGHTS OF SECURITY HOLDERS

The Company has a number of ways in which Shareholders can access appropriate information to allow them to exercise the rights of all security holders. Some of the measures which the Company actively promotes are as follows:

- **Continuous Disclosure** of current events including communication about projects and the outlook of the business;
- **Investor Briefings and Presentations** both in terms of individual presentation with larger shareholders and shareholders who request a discussion; and
- **Annual General Meeting** where all shareholders are encouraged to attend.

Continuous Disclosure

The Company's disclosure policy and practices are aimed at ensuring timely access for all investors to company information released under the continuous disclosure rules.

These practices include:

- Information released by Company, including media releases and investor briefing materials, is first released to ASX; and
- Such information is posted on the Company's website immediately following release to ASX.

The Company's management meets regularly to consider its continuous disclosure obligations.

Unless the Board considers it has an obligation to make a statement on a particular matter, the Company's policy is not to respond to market rumours and media speculation.

Investor Briefings and Presentations

The Company prepares twice a year a detailed investor briefing pack. This coincides with the release of the financial statements and includes an outline of the most recent results, a number of key messages relevant to the operation of the Company and key points for the outlook of the business performance.

The Managing Director (MD), Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) at or around the same time offer to provide presentations to shareholders and / or conduct telephone discussions with shareholders. This is an opportunity for all shareholders to ask questions and speak directly with Management.

Annual General Meeting

On an annual basis the Company conducts an Annual General Meeting as required by regulations.

This meeting is generally held in October each year. All shareholders are encouraged to attend. In attendance at this meeting are the Board of the Company plus a range of Management from the Company (in addition to the MD, CEO and CFO). The Chairman of the Board, the MD and the CEO generally all give a personal address to the meeting.

All shareholders are encouraged to ask questions of the Board, Management and the auditor of the Company. This can be a formal question as part of the meeting and subject to regulation and continuous disclosure, in an informal way after the meeting. Included with the Notice of the Meeting is the process and requirements for asking questions at the AGM.

This meeting is an opportunity for Management to meet representatives from the Company and hear first-hand the objectives for the business.

The Management addresses to the annual general meeting and a copy of any materials used during the meeting are available on the ASX website and the Company website immediately after the annual general meeting. All outcomes from this meeting are also released to the ASX.

The Board of the Company support the calling of a Poll of the results subject to participation the meeting.

PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Board is responsible for satisfying itself annually, or more frequently as required, that management has developed and implemented a sound system of risk management and internal control. Detailed work on this task is delegated to the management and reviewed by the full Board.

Management have developed a comprehensive system to manage operational risks, including safety, quality assurance, environmental and aviation regulatory compliance.

The audit and compliance committee is responsible for ensuring there are adequate policies in relation to financial risk management, compliance and internal control systems. They monitor the company's financial risk management by overseeing management's actions in the evaluation, management, monitoring and reporting of material operational, financial, compliance and strategic risks.

The committee's specific function with respect to financial risk management is to review and report to the Board that:

- the group's ongoing financial risk management program effectively identifies all areas of potential financial risk;
- adequate policies and procedures have been designed and implemented to manage identified financial risks;
- a regular program of audits is undertaken to test the adequacy of and compliance with prescribed policies; and
- proper remedial action is undertaken to redress areas of weakness.

The following are intended to form part of the normal procedures for the committee's financial risk and compliance responsibilities:

- evaluating the adequacy and effectiveness of the management reporting and control systems used to monitor adherence to policies and guidelines and limits approved by the Board for management of balance sheet risks;
- evaluating the adequacy and effectiveness of the group's financial risk management control systems by reviewing risk registers and reports from management and external auditors;
- evaluating the structure and adequacy of the group's business continuity plans;

- evaluating the structure and adequacy of the group's own insurances on an annual basis;
- reviewing and making recommendations on the effectiveness of the group's financial risk management policies;
- reviewing the group's main corporate governance practices for completeness and accuracy;
- advising the Board on the appropriateness of significant policies and procedures relating to financial processes and disclosures and reviewing the effectiveness of the group's internal control framework;

Management is responsible for designing, implementing and reporting on the adequacy of the company's risk management and internal control system and has to report to the audit committee on the effectiveness of:

- the risk management and internal control system during the year; and
- the company's management of its material business risks.

Corporate reporting

In complying with recommendation 7.3 of the ASX Corporate Governance Principles and Recommendations, the Managing Director and CFO have made certification to the Board:

- that the group's financial statements are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and group and are in accordance with relevant accounting standards; and
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

The nomination and remuneration committee consists of the following non-executive directors (a majority of whom are independent):

- D Crombie (Chair)
- S Padgett
- P Housden

The nomination and remuneration committee operates in accordance with its charter which is available on the company's website.

The committee advises the Board on remuneration and incentive policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors.

In discharging its responsibilities, the committee must have regard to the following policy objectives:

- to ensure the group's remuneration structures are equitable and aligned with the long-term interests of the group and its shareholders and having regard to relevant group policies;
- to attract and retain skilled executives;
- to structure short and long term incentives that are challenging and linked to the creation of sustainable shareholder returns;
- to ensure any termination benefits are justified and appropriate; and

- in the discharge of the committee's responsibilities, no executive should be directly involved in determining their own remuneration.

The committee must at all times have regard to, and notify the Board as appropriate of, all legal and regulatory requirements, including any shareholder approvals which are necessary to obtain.

The responsibilities of the committee are as follows:

- review and recommend arrangements for the executive directors and the executives reporting to the Managing Director (MD) and the Chief Executive Officer (CEO), including contract terms, annual remuneration and participation in the company's short and long term incentive plans;
- review and recommend remuneration arrangements for senior management including contract terms, annual remuneration and participation in the group's short and long term incentive plans;
- review major changes and developments in the group's remuneration, recruitment, retention and termination policies and procedures for senior management;
- review major changes and developments in the remuneration policies, superannuation arrangements, personnel practices and industrial relations strategies for the group;
- review the senior management performance assessment processes and results as they reflect the capability of management to realise the business strategy;
- review and approve short term incentive strategy, performance targets and bonus payments;
- review and recommend to the Board major changes and developments to the company's employee equity incentive plans; and
- recommend whether offers are to be made under any or all of the company's employee equity incentive plans in respect of a financial year.

In respect of the company's employee equity incentive plans in place from time to time:

- review and determine the performance hurdles applicable to the executive directors, the executives reporting to the MD and CEO and senior management;
- review and approve the proposed terms of, and authorise the making of, offers to eligible employees of the group, including determining the eligibility criteria applying in respect of an offer, in respect of a financial year;
- review and approve, within the parameters of the plans, amendments to the terms of existing plans;
- review and approve the terms of any trust deed applying in relation to the plans and of any amendment to any such trust deed, including authorising the execution of any such trust deed or amending deed on behalf of the group; and
- administer the operation of the plans, including but not limited to determining disputes and resolving questions of fact or interpretation concerning the various plans;
- review and make recommendations to the Board on remuneration by gender;
- review and recommend to the Board the remuneration arrangements for the Chairman and the non-executive directors of the Board, including fees, travel and other benefits;
- be satisfied that the Board and management have available to them sufficient information and external advice to ensure informed decision making regarding remuneration;
- review and recommend to the Board the remuneration report prepared in accordance with the Corporations Act 2001 (Cth) for inclusion in the annual directors' report; and
- review and facilitate shareholder and other stakeholder engagement in relation to the Company's remuneration policies and practices.