ALLIANCE AVIATION SERVICES LIMITED

ACN 153 361 525

ASX Code : AQZ

INTERIM FINANCIAL REPORT

For the half year ended 31 December 2017

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Alliance Aviation Services Limited - ACN 153 361 525 (ASX Code AQZ)

Corporate Directory

Principal Registered Office in Australia	Street: Website: Phone: Fax: Email: ACN: ASX:	81 Pandanus Avenue, Brisbane Airport, QLD. 4009 www.allianceairlines.com.au 07 3212 1212 07 3212 1522 executive@allianceairlines.com.au 153 361 525 AQZ
Directors	S Padgett S McMillan P Housden D Crombie L Schofield	Non-executive chairman Managing director Independent non-executive director Independent non-executive director Executive director
Company Secretaries	M Devine N Clark	
Senior Management	M Devine S Edwards	Chief Financial Officer General Manager Commercial
Share Registry	Link Market Services Limited Level 21, 10 Eagle Street, Brisbane, QLD. 4000	
Auditor	PricewaterhouseCoopers 480 Queen Street, Brisbane, QLD. 4000	
Solicitors	Norton White 66 Hunter Street, Sydney, NSW. 2000 Freehills Herbert Smith 101 Collins Street, Melbourne, VIC. 3000	
Bankers	Australian and New Zealand Banking Group 111 Eagle Street, Brisbane, QLD. 4000 Commonwealth Bank of Australia Limited 300 Murray Street, Perth, WA. 6000 Fiduciary Services – Australian and New Zealand Banking Group	
Stock Exchange	Australian Securities Exchange Exchange Centre 20 Bridge Street, Sydney, NSW. 2000	

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

Directors' Report

Your directors are pleased to submit this report on Alliance Aviation Services Limited (the "Company" or "Alliance") and its controlled entities, (referred to hereafter as the "Group") for the half year ended 31 December 2017.

The following persons were directors of Alliance Aviation Services Limited for the whole of the half year ended 31 December 2017 and up until the date of this report:

Steve Padgett	Non-executive chairman
Scott McMillan	Managing director
Lee Schofield	Chief executive officer
Peter Housden	Independent non-executive director
David Crombie	Independent non-executive director

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 and engine leasing.

Key Messages

The key messages from this report are:

- Alliance has delivered a strong half year statutory profit before tax of $10.3 million (2016: $8.7 million) predominately from an increase in flying activity;
- Operating cash flows increased to $21.3 million (2016: $17.2 million) which allowed for continued debt reduction of $6 million in the half;
- Capital expenditure during the half was $12.9 million which included $8.2 million to introduce additional aircraft into service and components that are available for lease;
- The Directors have declared a fully franked interim dividend of 2.5 cents per ordinary share for the half year ended 31 December 2017;
- The improved financial performance and outlook of the Group has enabled the core debt facility to be refinanced with the Group's existing financiers for a three year tenor on improved terms; and
- The final Austrian aircraft settlement occurred in January 2018.

Summary of Financial Results

Alliance Aviation Services Limited recorded a statutory net profit before tax of $10.3 million and a statutory net profit after tax of $7.1 million for the financial half year ended 31 December 2017. This is an improvement on profit before tax of $1.5 million (18%) when compared to the half year ended 31 December 2016.

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

Item	Half year ended 31 December 2017 Actual $m	Half year ended 31 December 2016 Actual $m
Revenue	117.2	101.4
EBITDA	27.5	23.2
Depreciation	(15.4)	(12.4)
Financing costs	(1.8)	(2.1)
EBT	10.3	8.7
Income tax*	(3.2)	0.0
NPAT	7.1	8.7

* In the current year income tax expense of $3.2 million was recognised as a result of the accounting profit. There is no cash tax payment associated with this expense as the Group is currently realising available tax losses now and over future financial years.

Revenue

Revenue for the half year ended 31 December 2017 was $117.2 million (2016: $101.4 million) with the majority of the Group's varied revenue streams demonstrating growth when compared to prior years.

- Contract revenue for the half was as per expectations with incremental increases in flight schedules for a number of clients occurring throughout the period;
- Charter revenue improved in the latter part of the half year, with a number of short-term contracts won;
- Wet lease revenue for the half year was $13.0 million compared $6.0 million for the same period last year. Alliance continues to provide contracted wet lease services to Virgin Australia and ad-hoc wet lease services to a number of other domestic carriers. The increase of revenue in the half is a result of the additional flying hours that were introduced during the course of the 2017 financial year;
- The three RPT routes that commenced operation in July 2017 are performing as expected. The existing Adelaide to Olympic Dam RPT route has seen increased activity in the half; and
- Aviation services has experienced growth in revenues from part sales, aerodrome management and engineering services in the half year when compared to the prior year.

Key Metrics

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

Detail	31 December 2017	31 December 2016
Aircraft in service	31	28
Contract flight hours	9,647	8,813
Wet lease flight hours	3,506	1,712
Charter flight hours	522	368
RPT flight hours	2,347	989
Other (incl. Maintenance)	185	212
Total Flight Hours	**16,207**	**12,094**

Average Staff Numbers	473	436
Revenue per employee ($k)	247	235
Contract % of Total Revenue	65%	69%

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As at 31 December 2017 there were a total of 465 full time equivalent staff (FTE), up from 451 FTE as at 30 June 2017. This increase in FTE is predominately for flight crew and engineering staff required for the increased flying activity as reflected in the metrics above.

Operating Cash flow

Operating cash flow for the half year ended 31 December 2017 increased to $21.3 million (2016: $17.2 million).

The increase in operating cash flows for the half was a product of increased flying activity and a lower number of Austrian fleet settlements as part of the Fokker Fleet project.

During the half the Group spent operating cash flow on the start-up of three RPT routes, with further investment made in the recruitment and training of flight crew and engineering staff required to fulfil increasing activity levels.

The Group continues to focus on debtor days, the management of creditors and cost controls across the Group.

Capital Expenditure

Capital expenditure for the period was $12.9 million (2016: $10.9 million).

The capital expenditure for the half year ended 31 December 2017 includes both expansionary capital expenditure and sustaining capital expenditure.

Forecast operational requirements have required Alliance to add two additional aircraft into service in the half year. Alliance also introduced three engines into its fleet which will serve as operational spares or be available for lease to other operators. This investment in future growth was $8.2 million for the half.

The heavy maintenance program was lower in the first half because of significant investments in previous periods, however this is expected to increase in the second half of the year. The capital expenditure for these activities totalled $4.7 million for the half year.

Business Strategies and Outlook

Alliance continues to experience increased flying activity across all revenue types and expects the level of activity to continue into the second half of the year.

In January 2018, Alliance received confirmation that its material contract with Newmont Mining Services Pty Ltd had been renewed. As part of this renewal Alliance will set up a Darwin operating base in February 2018 which will service this contract as well as provide capacity for other airline operations.

Wet lease flying continues to be consistent with expectations with Alliance continuing to seek further opportunities with carriers throughout Australia.

The company's strategy of diversifying revenue sources continues to be a focus with a substantial level of interest being shown by various inbound and domestic tourism organisations for both short and longer tours within Australia.

The Directors maintain a positive outlook due to the following:

- A historical trend of the flying activity for contract clients being stronger in the second half of the year than the first half. The Group expects it will reach its previously disclosed flying hour increase of 45% on financial year ended 30 June 2017;
- There is renewed confidence in the resources sector and the Group has seen this demonstrated with increases to schedules and flight frequency with existing contract clients which the Group expects to continue;

- Demand for charters has increased as the year has progressed. Alliance has been successful with an increasing number of charter flights and in some cases contracted for short to mid-term repeat flying into the second half of the year;
- Wet lease flying for other operators is stable and as per expectations;
- Investment in additional fleet units, crew and engineering staff has been made in the last six months which has had both a cash flow and cost impact for the half year ended 31 December 2017. This investment will allow the Group to fulfil additional capacity requirements from current and prospective clients;
- An additional three aircraft are scheduled to enter the operational fleet in the second half of the year. These aircraft will service further growth opportunities and allow for capacity coverage required due to the existing fleet heavy maintenance program;
- Aviation services will continue to be a core part of the diversified Alliance business. The Group is investing in the part sales business with the leasing of a fit for purpose warehouse, the implementation of part sales specific warehousing and sales software and the recruitment of staff to support this area of the Group's business.

Other Important Facts

Safety

Safety will always be the most important operational requirement for Alliance and is paramount to the Group's success. In the first half of the 2018 financial year, Alliance successfully passed an audit review of the IATA operational safety audit (IOSA) and retained its IOSA certification. IOSA certification is an internationally recognised and accepted evaluation system designed to assess the operational management and control systems of an airline. The company also has the Flight Safety Foundation "BARS Gold" status and received Wyvern accreditation.

Operational Performance

Alliance has an enviable industry leading on time performance record with an average of 95% (2016: 95%) for the year ended 31 December 2017. This is one of the major reasons that sets our performance apart from our competitors.

Dividends

The Directors have reviewed the cash flow, financial forecast, and the expected capital and operational commitments of the Group and have declared a fully franked interim dividend of 2.5 cents per ordinary share for the half year ended 31 December 2017.

Shareholders will be able to utilise the dividend re-investment plan which will include a 2% discount.

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.

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 period that have not been disclosed previously or in this report.

Financial Statements

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This report is made in accordance with a resolution of directors.

S Padgett
Chairman
Sydney
8 February 2018

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Auditor's Independence Declaration

As lead auditor for the review of Alliance Aviation Services Limited for the half year ended 31 December 2017, 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 review; and

2. 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 entities it controlled during the period.

Debbie Smith
Partner
PricewaterhouseCoopers

Brisbane
8 February 2018

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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 8 February 2018. The directors have the power to amend and reissue the financial statements

Through the use of the internet, we have ensured that our corporate reporting is timely and complete. All press releases, financial statements, corporate governance statements and other information are available on our website: www.allianceairlines.com.au

Financial Statements

Consolidated income statement

Revenue and income	Notes	31 December 2017 $'000	31 December 2016 $'000
Revenue from continuing operations	4	**117,224**	101,394
Net foreign exchange gains/(losses)		**218**	248
Other income		**23**	-
		117,465	101,642
Expenses			
Direct flight costs	5	**(42,155)**	(31,536)
Parts and inventory costs	5	**(8,837)**	(12,889)
Labour and staff related costs	5	**(33,334)**	(28,292)
Repairs and maintenance costs		**(732)**	(1,142)
Accommodation and utility costs		**(1,590)**	(1,571)
IT and communication costs		**(782)**	(883)
Other administrative costs		**(2,579)**	(2,088)
Finance costs	5	**(1,788)**	(2,143)
Depreciation and amortisation	8	**(15,392)**	(12,443)
		(107,189)	(92,987)
Profit/(Loss) before income tax for the period		**10,276**	8,655
Income tax (expense) / benefit	6	**(3,188)**	25
Profit/(Loss) for the period		**7,088**	8,680
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company		**Cents**	Cents
Basic earnings per share		**5.78**	7.16
Diluted earnings per share		**5.76**	7.16

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

Consolidated statement of comprehensive income

	Notes	31 December 2017 $'000	31 December 2016 $'000
Profit for the period		**7,088**	8,680
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Change in the fair value of cash flow hedges	14	**-**	99
Other comprehensive income for the year, net of tax		**-**	99
Total comprehensive income for the period		**7,088**	8,779
Total comprehensive income for the period is attributable to:			
Owners of Alliance Aviation Services Limited		**7,088**	8,779

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

Financial Statements

Consolidated balance sheet

	Notes	31 December 2017 $'000	30 June 2017 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		**8,707**	3,462
Receivables		**34,275**	30,408
Inventories	7	**46,671**	43,012
Total current assets		**89,653**	76,882
Non-current assets			
Property, plant & equipment	8	**170,777**	173,169
Intangibles		**547**	62
Total non-current assets		**171,324**	173,231
Total assets		**260,977**	250,113
LIABILITIES			
Current liabilities			
Trade and other payables		**30,439**	22,360
Borrowings	9	**5,442**	14,244
Current tax liabilities		**76**	54
Provisions	10	**6,819**	6,020
Total current liabilities		**42,776**	42,678
Non-current liabilities			
Borrowings	11	**63,543**	60,747
Provisions	12	**1,304**	1,333
Deferred tax liabilities		**4,159**	993
Total non-current liabilities		**69,006**	63,073
Total liabilities		**111,782**	105,751
Net assets		**149,195**	144,362
EQUITY			
Contributed equity	13	**182,842**	181,035
Reserves	14	**(112,726)**	(112,333)
Retained earnings	14	**79,079**	75,660
Total equity		**149,195**	144,362

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 2016		**180,483**	**(113,031)**	**59,533**	**126,985**
Profit for the period	14	-	-	8,680	8,680
Other comprehensive income		-	99	-	99
Total comprehensive income for the period		-	99	8,680	8,779
Transactions with owners in their capacity as owners:					
Dividends paid	15	-	-	(2,420)	(2,420)
Dividend reinvestment plan	14	552	-	-	552
		552	-	(2,420)	(1,868)
Balance at 31 December 2016		**181,035**	**(112,932)**	**65,793**	**133,896**
Balance at 1 July 2017		**181,035**	**(112,333)**	**75,660**	**144,362**
Profit for the period	14	-	-	7,088	7,088
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		-	-	7,088	7,088
Transactions with owners in their capacity as owners:					
Dividends paid	15	-	-	(3,669)	(3,669)
Dividend reinvestment plan	14	1,293	-	-	1,293
Share-based payment transactions	14	514	(402)	-	112
Foreign currency translation reserve	14	-	9	-	9
		1,807	(393)	(3,669)	(2,255)
Balance at 31 December 2017		**182,842**	**(112,726)**	**79,079**	**149,195**

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

Consolidated statement of cash flows

	Notes	31 December 2017 $'000	31 December 2016 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**129,951**	111,462
Payments to suppliers (inclusive of goods and services tax)		**(106,745)**	(92,235)
Interest received		**21**	-
Interest paid		**(1,880)**	(2,056)
Income taxes paid		**(5)**	-
Net cash inflow (outflow) from operating activities		**21,342**	17,171
Cash flows from investing activities			
Payments for property, plant and equipment		**(7,793)**	(7,280)
Net cash inflow (outflow) from investing activities		**(7,793)**	(7,280)
Cash flows from financing activities			
Proceeds from borrowings		**4,149**	-
Repayment of borrowings		**(10,100)**	(3,500)
Dividends paid		**(2,376)**	(1,868)
Net cash inflow (outflow) from financing activities		**(8,327)**	(5,368)
Net increase (decrease) in cash and cash equivalents		**5,222**	4,523
Cash and cash equivalents at the beginning of the year		**3,462**	2,096
Effects of currency translation on cash and cash equivalents		**23**	(16)
Cash and cash equivalents at the end of the year		**8,707**	6,603

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

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Notes to the consolidated financial statements

1. Summary of Significant Accounting Policies

1(a) Basis of Preparation

This is the condensed Interim Financial Report for Alliance Aviation Services Limited (the "Company") and its controlled entities (collectively referred to as "Alliance" or "the Group") for the half year ended 31 December 2017.

This Interim Financial Report has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001* and does not include all the notes of the type normally included in an Annual Financial Report. Accordingly, this report is to be read in conjunction with the Annual Report for the year ended 30 June 2017 and any public announcements made by Alliance Aviation Services Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and prior corresponding interim reporting periods.

1(b) New and Amended Accounting Standards

None of the new Standards and amendments to Standards that are mandatory for the first time for the financial year beginning 1 July 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The following new/amended accounting standards and interpretations have been issued, but are not mandatory for financial year ended 30 June 2018 and have not been adopted in preparing the financial report for the half year ended 31 December 2017. In all cases the entity intends to apply these standards applicable from the period first commencing after the effective date as indicated below:

AASB 9 Financial Instruments
Effective/application date - 1 July 2018

Description

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard is applicable for reporting periods after 1 January 2018 but is available for early adoption. The Group does not intend to adopt AASB 9 before its mandatory date.

Impact on the Group

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets. There will be 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.

The new 'expected loss' approach to impairment will require more timely recognition of expected credit losses. The revisions to hedge accounting align the accounting treatment with risk management activities. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures of its financial instruments particularly in the year of the adoption of the new standard. The Group has substantially prepared the analysis of these matters and final assessment is ongoing.

Summary of Significant Accounting Policies (continued)

1(b) New and amended accounting standards (continued)

AASB 15 Revenue from Contracts with Customers
Effective/application date - 1 July 2018

Description

Replaces existing revenue recognition guidance and provides a comprehensive new framework for determining whether, how much and when revenue is recognised based on the principle that revenue is recognised when control of a good or service transfers to the customer rather than the notion of risk and reward. The Group does not intend to adopt AASB 15 before its mandatory date.

Impact on the Group

The Group has substantially prepared the analysis of the impact from this accounting standard and final assessment is ongoing.

AASB 16 Leases
Effective/application date - 1 July 2019

Description

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 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 is substantially progressed in determining the impact 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. Group EBITDA is expected to be positively impacted as lease costs will be reclassified as interest and depreciation, although the impact on the Group's profit before tax is not expected to be material. Final assessment is ongoing and will be completed in the near term.

2. Segment Information

As part of the ongoing assessment, the Board considers the business has one reportable segment being the provision of aircraft charter services and aviation services for the reporting period ended 31 December 2017.

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

3. Debt facilities

In the last quarter of 2017 the Group undertook a refinance of their debt facilities with successful completion occurring on 21 December 2017.

The renewal was negotiated with the Group's existing financiers, (Australia and New Zealand Banking Corporation and Commonwealth Bank of Australia), contains improved terms and is for a tenor of three years expiring in January 2021.

Debt facilities (continued)

The following funding arrangements were in place at 31 December 2017:

Funding Mechanism	Current Financier Limit		Current Available	Utilisation
	ANZ	CBA		
	$'000	$'000	$'000	$'000
Term loan	34,625	34,625	-	69,250
Working capital multi option facility	5,000	-	5,000	-
Total	**39,625**	**34,625**	**5,000**	**69,250**

Refer to note 9 and 11.

4. Revenue from continuing operations

	31 December 2017 $'000	31 December 2016 $'000
Contract revenue	**77,798**	70,167
Charter revenue	**4,241**	3,103
Wet lease revenue	**13,019**	6,004
RPT revenue*	**17,885**	4,991
Aviation services revenue	**4,123**	16,869
Other revenue**	**158**	260
	117,224	101,394

* RPT revenue is now classified as its own category.
**The prior year comparative figure for other revenue has been adjusted to reflect the reclassification of rebates to direct flight costs.

5. Expenses

Profit before tax includes the following specific expenses:

	31 December 2017 $'000	31 December 2016 $'000
Direct flight costs		
Direct flight costs	**(42,155)**	(31,536)
Parts and inventory costs		
General parts and inventory costs	**(8,837)**	(12,889)
Finance costs		
Interest expense	**(1,788)**	(2,143)
Labour and staff related costs		
Salaries and wages	**(27,477)**	(24,951)
Superannuation	**(2,282)**	(2,181)
Contractors	**(2,024)**	(796)
Travel and accommodation	**(572)**	(473)
WorkCover and payroll tax	**(1,616)**	(1,490)
Other employee expenses	**(1,142)**	(964)
Cost capitalised as part of heavy maintenance	**1,779**	2,563
	(33,334)	(28,292)

6. Income tax expense

	31 December 2017 $'000	31 December 2016 $'000
(a) Income tax expense:		
Current tax expense/(benefit)	**22**	(25)
Adjustments for current tax of prior periods	**5**	-
	27	(25)
Deferred income tax (revenue) expense included in the income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**2,344**	(2,624)
Increase/(decrease) in deferred tax liabilities	**817**	2,624
	3,161	-
Income tax expense/(benefit) on profit from continuing operations	**3,188**	(25)
Effective tax rate	**30%**	0.0%

(b) Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable

	31 December 2017 $'000	31 December 2016 $'000
Profit / (loss) before income tax expense	**10,276**	8,655
Tax at the Australian Corporate tax rate of 30% (2016: 30%)	**3,083**	2,596
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry	**105**	33
	3,188	2,629
Deferred tax asset on previous years tax losses re-recognised	**-**	(2,654)
Income tax (benefit) / expense	**3,188**	(25)

7. Current Assets – Inventories

	31 December 2017 $'000	30 June 2017 $'000
Inventory – Aircraft and Engines	**37,163**	33,610
Inventory – Spares and consumables	**9,508**	9,402
	46,671	43,012

Amounts recognised in profit or loss

Inventory recognised as an expense during the half year ended 31 December 2017 amounted to $728k (2016: $9,196k), and is included in parts and inventories costs.

8. Non-Current Assets – Property, Plant and Equipment

8(a) Property, plant and equipment

	Aircraft Assets $'000	Property, plant and 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 amount	169,351	3,818	**173,169**
Half year ended 31 December 2017			
Opening net book amount	169,351	3,818	**173,169**
Additions	16,193	257	**16,450**
Transfers	(3,516)	-	**(3,516)**
Depreciation charge	(14,585)	(741)	**(15,326)**
Closing net book amount	167,443	3,334	**170,777**
At 31 December 2017			
Cost	327,744	19,313	**347,057**
Accumulated depreciation	(160,301)	(15,979)	**(176,280)**
Net book value	167,443	3,334	**170,777**

(i) Additions and transfers – 2017

Additions to property plant and equipment for the period ended 31 December 2017 includes any aircraft introduced into service, 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.

Non-current assets pledged as security

Refer to note 11(a) for information on non-current assets pledged as security by the Group.

9. Current Liabilities – Borrowings

	31 December 2017 $'000	30 June 2017 $'000
Secured		
Bank Loans	**5,442**	14,244
Total current borrowings	**5,442**	14,244

Refer to note 3.

10. Current Liabilities – Provisions

	31 December 2017 $'000	30 June 2017 $'000
Employee benefits – Annual Leave	**4,598**	4,065
Employee benefits – Long Service Leave	**2,221**	1,955
	6,819	6,020

11. Non-Current Liabilities – Borrowings

	31 December 2017 $'000	30 June 2017 $'000
Secured		
Bank loans	**63,543**	60,747
	63,543	60,747

11(a) Secured liabilities and assets pledged as security

	31 December 2017 $'000	30 June 2017 $'000
Bank overdrafts and bank loans	**69,250**	75,201
Total secured liabilities	**69,250**	75,201

Refer to note 3.

The bank loans and overdraft 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.

Alliance Aviation Services Limited has complied with the financial covenants of its borrowing facilities for the half year ended 31 December 2017.

The carrying amounts of assets pledged as security for current and non-current borrowings are:

	31 December 2017 $'000	30 June 2017 $'000
Current		
Floating charge		
Cash and cash equivalents	**8,707**	3,462
Receivables	**34,275**	30,408
Inventories	**46,671**	43,012
Total current assets pledged as security	**89,653**	76,882
Non-current		
First mortgage		
Aircraft	**167,443**	169,351
	167,443	169,351
Floating charge		
Plant and equipment	**3,334**	3,818
Intangibles	**547**	62
Total non-current assets pledged as security	**171,324**	173,231
Total assets pledged as security	**260,977**	250,113

12. Non-Current Liabilities – Provisions

	31 December 2017 $'000	30 June 2017 $'000
Employee benefits – Long Service Leave	**1,304**	1,333
	1,304	1,333

13. Equity securities issued

The movement in contributed equity during the period relates to shares issued under the dividend re-investment plan and shares that vested and were exercised as part of the Group's Long Term Incentive plan.

	Notes	31 December 2017 No of Shares	30 June 2017 No of Shares	31 December 2017 $'000	30 June 2017 $'000
Movement in ordinary share capital					
Opening balance at beginning of period		**121,725,894**	120,994,812	**181,035**	180,483
Employee incentive scheme issues		**570,709**	-	**514**	-
Dividend reinvestment plan issues		**1,123,727**	731,082	**1,293**	552
Closing balance at end of period		**123,420,330**	121,725,894	**182,842**	181,035

14. Reserves and Retained Earnings

	31 December 2017 $'000	30 June 2017 $'000
(a) Reserves		
Reorganisation reserve	**(111,083)**	(111,083)
Cash flow hedge reserve	**(2,181)**	(2,181)
Share-based payment reserve	**515**	917
Foreign currency translation reserve	**23**	14
	(112,726)	(112,333)
Movements:		
Reorganisation		
Balance - 1 July	**(111,083)**	(111,083)
Balance at the end of period	**(111,083)**	(111,083)
Movements:		
Cash flow hedge reserve		
Balance - 1 July	**(2,181)**	(2,280)
Currency translation	**-**	142
Deferred tax	**-**	(43)
	-	99
Balance at the end of period	**(2,181)**	(2,181)
(b) Retained earnings		
Movement in retained earnings were as follows:		
Balance - 1 July	**75,660**	59,533
Dividends paid	**(3,669)**	(2,420)
Net profit/(loss) for the period	**7,088**	18,547
Balance at the end of period	**79,079**	75,660

15. Dividends paid or proposed

	31 December 2017 $'000	30 June 2017 $'000
(a) Ordinary shares		
In respect of the full year ended 30 June 2017, a fully franked final dividend of 3 cents per fully paid ordinary shares was paid out of retained earnings on 19 October 2017 (2016: 2 cents).	**3,669**	2,420

Dividends not recognised at the end of the reporting period

An interim dividend of 2.5 cents per ordinary share (December 2016: 0 cents) has been declared by the Directors since the end of the half year reporting date. The interim dividend will be fully franked and paid out of retained earnings on 19 April 2018. The total amount payable will be $3.1 million. This amount has not been recognised as a liability for the half year ended 31 December 2017.

(b) Franked credits		
Franking credits available for subsequent reporting based on a tax rate of 30% (2017: 30%)	**18,710**	21,319

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

16. Contingencies

Contingent liabilities

As at 31 December 2017, Alliance has on issue four bank guarantees relating to existing leases, totalling $0.33 million (2016: $0.34 million).

17. Commitments

Purchase commitments

In November 2015 the Group signed a commitment to acquire 21 Fokker Aircraft from Austrian Airlines AG for a total transaction value of USD15.0 million. As at 31 December 2017, 20 of these aircraft have been delivered with 13 of these being recognised as inventory (whole of aircraft or parts), three have been sold and four have been included as part of Property, Plant and Equipment.

The remaining commitment for the final aircraft of USD0.5 million was settled in January 2018.

18. Related Party Transactions

During the half year ended 31 December 2017, the Group entered into an agreement on normal commercial terms to provide an entry into service maintenance check on an aircraft owned by KBX Pty Ltd. As disclosed in the Annual Report for the period ending 30 June 2017, the Group's Chairman and Managing Director are shareholders of KBX Pty Ltd.

Services to the value of $358k have been invoiced and paid to date. The check is expected to be completed in February 2018.

19. Events Occurring After the Reporting Period

The directors of Alliance are not aware of any other matters or circumstances not otherwise dealt with in the interim financial report that has significantly affected or may significantly affect the operations of the consolidated Group, the results of those operations or the state of affairs of the consolidated Group in the period subsequent to the half year ended 31 December 2017.

Directors' Declaration

In the directors' opinion:

- The financial statements and notes set out on pages 9 to 23 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 2017 and of its performance for the half 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.

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: 8 February 2018
Sydney

pwc

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alliance Aviation Services Limited (the Company), which comprises the consolidated balance sheet as at 31 December 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and consolidated income statement for the half-year ended on that date, selected explanatory notes and the directors' declaration for Alliance Aviation Services Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alliance Aviation Services Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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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 half-year financial report of Alliance Aviation Services Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 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*.

Matters relating to the electronic presentation of the reviewed half-year financial report
This review report relates to the half-year financial report of the Company for the half-year ended 31 December 2017 included on Alliance Aviation Services Limited's web site. The Company's directors are responsible for the integrity of the Alliance Aviation Services Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

D.G. Smith

Debbie Smith
Partner

Brisbane
8 February 2018