

# ALLIANCE AVIATION SERVICES LIMITED

ACN 153 361 525

ASX Code : AQZ

## **ANNUAL REPORT** *For the year ended* *30 June 2018*

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## Company Directory

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

An electronic copy of this Annual Report is available at [www.allianceairlines.com.au](http://www.allianceairlines.com.au)

### Directors' Report

Your Directors present their report on the consolidated entity (referred to hereafter as the "Group") consisting of Alliance Aviation Services Limited (the "Company" or "Alliance") and the entities it controlled at the end of, or during, the year ended 30 June 2018.

The following persons were Directors of Alliance for the entire financial year ending 30 June 2018:

Steve Padgett	Non-Executive Chairman
Scott McMillan	Managing Director
Lee Schofield	Executive Director and 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:

- The Group has delivered an increased profit before tax (PBT) result for the year of \$26.1 million, an increase on the previous year of 33% (2017: \$19.6 million);
- Operating cash flow has increased by \$16.6 million or 76% to \$38.3 million for the year ended 30 June 2018 (2017: \$21.7 million);
- Four additional aircraft were added to the fleet contributing to a 35% increase in flight hours operated during the financial year;
- Net debt has reduced by \$18.3 million to \$53.4 million (2017: \$71.7 million);
- The Directors have declared a fully franked final dividend for the year ended 30 June 2018 of 6.3 cents per ordinary share. This brings the total dividends for the financial year ended 30 June 2018 to 8.8 cents per ordinary share. The Directors have also maintained the dividend re-investment plan which includes a 2% discount;
- Alliance has an \$18.4 million franking credit balance allowing future dividends to be fully franked.

### Summary of Financial Results

Alliance recorded a statutory net profit before tax of \$26.1 million and a statutory net profit after tax of \$18.1 million for the financial year ended 30 June 2018.

The results for the year ended 30 June 2018 have been summarised below to facilitate direct comparison with the 2017 results.

	Year ended 30 June 2018	Year ended 30 June 2017
Item	Actual \$m	Actual \$m
Revenue	247.7	200.6
EBITDA	60.1	50.0
Depreciation	(30.6)	(26.4)
Financing costs	(3.4)	(4.0)
EBT	26.1	19.6
Income tax*	(8.0)	(1.1)
NPAT	18.1	18.5

\* There is no cash tax payment associated with this expense as the Group is currently realising available tax losses now and in future financial years.

## Revenue

Revenue for the year was \$248 million compared to \$201 million in the previous year. This increase of 23.4% is a direct result of the Group's focus on adding revenue from its existing contracted customer base as well as continuing with the diversification of revenue into new and sustainable markets and customer segments.

- Contract revenues were \$153 million for the year, an increase on last year of 5%. This increase is due to increased capacity requests from existing clients in addition to several new clients. By adding additional services onto existing schedules, the Group's aircraft utilisation increased without any material increase in its cost base;
- Wet lease revenue rose by \$20.4 million in the year to \$37.1 million, as a result of increased demand in the sector;
- Regular Passenger Transport (RPT) revenue increased significantly throughout the year. This \$25.7 million increase in revenue is a direct result of the Group operating three new RPT services to regional Queensland and New South Wales;
- Charter revenue rose by 46% when compared to the prior year. General charter market conditions and charter requests improved in the latter half of the financial year. The addition of fleet units throughout the year assisted in the Group's ability to secure charter business; and
- Aviation services revenue of \$12.9 million (2017: 21.7 million) was generated in the financial year. This amount consisted of sales of engines and parts, engineering and aircraft maintenance services, aerodrome management operations and the lease of engines and rotables to other operators.

## Flying Hours

Total flying hours for the year increased by 34.8% compared with the previous year.

Flying hours	FY 2018	FY 2017	% movement
Contracted flight hours	18,828	17,872	5.4%
Wet Lease flight hours	9,447	4,600	105.4%
Regular Public Transport (RPT) flight hours	4,814	2,038	136.2%
Charter flight hours	1,027	607	69.2%
Other flight hours (incl Maintenance)	496	572	-13.3%
<b>Total flight hours</b>	<b>34,612</b>	<b>25,689</b>	<b>34.8%</b>

## Directors' Report

- There continued to be incremental increases in flying for a number of contracted clients in the financial year. These increases to existing schedules, as well as a number of new contracts in the year, saw contracted flight hours climb to 18,828, an increase of 5.4% on the prior year.
- The increase in RPT flight hours is due to the group operating new routes from Brisbane to Bundaberg, Port Macquarie and Gladstone from July 2017. In addition to these routes, Adelaide to Olympic Dam has also seen increased flight hours in the financial year of 20%.
- Charter activity increased in the financial year with the number of charter flight hours increasing by 69% from the prior year. This included a significant increase in tourism charters for both existing and new clients.

### Operating Cash Flow

Operating cash flow for the year was \$38.3 million, an increase of 76% on the prior year (2017: \$21.7 million).

The increased operating cash flow is a result of:

- Improved operational and financial performance across all flying revenue streams;
- Increased activity and contribution from part sales, engine leasing, engineering services and aerodrome management services;
- A reduction in the purchasing of spare parts, as parts are sourced from the Group's inventory holdings, where the cash outflows had already been incurred in prior periods; and
- The finalisation of the Austrian fleet transaction in January 2018.

### Capital Expenditure

Capital expenditure on pre-existing fleet and services was \$15.3 million (2017: \$23.6 million). Other capital expenditure incurred during the year for the expansion of the Alliance business was \$19.4 million which brought the total capital expenditure for the FY18 year to \$34.7 million.

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

Reconciliation of Capital Expenditure and Cash Flow	FY18	FY17
Cash Payments for maintenance capital expenditure including Austrian Technik Bratislava (ATB) and Rolls Royce	8.4	13.5
Aircraft and engines from inventory as an expansion of property, plant and equipment	17.9	6.3
Transfer of parts from inventory and used in the heavy maintenance program	4.0	5.0
Operating costs capitalised as part of the heavy maintenance program	3.5	5.3
Other Capital Expenditure	0.9	0.7
<b>Total Capital Expenditure</b>	<b>34.7</b>	<b>30.8</b>

The investment in additional PPE in the current year is for additional and future operational requirements.

## Directors' Report

### Key Metrics

The Company's key metrics are:

Detail	FY 2018	FY 2017
Aircraft in Service	33	29
Flight Hours	34,612	25,689
Total Flights	26,578	19,841
Average Staff Numbers	485	435
Revenue per employee	\$511k	\$462k
Contract Revenue as a % of Total Revenue	62%	73%

As at 30 June 2018, Alliance employed 512 staff which is an increase of 13.5% from 30 June 2017. Increased flying requirements in the financial year required the Group to recruit operational crew and engineers to support this increased activity.

## Business Strategies and Outlook

### Fleet and Maintenance

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

The total number of Alliance aircraft in service as at 30 June 2018 and the anticipated aircraft in service as at 30 June 2019 is shown below:

Aircraft	FY 2019 (estimated)	FY 2018	FY 2017
F50	5	5	5
F70	13	9	8
F100	24	19	16
<b>Total Aircraft</b>	<b>42</b>	<b>33</b>	<b>29</b>

Alliance is forecasting to add nine aircraft into its fleet in FY2019. These aircraft will all be sourced from the remaining pool of aircraft currently stored in Bratislava. There is forecast to be a balance of two F70 aircraft remaining in inventory as at 30 June 2019.

The Group has also recently negotiated a number of long term maintenance and support agreements with KLM UK, Austrian Airlines Technik Bratislava and Rolls Royce. The agreements with KLM UK and Rolls Royce provides Alliance with guaranteed slots for its aircraft heavy maintenance programme over the coming years.

The expanded Rolls Royce agreement will provide coverage for all of Alliance's Tay-650 engines under the Total Care Programme until 2024 with an option for a further extension.

### Safety

Safety will always be the most important operational requirement for Alliance and is paramount to the Group's success. During the financial year, Alliance successfully passed an audit review of the IATA operational and safety audit (IOSA) and was successful in retaining its IATA certification.

## Directors' Report

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, two globally recognised aviation safety and risk credentials.

### *Cash Flow*

The Group continues to increase its cash flow from operating activities year on year. This trend is expected to continue in the future with the cessation of payments for the Austrian fleet occurring in the last half of the financial year.

In addition to the above, the operating cash flow has increased during the year as a result of the increased profitability of the underlying flying business, supported by the aviation services business.

During the course of the 2018 financial year the Group invested operating cash flows into the establishment of three new RPT routes and the recruitment of additional flight crew and engineers to support the increased activity levels.

The Group's debt amortisation profile will also be lower in future years, which will assist in increasing the Group's overall cash balances.

### *Outlook*

Alliance maintains a positive outlook for the business. A number of opportunities exist that will assist the Group's growth:

- Increases in services and flight frequency provided to current contracted mining and resource sector clients, in addition to new mines being established as commodity prices continue to be favourable;
- Providing current and expanded wet lease services to a number of other airline operators;
- The opportunity to increase charter revenue, with a focus on inbound and domestic tourism operators, as a result of additional aircraft being entered into the fleet in the 2019 financial year and a general increase in charter activity;
- The growth in aviation services from part sales, engine and component leasing, and other engineering services; and
- A reduction in the amount of cash flow required, and costs of purchasing parts and components due to Alliance having these on hand as inventory.

### *Dividend*

The Directors have resolved to declare a fully franked final dividend of 6.3 cents per ordinary share for the year ended 30 June 2018. This will bring the total declared dividend for FY18 to 8.8 cents per ordinary share which is the highest in Alliance's history. The Record Date is 18 September 2018 and shareholders will be able to utilise the dividend re-investment plan, which will include a 2% discount to the five day volume weighted average price of shares sold on the Australian Stock Exchange between the period of, and inclusive, of 19 September 2018 and 25 September 2018

The Directors continue to focus on the capital management of the Group to ensure that excess capital is returned to shareholders.

### *Capital Management*

The payout ratio reflects the Directors recognition for the need to reward shareholders. The Board of Alliance is very aware of the need for good capital management in these times of significant operating cash flows. With significant franking credits, a dividend is an efficient distribution mechanism and the Board is monitoring future dividend payouts along with the needs of the business into the future.



## Description of Operations

Alliance is a broad based aviation business. It is the leading air charter operator in Australia and provides air service to a number of sectors including tourism, resources, education, government, corporate, sporting, entertainment and aviation sales and parts.

Alliance has a broad footprint, with operations based in Brisbane, Townsville, Cairns, Adelaide, Melbourne, Perth, Darwin, Auckland and Bratislava.

Alliance continues to hold an enviable industry leading on time performance record with an average of 95% (2017: 95%) for the year ended 30 June 2018. This is one of the major factors that sets Alliance's performance apart from our competitors across all contract types.

## Other Relevant Facts

### *Environmental Regulation*

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

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

### *Earnings per Share*

The basic earnings per share was 14.72 cents for the year ended 30 June 2018 (2017: 15.26 cents).

### *Significant Changes in the State of Affairs*

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

### *Corporate Governance Statement*

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

# Directors' Report

## Information on Directors

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

### **Mr Stephen Padgett**

*(Chairman and Non-Executive Director)*

#### ***Experience and expertise***

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

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

#### ***Other current listed company Directorships***

None.

#### ***Former listed Directorships in the last three years***

None.

#### ***Special responsibilities***

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

#### ***Interests in shares, options and rights***

7,577,113 ordinary shares held.

### **Mr Peter Housden**

*(Non-Executive Director)*

#### ***Experience and expertise***

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

#### ***Other current listed company Directorships***

GrainCorp Limited.

#### ***Former listed Directorships in the last three years***

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

#### ***Special responsibilities***

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

#### ***Interests in shares, options and rights***

35,792 ordinary shares held.

## Directors' Report

### Mr David Crombie

*(Non-Executive Director)*

#### **Experience and expertise**

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

#### **Other current listed company Directorships**

Australian Agricultural Company Ltd and Barrack St Investments Limited.

#### **Former listed Directorships in the last three years**

None.

#### **Special responsibilities**

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

#### **Interests in shares, options and rights**

154,364 ordinary shares held.

### Mr Scott McMillan

*(Managing Director)*

#### **Experience and expertise**

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

#### **Other current listed company Directorships**

None.

#### **Former listed Directorships in the last three years**

None.

#### **Special responsibilities**

Managing Director.

#### **Interests in shares, options and rights**

4,678,391 ordinary shares held and 41,790 performance rights granted.

### Mr Lee Schofield

*(Executive Director & Chief Executive Officer)*

#### **Experience and expertise**

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

#### **Other current listed company Directorships**

None.

#### **Former listed Directorships in the last three years**

None.

#### **Special responsibilities**

Chief Executive Officer

#### **Interests in shares, options and rights**

68,704 ordinary shares held and 48,860 performance rights granted.

## Directors' Report

### Company Secretary

Mr Matthew Dyer resigned as Company Secretary on the 18<sup>th</sup> August 2017. Mrs Nicola Clark and Mr Marc Devine were appointed as joint Company Secretaries on that same date. Mr Marc Devine is also the Chief Financial Officer of the Group. Nicola has a variety of industry experience having previously worked in the banking, telecommunications and mining industries. Nicola assisted iiNet Limited with its listing on the ASX in December 1999. During her employment at AngloGold Ashanti Limited, Nicola was appointed joint company secretary to the Australian entities of the AngloGold Ashanti Group.

### Meetings of Directors

The number of meetings of the Company's Board of Directors and of each board committee held during the year ended 30 June 2018, and the number of meetings attended by each Director were:

Director			Meetings of Committees			
	Full meetings of Directors		Audit and Compliance		Nomination and Remuneration	
	Attended	Held	Attended	Held	Attended	Held
S Padgett	6	6	3	3	3	3
P Housden	5	6	3	3	2	3
D Crombie	6	6	3	3	3	3
S McMillan	6	6	-	-	-	-
L Schofield	6	6	-	-	-	-

## Remuneration Report

### Director and Key Management Personnel included in the remuneration report

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

<b>Name</b>	<b>Position</b>
<b>Directors</b>	
Stephen Padgett	Non-Executive Chairman
Peter Housden	Non-Executive Director
David Crombie	Non-Executive Director
Scott McMillan	Managing Director (MD)
Lee Schofield	Executive Director and Chief Executive Officer (CEO)

### Key Management Personnel

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

During the year, Marc Devine was appointed to the roles of Chief Financial Officer and joint Company Secretary. Nicola Clark was also appointed as joint Company Secretary.

There were no changes to Directors during the financial year.

### Remuneration Governance

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

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

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

Their objective is to ensure that remuneration policies and structures are fair, equitable, competitive and aligned with the long-term interests of the Group and its shareholders.

The Corporate Governance Statement provides further information on the role of this committee. Please refer to the Group's website <http://www.allianceairlines.com.au/investor-centre/corporate-governance>

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

# Directors' Report

## Remuneration Report (continued)

### Non-Executive Director Remuneration Policy

#### *Non-Executive Director's Fees*

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

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

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

The Non-Executive Directors fees were last increased in 2016, where the Directors resolved to increase the base fee by reinstating the 5% reduction in fees from 2013 and applying a 1% CPI adjustment from 1 July 2016.

No increases in fees have been adopted since this date.

The current Non-Executive Director fees are shown below:

<u>Fee type</u>	<b>FY 2018</b> \$ (Fees inclusive of superannuation)	<b>FY 2017</b> \$ (Fees inclusive of superannuation)
<u>Base Fees</u>		
Chair	192,780	192,780
Other Non-Executive Directors	80,920	80,920
<u>Additional Fees</u>		
Committee – chair	14,455	14,455

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

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

### Executive Remuneration Strategy and Framework

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

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

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

# Directors' Report

## Remuneration Report (continued)

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

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

The executive remuneration and reward framework that has two components:

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

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

### *Total Annual Remuneration*

KMP	TFAR \$	Target Cash Bonus (PI Plan) \$	Target Equity PR (PI Plan) \$	Total PI Plan \$	Total Annual Remuneration \$
<b>S McMillan</b>	544,858	65,383	98,074	163,457	708,315
<b>L Schofield</b>	398,142	47,777	71,666	119,443	517,585
<b>M Devine</b>	251,850	37,777	37,778	75,555	327,405
<b>S Edwards</b>	304,390	45,658	45,659	91,317	395,707

### *Total Fixed Annual Remuneration*

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

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

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

### *Performance Incentive Plan*

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

In 2017, the Board carried out a review of both the short-term and long-term incentive structures and arrangements within the Group. This review identified that the previous arrangements, which were fit for purpose at a point in time, may not be suitable for the Group in the future years. The Group's operating performance, financial position and shareholder value proposition meant that an updated incentive scheme was required to support value creation for the Group.

# Directors' Report

## Remuneration Report (continued)

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

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

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

### FY18 Key Management Personnel PI Targets

KMP	TFAR \$	Target % of TFAR	Total Target PI \$	Cash Bonus % of PI	Target Cash Bonus (PI) \$	Performance Rights % of PI	Target Value of PR (PI) \$	Target TAR \$	Target number of PR issued
S McMillan	544,858	30%	163,457	40%	65,383	60%	98,074	708,315	83,851
L Schofield	398,142	30%	119,443	40%	47,777	60%	71,666	517,585	61,075
M Devine	251,850	30%	75,555	50%	37,777	50%	37,778	327,405	32,195
S Edwards	304,390	30%	91,317	50%	45,658	50%	45,659	395,707	38,911

The performance right grant is based on a 5-day volume weighted average price from of \$1.17, calculated from 1 September 2017. The performance period is 1 July 2017 to 30 June 2018 and performance is assessed against a scorecard of internal key performance indicators as determined by the Board.

Once assessed, the PR's become performance qualified and vesting is then based purely on continuous service. These vesting periods assist the Group with its targeted retention strategy of Key Management Personnel and executive management team. The vesting schedule is 50% of the qualified rights vest in August 2019 and 50% vest in August 2020.

### Performance incentive (PI) plan summary

The following outlines the key terms of the Performance Incentive plan which is effective from 1 July 2017. The Managing Director has been used as an example.

<b>Performance incentive structure</b>	Performance Incentive Plan to be delivered in the form of up to 40% cash and 60% performance rights (each right equates to a right to one ordinary share)
<b>Performance incentive quantum</b>	Target Incentive for FY18: Managing Director = 30% of Total Fixed Annual Remuneration (TFAR). There is an opportunity to earn up to 50% of TFAR for exceptional performance.
<b>Grant date and allocation methodology</b>	Performance Incentive plan allocated on an annual basis. Performance rights will be granted at the start of each 12 month performance period (i.e. financial year) and where required shareholder approval will be sought. The allocation methodology is as follows: <ol style="list-style-type: none"> <li>1. The value of the equity portion of the performance incentive is calculated;</li> <li>2. The number of performance rights to be granted is calculated by dividing the maximum possible equity incentive award dollar value (i.e. include stretch targets) by a 5 day average VWAP from around the time of the grant date; and</li> <li>3. The total number of Performance Rights are granted post shareholder approval and will vest subject to achievement of the required KPI's.</li> </ol>



# Directors' Report

## Remuneration Report (continued)

<b>Performance period</b>	Performance is assessed over the financial year – for this incentive plan allocation the financial year ends 30 June 2018.
<b>Performance criteria</b>	Performance will be assessed over a 12-month period against a scorecard of KPIs determined by the Board. These KPIs will include a majority of financial metrics (50% or more together with a small number of operational metrics).
<b>Performance Rights vesting conditions</b>	<p>Once the performance rights become performance qualified, on assessment against the KPI targets, there are no further performance based vesting conditions.</p> <p>Any performance rights which do not vest due to the holder not meeting the KPI targets will lapse.</p> <p>For qualified performance rights, vesting is based purely on service i.e. for performance rights to vest the participant must remain continuously employed by the Group at each vesting date. The vesting schedule is as follows:</p> <ul style="list-style-type: none"> <li>• 50% of the rights will vest on the later of 15th August 2019 or the date on which the Groups unqualified FY19 financial statements are released to the ASX.</li> <li>• 50% of the rights will vest on the later of 15th August 2020 or the date on which the Groups unqualified FY20 financial statements are released to the ASX.</li> </ul> <p>Should the financial statements be released on a “qualified” basis the rights will not vest.</p>
<b>Exercise of rights</b>	The rights will be deemed exercised on the date of provision of the vesting and confirmation notice or, if the individual is not permitted to trade securities under the Groups securities trading policy on such date, the first subsequent day that the individual is permitted to trade such securities.
<b>Exercise price</b>	Nil

## Key Management Personnel and Executive Management Team Performance Incentive Outcomes

To support the business plan for the financial year, the Board set performance targets for each member of the Key Management Personnel and the executive management team. These targets were linked to financial, safety and strategic objectives of the Group. Financial targets included achievement of FY18 PBT, gross contribution targets from aviation services, overhead cost targets and capital expenditure targets.

Non financial targets included a reduction in leave balances, commercial targets, on time performance targets and various safety and human resource related targets.

The tables below show the PI outcomes for Key Management Personnel:

### 1. Mr Scott McMillan – Managing Director

The performance incentive target opportunity is set 30% of TFAR and the stretch target opportunity is 50% of TFAR. These targets are measured against a scorecard of key performance indicators as shown below. 60% of the PI will be delivered by way of a grant of performance rights and 40% by way of a cash bonus. TFAR is set at \$544,858 and PI is set at \$163,457.

	KPI Weighting %	PI target as per KPI \$	KPI Outcome %	Total Pay-out \$	Cash bonus \$ (40% of total pay-out)	PR Value \$ (60% of total pay-out)
KPI target results	100%	163,457	50%	81,729	32,692	49,037

The value of the performance rights incentive pay-out resulted in 41,791 performance rights becoming qualified.

# Directors' Report

## Remuneration Report (continued)

### 2. Mr Lee Schofield – Executive Director & Chief Executive Officer

The performance incentive target opportunity is set 30% of TFAR and the stretch target opportunity is 50% of TFAR. These targets are measured against a scorecard of key performance indicators as shown below. 60% of the PI will be delivered by way of a grant of performance rights and 40% by way of a cash bonus. TFAR is set at \$398,142 and PI is set at \$119,443.

	KPI Weighting %	PI target as per KPI \$	KPI Outcome %	Total Pay-out \$	Cash bonus \$ (40% of total pay-out)	PR Value \$ (60% of total pay-out)
<b>KPI target results</b>	100%	119,443	80%	95,555	38,222	57,333

The value of the performance rights incentive pay-out resulted in 48,860 performance rights becoming qualified.

### 3. Mr Marc Devine – Chief Financial Officer

The performance incentive target opportunity is set 30% of TFAR and the stretch target opportunity is 45% of TFAR. These targets are measured against a scorecard of key performance indicators as shown below. 50% of the PI will be delivered by way of a grant of performance rights and 50% by way of a cash bonus. TFAR is set at \$251,850 and PI is set at \$75,555.

	KPI Weighting %	PI target as per KPI \$	KPI Outcome %	Total Pay-out \$	Cash bonus \$ (50% of total pay-out)	PR Value \$ (50% of total pay-out)
<b>KPI target results</b>	100%	75,555	80%	60,444	30,222	30,222

The value of the performance rights incentive pay-out resulted in 25,756 performance rights becoming qualified.

### 4. Mr Shane Edwards – General Manager, Commercial

The performance incentive target opportunity is set 30% of TFAR and the stretch target opportunity is 45% of TFAR. These targets are measured against a scorecard of key performance indicators as shown below. 50% of the PI will be delivered by way of a grant of performance rights and 50% by way of a cash bonus. TFAR is set at \$304,390 and PI is set at \$91,317.

	KPI Weighting %	PI target as per KPI \$	KPI Outcome %	Total Pay-out \$	Cash bonus \$ (50% of total pay-out)	PR Value \$ (50% of total pay-out)
<b>KPI target results</b>	100%	91,317	100%	91,317	45,658	45,659

The value of the performance rights incentive pay-out resulted in 38,911 performance rights becoming qualified.

#### Assessment of Performance

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

# Directors' Report

## Remuneration Report (continued)

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

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

### Cessation of Employment

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

### Details of Remuneration Paid and Accrued

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

2018	Short-term employee benefits			Post-employment benefits	Long term benefits	Termination benefits	Share based payments	Total
	Cash Salary and allowances	Cash Bonus	Cash Annual leave	Super-annuation	Long services leave	Termination benefits	Performance Rights	
	\$	\$	\$	\$	\$	\$	\$	
<u>Non-Executive Directors</u>								
S Padgett	176,055	-	-	16,725	-	-	-	192,780
D Crombie	87,100	-	-	8,275	-	-	-	95,375
P Housden	95,375	-	-	-	-	-	-	95,375
<b>Sub-total Non-Executive Directors</b>	<b>358,530</b>	<b>-</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>383,530</b>
<u>Executive Directors</u>								
S McMillan	462,511	108,972	57,347	25,000	8,647	-	17,271	679,748
L Schofield	358,294	111,480	19,698	20,150	8,505	-	20,192	538,319
<u>Other Key Management Personnel</u>								
M Devine	210,198	70,518	20,554	20,049	1,296	-	10,644	333,259
S Edwards	247,596	79,141	31,794	25,000	2,238	-	16,081	401,850
<b>Sub-total Executive Directors and other Key Management Personnel</b>	<b>1,278,599</b>	<b>370,111</b>	<b>129,393</b>	<b>90,199</b>	<b>20,686</b>		<b>64,188</b>	<b>1,953,176</b>
<b>Total Key Management Personnel compensation (group)</b>	<b>1,637,129</b>	<b>370,111</b>	<b>129,393</b>	<b>115,199</b>	<b>20,686</b>	<b>-</b>	<b>64,188</b>	<b>2,336,706</b>

# Directors' Report

## Remuneration Report (continued)

2017	Short-term employee benefits			Post-employment benefits	Long term benefits	Termination benefits	Share based payments	Total
	Cash Salary and allowances	Cash Bonus	Cash Annual leave	Super-annuation	Long services leave	Termination benefits	Performance Rights	
	\$	\$	\$	\$	\$	\$	\$	\$
<u>Non-Executive Directors</u>								
S Padgett	176,055	-	-	16,725	-	-	-	192,780
D Crombie	87,100	-	-	8,275	-	-	-	95,375
P Housden	95,375	-	-	-	-	-	-	95,375
<b>Sub-total Non-Executive Directors</b>	<b>358,530</b>	<b>-</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>383,530</b>
<u>Executive Directors</u>								
S McMillan	456,356	107,893	32,538	19,616	7,465	-	89,357	713,225
L Schofield	340,315	78,840	31,920	33,396	4,142	-	65,295	553,908
<u>Other Key Management Personnel</u>								
M Dyer (Resigned 31 March 2017)	116,668	60,275	8,424	17,610	-	1,453	-	204,430
S Edwards	257,577	60,275	22,605	29,934	1,366	-	49,920	421,677
<b>Sub-total Executive Directors and other Key Management Personnel</b>	<b>1,170,916</b>	<b>307,283</b>	<b>95,487</b>	<b>100,556</b>	<b>12,973</b>	<b>1,453</b>	<b>204,572</b>	<b>1,893,240</b>
<b>Total Key Management Personnel compensation (group)</b>	<b>1,529,446</b>	<b>307,283</b>	<b>95,487</b>	<b>125,556</b>	<b>12,973</b>	<b>1,453</b>	<b>204,572</b>	<b>2,276,770</b>

## Service Agreements

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

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

Name	Commencement date	Term of employment contract	Base salary and allowances including super-annuation	Termination benefits
<b>S McMillan</b> Managing Director	05-Apr-02	On-going	\$544,858	Nil
<b>L Schofield</b> Chief Executive Officer	12-Jun-12	On-going	\$398,142	Nil
<b>S Edwards</b> General Manager – Commercial	16-Feb-15	On-going	\$304,390	Nil
<b>M Devine</b> Chief Financial Officer / Company Secretary	09-May-16	On-going	\$251,850	Nil

# Directors' Report

## Remuneration Report (continued)

### Other Key Management Personnel Disclosures

#### Key Management Personnel – Rights Holdings

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

FY2018					
Name	Balance at start of the year	Granted as remuneration	Exercised	Forfeited	Balance at end of year
<b>Performance Rights</b>					
<b>Directors</b>					
S McMillan	108,972	83,581	(87,177)	(21,795)	83,581
L Schofield	79,628	61,075	(63,703)	(15,925)	61,075
<b>Other Key Management Personnel</b>					
M Devine	38,708	32,195	(30,967)	(7,741)	32,195
S Edwards	60,878	38,911	(48,702)	(12,176)	38,911

FY2017					
Name	Balance at start of the year	Granted as remuneration	Exercised	Forfeited	Balance at end of year
<b>Performance Rights</b>					
<b>Directors</b>					
S McMillan	-	108,972	-	-	108,972
L Schofield	-	79,628	-	-	79,628
<b>Other Key Management Personnel</b>					
M Devine	-	38,708	-	-	38,708
S Edwards	-	60,878	-	-	60,878

#### Key Management Personnel Shareholdings

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

FY2018					
Name	Balance at start of the year	Exercise of rights	Other additions	Disposals	Balance at end of the year
<b>Ordinary Shares</b>					
<b>Directors</b>					
S Padgett	10,226,172	-	350,941	(3,000,000)	7,577,113
D Crombie	148,250	-	6,114	-	154,364
P Housden	34,374	-	1,418	-	35,792
S McMillan	4,509,953	87,177	214,712	(133,451)	4,678,391
L Schofield	2,280	63,703	2,721	-	68,704
<b>Other Key Management Personnel</b>					
M Devine	-	30,967	5,676	-	36,643
S Edwards	60,000	48,702	4,432	(51,534)	61,600

# Directors' Report

## Remuneration Report (continued)

FY2017					
Name	Balance at start of the year	Exercise of rights	Other additions	Disposals	Balance at end of the year
<b>Ordinary Shares</b>					
<b>Directors</b>					
S Padgett	9,962,303	-	263,869	-	10,226,172
D Crombie	144,424	-	3,826	-	148,250
P Housden	33,486	-	888	-	34,374
S McMillan	4,373,620	-	136,333	-	4,509,953
L Schofield	2,222	-	58	-	2,280
<b>Other Key Management Personnel</b>					
M Devine	-	-	-	-	-
S Edwards	51,793	-	8,207	-	60,000

### Rights to Ordinary Shares - Remuneration

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

### Performance Rights

Name	FY Granted	Number Granted	Share Price at Grant Date	Vested %	Vested Number	Performance Qualified %	Forfeited %	FY in which shares may vest	Estimated maximum value yet to vest (\$)
<b>Directors</b>									
S McMillan	2017	108,792	0.78	80%	87,177	-	20%	2018	-
	2018	83,581	1.50	-	-	50%	50%	2019/2020	57,126
L Schofield	2017	79,628	0.78	80%	63,703	-	20%	2018	-
	2018	61,075	1.50	-	-	80%	20%	2019/2020	66,790
<b>KMP</b>									
M Devine	2017	38,708	0.78	80%	30,967	-	20%	2018	-
	2018	32,195	1.50	-	-	80%	20%	2019/2020	35,207
S Edwards	2017	60,878	0.78	80%	48,702	-	20%	2018	-
	2018	38,911	1.50	-	-	100%	-	2019/2020	53,190

### Loans to Directors and Key Management Personnel

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

### Shares under option

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

**The end of the audited remuneration report**

## Directors' Report

### Insurance and Indemnity of Officers

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

During the financial year, Alliance and its controlled entities paid a premium of \$226,560 (2017: \$206,871) to insure the Directors and Company Secretaries of the Group companies.

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

### Proceedings on Behalf of the Company

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

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

### Non-audit Services

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

Details of the amounts paid or payable to the auditor (PwC) for audit and non-audit services provided during the year are set out in note 27 to the financial statements.

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

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

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

	2018 \$	2017 \$
<b>Taxation Services</b>		
Tax consulting and compliance services	193,394	209,776
<b>Total remuneration for taxation services</b>	<b>193,394</b>	<b>209,776</b>
<b>Total remuneration for non-audit services</b>	<b>193,394</b>	<b>209,776</b>

## Directors' Report

### Auditor's Independence Declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act 2001 is set out on page 24.

### Rounding of Amounts

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

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



**S Padgett**

**Chairman**

**Sydney**

**9 August 2018**





## *Auditor's Independence Declaration*

As lead auditor for the audit of Alliance Aviation Services Limited for the year ended 30 June 2018, 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 audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'D. G. Smith', written over a light blue horizontal line.

Debbie Smith  
Partner  
PricewaterhouseCoopers

Brisbane  
9 August 2018

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)

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## Financial Statements

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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 9 August 2018. The Directors have the power to amend and reissue the financial statements

All press releases, financial statements, corporate governance statements and other information are available on our website: [www.allianceairlines.com.au](http://www.allianceairlines.com.au)

# Financial Statements

## Consolidated income statement

	Notes	2018 \$'000	2017 \$'000
<b>Revenue and income</b>			
Revenue from continuing operations	5	247,638	200,643
Other income	6	76	22
Net foreign exchange gains		201	327
		<b>247,915</b>	200,992
<b>Expenses</b>			
Direct flight costs	7	(88,332)	(64,812)
Parts and inventory costs	7	(19,709)	(18,691)
Labour and staff related costs	7	(68,541)	(56,560)
Repairs and maintenance		(1,517)	(2,170)
Accommodation and utility costs		(3,174)	(3,205)
IT and communication costs		(1,644)	(1,726)
Other administrative costs		(4,887)	(3,834)
Finance costs	7	(3,402)	(4,019)
Depreciation	12,13	(30,607)	(26,364)
		<b>(221,813)</b>	(181,381)
<b>Profit before income tax for the period</b>		<b>26,102</b>	19,611
Income tax expense	8	(7,991)	(1,064)
<b>Profit for the period</b>		<b>18,111</b>	18,547
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company</b>			
	34	<b>Cents</b>	Cents
Basic earnings per share		<b>14.72</b>	15.26
Diluted earnings per share		<b>14.69</b>	15.20

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

# Financial Statements

## Consolidated statement of comprehensive income

	Notes	2018 \$'000	2017 \$'000
<b>Profit for the period</b>		<b>18,111</b>	18,547
<b>Other comprehensive income</b>			
Items that may be reclassified to profit or loss:			
Change in the fair value of cash flow hedges	24	-	142
Income tax relating to these items	8	-	(43)
<b>Other comprehensive income for the year, net of tax</b>		<b>-</b>	99
<b>Total comprehensive income for the period</b>		<b>18,111</b>	18,646
<b>Total comprehensive income for the period is attributable to:</b>			
Owners of Alliance Aviation Services Limited		<b>18,111</b>	18,646

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

# Financial Statements

## Consolidated balance sheet

	Notes	2018 \$'000	2017 \$'000
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9	11,847	3,462
Trade and other receivables	10	31,257	30,408
Inventories	11	50,828	43,012
Total current assets		<u>93,932</u>	<u>76,882</u>
<b>Non-current assets</b>			
Property, plant & equipment	12	177,409	173,169
Intangible assets	13	489	62
Total non-current assets		<u>177,898</u>	<u>173,231</u>
<b>Total assets</b>		<u>271,830</u>	<u>250,113</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	15	30,988	22,360
Borrowings	16	3,111	14,244
Current tax liabilities		65	54
Provisions	17	7,436	6,020
Total current liabilities		<u>41,600</u>	<u>42,678</u>
<b>Non-current liabilities</b>			
Borrowings	18	61,913	60,747
Provisions	22	1,538	1,333
Deferred tax liabilities	21	8,917	993
Total non-current liabilities		<u>72,368</u>	<u>63,073</u>
<b>Total liabilities</b>		<u>113,968</u>	<u>105,751</u>
<b>Net assets</b>		<u>157,862</u>	<u>144,362</u>
<b>EQUITY</b>			
Contributed equity	23	183,498	181,035
Reserves	24	(112,652)	(112,333)
Retained earnings		87,016	75,660
<b>Total equity</b>		<u>157,862</u>	<u>144,362</u>

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

# Financial Statements

## Consolidated statement of changes in equity

	Notes	Contributed equity \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
<b>Balance at 1 July 2016</b>		<b>180,483</b>	<b>(113,031)</b>	<b>59,533</b>	<b>126,985</b>
Profit for the period		-	-	18,547	18,547
Other comprehensive income		-	99	-	99
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>99</b>	<b>18,547</b>	<b>18,646</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividends paid	25	-	-	(2,420)	(2,420)
Dividend reinvestment plan	23	552	-	-	552
Share-based payment reserve	24	-	585	-	585
Foreign currency translation reserve	24	-	14	-	14
		552	599	(2,420)	(1,269)
<b>Balance at 30 June 2017</b>		<b>181,035</b>	<b>(112,333)</b>	<b>75,660</b>	<b>144,362</b>
<b>Balance at 1 July 2017</b>		<b>181,035</b>	<b>(112,333)</b>	<b>75,660</b>	<b>144,362</b>
Profit for the period		-	-	18,111	18,111
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>18,111</b>	<b>18,111</b>
<b>Transactions with owners in their capacity as owners:</b>					
Dividends paid	25	-	-	(6,755)	(6,755)
Dividend reinvestment plan	23	1,949	-	-	1,949
Share-based payment reserve	24	-	182	-	182
Settlement of performance incentive scheme rights	23	514	(514)	-	-
Foreign currency translation reserve	24	-	13	-	13
		2,463	(319)	(6,755)	(4,611)
<b>Balance at 30 June 2018</b>		<b>183,498</b>	<b>(112,652)</b>	<b>87,016</b>	<b>157,862</b>

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

# Financial Statements

## Consolidated statement of cash flows

	Notes	2018 \$'000	2017 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of goods and services tax)		269,227	218,406
Payments to suppliers (inclusive of goods and services tax)		(227,526)	(192,878)
Interest received		76	3
Interest paid		(3,455)	(3,775)
Income tax paid		(59)	(54)
<b>Net cash inflow (outflow) from operating activities</b>	33	<b>38,263</b>	21,702
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment		(14,859)	(13,463)
Proceeds from sale of property, plant & equipment		-	-
<b>Net cash inflow (outflow) from investing activities</b>		<b>(14,859)</b>	(13,463)
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,149	2,451
Repayment of borrowings		(14,100)	(7,500)
Dividends paid		(4,805)	(1,868)
<b>Net cash inflow (outflow) from financing activities</b>		<b>(14,756)</b>	(6,917)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>8,648</b>	1,322
Cash and cash equivalents at the beginning of the year		3,462	2,096
Effects of currency translation on cash and cash equivalents		(263)	44
<b>Cash and cash equivalents at the end of the year</b>	9	<b>11,847</b>	3,462

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

# Financial Statements

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## 1. Summary of Significant Accounting Policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Alliance Aviation Services Limited ('company' or 'parent entity') and its subsidiaries (the 'Group').

### 1(a) Basis of Preparation

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

#### (i) Compliance with IFRS

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

#### (ii) New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 affected any of the amounts recognised in the current period or any prior period.

#### (iii) Historical cost convention

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

### 1(b) Principles of Consolidation

The consolidated financial statements comprise the financial statements of Alliance Aviation Services Limited and its subsidiaries as at 30 June 2018.

#### (i) Subsidiaries

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

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

### 1(c) Segment reporting

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

### 1(d) Foreign currency translation

#### (i) Functional and Presentation Currency

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

## Summary of Significant Accounting Policies (continued)

### 1(d) Foreign currency translation (continued)

#### (ii) Transactions and Balances

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

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

### 1(e) Revenue recognition

The Group derives revenue from the transfer of goods and the delivery of services over time and at a points in time as detailed below:

#### (i) Contract air charter services

The Groups primary business is the air transportation of workers and contractors to and from remote project sites of major mining and energy companies. Contract air charter services are subject to contracts with companies. Revenue is derived and recognised in accordance with an agreed flight schedule, based on completed flights.

Revenue is generally calculated on a variable price paid on a 'per round trip' basis. Alliance's customer contracts generally include cost pass-through mechanisms which provide for the price per trip to be adjusted (upwards and downwards) for movements in foreign currency exchange rates (A\$:US\$), fuel prices and CPI. These cost pass-through mechanisms are invoiced on a monthly or quarterly basis and enable Alliance to pass increases and decreases in certain costs, which vary from contract to contract, through to customers.

#### (ii) Ad-hoc charter services

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

#### (iii) Wet leasing services

The Group also utilises its fleet for wet lease contracts. A wet lease of an aircraft is an arrangement whereby the Group provides an aircraft, crew, maintenance and insurance to a third party airline operator. Revenue is derived in accordance with an agreed flight schedule based on completed block hours per flight.

#### (iv) Regular Passenger Transport (RPT)

The Group also utilises its fleet to provide RPT services. RPT refers to services provided by Alliance to passengers who buy and pay for tickets on scheduled flights. Revenue is derived on a per passenger basis in accordance with an agreed flight schedule based on completed flights.

#### (v) Aviation services

Alliance has a large inventory balance of aircraft and aircraft parts. Revenue is generated by Alliance through the sale or lease of these aircraft or aircraft parts to third parties. Alliance also provides line and heavy maintenance services to other aircraft owners. These services include the provision of labour and parts and are invoiced based on typical market conditions of a cost plus margin on both components.

Engine lease revenue is recognised on either a per day lease rate or a per cycle lease rate. In some cases both rates are applicable.

# Financial Statements

## Summary of Significant Accounting Policies (continued)

### 1(e) Revenue recognition (continued)

#### (v) Aviation services (continued)

Alliance also manages a number of aerodromes and provides related airport and ground handling services to support a number of contract clients of the Group. These services are invoiced as a fee for service and is generally invoiced on a monthly or per turn basis.

#### (vi) Interest income

Interest income is recognised using the effective interest method.

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

### 1(f) Income Tax

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

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

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

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

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

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

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

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

# Financial Statements

## Summary of Significant Accounting Policies (continued)

### 1(g) Leases

Leases of property, plant and equipment in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. (Refer note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

### 1(h) Impairment of Assets

Assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

### 1(i) 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

### 1(j) Trade Receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Collectability of trade receivables is reviewed on an ongoing basis and where appropriate an allowance for doubtful debts is raised to reduce the carrying amount of trade receivables. The allowance for doubtful debts is based on historical trends and the Directors assessment of general economic conditions. An allowance for doubtful debts is raised when the Directors considers there is a credit risk, an insolvency risk or an incapacity to pay a legally recoverable debt.

The amount of the allowance for doubtful debt is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against flight and operations costs in profit or loss.

### 1(k) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs have been assigned to inventory quantities on hand at reporting date using the first-in-first-out basis. Cost comprises all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Inventories consist of spare aircraft and engine parts, spare engines, components and whole aircraft where the intent of acquisition was to hold as inventory for sale or breakdown for spare parts.

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

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

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

## Financial Statements

### Summary of Significant Accounting Policies (continued)

#### 1(l) Derivatives and Hedging Activities

The Group had previously elected to designate its foreign currency borrowings as a hedge of the foreign currency risk associated with the future cash proceeds from the sale of aircraft (cash flow hedge). These foreign currency borrowings were repaid in June 2015, and the remaining hedge amount of \$2.2 million is being carried in equity.

The amount accumulated in equity will be reclassified to profit or loss in periods when the hedged items affect profit or loss. This would occur as a result of either a sale of a hedged asset or upon the Directors considering that the hedge no longer meets the criteria for hedge accounting.

#### 1(m) Property, Plant and Equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment

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

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

▪ Leasehold improvements	5-18 years
▪ Aircraft assets (subject to time based depreciation)	5-12 years
▪ Aircraft assets (subject to usage based depreciation)	Remaining flight cycles/hours
▪ Vehicles	5-8 years
▪ Furniture, fittings & equipment	3 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 12).

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

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

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

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

# Financial Statements

## Summary of Significant Accounting Policies (continued)

### 1(n) Intangible assets

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

The Group amortises intangible assets over the following period:

- Certification - 2 years
- Internally generated software – 3-5 years

### 1(o) Trade and other payables

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

### 1(p) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised and deducted from the borrowing loans and amortised over the period of the facility to which it relates.

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

### 1(q) Provisions

Provisions are recognised when

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

Provisions are not recognised for future operating losses.

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

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

# Financial Statements

## Summary of Significant Accounting Policies (continued)

### 1(r) Employee Benefits

#### (i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months after the end of the reporting period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

#### (ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

#### (iii) Share-based payments

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

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

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

### 1(s) Equity

#### (i) Contributed equity

Ordinary shares are classified as equity (note 23).

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

#### (ii) Dividend re-investment reserve

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

# Financial Statements

## Summary of Significant Accounting Policies (continued)

### 1(s) Equity (continued)

#### (iii) Share based payment reserve

The company has established a share based payment reserve which records the estimated amount of ordinary share capital to be issued as consideration for future transactions.

### 1(t) Dividends

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

### 1(u) Earnings per Share

#### (i) Basic earnings per share

Basic earnings per share is calculated by dividing:

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

#### (ii) Diluted earnings per share

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

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

### 1(v) Goods and Services Tax (GST)

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

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

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

### 1(w) Rounding of Amounts

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

### 1(x) New Accounting Standards and Interpretations yet to be adopted by the Group

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



## Financial Statements

### Summary of Significant Accounting Policies (continued)

#### 1(x) New Accounting Standards and Interpretations yet to be adopted by the Group (continued)

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

##### i) *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 did not 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 based on an allowance at an amount equal to lifetime expected credit losses. Management has assessed the effects of applying the new standard on the Groups financial statements and has determined any impact is not expected to be material, given the Groups historically low credit losses.

The revision to hedge accounting aligns the hedge accounting requirements with risk management activities. The Group has elected to apply IAS39 (financial instruments) under the accounting policy choice allowed in AASB 9. The Group has confirmed that its current cash-flow hedge will qualify as an effective hedge upon the adoption of AASB 9. The Directors have assessed the effect of applying the new standard and have determined that the adoption of AASB 9 will not cause any material impact on the Group's financial statements.

##### ii) *AASB 15 Revenue from Contracts with Customers*

Effective/application date - 1 July 2018

###### Description

AASB 15 replaces existing revenue recognition guidance and provides a comprehensive new framework for determining whether, how much and when revenue is recognised, based on the principle that revenue is recognised when control of a good or service transfers to the customer rather than the notion of risk and reward.

###### Impact on the Group

Each of the Group's revenue streams were reviewed and an analysis of client contracts undertaken to identify the distinct performance and contractual obligations required to be met and assess the timing of satisfying the obligations.

Management have assessed the effects of applying the new standard on the Group's financial statements and have determined that the impact is not expected to be material to the Group given the nature of the performance obligations. The new standard is expected to change the nature and extent of the Group's disclosures for trade and other receivables, particularly in the year of adoption of the standard.

# Financial Statements

## Summary of Significant Accounting Policies (continued)

### 1(x) New Accounting Standards and Interpretations (continued)

#### iii) 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 has substantially completed the assessment of the new standard on the Group's Balance Sheet and Income Statement by discounting all non-cancellable operating leases back to their present value using the Company's incremental borrowing rate. Management has elected to adopt the cumulative retrospective approach.

The preliminary assessment of the impacts of AASB 16 concluded that the Group may be required to recognise a right of use asset and liability of approximately \$8.5 million to \$9.0 million on its Balance Sheet on adoption of the standard on 1 July 2019. This calculation is based on current operating contracts and is therefore subject to change.

The Group's preliminary assessment calculates the EBITDA is estimated to be positively impacted as lease costs will be reclassified to interest and depreciation, although the Group's profit before tax is expected to record an additional non-cash expense of between approximately \$400,000 and \$500,000.

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

Accounting Standards not yet effective but required to be disclosed

#### i) **IFRIC 23 uncertainty over income tax treatments.**

Effective/application date - 1 July 2019

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

#### ii) **IFRIC 22 Foreign currency transactions and advance consideration.**

Effective/application date - 1 July 2018

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

#### iii) **Amendments to IAS 19 Employee benefits on plan amendment, curtailment or settlement.**

Effective/application date - 1 July 2019

These amendments require an entity to:

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

#### iv) **Amendments to IFRS 2 share based payments on clarifying how to account for certain types of share-based payment transactions.**

Effective/application date - 1 July 2018

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

## Financial Statements

### Summary of Significant Accounting Policies (continued)

#### 1(x) New Accounting Standards and Interpretations (continued)

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

#### 1(y) New Accounting Standards and Interpretations adopted by the Group

Effective for 30 June 2018

**Amendments to IAS 7** Statement of cash flows on disclosure initiative (effective for annual periods beginning on or after 1 January 2017). These amendments to IAS 7 introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment is part of the IASB's Disclosure Initiative, which continues to explore how financial statement disclosure can be improved.

**Amendments to IAS 12** 'Income taxes' on Recognition of deferred tax assets for unrealised losses (effective for annual periods beginning on or after 1 January 2017). These amendments on the recognition of deferred tax assets for unrealised losses clarify how to account for deferred tax assets related to debt instruments measured at fair value.

**Annual improvements 2014-2016** – IFRS 12 'Disclosure of interest in other entities' regarding clarification of the scope of the standard (effective for annual periods beginning on or after 1 January 2017). This amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information (para B17 of IFRS 12). Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests.

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

#### 1(z) Parent Entity Financial Information

The financial information for the parent entity, Alliance Aviation Services Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below:

- (i) *Investments in subsidiaries, associates and joint venture entities*  
Investments in subsidiaries are accounted for at cost in the financial statements of Alliance Aviation Services Limited.
- (ii) *Tax consolidation legislation*  
Alliance Aviation Services Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

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

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

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

## Financial Statements

### Summary of Significant Accounting Policies (continued)

#### 1(z) Parent Entity Financial Information (continued)

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

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

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

## Financial Statements

### 2. Financial Risk Management

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

	2018 \$'000	2017 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	11,847	3,462
Trade and other receivables	31,257	30,408
	<b>43,104</b>	<b>33,870</b>
<b>Financial liabilities</b>		
Trade and other payables	30,988	22,360
Borrowings	65,024	74,991
	<b>96,012</b>	<b>97,351</b>

#### 2(a) Foreign Exchange Risk

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

The Group's exposure to foreign currency risk in the foreign currency at the end of the reporting period, expressed in Australian dollar, was as follows:

	2018		2017	
	USD \$'000	EURO \$'000	USD \$'000	EURO \$'000
Trade and other payables	(7,842)	(1,109)	(2,083)	(1,344)

#### *Sensitivity*

At 30 June 2018, if the Australian dollar had strengthened or weakened against other currencies by 5% and all other variables held constant, post-tax profit for the year would have been higher/lower by \$323k (2017: +/- \$121k).

	2018		2017	
	USD \$'000	EURO \$'000	USD \$'000	EURO \$'000
Trade and other receivables	693	-	1,548	1

#### *Sensitivity*

At 30 June 2018, if the Australian dollar had strengthened or weakened against other currencies by 5% and all other variables held constant, post-tax profit for the year would have been higher/lower by \$23k (2017: +/- \$51k).

# Financial Statements

## 2. Financial Risk Management (continued)

### 2(b) Interest Rate Risk

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

As at the end of the reporting period, the Group had the following variable rate borrowings outstanding:

	2018		2017	
	Weighted Average Interest rate	Balance	Weighted Average Interest rate	Balance
	%	\$'000	%	\$'000
Bank loans	3.2%	<u>65,250</u>	3.2%	<u>75,201</u>
Net exposure to cash flow interest rate risk		<u>65,250</u>		<u>75,201</u>

An analysis by maturities is provided in note 2(d) below.

#### *Sensitivity*

At 30 June 2018, if the interest rates had been higher or lower by 25 basis points and all other variables held constant post tax profit for the year would have been higher/lower by \$162k (2017: +/- \$173k).

### 2(c) Credit Risk

#### (i) Risk Management

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

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

#### (ii) Impairment of trade receivables

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

The Group considers that there is evidence of impairment if any of the following indicators are present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or delinquency in payments (more than 30 days overdue).

Receivables for which an impairment provision was recognised are written off against the provision when there is no expectation of recovering additional cash.

Impairment losses are recognised in profit or loss within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses.

## Financial Statements

### 2. Financial Risk Management (continued)

#### 2(d) Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. At the end of the reporting period the Group held no deposits at call (2017 – nil). Due to the dynamic nature of the underlying businesses, the Directors maintain flexibility in funding by maintaining availability under committed credit lines.

The Directors manage liquidity risk through the monitoring of rolling forecasts of the Group's liquidity reserve using the following mechanisms:

- preparing forward-looking cash-flow analysis in relation to its operational, investing and financing activities;
- monitoring undrawn credit facilities;
- managing credit risk relating to financial assets;
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

#### (i) Financing arrangements

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

	2018 \$'000	2017 \$'000
<b>Floating rate</b>		
- Expiring within one year	4,510	10,299
- Expiring beyond one year	-	-
	4,510	10,299

The type of borrowing facilities available and utilised as at 30 June 2018 is shown below:

Funding Mechanism	Financier Limit		Current Available	Utilisation
	ANZ	CBA		
	\$'000	\$'000	\$'000	\$'000
Term loan	35,625	35,625	-	65,250
Working capital multi option facility	5,000	-	4,510	490
<b>Total</b>	<b>40,625</b>	<b>35,625</b>	<b>4,510</b>	<b>65,740</b>

The term loans are amortising loans with repayments due each quarter. Any voluntary repayments may be redrawn. The term loans have an expiration date of 15 January 2021.

The working capital multi option facility may be drawn at any time to its limit of \$5 million and is subject to annual review each December. The bank can withdraw the facility with 60 days written notice.

#### (ii) Maturities of financial Liabilities

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

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

## Financial Statements

### 2. Financial Risk Management (continued)

#### 2(d) Liquidity Risk (continued)

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 & 2 yrs	Between 2 & 5 yrs	Over 5 yrs	Total contractual cash flows	Carrying amount (Assets) /liabilities
As at 30 June 2018	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	30,998	-	-	-	-	30,998	30,998
Borrowings	2,787	2,758	5,428	59,920	-	70,893	65,024
<b>Total non-derivatives</b>	<b>33,785</b>	<b>2,758</b>	<b>5,428</b>	<b>59,920</b>	-	<b>101,891</b>	<b>96,022</b>

Contractual maturities of financial liabilities	Less than 6 months	6-12 months	Between 1 & 2 yrs	Between 2 & 5 yrs	Over 5 yrs	Total contractual cash flows	Carrying amount (Assets) /liabilities
As at 30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Trade payables	22,360	-	-	-	-	22,360	22,360
Borrowings	11,669	5,122	60,780	-	-	77,571	74,991
<b>Total non-derivatives</b>	<b>34,029</b>	<b>5,122</b>	<b>60,780</b>	-	-	<b>99,931</b>	<b>97,351</b>

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

#### 2(e) Price Risk

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

### 3. Critical Estimates, Judgements and Errors

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

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in notes 4 to 36. In addition this note also explains where there have been actual adjustments this year as a result of any changes to policy and changes to previous estimates.

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

#### **Carrying Value of Aircraft**

##### *Aircraft useful life and depreciation*

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



### 3. Critical Estimates, Judgements and Errors (continued)

#### *Carrying Value of Aircraft (continued)*

##### *Aircraft useful life and depreciation (continued)*

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

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

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

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

The Directors assess the most appropriate depreciation method for each of the individual assets identified in component groups (i), (ii) and (iii). The balance of other assets in component group (iv) have been pooled. Refer to note 1(m) for details of current depreciation method and rates used.

##### **Capitalisation of overhead related to heavy maintenance**

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

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

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

##### **Deferred Tax Asset**

The Group has a \$24.2 million income tax gain for the period ended 30 June 2018. During the current year the outright deduction of the ongoing capital maintenance program has resulted in a net deferred tax liability consistent with prior year.

The Group has elected to recoup prior year income tax losses to offset the current year income tax gain.

### 3. Critical Estimates, Judgements and Errors (continued)

#### *Indicators of impairment of assets*

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

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

#### *Transfers of property, plant and equipment to/from inventory*

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

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

Management assessment of these market conditions include:

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

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

Note 1(k) discloses the accounting policy in relation to the Group's accounting treatment of Inventory.

### 4. Segment Information

The Board of Directors have determined the operating segment based on the reports reviewed.

The Board considers the business has one reportable segment being the provision of aircraft charter services and aviation services for the reporting period ended 30 June 2018.

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

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

## Financial Statements

### 5. Revenue from continuing operations

	2018 \$'000	2017 \$'000
Contract revenue	152,932	145,503
Charter revenue	7,921	5,417
Wet leasing revenue	37,115	16,724
RPT revenue	36,113	10,425
Aviation services revenue	12,892	21,672
Other revenue*	665	902
	<u>247,638</u>	<u>200,643</u>

\*The prior year comparative figure for other revenue has been adjusted to reflect the reclassification of rebates to direct flight costs.

### 6. Other income

	2018 \$'000	2017 \$'000
Interest income	76	22
	<u>76</u>	<u>22</u>

### 7. Expenses

	2018 \$'000	2017 \$'000
<b>Profit before tax includes the following specific expenses:</b>		
Direct flight costs	<u>(88,332)</u>	(64,812)
General parts and inventory costs	<u>(19,709)</u>	(18,691)
Interest expense	<u>(3,402)</u>	(4,019)
<i>Labour and staff related costs</i>		
Salaries and wages	(56,732)	(50,125)
Superannuation	(4,686)	(4,298)
Contractors	(3,874)	(2,143)
Travel and accommodation	(969)	(646)
WorkCover and payroll tax	(3,272)	(2,992)
Other employee expenses	(2,497)	(1,618)
Costs capitalised as part of heavy maintenance	3,489	5,262
	<u>(68,541)</u>	(56,560)
<i>Rental expenses relating to operating leases</i>		
Minimum lease payments	<u>(1,726)</u>	(1,894)

## Financial Statements

### 8. Income Tax Expense

	2018 \$'000	2017 \$'000
<b>(a) Income tax expense:</b>		
Current tax	65	71
	<u>65</u>	<u>71</u>
Deferred income tax (revenue) expense included in the income tax expense comprises:		
Utilisation of unused tax losses	7,295	-
Decrease/(increase) in deferred tax assets	(784)	(7,541)
(Decrease)/increase in deferred tax liabilities	1,414	8,534
	<u>7,925</u>	<u>993</u>
Income tax expense on profit from continuing operations	<u>7,991</u>	<u>1,064</u>
Effective tax rate	30.6%	5.4%
<b>(b) Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable</b>		
Profit before income tax expense	26,102	19,611
Tax at the Australian Corporate tax rate of 30% (2017: 30%)	7,831	5,883
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry	160	141
	<u>7,991</u>	<u>6,025</u>
Deferred tax asset offset against deferred tax liabilities	-	(4,961)
<b>Income tax expense</b>	<u>7,991</u>	<u>1,064</u>
<b>(c) Tax expense (income) relating to items of other comprehensive income</b>		
Changes in the fair value of cash flow hedges	-	(99)

### 9. Current Assets – Cash and Cash Equivalents

	2018 \$'000	2017 \$'000
Cash at bank and on hand	11,847	3,462
	<u>11,847</u>	<u>3,462</u>

#### 9(a) Risk exposure

The Group's exposure to interest rate risk is outlined in note 2(b). The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of cash and cash equivalents mentioned above.

## Financial Statements

### 10. Current Assets – Trade and Other Receivables

	2018 \$'000	2017 \$'000
Trade receivables	25,636	26,708
	<u>25,636</u>	<u>26,708</u>
Other receivables	3,093	1,571
Prepayments	2,528	2,129
	<u>5,621</u>	<u>3,700</u>
	<u>31,257</u>	<u>30,408</u>

#### 10(a) Past due but not impaired

As at 30 June 2018, trade receivables of \$4,595k (2017 - \$6,994k) were past due but not impaired. These relate to number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2018 \$'000	2017 \$'000
Up to 3 months	4,595	6,915
3 to 6 months	-	79
	<u>4,595</u>	<u>6,994</u>

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Group does not hold any collateral in relation to these receivables (see note 2(c)).

#### 10(b) Other Receivables

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

#### 10(c) Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. There are no securities held over the receivables.

### 11. Current Assets – Inventories

	2018 \$'000	2017 \$'000
Aircraft and Engines	40,932	33,610
Spares and consumables	9,896	9,402
	<u>50,828</u>	<u>43,012</u>

#### Amounts recognised in profit or loss

Inventory recognised as an expense during the year ended 30 June 2018 amounted to \$3,745k (2017: \$2,024k), and is included in parts and inventory costs.

## Financial Statements

### 12. Non-Current Assets – Property, Plant and Equipment

#### 12(a) Property, plant and equipment

	Aircraft Assets	Property, plant and equipment	Total
	\$'000	\$'000	\$'000
<b>At 30 June 2017</b>			
Cost	315,067	19,057	334,124
Accumulated depreciation	(145,716)	(15,239)	(160,955)
<b>Net book value</b>	<b>169,351</b>	<b>3,818</b>	<b>173,169</b>

<b>Year ended 30 June 2018</b>			
Opening net book amount	169,351	3,818	173,169
Additions (i)	46,276	933	47,209
Transfers to inventory	(12,467)	-	(12,467)
Disposals – cost net of depreciation	-	(12)	(12)
Depreciation charge	(29,187)	(1,303)	(30,490)
<b>Closing net book value as on 30 June 2018</b>	<b>173,973</b>	<b>3,436</b>	<b>177,409</b>

	Aircraft Assets	Property, plant and equipment	Total
	\$'000	\$'000	\$'000
<b>At 30 June 2016</b>			
Cost	284,589	18,582	303,171
Accumulated depreciation	(121,207)	(13,446)	(134,653)
<b>Net book value</b>	<b>163,382</b>	<b>5,136</b>	<b>168,518</b>

<b>Year ended 30 June 2017</b>			
Opening net book amount	163,382	5,136	168,518
Additions (i)	34,782	475	35,257
Transfers to inventory	(4,304)	-	(4,304)
Depreciation charge	(24,509)	(1,793)	(26,302)
<b>Closing net book value as on 30 June 2017</b>	<b>169,351</b>	<b>3,818</b>	<b>173,169</b>

(i) *Additions and transfers*

Additions to the property plant and equipment register for year ended 30 June 2018 includes all aircraft heavy maintenance and the addition of any major and significant components. Transfers relate to the removal of rotatable parts from the aircraft which are transferred to inventory.

*Non-current assets pledged as security*

Refer to note 18(a) for information on non-current assets pledged as security by the Group.

### 13. Non-Current Assets - Intangible Assets

	2018	2017
	\$'000	\$'000
Opening net book amount	62	-
Additions	544	124
Amortisation charge	(117)	(62)
<b>Closing net book value</b>	<b>489</b>	<b>62</b>

## Financial Statements

### 14. Non-Current Assets – Deferred Tax Assets

	2018 \$'000	2017 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Tax losses	7,487	14,386
Employee benefits	2,676	2,248
Property, plant and equipment	843	939
	<b>11,006</b>	<b>17,573</b>
<i>Other</i>		
Unrealised foreign exchange	293	221
Accruals	70	68
Other	-	18
Sub-total other	<b>363</b>	<b>307</b>
Total deferred tax assets	<b>11,369</b>	17,880
Set-off of deferred tax liabilities pursuant to set-off provisions	<b>11,369</b>	17,880
<b>Net deferred tax assets</b>	<b>-</b>	<b>-</b>

### 15. Current Liabilities – Trade and Other Payables

	2018 \$'000	2017 \$'000
Trade payables	20,867	13,873
Other payables	10,121	8,487
	<b>30,988</b>	<b>22,360</b>

### 16. Current Liabilities – Borrowings

	2018 \$'000	2017 \$'000
<b>Secured</b>		
Bank Loans	3,111	14,244
Total current borrowings	<b>3,111</b>	<b>14,244</b>

#### 16(a) Security and Fair Value Disclosures

Information about the security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in note 18.

## Financial Statements

### 17. FCurrent Liabilities – Provisions

	2018 \$'000	2017 \$'000
Employee benefits – Annual Leave	5,144	4,065
Employee benefits – Long Service Leave	2,292	1,955
	<u>7,436</u>	<u>6,020</u>

#### 17(a) Amounts not expected to be settled within the next 12 months

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

### 18. Non-Current Liabilities – Borrowings

	2018 \$'000	2017 \$'000
<b>Secured</b>		
Bank loans	61,913	60,747
	<u>61,913</u>	<u>60,747</u>

#### 18(a) Secured liabilities and assets pledged as security

	2018 \$'000	2017 \$'000
Bank overdrafts and bank loans	65,250	75,201
Total secured liabilities	<u>65,250</u>	<u>75,201</u>

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.

Under the terms of the bank loans, the Group is required to comply with the following financial covenants:

- To maintain a debt service cover ratio which exceeds 1.25 times;
- To maintain a leverage ratio for each 12 month period of less than 2.50 times;
- A loan value ratio where the value of the total debt does not exceed 85% of the independent valuation of the aircraft; and
- A borrowing base ratio where the working capital facility does not exceed 60% of the total trade debtors.

Alliance Aviation Services Limited has complied with the financial covenants of its borrowing facilities during the 2018 and 2017 reporting periods.



## Financial Statements

### 18. Non-Current Liabilities – Borrowings (continued)

#### 18(a) Secured liabilities and assets pledged as security (continued)

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

	2018 \$'000	2017 \$'000
<b>Current</b>		
<i>Floating charge</i>		
Cash and cash equivalents	11,847	3,462
Receivables	31,257	30,408
Inventories	50,828	43,012
Total current assets pledged as security	<u>93,932</u>	<u>76,882</u>
<b>Non-current</b>		
<i>First mortgage</i>		
Aircraft	173,973	169,351
	<u>173,973</u>	<u>169,351</u>
<i>Floating charge</i>		
Plant and equipment	3,436	3,818
Intangibles	489	62
	<u>3,925</u>	<u>3,880</u>
Total Non-current assets pledged as security	<u>177,898</u>	<u>173,231</u>
Total assets pledged as security	<u>271,830</u>	<u>250,113</u>

### 19. Net debt reconciliation

	2018 \$'000	2017 \$'000
Cash and cash equivalents	11,847	3,462
Borrowings – repayable within one year	(3,200)	(14,451)
Borrowings – repayable after one year	(62,050)	(60,750)
Net debt	<u>(53,403)</u>	<u>(71,739)</u>
Cash and cash equivalents	11,847	3,462
Gross debt – variable interest rates	(65,250)	(75,201)
Net debt	<u>(53,403)</u>	<u>(71,739)</u>

## Financial Statements

### 20. Fair value measurement of financial instruments

#### a) Fair value of the borrowings

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

#### b) Valuation hierarchy of financial instruments carried at fair value on a recurring basis

##### i. Fair value hierarchy

Financial instruments carried at fair value may be grouped into three valuation categories:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

##### ii. Recognised fair value measurements

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

### 21. Non-Current Liabilities – Deferred Tax Liabilities

	2018 \$'000	2017 \$'000
<b>The balance comprises temporary differences attributable to:</b>		
Property, plant and equipment	19,431	18,442
Prepayments	11	7
Other	401	165
Unrealised foreign exchange	443	259
<b>Sub-total other</b>	<b>20,286</b>	<b>18,873</b>
<b>Total deferred tax liabilities</b>	<b>20,286</b>	<b>18,873</b>
Set-off of deferred tax assets pursuant to set-off provisions	11,369	17,880
<b>Net deferred tax liabilities</b>	<b>8,917</b>	<b>993</b>

### 22. Non-Current Liabilities – Provisions

	2018 \$'000	2017 \$'000
Employee benefits – long service leave	1,538	1,333
	<b>1,538</b>	<b>1,333</b>

## Financial Statements

### 23. Contributed Equity

	2018 No. of shares	2018 \$'000	2017 No. of shares	2017 \$'000
<b>a) Share capital</b>				
Ordinary shares - fully paid	<b>123,808,489</b>	<b>183,498</b>	121,725,894	181,035
<b>Total contributed equity</b>	<b>123,808,489</b>	<b>183,498</b>	121,725,894	181,035
<b>b) Movement in ordinary share capital issued and fully paid ordinary shares:</b>				
At the beginning of the financial period	121,725,894	181,035	120,994,812	180,483
Dividend reinvestment plan issues	1,511,886	1,949	731,082	552
Performance incentive shares vested and exercised	570,709	514	-	-
<b>Balance at the end of the financial year</b>	<b>123,808,489</b>	<b>183,498</b>	<b>121,725,894</b>	<b>181,035</b>

#### 23(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

#### 23(b) Dividend reinvestment plan

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

#### 23(c) Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure.

## Financial Statements

### 24. Reserves and Retained Earnings

	2018	2017
Notes	\$'000	\$'000
<b>(a) Reserves</b>		
Reorganisation reserve (i)	(111,083)	(111,083)
Cash flow hedge reserve (ii)	(2,181)	(2,181)
Share-based payment reserve (iii)	585	917
Foreign currency translation reserve (iv)	27	14
	<u>(112,652)</u>	<u>(112,333)</u>

#### (b) Nature and purpose of other reserves

*(i) Reorganisation*

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

*(ii) Cash flow hedge*

The cash flow hedge reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as describe in note 1(l). Amounts will be reclassified to the profit or loss when the associated hedge transaction affects profit or loss.

*(iii) Share based payment*

The share based payment reserve is used to recognise the grant date fair value of options issued to employees but not exercised.

*(iv) Foreign currency translation reserve*

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

## Financial Statements

### 25. Dividends

#### (a) Ordinary shares

In respect of financial year ended 30 June 2017, a fully franked dividend of 3.0 cents per fully paid ordinary shares was paid out of retained earnings on 19 October 2017.

2018	2017
\$'000	\$'000

3,669	2,420
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In respect of financial year ended 30 June 2018, an fully franked interim dividend of 2.5 cents per fully paid ordinary shares was paid out of retained earnings on 19 April 2018.

3,086	-
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#### (b) Franked credits

Franking credits available for subsequent reporting based on a tax rate of 30% (2017: 30%)

18,424	21,319
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The above amounts represent the balance of the franking account as at the end of the reporting period, adjusted for:

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

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

### 26. Key Management Personnel Disclosures

#### 26(a) Key Management Personnel compensation

Short-term employee benefits  
Post-employment benefits  
Long-term benefits  
Termination benefits  
Share based payments

2018	2017
\$	\$
2,136,635	1,932,216
115,198	125,556
20,685	12,973
-	1,453
70,771	204,572
2,343,289	2,276,770

Detailed remuneration disclosures are provided in the remuneration report on page 12.

#### 26(b) Loans to Key Management Personnel

There have been no loans made to Key Management Personnel of Alliance Aviation Services Limited.

#### 26(c) Other transactions with Key Management Personnel

Where transactions are entered into with KMP, these are approved by the Board. Board members who have an interest in the matter either directly or via a related party do not participate in the Board approval process.

The Chairman and Director, Mr Steve Padgett, is a Director and shareholder of Eternitie Pty Ltd. Alliance Aviation Services Limited has a contract with Eternitie Pty Ltd for the lease of an office in Sydney. This lease is based on normal commercial terms and conditions.

During the period, the Group provided aircraft due diligence services, storage facilities and a heavy maintenance check on behalf of KBX Pty Ltd and VIF Aircraft Pty Ltd of which Chairman, Mr Steve Padgett and the Managing Director, Mr Scott McMillan, are shareholders.

## Financial Statements

### 26. Key Management Personnel Disclosures (continued)

#### 26(c) Other transactions with Key Management Personnel (continued)

Services to the value of \$1,937k were invoiced and received for the maintenance, storage and due diligence services. These services were provided on an arm's length basis under normal commercial terms for the type of services provided.

KBX Pty Ltd purchased engines from the Group and the Group sold engines to KBX Pty Ltd in the period. Both the sale and purchase transactions were executed under normal commercial terms and valuations were carried out as per the Groups internal engine valuation framework.

Alliance acquired the engines from KBX Pty Ltd at a time where there was a requirement for engines that had a high amount of cycles remaining. The purchase of the engines reduced the requirement for costs associated with engine overhaul on two of the Group's existing fleet engines. Engines sold to KBX Pty Ltd has significantly fewer cycles than those acquired, and were best suited to aircraft with lower utilisation.

The engines acquired have sufficient cycles remaining that they should not require overhaul during their life and should last the life of the aircraft whilst in the higher utilisation profile than KBX.

There were no amounts owing to or from KBX Pty Ltd or VIF Aircraft Pty Ltd as at 30 June 2018.

Aggregate amounts of each of the above types of other transactions with Key Management Personnel are as follows:

	2018 \$	2017 \$
Lease of premises from Eternite Pty Ltd.	(18,333)	(18,333)
Due diligence works on behalf of KBX Pty Ltd.	-	53,676
Contract fee with the Strategic Energy Trust	-	(15,000)
Due diligence and storage works on behalf of VIF Aircraft Pty Ltd	95,062	-
Heavy maintenance check on behalf of KBX Pty Ltd	1,842,006	-
Purchase of two Tay620 engines from KBX Pty Ltd	(3,130,855)	-
Sale of Tay620 engines to KBX Pty Ltd	1,530,855	-
	<u>318,735</u>	<u>20,343</u>

### 27. Remuneration of Auditors

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

	2018 \$	2017 \$
<b>27(a) PricewaterhouseCoopers</b>		
<b>Audit and other assurance services</b>		
Audit and review of financial statements	246,500	219,575
<b>Total remuneration for audit and other assurance services</b>	<u>246,500</u>	<u>219,575</u>
<b>Taxation services</b>		
Tax advice and other compliance services	193,394	209,776
<b>Total remuneration for taxation services</b>	<u>193,394</u>	<u>209,776</u>
<b>Total auditor's remuneration</b>	<u>439,894</u>	<u>429,351</u>

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

## Financial Statements

### 28. Contingencies

#### Contingent liabilities

Alliance has on issue six bank guarantees relating to existing leases, totalling \$0.49 million (2017: \$0.33 million).

### 29. Commitments

#### Capital commitments

Alliance has no capital commitments at 30 June 2018 (2017: \$NIL). The Group is party to a Total Care Services Agreement with Rolls-Royce for the maintenance of Tay 650-15 engines. The agreement is based on engine operating hours only.

#### Lease commitments: Group as lessee

##### *Non-cancellable operating leases*

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

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

Within one year

Later than one year but not older than five years

Later than five years

2018 \$'000	2017 \$'000
1,468	1,963
4,645	5,779
3,945	4,572
<b>10,058</b>	<b>12,314</b>

### 30. Related Party Transactions

#### 30(a) Parent entities

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

#### 30(b) Subsidiaries

Interests in subsidiaries are set out in note 31.

#### 30(c) Key Management Personnel

Disclosures relating to Key Management Personnel are set out in note 26.

## Financial Statements

### 31. Subsidiaries

Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries in accordance with the accounting policy described in note 1(b).

Name of entity	Country of incorporation	Class of Shares	Equity holding *	
			2018 %	2017 %
Alliance Airlines Pty Ltd	Australia	Ordinary	100	100
Alliance Leasing No.1 Pty Ltd	Australia	Ordinary	100	100
Alliance Leasing No.2 Pty Ltd	Australia	Ordinary	100	100
Alliance Leasing No.3 Pty Ltd	Australia	Ordinary	100	100
Jet Engine Leasing Pty Ltd	Australia	Ordinary	100	100
Avoco Pty Ltd	Australia	Ordinary	100	100
Alliance Aviation Slovakia s.r.o.	Slovakia	Ordinary	100	100
Alliance Airlines (NZ) Limited	New Zealand	Ordinary	100	100

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

### 32. Events Occurring After the Reporting Period

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

### 33. Reconciliation of Profit After Income Tax to Net Cash Inflow from Operating Activities

	2018 \$'000	2017 \$'000
Profit for the year	18,111	18,547
Depreciation and amortisation	30,607	26,364
Costs incurred as part of heavy maintenance program	3,489	5,262
Release of FX Reserve	-	(99)
Net (gain)/loss on foreign exchange differences	(201)	(327)
Non-cash share issue	1,949	552
Change in operating assets and liabilities,		
(Increase)/decrease in trade debtors and bills of exchange	(449)	(3,963)
(Increase)/decrease in inventories and property, plant and equipment	(33,026)	(28,262)
(Increase)/decrease in prepayments	(399)	2,294
increase/(decrease) in trade creditors	6,994	(380)
increase/(decrease) in other operating liabilities	1,634	(138)
increase/(decrease) in provision for income taxes payable	11	(11)
Decrease/(increase) in deferred tax	7,924	1,024
/increase/(decrease) in other provisions	1,619	839
Net cash inflow (outflow) from operating activities	38,263	21,702



## Financial Statements

### 34. Earnings Per Share

	2018 Cents	2017 Cents
<b>34(a) Basic Earnings per share</b>		
Total basic earnings per share attributable to the ordinary equity holders of the company.	<u>14.72</u>	<u>15.26</u>
<b>34(b) Diluted earnings per share</b>		
Total diluted earnings per share attributable to the ordinary equity holders of the company	<u>14.69</u>	<u>15.20</u>
<b>34(c) Reconciliations of earnings used in calculating earnings per share</b>		
<i>Basic earnings per share</i>		
Profit attributable to the ordinary equity holders of the company used in calculating basic earnings per share	<u>18,111</u>	<u>18,547</u>
<i>Diluted earnings per share</i>		
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	<u>18,111</u>	<u>18,547</u>
<b>34(d) Weighted average number of shares used as the denominator</b>		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	<u>123,073,307</u>	<u>121,503,565</u>
Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share	<u>123,322,799</u>	<u>121,984,368</u>
<b>34(e) Information concerning the classification of securities</b>		
<i>(i) Performance Rights</i>		
Performance rights granted to employees under the Alliance Aviation Services Limited LTI plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The rights have not been included in the determination of basic earnings per share. As at 30 June 2018 there were 377,861 qualified performance rights which have not vested or been exercised. Refer note 35.		

## Financial Statements

### 35. Share – Based Payments

#### 35(a) Long term incentive plan

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

In 2017, the Board carried out a detailed review of the Company's executive and senior management remuneration structure and principles. The key outcome of the review enabled the Board to further align executive and senior management remuneration with continued creation of shareholder value.

The Performance Incentive Plan now consists of two key elements being the granting of performance rights and cash incentives. The Board determines the split of equity and cash and as a result of the review has determined that the incentive are to be weighted more towards an equity component which aligns with the creation of shareholder value.

In 2018, 795,214 performance rights were granted as the part of the equity portion of the Performance Incentive Plan. This amount consists of both the target and stretch target amounts available to employees. The performance period attached to these rights is from 1 July 2017 to 30 June 2018 and performance is assessed against a scorecard of internal key performance indicators as determined by the Board.

Once assessed, the performance rights become performance qualified and vesting is then based purely on continuous service. The qualified performance rights will vest 50% in August 2019 and 50% in August 2020.

The details of the Performance Rights granted are shown below:

Employee Category	Number of target performance rights granted
Executive Directors <sup>^</sup>	144,656
Other Key Management Personnel	71,106
Senior Management	298,307
	<b>514,069</b>

<sup>^</sup> The grant of the maximum amount of performance rights available to the Managing Director and Executive Director were approved by the shareholders at the Annual General Meeting held on 2 November 2017.

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

	2018 '000	2017 '000
Rights at the start of the year	713	-
Granted during the year	514	713
Vested and exercised (i)	(571)	-
Forfeited (ii)	(142)	-
Rights at the end of the year	<u>514</u>	<u>713</u>

(i) 570,709 qualified performance rights vested and were exercised by employees in August 2017. Shares were allocated for each of these rights in August 2017 with a trading lock placed on these share until August 2018.

(ii) The performance rights granted as the equity portion of the employee incentive plan is assessed against a scorecard of key performance indicators set by the Board Nomination and Remuneration committee. This assessment occurs once the financial statements for the performance period (FY2018) have been audited and signed off by the Board. Once assessed the performance rights become qualified and vesting is then based on continuous service. These qualified rights then vest over a two year period being 50% in August 2019 and 50% in August 2020. As at the date of signing this report it is estimated that 377,861 rights will become performance qualified and 136,208 performance rights were forfeited.

## Financial Statements

### 35. Share – Based Payments

#### 35(b) Expenses arising from share-based payment transactions

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

	2018 \$'000	2017 \$'000
Performance rights - Long Term Incentive Plan	173	616
	<b>173</b>	<b>616</b>

### 36. Parent Entity Financial Information

The individual financial statements for the parent entity shows the following aggregate amounts for the reporting period ended 30 June 2018.

	2018 \$'000	2017 \$'000
<b>Balance sheet</b>		
Current assets	2	2
Non Current Assets	<b>68,295</b>	65,941
Total assets	<b>68,297</b>	65,943
Current liabilities	51	56
Non Current liabilities	<b>8,628</b>	488
Total liabilities	<b>8,679</b>	544
<b>Net Assets</b>	<b>59,618</b>	65,399
<i>Shareholders' equity</i>		
Issued capital	<b>183,575</b>	181,111
Reserves	<b>(110,691)</b>	(110,691)
Share-based payments	<b>332</b>	332
Retained earnings	<b>(13,598)</b>	(5,353)
	<b>59,618</b>	65,399
<b>Profit or (loss) for the year</b>	<b>(1,490)</b>	(909)

# Financial Statements

## Directors' Declaration

In the Directors' opinion:

- The financial statements and notes set out on pages 25 to 66 are in accordance with the *Corporations Act 2001*, including
- complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
- giving a true and fair view of the consolidated entity's financial position as at 30 June 2018 and of its performance for the financial year ended on that date, and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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



**S Padgett**  
**Chairman**  
**Date: 9 August 2018**  
**Sydney**



### *Independent auditor's report*

To the members of Alliance Aviation Services Limited

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

#### *Our opinion*

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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

The Group financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### ***Basis for opinion***

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### ***Independence***

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

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**PricewaterhouseCoopers, ABN 52 780 433 757**  
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001  
T: +61 7 3257 5000, F: +61 7 3257 5999, [www.pwc.com.au](http://www.pwc.com.au)

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### *Our audit approach*

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

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

The Group provide tailored aircraft charters for the resource industry and inbound and domestic group travel across Australia and New Zealand. They have offices in Perth, Adelaide, Townsville, Melbourne and the head office is based in Brisbane.



### **Materiality**

- For the purpose of our audit we used overall Group materiality of \$1,305,000, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

### **Audit Scope**

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- We performed most of our audit procedures at the head office in Brisbane. We attended stock counts in Brisbane, Perth, Adelaide, Townsville and Bratislava.



## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p><b><i>Carrying value of Property, plant and equipment - Aircraft assets</i></b> <i>(Refer to note 12) \$174m</i></p> <p>At 30 June 2018 the Group held Property, Plant and Equipment - Aircraft assets with a carrying value of \$174 million.</p> <p>Throughout the year the Group make judgements and estimates relating to the useful life and depreciation method of each component of an aircraft. Judgements as to whether specific aircraft refurbishment and maintenance costs are capitalised or expensed are also made.</p> <p>At the conclusion of each financial reporting period, the Group performs an assessment of whether the useful lives and depreciation method of aircraft assets are still appropriate and whether there is any indication that the aircraft assets may be impaired.</p> <p>The assessment performed at 30 June 2018 determined that the useful lives and depreciation methods applied to aircraft assets were appropriate and that no adjustment to remaining useful lives, or changes to depreciation methods from prior periods was required.</p> <p>As required by the Australian Accounting Standards, at 30 June 2018 the Group performed an impairment indicators assessment over aircraft assets. The Group concluded that no internal or external indicators of impairment relating to aircraft assets existed and therefore the no adjustment to the carrying value of aircraft was required.</p>	<p>We performed the following procedures, amongst others:</p> <ul style="list-style-type: none"> <li>• Compared a sample of additions of aircraft assets and heavy maintenance costs to third party invoices.</li> <li>• Tested the calculation of a sample of indirect labour costs, relating to major maintenance projects, by considering the labour rates and agreeing the hours to third party invoices.</li> <li>• Tested the calculation of the allocation of labour costs capitalised by comparing the number of hours spent on heavy maintenance per the calculation to actual total maintenance hours worked per timesheets.</li> <li>• Evaluated, on a sample basis, whether the useful lives and depreciation methods are consistent with the Group's accounting policy and recalculated the depreciation expense for the year.</li> <li>• Assessed the appropriateness of the Group's impairment assessment that no internal or external indicators of impairment exist by evaluating the current year financial performance and the budget and forecast for FY19 as well as evaluating external market data.</li> <li>• Evaluated the adequacy of the aircraft assets balance disclosures, made in note 12 of the financial report, in view of the requirements of the Australian Accounting Standards.</li> </ul>



## Key audit matter

## How our audit addressed the key audit matter

We considered this a key audit matter based on the materiality of the aircraft assets, and the judgement involved in assessing the carrying value of aircraft assets.

The key areas of judgement included:

- assessing the refurbishment and maintenance costs eligible to be capitalised.
- assessing the useful lives and depreciation rates.
- assessing the aircraft for internal and external indicators of impairment.

### **Carrying value of Inventory - Aircraft and engines**

*(Refer to note 11) \$41m*

At 30 June 2018 the Group held Inventory - aircraft and engines with a carrying value of \$41 million. This inventory comprises rotatable spare parts for aircraft and engines, spare engines and whole aircraft where the intent of acquisition was to hold as inventory for sale or to be broken down for spare parts.

Throughout the year the Group make judgements and estimates as to the carrying value allocated to parts which are transferred from Property, plant and equipment to inventory.

We considered this a key audit matter based on the materiality of the aircraft and engines inventory, and the judgement involved in assessing the carrying value thereof.

We performed the following procedures, amongst others:

- Inspected a sample of assets to verify existence and assessed the appropriateness of the classification of the assets to inventory.
- Compared the value of inventory additions to the carrying value of property, plant and equipment at the date of their transfer into inventory.

## Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Company Directory, Directors' Report and Shareholder Information, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.





In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

### *Report on the remuneration report*

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#### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages x to x of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Alliance Aviation Services Limited for the year ended 30 June 2018 complies with section 300A of the Corporations Act 2001.



## *Responsibilities*

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

## *Matters relating to the electronic presentation of the audited financial report*

This auditor's report relates to the financial report of Alliance Aviation Services Limited for the year ended 30 June 2018 included on Alliance Aviation Services Limited's web site. The directors of the Company are responsible for the integrity of Alliance Aviation Services Limited's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. 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 audited financial report to confirm the information included in the audited financial report presented on this web site.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'D.G. Smith'.

Debbie Smith  
Partner

Brisbane  
9 August 2018

## Corporate Information

### Shareholder Information

The shareholder information set out below was applicable as at 30 June 2018.

#### Distribution of equity securities

Analysis of number of equity security holders by size of holding

Size of equity holder	No. of holders
1- 1,000	432
1,001 – 5,000	300
5,001– 10,000	131
10,001 – 100,000	199
>100,000	36
<b>Total</b>	<b>1,098</b>

There were 65 holders of less than a marketable parcel of ordinary share.

#### Equity security holders

Twenty largest quoted equity security holders

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

Equity Holder	Ordinary Shares	
	Number held	% of issued shares
HSBC Custody Nominees (Australia) Limited	28,116,534	22.71
Kiowa Two Thousand Corporate Trustee Company Limited	12,836,544	10.37
Citicorp Nominees Pty Limited	10,504,147	8.48
National Nominees Limited	10,209,355	8.25
Austrian Airlines AG	10,065,174	8.13
BNP Paribas Noms Pty Ltd <DRP>	9,438,368	7.62
Airline Investments Australia Pty Limited	7,577,113	6.12
J P Morgan Nominees Australia Limited	6,878,920	5.56
BNP Paribas Nominees Pty Ltd <Agency Lending DRP A/C>	5,565,215	4.50
Bond Street Custodians Limited <CAJ - V02075 A/C>	3,050,000	2.46
Bond Street Custodians Limited<CAJ - D64993 A/C>	2,300,000	1.86
Mr Stephen Bond	1,807,614	1.46
BNP Paribas Noms (NZ) Ltd <DRP>	1,395,130	1.13
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd DRP	1,285,718	1.04
Mrs Wanda Susan Drennan & Mr Geoffrey John Drennan <GJ Supa Combo S/F A/C>	458,000	0.37
Neweconomy com au Nominees Pty Limited <900 Account>	437,000	0.35
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	364,417	0.29
Catapult Partners Pty Ltd	327,559	0.26
Mrs Lilian Jeanette Warmbrand	265,029	0.21
AJSST Pty Ltd <Fuentes Family A/C>	234,000	0.19
<b>Total</b>	<b>113,115,837</b>	<b>91.36%</b>
<b>Balance of register</b>	<b>10,692,652</b>	<b>8.64%</b>
<b>Total equity security holding</b>	<b>123,808,489</b>	<b>100%</b>

## Corporate Information

### Substantial holders

Substantial holders in the company are set out below

NAME	Ordinary Shares	
	Number held	% of issued shares
HSBC Custody Nominees (Australia) Limited	28,116,534	22.71
Kiowa Two Thousand Corporate Trustee Company Limited	12,836,544	10.37
Citicorp Nominees Pty Limited	10,504,147	8.48
National Nominees Limited	10,209,355	8.25
Austrian Airlines AG	10,065,174	8.13
BNP Paribas Noms Pty Ltd	9,438,368	7.62
Airline Investments Australia Pty Limited	7,577,113	6.12
J P Morgan Nominees Australia Limited	6,878,920	5.56

### Voting Rights

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