ALLIANCE AVIATION SERVICES LIMITED

ACN 153 361 525

ASX Code : AQZ

INTERIM FINANCIAL REPORT

For the half-year ended 31 December 2016

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

Corporate Directory

Principal Registered Office in Australia	Street: 81 Pandanus Ave Brisbane Airport QLD 4009 Website: www.allianceairlines.com.au Phone: 07 3212 1212 Fax: 07 3212 1522 Email: executive@allianceairlines.com.au ACN: 153 361 525 ASX: AQZ
Directors	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
Secretary	M Dyer
Senior Management	M Dyer Chief Financial Officer S Edwards General Manager Commercial
Share Register	Link Market Services Limited 324 Queen Street Brisbane QLD 4000
Auditor	PricewaterhouseCoopers 480 Queen Street Brisbane QLD 4000
Solicitors	Norton White 66 Hunter Street Sydney NSW 2000 Freehills Herbert Smith 101 Collins Street Melbourne VIC 3000
Bankers	Australian and New Zealand Banking Group 111 Eagle Street Brisbane QLD 4000 Commonwealth Bank of Australia Limited 300 Murray Street, Perth, WA 6000 Fiduciary Services – Australian and New Zealand Banking Group
Stock Exchange	Australian Securities Exchange Exchange Centre 20 Bridge Street Sydney NSW 2000

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

Financial Statements

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

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 half-year ended 31 December 2016.

The following persons were directors of Alliance Aviation Services Limited during the half year ended 31 December 2016:

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

The key messages from this report are:

- Alliance has repositioned itself as broad based aviation company to be able to provide consistent and sustainable returns to shareholders over the longer term;
- Alliance derived a statutory profit before tax for the half of $8.7 million (2015: $4.9 million);
- During the first half of the year, Alliance renewed two material contracts with CITIC Pacific and Newcrest Mining Limited. There are no material contracts for renewal during the remainder of this financial year;
- Alliance has successfully started to leverage the Fokker fleet project in Europe to create shareholder value and diversify the business;
- Operating cash flow during the half was better than the previous period and resulted in debt reduction. As at 31 December 2016 total debt was $76.4 million, a reduction of $3.5 million since 30 June 2016;
- Capital expenditure during the half was $10.9m which is consistent with forecast; and
- There are four major components of revenue from the core business activities of Alliance. These include revenue from contract flying, charter flying, wet lease flying and income from aviation services Whilst the performance across these components is varied due to economic conditions and the maturity level of the new revenue streams, this result demonstrates the success of the diversification strategy which has been adopted by Alliance.

Summary of Financial Results

Alliance Aviation Services Limited recorded a statutory net profit of $8.7 million for the financial half-year ended 31 December 2016. The results for the half-year ended 31 December 2016 have been summarised below to facilitate direct comparison with the 31 December 2015 results.

The "Actual" are the financial results in accordance with the audited Australian Accounting Standards. Adjustments have been made for one off and unusual items in determining the "Underlying" performance of the company.

In our view, the following presentations assist in assessing business performance and remove from the IFRS profit particular expenses to show a 'bottom line' non-IFRS profit.

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Item	Half year ended 31 December 2016 $m			Half year ended 31 December 2015 $m		
	Actual	Adjusted	Underlying	Actual	Adjusted	Underlying
Revenue	102.5	-	102.5	92.9	-	92.9
OPEX	79.5	-	79.5	(73.6)	0.8*	(72.8)
EBITDA	23.0	-	23.0	19.3	0.8	20.1
Asset Costs	(12.4)	-	(12.4)	(11.5)	-	(11.5)
FX Losses (Gains)	0.2	-	0.2	(0.5)	-	(0.5)
Financing costs	(2.1)	-	(2.1)	(2.4)	-	(2.4)
PBT	8.7	-	8.7	4.9	0.8	5.7

*The adjustment in expenses above represent the employee costs incurred with "once off" redundancy, termination and restructuring costs which were incurred during the period.

Revenue

Revenue for the half year ended 31 December 2016 was $102.5 million (2015: $92.9 million).

The performance of each of the revenue components of the business is varied and demonstrates the diverse nature of the Alliance business:

- The contract revenue for first quarter was below expectations as a result of a reduced flight frequency. The number of flights returned to a long term average during the course of the second quarter with ongoing pressure on margin;
- Charter flying was lower than expected and previous years, consistent with flying across the charter industry since June 2016. Whilst this is expected to improve, it is unlikely in the short term;
- ACMI or wet lease flying continues to be a growth area for Alliance. Wet lease hours improved further towards the end of the first half, the full benefit of which will be derived in the second half of FY17 and beyond; and
- Alliance has completed the sale of parts, the lease of engines, the sale of three aircraft and the provision of aviation support services during the first half. This part of the business is developing and will continue to provide opportunities in the future.

Key Metrics

The key metrics below support the financial results above with a reduction in flying as noted above.

Detail	31 December 2016	31 December 2015	31 December 2014
Average aircraft in service	26	26	27
Flight Hours – contracted/charter	10,392	11,392	11,792
Flight Hours – wet lease	1,702	472	343
Total Flight Hours	12,094	11,894	12,135
Average Staff Numbers	436	429	510
Revenue per employee ($k)	235	217	206
Contract % of Total Revenue	73%	86%	86%

As at 31 December 2016 there was a total headcount of 436, up from 426 as at 30 June 2016. This increase in headcount is limited to flight crew and operational staff.

Capital Expenditure

Capital expenditure for the period was $10.9 million (2015: $10.9 million).

The capital expenditure during the period included the heavy maintenance of a number of aircraft and the acquisition and entry into service costs associated with an additional F100 aircraft which will be introduced into service during the second half of FY17.

Operating Cash flow

Operating cash flow from operations was $17.1 million (2015: $14.9 million).

Cash flow from operating activities during the half improved with better liquidity and lower debtor days.

Business Strategies and Outlook

Alliance has delivered on its promise to deliver a broader revenue base as a diversified aviation business.

Alliance has retained the two material contracts that were scheduled for expiry in the current year.

For a number of years now the first half has contributed less than the second half. At the Annual General Meeting in October 2016, the Directors indicated that start of the year had been slower than expected due to lower levels of mine maintenance flights and charter flying. There is positive sentiment in this industry with a number of customers talking about reinstating additional services.

The performance of the wet lease flying is expected to increase in the second half compared with the first as a result of increased flying since October 2016 which continues. This will have a positive impact on the second half financial performance.

The company's strategy of diversifying revenue sources has allowed the group to deliver an improved financial result for the half whilst the outlook for other two revenue streams continues to improve.

The outlook remains stable because:

- The number of mine maintenance flights has returned to a longer term average;
- The resources sector demonstrates early signs of recovery with higher levels of confidence and the potential for a greater frequency of flying;
- The charter flying opportunities remain limited;
- Wet lease flying continues to improve; and
- Aviation services will continue to be a core part of the diversified Alliance business.

The Directors maintain a stable outlook which is consistent with previous comments.

Description of Operations

Alliance is a broad based aviation business. It is the leading air charter operator in Australia and provides an essential service to a number of sectors including tourism, resources, education, government, corporate, sporting, entertainment and aviation sales and parts. In the past two years, Alliance has further expanded the tourism sector and is continuing to develop new products and an expanded ad-hoc charter business. In May 2016 Alliance started long term contracted wet lease services for Virgin Australia in Queensland. Wet leasing has continued to develop for a number of carriers with additional services starting in October 2016.

In November 2015 Alliance announced the acquisition of the Austrian Airlines AG fleet of 21 Fokker aircraft through the establishment of a Slovakian subsidiary. Together with the Australian management expertise and resources, this group has successfully started to sell parts, refurbish and sell aircraft, lease engines and provide a broad range of aviation services. These operations will also support the existing operating Alliance fleet through a continued, reliable and cost effective supply of parts.

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The Australian company owns a fleet of 16 Fokker 100 (F100) and 8 Fokker 70LR (F70) jet aircraft and 6 Fokker 50 (F50) turboprops at industry leading on time performance. Of this fleet, one F100 is completing an entry into service and one F50 is not in service.

Alliance has an international footprint with operations and aircraft based in Brisbane, Townsville, Cairns, Adelaide, Melbourne, Perth, Darwin, Auckland and Bratislava.

The Alliance corporate function is based in Brisbane. Alliance has line maintenance facilities in Brisbane, Adelaide, Perth, Melbourne, Darwin, Townsville and Cairns. Following the restructure of the engineering maintenance program during 2016, Alliance performs a small number of heavy maintenance checks in its Brisbane facility and the majority of the heavy maintenance checks in Bratislava.

Safety will always be the most important operational requirement for Alliance and is paramount to the groups' success. In the 2016 financial year Alliance completed the IATA operational safety audit and has received IOSA certification. This is a global recognition of the operational management and control of the airline. The company also has the Flight Safety Foundation "BARS Gold" status and received Wyvern accreditation.

Alliance has an enviable industry leading on time performance record with an average of 95% (2015: 94%) for the year ended 31 December 2016. This is one of the major reasons that sets our performance apart from our competitors.

Other Relevant Facts

Principal Activities

During the half-year the principal activities of the group remained the provision of aircraft charter services, wet lease flying and the provision of related aviation services.

Profit and Earnings per Share

Statutory profit after tax for the half-year to 31 December 2016 was a profit of $8.7 million compared with a profit of $4.9 million in the half-year December 2015.

The basic earnings per share was 7.16 cents for the 6 months ended 31 December 2016 (2015: 4.53 cents).

Dividends

The Directors have resolved that no interim dividend would be paid as the company continues to repay debt and invest in future growth. The payment of a year-end dividend will be considered towards the end of this financial year.

The Directors have previously announced that the reduction of debt remains one of the core strategies for the business.

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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Significant Changes in the State of Affairs

In the opinion of the Directors there were no significant changes in the state of affairs of the Group which occurred during the period.

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

S Padgett

Chairman
Sydney
9 February 2017

Auditor's Independence Declaration

As lead auditor for the review of Alliance Aviation Services Limited for the half-year ended 31 December 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

2. no contraventions of any applicable code of professional conduct in relation to the review.

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

Debbie Smith
Partner
PricewaterhouseCoopers

Brisbane
9 February 2017

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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 February 2017. The directors have the power to amend and reissue the financial statements

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

Financial Statements

Consolidated income statement

Revenue and income	Notes	31 December 2016 $'000	31 December 2015 $'000
Revenue from continuing operations	3	**102,527**	92,930
Net foreign exchange (losses)/gains		**248**	(486)
Other income		**-**	2
		102,775	92,446
Expenses			
Direct flight costs	4	**(32,669)**	(36,190)
Parts and inventory costs	4	**(12,889)**	(3,842)
Labour and staff related costs	4	**(28,292)**	(27,996)
Repairs and maintenance costs		**(1,142)**	(1,125)
Accommodation and utility costs		**(1,571)**	(1,524)
IT and communication costs		**(883)**	(916)
Other administrative costs		**(2,088)**	(2,082)
Finance costs	4	**(2,143)**	(2,354)
Depreciation	7	**(12,443)**	(11,488)
		(94,120)	(87,517)
Profit/(Loss) before income tax for the period		**8,655**	4,929
Income tax (expense) / benefit	5	**25**	-
Profit/(Loss) for the period		**8,680**	4,929
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the company		**Cents**	Cents
Basic earnings per share		**7.16**	4.53
Diluted earnings per share		**7.16**	4.53

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

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Consolidated statement of comprehensive income

	Notes	31 December 2016 $'000	31 December 2015 $'000
Profit for the period		**8,680**	4,929
Other comprehensive income			
Items that may be reclassified to profit or loss:			
Change in the fair value of cash flow hedges	14	**99**	(76)
Income tax relating to these items		**-**	-
Other comprehensive income for the year, net of tax		**99**	(76)
Total comprehensive income for the period		**8,779**	4,853
Total comprehensive income for the period is attributable to:			
Owners of Alliance Aviation Services Limited		**8,779**	4,853

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

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Consolidated balance sheet

	Notes	31 December 2016 $'000	30 June 2016 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		**6,603**	2,096
Receivables		**26,947**	28,738
Inventories	6	**40,695**	37,066
Total current assets		**74,245**	67,900
Non-current assets			
Property, plant & equipment	7	**167,052**	168,518
Deferred tax asset		**76**	31
Total non-current assets		**167,128**	168,549
Total assets		**241,373**	236,449
LIABILITIES			
Current liabilities			
Trade and other payables		**24,072**	22,878
Derivative financial instrument		**157**	171
Borrowings	8	**11,899**	11,295
Current tax liabilities		**84**	65
Provisions	9	**5,427**	5,026
Total current liabilities		**41,639**	39,435
Non-current liabilities			
Borrowings	10	**64,540**	68,541
Provisions	11	**1,298**	1,488
Total non-current liabilities		**65,838**	70,029
Total liabilities		**107,477**	109,464
Net assets		**133,896**	126,985
EQUITY			
Contributed equity	13	**181,035**	180,483
Reserves	14	**(112,932)**	(113,031)
Retained earnings	14	**65,793**	59,533
Total equity		**133,896**	126,985

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

Consolidated statement of changes in equity

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2015		**172,837**	**(112,932)**	**46,044**	**105,949**
Profit for the period	14	-	-	4,929	4,929
Other comprehensive income		-	(76)	-	(76)
Total comprehensive income for the period		-	(76)	4,929	(4,853)
Transactions with owners in their capacity as owners:					
Contributions of equity		7,646	-	-	7,646
Dividends paid	15	-	-	-	-
Dividend reinvestment plan	15	-	-	-	-
		7,646	-	-	7,646
Balance at 31 December 2015		**180,483**	**(113,008)**	**50,973**	**118,448**
Balance at 1 July 2016		**180,483**	**(113,031)**	**59,533**	**126,985**
Profit for the period	14	-	-	8,680	8,680
Other comprehensive income	14	-	99	-	99
Total comprehensive income for the period		-	99	8,680	8,779
Transactions with owners in their capacity as owners:					
Contributions of equity		-	-	-	-
Dividends paid	15	-	-	(2,420)	(2,420)
Dividend reinvestment plan	15	552	-	-	552
		552	-	(2,420)	(1,868)
Balance at 31 December 2016		**181,035**	**112,932**	**65,793**	**133,896**

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

Consolidated statement of cash flows

	Notes	31 December 2016 $'000	31 December 2015 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**111,462**	105,998
Payments to suppliers (inclusive of goods and services tax)		**(92,235)**	(88,644)
Interest received		**-**	1
Interest paid		**(2,056)**	(2,356)
Net cash inflow (outflow) from operating activities		**17,171**	14,999
Cash flows from investing activities			
Payments for property, plant and equipment		**(7,280)**	(12,337)
Proceeds from sale of property, plant & equipment		**-**	-
Net cash inflow (outflow) from investing activities		**(7,280)**	(12,337)
Cash flows from financing activities			
Proceeds from borrowings		**-**	6,198
Repayment of borrowings		**(3,500)**	(7,455)
Dividends paid		**(1,868)**	-
Net cash inflow (outflow) from financing activities		**(5,368)**	(1,257)
Net increase (decrease) in cash and cash equivalents		**4,523**	1,405
Cash and cash equivalents at the beginning of the year		**2,096**	602
Effects of currency translation on cash and cash equivalents		**(16)**	-
Cash and cash equivalents at the end of the year		**6,603**	2,007

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

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1. Summary of Significant Accounting Policies

1(a) Basis of Preparation

These are the condensed interim financial statements for Alliance Aviation Services Limited (AASL) and its controlled entities (collectively referred to as Alliance) for the half-year reporting period ended 31 December 2016.

The condensed interim financial statements have been prepared in accordance with the Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Act 2001.

These condensed interim financial statements do not include all the information and disclosures required in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by AASL during the interim reporting period in accordance with the continuous disclosure requirements of the Australian Securities Exchange Listing Rules.

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

1(b) Changes to presentation – classification of expenses

Alliance has amended the presentation of the interim consolidated income statement for the six months period ended 31 December 2016 to classify its expenses by nature of expense instead of function of expense. With the developing aviation services business, management carried out a review of its financial statements and believe that the amended presentation provides more relevant and reliable information to the users of the financial statements. The amended presentation will be consistently applied going forward with reclassification of comparative information accordingly.

1(c) New and amended accounting standards

Alliance has adopted new and revised Standards and Interpretations issued by the AASB that are relevant to operations and effective for the current reporting period. The adoption of these new and revised Standards and Interpretations has not had a material impact on the Group for the half-year ended 31 December 2016.

The following Standards, amendments to Standards and Interpretations effective for annual reporting periods commencing after 1 January 2017 have not been applied by the Group in this financial report:

Reference	Description	Impact on the Group	Effective/application date
AASB 9: *Financial Instruments*	Addresses the classification, measurement and derecognition of financial assets and liabilities, and may impact hedge accounting.	Potential change of classification and measurement of financial assets and liabilities and impact on hedge accounting. The extent of the impact has not been determined.	1 January 2018
AASB 15: *Revenue from Contracts with Customers*	Replaces existing revenue recognition guidance and provides a comprehensive new framework for determining whether, how much and when revenue is recognised.	The potential effect of this standard is yet to be determined.	1 January 2018
AASB 16: *Leases*	Provides a new model for accounting for leases. Early adoption is permitted under certain circumstances.	The potential effect of this standard is yet to be determined.	1 January 2019

2. Segment Information

As part of the ongoing assessment, the Board considers the business has one reportable segment being the provision of aircraft charter services and aviation services for the reporting period ended 31 December 2016.

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

3. Revenue from continuing operations

	31 December 2016 $'000	31 December 2015 $'000
Contract revenue	**75,124**	82,821
Charter / Wet lease revenue	**9,140**	8,114
Aviation services revenue	**16,869**	207
Other revenue*	**1,394**	1,788
	102,527	92,930

*Other revenue includes supplier rebates totalling $1.1 million (2015: $1.3 million) and rent revenues.

4. Expenses

Profit before tax includes the following specific expenses:	31 December 2016 $'000	31 December 2015 $'000
Direct flight costs		
Direct flight costs	**(32,669)**	(36,190)
Parts and inventory costs		
General parts and inventory costs	**(12,889)**	(3,842)
Finance costs		
Interest expense	**(2,143)**	(2,356)
Labour and staff related costs		
Salaries and wages	**(24,951)**	(24,286)
Superannuation	**(2,181)**	(2,118)
Contractors	**(796)**	(87)
Travel and accommodation	**(473)**	(414)
WorkCover and payroll tax	**(1,490)**	(1,576)
Other employee expenses	**(964)**	(1,201)
Cost capitalised as part of heavy maintenance activities	**2,563**	1,686
	(28,292)	(27,996)

5. Income tax expense

	31 December 2016 $'000	31 December 2015 $'000
(a) Income tax expense:		
Current tax expense/(benefit)	**(25)**	-
	(25)	-
Deferred income tax (revenue) expense included in the income tax expense comprises:		
Decrease/(increase) in deferred tax assets	**(2,624)**	-
(Decrease)/increase in deferred tax liabilities	**2,624**	-
	-	-
Income tax (benefit) / expense on profit from continuing operations	**(25)**	-
Effective tax rate	**0.0%**	0.0%
(b) Numerical reconciliation of income tax (benefit) / expense to prima facie tax payable		
Profit / (loss) before income tax expense	**8,655**	4,929
Tax at the Australian Corporate tax rate of 30% (2015: 30%)	**2,596**	1,479
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry	**33**	13
	2,629	1,492
Deferred tax asset on previous years tax losses re-recognised	**(2,654)**	(1,492)
Income tax (benefit) / expense	**(25)**	-

6. Current Assets – Inventories

	31 December 2016 $'000	30 June 2016 $'000
Inventory – Aircraft and Engines	**29,243**	25,976
Inventory – Spares and consumables	**11,452**	11,090
	40,695	37,066

Amounts recognised in profit or loss

Inventory recognised as an expense during the half-year ended 31 December 2016 amounted to $9,196k (2015: $262k), and is included in selling and marketing costs.

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

7(a) Property, plant and equipment

	Aircraft Assets $'000	Property, plant and equipment $'000	Total $'000
At 30 June 2016			
Cost	291,819	18,588	**310,407**
Accumulated depreciation	(128,437)	(13,452)	**(141,889)**
Net book amount	163,382	5,136	**168,518**
Half-year ended 31 December 2016			
Opening net book amount	163,382	5,136	**168,518**
Additions	12,847	191	**13,038**
Transfers	(2,060)	-	**(2,060)**
Depreciation charge	(11,492)	(952)	**(12,444)**
Closing net book amount	162,677	4,375	**167,052**
At 31 December 2016			
Cost	302,305	18,778	**321,083**
Accumulated depreciation	(139,628)	(14,403)	**(154,031)**
Net book value	162,677	4,375	**167,052**

(i) Additions and transfers – 2016

Additions to the property plant and equipment register for year ended 31 December 2016 includes all aircraft heavy maintenance and the addition of any major and significant components. Transfers relate to the removal of rotable parts from the aircraft which are transferred to inventory.

Non-current assets pledged as security

Refer to note 10(a) for information on non-current assets pledged as security by the group.

8. Current Liabilities – Borrowings

	31 December 2016 $'000	30 June 2016 $'000
Secured		
Bank Loans	**12,000**	11,500
Borrowing costs	**(101)**	(205)
Total current borrowings	**11,899**	11,295

9. Current Liabilities – Provisions

	31 December 2016 $'000	30 June 2016 $'000
Employee benefits – Annual Leave	**3,746**	3,741
Employee benefits – Long Service Leave	**1,681**	1,285
	5,427	5,026

10. Non-Current Liabilities – Borrowings

	31 December 2016 $'000	30 June 2016 $'000
Secured		
Bank loans	**64,750**	68,750
Borrowing costs	**(210)**	(209)
	64,540	68,541

10(a) Secured liabilities and assets pledged as security

	31 December 2016 $'000	30 June 2016 $'000
Bank overdrafts and bank loans	**76,750**	80,250
Total secured liabilities	**76,750**	80,250

The bank loans and overdraft are secured by a fixed and floating charge over the group's assets with specific charges over the aircraft and engines. In addition there is a negative pledge that imposes certain covenants on the group including, subject to certain conditions, restrictions on the provision of security over assets to lenders.

Alliance Aviation Services Limited has complied with the financial covenants of its borrowing facilities during the 2015 and 2016 reporting periods.

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

	31 December 2016 $'000	30 June 2016 $'000
Current		
Floating charge		
Cash and cash equivalents	**6,603**	2,096
Receivables	**26,947**	28,738
Inventories	**40,695**	37,066
Total current assets pledged as security	**74,245**	67,900
Non-current		
First mortgage		
Aircraft	**162,677**	163,382
Floating charge		
Plant and equipment	**4,375**	5,135
Total non-current assets pledged as security	**167,052**	168,517
Total assets pledged as security	**241,297**	236,417

11. Non-Current Liabilities – Provisions

	31 December 2016 $'000	30 June 2016 $'000
Employee benefits – Long Service Leave	**1,298**	1,488
	1,298	1,488

12. Fair value measurement of financial instruments

This note provides an update on the judgements and estimates made by the group in determining the fair values of the financial instruments since the last annual financial report.

a) Fair value of the borrowings

The fair value of borrowings at the end of the reporting period is as follows:

	31 December 2016		30 June 2016	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	$'000	$'000	$'000	$'000
Financial liabilities	**-**	**-**	-	-
Bank loans	**76,439**	**76,439**	79,836	79,836
	76,439	**76,439**	79,836	79,836

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

The Group measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Forward exchange contracts

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.

c) Valuation techniques used to derive fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2.

The fair value of forward exchange contracts has been determined as the unrealised gain / loss at balance date by reference to market rates.

13. Equity securities issued

The movement in contributed equity during the period relates to shares issued under the dividend re-investment plan

	Notes	31 December 2016 No of Shares	30 June 2016 No of Shares	31 December 2016 $'000	30 June 2016 $'000
Movement in ordinary share capital					
Opening balance at beginning of period		**120,994,812**	**106,429,638**	180,483	172,837
Share placement issue		**-**	**14,565,174**	-	7,646
Dividend reinvestment plan issues		**731,082**	**-**	552	-
Closing balance at end of period		**121,725,894**	**120,994,812**	181,035	180,483

14. Reserves and Retained Earnings

	31 December 2016 $'000	30 June 2016 $'000
(a) Reserves		
Reorganisation reserve *(i)*	**(111,083)**	(111,083)
Cash flow hedge reserve *(ii)*	**(2,181)**	(2,280)
Share-based payment reserve	**332**	332
	(112,932)	(113,031)
Movements:		
Reorganisation (i)		
Balance - 1 July	**(111,083)**	(111,083)
Balance at the end of period	**(111,083)**	(111,083)
Movements:		
Cash flow hedge reserve (ii)		
Balance - 1 July	**(2,280)**	(2,181)
Currency translation	**99**	(142)
Deferred tax	**-**	43
	99	(99)
Balance at the end of period	**(2,181)**	(2,280)
(b) Retained earnings		
Movement in retained earnings were as follows:		
Balance - 1 July	**59,532**	46,044
Dividends paid	**(2,420)**	-
Net profit/(loss) for the period	**8,681**	13,489
Balance at the end of period	**65,793**	59,533

15. Dividends

	31 December 2016 $'000	30 June 2016 $'000
(a) Ordinary shares		
In respect of the full year ended 30 June 2016, a fully franked final dividend of 2 cents per fully paid ordinary shares was paid out of retained earnings on 20 October 2016 (2015: nil).	**2,420**	-
(b) Franked credits		
Franking credits available for subsequent reporting based on a tax rate of 30% (2015: 30%)	**21,319**	22,356

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

16. Contingencies

Contingent liabilities

As at 31 December 2016, Alliance has on issue five bank guarantees relating to existing leases, totalling $0.34 million (2015: $0.34 million).

17. Commitments

Purchase commitments

In November 2015 the group signed a commitment to acquire 21 Fokker Aircraft from Austrian Airlines AG for a total transaction value of USD15.0 million. As at 31 December 2016, 10 of these aircraft have been delivered and, if on hand, are recognised as inventory in the financial statements. The Group has a remaining commitment of USD$8.8 million which is payable progressively between 21 January 2017 and 4 December 2017.

18. Related Party Transactions

There have been no significant changes to related party arrangements since the 30 June 2016. Refer to the 30 June 2016 consolidated annual financial statements for further information.

19. Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries for the half-year ended 31 December 2016.

Name of entity	Country of incorporation	Class of Shares	Equity holding * 31 December 2016 %	Equity holding * 31 December 2015 %
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
QQAS Pty Ltd	Australia	**Ordinary**	**100**	100
Avoco Pty Ltd	Australia	**Ordinary**	**100**	100
Alliance Aviation Slovakia s.r.o.	Slovakia	**Ordinary**	**100**	100

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

20. Events Occurring After the Reporting Period

The directors of Alliance are not aware of any other matters or circumstances not otherwise dealt with in the interim financial report that has significantly affected or may significantly affect the operations of the consolidated group, the results of those operations or the state of affairs of the consolidated group in the period subsequent to the half-year ended 31 December 2016.

Directors' Declaration

In the directors' opinion:

- The financial statements and notes set out on pages 9 to 24 are in accordance with the *Corporations Act 2001,* including

- complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date, and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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 February 2017
Sydney

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Alliance Aviation Services Limited (the company), which comprises the consolidated balance sheet as at 31 December 2016, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Alliance Aviation Services Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity’s financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Alliance Aviation Services Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

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

1. giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;

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

Matters relating to the electronic presentation of the reviewed half-year financial report
This review report relates to the half-year financial report of the company for the half-year ended 31 December 2016 included on Alliance Aviation Services Limited's web site. The company's directors are responsible for the integrity of the Alliance Aviation Services Limited web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information included in the reviewed half-year financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

D.G. Smith

Debbie Smith
Partner

Brisbane
9 February 2017