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27 October 2016

Alliance Aviation Services (ASX code: AQZ)

Annual General Meeting

Chairman's Address

Over the past couple of years I have spoken about a year of transition in 2014 and in 2015 I indicated that the transition continued into that year as Alliance continued to adapt to the changes in the industry.

Whilst the 'transition' will always continue as Alliance responds to a dynamic and changing industry, there have been real tangible outcomes in the 2016 year.

The work during 2016 has positioned Alliance for the future. Some of the strategy which has been implemented includes further diversification across many areas including geographic spread, customer diversity and revenue streams.

In the 2016 financial year, Alliance has broadened its base to bring revenue diversification.

Tangible results from the year include:

- Completing the restructure of the maintenance program – this has meant that we have been able to lower capital maintenance expenditure;
- Completing the purchase of the Austrian Airlines Fokker Fleet – resulting in more effective and efficient control of the costs of parts and their supply and create value from the sale of aircraft and parts. An example being the recent sale to the Qantas group; and
- A continued focus on the Balance Sheet of the business. Overall debt continued to fall over the past two consecutive years.

Whilst these strategies attract the attention of a wide ranging group of investors and stakeholders alike, it is the operational performance of the business which sets us apart from our competitors.

The foundation of this operational performance is reliability which allowed Alliance to set industry leading on time performance of 96% for the year. Combined with high service standards, it is this reliability which is most important to our wide contract base. It is for this reason that we retained all of our contracts during the 2016 year and won new contracts.

In my address last year I referred to our objectives over the past couple of years. These were:

- reviewing the fleet numbers;
- reducing and refinancing our debt; and
- reviewing the capital maintenance of the fleet, whilst at all times continuing to focus on safety and our customers.

As a business we have successfully delivered on what we said we would do.

The Directors indicated last year that they would consider the dividend in the current year.

Given the results above and the outlook for the business, the Directors reinstated the dividend for the year ended 30 June 2016. It was a pleasure last week to reward our shareholders with the payment of a 2.0 cent dividend, fully franked.

As Chairman, and as I am sure many of the shareholders are, I remain disappointed with the performance of the share price during the 2016 year. Whilst the share price has improved between 40% and 50% since year end, we remain committed to restoring the underlying value of this Company.

In the lead up to this AGM, we have received some feedback on a range of the remuneration related items on the agenda today. As Directors we would like to thank those shareholders who contacted us to discuss their points of view. There are a couple of points I would like to make:

- Firstly, the Directors have continued to review the ongoing Long Term Incentives (LTIs) offer to Executive Directors and certain Key Management Personnel (KMP). Since the company listed in 2011, there have been no performance rights vest and subject to the passing of the current plan, there are currently no performance rights on issue. The current plan was struck when the share price was 52 cents per share and will continue to be reviewed and outlined further in the next Remuneration Report; and

- The short term incentives (STIs) which have been paid over the past two years to KMP are genuinely “at risk”. There are broadly two key components of the calculation of the STIs firstly, financial results and secondly successful projects to create value. The first part was not paid in either year as a result of the financial results in 2014 and 2015. The second part was paid for all the reasons outlined in this report, the financial benefits of which have started to be realised in 2016.

Before I defer to our Managing Director, Scott McMillan to talk more about the strategy of the business and the next 12 months, I would like to personally thank Scott, our CEO Lee Schofield, the Management team and all Alliancepersonnel. .

At Alliance it is our staff that shape the company and the ongoing contribution by everyone involved will ensure we will continue to grow and create value for our shareholders.

Steve Padgett
Chairman

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Managing Directors' Address

It is a pleasure to again have the opportunity to present to our shareholders. I would like to mention some of the key strategy items, the outlook for the business and I will let Lee talk about some of the key operational matters and our staff, both of which we are very proud.

Alliance is, and always will be Australia's leading provider of fly-in, fly-out ("FIFO") transportation but it continues to explore new industries within its existing operating model.

In the 2015 financial year, Alliance successfully entered the tourism sector by bringing the same successful FIFO operating model to international and domestic tour groups both here and in New Zealand. This continued to develop during the 2016 financial year with an expanded number of tours across a range of operators and Alliance is now looking at other opportunities.

Whilst the business continues to invest both time and resources in these revenue opportunities, the core part of our business remains an essential service to the mining and energy industry – the safe and efficient air transportation of their employees and contractors to and from remote locations.

The past few years been challenging and the same was the case in 2016. What was pleasing in 2016 was that we were able to maintain profitability, improve operating cash flow, lower capital expenditure and continue to repay debt.

In my address last year, I made the comment "no one in this industry can stand still and we must always look for different and better ways to do things". What I could not say at that time was that Alliance was negotiating to purchase Austrian Airlines' entire fleet of 21 Fokker Aircraft for a total consideration of USD15 million. This is a perfect example of seizing an opportunity and thinking about how things could be done differently.

Originally, the purchase was intended to provide Alliance with, as a minimum, a secure and cost effective supply of engines, spare parts and other major components for its own Fokker fleet for the foreseeable future. It was also forecast to provide opportunities for wet leasing, aircraft, engine and spare part sales.

This has proven to be the case with the announcement of the sale of an initial three aircraft and an ever improving visibility on how this fleet will benefit the Alliance operation as well as providing opportunities to support other Fokker operators.

To date, 8 of the 21 aircraft have been delivered to Alliance in Bratislava. Whilst three have been sold, one will be brought into the Alliance fleet in Australia, a further two will be reduced to parts and opportunities for the remaining two are underway.

This project represents a real opportunity for Alliance be it in sales opportunities, supporting cost effective parts supply in the future and also allowing the business to quickly expand its fleet operations to secure future contracts.

During the year Alliance also announced that it had entered into a partnership with the Virgin Australia Group. Whilst parts of this relationship remain subject to ACCC approval the three key elements of this partnership are:

1. Supporting the Virgin schedule and fleet strategy with wet lease operations;
2. Jointly bidding and operating on some future contract charter opportunities[1]; and
3. Supporting the engineering and fleet parts of the Virgin business with parts and aircraft either as an outright sale or lease in the future.

This is a complimentary partnership for both operators with Virgin having a significant network, strong brand presence and distribution and Alliance being specialists in regional and remote operations of aircraft in the sub-100 seat market.

The benefits of this partnership will not be seen until the second half of this financial year.

Both the Austrian Airlines fleet acquisition and the Virgin Partnership are important strategies and provide wide ranging opportunities for the future. That said we have other major projects underway that will further diversify our earnings and underpin future growth.

There are two significant contract renewals in the current year and both are progressing as forecast. Our existing business remains the priority for Lee and the team and we expect that these renewals will be completed during the 2017 financial year.

I said last year that one of the challenges that every business in this country has to deal with is the continual management time that is required to maintain cost control, particularly over labour costs. On this note, the offshore heavy maintenance of the Alliance fleet has created significant savings for the business which have been realised in 2016 and will continue for years to come. The profit effect of lower Base Maintenance costs will be seen in lower depreciation in future years.

The relationship with both Austrian Airlines AG and Austrian Technik Bratislava (ATB) has developed into a strong partnership and I would like to thank the entire Austrian Airlines team both in terms of the sale of the aircraft and the maintenance services for their efforts and contribution to the Alliance business over the past 12 months.

You will note that yesterday we advised the market of the partial release from escrow of approximately one third of Austrian's shareholding in Alliance. This was instigated by Alliance following feedback from other shareholders advising we should do whatever we could to improve liquidity in trading in the company's shares. We have received excellent feedback from current and prospective shareholders on this announcement.

In August 2016, we released a presentation to the market that summarised our results for the 2016 financial year. Whilst the company did not provide any financial guidance, we did speak of a stable outlook with opportunity.

The first half of the financial year typically contributes less to the annual result than the second half of the year. This is for a number of reasons including charter revenue and also the tourism charters where the season typically starts in September each year.

Flying activity in the first three months of the year was a little slower than anticipated; however contributions from new activities are better than anticipated. Accordingly, the Directors maintain a stable outlook.

[1] Subject to ACCC approval.

Capital expenditure and cash flow is as forecast with decreasing debtor days and debt reduction for the first quarter continued as planned.

This time last year we looked forward to our regulator, CASA, implementing the wide range of recommendations from the Aviation Safety Regulation Review.

Unfortunately, despite various announcements by CASA, I believe the bulk of these recommendations have yet to be implemented and as a result there has been a continued period of uncertainty in the industry.

Alliance's management team (and other aviation companies) spend a disproportionally high amount of their time dealing with the CASA regulatory reform process that is now in its 30th year. The Commonwealth Government needs to focus on ending this and have their regulator and industry focussed on genuine safety issues and outcomes.

I would like to thank the contribution of Lee in his first full year as CEO and the entire Management team for delivering on all that was accomplished in 2016 which will position Alliance well for the future.

I would like to thank my fellow Directors and now pass across to Lee.

Scott McMillan
Managing Director

27 October 2016

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CEO Address

It is a pleasure to have the opportunity to address you all today after my first full year as CEO. My first year has been a challenging one requiring the implementation of a number of the strategies that Steve and Scott have spoken about. My focus has been on the delivery of these strategies and the blending these strategies into the daily operations of the business.

The Alliance business has certainly changed significantly in the past two years and I share the vision with Steve and Scott regarding revenue diversification and realising the full benefit of the Austrian Fleet acquisition.

The last 12 months have again demonstrated to me what sets this business apart from so many others. Despite all of the changing parts of the business, the impact on engineering, the maintenance planning team, our crew and all operational staff there has continued to be an overarching flexibility and willingness to 'get the job done'.

I said this last year but this a credit to the entire Alliance family and underpins the culture for which I often receive regular compliments from our customers.. One example that comes to mind was the exceptional service and operational performance that was delivered in providing two aircraft to the RAAF Squadron 34 in support of the Federal Election. This entailed 75 days of flying, at irregular times and destinations and all at relatively short notice. This was a true team effort involving staff from all of our operational bases.

It is these kind of team efforts that resulted in us retaining all contracts, winning two new contracts in the past year and having an excellent track record with contract renewals. We cannot lose focus on this as this is what sets us apart from our competitors. We must also take this attitude to supporting the Virgin Australia services that we currently operate.

Scott mentioned the relationship with ATB. From an operational perspective I would like to thank the entire team from both organisations for making the first 12 months work the way that it has.

I would like to thank each and every member of the broader Alliance team who has contributed to the operational excellence that we have delivered. I would also personally like to thank the Directors for the support I have been shown in the past year.

To my fellow Management team, we have achieved a lot to date but we start again next week and I look forward to that journey as we do it together.

Lee Schofield
Chief Executive Officer