ALLIANCE AVIATION SERVICES LIMITED

ACN 153 361 525

ASX Code : AQZ

INTERIM FINANCIAL REPORT

For the half-year ended
31 December 2015

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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 123 Eagle Street Brisbane QLD 4000	
Auditor	PricewaterhouseCoopers 123 Eagle 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	

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) and the entities it controlled at the end of, or during, the half-year ended 31 December 2015.

The following persons were directors of Alliance Aviation Services Limited during the period and up to the date of this report.

Steve Padgett	Non-executive Chairman
Scott McMillan	Managing Director
Peter Housden	Independent non-executive Director
David Crombie	Independent non-executive Director
Lee Schofield	Chief Executive Officer

The key messages from this report are:

- Alliance derived an underlying net profit after tax of $ 4.1 million. As a result of a number of the financial measures completed in the first half and future contracts which have been secured, the Directors maintain a stable outlook for the full year;
- During the first half of the year, Alliance retained all long term contracts and completed the engineering restructure;
- The business continues to carefully manage capital expenditure with a total spend of $10.9 million for the half which is down on previous periods. This has positioned Alliance to meet full year capital expenditure forecasts;
- Alliance has secured an opportunity with the establishment of the European operations to lower future capital expenditure on parts and introduce a new revenue stream;
- A continued focus on lowering debt with a net reduction of in total debt of $1.1 million for the half. Total debt is forecast to reduce by $3.7 million in the second half of the year; and
- Alliance has continued to challenge its cost base and has also reduced total headcount to 422 a reduction of 7.6% from 30 June 2015.

Summary of Financial Results

Alliance Aviation Services Limited recorded a statutory net profit after tax (NPAT) of $4.9 million for the half year ended 31 December 2015.

The results for the 6 months ended 31 December 2015 have been summarised below to facilitate direct comparison with 2014 financial results.

$ Millions	31 December 2015			31 December 2014		
	Actuals	Adjustments	Underlying	Actuals	Adjustment	Underlying
Revenue	92.9	-	92. 9	103.4	-	103.4
OPEX*	(73.6)	0.8*	(72.8)	(79.6)	0.5	(79.1)
EBITDA	19.3	0.8	20.1	23.8	0.5	24.3
Asset Costs	(11.5)	-	(11.5)	(57.5)	45.3	(12.2)
FX Losses (Gains)	(0.5)	-	(0.5)	(0.7)	-	(0.7)
Financing Costs	(2.4)	-	(2.4)	(2.4)	-	(2.4)
Income Tax	-	(1.6)	(1.6)	11.0	(13.7)	(2.7)
NPAT	4.9	(0.8)	4.1	(25.8)	32.1	6.3

*The adjustment in expenses above represent the employee costs incurred with "once off" redundancy, termination and restructuring costs which were incurred during the period and an 'unrealised' foreign exchange gain on a financial derivative. The income tax adjustment is an adjustment to remove the recognition of tax losses from a previous period that have been used to reduce the current year tax expense.

The "Actuals" are the financial results in accordance with the Australian Accounting Standards and the "Underlying" represent the results after removing once off adjustments as a result of continued organisational structural amendments which were completed during the period and the removal of the impairment charge in the previous period.

Revenue

Revenue for the half year ended 31 December 2015 was $92.9million (2014: $103.4 million). The principal difference between the two periods has been the continued decline in the fuel price which has been passed through to our contract customers. This represents approximately 75% of the difference between the two results.

Key Metrics

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

Metric	2015	2014
Average Aircraft in Service	**26**	27
Flight Hours – FIFO / Charter	**11,392**	11,792
Flight Hours – Wet Lease	**472**	343
Total Flights	**8,907**	9,476
Average Staff Numbers	**429**	510
EBITDA per Aircraft ($m)	**0.78**	0.97
Revenue per Employee ($k)	**217**	206
FIFO % of Total Revenue	**86%**	86%

(6 month data)

As at 31 December 2015 there was a total headcount of 422, down from 457 at 30 June 2015.

Capital Expenditure

Capital expenditure for the period was $10.9 million (2014: $14.7 million). The capital expenditure during the period included the heavy maintenance of 6 aircraft.

Operating Cash flow

Operating cash flow from operation was $14.9 million (2014: $22.5 million).

Operating cash flow was impacted by a continual pressure on the working capital of the business with a number of our customers continuing with the practice of settling debts well beyond contract terms.

Business Strategies and Outlook

The anticipated underlying full result for the year ending 30 June 2016 remains stable compared with the previous year. The stable outlook of the business is predicated from maintaining the current suite of contracts and a continued focus on cost control which includes capital expenditure.

The focus for the coming year is on the highest level of safety, maintaining industry leading on time performance and the highest levels of customer service to support the delivery of sustainable shareholder returns. This focus has positioned Alliance to retain its contracts.

Whilst Alliance remains committed to its strategy of long term contracts with top tier mines which are in production, Alliance continues to develop ways to diversify its income, both in its customer base and geography.

The existing long term and material contracts underpin the financial performance of Alliance. These contracts have an average remaining life of 2.2 years.

Directors' Report

Description of Operations

Alliance Aviation is Australia's leading provider of FIFO transportation and charter operations. Alliance provides 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 company has been awarded the Flight Safety Foundation "BARS Gold" status, the first such carrier in Australia to be so recognised.

The company operates a fleet of fifteen Fokker 100 (F100) and eight Fokker 70LR (F70) jet aircraft and five Fokker 50 (F50) turboprops at industry leading on time performance.

Alliance flies workers to and from some of the largest operating mines in Australia for a predominantly "blue chip" mining and energy customer base, and also provides ad hoc charter operations, wet lease and aviation engineering services to a range of corporate and government customers. Alliance has operates charter operations to support the Tourism sector in Australia and New Zealand.

Alliance has a national footprint with operations and aircraft based in Brisbane, Townsville, Cairns, Adelaide, Melbourne, Perth and Auckland, New Zealand.

The Alliance corporate function is based in Brisbane. Line maintenance facilities are located across the network to support the operation. Heavy Maintenance activities are contracted to Austrian Technik Bratislava, in Europe.

Alliance has an enviable industry leading on time performance record with an average of 95% for the 6 months ended 31 December 2015.

Safety will always be the most important operational requirement for Alliance.

In November 2015, Alliance announced that it intended to start operations in Bratislava, Slovakia. These operations will sell aircraft and aircraft parts to Fokker operators.

Other Relevant Facts

Principal Activities

During the half-year the principal activities of the group remained the provision of aircraft charter services, specialising in provision of fly-in fly-out services to mining and energy industries.

Profit and Earnings per Share

Statutory profit after tax for the half-year to 31 December 2015 was a profit of $4.9 million compared with a loss of $25.8 million in the half-year December 2014.

The basic earnings per share was 4.53 cents for the 6 months ended 31 December 2015 (2014: (24.2) cents).

Dividends

The Directors have resolved that no interim dividend would be paid.

The primary capital management strategy of the business currently is managing capital expenditure and lowering debt in the medium term.

The Directors indicated in August 2015 that the dividend would be considered for the full year ended 30 June 2016 and subject to the working capital needs of the business and the future outlook at that time.

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.

Directors' Report

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.

Steve Padgett

Chairman

Sydney

15 February 2016

pwc

Auditor's Independence Declaration

As lead auditor for the review of Alliance Aviation Services Limited for the half-year ended 31 December 2015, 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 review; and

b) 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 the entities it controlled during the period.

Timothy J Allman

Partner
PricewaterhouseCoopers

Brisbane
15 February 2016

Financial Statements

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

Financial Statements **Page**

These financial statements are the consolidated financial statements of the consolidated entity 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

A description of the nature of the consolidated entity's operations and its principal activities is included in the directors' report on Page 4 both of which are not part of these financial statements.

The financial statements were authorised for issue by the directors on 15 February 2016. 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 and other information are available on our website: www.allianceairlines.com.au

Financial Statements

Consolidated Income Statement

	Notes	31 December 2015 $'000	31 December 2014 $'000
Revenue	3	**92,930**	103,378
Other income	4	**2**	33
Expenses	5		
Flight and operations costs		**(36,825)**	(43,962)
Engineering and maintenance costs		**(5,298)**	(6,985)
Selling and marketing expenses		**(372)**	(674)
Office and general administration costs		**(4,770)**	(4,634)
Employee Costs		**(26,408)**	(23,351)
Finance costs		**(2,356)**	(2,493)
Net foreign exchange gains / (losses)		**(486)**	(699)
Depreciation	8	**(11,488)**	(12,200)
Impairment of PPE & Inventory	6	**-**	(45,266)
Profit / (Loss) before income tax		**4,929**	(36,853)
Income tax benefit / (expense)	7	**-**	11,046
Profit / (Loss) for the half-year		**4,929**	(25,807)
Profit attributable to owners of *Alliance* Aviation Services Ltd		**4,929**	(25,807)
		Cents per share	
Earnings per share based on earnings attributable to the ordinary equity holders of the company			
Basic earnings per share		**4.53**	(24.29)
Diluted earnings per share		**4.53**	(24.23)

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

Financial Statements

Consolidated Statement of Comprehensive Income

	31 December 2015 $'000	31 December 2014 $'000
Profit for the half-year	**4,929**	(25,807)
Other comprehensive income		
Items that may be reclassified to profit or loss / Cash flow hedge	**(76)**	(3,275)
Income tax relating to these items	**-**	982
Other comprehensive income for the half-year, net of tax	**(76)**	(2,293)
Total comprehensive income for the half-year	**4,853**	(28,100)
Total comprehensive income for the half-year is attributable to:		
Owners of ***Alliance*** Aviation Services Limited	**4,853**	(28,100)

Financial Statements

Consolidated balance sheet

	Notes	31 December 2015 $'000	30 June 2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		**2,007**	600
Receivables		**32,626**	24,528
Inventories		**29,810**	24,699
Total current assets		**64,443**	49,827
Non-current assets			
Property, plant & equipment	8	**170,087**	170,719
Total non-current assets		**170,087**	170,719
Total assets		**234,530**	220,546
LIABILITIES			
Current liabilities			
Trade and other payables		**25,924**	22,978
Derivative Financial Instrument		**31**	-
Borrowings	9	**12,032**	9,798
Current tax liabilities		**18**	18
Provisions	10	**4,631**	4,845
Total current liabilities		**42,636**	37,639
Non-current liabilities			
Borrowings	11	**71,938**	75,342
Provisions	12	**1,508**	1,616
Total non-current liabilities		**73,446**	76,958
Total liabilities		**116,082**	114,597
Net assets		**118,448**	105,949
EQUITY			
Contributed equity	14	**180,483**	172,837
Reserves		**(113,008)**	(112,932)
Retained earnings		**50,973**	46,044
Total equity		**118,448**	105,949

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

Financial Statements

Consolidated statement of changes in equity

	Attributable to owners of Alliance Aviation Services Limited			
	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2014	**172,367**	(111,830)	**84,854**	145,391
Profit for the half-year	**-**	-	**(25,807)**	(25,807)
Other comprehensive income	**-**	(2,291)	**-**	(2,292)
Total comprehensive income for the year	**172,367**	(114,121)	**59,047**	117,292
Contributions of equity	**162**	-	**-**	162
Dividends paid		-	**(2,227)**	(2,227)
Dividend reinvestment plan	**309**	-	**-**	309
Balance at 31 December 2014	**172,838**	(114,121)	**56,820**	115,535
Balance at 1 July 2015	**172,837**	(112,932)	**46,044**	105,949
Profit for the year	**-**	-	**4,929**	4,929
Other comprehensive income	**-**	(76)		(76)
Total comprehensive income for the year	**172,837**	(113,008)	**50,973**	110,802
Contributions of equity	**7,646**	-	**-**	7,646
Dividends paid	**-**	-	**-**	-
Dividend reinvestment plan	**-**	-	**-**	-
Balance at 31 December 2015	**180,483**	(113,008)	**50,973**	118,448

Financial Statements

Consolidated statement of cash flows

	31 December 2015 $'000	31 December 2014 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**105,998**	124,179
Payments to suppliers (inclusive of goods and services tax)	**(88,644)**	(103,858)
Interest received	**1**	2
Interest paid	**(2,356)**	(2,301)
Income tax paid	**-**	4,268
Net cash inflow (outflow) from operating activities	**14,999**	22,290
Cash flows from investing activities		
Payments for aircraft, property, plant and equipment	**(12,337)**	(14,717)
Proceeds from sale of property, plant & equipment	**0**	0
Cash inflow (outflow) from investing activities	**(12,337)**	(14,717)
Cash flows from financing activities		
Proceeds from issue of shares	**-**	162
Proceeds from borrowings	**6,198**	1,000
Repayment of borrowings	**(7,455)**	(2,652)
Dividends paid	**-**	(2,227)
Net cash inflow (outflow) from financing activities	**(1,257)**	(3,717)
Net increase (decrease) in cash and cash equivalents	**1,405**	3,856
Cash and cash equivalents at the beginning of the half-year	**602**	239
Cash and cash equivalents at the end of the year	**2,007**	4,095

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

Financial Statements

Notes to the Consolidated Financial Statements

Notes to the consolidated financial statements

1. Basis of preparation of half-year report

(a) This condensed consolidated interim financial report for the half year reporting period ended 31 December 2015 has been prepared in accordance with Accounting Standard AASB 134 Interim Financial Reporting and the Corporation Act 2001.

This condensed consolidated interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by Alliance Aviation Services Limited (AASL) during the interim reporting period in accordance with the continuous disclosure requirements.

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

(b) Changes to presentation – classification of expenses

Alliance Aviation Services Limited decided as part of the 30 June 2015 financial reports change the classification of its expenses in the income statement from a classification by functional area of the business to one of the type of expense. This has been also adopted in the half year accounts as at 31 December 2015. We believe that this will provide more relevant information to our stakeholders as it is more in line with common practice in the industries Alliance Aviation Services Limited is operating in. It also provides a direct comparison of the performance of the business with the previous period.

The comparative information has been reclassified accordingly.

(c) Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not been early adopted by the Group. A number of these were outlined in the financial accounts for the year ended 30 June 2015.

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IFRS 16 Leases addresses the recognition, measurement, presentation and disclosures of leases.

This standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, AASB 117. This standard applies to annual reporting periods beginning on or after 1 January 2019.

The Group has not yet assessed the impact for the Group of this new standard.

2. 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 for the half year ended 31 December 2015. In November 2015, Alliance Aviation Services Limited established Alliance Aviation Slovakia s.r.o. (AASL). AASL will conduct a business of the re-sale of aircraft and aircraft parts. It is intended that this new business will represent a separate operating segment in future reports. The current operations do not meet the thresholds in AASB 8 to be recognised in the financial reports for the half year ended 31 December 2015.

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

Notes to the consolidated financial statements

3. Revenue

	31 December 2015 $'000	31 December 2014 $'000
From continuing operations		
Contract revenue	**80,152**	90,329
Charter / Wet Leasing Revenue	**10,802**	8,355
Supplier Rebates and Sale of Inventory	**1,976**	4,694
	92,930	103,378

4. Other Income

	31 December 2015 $'000	31 December 2014 $'000
Interest Income	**2**	33
	2	**33**

5. Expenses

	31 December 2015 $'000	31 December 2014 $'000
Profit before tax includes the following specific expenses:		
Flight and Operations Costs		
Flight and Operating Costs	**(36,825)**	(43,962)
Engineering and Maintenance Costs		
General Engineering and Maintenance Costs	**(5,298)**	(6,985)
Office and General Administration Costs		
General Administration Costs	**(4,770)**	(4,634)
Finance Costs		
Interest Expense	**(2,356)**	(2,493)
Employee Costs		
Flight Operations	**(3,953)**	(4,235)
Engineering and Maintenance	**(8,860)**	(11,373)
Office and General Administration	**(2,975)**	(2,859)
Flight Crew	**(12,175)**	(12,478)
Sales	**(131)**	(80)
Costs Capitalised as part of heavy maintenance activities	**1,686**	7,673
	(26,408)	(23,351)
Impairment Losses		
Property Plant and Equipment	**-**	(45,266)
Net foreign exchange gains / (losses)		
Foreign Exchange Losses	(486)	(699)

Notes to the consolidated financial statements

6. Impairment of Specific Assets

At a Board meeting on 12 February 2015, the Directors considered the interpretation of the accounting standard in relation to the Impairment of Assets and how this should be applied to Alliance. The Board previously recognised an impairment charge in the half year ended 31 December 2014.

During the half year ended 31 December 2015 there have been no changes to the financial performance or outlook of the company that would require any further impairment or that justify the unwinding of any previous impairment charge.

The audited financial reports for the year ended 30 June 2015 outlined the impact that changes in the underlying assumptions would have on this assessment.

As Alliance operates a fleet of aircraft and the fleet is substantially interchangeable between contracts and locations, maintains the fleet centrally and does not measure the profitability of geographical locations, the Directors consider that Alliance Airlines only has one CGU in respect of the Australian operations and one for the European operations. There is no trigger for an impairment assessment for the European operations.

No impairment charge has been recognised.

7. Income Tax Expense

(a) Income tax expense is recognised based on management's estimate of the weighted average effective tax rate expected for the full financial year. The estimated average annual tax rate used for the half-year 31 December 2015 is nil%, compared to 30.5% for the six months ended 31 December 2014. The rate variance between the two periods is due to deferred tax adjustments.

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

	31 December 2015 $'000	31 December 2014 $'000
Profit / (loss) before income tax expense	**4,929**	(36,853)
Tax at the Australian Corporate tax rate of 30% (2014 30%)	**1,479**	(11,056)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Tax Effect of permanent differences	**13**	10
	1,492	(11,046)
Previously unrecognised tax losses used to reduce current year income tax expense	**(1,492)**	-
Income tax (benefit)	**-**	(11,046)

(c) Amounts recognised directly in equity

Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss or other comprehensive income but directly debited or credited to equity:	**-**	982
Net deferred tax - debited (credited) directly to equity	**-**	982

(d) Tax expense (income) relating to items of other comprehensive income

Changes in the fair value of cash flow hedges	**-**	-

8. Non-current assets – Property, Plant and Equipment

	Aircraft & APUs	Property, Plant and Equipment	Total
At 30 June 2015	**$'000**	**$'000**	**$'000**
Cost	264,420	17,966	282,386
Accumulated depreciation and impairment	(100,450)	(11,217)	(111,667)
Net book value	**163,970**	**6,749**	**170,719**
Half-Year ended 31 December 2015			
Opening net book amount	163,970	6,749	170,719
Additions	14,451	362	14,813
Transfers	(3,956)	-	(3,956)
Depreciation charge	(10,346)	(1,142)	(11,488)
Closing net book value	164,119	5,969	170,088
At 31 December 2015			
Cost	274,914	18,328	293,242
Accumulated depreciation and impairment	(110,796)	(12,359)	(123,155)
Net book value	**164,119**	**5,969**	**170,087**

9. Current Liabilities – Borrowings

	31 December 2015 $'000	30 June 2015 $'000
Secured		
Bank loans	**12,032**	9,788
Total current borrowings	**12,032**	9,788

(a) Security and fair value disclosures

Information about security relating to each of the secured liabilities and the fair value of each of the borrowings is provided in Note 11.

10. Current liabilities – Provisions

	31 December 2015 $'000	30 June 2015 $'000
Employee benefits – Annual Leave	**3,562**	3,846
Employee benefits – Long Service Leave	**1,069**	999
	4,631	4,845

11. Non-current liabilities – Borrowings

	31 December 2015 $'000	30 June 2015 $'000
Secured		
Bank loans	**71,938**	75,342
Total non-current borrowings	**71,938**	75,342

(a) Secured liabilities and assets pledged as security

The total secured liabilities (current and non-current) are as follows:

	31 December 2015 $'000	30 June 2015 $'000
Bank overdrafts and bank loans	**83,971**	85,750
Total secured liabilities	**83,971**	85,750

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

	31 December 2015 $'000	30 June 2015 $'000
Current		
Floating Charge		
Cash and cash equivalents	**2,007**	600
Receivables	**32,626**	24,528
Inventories	**29,810**	24,699
Total current assets pledged as security	**64,443**	49,827
Non-current		
First Mortgage		
Aircraft	**164,119**	163,970
Floating Charge		
Plant and equipment	**5,968**	6,749
Total non-current assets pledged as security	**170,087**	170,719
Total assets pledged as security	**234,530**	220,546

Details regarding carrying amounts and fair values of borrowings as at 31/12/15 are provided in Note 13.

12. Non-Current Liabilities - Provisions

	31 December 2015 $'000	30 June 2015 $'000
Employee benefits – long service leave	**1,508**	1,616
	1,508	1,616

13. Fair value measurement of Financial Instruments

(a) Fair values of the borrowings at the end of reporting period are as follows

	31 December 2015	
	Carrying amount	Fair Value
	$'000	$'000
Financial liabilities		
Bank loans	**83,971**	**83,971**
Derivatives used for hedging – foreign exchange contracts	**31**	**31**
	84,002	**84,002**

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.

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

(a) 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).

(i) 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.

(b) 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.

(b) Fair value of the loan to/from related parties is as follows

	31 December 2015	
	Carrying Amount $'000	Fair Value $'000
Loans to related parties	-	-

14. Contributed Equity

	31 December 2015	30 June 2015	**31 December 2015**	30 June 2015
	No. of shares		**$'000**	$'000
Issued ordinary shares – fully paid	**120,994,812**	106,429,638	**180,483**	172,838

(a) Movement in ordinary share capital:

At the beginning of the financial period	106,429,638	106,064,805	172,837	172,367
Share placement issue	14,565,174	137,711	7,646	162
Transaction costs arising on share issue	-	-	-	-
Dividend reinvestment plan	-	227,122	-	309
Deferred tax	-	-	-	-
At the end of the financial period	120,994,812	106,429,638	180,483	172,838

(b) 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 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.

(c) Dividend reinvestment plan

The company has implemented 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.

(d) 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.

Alliance Aviation Services Limited has complied with the financial covenants of its borrowing facilities during the 2014 and 2015 reporting periods.

15. Dividends

	31 December 2015 $'000	**30 June 2015 $'000**
(a) Ordinary Shares		
In respect of year ended 30 June 2014, a fully franked dividend of 2.1 cents per fully paid ordinary shares was paid out of retained earnings on 9 October 2014.	**-**	2,227
(b) Franked credits		
Franking credits available for subsequent reporting based on a tax rate of 30% (2013: 30%)	**22,356**	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

The group had no contingent liabilities at 31 December 2015 (30 June 2015: $0.5million).

17. Commitments

Lease commitments: group as lessee

Non-cancellable operating leases

The group leases various 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.

Non-cancellable operating leases	31 December 2015 $'000	30 June 2015 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**1,150**	1,466
Later than one year but not older than five years	**2,974**	4,506
Later than five years	**2,252**	2,801
	6,376	8,773

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 2015, the Group had a remaining commitment of USD14.5 million which is payable progressively over the period ended November 2017.

18. Related Party Transactions

(a) Parent entities

The parent entity within the group is *Alliance* Aviation Services Limited.

(b) Subsidiaries

Significant investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following principal subsidiaries.

Name of entity	Country of incorporation	Class of shares	Equity holding** 2015	2014
			%	%
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**	-

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

19. Events Occurring after the Reporting Period

There have not been any events after the reporting period which requires disclosure.

Financial Statements

Directors' Declaration

In the Directors' opinion:

- The financial statements and notes set out on pages 10 to 25 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 2015 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.

Steve Padgett

Chairman

Brisbane

15 February 2015

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 2015, 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 (including the Australian Accounting Interpretations) 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 2015 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.

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:

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a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date;

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

PricewaterhouseCoopers

Timothy J Allman
Partner

Brisbane
15 February 2016

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