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Alliance Aviation Services Limited (ASX code: AQZ)

Customer Market Conditions

Alliance Aviation Services Limited ("Alliance") has recently been notified of a number of changes to its existing schedule with current customers. Considering this advice and the current volatility in the resource and energy sector, Alliance has carried out a review of its forecast and the consensus for FY15.

Whilst the majority of customer's mines are in production, many have been affected by the downturn in various commodity prices and are reviewing their operations. Alliance has spoken to the majority of its major customers and taken into account their expectations of future services.

On the basis of that feedback, the Board of Alliance has revised the earnings guidance for FY15.

The Board currently believes that the Net Profit after Tax (NPAT) for the full year from underlying operations will be in the order of \$13.0 million. Other opportunities continue to be pursued to improve this result.

The half year result will be similar to the corresponding period last year.

Fleet Composition

- One of Alliances advantages over its competitors is its ability to control all elements of the maintenance program. With changes in fleet utilisation, management are able to change the maintenance plan to meet economic and flying condition;
- Alliance will reduce its operational fleet prior to 31 March 2015 by two Fokker 100 and one Fokker 50 aircraft that are due for major maintenance;
- The revised operational fleet at 30 June 2015 is forecast to be five Fokker 50, seven Fokker 70 and fifteen Fokker 100 – with two of these aircraft being in heavy maintenance at any given time;
- The reduced operational fleet will provide significant flexibility in relation to the maintenance lines that currently operate; and
- Alliance further intends to deploy two fleet units overseas on wet leases.

Personnel

- During the first half of 1H FY15 Alliance has reduced staff numbers by 40;
- Additional staff reductions are expected to be completed over the next 6 months through natural attrition, early retirement and leave without pay; and
- Alliance will reposition staff from Eastern Australia to Western Australia.

Contracts

The Alliance is experiencing changes in its contractual base:

- A renewed contract this month with Ernest Henry Mining for the provision of flights to Cloncurry from Brisbane, Townsville and Cairns. This contract is for 6 flights per week, down from 12 flights on the previous schedule;
- The recent commencement of a long term contract with Tauck, Inc. for the provision of two aircraft on tourism related activities. Tauck is a prestigious US based and family owned tour operator of land tours, river cruises and small ship cruises that will celebrate its 90th anniversary in 2015. A four year contract has been executed and during that period Alliance will operate exclusive flights for Tauck in both Australia and New Zealand. One aircraft will be based in Melbourne and the other aircraft, will for the first time, be based in Auckland;
- A significant reduction in the number of services into Miles to support the Surat Basin QCLNG Upstream Project; and
- Alliance continues to explore future opportunities in East and Western Australia. A number of these will provide revenue opportunities on 2016 and beyond.

Fuel Price and Exchange Rate

- The majority of the company's customers have variation formulas which pass on changes in fuel pricing. The significant reduction in the price of jet fuel is passed onto our customers with the benefit being substantially reduced costs for their FIFO activities but with no impact on our financial performance; and
- Whilst the company also passes on the majority of its exchange risk through contract variation formulas it still has an exposure through trade payables. With the decline in the Australian dollar the trade payables balance has appreciated which has incurred a cost of over AUD0.5 million. Whilst this will pass through the variation formulas for future costs it does represent a cost in the current year.

Carrying Value of Assets

The Directors have considered the carrying value of assets. In accordance with the accounting standards, Alliance operates only one cash generating unit.

Over the past three years there has been a significant investment in heavy maintenance to maximise the fleet life, improve reliability and lower daily operating costs. This has resulted in a lower forecast in respect of heavy maintenance over the next two years.

The Board has taken a conservative approach towards the carrying value and consider that the current value of approximately \$224 million should be reduced by approximately \$45 million. This adjustment is subject to audit.

The write-down is a non-cash charge to the profit and loss, with no impact on the operations and is in respect of aircraft which Alliance has no intention of selling.

The scale of the write down is a product of adopting a conservative discount rate and results in a carrying value which is more representative of the current worldwide market value of the Alliance Fokker fleet. It will reduce the depreciation charge in future periods.

Dividend

With the change in trading results, the Board has elected to not pay an interim dividend. The Board will consider the final dividend in conjunction with the year end results.

Debt Facility

The current debt facility with the Australian and New Zealand Banking Corporation (ANZ) and the Commonwealth Bank of Australia (CBA) is due to expire on 31 October 2015. Alliance has agreed terms with ANZ and CBA to extend this facility on the current terms until 28 February 2016.

The Board expect that this extended debt facility will be refinanced in advance of 30 June 2015.

For more information contact:

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About Alliance Aviation

Alliance Aviation is Australia's leading provider of fly-in, fly-out ("FIFO") transportation. 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 the Flight Safety Foundation "BARS Gold" status, the first such carrier in Australia to be so recognised.

The Company owns a fleet of 18 Fokker 100 and seven Fokker 70LR jet aircraft and six Fokker 50 turboprops at industry leading on time performance and reliability.

Alliance flies workers to and from some of the largest mining operations in Australia for a predominantly "blue chip" mining and energy customer base, and also provides ad hoc charter, aircraft wet lease and aviation engineering services to a range of corporate and government customers.

The Company has a growing national footprint with operations now based in Brisbane, Townsville, Cairns, Adelaide, Perth and Darwin.