ALLIANCE AVIATION SERVICES LIMITED

ACN 153 361 525

ASX Code : AQZ

INTERIM FINANCIAL REPORT

For the half-year ended
31 December 2014

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Directors' Report

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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

Secretary

M Dyer

Senior Management

M Dyer	Chief Financial Officer
L Schofield	Chief Operating Officer

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 & New Zealand Banking Group
111 Eagle Street Brisbane QLD 4000

Commonwealth Bank of Australia Limited
300 Murray Street, Perth, WA 6000

Stock Exchange

Australian Securities Exchange
Exchange Centre 20 Bridge Street Sydney NSW 2000

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

Directors' Report

Your directors present their report on the consolidated entity (referred to hereafter as the group) consisting of Alliance Aviation Services Limited (the company) and the entities it controlled at the end of, or during, the half-year ended 31 December 2014.

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 and CEO
Peter Housden	Independent non-executive Director
David Crombie	Independent non-executive Director

The key messages from this report are:

- Alliance derived an underlying net profit after tax of $6.3 million compared with $7.1 million for the same period last year. The business has previously indicated a full year result of approximately $13.0 million NPAT;
- The business is implementing a strategy to broaden its revenue base including expanding its focus on the ad-hoc charter business;
- A complete review of the customer schedule to identify ways to lower the capital employed in the business by managing fleet capacity, utilisation and engineering activities; and
- A focus on lowering debt in the medium term.

1. Summary of Financial Results

Alliance Aviation Services Limited recorded a statutory net loss after tax (NPAT) of $25.8 million for the half year ended 31 December 2014. The results for the 6 months ended 31 December 2014 have been summarised below to facilitate direct comparison with 2013 financial results.

$ Millions	31 December 2014			31 December 2013		
	Actuals	Adjustment	Underlying	Actuals	Adjustment	Underlying
Revenue	105.0	-	105.0	104.5	-	104.5
OPEX*	(82.0)	0.5	(81.5)	(80.5)	0.9	(79.6)
EBITDA	23.1		23.6	24.0	0.9	24.9
Asset Costs	(57.5)	45.3	(12.2)	(12.6)		(12.6)
Financing Costs	(2.4)	-	(2.4)	(2.1)		(2.1)
Income Tax	11.0	(13.7)	(2.7)	(2.8)	(0.3)	(3.1)
NPAT	(25.8)	32.1	6.3	6.5	0.6	7.1

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

The most significant variation to the previous period is the recognition of an impairment charge on the carrying value of the entity's assets. This charge is a product of the slowing economic conditions, particularly in the resources industry.

The "Actuals" are the financial results in accordance with the audited 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.

Revenue

Revenue for the half year ended 31 December 2014 was $105.0 million (2013: $104.5 million), which is comparable with the previous period.

The reduction in charter and wet lease revenue for the period has been offset in part by new opportunities which have presented themselves including the important and significant contractual relationship with BHP Iron Ore for the provision of FIFO services. The first phase of this contract commenced in early 2014 with the full schedule commencing in June 2014. There have also been a number of smaller contracts which have been secured and new flying supporting the tourism sector.

Key Metrics

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

Metric	2014	2013
Average Aircraft in Service	27.0	27
Flight Hours - FIFO / Charter	11,792	11,580
Flight Hours - Wet Lease	343	1,592
Total Flights	9,476	9,879
Average Staff Numbers	510	512
EBITDA per Aircraft ($m)	0.97	0.89
Revenue per Employee ($k)	206	207
FIFO % of Total Revenue	86%	81%

(6 month data)

Whilst the average staff numbers have decreased slightly from December 2013 to December 2014, there has been a real reduction in actual headcount from 527 as at 30 June 2014 to 495 as at 31 December 2014. This is a reflection of the continued focus on managing the workforce to support the actual flying activities.

Capital Expenditure

Capital expenditure for the period was $14.7 million (2013: $14.5 million). The capital expenditure during the period was for the completion of the refurbishment and entry into service for two aircraft and the ongoing maintenance of the fleet.

Operating Cash flow

Operating cash flow from operation was $22.5 million (2013: $19.1 million).

Operating cash flow was invested in the heavy maintenance program. One of the strategies for the next 6 months is to lower this capital commitment with the amended flying schedule and a reduction is fleet numbers.

2. Business Strategies and Outlook

The underlying full result for the year ending 30 June 2015 is forecast to be above the full year result for 2014. The Directors forecast an underlying net profit after tax in the order of $13.0 million.

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.

Whilst Alliance remains committed to its main 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 Directors consider that the existing long term and material contracts underpin the financial performance of Alliance. These contracts have an average remaining life of 2.7 years.

The company still has capacity to take on further work without significant additional investment in aircraft.

3. Impairment of Assets

At a Board meeting on 22 December 2014, 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 total impairment charge for property plant and equipment and inventory recognised is $44.9 million. There was a further write down of an intangible of $0.3 million bringing the total impairment charge to $45.3 million in the current period.

Further explanation of this calculation has been included in Note 6 of the 31 December 2015 financial statements.

The Directors procured an independent 'value in use' valuation of the aircraft as at 30 June 2014. After recognition of this impairment, the carrying value of the aircraft is comparable with the outcome of this independent valuation.

4. 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 owns a fleet of eighteen Fokker 100 (F100) and eight Fokker 70LR (F70) jet aircraft and six 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. Recently Alliance has started charter operations to support the Tourism sector.

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

The Alliance corporate function is operated from Brisbane. Base (heavy) and line maintenance facilities are located in Brisbane and Adelaide with supporting line maintenance activities in Perth, Melbourne, Darwin, Townsville and Cairns.

Alliance has an enviable industry leading on time performance record with an average of 95% for the 6 months ended 31 December 2014.

Safety will always be the most important operational requirement for Alliance. Following the successful transition to new Civil Aviation Safety Authority (CASA) regulations concerning the airworthiness and maintenance of Regular Public Transport (RPT) in June 2013, Alliance continues to maintain its own fleet with a continued focus on safety and reliability.

5. 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 2014 was a loss of $25.8 million compared to $6.5 million profit in the half-year December 2013.

The basic earnings per share was (24.2) cents for the 6 months ended 31 December 2014 (2013: 6.2 cents).

Bank Debt Facility

The Alliance bank debt facility was originally due to expire at 31 October 2015.

Following an approach to The Australian and New Zealand Banking Corporation (ANZ) and the Commonwealth Bank of Australia (CBA) agreed to extend the debt facilities to 28 February 2016.

The result from this extension was that the debt continues to be classified as non-current debt as at 31 December 2014. It is the intention to refinance this facility before 30 June 2015.

Dividends

The primary focus of Alliance includes reviewing fleet capacity, lowering capital expenditure and reviewing the debt obligations of the business.

As indicated in the market release in December 2014, The Directors have resolved that no interim dividend will be paid. The Directors will resume dividend payments as the strategies outlined are successfully implemented. Once the above strategies have been finalised, the Directors will once again consider future dividends.

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

11 February 2015

pwc

Auditor's Independence Declaration

As lead auditor for the review of Alliance Aviation Services Limited for the half-year ended 31 December 2014, 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.

Tim Allman
Partner
PricewaterhouseCoopers

Brisbane
11 February 2015

Financial Statements

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

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 11 February 2015. 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 2014 $'000	31 December 2013 $'000
Revenue	3	**105,161**	104,328
Other income	4	**(85)**	213
Expenses	5		
Flight and operations costs		**(60,052)**	(62,276)
Engineering and maintenance costs		**(10,665)**	(10,208)
Selling and marketing expenses		**(754)**	(885)
Office and general administration costs		**(7,493)**	(6,993)
Cost of Goods Sold		**(3,040)**	(54)
Finance costs		**(2,459)**	(2,138)
Depreciation	8	**(12,200)**	(12,577)
Impairment of PPE & Inventory	6	**(45,266)**	-
Loss before income tax		**(36,853)**	9,410
Income tax benefit / (expense)	7	**11,046**	(2,879)
Loss for the half-year		**(25,807)**	6,531
Profit attributable to owners of Alliance Aviation Services Ltd		**(25,807)**	**6,531**
Earnings per share based on earnings attributable to the ordinary equity holders of the company		**Cents per share**	
Basic earnings per share		**(24.29)**	6.19
Diluted earnings per share		**(24.23)**	6.17

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

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Consolidated Statement of Comprehensive Income

	31 December 2014 $'000	31 December 2013 $'000
Profit for the half-year	**(25,807)**	6,531
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedge	**(3,275)**	47
Income tax relating to these items	**982**	(14)
Other comprehensive income for the half-year, net of tax	**(2,293)**	33
Total comprehensive income for the half-year	**(28,099)**	6,564
Total comprehensive income for the half-year is attributable to:		
Owners of ***Alliance*** Aviation Services Limited	**(28,099)**	6,564

Financial Statements

Consolidated balance sheet

	Notes	31 December 2014 $'000	30 June 2014 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		**4,095**	239
Receivables		**21,792**	23,867
Inventories		**24,341**	24,379
Total current assets		**50,228**	48,485
Non-current assets			
Property, plant & equipment	8	**182,354**	218,158
Deferred tax assets		**8,797**	-
Total non-current assets		**191,151**	218,158
Total assets		**241,379**	266,643
LIABILITIES			
Current liabilities			
Trade and other payables		**23,088**	22,016
Borrowings	9	**20,316**	18,000
Current tax liabilities		-	(4,266)
Provisions	10	**4,465**	4,513
Total current liabilities		**47,869**	40,263
Non-current liabilities			
Borrowings	11	**76,285**	76,836
Deferred tax liabilities		-	2,612
Provisions	12	**1,690**	1,541
Total non-current liabilities		**77,975**	80,989
Total liabilities		**125,844**	121,252
Net assets		**115,535**	145,391
EQUITY			
Contributed equity	14	**172,838**	172,367
Reserves		**(114,122)**	(111,830)
Retained earnings		**56,819**	84,854
Total equity		**115,535**	145,391

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 2013	**171,767**	**(112,694)**	**84,532**	**143,605**
Profit for the half-year	-	-	6,531	6,531
Other comprehensive income	-	33	-	33
Total comprehensive income for the year	**171,767**	**(112,660)**	**91,063**	**150,169**
Contributions of equity				
Dividends paid	-	-	(5,910)	(5,910)
Dividend reinvestment plan	-	-	-	-
Balance at 31 December 2013	**171,767**	**(112,660)**	**85,154**	**144,260**
Balance at 1 July 2014	**172,367**	**(111,830)**	**84,854**	**145,391**
Profit for the year	-	-	(25,807)	(25,807)
Other comprehensive income	-	(2,291)	-	(2,292)
Total comprehensive income for the year	**172,367**	**(114,122)**	**59,047**	**117,291**
Contributions of equity	162	-	-	162
Dividends paid	-	-	(2,227)	(2,227)
Dividend reinvestment plan	**309**	-	-	309
Balance at 31 December 2014	**172,838**	**(114,122)**	**56,819**	**115,535**

Financial Statements

Consolidated statement of cash flows

	31 December 2014 $'000	31 December 2013 $'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**124,179**	122,232
Payments to suppliers (inclusive of goods and services tax)	**(103,857)**	(97,945)
Interest received	**2**	29
Interest paid	**(2,301)**	(2,073)
Income tax paid	**4,268**	(3,173)
Net cash inflow (outflow) from operating activities	**22,290**	19,070
Cash flows from investing activities		
Payments for aircraft, property, plant and equipment	**(14,717)**	(14,529)
Proceeds from sale of property, plant & equipment	-	27
Net cash inflow (outflow) from investing activities	**(14,717)**	(14,502)
Cash flows from financing activities		
Proceeds from issue of shares	**162**	-
Proceeds from borrowings	**1,000**	6,401
Repayment of borrowings	**(2,652)**	(3,550)
Dividends paid	**(2,227)**	(5,910)
Net cash inflow (outflow) from financing activities	**(3,717)**	(3,059)
Net increase (decrease) in cash and cash equivalents	**3,856**	1,509
Cash and cash equivalents at the beginning of the half-year	**239**	388
Cash and cash equivalents at the end of the year	**4,095**	1,896

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 2014 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 2014 and any public announcements made by Alliance Aviation Services Limited (AASL) during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.
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 in the current financial year to change the classification of its expenses in the income statement from a classification by nature to a functional classification. 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. The comparative information has been reclassified accordingly.

(c) Impact of the new AASB standards/amendments issued but not yet applied is explained below.

AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013*)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 Financial Instruments:

Recognition and Measurement and have not been changed. The group has not yet decided when to adopt AASB 9.

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. 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.

Notes to the consolidated financial statements

3. Revenue

	31 December 2014 $'000	31 December 2013 $'000
From continuing operations		
Contract revenue	**90,619**	84,431
Charter / Wet Leasing Revenue	**8,066**	19,862
Revenue on Sale of Assets	**6,476**	35
	105,161	104,328

4. Other Income

	31 December 2014 $'000	31 December 2013 $'000
Supplier Rebates	93	38
Rent Income	88	45
Sundry Revenue	434	92
Foreign exchange gains (net)	(699)	37
	(85)	**213**

5. Expenses

	31 December 2014 $'000	31 December 2013 $'000
Profit before tax includes the following specific expenses:		
Total employee benefits expenses	**31,024**	29,500
Finance costs		
Interest expense	**2,459**	2,138
Net foreign exchange (gains) / losses included in other income (note 4) /other expenses and recognised in profit before income tax for the year (as either other income or expense)	699	(37)

6. Impairment of Specific Assets

At a Board meeting on 22 December 2014, the Directors considered the interpretation of the accounting standard in relation to the Impairment of Assets and how this should be applied to Alliance.

Historically the carrying value of aircraft has been a representation of the cost to acquire the aircraft and the capital cost incurred to introduce these aircraft into service in Australia. Also included have been subsequent capital maintenance costs. Both have been depreciated based on the respective useful life of the component; and the period of maintenance for capital labour costs.

With recent changes in external factors, the Directors formed the view that a detailed impairment calculation was required in accordance with the accounting standards.

In accordance with the accounting standard, this review was conducted as follows:

- The calculation used the operating cash flows of FY 14 and FY 15 as the base with a growth rate of 2.5%;
- The discount rate applied was a pre-tax rate of 15%; and
- An outlook for capital maintenance was assumed based on the assumption of 3 fewer aircraft by the end of June 2015 and a lower level of capital expenditure over the medium term which is a reflection of the current capital maintenance plan.

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.

The impairment charge of $41.4 m has been applied across all aircraft.

In considering the carrying value of property plant and equipment, the Directors have also reviewed the carrying value of inventory. Inventory is required to be carried at the lower of cost and net realisable value. During the half year there have been a number of major aircraft components that have been removed from aircraft and transferred to inventory. The carrying value of these components has been reduced to the net realisable value which has resulted in a write off to the carrying value of $3.6 million during the period ended 31 December 2014.

The total impairment charge for property plant and equipment and inventory is $44.9 million. There was a further write down of an intangible asset of $0.3 million bringing the total impairment charge to $45.3 million.

Notes to the consolidated financial statements

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 2014 is 30.0%, compared to 30.5% for the six months ended 31 December 2013. The rate variance between the two periods is due to deferred tax adjustments.

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

	31 December 2014 $'000	31 December 2013 $'000
Profit / (loss) before income tax expense	(36,853)	9,410
Tax at the Australian Corporate tax rate of 30% (2013: 30%)	(11,056)	2,823
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Sundry	-	56
	(11,056)	2,879
Prior year deferred tax expense adjustment		
Prior year current tax expense adjustment		
AASL Tax Consolidated Group adjustment	-	-
Income tax (benefit) / expense	(11,056)	2,879

(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:

	31 December 2014 $'000	31 December 2013 $'000
Net deferred tax - debited (credited) directly to equity	982	-
	982	-

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

	31 December 2014 $'000	31 December 2013 $'000
Changes in the fair value of cash flow hedges	-	(14)

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

	Aircraft & APUs	Property, plant and equipment	Total
At 30 June 2014	**$'000**	**$'000**	**$'000**
Cost	296,493	16,063	312,556
Accumulated depreciation	(85,449)	(8,950)	(94,399)
Net book value	**211,044**	**7,113**	**218,158**
Half-Year ended 31 December 2014			
Opening net book amount	211,044	7,113	218,158
Additions	27,356	1,322	28,678
Transfers	(10,864)	-	(10,864)
Disposals - cost	-	(28)	(28)
Disposals - accumulated depreciation	-	10	10
Depreciation charge	(11,190)	(1,010)	(12,200)
Impairment	(41,400)	-	(41,400)
Closing net book value	174,946	7,407	182,354
At 31 December 2014			
Cost	312,985	17,357	330,342
Accumulated depreciation	(96,639)	(9,950)	(106,589)
Impairment	(41,400)	-	(41,400)
Net book value	**174,946**	**7,407**	**182,354**

Aircraft and APUs includes the following amounts where the group is a lessee under a finance lease:

	31 December 2014 $'000	30 June 2014 $'000
Aircraft		
Capitalised Lease	**1,948**	1,948
Accumulated depreciation	**(383)**	(318)
Net book value	**1,565**	1,630

9. Current Liabilities – Borrowings

	31 December 2014 $'000	30 June 2014 $'000
Secured		
Bank overdrafts		
Bank loans	19,000	18,000
Finance Lease Liabilities	1,316	-
Total current borrowings	**20,316**	18,000

(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.

Notes to the consolidated financial statements

10. Current liabilities – Provisions

	31 December 2014 $'000	30 June 2014 $'000
Employee benefits	4,465	4,513
	4,465	4,513

Amounts not expected to be settled within the next 12 months

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

	31 December 2014 $'000	30 June 2014 $'000
Leave obligations expected to be settled after 12 months	1,690	1,541
	1,690	1,541

11. Non-current liabilities – Borrowings

	31 December 2014 $'000	30 June 2014 $'000
Secured		
Bank loans	76,285	75,510
Finance lease liabilities	-	1,326
Total non-current borrowings	**76,285**	76,836

(a) Secured liabilities and assets pledged as security

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

	31 December 2014 $'000	30 June 2014 $'000
Bank overdrafts and bank loans	**95,285**	93,510
Total secured liabilities	**95,285**	93,510

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

	31 December 2014 $'000	30 June 2014 $'000
Current		
Floating Charge		
Cash and cash equivalents	**4,095**	239
Receivables	**21,792**	23,867
Total current assets pledged as security	**25,887**	24,106
Non-current		
First mortgage		
Aircraft	**174,946**	177,560
Floating charge		
Plant and equipment	**7,407**	7,113
	7,407	7,113
Total non-current assets pledged as security	**182,353**	184,673
Total assets pledged as security	**208,240**	208,779

The details regarding carrying amounts and fair values of borrowings as at 31/12/2014 are provided in Note 13

12. Non-Current Liabilities - Provisions

	31 December 2014 $'000	30 June 2014 $'000
Employee benefits-long service leave	1,690	1,541
	1,690	1,541

13. Fair value measurement of Financial Instruments

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

	31 December 2014	
	Carrying amount	Fair value
	$'000	$'000
Financial liabilities		
Bank loans	81,285	81,285
Finance lease liabilities	1,316	1,316
	82,601	82,601

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

	31 December 2014	
	Carrying Amount	Fair Value
	$'000	$'000
Loans to related parties	-	-
	-	-

The fair value of current borrowings/loans equals their carrying amount, as the impact of discounting is not significant.

Notes to the consolidated financial statements

14. Contributed Equity

	31 December 2014	30 June 2014	31 December 2014	30 June 2014
	No. of shares		$'000	$'000
Issued ordinary shares - fully paid	90,000,000	90,000,000	172,838	143,371

(a) Movement in ordinary share capital:

	31 December 2014	30 June 2014	31 December 2014	30 June 2014
At the beginning of the financial period	106,064,805	105,542,373	172,367	171,766
Elimination of shares of Alliance entities	-	-	-	-
Issue of shares - employee share offer	-	-	-	-
Issue of shares - initial public offering	-	-	-	-
Capital reorganisation of group	-	-	-	-
Share placement issue	137,711	-	162	-
Transaction costs arising on share issue	-	-	-	-
Dividend reinvestment plan	227,122	522,432	309	601
Deferred tax	-	-	-	-
At the end of the financial period	106,429,638	106,064,805	172,838	172,367

(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 2013 and 2014 reporting periods.

Notes to the consolidated financial statements

15. Dividends

	31 December 2014 $'000	30 June 2014 $'000
(a) Ordinary shares		
In respect of year ended 30 June 2013, a fully franked dividend of 5.6 cents per fully paid ordinary shares was paid out of retained earnings on 8 Oct 2013.	-	5,910
In respect of year ended 30 June 2013, a further fully franked dividend of 3.6 cents per fully paid ordinary shares was paid out of retained earnings on 25 June 2014.	-	3,800
In respect of half year ended 31 December 2015, a further fully franked dividend of 2.10 cents per fully paid ordinary shares was paid out of retained earnings on 9 Oct 2014.	2,227	-
(b) Franked credits		
Franking credits available for subsequent reporting based on a tax rate of 30% (2013: 30%)	**22,356**	29,137

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

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

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

16. Contingencies

Contingent liabilities

The group had no contingent liabilities at 31 December 2014 (30 June 2014: $NIL).

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 2014 $'000	30 June 2014 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	554	1,456
Later than one year but not older than five years	1,929	2,100
Later than five years	1,996	2,379
	4,479	5,935
Finance leases		
Commitment in relation to finance leases are payable as follows:		
Within one year	166	331
Later than one year but not older than five years	-	-
Later than five years	-	-
Minimum lease payments	166	331
Representing lease liabilities:		
Current	166	331
Non-current	-	-
	166	331
The present value of finance lease liabilities is as follows:		
Within one year	166	331
Later than one year but not older than five years	-	-
Later than five years	-	-
Minimum lease payments	166	331

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** 2014 %	Equity holding** 2013 %
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
Avovo Pty Ltd	Australia	Ordinary	100	100

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

(c) Loans to/from related Parties

	31 December 2014 $'000	30 June 2014 $'000
Beginning of the year	52,727,839	59,631,760
Loans advanced		
Loans repayments received	(5,102,876)	(6,903,921)
Interest charged	-	-
Interest received	-	-
End of year	47,624,963	52,727,839

19. Events Occurring after the Reporting Period

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

In the Directors' opinion:

- The financial statements and notes set out on pages 10 to 27 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 2014 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

11 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 balance sheet as at 31 December 2014, the income statement and statement of comprehensive income, statement of changes in equity and cash flow statement 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 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 2014 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*.

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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:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 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

PricewaterhouseCoo

Tim Allman

Brisbane
11 February 2015