



Alliance Aviation Services Limited
A.C.N. 153 361 525

PO Box 1126
EAGLE FARM QLD 4009

Telephone
+61 7 3212 1212

Facsimile
+61 7 3212 1522
www.allianceairlines.com.au

09 November 2015

Alliance Aviation Services (ASX code: AQZ)

Annual General Meeting

Chairman's Address

When I spoke with you last year, I commented that the 2014 year was a year of transition. I stand before you here today to say that this transition continued into the 2015 year as Alliance continues to adapt to the changes in the industry we operate and those industries and customers we serve.

In the 2014 year we saw changing revenues whereas in 2015 Alliance focussed on the delivery of its maintenance program and superior customer service with a lower cost base.

Again with every challenge there is an opportunity, and I believe that Alliance used these challenges to enhance the foundations of the business. Both Scott and Lee will speak more about these initiatives.

In the 2015 financial year, Alliance successfully entered the tourism sector by bringing the same successful operating model to international tour groups both here and in New Zealand. Whilst Alliance remains Australia's leading provider of fly-in, fly-out ("FIFO") transportation, it continues to explore new industries with its existing operating model.

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. These blue chip mining companies continue to challenge all suppliers for a better product for a lower cost.

Alliance is responding to this with innovative and flexible changes to our product offering which result in lower costs to mines and maintaining a satisfactory return to the group. This has resulted in the continued rollover of existing contracts, which we believe is a product of a reliable product which is both flexible and responsive to our customer's needs.

In December 2014, Alliance did recognise an impairment of the carrying value of its property plant and equipment. This impairment resulted in a net statutory loss of \$36.6 million for the year. After adjusting for the impairment charge and the removal of restructuring costs, Alliance did derive an underlying net profit after tax of \$13.2 million which is an improvement on the previous year.

As Directors we did outline our objectives in December 2014 for the balance of the year. 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.

I believe that we have been successful with this strategy with the sale of two fleet units, a successful refinance of bank debt facility and reducing this debt by over \$10 million, closing the heavy maintenance operation in Australia and maintaining industry leading on time performance and customer service.

Following the sale of two fleet units in the 2015 financial year, the Company now operates a fleet of 15 Fokker 100 and 8 Fokker 70LR jet aircraft and 5 Fokker 50 turboprops at industry leading on time performance and reliability.

With this strategy in place the Directors did elect to suspend the dividend during the year. This decision was a prudent measure which allowed the company to focus on the measures I just mentioned. As we have commented before, The Directors remain committed to revisiting the payment of a dividend for the year ended 30 June 2016.

During the 2014 year we restructured the Management team and a further change was announced in May 2015. I am pleased to formally welcome Lee Schofield as CEO and as a Director of Alliance Aviation Services Limited. Lee has been with Alliance for nearly three years, most recently in the role of Chief Operating Officer, and has previously held senior roles in other aviation services companies.

Scott will continue in the role of Managing Director and Executive of the Company and the change will enable him to focus on the broader development of the business and a number of those measures I have discussed.

We acknowledge the challenges that the economic environment brings. As Chairman, I also acknowledge the current value which has been attributed to each of our shareholders' interests.

Personally and as a Director of this Company, as I am sure many of the shareholders are, I remain disappointed with the sudden reduction in the share price in late December 2014.

Whilst the share price has not recovered from the portfolio adjustments from a couple of our former shareholders, we remain committed to restoring the underlying value of this Company.

To do this we will remain focussed on the development of the new revenue sources for Alliance and looking for opportunities to diversify the business and sources of revenue. We also continually look for ways to be efficient in our ongoing maintenance requirements and supporting our Fokker fleet for the next 8 to 10 years.

I would like to personally thank our Managing Director, Scott McMillan, CEO Lee Schofield the Management team and all those Alliance people across the country from Perth in the west, to our team in Adelaide, those here on the East Coast and now New Zealand. It is our people that shape the company and I know that the changes and effort which have been contributed in 2015 and continue in 2016 will ultimately create value for our shareholders.

I would also like to thank my fellow Directors and to you our shareholders who have provided your ongoing support which has made all of this possible.

Steve Padgett
Chairman
09 November 2015

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Managing Directors' Address

It is a pleasure to again have the opportunity to present to our shareholders. It is also a pleasure that I have the opportunity to focus on the development of this business whilst Lee has a focus on the day to day operations.

I said last year 2014 will be remembered by all of us as a challenging year. Well unfortunately 2015 was no different, however again the resilience of the Alliance business meant we were able to improve our underlying result from the previous year.

Our success in the future will be about making sure that what we do today, we continue to change, evolve and do differently in the future. No one in this industry can stand still and we must always look for different and better ways to do things.

Alliance is a unique offering; we need to exploit this whether it is in new industries or by being flexible however we must do so with an unwavering focus on customer service and our unmatched record for on time performance of 94% for 2015.

The 2015 financial year was overshadowed by the changes to a couple of contracts in the first half of the year. The majority of the impact of these changes was from a contract supporting resource construction contracts. Alliance currently has no contracts which support construction but rather all contracts are for established 'blue chip' mines in production.

It is what Alliance did as a result of these changes which will position the group for the future. Our strategy has been very simple and deliberate:

- We sold two F100 aircraft during the year which were not required to meet our existing operations. We still have capacity available, particularly away from the traditional mid-week demand peaks;
- We reduced debt during the year by over \$10.0 million. Again this was a deliberate strategy to lower financial risk in the business for the future;
- We continued with our strong partnership with ANZ and CBA. Both financiers rolled over our existing financing facility for a further 3 years at the same cost;
- We totally restructured the heavy maintenance program of our fleet. This very significant project resulted in the closure of the heavy maintenance bases in Adelaide and Brisbane and has resulted in a reduction of our workforce by over 20%;
- In the past maintenance in Australia has provided us operational flexibility. This did come at a cost though and the cost effective labour rates overseas means that we can deliver the same level of reliability for a lower cost. It also means that with the changing economic environment we can now increase the variable component of maintenance costs rather than maintaining a high level of fixed overheads.

Our fleet strategy remains simple as we continue to develop our F70 capability to meet the changing needs of our customers in the pursuit of operational and cost efficiency.

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.

Again in the past 12 months we have seen a rise in the pressure this places on our business particularly for Australian sourced parts or labour. This is in part is what has resulted in the closure of our heavy maintenance bases in Australia.

As we look to the future, I know that Alliance has the right fleet for its service offering. It must therefore work with its partners to prolong the economic life of these reliable aircraft.

Alliance continues to look for ways to provide cost effective solutions to support our reliable Fokker fleet for the next 8 to 10 years.

In August 2015, we released a presentation to the market that summarised our results for the 2015 financial year. Whilst the company did not provide any financial guidance, we did speak of a stable outlook. Since that time we have renewed the BHP Olympic Dam Contract and continue to manage existing contracts in a challenging market, both in terms of schedule and margin.

Our capital maintenance plan is performing as expected. Our partnership with ATB in Bratislava has been successful with a high quality of maintenance performed in a timely manner with safety and reliability being the key objectives.

We will continue to focus on revenue opportunities, invest in aircraft maintenance and secure access to a pipeline of spare parts to support the flying activities of the Fokker fleet for many years to come.

We look forward to our regulator, CASA implementing the wide range of recommendations from the Aviation Safety Regulation Review. These much needed changes will go a long way towards reducing the regulatory burden and inefficiency our industry endures.

I would also to acknowledge the appointment as Lee as CEO. This is a positive development in the future for Alliance and I look forward to working alongside Lee as together with the Management team we continue to strive towards continuing to develop this business.

I think that the 2015 year continued the good work of 2014. We continue to make the decisions required to allow Alliance to adapt and position it for growth.

I would like to thank my fellow Directors, Management team and all staff and now pass across to Lee.

Scott McMillan
Managing Director
09 November 2015

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CEO Address

It is a pleasure to have the opportunity to address you all today.

It is also an honour to accept the appointment as CEO of such a dynamic business with so many good people who share a vision with a focus on reliable customer service.

It is the responsibility of any new CEO to provide a further “shot in the arm” to reinvigorate a business. I will over the next 12 months work with Scott and all Management to ensure that Alliance continues to evolve, be it in the commercial area with new revenue streams, the maintenance area to drive the most efficiency from the new delivery model or across the operations to provide flexibility and value for money to our customers.

We have all heard from the Steve and Scott that this is a challenging industry. As a business there are many strategies which are the focus of providing Alliance the platform for the future.

Since the day I started at Alliance, what has set us apart though is the team that supports the operation of the business. Our success with our customers does not come by chance. It is the product of the commitment of our staff, flexibility and thinking outside the square to deliver 94% on time performance and reliability coupled with good quality customer service.

The 2015 year was like others another great year for meeting our customers’ expectations. With a significant contract win in the tourism sector and a number of renewals, Alliance continues to demonstrate that we can rise to meet the needs of our customers.

I mentioned before *flexibility*, and I can name many examples where my team has exceeded our customers’ expectations. This is a credit to the entire Alliance family and underpins the culture for which I often receive regular compliments from our customers.

I would like to thank each and every staff member for assisting Management with the continued changes during the year. Whether it is cabin crew, the engineering staff, pilots or any member of operations and administrative teams, it is each of you that make Alliance what it is today.

I would personally like to thank the Directors for the support I have been shown in the past and more recently as a fellow Director. To my fellow Management team, I believe we have achieved a lot to date which has positioned Alliance for the future and for this I thank you, but as we discuss every week in the Management meeting, there is more to do, and together we will work through the challenges that I am sure 2016 will bring.

Lee Schofield
Chief Executive Officer
09 November 2015

For more information contact:
Scott McMillan
Managing Director
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61 7 3212 1212