

20th May 2020

Alliance Aviation Services Limited (ASX Code: AQZ)

TRADING UPDATE AND COVID-19 REPONSE NO. 3

FY20 Financial Performance

By way of a trading update on 20 March 2020 the Board of Alliance Aviation Services Limited (“Alliance” or “Company”) outlined the then impact of COVID-19 on the Company and suspended earnings guidance given the level of uncertainty of the economic impact of the pandemic.

As the impact of COVID-19 has somewhat stabilised, the Board is now in a position to provide a trading update with respect to FY20 and expects to report a Profit Before Tax (PBT) in excess of \$40 million.

The Board is of the view that this is an exceptional result and demonstrates the underlying robustness and diversity of the Alliance business model, as further outlined below.

The Company’s Balance Sheet was already in an excellent position prior to COVID-19, and the extra cash generated by the increase in the forecast result will further enhance the already strong net debt and Balance Sheet position and further reduce the Company’s gearing level.

Trading Update

Contract Revenue

- (1) Resource Sector – Alliance is proud of its immediate response to COVID-19, including pioneering measures that have now been adopted broadly across the aviation industry. These include seating plans to accommodate social distancing, specific cleaning regimes, aircraft filtration systems, passenger temperature testing and the health screening of all passengers prior to check-in at both home ports and mine sites. The swift and flexible response has seen Alliance capitalise on additional demand for flights in the resource sector and, particularly, increases in flight schedules of contracted clients. During this time, Alliance has also attracted a number of new resource sector clients.
- (2) Inbound Tourism – Not surprisingly, all inbound tours operated by Alliance have been suspended for the foreseeable future and the Company is not expecting a full resumption of these flights until at least FY22.

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Wetlease

In addition to the trading update on 20 March 2020, the Company updated the market on its wetleasing arrangements with Virgin Australia on 23 March 2020.

Alliance's wetlease agreement with Virgin is still currently in place however remains suspended. The Company is not expecting any wetleasing activity for the remainder of FY20 and is anticipating limited demand for these services in FY21.

Charter Revenue

The Company has experienced a substantial increase in demand for these services subsequent to the outbreak of COVID-19 and expects to deliver its strongest charter revenue result in many years. The additional demand is being driven by a combination of social distancing and a lack of availability of scheduled flights by other operators.

Alliance's operational expertise and flexible approach has seen a significant number of new resource sector clients take up charter services and the expectation is that this level of revenue will continue through FY21.

Regular Public Transport (RPT)

Prior to COVID-19 the volume of RPT services operated by Alliance was relatively small compared to the other aspects of the business. However, regional access to air services is a fundamental requirement in Australia, more so during a pandemic. Alliance is proud that it has continued uninterrupted services from Brisbane to both Gladstone and Bundaberg. In order to reduce costs and maintain viability, these services have been triangulated and operate six times per week. Three services per week are underwritten by the Federal Government's Regional Airline Network Support Program.

The Company's services from Brisbane to Port Macquarie remain suspended given the interstate border restrictions.

Alliance's marketing and distribution agreement with Virgin (which allows Virgin passengers to book on Alliance's RPT routes) is still operating during Virgin's voluntary administration process.

Aviation Services

As noted in the Company's earlier trading update, Aviation Services has a direct correlation to flight activity in the global aviation market. Given the softness in the current market, Alliance expects that the 2HFY20 revenue from Aviation Services to be marginally less than the first half.

Employee Share Plan Issue

The impact of COVID-19 has been unprecedented and one of the reasons that Alliance has been able to continue its excellent financial performance, during this time, is its staff. On that basis, in recognition of their exceptional performance, flexibility and on-going contribution to the success of the Company, eligible employees (excluding the Senior Management Team) will be offered free shares to the value of \$1,000.

This offer will be made in accordance with the Company's Employee Share Plan and the shares issued to accepting eligible employees will be escrowed for three years from the date of issue.

This offer will be made to all full-time and part-time staff who were employed for all of FY20 and the shares will be issued on 17 July 2020. The offer will apply to 85% of Alliance's employees.

Management Performance Incentive Plan

The Performance Incentive Plan for the Senior Management Team for FY20 was suspended in March 2020. The Board now confirms that this plan has been cancelled for FY20.

Summary

Alliance's response to the COVID-19 pandemic has seen the Company react quickly to the ever changing aviation operating environment within Australia. This agility has ensured that Alliance has weathered the storm whilst improving its financial position relative to the consensus forecast that existed prior to 20 March 2020.

1. The response and cooperation of Alliance's employees to the challenges of COVID-19 has been outstanding.
2. Alliance has not been eligible for any JobKeeper payments.
3. Alliance is proud that all staff are being paid their salary, annual leave, long service leave and sick leave entitlements in full.
4. Federal Government funding has been of assistance in ensuring the continuity of our RPT operations and keeping the communities of Gladstone and Bundaberg connected to Brisbane.
5. Alliance has a strong and reputable share register of which 90% is Australian owned and 8% New Zealand owned.
6. The Company continues to own all of its aircraft enabling maximum flexibility in utilisation.
7. Alliance owns a significant inventory of spare parts, making it self-reliant which underpins our industry leading reliability and on time performance.
8. The history of Alliance has been to deliver safe, quality, on-time and sustainable services to clients over long periods. Flexibility, speedy response and a customer focus has resulted in the consistent growth of Alliance's business. This excellent result in these unprecedented times is further proof that Alliance's core values align with those of our clients.
9. Alliance's business model has withstood the greatest crisis that has ever impacted the global aviation industry. Alliance is now in a position to take advantage of a number of significant opportunities on offer to the Company at this time.

[ends]

This trading update has been approved by the Alliance Board of Directors.

About Alliance

Alliance is Australia's leading provider of contract, charter and allied aviation services currently employing in excess of 550 full time staff.

The Company provides essential services to mining, energy, tourism and government sectors and holds IATA's IOSA certification and Flight Safety Foundation "BARS Gold" status, the first such carrier in Australia to be so recognised.

Alliance's Air Operators Certificate permits High Capacity Regular Public Transport services throughout Australia and the Pacific.

Alliance currently operates a fleet of 24 Fokker F100, 13 Fokker 70LR jet aircraft and five Fokker 50 turboprops with an additional five aircraft in storage and available for entry into the fleet.

Alliance has world leading operational performance, a key attribute rightly valued by its customers.

The Company has operational bases in Brisbane, Townsville, Cairns, Melbourne, Adelaide, Perth, Darwin and Rockhampton.

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