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A STATEMENT BY SKYTRANS MANAGING DIRECTOR SIMON WILD

2 January 2015

Skytrans Pty Ltd, the Cairns based, family owned and commercially operated airline which celebrated its 25th year of serving the people and communities of North Queensland, carried its last passenger this afternoon, Friday 2nd January 2015.

Skytrans Pty Ltd has made the decision to cease trading, effective immediately. As the Managing Director, I will seek legal and financial advice over the next few days regarding options for the business moving forward, but to be clear, ***it does not include the recommencement of flights in the short to medium term.***

As Managing Director I have a lawful responsibility to notify regulators and other significant stakeholders when there are key impacts on the business. This has been one of those times.

This is not only a sad day for the business, but more importantly for our staff and indeed the passengers and communities of North Queensland.

All staff have been made redundant. **Everyone has already been paid their entitlements.** Over \$4 million dollars paid out in staff entitlements - \$2M to 121 staff made redundant late November and early December, due to the loss of a large contract, and the remaining 67 staff were paid \$2M in entitlements today.

We are all well aware that the aviation market has been tough and we knew that it would get tougher with Skytrans in 2015. We have been closely monitoring the performance of the business and worked to develop a 2015 business model and associated strategies.

Since the loss of a large government contract we had been working on a business model that included focused services on the Cape routes utilising three aircraft. This included a reduction of operating costs and a workforce restructure. This 2015 business model indicated a small profit and whilst a reduced version of our current business, it was projected to be a viable albeit smaller business.

Our initial model for 2015 was based on an exchange rate with the US\$0.91. As many of you will know the majority of our costs are actually in US\$, so fluctuations in exchange rates have a material impact on our business. Within the last few weeks we have seen the Australian dollar fall as low as US\$0.81. Unfortunately a drop below US\$0.88 means our revised Skytrans model would not be a viable long term proposition. In the past few weeks we have been monitoring the exchange rate to see if the dip was only temporary, but unfortunately this appears to be a longer term adjustment with even predictions the AU\$ could fall as low as US\$0.75.

In addition to the currency challenge it now appears likely that we will have competition on our Cape routes with an inevitable price war – a war where the only winner would be the airline with the deepest pockets. It would be a war I would not be prepared to enter as it would have jeopardised staff entitlements.

We have been talking with possible investors and have pursued these interests diligently, but unfortunately every road pointed to unsustainability and as such we could and would not entice investors to a business we did not believe ourselves had a strong future.

While at 2nd January, 2015 we have a healthy bank balance, due to the uncertain future, I have decided to cease trading.

One of my legal responsibilities as a Director is to ensure the business does not trade whilst insolvent. To date we have been able to maintain solvency. However with the loss of some larger contracts as well as our higher costs due falling AU\$, our cash flow predictions showed that the longer we traded the more our operating costs would have eroded our cash reserves. We have not been forced to shut down but we did need to make a responsible, lawful and terribly difficult decision that was the right thing to do. I would rather seek to maximise cash reserves for staff, suppliers and passenger refunds than have same chewed up with future trading.

In addition to the \$2M gross paid in staff payouts for the first 121 staff that were made redundant in November and early December, today a final \$2M gross was paid to staff and again I confirm that all superannuation payments are up-to-date.

An additional \$2M has been set aside and secured with our bank in the respect of credit card customers.

Yesterday, the 1st of January 2015 marked our 25th anniversary of serving the people of Queensland, particularly outback and regional Queensland, the Gulf country and Cape York.

Today there is no celebration, beyond the pride everyone in Skytrans shares in having delivered a safe reliable passenger and freight service to communities as diverse as Birdsville and Boulia, Bamaga and Brisbane. We will miss them all, for they have all been relationships built over a lifetime of trust and mutual support, collaboration and shared endeavour, and good old fashioned friendships forged easily between good people.

Skytrans has survived longer than most other regional airlines in Australia. In the past ten years alone it has pumped more than \$127 million dollars in wages into the pay-packets of mainly North Queenslanders, it has paid over \$6M dollars in payroll tax to the Queensland Government, it has supported spin-off jobs and support worth many millions of dollars more to cleaners, ground staff, fuel suppliers, caterers and many more regional businesses owned by others.

We have been particularly proud of our sponsorships. Scores of schools, community and health organisations have benefited. While we were renowned for the large scale sponsorships like the \$2M injected into the NBL Cairns Taipans as well as other sponsorships of the Northern Pride Rugby League, the Cairns Indigenous Arts Fair, NQ Rescue and Mount Isa Rodeo it is the other 250+ sponsorships to smaller organisations worth millions of dollars more where we felt we really made a difference to the liveability of remote and regional communities.

All of that, unfortunately, comes to an end today.

With the downturn in the aviation industry and the contraction in the resource sector over the past two years the business has been resizing itself to fit the market and lower its costs and dispose of surplus assets and retire debt. Unfortunately with contraction of alternate revenue streams the business relied heavily upon its Queensland Department of Transport and Main Roads (TMR) contract to underpin the airline during the current downturn.

With the loss of the TMR contract, in mid-October this forced us to make even larger cutbacks in the business resulting in excess of 121 additional staff being made redundant. These redundancies triggered the lawful imperative that all departing staff be paid their entitlements, which in Skytrans' case meant provisioning for just on half our workforce. The net effect was that the over \$4M was required to make that happen; an event that no business provisions for nor is expected to provision for under any regulations or standards.

No business usually keeps \$4M cash up its sleeve just in case it has to shed half its workforce. Historically, we have been well diversified commercially, but unfortunately with the contraction in multiple sectors of the Australian economy and specifically in the resource sector, the loss of the TMR contract turned a snowball into a wrecking ball.

To compound the situation and to turn an extremely challenging situation into a catastrophe or what is commonly called a 'perfect storm', the Australian dollar has continued its nose dive in recent months, pushing up our operating costs.

With the erosion of the company's cash position due to the payout of staff and virtually no viable future for the airline, we have elected to discontinue the business with a view to maximise cash and asset reserves. To continue to operate the airline would have put at risk our staff entitlements and possible incursion of liabilities the business would be unable to meet.

For the past two years, we have watched as many other regional carriers have either been taken over by larger carriers, or have exited the aviation business completely.

During that time we have also worked diligently to reduce costs, explore other opportunities, rationalise our staff and operations to develop a truly competitive model, but we too have now been caught of circumstances beyond our control or ability to counter.

Since learning of the TMR contract loss in mid-October (which meant our current contract expired on 31st December 2014), we again tried to seek opportunities to stay airborne beyond this New Year.

Despite best intent and discussions with local members of parliament, potential investors and other stakeholders, every investigation to remain viable has ended with the same result – while there has been merit in some of the potential remodelling, the cash flow loss from the TMR decision heading into 2015 meant that we simply wouldn't have the time available to adjust with the agility required.

We accepted the view that to continue flying would have potentially risked the financial entitlement pool of our people, (all of them, not just the employees affected by the TMR contracts loss) and to us that one single thing was not negotiable. We were determined that should the business not survive, that our employees were paid their entitlements.

We did our sums, quarantined the money, and have paid it out today. It doesn't lessen their pain, but does mean one less worry is off the table.

As at 2nd January 2015 Skytrans is fortunate to be in a position such that it can conduct an orderly wind down of the business. To continue to operate the airline would only deteriorate this position and put at risk payments to employees, creditors and ticketholders.

Up to this point we had been resizing the business to adjust to market forces such as the downturn in mining, loss of some contracts, cut back in Government spending, the high cost in aviation direct

operating costs and the demand for cheap fares. Unfortunately straw that broke the camel's back has been the fall in the Australian dollar. The weakened Aussie dollar makes our future no longer viable.

Despite weathering the many storms of the aviation business to be one of the longest serving regional airlines in Australia, market forces have collided in the last three months and we've been hit by the "perfect" storm:

- Other airlines are entering our market when historically they had little to no interest with predicted price wars on the horizon.
- Contraction in the charter market due to loss of contracts due to cutbacks in Government spending and decline in the resource sector creating an oversupply of capacity. The excess capacity of others operating a national business model; with other airlines now aggressively targeting Queensland following a tightening of opportunities elsewhere.
- The other significant impact has been the state of the broader economy. People are flying less, and when they do, they want a cheap ticket.
- At the same time expenses such as airport and landing fees as well as fuel prices in remote ports soared in a market that continues to demand no frills in terms of price point.
- The recently falling Australian dollar, which is great for agriculture and other businesses, but has a hurtful impact for aviation, precisely at the time it would do most damage. It sent our costs up in the past 2 months by about \$3M per annum. In the past 18 months our costs have gone up by \$6M due to the falling dollar.

We are aware that some **passengers** will have been caught unaware by this announcement and will have had their travel plans interrupted. We are deeply sorry this has occurred.

This week, is the lightest travel week of the year - meaning that fewer people will have been affected than in any other week of the year.

Further we do believe other airlines may be interested in expanding their operations throughout the Cape and we would hope that would be able to bring forward their plans so as to meet this immediate need.

We have spoken with both the State Government and other airlines to discuss the potential for them to provide aircraft for stranded passengers. We will notify any positive outcome via the Skytrans website.

Passengers unfortunately affected by this decision are advised to go to the Skytrans website www.skytrans.com.au for a Passenger Information package.

An **Employee Exit Care and Support Program** is now available for all permanent staff departing Skytrans. Staff received this via email this afternoon. This is above and beyond the allocation of entitlements due, and employees have been provided with information about the support available and how to access it.

I encourage staff to closely examine the support available, as it is designed to actively promote employee health, well-being and personal development.

I also acknowledge the support of the Cairns Chamber of Commerce and its continuing campaign for local businesses to support displaced staff in finding alternative employment.

WHERE TO FROM HERE?



A Frequently Asked Questions and Answers (FAQ) is available on the website: www.skytrans.com.au

All other enquiries in relation to Skytrans airlines should be directed to:

E: info@skytrans.com.au

P: 1300 759 872

A further update will be provided mid to late afternoon Monday 5th January, 2015

Simon Wild
Managing Director

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