

CHAIRMAN'S ADDRESS TO SPECIAL MEETING OF SHAREHOLDERS

18 December 2014

Welcome to this Special Meeting of Shareholders of Airlines of Papua New Guinea Limited, called by the Board of the Company. A notice of meeting has been circulated to all Shareholders, including an Explanatory Memorandum and an accompanying Independent Expert's Report relating to the business before the meeting.

This Meeting is being held because the Company has been successful in attracting subscriptions for PGK20 million in additional equity capital from its existing institutional Shareholders, the National Superannuation Fund ("**NasFund**") and the Mineral Resources Development group companies – MRDC itself, and the group companies associated with the Fly River Provincial Government and the Ok Tedi landowners, Mineral Resources Ok Tedi No 2 and Mineral Resources Star Mountains. For convenience, I will refer to the 3 MRDC group companies collectively as "**MRDC**".

Attracting that investment was only possible because the founder of the airline, the late Sir John Wild, agreed to sell back to the Company for a nominal consideration only approximately 54% of the Company's shares. Sir John saw that as ensuring the long term sustainability of the Company, facilitating further capital raising and positioning the Company as one owned for the people of PNG and able to carry on its services to the country.

It is expected that all regulatory approvals for the buy-back and share and option issues to NasFund and MRDC will have been obtained before the Shareholders' meeting meaning that the final decision on the buy-back and issues will to be made by the Shareholders at today's meeting.

If the Shareholders approve the buy-back and share and option issues to NasFund and MRDC, that will result in NasFund and MRDC between them becoming the majority Shareholders in the Company.

The Board believes that the equity injection into the Company and having the Company majority owned by major national institutions will set it up for future success. The Company will have a strengthened balance sheet and be in a financial position to pursue its strategy for a sustainably profitable future. That strategy involves continuing with the concentration on regular passenger transport ("**RPT**") services within PNG begun in the past 2 years, and building on that approach through re-fleeting and rebranding of the airline.

This Meeting will also consider a resolution to approve the Company making an entitlement offer to all existing PNG resident Shareholders on terms similar to those agreed for the share and option issues to NasFund and MRDC – for each existing share in the Company they hold, a Shareholder will be able to subscribe for 5 new shares, at 10 toea per share. For each new share they subscribe for, Shareholders will receive 2 free options exercisable within 5 years. Upon exercise, each option allows the issue of 1 new share in the Company at an exercise price of 2 toea per share.

Shareholders have received the Independent Expert's Report prepared by Deloitte Corporate Finance Pty Limited in relation to the proposed share and option issue to NasFund and MRDC, and the entitlement offer. The expert concluded that that proposal is fair and reasonable to other shareholders of APNG (that is, all shareholders apart from NasFund, MRDC and their associates), and that therefore it is in the best interests of those other shareholders.

Full details of the buy-back, the proposed share and option issues and the entitlement offer to Shareholders were set out in the Explanatory Memorandum that came with the notice for this Meeting. The Board recommends that Shareholders approve each of the buy-back, share and option issues and the entitlement offer for the reasons set out in the Explanatory Memorandum.

I mentioned re-fleeting and rebranding previously. To successfully change its focus to the growing but competitive and lower margin RPT market the airline needs to lower its operating costs. Re-fleeting gives the airline capacity to service growth in the market, flying more routes at lower costs.

After thorough evaluation the Board and management have identified that the ATR 72-600 aircraft is the right aircraft for the Company. It is proposed that the Company will acquire 6 of these aircraft over a 3 year period. While some of the funds raised from NasFund and MRDC will go to paying initial commitment fees to ATR, most of the capital cost for the first 3 of the 6 aircraft will be paid by having a specialist aviation leasing company buy the aircraft, with the Company leasing the aircraft from that leasing company.

Acquiring the ATRs is a “major transaction” for the Company under the PNG Companies Act, and requires approval by a special resolution of Shareholders. That resolution will also go to the Shareholders for approval at today’s Meeting. Again, the Board recommends that Shareholders approve that resolution.

ATRs will decrease ongoing maintenance costs, fly more and improve OTP (on-time performance) – at similar per sector operating costs and much lower per seat operating costs than the airline’s existing Dash 8 fleet. They also lower the age of the airline’s fleet. The airline’s future profitability is very much tied to these aircraft.

Rebranding goes along with the re-fleeting proposal. The Company sees the renewal of its fleet as an opportunity to undertake a rebranding exercise to refresh the Company’s presentation and breathe new life into the brand, thereby generating passenger loyalty and demand.

Finally, today’s Meeting will consider a resolution to re-appoint Mr Simon Woolcott as a Director of the Company. Mr Woolcott was appointed by the Board as a Director on 22 October 2014. Because Mr Woolcott was appointed by the Board, rather than being elected by Shareholders, clause 15.6 of the Company’s Constitution requires him to retire as a Director at the next Shareholders’ Meeting after his appointment so that the Meeting can consider reappointing him. The Board (with Mr Woolcott abstaining) recommends you support that reappointment.

With it being likely that the Company will have new majority shareholders in NasFund and MRDC, and with the Company embarking on re-fleeting and rebranding, my former Board colleagues Simon Wild and Michael Koisen have decided that this is the right time to resign as directors to allow new membership on the Board. The Board wishes to sincerely thank Simon and Michael for their long service to the Company.

It is expected that 2 new directors proposed by NasFund and MRDC will be appointed by the Board, to be confirmed by the Shareholders at their next meeting. The Board will also consider appointing other Directors to ensure the Board has the proper depth and range of expertise to take the Company forward.

In conclusion, these are exciting times for Airlines PNG. Recapitalisation through the share issues to NasFund and MRDC, re-fleeting with ATRs and rebranding the airline are all part of the Board and management’s strategic plan for the airline. The Board sees many opportunities for the airline in the domestic market from those strategies and believes the strategies will put the Company in a strong position to continue its integral role in PNG aviation.

Murray Woo, Chairman