

POMSOX/MEDIA RELEASE

For Immediate Release to the Market

Port Moresby – 10:00 am 9 October 2014

AIRLINES PNG CAPITAL RESTRUCTURING – PROPOSED SHARE BUY-BACK AND SHARE ISSUES TO RAISE K20 MILLION

Airlines of Papua New Guinea Limited (“**APNG**” or the “**Company**”) advises that it has signed agreements with each of Mineral Resources Development Company Limited, Mineral Resources Ok Tedi No 2 Limited and Mineral Resources Star Mountains Limited (collectively “**MRDC**”), and an agreement with National Superannuation Fund Limited (“**NASFUND**”) under which each of MRDC and NASFUND has agreed to subscribe K10 million for new shares in the Company (for a total subscription amount of K20 million).

Under those agreements, MRDC and NASFUND will each subscribe for 100 million new shares in the Company at 10 toea per share and be granted 200 million free options (each convertible to 1 new share in the Company) with each option being exercisable at any time during a 5 year period at 2 toea per new share. These agreements and the share and option issues that may be made under them are referred to as the “**Issues**”.

As an integral part of an overall capital restructuring of the Company, the Company will buy-back 120 million existing shares from the founder and current major shareholder in the Company Sir John Wild, for a nominal price of 1 kina in total. This share buy-back from Sir John Wild is referred to as the “**SJW Buy-back**”. On completion of that buy-back, those shares will be cancelled by the Company.

Following the SJW Buy-back and the Issues:

- Sir John Wild’s percentage shareholding interest in the Company’s total issued capital will reduce from its current 60.87% to approximately 5.2%;
- MRDC's percentage shareholding interest will increase from its current 10.99% to approximately 41.1%; and
- NASFUND's percentage shareholding interest would increase from its current 9.42% to approximately 40.0%.

The Issues will need to be approved by the Company’s shareholders, with MRDC and NASFUND unable to vote on those resolutions. The SJW Buy-back is conditional upon the Issues occurring, and the Issues in turn are conditional upon the SJW Buy-back occurring.

As the SJW Buy-back would have the effect of increasing the holdings of each of MRDC (if the holdings of each of the 3 entities collectively referred to as MRDC in this release are combined) and NASFUND in the Company to more than 20%, an application has been made under the Takeovers Code 1998 to the Securities Commission of Papua New Guinea to exempt MRDC and NASFUND from complying with the Takeovers Code in relation to that increase in their percentage interests. Shareholders, with MRDC and NASFUND excluded from voting, will be required to approve the Issues for the purposes of the Takeovers Code.

After the SJW Buy-back and the Issues are completed, the Company would be 81% owned by two of PNG’s major institutions. It is expected that additional appointments to the Company’s Board would be made at that time.

The capital raised from the Issues will provide the Company with needed working capital as it continues to provide safe, high quality and competitive regular air services to the people of PNG.

Following completion of the SJW Buy-back and the Issues, and subject to shareholder approvals being obtained, all PNG resident shareholders in the Company (other than MRDC and NASFUND who have undertaken that they will not participate in this offer) will be offered the opportunity to subscribe for 5 new shares in the Company for each existing share in the Company they then hold, at an issue price of 10 toea per new share. For each new share subscribed for, existing shareholders would receive 2 free options, with each of those options allowing for the issue of 1 new share in the Company at a price of 2 toea per share payable on exercise of the option. The options would be exercisable at any time within 5 years. This offer is referred to as the “**Entitlement Offer**”.

Rights to subscribe under the Entitlement Offer will be non-renounceable, meaning that they cannot be transferred. The Entitlement Offer will not be underwritten, meaning that rights to subscribe that are not exercised will lapse.

The Entitlement Offer allows other existing shareholders in the Company the opportunity to choose to make further investments in the Company on similar terms to those agreed for the Issues to MRDC and NASFUND.

Capital raised from the Entitlement Offer will be used for reduction of debts of the Company to existing lenders.

Significant dates relating to the Buy-back, Issues and Entitlement Offer will be advised at a later time.

The Port Moresby Stock Exchange (“**POMSoX**”) has granted waivers to the Company in respect of various POMSoX Listing Rules (“**LR**”) for the Issues and Entitlement Offer. Details of the waivers and conditions or requirements imposed by POMSoX on the waivers are as follows:

LR	Event	Waiver	Conditions Attached
6.14	Issue of options with exercise price of less than 20 toea (Issues & Entitlement Offer)	Waiver approved	No conditions attached
7.16	Issue of options resulting in more options being on issue than securities (Issues & Entitlement Offer)	Waiver approved	<ul style="list-style-type: none"> As per listing Rule 7.1, shareholders approve the placement of securities and options to MRDC entities and NASFUND under the Issues; The notice of meeting seeking shareholder approval for the Issues contains a voting exclusion statement that excludes the votes of MRDC entities and NASFUND;

LR	Event	Waiver	Conditions Attached
			<ul style="list-style-type: none"> • No further options be issued or granted by APNG outside the proposed capital raising until such time as the number of issued securities is greater than the number of issued options; • APNG release details of this waiver at the time that full details of the capital raising is announced to the market.
7.11.3	Pro rata issue of securities on a ratio greater than 1:1 <i>(Entitlement Offer)</i>	Waiver approved	<ul style="list-style-type: none"> • Seek shareholder approval; • The notice of meeting seeking shareholder approval for the placement and issue of new securities and options under the Entitlement Offer contains a voting exclusion statement that excludes the votes of MRDC entities and NASFUND; • No further options be issued or granted by APNG outside the proposed capital raising until such time as the number of issued securities is greater than the number of issued options; • APNG release details of this waiver at the time that full details of the capital raising is announced to the market.

Please note that this release does not constitute an offer of securities. The Entitlement Offer will only be made pursuant to a prospectus, following registration under the Securities Act 1997. Allotments of securities under the Entitlement Offer will only be made on receipt by the Company of the application form, which will accompany the prospectus. The prospectus will be sent to PNG resident shareholders or made available to eligible APNG shareholders at the Company's registered office following registration.

For further information contact:

Media Relations: Tel. 3023194

Email: media.relations@apng.com

Investor Relations: Tel. 302 3234

Email: investor.relations@apng.com

ENDS...