PNG Air
PNG Air Limited
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5 September 2016

Dear Shareholder

Draft Financial Statements for PNG Air for the half year to 30 June 2016
Extended closing date for the Shareholder Entitlement Offer (now 20 September 2016)

Attached with this letter are interim unaudited consolidated financial statements (a profit and loss statement and a balance sheet) for the Company for the half year to 30 June 2016.

These documents are being sent to all Shareholders as announced by the Company on 27 July 2016 when it extended the timetable dates for its Shareholder Entitlement Offer. After that extension, if you wish to subscribe for new shares under the Shareholder Entitlement Offer, you must return the completed Entitlement and Acceptance Form previously sent to you, with payment for the new shares, by mail or hand delivery to the relevant address set out on the Entitlement and Acceptance Form by:

No later than 5:00pm (Port Moresby time) on **20 September 2016**

Allow me to pass on some comments from the Board relating to the attached interim unaudited financial statements:

1. I wish to stress that the financial statements are unaudited at present. The audit process is underway but has not been completed.

2. For the half year 2016, the Airline returned a K23.36 million loss before abnormal items and tax. This is significantly adverse to the K34,000 profit before abnormal items and tax for the same period last year. Major factors attributable to the current period's performance are:

   - Cessation of Exxon Mobil PNG charter contract from November 2015 and general reduction in charter revenue
   - Temporary shutdown and change in the operating conditions of the Ok Tedi mine which affected RPT passenger and cargo revenues
   - Significant increase in overseas currency denominated expenses due to continuous depreciation of the PNG Kina against major overseas currencies. The currency impact was compounded by the lack of revenue earned by the Airline in foreign currency compared to the same period last year because of the cessation of the Exxon contract
   - Lack of economic growth in PNG during 2016 due to multiple factors the predominant one being the global downturn in resource sector prices, resulting in very limited resource sector investment during the year.

3. Adverse impact from early return of leased Dash 8s (lease exit costs and impairment of leased Dash 8 aircraft improvement costs) which amount to K18.35 million (recognised as part of the abnormal item in the profit and loss account) along with ATR induction cost of K2.31 million also recognised under abnormal items. It should be noted that the return of the leased Dash 8s is expected to generate approximately K 44.60 million cash savings to the end of 2020.

4. RPT revenue increased by approximately 8% compared to the same period last year despite the downturn in the economy. This was a result of increased revenue from ATR Operations but the benefit was limited as only two ATRs operated for most of the period.

5. It is important to highlight that the airline achieved a higher Revenue per Available Seat Kilometer (RASK) for the ATR Operations compared to the budget. Increased ATR flying from the induction of additional ATRs into the Airline's fleet and from schedule efficiencies can therefore be expected to generate increased revenue and profitability in the longer term.

6. The Airline continues its strong focus on implementing its commercial strategy, including through introducing the 4th and 5th ATRs into service during the remainder of the current year, opening airport terminal lounges at a number of key ports, commencing regional international flights, and introducing web check-in and a customer loyalty program. The Airline is also working to improve its charter revenue through active engagement with potential resource sector customers to ensure compliance with their requirements.

7. While acknowledging the current half year's result, the Directors point out that in the short term the Airline is both going through a transition phase and being impacted by the general global and PNG economic downturns. The Directors consider that the transition is necessary for the Airline's long term future, and that the PNG economy will start to revive in the next year, with the re-opening of the Ok Tedi mine and progress made on other resource sector projects. The Directors are confident that the Airline's commercial strategy is the right one, and will see the Airline to a sustainably profitable operation in the future.

Yours sincerely,

Murray Woo
Chairman, Board of Directors