

Appendix 4B (not equity accounted)

Attachment 1

Annual Report

Name of entity

PNG Air Limited

Company No:

Half Yearly

Preliminary Final

Half year/Financial year ended

1-24926

31-Dec-17

For Announcement to the market

Extracts for this report for announcement to market (see note 1)

K'000

K'000

Sales (or equivalent operating) revenue (item 1.01)	up/(down)	29%	to	277,439
Abnormal items after tax attributable to shareholders (item 2.5)	gain (loss) of	-	to	(5,562)
Operating profit (loss) after tax (before amortisation of goodwill)	up/(down)	82%	to	(12,793)
Operating profit (loss) after tax attributable to shareholders (item 1.10)	up/(down)	82%	to	(12,793)
Extraordinary items after tax attributable to shareholders (item 1.13)	gain (loss) of	-	to	-
Operating profit (loss) and extraordinary items after tax	up/down	82%	to	(12,793)
Dividends (distributions)		Amount per security		
Final Dividend (Preliminary final report only - item 15.4)		Nil		
Interim Dividend (Half yearly report only - item 15.6)		Nil		
Previous corresponding period (Preliminary report - item		Nil		
Record date for determining entitlements to the dividend, (in the case of a trust, distribution) (see item 15.2)		n/a		
Brief explanation of omission of directional and percentage changes to profit in accordance with Note 1 and short details				
n/a				

Consolidated profit and loss account

		Current period K'000	Previous corresponding period K'000
1.01	Sales (or equivalent operating) revenue	277,439	214,601
1.02	Other revenue	7,327	8,432
1.03	Total revenue	284,766	223,033
1.04	Operating profit (loss) before abnormal items	(4,001)	(34,840)
1.05	Abnormal items before tax (detail in item 2.4)	(7,945)	(38,691)
1.06	Operating profit (loss) before tax (items 1.4 + 1.5)	(11,946)	(73,531)
1.07	Less tax	(847)	1,885
1.08	Operating profit (loss) after tax but before outside	(12,793)	(71,646)
1.09	Less outside equity interests	-	-
1.10	Operating profit (loss) after tax attributable to	(12,793)	(71,646)
1.11	Extraordinary items after tax (detail in item 2.6)	-	-
1.12	Less outside equity interests	-	-
1.13	Extraordinary items after tax attributable to	-	-
1.14	Total operating profit (loss) and extraordinary	(12,793)	(71,646)
1.15	Operating profit (loss) and extraordinary items after	-	-

1.16	Operating profit (loss) and extraordinary items	(12,793)	(71,646)
1.17	Retained profits (accumulated losses) at beginning	(130,308)	(58,529)
1.18	If change in accounting policy as set out in clause	-	-
1.19	Aggregate of amounts transferred from reserves	158	(134)
1.20	Total available for appropriation (carried forward)	(142,943)	(130,308)

Consolidated profit and loss account continued

1.20	Total available for appropriation (brought forward)	(142,943)	(130,308)
1.21	Dividends provided for or paid	-	-
1.22	Aggregate of amounts transferred to reserves	-	-
1.23	Retained profits (accumulated losses) at end of	(142,943)	(130,308)

Profit restated to exclude amortisation and goodwill

	Current period - K'000	Previous corresponding period - K'000	
1.24	Operating profit (loss) after tax before outside	(12,793)	(71,646)
1.25	Less (plus) outside equity interests	-	-
1.26	Operating profit (loss) after tax (before	(12,793)	(71,646)

Intangible, abnormal and extraordinary items

		Consolidated - current period			
		Before tax K'000	Related tax K'000	Related outside equity interests K'000	Amount(after tax) attributable K'000 to shareholders
2.1	Amortisation of goodwill	-	-	-	-
2.2	Amortisation of other	0	0	-	0
2.3	Total amortisation of	0	0	-	0
2.4	Abnormal items	(7,945)	2,383	-	(5,562)
2.5	Total abnormal items	(7,945)	2,383	-	(5,562)
2.6	Extraordinary items	-	-	-	-
2.7	Total extraordinary items	-	-	-	-

Comparison of half year profits

		Current year - K'000	Previous year - K'000
3.1	Consolidated operating profit(loss) after tax	(13,924)	(43,699)
3.2	Consolidated operating profit(loss) after tax	1,131	(27,947)

Consolidated balance sheet
(see note 5)

		At end of current period K'000	As shown in last annual report K'000	As in last half yearly report K'000
Current assets				
4.1	Cash	557	652	421
4.2	Receivables	25,230	22,348	21,694
4.3	Investments		-	
4.4	Inventories	13,488	12,634	12,480
4.5	Other (provide details if material)	41,931	23,818	37,109
	Assets held for sale	6,341	5,079	6,563
	Other financial assets	0	483	3,767
	Prepayments	35,590	18,256	26,779
4.6	Total current assets	81,206	59,453	71,703
Non-current assets				

4.7	Receivables	-	-	-
4.8	Investments	0	0	0
4.9	Inventories	-	-	-
4.10	Exploration and evaluation expenditure	n/a	n/a	n/a
4.11	Development properties (mining entities)	n/a	n/a	n/a
4.12	Other property, plant and equipment (net)	133,844	133,884	136,750
4.13	Intangibles (net)	0	0	0
4.14	Other(provide details if material)	59,915	51,523	53,006
	Deferred tax Assets	33,994	33,913	34,876
	Aircraft lease deposits	25,921	17,610	18,129
4.15	Total non current assets	193,759	185,407	189,756
4.16	Total assets	274,965	244,860	261,459
	Current liabilities			
4.17	Accounts payable	58,219	83,285	72,289
4.18	Borrowings	21,520	40,353	42,459
4.19	Provisions	27,746	12,582	19,300
4.20	Other(provide details if material)	39,691	16,918	22,894
	Unavailed Revenue	24,160	13,875	15,436
	Liabilities associated with assets held for sale	3,214	-	2,362
	Early cancellation fee of lease payable	8,609	-	3,257
	Other financial liabilities	3,707	3,043	1,839
4.21	Total current liabilities	147,175	153,138	156,942

Consolidated balance sheet continued

	Non-current liabilities			
4.22	Accounts payable	-	-	-
4.23	Borrowings	42,523	28,962	25,804
4.24	Provisions	7,312	6,532	6,747
4.25	Other(provide details if material)	72,133	71,750	70,260
	Deferred Income Tax liability	34,094	33,913	34,979
	Early cancellation fee of lease payable	11,589	19,837	16,612
	Other financial liabilities	26,450	18,000	18,669
4.26	Total non-current liabilities	121,968	107,244	102,811
4.27	Total liabilities	269,143	260,382	259,753
4.28	Net assets	5,822	(15,522)	1,706
	Equity			
4.29	Capital	147,835	112,271	143,835
4.30	Reserves	930	2,515	1,990
4.31	Retained profits (accumulated losses)	(142,943)	(130,308)	(144,119)
4.32	Equity attributable to shareholders of the	5,822	(15,522)	1,706
4.33	Outside equity interest in controlled	-	-	-
4.34	Total Equity	5,822	(15,522)	1,706
4.35	Preference capital included as part of 4.32	-	-	-

Consolidated statement of cash flows

Current period - K'000	Previous corresponding period - K'000
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	Cash flows related to operating activities		
7.1	Receipts from customers	284,884	224,687
7.2	Payments to suppliers and employees	(292,973)	(230,622)
7.3	Dividends received	-	-
7.4	Interests and other items of similar nature received	-	-
7.5	Interests and other costs of finance paid	(4,940)	(4,727)
7.6	income taxes paid	-	-
7.7	Other (provide details if material)	-	-
7.8	Net operating cash flows	(13,029)	(10,662)
	Cash flows related to Investing activities		
7.9	Payment for purchases of property, plant and	(16,898)	(23,872)
7.10	Proceeds from sale of property, plant and	101	1,391
7.11	Payment for purchases of equity investments	-	-
7.12	Proceeds from sale of equity investments	-	-
7.13	Loans to other entities		
7.14	Loans repaid by other entities	-	-
7.15	Other (provide details if material)	-	-
7.16	Net investing cash flows	(16,797)	(22,481)
	Cash flows related to Financing activities		
7.17	Proceeds from issues of securities (share,	30,000	10,000
7.18	Proceeds from borrowings	18,895	21,500
7.19	Repayments of borrowings	(1,013)	(6,677)
7.20	Dividends paid		-
7.21	Other (provide details if material)	0	-
7.22	Net financing cash flows	47,882	24,823
7.23	Net increase (decrease) in cash held	18,056	(8,320)
7.24	Cash at beginning of period (see reconciliation of cash)	(25,961)	(17,641)
7.25	Exchange rate adjustments to item 7.24	-	-
7.26	Cash at end of period	(7,905)	(25,961)

Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but

Reconciliation of cash

	Current period - K'000	Previous corresponding period - K'000	
8.1	Cash on hand and at bank	557	652
8.2	Deposits at call	-	-
8.3	Bank overdraft	(8,462)	(26,613)
8.4	Other (provide details)	-	-
8.5	Total cash at end of period (item 7.25)	(7,905)	(25,961)

Ratios

Current period	Previous corresponding period
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	Profit before abnormals and tax/sales		
9.1	Consolidated operating profit (loss) before	-1.44%	-16.23%
	Profit tax/equity interests		
9.2	Consolidated operating profit (loss) after tax	219.74%	461.58%

Earnings per security (EPS)		Current period	Previous corresponding period
10.1	Calculation of the following in accordance with		
(a)	Basic EPS	t (4.22)	t (23.65)
(b)	Diluted EPS (If materiality different from(a))	t (4.22)	t (23.65)
(C)	Weighted average number of ordinary shares	303,000,000	303,000,000

Note:

NTA Backing (see note 7)		Current period	Previous corresponding period
11.1	Net tangible asset backing per ordinary security	0.02	(0.05)

Details of specific receipts/outlays, revenues/ expenses

		Current period K'000	Previous corresponding period K'000
12.1	Interest revenue included in determining item 1.4	1	1
12.2	Interest revenue included in item 12.1 but not yet	-	-
12.3	Interest expense included in item 1.4 (include all	(5,778)	(5,781)
12.4	Interest costs excluded from item 12.3 and		-
12.5	Outlays(except those arising from the acquisition	-	-
12.6	Depreciation and amortisation (excluding	6,282	10,279

Control gained over entities having material effect

13.1	Name of entity (or group of entities)	n/a
13.2	Consolidated operating profit (loss) and extraordinary items after	n/a
13.3	Date from which such profit has been calculated	n/a
13.4	Operating profit (loss) and extraordinary items after tax of the	n/a

Loss of control of entities having material effect

14.1	Name of entity (or group of entities)	n/a
14.2	Consolidated operating profit (loss) and extraordinary items after	n/a
14.3	Date to which the profit (loss) in item 14.2 has been calculated	n/a
14.4	Consolidated operating profit (loss) and extraordinary items after	n/a
14.5	Contribution to consolidated operating profit (loss) and	n/a

Reports for industry and geographical segments

See IFRS 8 : Operating Segments

Dividends (in the case of a trust, distributions)

15.1	Date the dividend (distribution) is payable	n/a
15.2	Record date to determine entitlements to the dividend (distribution)	n/a
15.3	If it is a final dividend, has it been declared?	n/a

Amount per security

	Amount per security
(Preliminary final report only)	

15.4	Final Dividend:	Current year	Nil	
15.5		Previous Year	Nil	
(Half yearly and preliminary final reports)				
15.6	Interim dividend:	Current year	Nil	
15.7		Previous Year	Nil	

Total dividend (distribution) per security (interim plus final)

		Current year	Previous year
15.8	Ordinary securities	Nil	Nil
15.9	Preference securities	n/a	n/a

Half yearly report - interim dividend (distribution) on all securities or

		Current year	Previous corresponding period
15.10	Ordinary shares	303,000,000	303,000,000
15.11	Preference Securities	n/a	n/a
15.12	Total	303,000,000	303,000,000

The dividend or distribution plans shown below are in operation

	n/a
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The last date(s) for receipt of election notices for the

n/a

Any other disclosures in relation to dividends (distributions)

n/a

Equity accounted associated entities and other material interests

Investments in associated entities		Current period K'000	Previous corresponding period - K'000
16.1	Statutory carrying value of investments in	n/a	n/a
16.2	Share of associated entities retained	n/a	n/a
	Retained profits	n/a	n/a
	Reserves	n/a	n/a
16.3	Equity carrying value of investments	n/a	n/a

Material interests in entities which are not controlled entities

The economic entity has an interest (that is material to it) in the following entities

Name of entity	Percentage of ownership interest held at end of period or date of disposal		Contribution to operating profit(loss) and extraordinary items after tax (item 1.14)	
	Current period	Previous corresponding Period	Current period - K'000	Previous corresponding Period - K'000
17.1	Equity accounted associated entities	n/a	n/a	Equity accounted n/a
17.2	Other material	n/a	n/a	Not equity accounted n/a

Issued and quoted securities at end of current period

Description includes rates of interest and any redemption or conversion rights together with prices and dates

Category of securities	Number issued	Number quoted	Amount paid per share (toea)
18.1	Preference securities	n/a	n/a
18.2	Issued during current period	n/a	n/a
18.3	Ordinary securities	303,000,000	303,000,000
18.4	Issued during current period	n/a	
18.5	Convertible debt	n/a	n/a
18.6	Issued during current period	n/a	n/a

	Options (descriptions and conversion factor)			Exercise price	Expiry date
18.7		n/a	n/a		
18.8	Issued during current period	n/a	n/a	n/a	n/a
18.9	Exercised during current	n/a	n/a	n/a	n/a
18.10	Expired during current	n/a	n/a	n/a	n/a
18.11	Debentures (totals only)	n/a	n/a	n/a	n/a
18.12	Unsecured notes (totals)	n/a	n/a	n/a	n/a

Comments by directors

Comments on the following matters are required by POMSox or, in relation to the half yearly report, by IAS 34: Interim Financial Reporting. The

Basis of accounts preparation

If this report is a half yearly report, it is a general purpose financial report prepared in accordance with the listing rules and IAS 34: Interim Financial

Material factors affecting the revenues and expenses of the economic entity for the current period

A.	Regular Passenger Transport (RPT) revenue grew by nearly 24% in 2017 compared to 2016. While the Airline had 2 more ATR aircraft available to it during this period, its overall capacity for RPT remained almost constant between the 2 years as 1 ATR was committed to supporting a charter contract for Newcrest Mining. The growth in RPT revenue despite soft prevailing economic conditions supports the Airline's strategy of re-fleeting through bringing in brand new ATRs to provide a competitive alternative for the travelling public of Papua New Guinea.
B.	The Airline will now supply Newcrest Mining with all its aviation services in PNG for 3 years from the commencement of the charter contract in August 2017. This contract is a mix of dedicated charter and RPT services to maximise efficiencies and the customer's benefit. The revenue from charter services more than doubled compared with the same period last year, mainly due to the commencement of the Newcrest contract.
C.	As a result of the growth in revenue during 2017, the Airline was able to reduce its operating losses before abnormal items and tax by nearly 90% compared to 2016 (K4.00 million in 2017 compared to K34.84 million in 2016). While this improved performance is mainly attributable to the growth in revenue, a significant contribution was made in the form of cost reductions achieved through improved efficiencies. Despite the significantly improved performance the Airline was unable to deliver a profit and the major factors that contributed to that were: <ul style="list-style-type: none"> • Continued softening of the PNG economy mainly due to the global downturn in resource sector prices, which resulted in very limited • Lack of new projects or operations providing additional charter opportunities and limited opportunities from existing operators; • Unfavourable movement in foreign exchange rates; • Interruption to services from civil unrest at some airports connected with the general elections; and • Protracted infrastructure work at various domestic airports restricting flight services, having an adverse impact on RPT revenue and costs.
D.	Abnormal items for the current period totaling K7.94 million is mainly related to impairment of capitalised costs incurred for major repairs and overhauls carried out on the Dash 8 fleet. Also, included under the abnormal items was the cost for induction of the 6th and 7th ATR. These are annual one-off costs, and were budgeted for. The much larger total of abnormal items for 2016 included the immediate recognition of deferred costs from the early return of leased Dash 8s as well as ATR induction costs.
E.	Two additional brand new ATR 72-600 aircraft were introduced to the Airline's fleet during 2017, increasing the ATR fleet size to seven. The Airline now has the youngest fleet in PNG, which showcases the commitment of the Airline to ensure quality aviation services. The 6th ATR was inducted in late June 2017 and the 7th ATR was introduced just before the peak Christmas travel period. Continuous improvement in the quality customer experience continues to be a primary focus for the Airline.
F.	The Airline completed conversion of one of its Dash 8 aircraft to full freighter configuration, allowing transport of up to 4 tonnes of freight and offering a new alternative for primary producers, businesses and projects to move cargo around PNG.
G.	The Airline continues its strong focus on implementing its strategy to develop its RPT operation and improve the quality of its services. That strategy will see the Airline: <ul style="list-style-type: none"> • open airport terminal lounges at a number of key ports, with Lae and Mt Hagen operating since January 2018; • increase its distribution network and the access to booking options for customers; • launch a mobile payment facility to complement the existing mobile booking facility are ongoing; • introduce a Frequent Flyer Program; • increase utilisation of the dedicated Dash 8 freighter to support local industry and growers; • continue investment in staff training and ground service equipment; and • improve internal systems and procedures with the ultimate objective to provide customers with a seamless travel experience.
H.	Continued growth in RPT revenue will allow PNG Air to offer competitive rates for both passenger fares and charter contracts. With the return of the government providing stability, the economy is expected to grow and decisions supporting investments in resource sectors are also likely to be made. PNG Air with its network structure, brand new fleet and increased capacity is in a strong position to benefit from such opportunities.
I.	With successful completion of the re-fleeting and re-branding strategies, strong growth in RPT revenue, winning of the Newcrest charter contract and signs of improvement in the economy, the Directors are confident in the Airline's ability to generate sustainable operating profits in the near future.

n/a

Changes in accounting policies since the last annual report are disclosed as follows.

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Additional disclosure for trusts

19.1	Number of units held by management	n/a
19.2	A statement for the fees and commissions payable	n/a

Annual Meeting
(Preliminary final report only)

The annual meeting will be held as follows:

Place	n/a
Date	n/a
Time	n/a
Approximate date the annual report will be available	n/a

Compliance statement

1 This report has been prepared under accounting policies which comply with accounting standards approved by the Accounting Standards Board pursuant to the Companies Act 1997 or other standards acceptable to POMSoX (see note 12).

Identify other standards used

n/a

2 This report, and the financial statements prepared under the Companies Act 1997 (if separate), use the same accounting policies.

3 This report does give a true and fair view of the matters disclosed (see note 2).

4 This report, is based on financial statements of which one of the following applies

The financial statements have been audited.

The financial statements have been subject to review.

The financial statements are in the process of being audited or subject to review.

The financial statements have not yet been audited or reviewed.

5 If the audit report or review by the auditor is not attached, details of any qualifications will follow immediately they are available.

6 The entity has a formally constituted audit committee.

Sign here: 
Director / Company secretary

Date 14-Mar-18

Print name: John Biddle