ANNOUNCEMENT

PNG Air Group Summary Results FY 2017

Major changes explained between Lodged Appendix 4B dated 14 Mar 2018 (Process of being Audited or Subject to review) and Audited Accounts dated 13 October 2020

INTRODUCTION

PNG Air Group lodged its Appendix 4B dated 14 March 2018 with a recorded a loss of K11.95 million before tax for the year ended 2017 as stated that financial statements are in the process of being audited or subject to review.

Since then, the accounts were scrutinized, corrections made for errors, re-classification adjustments and audited by Deloitte PNG. The accounts were signed off by Auditors on 13th of October 2020.

The audited accounts, reflects a recorded profit of K0.26 million before tax for the year ended 2017.

GROUP PROFIT & LOSS 2017 – LODGED APPENDIX 4B VS. AUDITED ACCOUNTS

Profit & Loss		Group		
Group : FY 2017 (PGK '000)	**Notes**	**Lodged (18-Mar-18)**	**Final (Audited)**	**Variance**
Revenue	PL1	277,439	281,683	4,244
Cost of sales	PL2	(158,216)	(150,295)	7,921
Gross profit		**119,223**	**131,388**	**12,165**
Other revenue	PL1	7,327	4,434	(2,893)
Operational expenses	PL3	(93,649)	(91,788)	1,861
Occupancy Expenses	PL3	(8,562)	(6,899)	1,663
Administration expenses		(22,563)	(22,839)	(276)
Finance costs	PL4	(5,778)	(7,409)	(1,631)
Other items of profit or loss				
ATR Induction & rebranding cost		(1,513)	(1,513)	-
Aircraft impairment / early lease exit cost	PL5	(6,431)	(5,114)	1,317
Profit / (Loss) before tax		**(11,946)**	**260**	**12,206**
Income tax expense		(847)	(770)	77
Profit / (Loss) for the year		**(12,793)**	**(510)**	**12,283**

Commentaries:

- **PL1**: (i) Revenue favourable movement of PGK4.24m and (ii) Other revenue unfavourable movement of PGK2.89m were due to:
  - (i) PGK1.35m – revenue recognition of unutilised tickets. The recognition disclosure is stated in note 3.5.1 of signed 2017 audited annual report.

- (i) & (ii) PGK2.89m – reclassification of Aircraft handling income from Other Income. Reference is made to note 5(a) & 5(b) of signed 2017 audited annual report.

- **PL2**: Cost of Sales favourable movement of PGK7.92m was due to:
  - Changes to assumption included in provisions made to ensure compliance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).
  - In the current year, management performed a detailed analysis of the costs of maintenance for all aircraft and developed a provision model. The model was based on the maintenance requirements contained in the aircraft lease contracts and including costing estimates from maintenance suppliers, as well as the impact of incurred maintenance costs for certain elements of the maintenance programs. This provision model has resulted in a change to the previously reported provisions for maintenance. Refer note 3.16 of signed 2017 audited annual report for disclosure explanations.
  - New lease arrangements for the ATR aircraft included a requirement to return the aircraft at the end of the lease in the same condition as provided and management has as a result, recorded a provision for restoration of these aircraft. Refer to note 22 of the signed 2017 audited annual report.
- **PL3:** Operational expenses favourable movement of PGK1.9m related to updates to the long service leave costing model to calculate the provision in accordance with IAS 37. Occupancy expenses favourable movement of PGK1.7m related to an over accrual for rent and electricity that was reversed.
- **PL4**: Finance costs unfavourable movement of PGK1.6m was due to additional interest costs realised on Dash 8's early lease exit costs and relevant information is disclosed in note 31 & note 7 of signed 2017 audited annual report.
- **PL5**: Aircraft Impairment favourable movement of PGK1.3m related to Impairment losses being offset with the asset revaluation reserve surplus.

GROUP FINANCIAL POSITION 2017 – LODGED APPENDIX 4B VS. AUDITED ACCOUNTS

Financial Position		Group		
Group : FY 2017 (PGK '000)	**Notes**	**Lodged (18-Mar-18)**	**Final (Audited)**	**Variance**
Property, plant and equipment	FP1	133,844	138,240	4,396
Other financial assets	FP2	25,921	22,611	(3,310)
Deferred tax assets		33,994	34,042	48
Other assets	FP3	-	23,597	23,597
Non-Current Assets		**193,759**	**218,490**	**24,731**
Inventories		13,487	14,047	560
Trade and other receivables	FP2	25,231	28,752	3,521
Other assets	FP3	35,590	12,114	(23,476)
Cash & bank balances		557	557	-
Assets held for sale	FP4	6,341	-	(6,341)
Current Assets		**81,206**	**55,470**	**(25,736)**
Total Assets		**274,965**	**273,960**	**(1,005)**
Borrowings	FP5	42,524	25,280	17,244
Other liabilities	FP6	38,039	32,032	6,007
Deferred tax liabilities		34,094	33,946	148
Provisions	FP7	7,312	11,311	(3,999)
Non-Current Liabilities		**121,969**	**102,569**	**19,400**
Trade and other payables	FP8	58,219	66,752	(8,533)
Borrowings	FP5	21,520	38,763	(17,243)
Other liabilities	FP6	12,316	9,951	2,365
Provisions	FP7	27,746	11,554	16,192
Deferred Revenue (un-availed)	FP9	24,160	22,868	1,292
Liabilities associated with assets held for sale PNGGS	FP10	3,214	-	3,214
Current Liabilities		**147,175**	**149,888**	**(2,713)**
Total Liabilities		**269,144**	**252,457**	**16,687**
NET Assets		**5,821**	**21,503**	**15,682**
Share capital		77,271	77,271	-
Other capital contributions from shareholders		70,563	70,563	-
Reserves	FP11	930	1,241	311
Retained earnings	FP12	(142,943)	(127,572)	15,371
Total Shareholders Equity		**5,821**	**21,503**	**15,682**

Commentaries (Group financial position):

- **FP1**: Property, plant & Equipment (PPE) favourable amount of PGK4.4m was due to reclassification of the Twin Otter aircraft that we disclosed as Held for Sale in the 4B and reversed back into property plant and equipment, as the sale was deemed to not meet the “Highly Probable” criteria of IFRS 5 *Assets Held for Sale*.
- **FP2**: Other financial assets of PGK3.3 is due to reclassification of security deposits from non-current to current as they are due and receivable inside 12 months.
- **FP3**: Non-current other assets & Current other assets movement of PGK23.6m was due to reclassifying the maintenance reserve deposits paid to the lessor into non-current assets. Refer to note 13 of signed 2017 audited annual report for the related disclosure.
- **FP4**: Asset held for sale (Twin Otter aircraft & PNG Ground Service) was reclassified into Property, plant and Equipment. The reclassification was necessary as the sale of the Twin Otter was deemed to not meet the “Highly Probable” criteria of IFRS 5 *Assets Held for Sale* and PNG Air is no longer selling PNG Ground Services.

- **FP5**: Borrowings related to BSP loan were reclassified from non-current to current liabilities, as a result of breaches of covenants, that were not waived by the financiers prior or since 31 December 2017. Notes 20 of the signed 2017 audited annual report provides further disclosure.
- **FP6**: Other liabilities movement were due to: 1) Decrease in the value of the early lease exit costs on the Dash 8's; 2) Additional interest costs realised on Dash 8's early lease exit costs and reclassification of costs. Relevant information is disclosed in note 31 & note 7 of signed 2017 audited annual report.
- **FP7**: Provision movements were due to:
  - *Provision for long service leave:* Changes to assumption included in provisions made to ensure compliance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets).
  - *Provision for maintenance:* In the current year, management performed a detailed analysis of the costs of maintenance for all aircraft and developed a provision model. The model was based on the maintenance requirements contained in the aircraft lease contracts and including costing estimates from maintenance suppliers, as well as the impact of incurred maintenance costs for certain elements of the maintenance programs. This provision model has resulted in a change to the previously reported provisions for maintenance. Refer note 3.16 of signed 2017 audited annual report for disclosure explanations.
  - *Restoration Provision:* New lease arrangements for the ATR aircraft included a requirement to return the aircraft at the end of the lease in the same condition as provided and management has as a result, recorded a provision for restoration of these aircraft. Refer to note 22 of the signed 2017 audited annual report.
- **FP8**: The balances have changed as a result of: 1) Liabilities associated with assets held for sale for PNG Ground Services, which was previously classified as Asset held for sale was reclassified into various accounts for which Trade and Payables was one of the accounts (as PNG Air is no longer holding the business for sale); 2) Accrued rental leases were reclassified from other liabilities to trade and other payables.
- **FP9**: Deferred Revenue movement was due to writing off unutilised tickets, where the ability for the customer to use the tickets or receive a refund had expired.
- **FP10**: The balances from liabilities associated with assets held for sale for PNG Ground services, which was previously classified as Asset held for sale was reclassified into various accounts. The reclassification was necessary as PNG Air is no longer selling PNG Ground Services.
- **FP11**: Reserves movement related to three matters: 1) An error in the closing balance of the reserves disclosed in the Appendix 4B corrected against the retained earnings; 2) Reserves movement were due to Impairment losses offset with the asset revaluation reserve surplus; 3) Depreciation was incorrectly recorded against the reserve.
- **FP12:** Retained movement is due to net movements in profit & loss after tax.

ENDS

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