Rules 4.1, 4.3

Appendix 4B (not equity accounted)

Annual Report

Name of entity

Airlines of Papua New Guinea Limited

Company No:	Half Yearly	Preliminary Final	Half year/Financial year ended (current period)
1-24926		✓	31-Dec-13

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 (item1.01)	up/(down)	-1%	to	223,078
Abnormal items after tax attributable to shareholders (item 2.5)	gain (loss) of	-	to	(10,908)
Operating profit (loss) after tax (before amortisation of goodwill) attributable to shareholders (item 1.26)	up/(down)	-5%	to	(21,063)
Operating profit (loss) after tax attributable to shareholders (item 1.10)	up/(down)	-5%	to	(21,063)
Extraordinary items after tax attributable to shareholders (item 1.13)	gain (loss) of		to	-
Operating profit (loss) and extraordinary items after tax attributable to shareholders (item 1.16)	up/down	-5%	to	(21,063)

Dividends (distributions)	**Amount per security**	
Final Dividend (Preliminary final report only - item 15.4)	n/a	
Interim Dividend (Half yearly report only - item 15.6)	Nil	
Previous corresponding period (Preliminary report - item 15.5; half yearly report - item 15.7)	n/a	

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 of any bonus or cash issue or other item(s) of importance not previously released to the market:

n/a

Consolidated profit and loss account
(the figures are not equity accounted)

		Current period K'000 Dec 2013	Previous corresponding period K'000 Dec 2012
1.01	Sales (or equivalent operating) revenue	223,078	226,032
1.02	Other revenue	10,212	5,423
1.03	Total revenue	233,291	231,456
1.04	Operating profit (loss) before abnormal items and tax	(13,325)	(28,726)
1.05	Abnormal items before tax (detail in item 2.4)	(15,583)	-
1.06	Operating profit (loss) before tax (items 1.4 + 1.5)	(28,908)	(28,726)
1.07	Less tax	7,845	8,744
1.08	Operating profit (loss) after tax but before outside equity interests	(21,063)	(19,982)

1.09	Less outside equity interests	-	-
1.10	Operating profit (loss) after tax attributable to shareholders	(21,063)	(19,982)
1.11	Extraordinary items after tax (detail in item 2.6)	-	-
1.12	Less outside equity interests	-	-
1.13	Extraordinary items after tax attibutable to Shareholders	-	-
1.14	Total operating profit (loss) and extraordinary items after tax (items 1.8 + 1.11)	(21,063)	(19,982)
1.15	Operating profit (loss) and extraordinary items after tax attributable to outside equity interests (items 1.9 + 1.12)	-	-
1.16	Operating profit (loss) and extraordinary items after tax attributable to shareholders (items 1.10 + 1.13)	(21,063)	(19,982)
1.17	Retained profits (accumulated losses) at beginning of financial period	(22,301)	(2,392)
1.18	If change in accounting policy as set out in clause 11 of AASB 1018 Profit and Loss Accounts, adjustments as required by that clause (include brief description)	nil	nil
1.19	Aggregate of amounts transferred from reserves	39,232	73
1.20	Total available for appropriation (carried forward)	(4,132)	(22,301)

Consolidated profit and loss account continued

1.20	Total available for appropriation (brought forward)	(4,132)	(22,301)
1.21	Dividends provided for or paid	-	-
1.22	Aggregate of amounts transferred to reserves	-	-
1.23	Retained profits (accummulated losses) at end of financial period	(4,132)	(22,301)

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 equity interests (item1.8) and amortisation of goodwill	(21,063)	(19,982)
1.25	Less (plus) outside equity interests	-	-
1.26	Operating profit (loss) after tax (before amortisation of goodwill) attributable to shareholders	(21,063)	(19,982)

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 to shareholders K'000
2.1	Amortisation of goodwill	-	-	-	-
2.2	Amortisation of other Intangibles	0	0	-	0
2.3	Total amortisation of Intangibles	0	0	-	0
2.4	Abnormal items	(15,583)	4,675	-	(10,908)
2.5	Total abnormal items	(15,583)	4,675	-	(10,908)

2.6	Extraordinary items	-	-	-	-
2.7	Total extraordinary items	-	-	-	-

Comparison of half year profits (Preliminary final report only)		Current year - K'000	Previous year - K'000
3.1	Consolidated operating profit(loss) after tax attributable to shareholders reported for the 1st half year(item1.10 in the half yearly report)	(21,063)	(19,982)
3.2	Consolidated operating profit(loss) after tax attributable to shareholders for the 2nd half year	n/a	n/a

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	2,272	1,116	3,583
4.2	Receivables	27,545	26,081	21,654
4.3	Investments		-	-
4.4	Inventories	14,751	19,451	19,023
4.5	Other (provide details if material)	32,604	32,022	30,971
	Assets classified as held for sale	26,274	27,016	27,016
	Prepayments	6,330	5,006	3,956
4.6	**Total current assets**	77,174	78,670	75,231
	Non-current assets			
4.7	Receivables	-	-	-
4.8	Investments	5,961	5,961	5,961
4.9	Inventories	-	-	-
4.10	Exploration and evaluation expenditure capitalised (IFRS 6)	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)	144,185	228,829	220,152
4.13	Intangibles (net)	0	0	0
4.14	Other(provide details if material)			
	Deferred tax Assets	38,868	35,909	39,529
	Aircraft lease deposits	3,008		
4.15	**Total non current assets**	192,022	270,699	265,642
4.16	**Total assets**	269,196	349,369	340,873
	Current Liabilities			
4.17	Accounts payable	49,196	46,851	47,858
4.18	Borrowings	38,402	42,527	48,287
4.19	Provisions	4,036	4,022	3,898
4.20	Other(provide details if material)			
	Unavailed Revenue	9,566	13,425	10,661
	Other financial liabilities		0	
	Income tax liabilities	0	324	0

4.21	**Total current liabilities**	101,200	107,149	110,704

Consolidated balance sheet continued

	Non-current liabilities			
4.22	Accounts payable	-	-	-
4.23	Borrowings	26,954	82,057	78,792
4.24	Provisions	3,544	2,898	3,234
4.25	Other(provide details if material)			
	Deferred Income Tax	49,985	65,132	65,323
4.26	**Total non-current liabilities**	80,483	150,087	147,349
4.27	**Total liabilities**	181,683	257,236	258,053
4.28	**Net assets**	87,513	92,133	82,820
	Equity			
4.29	Capital	57,271	57,271	57,271
4.30	Reserves	34,373	57,162	54,548
4.31	Retained profits (accummulated losses)	(4,132)	(22,301)	(28,999)
4.32	Equity attributable to shareholders of the parent entity	87,513	92,133	82,820
4.33	Outside equity interest in controlled entities	-	-	-
4.34	**Total Equity**	87,513	92,133	82,820
4.35	Preference capital included as part of 4.32	-	-	-
		(-0)	(-1)	(-1)

Consolidated statement of cash flows (see note 6)

		Current period - K'000	Previous corresponding period - K'000
	Cash flows related to operating activities		
7.1	Receipts from customers	220,154	236,196
7.2	Payments to suppliers and employees	(204,967)	(226,376)
7.3	Dividends received	-	-
7.4	Interests and other items of similar nature received	-	-
7.5	Interests and other costs of finance paid	(12,771)	(11,533)
7.6	income taxes paid	-	-
7.7	Other (provide details if material)	-	-
7.8	**Net operating cash flows**	2,416	(1,713)
	Cash flows related to Investing activities		
7.9	Payment for purchases of property, plant and equipment	(21,311)	(26,556)
7.10	Proceeds from sale of property, plant and equipment	79,278	
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**	57,967	(26,556)
	Cash flows related to Financing activities		
7.17	Proceeds from issues of securities (share, options, etc)	-	-
7.18	Proceeds from borrowings	(51,169)	35,711
7.19	Repayments of borrowings	-	
7.20	Dividends paid	-	-
7.21	Other (provide details if material)	-	-
7.22	**Net financing cash flows**	(51,169)	35,711
7.23	Net increase (decrease) in cash held	9,214	7,441
7.24	Cash at beginning of period (see reconciliation of cash)	(11,199)	(18,640)
7.25	Exchange rate adjustments to item 7.24	-	-
7.26	Cash at end of period (see reconciliation of cash)	(1,985)	(11,199)

Non-cash financing and investing activities

Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows are as follows. If an amount is quantified, show comparative amount.

Property, plant & equipment includes an amount of K8,998k which was the total of capitalised repairs/overhauls undertaken under PBH program in 2012. Comparative figure for 2012 was K4,483k.

Reconciliation of cash

		Current period - K'000	Previous corresponding period - K'000
8.1	Cash on hand and at bank	2,272	1,116
8.2	Deposits at call	-	-
8.3	Bank overdraft	(4,257)	(12,315)
8.4	Other (provide details)	-	-
8.5	**Total cash at end of period (item 7.25)**	(1,985)	(11,199)

Ratios		Current period	Previous corresponding period
	Profit before abnormals and tax/sales		
9.1	Consolidated operating profit (loss) before abnormal items and tax (item1.04) as a percentage of sales revenue (item 1.01)	-5.97%	-12.71%
	Profit tax/equity interests		
9.2	Consolidated operating profit (loss) after tax attributable to shareholders (item 1.10) as a percentage of equity (similarly attributable) at the end of the period (item 4.32)	-24.07%	-21.69%

Earnings per security (EPS)		Current period	Previous corresponding period
10.1	Calculation of the following in accordance with IAS 33: Earnings per share		

(a)	Basic EPS	t (9.45)	t (8.96)
(b)	Diluted EPS (If materiality different from(a))	t (9.45)	t (8.96)
(C)	Weighted average number of ordinary shares outstanding during the period used in the calculation of the basic EPS	223,000,000	223,000,000

Note:

NTA Backing (see note 7)		Current period	Previous corresponding period
11.1	Net tangible asset backing per ordinary security	0.38	0.41

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	-	-
12.2	Interest revenue included in item 12.1 but not yet received (if material)	-	-
12.3	Interest expense included in item 1.4 (include all forms of interest, lease finance charges, etc)	(12,771)	(11,533)
12.4	Interest costs excluded from item 12.3 and capitalised in asset values (if material)		-
12.5	Outlays(except those arising from the acquisition of an existing business) capitalised in intagibles (if material)	-	-
12.6	Depreciation and amortisation (excluding amortisation of intangibles)	20,956	19,318

Control gained over entities having material effect
(See note 8)

13.1	Name of entity (or group of entities)	n/a
13.2	Consolidated operating profit (loss) and extraordinary items after tax of the entity (or group of entities) since the date in the current period on which control was acquired	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 entity (or group of entities) for the whole of the previous corresponding period	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 tax of the entity (or group of entities) for the current period to the date of loss of control	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 tax of the entity (or group of entities) while controlled during the whole of the previous corresponding period	n/a
14.5	Contribution to consolidated operating profit (loss) and extraodinary items from sale of interest leading to loss of control	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) (i.e, on the basis of registrate transfers received up to 5.00pm)	n/a
15.3	If it is a final dividend, has it been declared? (Preliminary final report only)	n/a

Amount per security

			Amount per security	
	(Preliminary final report only)			
15.4	Final Dividend:	Current year	n/a	
15.5		Previous Year	n/a	
	(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)
(Preliminary final report only)

		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
Preliminary final report - final dividend (distribution) on all securities

		Current year K'000	Previous corresponding period - K'000
15.10	Ordinary shares	223,000,000	223,000,000
15.11	Preference Securities	n/a	n/a
15.12	Total	223,000,000	223,000,000

The dividend or disribution plans shown below are in operation

n/a

The last date(s) for receipt of election notices for the dividend or distribution plans

n/a

Any other disclosures in relation to dividends (distributions)

n/a

Equity accounted associated entities and other material interests
Equity accounting information attributable to the economic entity's share of investments in associated entities must be disclosed in a separate note. See IAS 28: Investments in Associates

	Investments in associated entities	Current period K'000	Previous corresponding period - K'000
16.1	Statutory carrying value of investments in associated entities (SCV)	n/a	n/a
16.2	Share of associated entities retained profits and	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	n/a
17.2	Other material interests	n/a	n/a	Not equity accounted (ie part of item 1.14)	
				n/a	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 (description)**	n/a	n/a	n/a	
18.2	Issued during current period	n/a	n/a	n/a	
18.3	**Ordinary securities**	223,000,000	223,000,000		
18.4	Issued during current period	n/a	n/a		
18.5	**Convertible debt securities (description and conversion factor)**	n/a	n/a	n/a	
18.6	Issued during current period	n/a	n/a	n/a	
18.7	Options (descriptions and conversion factor)	n/a	n/a	Exercise price	Expiry date (if any)
18.8	Issued during current period	n/a	n/a	n/a	n/a
18.9	Exercised during current period	n/a	n/a	n/a	n/a
18.10	Expired during current period	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 only)	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 comments do not take the place of the director's report (as required by the Companies Act 1997)

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 Reporting. It should be read in conjunction with the last annual report and any announcements to the market made by the entity during the period.

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

A.	Operating revenue for the year was marginally lower (K2.9 million) compared to previous year. Passenger and Cargo (RPT) revenues saw a 19% increase compared to 2012, despite withdrawal from the code-share arrangement with Virgin Australia, exit of international services to Cairns and exit from Twin Otter services at various stages during 2013. This was achieved mainly due to a significant increase in domestic Dash 8 services, by 36% (K33 million). Charter revenue reduced by 25% as a result of the cessation of charter contracts and splitting of an existing charter contract into charter and RPT components. The above reflects the airlines' commitment towards domestic RPT services.
B.	Direct costs and overheads were down by 5%. This decrease was achieved despite, increased fuel prices (by 15%) particularly during the second half of 2013 and the one-off costs the airline had to bear on account of retrenchments in order to achieve long term savings. The main contributor in this regard was the reduction in overhead costs by 19% (K4.7 million) compared to 2012, through cost saving initiatives implemented by management at various stages during 2013. Full year savings from these initiatives can be expected to be greater in future.
C.	Loss before abnormal items and income tax for the period was K13.32 million which includes a net positive impact of PGK 1.67 million from profit on sale of aircraft and additional costs that the airline had to incur to achieve cost savings including retrenchment costs. Excluding these one-off impacts the normalised loss for 2013 is PGK 15 million, compared to PGK 28.73 million lost in 2012, an improvement of 48% or K13.73 million. It needs to be highlighted that the impact of abnormal items were non-cash in nature. Most of major airlines in this region have suffered significant losses during the second half of last year due to high costs, especially fuel and Airlines PNG is no exception to the challenges the industry is facing in this region. However, with exit of all the unprofitable non-core routes and Twin Otter fleet the company is in a very strong position to take advantage of the growth in the domestic aviation market in years to come.

D.	The airline sold four Twin Otters during the third quarter of 2013. It also progressed with the sale of its remaining four Twin Otters through a global tender process, as part of its strategy to exit from Twin Otter operations. Currently the global Twin Otter market appears to have an oversupply of Twin Otter aircraft for sale. However, considering the costs and risks involved in retaining the Twin Otters, the airline prefers to proceed with efforts to sell them. Due to this the airline has to account for an (non-cash) impairment of K15.58 million against Twin Otter aircraft, and related rotables, spares and tools. The inclusion of the impairment is in line with the recommendations of International Accounting Standards and has hence impacted the pre-tax profit for the year to be nearly at par with that of the previous year.
E.	The airline was able to achieve a Dash 8 fleet size to 14 aircraft, from early 2014. This is in line with the airline's commitment to service the domestic sector further reflected through the introduction of new routes and increased frequency on routes with high demand. These additional aircraft will also assist to maintain the integrity of the airline's flight schedule by being able to substitute for aircraft from the existing fleet when they are undergoing heavy maintenance.
F.	The airline sold and leased back five Dash 8 aircraft as part of its re-financing strategy, in addition to the sale of four Twin Otter aircraft. The net sale proceeds reduced the airline's debt by nearly 50%, creating further opportunities for investment in new systems and for entry into larger, younger fleet to improve profitability.
G.	The airline plans to introduce larger aircraft into its fleet (ATR/Q400), from mid-2015. These aircraft will not only assist in addressing capacity related issues, but will also ensure improved reliability due to newer and more efficient aircraft. Discussions are in the final stages with the relevant manufacturers and a decision will be reached soon on the preferred aircraft type.
H.	With the first LNG project moving into its production phase and progress being made in regards to the second LNG project, the country is definitely heading towards a phase of substantial economic growth. This is expected to generate more income in the hands of the common man and shall boost domestic travel. Additionally, due to these major resource sector projects, the business related travel is expected to grow. The airline having completed the re-structure and ready to launch the newer aircraft fleet will be able substantially benefit from this growth.
I.	The airline continues to restructure and redesign many of its back of house systems in order to achieve additional efficiencies and resulting savings. Management continuously monitors the airline's position in the aviation market in this country and are striving to improve market share. Various initiatives including corporate presentations and increased media presence have been taken to that end. It is expected that these initiatives as well as the re-fleeting strategy will have a positive long term impact for the airline..
J.	The Directors are confident that initiatives taken by management will yield further improved results during 2014, compared to the 2013 performance.

n/a

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

Disclose changes in the preliminary final report in accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors.

The accounting policies adopted are consistent with the accounting policies in 31 December 2012 annual financial report.

Additional disclosure for trusts

19.1	Number of units held by management company or a related party of it	n/a
19.2	A statement fo the fees and comissions payable to the management company. Identify * Initial service charges * management fees * other fees	n/a

Annual Meeting
(Preliminary final report only)

The annual meeing will be hels 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 folowing 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 of 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 are attached.

6 The entity has a formally constituted audit committee.

Sign here: _____ Date 14 MARCH 2014

~~Director~~ / Company secretary

Print name: JOHN BIDDLE