

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
(current period)

1-24926

✓

31-Dec-16

For Announcement to the market

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

Extracts for this report for announcement to market (see note 1)		K'000		K'000
Sales (or equivalent operating) revenue (item1.01)	up/(down)	3%	to	214,601
Abnormal items after tax attributable to shareholders (item 2.5)	gain (loss) of	-	to	(30,674)
Operating profit (loss) after tax (before amortisation of goodwill) attributable to shareholders (item 1.26)	up/(down)	-659%	to	(71,646)
Operating profit (loss) after tax attributable to shareholders (item 1.10)	up/(down)	-659%	to	(71,646)
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	-659%	to	(71,646)
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 15.5; half yearly report - item 15.7)	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 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

		Current period K'000 Dec 2016	Previous corresponding period K'000 Dec 2015
1.01	Sales (or equivalent operating) revenue	214,601	209,116
1.02	Other revenue	8,432	10,748
1.03	Total revenue	223,033	219,866
1.04	Operating profit (loss) before abnormal items and tax	(34,840)	4,211

1.05	Abnormal items before tax (detail in item 2.4)	(38,691)	(13,979)
1.06	Operating profit (loss) before tax (items 1.4 + 1.5)	(73,531)	(9,769)
1.07	Less tax	1,885	333
1.08	Operating profit (loss) after tax but before outside equity interests	(71,646)	(9,435)
1.09	Less outside equity interests	-	-
1.10	Operating profit (loss) after tax attributable to shareholders	(71,646)	(9,435)
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 Shareholders	-	-
1.14	Total operating profit (loss) and extraordinary items after tax (items 1.8 + 1.11)	(71,646)	(9,435)
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)	(71,646)	(9,435)
1.17	Retained profits (accumulated losses) at beginning of financial period	(58,529)	(49,058)
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)	-	-
1.19	Aggregate of amounts transferred from reserves	(134)	(37)
1.20	Total available for appropriation (carried forward)	(130,308)	(58,529)

Consolidated profit and loss account continued

1.20	Total available for appropriation (brought forward)	(130,308)	(58,529)
1.21	Dividends provided for or paid	-	-
1.22	Aggregate of amounts transferred to reserves	-	-
1.23	Retained profits (accumulated losses) at end of financial period	(130,308)	(58,529)

Profit restated to exclude amortisation and goodwill

stated to exclude ation 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	(71,646)	(9,435)
1.25	Less (plus) outside equity interests	-	-

1.26	Operating profit (loss) after tax (before amortisation of goodwill) attributable to shareholders	(71,646)	(9,435)
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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	(38,691)	8,017	-	(30,674)
2.5	Total abnormal items	(38,691)	8,017	-	(30,674)
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(item 1.10 in the half yearly report)	(41,048)	(3,288)
3.2	Consolidated operating profit(loss) after tax attributable to shareholders for the 2nd half year	(30,598)	(6,147)

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	652	2,440	655
4.2	Receivables	22,348	14,162	12,896
4.3	Investments		-	
4.4	Inventories	12,635	11,835	12,067
4.5	Other (provide details if material)	23,818	26,720	26,183
	Assets held for sale	5,079	3,420	3,420
	Other financial assets	483	2,746	483
	Prepayments	18,256	23,300	22,280
4.6	Total current assets	59,453	55,157	51,801
Non-current assets				
4.7	Receivables	-	-	-
4.8	Investments	0	0	0

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)	133,883	147,605	141,396
4.13	Intangibles (net)	0	0	0
4.14	Other (provide details if material)	51,523	51,029	46,350
	Deferred tax Assets	33,914	37,708	35,166
	Aircraft lease deposits	17,610	13,321	11,184
4.15	Total non current assets	185,407	198,634	187,746
4.16	Total assets	244,860	253,791	239,547
	Current Liabilities			
4.17	Accounts payable	87,081	73,753	96,308
4.18	Borrowings	40,353	34,539	43,141
4.19	Provisions	12,583	17,629	20,160
4.20	Other (provide details if material)	15,385	7,049	8,917
	Unavailed Revenue	13,875	6,231	7,887
	Lease (ATR) incentive liability	1,510	818	1,030
4.21	Total current liabilities	155,402	132,970	168,526

Consolidated balance sheet continued

Non-current liabilities

4.22	Accounts payable	-	-	-
4.23	Borrowings	28,962	33,420	6,422
4.24	Provisions	6,531	5,219	5,720
4.25	Other (provide details if material)	69,487	47,507	46,415
	Deferred Income Tax	33,914	37,708	35,197
	Early cancellation fee of lease payable	19,837	-	-
	Lease (ATR) incentive liability	15,736	9,799	11,218
4.26	Total non-current liabilities	104,980	86,146	58,557
4.27	Total liabilities	260,382	219,115	227,083
4.28	Net assets	(15,522)	34,675	12,464
	Equity			
4.29	Capital	112,271	82,271	105,271
4.30	Reserves	2,515	10,933	9,444
4.31	Retained profits (accumulated losses)	(130,308)	(58,529)	(102,251)

4.32	Equity attributable to shareholders of the parent entity	(15,522)	34,675	12,464
4.33	Outside equity interest in controlled entities	-	-	-
4.34	Total Equity	(15,522)	34,675	12,464
4.35	Preference capital included as part of 4.32	-	-	-
		0	-	0

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	224,687	214,036
7.2	Payments to suppliers and employees	(230,623)	(202,042)
7.3	Dividends received	-	-
7.4	Interests and other items of similar nature received	-	-
7.5	Interests and other costs of finance paid	(4,727)	(5,384)
7.6	income taxes paid	-	-
7.7	Other (provide details if material)	-	-
7.8	Net operating cash flows	(10,663)	6,610
	Cash flows related to Investing activities		
7.9	Payment for purchases of property, plant and equipment	(23,872)	(28,899)
7.10	Proceeds from sale of property, plant and equipment	1,392	11,539
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	(22,480)	(17,360)
	Cash flows related to Financing activities		
7.17	Proceeds from issues of securities (share, options, etc)	10,000	5,000
7.18	Proceeds from borrowings	21,500	
7.19	Repayments of borrowings	(6,678)	(1,701)
7.20	Dividends paid		-
7.21	Other (provide details if material)	(0)	-

7.22	Net financing cash flows	24,822	3,299
7.23	Net increase (decrease) in cash held	(8,320)	(7,451)
7.24	Cash at beginning of period (see reconciliation of cash)	(17,641)	(10,190)
7.25	Exchange rate adjustments to item 7.24	-	-
7.26	Cash at end of period (see reconciliation of cash)	(25,961)	(17,641)

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 K11,328k which was the total of capitalised repairs/overhauls undertaken under PBH engine program in 2016. Comparative figure for 2015 was K15,135k.

Reconciliation of cash

		Current period - K'000	Previous corresponding period - K'000
8.1	Cash on hand and at bank	653	2,440
8.2	Deposits at call	-	-
8.3	Bank overdraft	(26,614)	(20,081)
8.4	Other (provide details)	-	-
8.5	Total cash at end of period (item 7.25)	(25,961)	(17,641)

Ratios

		Current period	Previous corresponding period
	Profit before abnormals and tax/sales		
9.1	Consolidated operating profit (loss) before abnormal items and tax (item 1.04) as a percentage of sales revenue (item 1.01)	-16.23%	2.01%
	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)	-461.59%	-27.21%

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 (23.65)	t (3.11)
(b)	Diluted EPS (If materiality different from(a))	t (23.65)	t (3.11)
(C)	Weighted average number of ordinary shares outstanding during the period used in the calculation of the basic EPS	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	
	(0.05)	0.11

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	2
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)	(5,781)	(5,788)
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 intangibles (if material)	-	-
12.6	Depreciation and amortisation (excluding amortisation of intangibles)	10,279	10,214

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 extraordinary 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 registrars 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	
<i>(Preliminary final report only)</i>			
15.4	Final Dividend: Current year	Nil	
15.5	Previous Year	Nil	
<i>(Half yearly and preliminary final reports)</i>			
15.6	Interim dividend: Current year	Nil	
15.7	Previous Year	Nil	

**Total dividend (distribution) per security (interim plus final)
(Preliminary final report only)**

15.8	Ordinary securities	Current year	Previous year
		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	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
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 (t/nea)	
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	303,000,000	303,000,000		
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 POMSx 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.	PNG Air successfully inducted 5 brand new ATR 72-600 aircraft over a period of 13 months commencing from November 2015 which was a significant achievement, considering the magnitude of work involved in introducing a new aircraft type, and this number of new aircraft.
B.	Complemented by the new branding, the new ATR aircraft have performed beyond expectations with RPT revenue increasing by approximately 17% compared to the same period last year.
C.	Despite the growth in RPT revenue, for the full year 2016, the Airline returned a K34.8 million operating loss before abnormal items and tax. This is significantly adverse to the K4.2 million operating profit before abnormal items and tax for the same period in 2015. Major factors that affected the performance for this period were: * General softening of the PNG economy mainly due to the global downturn in resource sector prices, which resulted in very limited resource sector investment during the year; * Significant drop in revenue from charter operations due to cessation of existing contracts and lack of new opportunities; * Temporary closure and restructure of Ok Tedi mining operations reducing both RPT and freight revenue; * Significant increase in overseas currency denominated expenses due to continuous depreciation of the PNG Kina against major overseas currencies, and * Infrastructure work at various domestic airports restricting flight services having an adverse impact on RPT revenue.
D.	Abnormal items included the immediate recognition of deferred costs from early return of leased Dash 8s (like lease exit costs and impairment of aircraft improvement costs) which totaled to K32.1 million. Additionally ATR induction cost of K6.6 million was also recognised under abnormal items. It needs to be highlighted that the restructure of the leased Dash 8s is expected to generate approximately K 42.2 million cash savings to the end of 2020.
E.	The Airline continues its strong focus on implementing its commercial strategy. During 2017 the Airline will: * Introduce its 6th and 7th brand new ATR aircraft into service; * Open airport terminal lounges at a number of key ports; * Commence regional international flights and establish links with international carriers; * Launch a mobile payment facility to complement the existing mobile booking facility; and * Introduce a customer loyalty program.
F.	The RPT growth achieved by the Airline during 2016 was mainly due to the Airline increasing its market share, as the soft economic conditions meant that the domestic RPT market did not grow at the same pace. The ongoing commercial strategies will assist in capturing further market share.
G.	The growth in RPT revenue will allow PNG Air to offer competitive rates for charter contracts. With existing charter contracts due for renewal during 2017, the Airline will be in a strong position to be able to bid aggressively, both from pricing and capacity perspectives.
H.	While acknowledging the 2016 results, 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 with expected progress of other resource sector projects. Most importantly, the Airline is winning market share and this corroborates the decision by the Board to focus on RPT business backed by re-fleeting and re-branding. The Directors are confident that the commercial strategy will see the Airline to a sustainably profitable operation in the future.

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.

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 to the fees and commissions payable to the management company.

Identify

- * Initial service charges
- * management fees
- * other fees

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 POMSIX (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 are attached.

- 6 The entity has a formally constituted audit committee.

Sign here

Director / Company secretary

Date

28 July 2017

Print name

John Biddle