Chairman's and CEO's addresses to the 2017 Annual General Meeting of PNG Air Limited on 20 December 2017

Chairman's address:

I am pleased to report that the Company has made a great deal of progress since the AGM last year. In particular the strategic plan put in place by the Board 4 years ago involving re-fleeting with ATR aircraft and rebranding to the PNG Air name shows every sign of being successful.

We have now grown the Company's fleet to include 7 brand new ATR 72-600 aircraft, with the latest arrival in service over the current Christmas peak season.

The major thrust of the strategic plan was to emphasise the Company's RPT business, as that is the segment of the PNG aviation market which both shows tremendous growth potential and is sustainable through the peaks and troughs that will occur in the PNG economy while it remains heavily dependent on global resources markets.

Up to the adoption of the strategic plan, charter operations had provided more than half of the Company's revenue. The transformation of the business from a small charter airline to becoming the domestic airline of choice has been the focus for the Board and Management.

The Company has long suffered from a lack of capacity, and re-fleeting has helped overcome that issue. With 5 ATRs operating from the start of 2017, the 6th for half the year and the 7th for the peak season, we expect 2017 to be a better year than previous years in terms of revenue, and as all 7 ATRs operate throughout 2018 we expect better performance again, with the hard work done over the past years reflected in improved results.

Backing up those expectations is the belief that PNG is in a strong position to achieve GDP growth from 2018 onwards. PNG Air's own growth in capacity and capability in turn positions it to cater to the demand for more aviation services that overall economic growth will bring.

Our optimism regarding the PNG economy comes from a number of sources, but particularly from the steady progress of the various LNG projects and political stability after completion of this year's national elections. The APEC conference in late 2018 will also provide a boost to demand for aviation.

One proposed government action that should clearly benefit the airline is the proposal to increase subsidies for transport of perishable agricultural products within the country. This is a sensible economic policy, promoting growth in the agricultural sector, and potentially leading to export markets as well as some import substitution. It fits particularly well with PNG Air's decision to convert

one of its Dash 8 aircraft to a full freighter configuration. Increased vegetable carriage would provide a steady revenue stream from this aircraft, importantly on flights into Port Moresby. The aircraft is also able to carry relatively large one-off loads by charter, and to make other regular cargo runs.

The Board has not been content to rely on re-fleeting and an upturn in the PNG economy alone to improve the Company's performance. NasFund, as one of the major shareholders, has commissioned a report on the Company's business and strategy from the major aviation consultants Aviado and the Board looks forward to seeing what they may recommend. The Company has also been the subject of a report from board and governance consultants appointed by the Bank of PNG to look at the board functioning and corporate governance of all companies in which superannuation companies such as NasFund have substantial holdings, and some recommendations from those consultants to further improve the Company's governance are being implemented.

While there are these positives, certain challenges remained in 2017 due in particular to the weak economic conditions and deteriorating exchange rates.

The flat or falling world commodity prices of the past 4 years have seen exploration activity remain low and as a result the charter business was flat. However, the Company was successful in winning the contract to provide aviation services to Newcrest and the commencement of that contract in August has seen charter revenue recover substantially. The volatility of the charter market and its susceptibility to world market forces justify the decision of the Board to put more focus on the RPT segment.

Despite its highlights and successes, 2016 was another financially challenging year. Even with a growth in RPT revenue of 17% over the previous year, for the full year 2016 the Company returned a K34.8 million operating loss before abnormal items and tax. Major factors in that result were the general softening of the PNG economy and the global downturn in the resources sector, a significant drop in the revenue from charter operations due to expiry of existing contracts and lack of new charter opportunities, and an increase in overseas currency denominated expenses due to continuous depreciation of the PNG Kina. Some short term local issues – temporary closures and restructuring of Ok Tedi's mining operations, and infrastructure work at various domestic airports restricting flight services – also had large effects.

The abnormal items for the year included the immediate recognition of deferred costs from early return of leased Dash 8s (such as lease exit costs and impairment of aircraft improvement costs) which totaled K32.1 million and ATR induction costs of K6.6 million. It needs to be mentioned here that the abnormal one off costs were results of strategy initiatives undertaken by the Board and management of the Company which are expected to generate significant benefits in future years.

I spoke earlier about the challenges faced by the Company in 2016 and before that. Taking into account those challenges and the one-off and extraordinary items occurring in 2016, the results in 2016 were better than they at first appear, and the results since then continue to suggest the Company is on the right strategic track. The Board firmly believes that is correct, and that the re-fleeting plan and RPT focus introduced in the past few years give the Company a business that will be viable and profitable into the future. While challenges remain, not least the challenge of improving the Company's processes, systems and staff training so as to get the most out of the ATR fleet, with major projects coming on line in PNG, the charter market will pick up and the economy generally will

improve. The Company now has the capacity to operate an on-going RPT business while still being able to bid aggressively for charter business as opportunities arise.

The Board wishes once more to thank all shareholders for their continued support and commitment to the Company, and their continued patience when it comes to the declaration of a dividend. However, a great deal of real progress has been made in transforming the Company's business and creating one that is sustainably profitable. The Board is confident that the Company is on the right track to achieve that objective and in that way to add value to your investments.

CEO's address

The Chairman has updated you on the current position of the Company's re-fleeting process, and outlined the reasons for the confidence this gives the Company regarding the future.

I would like to set out the background against which this has been achieved.

Challenges faced by the Company at the time of the introduction of the first of the new ATR aircraft in November 2015 were real. 2016 saw both a substantial drop in charter revenue after the expiry of the Exxon Mobil charter, and had the Company facing substantial costs arising from the induction of the ATRs and the return of leased Dash 8s. While both introducing the ATRs and returning excess leased Dash 8s will have financial benefit in the short to medium term, both steps imposed costs on the Company in 2016.

The extent of the drop in charter revenue cannot be overstated – from a high of K142 million in 2011, charters dropped to K13 million in 2016. If the Company had not made the decision to focus more on RPT services when it did, and if hadn't done all the work necessary to bring in the right aircraft type to support that strategy, the ATR, when it did, the Company would have no business. As mentioned by the Chairman, this downturn in charter revenue has been reversed to some extent in 2017 with the Company winning the Newcrest contract starting from August 2017.

The current business model with more than 90% of revenue from RPT is sustainable regardless of what happens in the charter market, although where there are sharp downturns as in 2016, there will still be some pain. However, because a strong base of RPT revenue underpins the overall operation, it puts the Company into a strong competitive position to win future charter contracts. The Company now has the aircraft mix and fleet size to back that up. While a turnaround in the Company's performance and a return to profitability has not yet happened, due to the resource downturn and the cost involved in implementing the Company's strategy, we believe that we are building a long term business where returns will be substantial in the future.

Overall, revenue grew from K209 million in 2015 to K215 million in 2016, and out of this RPT revenue grew from K170 million to KK199 million, a 17% increase year on year. Indications are that RPT revenue will grow significantly again in 2017, along with overall revenue which benefits from the Newcrest charter from August. Because the overall aviation market remains flat, we believe that the increases being achieved in RPT revenue show that the Company is increasing its share of that market.

In terms of financial results, it is disappointing that the Airline has continued to make losses. However, the drop in charter business was too steep for the growth in the RPT market to offset. 2016 was

always going to be a tough year with ATR induction, the effect of the loss of the Exxon contract towards the end of 2015 being felt across the full year and the drastic downturn in the domestic market. In addition, the Company was not yet getting the full benefit of the ATR introduction, which we would see from 2017 onwards.

One point I would like to highlight is the challenges we face on a day to day basis in the PNG aviation market. To give a few examples:

- Aerodrome upgrades that are currently being done are disruptive and limit the operations we can carry out. For example, the Goroka airport upgrade that is still not completed limits our ability to take the ATRs to that port, with a negative impact on the bottom-line;
- We have internet reception problems in most of the ports, which in turn affects our on-time performance;
- Constantly changing weather conditions are challenging for our operations. Tabubil, Hagen and Lihir are some main ports where we suffer cancellations or limited payload due to weather changes.

The Company is well equipped to deal with these challenges but it impacts the cost of doing business in PNG.

Other important steps in implementing the Company's strategy and building its business occurred in 2016 and up to now:

- Successfully inducting 7 ATRs by December 2017;
- Successfully starting a Dash 8 full freighter operation in December 2017;
- A total of 4 leased Dash 8s have now been returned to their lessors, with agreements in place for the return of the remaining 4 leased Dash 8s as further new ATR aircraft are brought in, currently starting in 2020;
- We achieved a 3 year extension of our AOC from CASA, having previously received 2 year extensions. This is a testament to the improvements put in place and reflects the attitude of the regulator to our operation;
- New services were opened to Wapenamanda, Mendi, Kieta and Vanimo;
- On-line check in was introduced;
- SMS updates to passengers in the event of disruptions

Our focus for the future will include

- Refining and improving the current operation as we learn more about operating the ATR, for example through better crew rostering and aircraft scheduling. Changing over to the ATR has already brought many benefits and will bring more in the future;
- Working with National Airport Corporation to help manage the increased volumes of passengers we are now putting through terminals so we can achieve a better customer experience;
- Improving aircraft reliability by working closely with ATR;
- Introducing passenger lounges at strategic ports. With the support from NAC a lounge at Lae has been completed and is due for handover while work on a Mt Hagen lounge is currently

under way. These lounges will be operating in the new year and we are discussing getting space for more lounges with NAC;

- Introducing a workable on-line payment platform;
- A business class product and frequent flyer scheme will follow, but have not yet been introduced while the Company beds down its ATR operations.

The Company will continue to look to move into new markets where that appears viable. Although the proposed introduction of services to Jayapura has still not been able to occur because of regulatory issues on the Indonesian side, we remain hopeful of being able to run those flights in the near future.

I said last year that the Company continues to have strong support from its major shareholders, NasFund and the MRDC group, but still needs more financing to take us through this phase in our development, and that it was expected that proposals regarding further financing would be put to the shareholders in 2017. That has not yet happened, but it continues to be expected that proposals for new share issues, and for an entitlement offer to existing shareholders, will occur.

I am proud of the achievements made by PNG Air and its staff. We are making a lot of progress in our localisation plans to bring in more Papua New Guineans to replace expatriate positions. I am proud that we have increased the percentage of our National staff from 71% in 2013 to 83% in 2016. We continue to provide strong competition, choice and a high quality service to the people of Papua New Guinea. Our strategy to service the regional turbo prop routes provides us with a single minded focus which in the long term will help us deliver results. In terms of results, 2017 will further improve on 2016 and I am confident of stronger results in 2018 and the Company has a bright long-term future of providing returns to shareholders.