AIR NIUGINI LIMITED

Consolidated Annual Report 2020

Air Niugini

The National Airline of Papua New Guinea

AIR NIUGINI LIMITED
2020 CONSOLIDATED ANNUAL REPORT

TABLE OF CONTENTS

Chairman's Report	2
Directors' Report	3 – 6
Statement of the Directors	7
Consolidated Statement of Profit or Loss and Other Comprehensive Income	8
Consolidated Statement of Financial Position	9
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	11
Notes to the Consolidated Financial Statements	12 - 44
Independent Auditors' Report	45 - 51

CHAIRMAN'S REPORT

On behalf of the Board of Directors I am pleased to present the 2020 Annual Consolidated Report for Air Niugini Limited.

The Group recorded a net loss before tax of K310 million (2019: loss K44.4 million).

On behalf of the Board of Air Niugini Limited, I take this opportunity to thank our shareholder, the National Government, for its continued support. The Board also expresses its gratitude to Management, and to all staff, for their continued loyalty and hard work that has contributed to overcoming another challenging year for Air Niugini Limited.

SIR KOSTAS CONSTANTINOU OBE
Chairman

DIRECTORS' REPORT

The Directors hereby present the consolidated annual report, including the Consolidated Financial Statements, for Air Niugini Limited and its controlled entities (the "Group") for the year ended 31 December 2020.

The "Group" consists of Air Niugini Limited, Link PNG Limited and Air Niugini Properties Limited as at 31 December 2020.

Accounting Policies

During the year, the Group has complied with all the relevant International Financial Reporting Standards issued by the International Accounting Standards Board, adopted by the Papua New Guinea Accounting Standards board and required by the Companies Act 1997 (as amended).

Principal Activity

The principal activities of the Group during the year were the operation of international and domestic air transportation services, uplifting air cargo and managing the Group's residential and commercial properties. There were no significant changes in the nature of the activities of the Group during the year.

Results

The net loss after tax for the year ended 31 December 2020 was K303 million while the net loss after tax for the year ended 31 December 2019 was K112.4 million.

Dividend

In 2020, there was Knil dividend declared or paid (2019: Knil).

Directors

The names of the Directors in office during the financial period and until the date of this report are as follows:

- Sir Kostas Constantinou, OBE (Board Chairman appointed - 7/06/2018)
- Ms Monica Salter (appointed 16/08/2021)
- Lady Aivu Tauvasa (appointed 17/02/2020)
- Mr Anthony Seeto (appointed 1/04/2020)
- Mr Prashant Subbaraya Shastri (appointed 10/11/2020)
- Mr Ian Jepson (appointed 7/06/2018, ceased 7/6/2021)
- Mr Alan Milne (appointed 18/10/2018, ceased 31/03/2020)

DIRECTORS' REPORT (continued)

Interest Register

In respect to the 2020 financial year, the Directors have disclosed their interests in director related entities as follows:

Name	Nature of interest	
Sir Kostas Constantinou, OBE	Director/Chairman	Lamana Hotel Ltd, Lamana Development Ltd, Heritage Park Hotel Ltd, Gazelle International Hotel Ltd, Oil Search Ltd, Alotau International Hotel Ltd, Coastwatchers Court Ltd, Bank of South Pacific Ltd, Gazelle International Hotel Ltd
	Shareholder	Airways Hotel & Apartment Ltd, Lamana Hotel Ltd, Lamana Development Ltd
Mr Prashant Subbaraya Shastri	Director	Niugini Assurance Group Limited Pacific Ltd, Champion No.7 Limited
	Director/Shareholder	Professional Global Solutions Limited
Lady Aivu Tauvasa	Director/Shareholder	Nambawan Savings & Loan Society Limited, Teisaki Limited, Taukana Advisory Services Limited
	Shareholder	Post Courier Limited, Kina Asset Management Limited, PNG Drum Reconditioning Limited
Mr Ian Jepson	NIL	NIL
Mr Anthony Seeto	Shareholder	Seeto Kui Group

Directors' Remuneration

Kumul Consolidated Holdings Limited is responsible for reviewing and setting guidelines for the compensation of Directors. Remuneration to Directors comprises of sitting fees and allowances. Directors also have access to travel on concession. In addition, Directors are entitled to be reimbursed for all reasonable travel, accommodation and other expenses incurred in attending meetings of the Board, Committees or the shareholder or while engaged in Air Niugini Limited's business. Directors fees and other expenses paid during the year, are as follows.

		2020	2019
		K	K
o Sir Kostas Constantinou, OBE	Chairman/Director	85,200	88,100
o Mr Ian Jepson	Director	85,200	88,100
o Mr Alan Milne	Director	-	1,235,179
o Mr Andrew Nui	Director	-	175,450
o Mr Ken Harvey, MBE	Director	39,300	39,300
o Lady Aivu Tauvasa	Director	38,100	-
o Mr Anthony Seeto	Director	38,100	-
		285,900	1,626,129
Board of Directors other expenses		906,273	609,234
		1,192,173	**2,235,363**

Auditors' Fee

Details of amounts paid to the auditors for the audit and other services are shown in Note 6(c) to the consolidated financial statements.

DIRECTORS' REPORT (continued)

Employee's Remuneration

During the year the number of employees, or former employees, who received remuneration, including benefits, in excess of K100,000 is stated below. Remuneration and benefits include salary and wages, accommodation, superannuation, motor vehicle, school fees, etc. Also included are one off payments such as termination, long service leave and redundancy entitlements paid during 2020.

Gross Salary	2020	2019
100,000 -109,999	8	9
110,000 -119,999	11	12
120,000 -129,999	6	7
130,000 -139,999	5	5
140,000 -149,999	4	4
150,000 -159,999	7	8
160,000 -169,999	11	11
170,000 -179,999	21	23
180,000 -189,999	9	10
190,000 -199,999	9	9
200,000 -209,999	6	6
210,000 -219,999	8	8
220,000 -229,999	6	6
230,000 -239,999	12	14
240,000 -249,999	8	9
250,000 -259,999	12	14
260,000 -269,999	5	5
270,000 -279,999	7	7
280,000 -289,999	4	4
290,000 -299,999	6	6
300,000 -309,999	6	6
310,000 -319,999	7	7
320,000 -329,999	7	7
330,000 -339,999	3	3
340,000 -349,999	5	5
350,000 -359,999	4	4
360,000 -369,999	7	7
370,000 -509,999	37	38
510,000 -519,999	1	1
520,000 -729,999	42	45
730,000 -739,999	0	0
740,000 -749,999	0	0
750,000 -759,999	0	0
760,000 -769,999	0	0
770,000 -779,999	1	1
780,000 -789,999	0	0
790,000 -799,999	0	0
800,000 -839,999	1	1
840,000 -849,999	0	0
850,000 -899,999	0	0
900,000 -1,999,999	2	2
2,000,000 -2,500,000	1	1
Total	**289**	**305**

DIRECTORS' REPORT (continued)

Donations

The total amount of donations made by the Group is stated in Note 6(c) to the consolidated financial statements.

For and on behalf of the Board.

Dated and signed by the Directors in accordance with a resolution of the Board of Air Niugini Limited.

SIR KOSTAS CONSTANTINOU OBE	Mr Prashant Subbaraya Shastri
Chairman	Director

Dated at PORT MORESBY this 5TH day of MAY 2022.

STATEMENT OF THE DIRECTORS

The Directors declare that:

a) the accompanying statement of profit or loss and other comprehensive income of the Group is drawn up so as to give a true and fair view of the results of the Group for the year ended 31 December 2020;

b) the accompanying statement of changes in equity of the Group is drawn up so as to give a true and fair view of the changes in equity for the year ended 31 December 2020;

c) the accompanying statement of financial position of the Group is drawn up so as to give a true and fair view of the state of affairs of the Group as at 31 December 2020;

d) the accompanying statement of cash flows of the Group is drawn up so as to give a true and fair view of the cash flows of the Group for the year ended 31 December 2020;

e) all related party transactions have been adequately recorded in the books of the Group;

f) in the Directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and

g) in the Directors' opinion, the attached consolidated financial statements and notes thereto are in accordance with the PNG Companies Act 1997, including compliance with International Financial Reporting Standards (IFRS) and giving a true and fair view of the financial position and performance of the entity.

Additional Statutory Information

The results of the Group during the financial year have, in the opinion of the Directors, not been materially affected by items of an abnormal nature, other than those disclosed in the consolidated financial statements.

In the opinion of the Directors, no circumstances have arisen that make adherence to the existing method of valuation of assets or liabilities of the Group misleading or inappropriate.

No contingent liability has arisen since the end of the financial year, which continues to exist at the date of this report, other than those disclosed in the consolidated financial statements.

At the date of this report the Directors are not aware of any circumstances that would render the values attributed to current assets and liabilities in the consolidated financial statements misleading.

Dated and signed by the Directors in accordance with a resolution of the Board of Air Niugini Limited.

SIR KOSTAS CONSTANTINOU OBE	**Mr Prashant Subbaraya Shastri**
Chairman	Director

Dated at PORT MORESBY this 5TH day of MAY 2022.

AIR NIUGINI LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

		Consolidated		Company	
		2020	2019	2020	2019
	NOTE	K'000	K'000	K'000	K'000
Operating Revenue	5(a)	600,441	1,048,791	600,441	1,048,791
Operating Costs	6(a)	(639,346)	(857,968)	(572,953)	(791,069)
GROSS PROFIT/ (LOSS)		(38,905)	190,823	27,488	257,722
Other Revenue	5(b)	20,303	65,055	20,303	65,055
Overhead Costs	6(b)	(269,477)	(257,862)	(269,477)	(257,862)
Net Foreign Exchange Gains/(Losses)		1,854	(8,196)	1,854	(8,196)
		(247,320)	(201,003)	(247,320)	(201,003)
INCOME (LOSS) ON OPERATING ACTIVITIES		(286,225)	(10,180)	(219,832)	56,719
Finance Costs	6(d)	(23,834)	(34,362)	(23,834)	(34,362)
Finance Income		61	116	61	116
		(23,773)	(34,246)	(23,773)	(34,246)
INCOME (LOSS BEFORE) INCOME TAX		(309,998)	(44,426)	(243,605)	22,473
Income Tax (Expense) Benefit	7(A)	6,975	(29,387)	(5,973)	(59,360)
LOSS FOR THE YEAR		(303,023)	(73,813)	(249,578)	(36,887)
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified to profit or loss					
Gain on Asset Revaluations	27	17,438	104,485	17,438	104,485
		17,438	104,485	17,438	104,485
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		(285,585)	30,672	(232,140)	67,598

This statement is to be read in conjunction with the notes set out on pages 12 to 44.

AIR NIUGINI LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2020

		Consolidated		Company	
		2020	2019	2020	2019
	NOTE	K'000	K'000	K'000	K'000
ASSETS					
CURRENT ASSETS					
Cash and Cash Equivalents	8	40,938	26,960	42,056	29,802
Trade Debtors and Other Debtors	9	58,361	90,129	133,536	141,883
Deposits and Prepayments	10	29,194	23,094	29,194	23,094
Deferred Expenditure	11	4,169	5,436	4,169	5,433
Inventories	12	56,359	56,273	56,359	56,273
		189,021	201,892	265,314	256,485
NON-CURRENT ASSETS					
Aircraft, Property, Plant and Equipment	13	536,796	582,796	536,796	582,796
Right-of-use Assets	14	225,804	386,696	225,804	386,696
Deferred Expenditure	11	24,798	20,930	24,798	20,930
Intangible Assets	16	978	2,000	978	2,000
Other Long Term Assets	17	42,591	54,594	42,591	54,594
		830,967	1,047,016	830,967	1,047,017
TOTAL ASSETS		**1,019,988**	**1,248,908**	**1,096,281**	**1,303,501**
CURRENT LIABILITIES					
Trade Creditors and Accruals	18	590,082	436,204	482,143	380,265
Dividend Payable	19	5,000	5,000	5,000	5,000
Revenue Received in Advance	20	96,257	113,790	96,257	113,790
Employee Benefits	21	15,267	15,109	15,267	15,109
Loans from BSP	22	27,287	28,163	27,287	28,163
Lease Liability	15	137,482	93,219	137,482	93,219
Income Tax Payable (Receivable)	7(C)	(31,590)	(18,607)	27,242	19,970
		839,785	672,878	790,678	655,516
NON-CURRENT LIABILITIES					
Employee Benefits	21	22,819	22,878	22,819	22,878
Loans from BSP	22	98,994	102,823	98,994	102,823
Provision for End of Lease	23	20,493	17,280	20,493	17,280
Lease Liability	15	90,477	200,044	90,477	200,044
		232,783	343,025	232,783	343,025
TOTAL LIABILITIES		**1,072,568**	**1,015,903**	**1,023,461**	**998,541**
NET ASSETS		**(52,580)**	**233,005**	**72,820**	**304,960**
EQUITY					
Share Capital	25	128,910	128,910	128,910	128,910
Revaluation Reserves	26	399,109	381,671	399,109	381,671
Retained Earnings	24	(580,599)	(277,576)	(455,198)	(205,621)
TOTAL EQUITY		**(52,580)**	**233,005**	**72,820**	**304,960**

For and on behalf of the Board:

Director

Pashasti

Director

Dated this 5TH day of MAY 2022

AUDITOR-GENERAL'S OFFICE

This statement is to be read in conjunction with the notes set out on pages 12 to 44.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2020

	NOTE	SHARE CAPITAL K'000	REVALUATION RESERVES K'000	RETAINED EARNINGS K'000	TOTAL K'000
Consolidated					
AT 1 JANUARY 2019		128,910	277,186	(203,763)	202,333
Gain/(Loss) for the Year		-	-	(73,813)	(73,813)
Gain/(Loss) on Asset Revaluations		-	104,485	-	104,485
Total Comprehensive Income/(loss) for the Year		-	104,485	(73,813)	30,672
AT 31 DECEMBER 2019		128,910	381,671	(277,576)	233,005
Gain/(Loss) for the Year		-	-	(303,023)	(303,023)
Gain/(Loss) on Asset Revaluations	27	-	17,438	-	17,438
Total Comprehensive Income/(loss) for the Year		-	17,438	(303,023)	(285,585)
AT 31 DECEMBER 2020		128,910	399,109	(580,599)	(52,580)
Company					
AT 1 JANUARY 2019		128,910	277,186	(168,734)	237,362
Gain/(Loss) for the Year		-	-	(36,887)	(36,887)
Gain/(Loss) on Asset Revaluations		-	104,485	-	104,485
Total Comprehensive Income/(loss) for the Year		-	104,485	(36,887)	67,598
AT 31 DECEMBER 2019		128,910	381,671	(205,621)	304,960
Gain/(Loss) for the Year		-	-	(249,578)	(249,578)
Gain/(Loss) on Asset Revaluations	27	-	17,438	-	17,438
Total Comprehensive Income/(loss) for the Year		-	17,438	(249,578)	(232,140)
AT 31 DECEMBER 2020		128,910	399,109	(455,199)	72,820

AUDITOR-GENERAL'S OFFICE

This statement is to be read in conjunction with the notes set out on pages 12 to 44.

AIR NIUGINI LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2020

		Consolidated		Company	
		2020	2019	2020	2019
	NOTE	K'000	K'000	K'000	K'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers		711,806	1,131,493	543,469	860,200
Payments to Suppliers and Employees		(679,554)	(1,097,804)	(512,941)	(835,423)
Interest Paid on Other Borrowings		(3,742)	(4,970)	(3,742)	(4,970)
Interest Received		61	116	61	(116)
Tax Paid		(100)	(1,003)	(100)	954
Net Cash Flows used in Operating Activities		28,471	27,832	26,747	20,645
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Aircraft, Property, Plant and Equipment		9,400	9,400	9,400	9,400
Payments for Aircraft, Property, Plant and Equipment	13	(17,100)	(11,438)	(17,100)	(11,438)
Payments on Deferred Expenditure	11	(12,687)	(13,159)	(12,687)	(13,159)
Other		-	1,254	-	9,064
Net Cash Flows Provided by/(Used in) Investing Activities		(20,387)	(13,943)	(20,387)	(6,133)
CASH FLOWS FROM FINANCING ACTIVITIES					
Payment of Aircraft Refurbishment Loan		(1,834)	(1,800)	(1,834)	(1,800)
Payment of Aircraft Financing Loan		(7,958)	(7,958)	(7,958)	(7,958)
Payment of Residential Apartment Loan		(4,314)	(4,314)	(4,314)	(4,314)
Net Proceeds from Borrowings		20,000	-	20,000	-
Net Cash Flows Provided by/(Used in) Financing Activities		5,894	(14,072)	5,894	(14,072)
Net Increase / (Decrease) in Cash and Cash Equivalents		13,978	(184)	12,254	440
Movements in Cash and Cash Equivalents					
Cash and Cash Equivalents at the Start of the Year		26,959	27,143	29,802	29,362
Net Increase / (Decrease) during the Year		13,978	(184)	12,254	440
Cash and Cash Equivalents At the End of the Year	8	40,938	26,959	42,055	29,802

AUDITOR-GENERAL'S OFFICE

This statement is to be read in conjunction with the notes set out on pages 12 to 44.

1. General Information

Air Niugini Limited ("the Airline") was established in November 1973 as the national airline of Papua New Guinea. The address of the Airline's registered office is at 4th Floor, Air Niugini House, Jackson's Airport, 7 Mile, National Capital District, Papua New Guinea. The consolidated financial statements as at, and for the year ended, 31 December 2020 comprise of the Airline and its controlled entities (together referred to as "the Group"). The principal activities and the Airline's controlled entities are disclosed in the introduction to the annual report.

The consolidated financial statements are authorised for issue by the Board of Directors on the day of their signing.

2. Basis of Preparation of Consolidated Financial Statements

A. Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board (IASB), Companies Act 1997 (as amended) applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of aircraft, land and buildings, rotables and for derivatives measured at fair value.

B. Bases of Preparation

The financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

(i) Combination of Business Under Common Control

As part of the Group's ongoing rationalisation of the business, the operations of Air Niugini Cargo Limited (ANCL) and Business Travel Centre Limited (BTCL) were closed down, intercompany transactions were transferred to Air Niugini Limited in 2019 and the status was changed from subsidiaries to being divisions/departments of Air Niugini Limited. As there is no specific IFRS guidance on business combinations involving entities under common control, the Group has adopted the predecessor value method. Under the predecessor value method, the assets and liabilities of ANCL and BTCL are taken up in Air Niugini Limited books at their existing carrying values rather than at fair value and the intergroup transactions and balances with parent company are eliminated. The difference between the aggregate book value of the assets and liabilities as of the date of the transaction is recorded as an adjustment to equity. This did not result to any goodwill, and both ANCL and BTCL have simply continued operating as departments under Air Niugini Limited as they did prior to being incorporated as separate companies.

(ii) Going Concern

The Group reported a net loss of PGK 303.0 million and the Airline reported a net loss of PGK 249.6 million for the year ended 31 December 2020 (Net loss 2019: Group PGK73.8 million, Company PGK36.9 million) and, at that date, the Group's and the Airline's current liabilities exceeded their current assets by PGK650.8 million and PGK525.4 million respectively. The outbreak of Covid-19 and the subsequent travel restrictions imposed by countries worldwide and measures put in place by the PNG Government in 2020 and 2021 have caused a significant disruption to normal operations of the Group, resulting in a further deteriorated financial position.

The financial statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realization of assets and settlement of liabilities in the ordinary course of business. In adopting the going concern basis in preparing the financial statements, the Directors have considered the Group's available sources of finance including access to shareholder loans, divestments of non-core assets, the Group's cash on-hand and cash flow projections, factors likely to affect its future performance, as well as the Group's principal risks and uncertainties.

The Group began experiencing a substantial decline in international and domestic demand related to the Covid-19 pandemic from early 2020. While a resumption of domestic flights across the country reached its pre-Covid-19 levels from Q3 2020, the government introduced further domestic travel restrictions from early March 2021, as a response to a renewed surge of Covid-19. The duration and impact of Covid-19 on the cash flows of the Group cannot be accurately predicted. (refer to Note 33 Subsequent Events).

As of the date of signing these financial statements, Management and Directors assessed that the Group will able to continue as going concern. Management and Directors have been working with the shareholder, Kumul Consolidated Holdings Limited to undertake a recovery plan. In addition, Management has prepared a forecast for 2021 and Annual Budget for 2022 both showing positive results. The following are the key highlights of the recovery plan:

- Operational reviews and related restructuring actions to achieve cost savings that will ease the significant financial challenges and exposure to the operational risks. Such cost savings initiatives shall not impair safety measures and standards under any circumstances, and the Group will maintain the highest standards of safety requirements.

- Continuing negotiation with major public sector creditors to defer outstanding payments due to them by the Group, and agreeing on settlements and waivers. This includes a debt owed of K70 million to National Airport Corporation which has resulted in an agreement to negotiate an outcome and negotiate future aeronautical pricing. In addition, seeking a Government waiver on outstanding tax debts of K74 million with the Internal Revenue Commission (IRC) and negotiating a stand-still agreement with IRC on related tax penalties.

- Renegotiating and restructuring the terms of amounts owing to major private sector creditors, and the debt facility by Bank of South Pacific to continue forbearance, agreeing on new payment terms and establishing stand-still agreements.

- Divesting non-core assets as a source of working capital and repayment to major creditors and Bank of South Pacific. This includes the Group's endeavor to sale other non-core residential properties.

- Partially compensating revenue lost on the international market with expanded domestic capacity through flying larger aircrafts to address anticipated recovered domestic travel demand, and implementing domestic travel loyalty and incentive programs.

2. Basis of Preparation of Consolidated Financial Statements (continued)

In addition to above recovery plan, the Group management is working with Kumul Consolidated Holdings to receive funding of approximately K160 million approved in principle per NEC Decision 321 dated 21 October 2020 as part of overall PNG SOE reform, including to support long-term financial sustainability of the SOEs. A summary of this funding is as follows:

• In March 2021, the Group and KCH have agreed the terms of the facility to fund an additional shareholder loan of K50 million that was approved in principle by NEC Decision 321 dated October 2020. KCH has disbursed all K50 million of this funding to ANL in 2021. (Refer to Note 33 Subsequent Events).

• On 4 December 2020, the PNG Government and ADB have entered into an USD100 million funding agreement program (the ADB loan), which is designed to reform PNG's State Owned Entities (SOEs). Particularly, the program is intended to improve legislative/policy environment for SOEs; enhance governance and transparency of SOEs; and improve financial stability of selected SOEs

The PNG Government through NEC Decision 321 referred to above, has confirmed the allocation to the Airline of USD30 million (approximately K110 million) being a portion of the ADB loan, through KCH, to improve its working capital and support any intended restructuring changes in future years. The Airline management and KCH while coordinating with the PNG Treasurer are working together to finalise the arrangement and enable access to the total approved funds of approximately K110 million (USD 30 million), anticipated in Q2 of 2022.

Based on the assessment of the financial position of the Group, taking into consideration the recovery plan, the expected/available funding sources above and the revised cash-flow forecast whilst considering the inherent uncertainties, the Directors are of the view that at the date of approving the financial statements, there are reasonable grounds to support the preparation of the financial statements based on a going concern.

However, the Directors note that the ability of the Company to continue as a going concern is dependent on either achieving the assumptions set out above, or the forbearance of the three large creditors to allow repayment over time from free cashflow. Noting that all three large creditors are unsecured creditors (and hence with little to gain from preceptive actions) and that two of these creditors are Government institutions the assumption that the Company could be allowed to trade out of its present creditor position is not unreasonable. In addition, the recovery of flight demand may lag behind expectations due new waves and variants of Covid-19, and related new restrictions that may be imposed by governments.

In the event the Airline does not achieve the above assumptions within expected timeframes, and that one or more of the unsecured creditors took preceptive action then the Airline may not continue as a going concern and may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations.

C. Changes in Accounting Policy

Amendments to standards and annual improvements effective from 1 January 2020

(a) Amendments to IFRS 3 *Definition of Business*

The amendments require a complex assessment to decide whether a transaction is a business combination or an asset acquisition.

(b) Amendments to IFRS 16 *Covid-19 Related Concessions*

On 28 May 2020, the IASB issued Covid-19 Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, as if the change were not a lease modification

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic, and only if all of the following conditions are met:

(a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(b) The reduction in lease payments affects only payments originally due on or before 30 June 2021; and

(c) There are is no substantive change to other terms and conditions of the lease

The economic challenges presented by the COVID-19 pandemic have persisted longer than anticipated. As a result, lessors and lessees are negotiating rent concessions that extend beyond 30 June 2021.

The IASB has therefore extended the practical expedient by 12 months, permitting lessees to apply it to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022.

New standards, amendments, annual improvements and interpretation that have been issued but are not mandatorily effected as at 31 December 2020

A number of new standards are effective for annual periods beginning after 1 January 2020 and earlier application is permitted. However, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements:

• IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Disclosure Initiative - Definition of Material); and

• Revisions to the Conceptual Framework for Financial Reporting

3. **Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A. Basis of Consolidation

These financial statements are the consolidated financial statements of Air Niugini Limited and its controlled entities ("the Group").

(i) Control
Control is achieved when the investor has power over the investee, is exposed or has rights to variable returns from its involvement with the investee, and has the ability to use its power to affect its returns. If facts and circumstances indicate that there are changes to one or more of the three elements of control listed above, the investor shall reassess whether it controls the investee. An investor can have power over an investee even if it holds less than a majority of the voting rights of an investee. All facts and circumstances are considered in assessing whether or not voting rights in an investee are sufficient to give it power, for example, through: contractual arrangements with other vote holders; rights from other contractual arrangements that indicate that the company has the current ability to direct the relevant activities of the investee; the size of the company's holding of voting rights relative to the size and dispersion of holdings of other vote holders; or potential voting rights held by the company that are substantive.

(ii) Investment in subsidiaries
Consolidation of a subsidiary begins from the date the investor gains control of an investee and ceases when the investor loses control of an investee.

The purchase, or acquisition, method of accounting is used to account for the acquisition of subsidiaries by the Group where required. The cost of the acquisition is measured as the fair value of assets transferred, equity instruments issued and liabilities incurred at the date of exchange.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Non-controlling interests in subsidiaries are presented in the consolidated statement of financial position separately from the equity attributable to equity owners of the parent company. A non-controlling shareholder's interest may initially be measured either at fair value or at the non-controlling shareholder's proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on each acquisition individually. Subsequent to acquisition, the carrying amount of the non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Acquisitions or disposals of non-controlling interests that do not affect the parent company's control of the subsidiary are accounted for as transactions with equity holders. Any difference between the fair value of the amount paid or received and the change in non-controlling interests is recognised directly in equity.

When the Group ceases to have control of a subsidiary, any retained interest in the entity is re-measured to its fair value at the date when control is lost with the adjustment being recognised in profit or loss as part of the gain or loss on disposal of the controlling interest. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary. (This may mean that these amounts are reclassified to profit or loss or transferred to another category of equity as specified by the applicable IFRS.)

(iii) Investment in associates
An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. The investment in an associate is initially recognised at cost and adjusted for the Group's share in the net assets of the investee after the date of acquisition, and for any impairment in value (equity method), except when the investment is classified as held-for-sale in accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations. If the Group's share of losses of an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses.

(iv) Joint venture
A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The investment in a joint venture is initially recognised at cost and adjusted for the Group's share in the net assets of the investee after the date of acquisition, and for any impairment in value (equity method), except when the investment is classified as held-for-sale in accordance with IFRS 5 Non-current assets held-for-sale and discontinued operations. If the Group's share of losses of a joint venture equals or exceeds its interest in the joint venture, the Group discontinues recognising its share of further losses.

When the Group loses joint control, it proportionately reclassifies the related items that were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. If an investment remains, it is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

AUDITOR-GENERAL'S OFFICE

3. Summary of Significant Accounting Policies (continued)

The Group recognises the following in relation to its interests in a joint operation:
- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly,
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

B. Functional and presentation currency

The consolidated financial statements are presented in Papua New Guinea "Kina" ('K'), which is the Group's functional currency. All financial information presented in Kina has been rounded to the nearest thousand, except where otherwise indicated.

C. Revenue Recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Passenger and Freight Revenue
Revenue from passenger (international and domestic) ticket sales, fuel surcharge and insurance surcharge is recognised at the fair value of the consideration received, net of sales discount, commission and goods and service tax (GST) when the travel or service is provided.

Revenue on passenger tickets (including fuel surcharge, insurance surcharge) under code share arrangement with other airlines is recognised at the fair value of the consideration received, net of sales discount, commission and goods and service tax (GST) on a monthly basis as per the agreements in place.

Passenger travel and freight services are generally paid for in advance of travel and are deferred on the balance sheet as revenue received in advance. Travel credits are classified as revenue received in advance where they are available for future flights or in certain circumstances for refund, if requested. Where customers have made refund claims these are classified as payables, where the balance of refunds is material in aggregate.

(ii) Frequent Flyer Programme
The Group operates a Frequent Flyer Programme ('FFP') that allows customers who signed up to the Destinations Club ("FFP points"), primarily by flying via Air Niugini Ltd and/or its partners. Customers may redeem the points for various rewards such as flight tickets or purchases from destination partners at a future date. Frequent flyer revenue is measured as the difference between the stand-alone selling price (SSP) of the FFP points and the consideration received, using the residual approach. The stand-alone selling price of FFB points is determined using the allocation of the transaction price in proportion to the distinct performance obligations included in a typical flight ticket.

(iii) Cargo and Charter
Revenue from cargo including mail, for both international and domestic sectors, is recognised at the fair value of the consideration received, net of sales discount, commission and goods and service tax (GST) based on the actual upliftment.

Revenue on cargo upliftment under code share arrangement with other airlines is recognised at the fair value of the consideration received, net of sales discount, commission and goods and service tax (GST) on a monthly basis as per the agreements in place.

Revenue on charter aircraft for both passengers and cargo for both international and domestic sectors is recognised at the fair value of the consideration received, net of sales discount, commission and goods and service tax (GST) on a monthly basis as per the agreements in place.

(iv) Expired tickets
Revenue recognition on expired or unused tickets depends upon the terms and conditions applying to those tickets. If the ticket holder fails to comply with the terms and conditions then the right of the ticket holder to the ticket is forfeited and the consideration of the ticket is recognised as revenue upon expiry.

(v) Excess, cargo and others
Passenger excess baggage charges are included in profit or loss at the fair value of the consideration received net of sales discounts, commissions and goods and services tax (GST) as and when the transaction occurs.

Other revenue from cargo is also included in profit or loss at the fair value of the consideration received net of goods and service tax (GST) as and when the transaction occurs.

In addition, there are various types of fees such as cancellation fees and no show charges that are collected and included in the profit or loss at the fair value of consideration received net of goods and service tax and other charges.

3. Summary of Significant Accounting Policies (continued)

(vi) Online upgrades
In order to incentivise passengers who have already booked flights, the Group offers to upgrade various classes of tickets to a higher grade prior to boarding the flight on-line. Currently, these revenues are recognised at the time of upgrade. IFRS 15 requires the Group to recognise revenue when control of those goods and services is transferred to the customer. While it is noted that IFRS 15 requires that these revenues are deferred until the time of flight, management's assessment is that, in line with the customer behaviour in Papua New Guinea of very limited advanced booking/purchase on tickets, relevant tickets for upgrade purposes are uplifted within a week or less. Thus, the turnaround time from purchase of an upgrade to service being provided is assessed as immaterial to warrant it being deferred until the time of the flight. Management elected the practical expedient available for it being a short-term contract (12 months) to exempt these fees from being deferred and continue to record them as revenue when they are incurred.

(vii) Other carrier commissions and commissions from third parties
The Group considers whether it is a principal or agent in relation to services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for services to be provided by a third party, such as another carrier or a third party. Other carrier commission revenue is included within other revenue and is generally recognised on uplift by the other carrier. Consideration for other carrier commissions is received within normal credit terms through IATA. Commissions from third parties are typically recognised when the underlying good or service has been transferred to the end-customer.

Management reviewed the major components of the Group's revenue sources against the requirements of IFRS 15 and concluded that the current approach in the accounting for revenue i.e. revenue recognition and measurement already complies with the requirements of the standard.

(viii) Cost to obtain a contract
The Group incurs certain types of direct selling costs such as agency commission fees, credit card fees and Global Distribution System (GDS) booking fees at the time of a customer booking a flight ticket. As per IFRS 15, costs incurred for the purpose of obtaining contracts with customers that would not be incurred if the contract had not been obtained are defined as incremental costs of obtaining a contract. These costs may be recognised as an asset and amortised on a systematic basis over the period of contract. Management elected the practical expedient available for short-term contracts (12 months) to exempt these costs from capitalisation and continues to record them as expenses when they are incurred.

D. Finance Income

Interest income is recognised using the effective interest rate method.

E. Foreign Currency Transactions

Transactions in foreign currencies are translated to the respective functional currencies of the entities within the Group. Monetary items denominated in foreign currencies are retranslated at the exchange rates applicable at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise, except for:

(i) exchange differences on foreign currency borrowings that are regarded as adjustments to interest costs, where those interest costs qualify for capitalisation to assets under construction;

(ii) exchange differences on transactions entered into to hedge foreign currency risks (assuming all hedge accounting tests are met); and

(iii) exchange differences on loans to or from a foreign operation for which settlement is neither planned nor likely to occur and therefore forms part of the net investment in the foreign operation, which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the net investment.

Foreign operations
In the event the Group acquires a foreign operation, transactions are translated using exchange rates at period end. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rate on transaction date is used. Goodwill acquired in business combinations of foreign operations are treated as assets and liabilities of that operation and translated at the closing rate.

Exchange differences are recognised in other comprehensive income and accumulated in a separate category of equity.

On the disposal of a foreign operation, the accumulated exchange differences of that operation, which are attributable to the Group, are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit or loss within net foreign exchange gains/(losses).

GENERAL'S OFFICE AUDITOR

3. Summary of Significant Accounting Policies (continued)

F. Aircraft, Property, Plant and Equipment

Aircraft, property, plant and equipment are initially recorded at cost, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition less trade discounts or rebates.

The cost of major airframe and engine maintenance checks is capitalised and depreciated over the shorter of the scheduled usage period to the next major inspection event or the remaining useful life of the aircraft. Manpower costs in relation to the employees who are dedicated to the major modifications or maintenance checks are capitalised as part of the cost of the modification or maintenance check to which they relate.

Borrowing costs and introduction costs associated with the acquisition of qualifying assets such as aircraft, and the acquisition, production or construction of significant items of property, plant and equipment are capitalised as part of the cost of the assets to which they relate

Land and buildings are recorded at fair value in line with the Group's policy of valuation on a triennial basis by registered independent external valuers. Aircraft are revalued annually by registered independent external valuers while rotables are revalued on a triennial basis by registered independent external valuers with the last valuation for Dash8 and F100 rotables being made in the financial year 2018. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the Group and the cost of the items can be measured reliably.

Any revaluation increase arising from the revaluation of aircraft, rotables, or land and buildings is recognised, net of tax, in other comprehensive income and accumulated in reserves in shareholder's equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against other reserves directly in equity, whilst all other decreases are charged to the profit or loss.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or re-valued amounts to their residual values over their estimated useful lives, as follows:

	Years	Percentage
Buildings Residential	33	3.00%
Buildings Commercial	13	7.50%
Furniture	13	7.50%
F100 Aircraft	10	10.00%
Dash 8 Aircraft	6	17.00%
Q400 Aircraft	15	5.47%
F100 Aircraft Engines	5	20.00%
Dash 8 Aircraft Engines	5	20.00%
F100 Rotables	5	20.00%
Dash 8 Rotables	5	20.00%
Motor Vehicles and Radio Equipment	5	20.00%
Computer Hardware	3	33.33%
Leasehold Improvements	3	33.33%
Others	10	10.00%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in profit or loss.

When re-valued assets are sold, the amounts included in other reserves are transferred to retained earnings.

G. Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that went through impairment are reviewed for possible reversal of the impairment at each reporting date.

H. Assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of their carrying amount and fair value less costs to sell.

GENERAL'S OFFICE AUDITOR

3. Summary of Significant Accounting Policies (continued)

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less cost to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of de-recognition.

Assets are not depreciated whilst they are classified as held for sale.

l. Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

(i) the contract involves the right to use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
(ii) the Group has the right to obtain substantially all of the economic benefits from the use of the asset throughout the period of the use; and
(ii) the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the assets if either:

- the Group has the right to operate the asset; or
- the group has designed the asset in a way that predetermined how and for what purpose it will be used.

The policy has been applied to contracts entered into, or changed, on or after 1 January 2019. At inception or on assessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

As a lessor

When the Group is a lessor, leases are classified as either finance leases or operating leases and accounts for them differently. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease and taken up in the profit and loss under "other revenue - rents received".

As a lessee

As a lessee, the Group recognises a right-of-use asset and lease liability at the lease commencement date. The right-of-use of assets is initially measured at cost, which comprise the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any costs incurred and an estimate of costs to dismantle or remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use of asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the life of the right-of use of asset or the end of the lease term. The estimated useful lives of right-of-use of assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, adjusted for certain remeasurements of the lease liability.

As the Group applies the revaluation model to aircraft and properties, the Group has also applied the same to all right-of-use assets. In line with the requirements of the Standard, the Group organised a revaluation of all the leased aircraft as at 31 December 2020.

On initial recognition, the carrying value of the lease liability also includes: amounts expected to be payable under any residual value guarantee; the exercise price of any purchase option granted in favour of the Group if it is reasonably certain to assess that option; and any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined by reference to the rate inherent in the lease unless (as is typically the case) this is not readily determinable, in which case the Group's incremental borrowing rate on commencement of the lease is used. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

3. **Summary of Significant Accounting Policies (continued)**

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

J. Taxation

Income tax for the period is based on the taxable income for the year. Taxable income differs from profit as reported in the statement of comprehensive income for the period as there are some items that may never be taxable or deductible for tax and other items that may be deductible or taxable in other periods. Income tax for the period is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred tax is the future tax consequences of temporary differences between the carrying amounts and tax bases of assets and liabilities shown on the statement of financial position. Deferred tax assets and liabilities are not recognised if they arise in the following situations: the initial recognition of goodwill; or the initial recognition of assets and liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of recovery or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the statement of financial position date.

The Group does not recognise deferred tax liabilities, or deferred tax assets, on temporary differences associated with investments in subsidiaries, joint ventures and associates where the parent company is able to control the timing of the reversal of the temporary differences and it is not considered probable that the temporary differences will reverse in the foreseeable future. It is the Group's policy to reinvest undistributed profits arising in Group companies.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. The carrying amount of the deferred tax assets are reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset only when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same tax authority. Current tax assets and liabilities are offset where the entity has a legal enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

K. Employment Benefits

(i) Annual leave
Liabilities for accumulated annual leave expected to be settled within 12 months of the reporting date are recognised as provisions in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long Service Leave
The provision of employee benefits for long service leave represents the present value of the estimated future cash outflows to be made resulting from employees' service provided to reporting date. The provision is calculated using expected future increases in wages and salary rates, including related on-costs and expected settlement dates based on staff turnover history, and is discounted using the rates attached to PNG Government bonds at reporting date that most closely match the terms of maturity of the related liabilities

(iii) Profit-sharing and bonus plans
Staff and management bonuses are paid if and when the Group makes a reasonable profit and has sufficient cash funds. The Group recognises a liability and an expense where contractually obliged or where past practice has created an obligation. Provisions for staff performance bonuses are disclosed as current liabilities in the consolidated statement of financial position.

(iv) Contractual award provisions
Contractual award provisions are calculated using rates that are pre-agreed by management and the various unions to which the airlines workforce are members. These benefits are stated at their fair values and disclosed in the consolidated statement of financial position as non-current liabilities.

(v) Termination benefits
Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(vi) Contribution to Superannuation / pension funds
The Group contributes its share to employees defined contribution plans. Contributions to these plans are recognised as an expense in the profit and loss as incurred. Expatriate employees are generally not entitled, unless otherwise stated in their contract of service.

3. Summary of Significant Accounting Policies (continued)

L. Maintenance and Overhaul Costs

Embedded Maintenance:
An element of the cost of an acquired aircraft is attributed to its service potential, reflecting the maintenance condition of its engines and airframe. This cost is depreciated over the shorter of the period to the next major inspection event, the remaining life of the asset or the remaining lease term.

Subsequent Maintenance Expenditure:
The costs of subsequent major cyclical maintenance checks for owned and leased aircraft are recognised as an asset and depreciated over the shorter of the scheduled usage period to the next major inspection event, the remaining life of the aircraft or lease term (as appropriate to their estimated residual value). Maintenance checks that are covered by third-party maintenance agreements where there is a transfer of risk and legal obligation are expensed on the basis of hours flown. All other maintenance costs are expensed as incurred.

Modifications:
Modifications that enhance the operating performance or extend the useful lives of aircraft are capitalised and depreciated over the remaining estimated useful life of the asset or remaining lease term (as appropriate to their estimated residual value).

M. Finance Costs

(i) Interest Expense
Finance costs comprise of interest expense attributable to the acquisition of aircraft under finance leases and various loans held with BSP to facilitate refurbishment of existing aircraft, purchase of new aircraft and building of residential apartments. These are charged to the profit or loss as incurred.

(ii) Bank fees and commissions
Banks charge commission to the Group on the credit cards used by customers at the time of making online bookings and settling their payments by credit cards. In addition, the banks charge establishment and related fees for providing credit facilities and maintaining accounts. These fees are recorded in the profit or loss in the period that they are incurred.

N. Inventories

Inventories comprise of aircraft consumables and commercial stores. Inventories are stated at the lower of cost and net realisable value. Aircraft consumable cost is determined through First-in First-Out (FIFO) and commercial stores cost is determined through weighted average basis and comprises supplier price incurred in bringing inventories to their location of utilisation. The Group is not in the business of selling aircraft consumables and commercial stores inventory. Net realisable value is determined by the existing market conditions of the items and the value for which they can be sold.

O. Intangible Assets

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible assets unless such lives are indefinite. These charges are included in other expenses in profit or loss. Intangible assets with an indefinite useful life are tested for impairment annually. Other intangible assets are amortised from the date they are available for use. The useful lives are as follows:

Patents and trademarks - 20 years
Software development costs - 3 years

Amortisation periods and methods are reviewed annually and adjusted if appropriate.

Intangible assets acquired separately
Where applicable, Intangible assets acquired separately are shown at historical cost less accumulated amortisation and impairment losses.

Intangible assets generated internally
Expenditures on research or on the research phase of an internal project are recognised as an expense when incurred. The intangible assets arising from the development phase of an internal project are recognised if, and only if, the following conditions apply:
(i) it is technically feasible to complete the asset for use by the Group;
(ii) the Group has the intention of completing the asset for either use or resale;
(iii) the Group has the ability to either use or sell the asset;
(iv) it is possible to estimate how the asset will generate income;
(v) the Group has adequate financial, technical and other resources to develop and use the asset; and
(vi) the expenditure incurred to develop the asset is measurable.

If no intangible asset can be recognised based on the above, then development costs are recognised in profit and loss in the period in which they are incurred.

Intangible assets recognised in a business combination
Where applicable, Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date.

3. Summary of Significant Accounting Policies (continued)

P. Financial instruments

(a) Recognition and derecognition
Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

(b) Classification and initial measurement of financial assets
Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:
- amortised cost
- fair value through profit or loss (FVTPL)
- fair value through other comprehensive income (FVOCI)

In the periods presented the Group does not have any financial assets categorised as FVOCI. The classification is determined by both:
- the entity's business model for managing the financial asset;
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables, which is presented within other expenses.

(c) Subsequent measurement of financial assets

(i) Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):
- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows;
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and most other receivables fall into this category of financial instruments as well as listed bonds that were previously classified as held-to-maturity under IFRS 9.

(ii) Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. In the current financial year, the fair value was determined in line with the requirements of IFRS 9, which does not allow for measurement at cost. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

(iii) Financial assets at fair value through other comprehensive income (FVOCI)
The Group accounts for financial assets at FVOCI if the assets meet the following conditions:
- they are held under a business model whose objective it is "hold to collect" the associated cash flows and sell; and
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Any gains or losses recognised in other comprehensive income (OCI) will be recycled upon de-recognition of the asset.

(iv) Financial assets classified as available for sale (AFS) under IFRS 9 (comparative periods)
There were no financial assets classified as available for sale under IFRS 9.

(d) Impairment of financial assets
IFRS 9's impairment requirements use more forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IFRS 9's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

3. Summary of Significant Accounting Policies (continued)

In applying this forward-looking approach, a distinction is made between:

• financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and

• financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2'). 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date. '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

(e) Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

The Group assesses impairment of trade receivables on a collective basis as they possess shared credit risk characteristics they have been grouped based on the days past due.

(f) Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables and derivative financial instruments where applicable.

Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss.

Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL (where applicable), which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income if applicable.

(g) Derivative financial instruments and hedge accounting

Where applicable derivative financial instruments are accounted for at fair value through profit and loss (FVTPL) except for derivatives designated as hedging instruments in cash flow hedge relationships, which require a specific accounting treatment. To qualify for hedge accounting, the hedging relationship must meet all of the following requirements:

• there is an economic relationship between the hedged item and the hedging instrument

• the effect of credit risk does not dominate the value changes that result from that economic relationship

• the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the entity actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

To the extent that a hedge is effective, changes in the fair value of derivatives designated as hedging instruments in cash flow hedges are recognised in other comprehensive income and included within the cash flow hedge reserve in equity. Any ineffectiveness in the hedge relationship is recognised immediately in profit or loss.

At the time the hedged item affects profit or loss, any gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss and presented as a reclassification adjustment within other comprehensive income. However, if a non-financial asset or liability is recognised as a result of the hedged transaction, the gains and losses previously recognised in other comprehensive income are included in the initial measurement of the hedged item.

If a forecast transaction is no longer expected to occur, any related gain or loss recognised in other comprehensive income is transferred immediately to profit or loss. If the hedging relationship ceases to meet the effectiveness conditions, hedge accounting is discontinued and the related gain or loss is held in the equity reserve until the forecast transaction occurs.

Q. Share Capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3. Summary of Significant Accounting Policies (continued)

R. Trade Creditors

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accruals are liabilities to pay for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with supplier.

S. Borrowings

Borrowings are recognised at inception at fair value, net of transaction costs incurred. After initial recognition, borrowings are recognised at amortised cost using the effective interest rate (EIR) method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. All other borrowing costs are recognised as an expense in the period in which they are incurred.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

T. Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain. If the effect is material, provision is determined by discounting the expected future cash flows (adjusted for expected future risks) required to settle the obligation at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability, being risk free rates on government bonds most closely matching the expected future payments. The unwinding of the discount is treated as interest expense. Future operating losses are not treated as provisions.

U. Government Grants

The Group accounts for non-monetary government grants in accordance with the income approach, under which a grant is taken to income over one or more periods. These government grants are presented in the statement of financial position as deferred income. The recognition as income is done on a systematic and rational basis over the periods necessary to match them with the related costs.

Government grants in relation to purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit and loss on a straight line basis over the expected lives of the related assets.

V. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable and payable. The net GST recoverable from or payable to the taxation authority is included with other receivables and payables in the consolidated statement of financial position.

The GST components of cash flows arising from either investing or financing activities that are recoverable from or payable to the taxation authority are presented as operating cash flows in the consolidated statement of cash flows.

W. Comparatives

Where necessary, comparative figures have been reclassified to conform with the changes in presentation in the current year.

4. Use of Estimates and Judgements

In the application of the Group's accounting policies, management has made judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

AUDITOR-GENERAL'S OFFICE

4. Use of Estimates and Judgements (continued)

Judgements

The following are the critical judgements, apart from those involving estimations, that management has made in the process of applying the Group's accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risk and rewards of the ownership to the lessee, otherwise leases are classified as operating leases. Judgement is used in determining whether the significant risk and rewards of ownership are transferred to the lessee. In making such judgement, the Group evaluates the terms and conditions of the lease arrangement. The lease is classified as a finance lease since the Group has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised, or the lease term is for the major part of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, or the leased assets are of such a specialized nature that only the Group can use them without major modifications in which the management believes that the lessor has transferred substantially all the risk and rewards over the leased asset to the lessee. Failure to make the right judgement would directly affect the Group's assets and liabilities.

The Group has adopted IFRS 16 in 2019 and therefore the respective aircraft lease agreements that are effective as at that date along with, considering the benefit of hindsight, the changes during the years from 2019 to 2021 are considered.

(i) Recognition of lease liability

The Group recognised lease liability measured at the present value of the future lease payments per the respective lease agreements.

In terms of renewal options, the assessment was carried out in hindsight at the end of December 2020, thus all the developments known to date on the individual lease agreements were considered. In addition to this and based on various factors including the re-fleeting exercise, for the aircraft, the age, an assumption of a 5 year term was used for most current leases.

Where, it is not always reasonably certain that the Group will renew a lease, these are not considered. Leases that reached the expiry date and in Group's assessment were no longer required for current and future requirements were assessed and terminated on expiry. There were no instances of early termination of lease.

There were no purchase options on the aircraft and property leases within the current leases, thus the Group was not reasonably certain to exercise an option to purchase an underlying aircraft or property.

(ii) Recognition of right-of-use assets

The Group recognised right-of-use assets equivalent to the the lease liability.

Except for two new aircraft operating leases in 2020, all other operating lease arrangements are old and have been in operation for years. The majority, if not all property leases have been in place for a while and payments are on a month to month basis. Any initial direct costs have been assessed to be immaterial taking into consideration, for the old leases, that had they been capitalised initially and been amortised over the years. There were no prepaid lease arrangements that would need to be considered on measurement of the right-of-use asset recognition.

The Group depreciates right-of-use assets in accordance with the requirements of IAS 16. Depreciation starts at the commencement date of the lease. The depreciation period runs to the earlier of the end of the useful life of the right-of-use asset or the end of the lease. As a general rule, there are no purchase options on any of the current operating leases, the aircraft and leased properties will be depreciated up to the end of the lease term. While the majority of lease agreements have set terms in place or have continually been renewed, some continue to effectively be on a month to month basis. The same applies to leased properties. Therefore, taking the aforementioned circumstances into consideration, the uncertainty and various factors impacting the Group's re-fleeting program, the current state or age of the current aircraft or underlying assets, the Group's assumption in relation to the aircraft and property leases that are on a month to month basis and leases that are current, is to assume a 5-year term from the 1st of January 2019 onwards as the basis to carry out the exercise of present valuing the future lease payments. The assumption of course is reassessed on a periodic basis and upon relevant decisions by the Board.

(iii) Interest and depreciation charges

The recognition of interest charges is based on the amortisation schedule per the present value of future payments in which the interest portion per the amortisation schedule is apportioned out of the monthly lease payments.

Depreciation charges are computed based on the straight-line method over the remaining term of the lease or where a lease is on a month to month basis, the assumed period for the purposes of IFRS 16 accounting is 5 years from 1st January 2019.

GENERAL'S OFFICE * AUDITOR

4. Use of Estimates and Judgements (continued)

(iv) Discount rate used on present valuing of the future lease payments per the lease agreements

The discount rates used for the purposes of calculating the present value of the future lease payments for leased aircraft is based on the specific interest rates that the lessor charges per the lease agreement. In some cases such as agreements with the Bank of South Pacific ("BSP"), the interest rates currently charged on other loans with the airline are used as the basis for discounting for BSP leased aircraft. Similarly, there are cases where a specific lease agreement may not state the interest rate clearly, however in other lease agreements with the same lessor, a rate is stated. In such cases, the rate specified in a lease agreement is applied to all leases common to a particular lessor. On average the interest rates being charged on the Group's financing requirements range from roughly 7% to 9% i.e an average of roughly 8%.

The rates are not clearly specified for leased properties, thus for the purposes of IFRS 16 accounting and calculating the present value of future lease payments, an average rate of 8% is used as the discount rate, an average rate that is proxy for Group's costs of capital.

The Group's position and assessment is that as long as the discount rate is plus or minus 1% of the average rate of all the loans and lease agreements, the utilisation of this average rate is acceptable for the Group IFRS 16 reporting requirements and believe meets the requirements of the Standard.

(v) Power by the hour arrangement

In 2020 specifically, the Group renegotiated lease rates with one particular lessor which up until that time was leasing two B767s and two B737s, all part of COVID 19 relief measures. This involved moving some aircraft to a power by the hour arrangement. The power by the hour arrangement was such that, the Group paid for the lease of the aircraft based on use. The hours flown in the relevant months were calculated and multiplied by an hourly rate to arrive at the amounts paid. The Group assessment is such that the relevant periods in which the lease was based on this type of arrangement (payment on a utilisation basis only arrangement) would not be categorised as falling within the definition of a lease per IFRS 16 and therefore has not been considered in the present value calculations accordingly.

(vi) Engineering related engine maintenance contracts

In the assessment of the different transactions or contracts, in terms of whether they fall within the definition of a lease for IFRS 16 reporting/accounting purposes, materiality was a major factor. Accordingly, apart from the operating lease arrangements for aircraft and properties, the only other material transactions or contracts relate to the power by the hour transactions or contracts in engineering whereby the agreements are such that payments are based on the actual hours of usage in a month. In line with the Standard, and consistent with the Group's assessment of similar transactions, these engine contract agreements do not satisfy the definition of a lease criteria and are therefore not leases for IFRS reporting/accounting purposes.

(b) Income taxes

The Group is subject to income taxes. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain in the ordinary course of business.

The Group recognises liabilities for tax audit issues when it is probable. The liabilities are based on estimates as to whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisioning in the period in which such determination is made.

Further, recognition of deferred tax assets depends on management's assessment of the probability of available future taxable income against which the temporary differences can be applied.

(c) Revaluation of aircraft, property, plant and equipment

The Group applies the revaluation policy of accounting for its aircraft, properties and rotables. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of fixed assets is less than its cost, and the financial health and short term business outlook of the airline industry as a whole, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The Group engages the services of an independent valuer to ensure that the assets are presented at their correct market values.

(d) Estimated useful life of fixed assets

The Group estimates the useful life of aircraft, properties, rotables, engines and plant & equipment. The determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration during which assets can be used for its economical life.

(i) Aircraft useful life depends on the term of the contract with the lessor. At the end of the lease, aircraft are generally returned to the lessor. If aircraft are transferred to the Group at the end of the lease term then the useful life is assessed every year after the lease term.

(ii) For Properties, Rotables, Engines and Plant & Equipment, the useful life is estimated by the management based on anticipated usage, changes in technology etc. Depreciation rates are determined based on the estimated useful life of the assets and the value of the assets.

AUDITOR-GENERAL'S OFFICE

4. Use of Estimates and Judgements (continued)

(e) Long service leave

The present value of the long service leave obligations depends on a number of factors and assumptions. The assumptions used in determining the present value of the liability include growth and discount rates. Any changes in these assumptions will impact the carrying amount of long services leave obligations. The Group determines the appropriate growth and discount rates at the end of each year. The discount rate is the interest rate used to determine the present value of estimated future cash outflows expected to be required to settle the long service leave obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the long service leave liability. The growth rate is used to estimate future growth in wage rates. In determining the growth rate the Group considers appropriate wage indexes and/or CPI rates.

Other key assumptions for pension obligations are based in part on current market conditions.

(f) Provision for doubtful debts

The Group recognises lifetime ECL for trade receivables, contract assets and lease receivables. The ECL is estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

(g) Provision for end of lease

A provision for end of lease with respect to operating lease agreements requires the return of the aircraft with adherence to certain maintenance conditions. This provision is based on the present value of the expected future cost of meeting the maintenance return condition, having regard to the current fleet plan and long term maintenance schedules.

(h) Determination of fair value

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods: market approach, the cost approach or the income approach. When applicable, further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability. When measuring the fair value of an asset or liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability might fall in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(i) Property plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market value. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

The Group applies the revaluation policy of accounting for its aircraft, properties and rotables. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of fixed assets is less than its cost, and the financial health of and short term business outlook of the airline industry as a whole, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. The Group engages the services of an independent valuer to ensure that the assets are presented in their correct market values.

(j) Measurement of fair value, fair value model and significant unobservable inputs

Information about how the fair values of the Group's land and buildings are determined (in particular, the valuation method(s) and inputs used) is detailed as follows:

(a) Direct market approach (DMA) is a market-based valuation technique that considers the most recent completed sales transactions and quoted market prices (when available) of similar properties in the location adjusted for the certain market factors such as the physical deterioration of the property and its location (prime vs secondary).

(b) Market capitalisation (MC) is a fair valuation model which considers the present value of net cash flows to be generated from the property. The expected net cash flows are discounted using risk-adjusted market capitalisation rates adjusted for the certain market factors such as the physical deterioration of the property and its location (prime vs secondary). Key unobservable input includes the risk-adjusted market capitalisation rates and market lease rates.

(c) Certain properties are valued at cost either due to the recent acquisition of these investments. Management believes that the cost of these properties approximates their fair value.

AUDITOR-GENERAL'S OFFICE

5. REVENUE

a) Operating revenue

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Passenger	392,807	822,184	392,807	822,184
Cargo	99,081	105,287	99,081	105,287
Charter	40,914	42,553	40,914	42,553
Expired tickets	35,320	51,771	35,320	51,771
Excess, cargo and other	32,319	26,996	32,319	26,996
	600,441	**1,048,791**	**600,441**	**1,048,791**

b) Other revenue

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Miscellaneous income	16,148	34,021	16,148	34,021
Rent received	33	28	33	28
Commissions	2,755	5,230	2,755	5,230
Handling charges - cargo	5,404	9,181	5,404	9,181
Other revenue (expenses)	(4,037)	16,595	(4,037)	16,595
	20,303	**65,055**	**20,303**	**65,055**

Miscellaneous income refers to income from non-revenue accounts comprised of one-off and unallocated balances.

Gain/(Loss) on sale of assets consist of the total gains/(losses) on disposal of property, plant and equipment. Disposal details are included in note 13(b).

Other revenue (expenses) comprised of maintenance services to other airlines, commissions earned on seat upgrades managed through an application where customers bid for seat upgrades, commissions from other airlines, terminal fees and charges on international cargo charged by all airlines. This account also includes adjustment related to adoption of new IFRS 16 where the initial operating lease payments were transferred to the balance sheet, the split between interest and principal was made and the difference is cleared to profit and loss.

6. EXPENSES

a) Operating costs

	Consolidated		Company	
	2020	2019	2020	2019
Direct costs	K'000	K'000	K'000	K'000
Maintenance	145,153	162,319	145,153	162,319
Fuel	123,773	254,641	123,773	254,641
Air navigation and landing fees	29,056	39,844	29,056	39,844
Flight operations	96,637	127,434	96,637	127,434
Commissions	6,838	24,414	6,838	24,414
Other direct operating costs	20,080	44,607	20,080	44,607
	421,537	653,259	421,537	653,259
Other operating costs				
Aircraft operating leases	517	3,626	517	3,625
Aircraft, engine and rotable depreciation	178,981	157,887	178,981	157,887
Aircraft and passenger insurance	18,082	13,617	18,082	13,617
Other operating costs	20,229	29,579	(46,164)	(37,319)
	217,809	204,709	151,416	137,810
	639,346	**857,968**	**572,953**	**791,069**

b) Overhead costs

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
General management	39,486	47,951	39,486	47,951
Finance, IT and corporate planning	52,782	61,276	52,782	61,276
Commercial, sales and marketing	33,750	47,567	33,750	47,567
Personnel and human resource	6,150	6,178	6,150	6,178
Operations and ground services	42,033	48,732	42,033	48,732
Engineering	11,857	12,553	11,857	12,553
Finance costs	20,626	18,060	20,626	18,060
Impairment of assets	59,256	5,150	59,256	5,150
Gain/(loss) on sale of assets	3,537	10,395	3,537	10,395
	269,477	**257,862**	**269,477**	**257,862**

6. EXPENSES (CONTINUED)

c) Operating and overhead costs are stated after charging:

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Auditor's remuneration and other services	1,100	1,193	1,100	1,193
Depreciation	39,452	41,025	39,452	41,025
Depreciation - right-of-use assets	170,478	153,645	170,478	153,645
Donations	101	36	101	36
Labour / personnel Costs	175,664	205,129	175,664	205,085

Depreciation

The depreciation expenses are recognised in the following line items in the statement of profit or loss and other comprehensive income:

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Operating costs	178,981	157,887	178,981	157,887
Overhead costs	30,949	36,783	30,949	36,783
	209,930	**194,670**	**209,930**	**194,670**
Labour / Personnel Costs				
Salaries and wages	145,228	161,008	145,228	160,981
Superannuation	7,555	7,534	7,555	7,534
Long service leave (Note 21)	6,079	7,868	6,079	7,868
Housing and other benefits	16,802	28,719	16,802	28,702
	175,664	**205,129**	**175,664**	**205,085**

d) Finance Costs

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Interest expense	21,738	21,977	21,738	21,977
Bank fees and commission	2,096	12,385	2,096	12,385
	23,834	**34,362**	**23,834**	**34,362**

7. INCOME TAXES

A. INCOME TAX EXPENSE / (BENEFIT)

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Current tax expense	(101,664)	(14,176)	(81,746)	5,894
Over provision on prior year income tax	(33,413)	44,682	(40,383)	54,585
Deferred income tax relating to reversal of temporary differences	128,102	(1,119)	128,102	(1,119)
	(6,975)	**29,387**	**5,973**	**59,360**

The prima facie tax charge on profit for the year is reconciled to tax expense as follows:

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Net (loss)/profit before income tax	(309,998)	(44,426)	(243,605)	22,473
Income tax expense/(benefit) on loss for 2020 @ 30% (2019:30%)	(92,999)	(13,328)	(73,081)	6,742
Tax effect of:				
Permanent difference	64	72	64	72
Unrecognised deferred tax asset	128,102	66,852	128,102	66,852
Changes in recognition of deferred tax	(33,413)	(23,289)	(40,383)	(13,386)
Other	(8,729)	(920)	(8,729)	(920)
	(6,975)	**29,387**	**5,973**	**59,360**

B. DEFERRED TAX ASSETS AND LIABILITIES

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Deferred tax assets	26,601	73,013	26,601	73,013
	26,601	**73,013**	**26,601**	**73,013**
Deferred tax liabilities	26,601	73,013	26,601	73,013
	26,601	**73,013**	**26,601**	**73,013**
Net Deferred Tax Asset / (Liability)	-	-	-	-

AUDITOR-GENERAL'S OFFICE

7. INCOME TAXES (CONTINUED)

The gross movement on the deferred expense tax account is as follows:

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Beginning balance	35,736	33,498	35,525	33,287
(Debited)/credited to profit or loss	(46,412)	1,119	(46,412)	1,119
Tax charged directly to equity	2,018	1,119	2,018	1,119
Total	**(8,658)**	**35,736**	**(8,869)**	**35,525**

The movement in deferred income tax assets and liabilities during the year is as follows:

Consolidated and Parent

Deferred tax assets	Provisions	Unrealised foreign exchange gains and losses	Tax losses carried forward	Provision for doubtful debts	Unrecognised deferred tax assets	Total
At 1 January 2019	13,497	1,258	56,065	6,737	(17,551)	60,006
(Debited)/credited to profit or loss	(1,030)	898	79,555	436	(66,852)	13,007
At 31 December 2019	**12,467**	**2,156**	**135,620**	**7,173**	**(84,403)**	**73,013**
(Debited)/credited to profit or loss	597	(582)	83,132	(1,457)	(128,102)	(46,412)
At 31 December 2020	**13,064**	**1,574**	**218,752**	**5,716**	**(212,505)**	**26,601**

Deferred tax assets was capped at deferred tax liabilities hence an amount of K128.1 million deferred tax assets from cumulative carry forward tax losses was derecognised in 2020 (2019: K66.9 million). Management believes that there will be no future taxable income to utilise the unrecognised deferred tax assets generated from the cumulative tax losses

Deferred tax liabilities	Aircraft, property, plant & equipment	Prepayments	Deferred expenditure	Right-of-use assets	Lease liabilities	Total
At 1 January 2019	53,244	1,741	5,021	-	-	60,006
(Debited)/credited to profit or loss	(19,646)	889	2,615	116,009	(87,979)	11,888
Charged directly to revaluation reserve in equity	1,119	-	-		-	1,119
At 31 December 2019	**34,717**	**2,630**	**7,636**	**116,009**	**(87,979)**	**73,013**
(Debited)/credited to profit or loss	(20,869)	317	799	(48,268)	19,591	(48,430)
Charged directly to revaluation reserve in equity	2,018	-				2,018
At 31 December 2020	**15,866**	**2,947**	**8,435**	**67,741**	**(68,388)**	**26,601**

C. INCOME TAX PAYABLE (RECEIVABLE)

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Income tax payable/(receivable)	(31,590)	(18,607.00)	27,242	19,970
	(31,590)	**(18,607)**	**27,242**	**19,970**

8. CASH AND CASH EQUIVALENTS

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Cash at bank and on hand	40,938	26,960	42,056	29,802
	40,938	**26,960**	**42,056**	**29,802**

9. TRADE DEBTORS AND OTHER DEBTORS

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Trade debtors	55,310	92,725	55,310	72,571
Trade debtors – related parties	6,156	3,686	81,425	55,439
Less: provision for doubtful debts	(18,981)	(23,840)	(18,981)	(23,840)
	42,485	**72,571**	**117,754**	**104,170**
Other debtors	15,009	3,307	14,915	18,307
Accrued codes share revenue	938	14,321	938	19,476
Less: provision for doubtful debts	(71)	(70)	(71)	(70)
	58,361	**90,129**	**133,536**	**141,883**

AUDITOR-GENERAL'S OFFICE

9. TRADE DEBTORS AND OTHER DEBTORS (CONTINUED)

	Consolidated		Company	
MOVEMENT IN PROVISION FOR DOUBTFUL DEBTS	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Opening provision for doubtful debts	23,840	25,481	23,840	25,481
Provision / (reversal) for doubtful debts	(4,859)	(1,641)	(4,859)	(1,641)
Closing provision for doubtful debts	**18,981**	**23,840**	**18,981**	**23,840**

The aging of the trade debtors at the reporting date was as follows:

	Total	0-30 Days	31-60 Days	61-90 Days	>90 Days
	K'000	K'000	K'000	K'000	K'000
2020	55,310	8,853	8,854	(543)	38,146
2019	72,571	19,193	15,189	1,540	36,649

The Group believes that some unimpaired amounts that are past due by more than 90 days are still collectible in full, based on historic payment behaviour.

10. DEPOSITS AND PREPAYMENTS

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Refundable deposits	4,204	4,065	4,204	4,065
Other prepayments and charges	24,990	19,029	24,990	19,029
	29,194	**23,094**	**29,194**	**23,094**

The refundable deposits have been paid to service providers as part of contracts. Other prepayments include payment, rentals, school fees and insurance premiums.

11. DEFERRED EXPENDITURE

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Deferred Expenditure				
Movements:				
Balance 1 January	26,366	17,834	26,366	17,834
Expenditure incurred during the year	6,970	13,159	6,970	13,156
Amortisation during the year	(4,369)	(4,627)	(4,369)	(4,627)
Balance 31 December	**28,967**	**26,366**	**28,967**	**26,363**
Comprised of:				
Current asset	4,169	5,436	4,169	5,433
Non – current asset	24,798	20,930	24,798	20,930
	28,967	**26,366**	**28,967**	**26,363**

Deferred expenditure relates to introduction costs for leased aircraft, major engine overhaul costs and major scheduled maintenance costs. These costs are amortised over the term of the lease, or for a period up to the date when the next major overhaul or repair is due.

12. INVENTORIES

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Consumable spares	50,255	50,808	50,255	50,808
Commercial stores	6,280	6,084	6,280	6,084
	56,535	56,892	56,535	56,892
Less: provision for obsolescence	(176)	(619)	(176)	(619)
	56,359	**56,273**	**56,359**	**56,273**

Inventories recognised as expense during the year ended 31 December 2020 amounted to K20.8 million (2019: K21.3 million).

The movement in provision for obsolescence for the year ended 31 December was as follows:

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Opening balance	619	227	619	227
Provision / (reversal of) during the year	(443)	392	(443)	392
	176	**619**	**176**	**619**

AUDITOR-GENERAL'S OFFICE

13. AIRCRAFT, PROPERTY PLANT AND EQUIPMENT, ASSETS HELD FOR SALE

Consolidated and Parent	Aircraft	Engines	Rotables	Lands & Buildings	Leasehold Properties	Plant & Equipment	Capital Work-In-Progress	Total
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Year Ended 31 December 2020								
Cost or valuation	80,291	38,220	81,476	498,862	55,274	133,939	1,188	889,250
Accumulated depreciation	-	(32,882)	(68,251)	(84,768)	(53,118)	(113,435)	-	(352,454)
Net Book Amount	**80,291**	**5,338**	**13,225**	**414,094**	**2,156**	**20,504**	**1,188**	**536,796**
Opening net book value	107,397	7,281	8,003	427,419	4,278	27,696	722	582,796
Additions	5,686	-	7,789	1,046	417	2,163	-	17,101
Disposals	-	-	-	(3,031)	-	(45)	-	(3,076)
Transfers	-	-	-	-	-	-	-	-
Revaluation charged to equity	(10,460)	-	-	-	-	-	-	(10,460)
Revaluation charged to P&L	(10,638)	-	-	-	-	-	-	(10,638)
Depreciation	(11,694)	(1,943)	(2,567)	(11,354)	(2,539)	(9,355)	-	(39,452)
Impairment	-	-	-	-	-	-	-	-
Other	-	-	-	14	-	45	466	525
Closing Net Book Value	**80,291**	**5,338**	**13,225**	**414,094**	**2,156**	**20,504**	**1,188**	**536,796**
Year Ended 31 December 2019								
Cost or valuation	107,397	38,220	73,687	500,847	54,857	131,776	722	907,506
Accumulated depreciation	-	(30,939)	(65,684)	(73,428)	(50,579)	(104,080)	-	(324,710)
Net Book Value	**107,397**	**7,281**	**8,003**	**427,419**	**4,278**	**27,696**	**722**	**582,796**
Opening net book value	99,286	4,632	6,129	443,531	5,249	36,421	22,527	617,775
Additions	15,163	4,250	4,375	3,950	1,678	3,827	695	33,938
Disposals	-	-	-	(9,400)	-	-	-	(9,400)
Transfers	-	-	-	-	-	-	(22,500)	(22,500)
Revaluation charged to equity	11,484	-	-	-	-	-	-	11,484
Revaluation charged to P&L	(3,732)	-	-	-	-	-	-	(3,732)
Depreciation	(11,014)	(1,601)	(1,949)	(11,260)	(2,649)	(12,552)	-	(41,025)
Impairment							-	-
Other	(3,790)	-	(552)	598	-	-	-	(3,744)
Closing Net Book Value	**107,397**	**7,281**	**8,003**	**427,419**	**4,278**	**27,696**	**722**	**582,796**

All classes of assets are valued at fair value except for plant and equipment.

(a) Capital work-in-progress ("CWIP")

Capital work-in-progress ("CWIP") is stated at cost and not depreciated. Additions on WIP are added to CWIP and then transferred into their respective assets categories when ready for their intended use. Depreciation commences when the assets are ready for use.

(b) Disposal

In 2020, various residential and commercial buildings were disposed of with total cost of K3 million. The loss on disposal of these properties amounted to K3.5 million taken up under Overhead costs in Note 6(b). Disposals also consists of old/obsolete items that have been written off during the year.

(c) Valuation of fixed assets

In accordance with PNG Government Decision 107/96 in relation to the transfer of assets from the National Airline Commission to Air Niugini Limited, aircraft are revalued every year whilst the aircraft rotables, land and buildings are revalued every three years by independent external valuers.

(i) Valuation of Aircraft Fleet

Aircraft are valued on an annual basis in line with the Group's accounting policy on all aircraft owned. The market values of aircraft can fluctuate significantly from year to year, particularly as they are US dollar determined assets. The valuations are carried out considering the relevant market conditions, which include observable market prices and the current condition of the aircraft as maintained by the Group.

Fair value hierarchy

The classifications of fair value hierarchy has been discussed in Note 3. The fair value hierarchy of classification of aircraft are detailed as follows:

13. AIRCRAFT, PROPERTY PLANT AND EQUIPMENT, ASSETS HELD FOR SALE (CONTINUED)

• The fair value measurement for aircraft has been categorised at Level 2 fair value as the inputs to the valuation techniques used reference recent market activity and known transaction data involving similar aircraft type. Sensitivity analysis with respect to the impact of the various variable inputs is being outlined in 13(d).

• During the year, the Group carried out a revaluation of all aircraft owned through an independent valuer as part of the Group's accounting policy i.e. annual revaluations. The resulting valuations are shown below:

Aircraft		Valuation 31-Dec-20		Book Value 31-Dec-20	Movement	Valuation 31-Dec-19	
Owned/leased	DOM/ REGO NO P2-S/N	USD $'000	PGK K'000	PGK K'000	PGK K'000	USD $'000	PGK K'000
F100 - Owned	1990/ANE-1126411264	70	239	4,357	(4,118)	1,457	4,841
F100 - Owned	1991/ANF-11351	2,277	7,786	8,629	(843)	2,886	9,588
F100 - Owned	1993/ANQ-11451	2,376	8,122	6,915	1,207	2,313	7,684
F100 - Owned	1991/ANH-11301	1,550	5,300	4,723	577	1,580	5,248
F100 - Owned	1995/ANJ-11472	2,756	9,423	10,796	(1,373)	3,611	11,996
		9,029	**30,870**	**35,420**	**(4,550)**	**11,847**	**39,357**
Dash 8-Owned	1997/ANK-461	**2,990**	**10,223**	**14,510**	**(4,287)**	**4,721**	**13,637**
F70 - Owned	P2-ANR-330857	1,224	4,184	6,065	(1,881)	2,028	6,739
F70 - Owned	P2-ANS-332257	1,981	6,774	5,781	993	1,934	6,424
F70 - Owned	P2-ANT-331541	3,479	11,894	11,326	568	3,788	12,584
F70 - Owned	P2-ANU-332242	2,428	8,302	7,467	835	2,459	8,169
F70 - Owned	P2-ANV-332282	2,283	7,804	17,426	(9,622)	5,032	16,718
F70 - Owned	P2-ANY	70	239	3,393	(3,154)	1,135	3,771
		11,465	**39,197**	**51,458**	**(12,261)**	**16,376**	**54,405**
	TOTAL	**23,484**	**80,290**	**101,388**	**(21,098)**	**32,944**	**107,399**

In December 2020, the book values of aircraft were adjusted in line with valuations obtained from independent external valuers. Any reduction in value is first adjusted against any balance remaining from previous upward revaluations and any residual balance is charged to the statement of comprehensive income. Increase in values are charged to the revaluation reserves in shareholders equity, except to the extent that they reverse decrements previously charged to profit and loss.

The revaluation report on the aircraft showed a decrease in the value of F100's by K4.6 million (2019: increase of K3.4 million), decrease in the value of Dash 8 by K4.3 million (2019: increase of K768 thousand) and a decrease in the value of F70 by K12.3 million (2019: increase of K3.6 million). A gain of K10.6 million was recorded in the profit and loss account and K10.4 million was added to equity as a gain on revaluation of aircraft (2019: gain of K11.5 million).

(ii) Valuation of Engines
The engines on the wings of aircraft form part of the aircraft and therefore revaluations of aircraft are inclusive of these engines and not shown separately. Those engines separated from the aircraft and repaired or reconditioned or those that are purchased ready for installing, when revalued are listed separately and shown together with the other rotable parts.

There were no valuations of engines in 2020.

(iii) Valuation of Rotables
No valuation exercise of rotables was conducted in 2020. In 2018, the Airline engaged an Independent Valuer to undertake the valuation of Dash 8 and F100 engines. The management deemed that the valuation increment arising from the last valuation in 2018 was excessive and therefore decided to adopt the current values.

(iv) Valuation of Land and Buildings
In line with the Group's accounting policy, the valuation of land and buildings are carried out every 3 years. The latest valuation of land and buildings was made in 2018 year. The next valuation is expected to be carried out in 2021.

(v) Fair value hierarchy for notes 13 (ii), (iii) and (iv)
The classifications of fair value hierarchy has been discussed in Note 3. The fair value hierarchy of classification of engines, rotables and land and buildings is detailed as follows:

•The fair value measurement for engines, rotables and land and buildings has been categorised at Level 2 fair value as the inputs to the valuation techniques used made reference to recent market sales transactions of comparable properties.

GENERAL'S OFFICE * AUDITOR

13. AIRCRAFT, PROPERTY PLANT AND EQUIPMENT, ASSETS HELD FOR SALE (CONTINUED)

(d) Sensitivity analysis

The table below shows the effect on profit before tax as a result of 10% increase in the foreign currency and sales prices and / or replacement costs.

	Effect on profit or loss : 2020 K'000	2019 K'000
10% increase in foreign exchange rates - aircraft	(7,299)	(9,763)
10% decrease in foreign exchange rates - aircraft	8,921	11,933
10% increase in sales prices and / or replacement costs - aircraft	8,029	10,740
10% increase in sales prices and / or replacement costs - land and buildings	41,409	42,742

A decrease in sales price and or replacement costs of the above unobservable inputs would have the opposite but similar effect to equity / profit or loss.

(e) Assets Held for Sale

There were no aircraft being held for sale in 2020 (2019: Nil).

14. RIGHT-OF-USE ASSETS

Consolidated and Parent	2020 Aircraft K'000	2020 Residential and Commercial K'000	2020 Total K'000	2019 Aircraft K'000	2019 Residential and Commercial K'000	2019 Total K'000
Balance 1 January	357,784	28,912	386,696	-	-	-
Additions	-	-	-	484,435	40,290	524,725
Other adjustments	(117,349)	12,747	(104,602)	15,616	-	15,616
Accumulated depreciation	(36,147)	(20,143)	(56,290)	(142,267)	(11,378)	(153,645)
Balance 31 December	**204,288**	**21,516**	**225,804**	**357,784**	**28,912**	**386,696**

Other adjustments relate to changes in the opening balance of right-of-use of assets due to valuations made in year 2020.

As the Group applies the revaluation model to aircraft and properties, the Group has also applied the same to all right-of-use assets. In line with the requirements of the Standard, the Group organised a revaluation of all the leased aircraft as at 31st December 2020. The Group's policy on Land and Buildings is to revalue every three years and accordingly the next revaluation will be at the end of 2021. Thus, no revaluation was performed on leased properties during the current year.

Aircraft		Revalued Amount	Accumulated Depreciation	Net Revalued Amount	Book Value	Revaluation Increment
Owned/leased	DOM/ REGO NO P2-S/N	PGK K'000	PGK K'000	PGK K'000	PGK K'000	PGK K'000
Dash 8 - Leased	P2ANN - DASH 8 300	9,838	-	9,838	11,292	(1,444)
Dash 8 - Leased	P2ANM - DASH 8 300	10,342	-	10,342	12,132	(1,790)
Dash 8 - Leased	P2ANO - DASH 8 300	11,315	-	11,315	14,039	(2,724)
		31,495	-	**31,495**	**37,453**	**(5,958)**
F100 - Leased	P2ANC - F100	3,063	-	3,063	3,286	(223)
F100 - Leased	P2AND - F100	577	-	577	219	-
		3,640	-	**3,640**	**3,505**	**(223)**
F70 - Leased	P2PXL - D8 300	10,234	-	10,234	11,534	(1,300)
F70 - Leased	P2PXI - D8 300	-	-	-	(1,405)	1,405
F70 - Leased	P2ANP - D8 300	11,892	-	11,892	14,361	(2,469)
F70 - Leased	P2ANL - D8 300	11,459	-	11,459	11,422	37
F70 - Leased	P2PXD - B737	36,147	36,147	-	-	-
F70 - Leased	P2PXC - B737	37,802	-	37,802	15,853	21,949
F70 - Leased	P2PXV - B767	36,613	-	36,613	78,572	-
F70 - Leased	P2PXW - B767	21,045	-	21,045	27,946	-
	MSN4184	21,153		21,153	12,704	8,449
	MSN4196	18,955		18,955	10,928	8,027
		205,300	**36,147**	**169,153**	**181,915**	**36,098**
	TOTAL	**240,435**	**36,147**	**204,288**	**222,872**	**29,917**

In December 2020, the book values of leased aircraft were adjusted in line with valuations obtained from independent external valuers. The increase in values as a result of the revaluation are charged to right-of-use assets revaluation reserves in shareholders equity, except to the extent that they reverse decrements previously charged to profit and loss. The right-of-use asset revaluation reserves taken up as at 31 December 2020 amount to K124 million (2019: 94.1 million).

AUDITOR GENERAL'S OFFICE

15. LEASES

Consolidated and Parent	2020 Aircraft	2020 Residential and Commercial	2020 Total	2019 Aircraft	2019 Residential and Commercial	2019 Total
	K'000	K'000	K'000	K'000	K'000	K'000
Balance 1 January	263,753	29,510	293,263	-	-	-
Additions	26,803	1,369	28,172	407,550	40,290	447,840
Accretion of interest for the year	19,934	2,086	22,020	28,724	2,704	31,428
Less: payments made during the year	(105,473)	(10,023)	(115,496)	(172,521)	(13,484)	(186,005)
Balance 31 December	**205,017**	**22,942**	**227,959**	**263,753**	**29,510**	**293,263**
Comprised of:						
Current	130,412	7,070	137,482	85,539	7,680	93,219
Non – current	74,605	15,872	90,477	178,214	21,830	200,044
	205,017	**22,942**	**227,959**	**263,753**	**29,510**	**293,263**

Amounts recognised in profit or loss	Consolidated 2020	Consolidated 2019	Company 2020	Company 2019
	K'000	K'000	K'000	K'000
Depreciation on right-of-use assets	170,478	153,645	170,478	153,645
Interest on lease liabilities	22,020	31,428	22,020	31,428
Short term lease payments included in Other Operating Costs (Item 6a)	517	3,625	517	3,625
	193,015	**188,698**	**193,015**	**188,698**

16. INTANGIBLE ASSETS

	Consolidated 2020	Consolidated 2019	Company 2020	Company 2019
	K'000	K'000	K'000	K'000
Balance 1 January	2,000	3,022	2,000	3,022
Expenditure incurred during the year	-	-	-	-
Amortisation during the year	(1,022)	(1,022)	(1,022)	(1,022)
Balance 31 December	**978**	**2,000**	**978**	**2,000**

Intangible assets pertains to new audit software called LARS, and other system upgrades that are to be amortised over 3 years in line with the Group's accounting policy. Included in these are also software related costs relating to implementation of a route profitability system in 2014.

17. OTHER LONG TERM ASSETS

The following cash deposits were paid and held as security by various parties in relation to commercial agreements entered between Air Niugini and those parties.

	Consolidated 2020	Consolidated 2019	Company 2020	Company 2019
	K'000	K'000	K'000	K'000
Security on F100 rotables management program	2,583	3,810	2,583	3,810
Security on aircraft lease programs	11,479	11,154	11,479	11,154
Deposits for acquisition of Boeing	25,701	36,371	25,701	36,371
Other deposits	2,828	3,259	2,828	3,259
	42,591	**54,594**	**42,591**	**54,594**

The Group has given security deposits to various suppliers against supplies already made or to be made. These funds are not immediately available to Air Niugini for its daily operation. Terms of the security deposits held are more than 12 months.

18. TRADE CREDITORS AND ACCRUALS

	Consolidated 2020	Consolidated 2019	Company 2020	Company 2019
	K'000	K'000	K'000	K'000
Trade creditors	307,757	198,437	307,880	198,316
Accruals and other charges	110,929	106,548	110,922	106,607
Interline and non - interline taxes	19,285	32,655	19,285	32,655
Credit customer liabilities	49,208	34,862	49,208	34,862
Payroll related liabilities	9,571	10,962	9,571	10,962
Trade creditor - related party	89,936	51,554	(18,219)	(6,279)
Provision for GST on unexpired tickets	3,180	1,175	3,180	3,131
Other current liabilities	316	11	316	11
	590,082	**436,204**	**482,143**	**380,265**

AUDITOR-GENERAL'S OFFICE

19. DIVIDEND PAYABLE

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Dividend payable	5,000	5,000	5,000	5,000

20. REVENUE RECEIVED IN ADVANCE

The Group recognises revenue as and when service is provided to customers. The major component of the balance as at 31st December 2020 of K96.3 million (2019: K113.7 million) represents ticket fares paid to the Group by intending travellers who have yet to travel or utilize the airlines services. The Group will recognise revenue when services are eventually rendered.

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Forward sales	63,833	84,998	63,833	84,998
Fuel surcharge	92	41	92	41
Other	32,332	28,751	32,332	28,751
	96,257	**113,790**	**96,257**	**113,790**

21. EMPLOYEE BENEFITS

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Annual leave	10,129	10,487	10,129	10,487
Superannuation on accrued annual leave	833	863	833	863
Long service leave	22,819	22,878	22,819	22,878
Leave travel credits	4,305	3,759	4,305	3,759
	38,086	**37,987**	**38,086**	**37,987**

	2020	2019	2020	2019
Represented by:	K'000	K'000	K'000	K'000
Current liabilities	15,267	15,109	15,267	15,109
Non-current liabilities	22,819	22,878	22,819	22,878
	38,086	**37,987**	**38,086**	**37,987**

MOVEMENT IN LONG SERVICE LEAVE	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Opening balance	22,878	18,773	22,878	18,773
Accrued for the year	6,079	7,868	6,079	7,868
Long service leave paid	(6,138)	(3,763)	(6,138)	(3,763)
	22,819	**22,878**	**22,819**	**22,878**

22. LOANS FROM BSP

The Group obtained the following loans from BSP to refurbish existing aircraft, finance new aircraft and build the residential complex. These loans are secured by registered fixed and floating charges over various registered mortgages on leasehold and subleased properties and aircraft:

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Current liabilities	27,287	28,163	27,287	28,163
Non-current liabilities	98,994	102,823	98,994	102,823
	126,281	**130,986**	**126,281**	**130,986**

The BSP loans consist of the following:

(a) Aircraft refurbishment loan

In 2013, the Group obtained loans from Bank South Pacific Limited to facilitate refurbishment of the 2 B767 aircraft in the current fleet of aircraft and dash 8 engines. The term of the loans are repayable monthly for five and ten years or until the 6th September 2018 and 6th September 2023, respectively. Monthly repayments on loans amounted to K121,942 and K189,088, respectively. These loans are secured by a registered fixed and floating charge over various leasehold and subleased properties and aircraft.

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Current liabilities	6,828	7,266	6,828	7,266
Non-current liabilities	-	-	-	-
	6,828	**7,266**	**6,828**	**7,266**

22. LOANS FROM BSP (CONTINUED)

Terms and repayment schedule

	Variable Interest rate	Year of maturity	2020 K'000 Carrying amounts	2020 K'000 Contractual amounts	2019 K'000 Carrying amounts	2019 K'000 Contractual amounts
Secured bank loan	7.25%	2019	-	-	-	-
Secured bank loan	7.25%	2023	6,828	6,828	7,266	7,266
			6,828	**6,828**	**7,266**	**7,266**

(b) Aircraft financing

In 2017, the Group obtained a loan from Bank South Pacific Limited as part of reimbursing the Group's cost of acquiring F70 aircraft in prior years. The loan obtained in 2017 was effectively a reimbursement of the cost initially incurred by the Group in purchasing the aircraft, which should have been funded through the loan had the financing arrangements been sorted out earlier as part of the initial aircraft acquisition arrangement. The term of the loan is repayable over five years until March 2022 with a monthly repayment of K438,250. The loan is secured by registered fixed and floating charge over leasehold and subleased properties and aircraft.

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Current liabilities	4,821	5,259	4,821	5,259
Non-current liabilities	4,929	5,618	4,929	5,618
	9,750	**10,877**	**9,750**	**10,877**

(c) Loan for Residential Complex

In July 2014, the Group entered into a long-term loan facility with the Bank of the South Pacific for an initial amount of K80 million to finance the building of a residential complex. No additional loan was drawn for the years 2020 and 2019. As at 31 December 2020, the outstanding balance was K109.7 million (2019: K112.8 million). The term of the loan was interest only for two years during the construction phase commencing one month from the date of draw down, then K3.9 million per quarter covering principal and interest thereafter. The interest rate is equivalent to the Bank's Indicator Lending Rate (ILR) less a margin of 3.95% per annum plus 5%. The interest rate as at 31 December 2020 was 11.2%. This loans is secured by a registered fixed and floating charge over leasehold and subleased properties and aircraft.

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Current liabilities	15,638	15,638	15,638	15,638
Non-current liabilities	94,065	97,205	94,065	97,205
	109,703	**112,843**	**109,703**	**112,843**

23. PROVISION FOR END OF LEASE

A provision for end of lease with respect to operating lease agreements requires the return of the aircraft with adherence to certain maintenance conditions. This provision is based on the present value of the expected future cost of meeting the maintenance return condition, having regard to the current fleet plan and long term maintenance schedules. The provision for end of lease was K20.5 million at 31 December 2020 (2019: K17.3 million).

24. RETAINED EARNINGS

	Consolidated 2020 K'000	Consolidated 2019 K'000	Company 2020 K'000	Company 2019 K'000
Balance 1 January	(277,576)	(203,763)	(205,621)	(168,734)
Add: Profit/(loss) during the year	(303,023)	(73,813)	(249,578)	(36,887)
Balance 31 December	**(580,599)**	**(277,576)**	**(455,198)**	**(205,621)**

25. SHARE CAPITAL

	Consolidated 2020	Consolidated 2019	Company 2020	Company 2019
Ordinary shares issued and fully paid	100	100	100	100

Under the Papua New Guinea Companies Act 1997 (as amended) shares have no par value. All shares are fully paid.

In accordance with the provisions of the Companies Act 1997 (as amended) the Board of the Group may issue shares as they see fit, accordingly there is no limit on the numbers of shares that may be issued. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Group.

AUDITOR-GENERAL'S OFFICE

25. SHARE CAPITAL (CONTINUED)

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Initial capital injection from Government	128,910	128,910	128,910	128,910

26. RESERVES

No valuation exercise of rotables was conducted in 2020.

Revaluation Reserves	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Property, plant and equipment revaluation reserve	247,745	247,745	247,745	247,745
Aircraft revaluation reserve	24,448	36,927	24,448	36,927
Rotables revaluation reserve	2,879	2,879	2,879	2,879
Right-of-use assets revaluation reserve	124,037	94,120	124,037	94,120
	399,109	**381,671**	**399,109**	**381,671**
Movements:				
Property, plant and equipment revaluation reserve				
Balance 1 January	247,745	247,745	247,745	247,745
Revaluation	-	-	-	-
Deferred tax	-	-	-	-
Balance 31 December	**247,745**	**247,745**	**247,745**	**247,745**
Aircraft revaluation reserve				
Balance 1 January	36,927	26,562	36,927	26,562
Revaluation	(10,461)	11,484	(10,461)	11,484
Deferred tax	(2,018)	(1,119)	(2,018)	(1,119)
Balance 31 December	**24,448**	**36,927**	**24,448**	**36,927**
Rotables revaluation reserve				
Balance 1 January	2,879	2,879	2,879	2,879
Revaluation	-	-	-	-
Balance 31 December	**2,879**	**2,879**	**2,879**	**2,879**
Right-of-use assets revaluation reserve				
Balance 1 January	94,120	-	94,120	-
Revaluation	29,917	94,120	29,917	94,120
Balance 31 December	**124,037**	**94,120**	**124,037**	**94,120**

27. OTHER COMPREHENSIVE INCOME TAX EFFECT

Consolidated and Parent		2020			2019	
		K'000			K'000	
	Before Tax	Tax	Net of Tax	Before Tax	Tax	Net of Tax
Gains on aircraft	(10,461)	(2,018)	(12,479)	11,484	(1,119)	10,365
Gains on land and buildings	-	-	-	-	-	-
Gains on right-of-use assets	29,917	-	29,917	94,120	-	94,120
	19,456	(2,018)	17,438	105,604	(1,119)	104,485

28. RELATED PARTY TRANSACTIONS

a) Parent entity

The Airline is a wholly owned State Owned Enterprise ("SOE") through the Kumul Consolidated Holdings Limited ("KCH"). Related parties include the Government of Papua New Guinea and other State Owned Enterprises. All related party transactions are conducted on normal commercial arms-length terms and conditions of trade.

Related parties also include Directors, executive management, their associates and entities controlled by them and their families.

AUDITOR-GENERAL'S OFFICE

28. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions between inter-group

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Air Niugini Cargo Limited	-	3,757	-	3,757
Link PNG Limited	44,836	33,643	65,582	33,643
Air Niugini Properties Limited	6,156	51,753	77,668	51,682
Kumul Consolidated Holdings Limited	45,000	-	45,000	-
	95,992	89,153	188,250	89,082

(c) Transactions between Related Parties

Transactions between the Group were undertaken on an arms-length commercial basis. The Directors have disclosed their interests in the Directors' report.

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Sales to related parties	2,311	2,275	2,311	2,275
Superannuation contributions	7,054	6,887	7,054	6,887
Purchases from related parties	20,170	31,328	20,170	31,328

(d) Year end balances arising from sales/purchase of goods/services

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Receivable from related parties	6,156	3,686	81,425	55,439
Payables to related parties	89,836	51,554	89,836	51,554

The receivables from related parties arise mainly from sale transactions and are conducted on normal business terms and conditions. Receivables are unsecured in nature and bear no interest. There are no provisions held against receivables from related parties.

The payables to related parties arise mainly from purchase transactions and are conducted on normal business terms and conditions. The payables bear no interest.

(e) Key Management Personnel compensation

The components of the compensation of the Group's key management personnel are as follows:

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Key Management				
Salaries and short-term benefits	8,514	9,005	8,514	9,005
Retirement benefits	2,009	1,548	2,009	1,548
Directors				
Salaries and short-term benefits	1,192	2,235	1,192	2,235

29. COMMITMENTS

(A) FINANCE LEASE COMMITMENTS

There were no finance lease commitments in 2020.

(B) CAPITAL COMMITMENTS

The capital expenditure previously planned has been revised with no intention planned for big capital expenditure.

30. FINANCIAL RISK MANAGEMENT

(A) Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity of another entity. The Group's activities exposed it to a variety of financial and operational risks: market risks (currency risk), credit risk and liquidity risk. These risks are an inherent part of the operations of an international airline. The Group manages these risk exposures using various financial instruments and a set of policies approved by the Board.

The Group uses different methods to assess and manage different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rates, foreign exchange and other price risk, and ageing analysis and sensitivity analysis for liquidity risk and credit risk.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group holds the following financial instruments:	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Financial assets				
Cash and cash equivalents	40,938	26,960	42,056	29,802
Trade debtors and other debtors	58,361	90,129	133,536	141,883
Other long term assets	42,591	54,594	42,591	54,594
	141,890	**171,683**	**218,183**	**226,279**
Financial liabilities				
Trade creditors and accruals	590,082	436,204	482,143	380,265
Residential apartment loan	109,703	112,843	109,703	112,843
Aircraft refurbishment loan	6,828	7,266	6,828	7,266
Aircraft financing	9,750	10,877	9,750	10,877
Lease liability	227,959	293,263	227,959	293,263
	944,322	**860,453**	**836,383**	**804,514**

(B) Financial Risk Factors

The Group's activities are exposed to a number of financial risks; market, credit and liquidity risks. The Group has a Treasury Division within the finance team that manages the financial risks. The Group operates internationally, and is exposed to foreign exchange risk arising from various currency fluctuations, primarily with Australian and US dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and foreign operations.

As the Group has significant interest bearing assets, the Group's income and operating cash flows are affected by the market interest rates. The Group's interest rate risk also arises from borrowings.

Credit risk arises from cash and cash equivalents, and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. If customers are independently rated, these ratings are used. Otherwise if there is no independent rating, risk control assesses the credit quality of the customer taking into account its financial position, past experience and other factors. Individual risk limits are based on internal or external ratings in accordance with limits set by the Board. Management monitors the utilisation of credit limits regularly.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Treasury aims to maintain flexibility in funding by keeping committed credit lines available.

(a) Foreign Exchange

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The source and nature of the risk arises from operations, capital expenditures and transaction risks.

The Group undertakes a significant amount of transactions denominated in foreign currencies from time to time and resulting from these activities, exposures in foreign currency arise. The Group does not actively hedge its foreign currency risks. Where the Group does take steps to manage these risks, these are restricted to forward and spot foreign exchange contracts. There are no forward contracts outstanding at year-end. Management reviews the risks as they arise.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in kina was as follows:

	Consolidated		Company	
	2020	2019	2020	2019
In US Dollars	K'000	K'000	K'000	K'000
Cash and cash equivalents	262	478	262	478
Trade debtors	875	1,151	875	1,151
Other receivables	1,451	2,093	1,451	2,093
Deposits	3,970	3,862	3,970	3,862
Other long term assets	-	17,287	-	17,287
Trade creditors and accruals	-	(15,542)	-	(15,542)
	6,558	**9,329**	**6,558**	**9,329**
In AU Dollars				
Cash and cash equivalents	1,763	1,665	1,763	1,665
Trade debtors	2,219	3,412	2,219	3,412
Other receivables	2,103	1,185	2,103	1,185
Deposits	136	115	136	115
Trade creditors and accruals	(8,819)	(10,053)	(8,819)	(10,053)
	(2,598)	**(3,676)**	**(2,598)**	**(3,676)**

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
In EURO				
Cash and cash equivalents	718	958	718	958
Trade debtors	1,616	2,718	1,616	2,718
Other long term assets	1,054	1,000	1,054	1,000
Trade creditors and accruals	(88)	(96)	(88)	(96)
	3,300	**4,580**	**3,300**	**4,580**
In Other currency (NZD,SGD,HKD,SBD,FJD,GBP,PHP,JPY,CAD)				
Cash and cash equivalents	3,591	6,305	3,591	6,305
Trade debtors	2,159	2,411	2,159	2,411
Other receivables	358	49	358	49
Deposits	97	87	97	87
Trade creditors	(4,518)	(5,719)	(4,518)	(5,719)
	1,687	**3,133**	**1,687**	**3,133**

Net foreign exchange gain recognised in 2020 amounted to K1.8 million (2019: K8.2 million foreign exchange loss).

The table below shows the effect on profit before tax and equity as a result of 10% movements in foreign exchange rates.

	Profit before tax	
	2020	2019
	K'000	K'000
10 percent increase in Foreign exchange rates (Kina depreciates)	895	1,337
10 percent decrease in Foreign exchange rates (Kina appreciates)	(895)	(1,337)

(b) Interest Rate Risk

Interest rate Risk is the risk that fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates. The Group has exposure to movements in interest rates arising from its portfolio of interest rate sensitive assets and liabilities in a number of currencies, most notably in PNG Kina and US dollar. These principally include term deposits and leases.

The Group has substantial sums of cash in interest bearing deposits denominated in PNG Kina, US dollar and various other currencies with banks in PNG as well as overseas. The Group earns interest on these funds, which is included in the Group's consolidated financial statements as other income. These funds are regulated in terms of access and most of them are short-term in maturity. The Group generally does not use interest rate swaps to mitigate against interest rate risk arising from interest rate fluctuations. All of these deposits are disclosed at fair value in the Airline's consolidated financial statements.

The following table summarises the impact of a potential change in interest rates to net profit and equity. For the purposes of this disclosure, the sensitivity analysis assumes a 5 percent increase and decrease in all relevant interest rates. This analysis also assumes that all other variables, including foreign exchange rates, remain constant.

	Net Profit		Equity	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Variable rate instruments	343	485	343	485
5 percent increase in interest rates	**343**	**485**	**343**	**485**
Variable rate instruments	(343)	485	(343)	(485)
5 percent decrease in interest rates	**(343)**	**485**	**(343)**	**(485)**

(c) Credit Risk

In the normal course of its business the Group is exposed to credit risk from trade debtors and financial institutions. Credit risk represents the loss that would be recognised at the reporting date if counterparties failed to perform as contracted and from movements in interest rates and foreign exchange rates. The Group does not anticipate non-performance by counterparties. The Group does not require any collateral or security to support financial instruments due to the quality of the financial institutions dealt with.

There are no significant concentrations of credit risk. The Group has a credit policy that is used to manage this exposure to credit risk. As part of this policy limits on exposures have been set and are monitored on a regular basis. A significant proportion of receivables is settled through the IATA clearance mechanism, which undertakes its own credit review of members.

AUDITOR-GENERAL'S OFFICE *

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The table below sets out the maximum exposure to credit risk as at 31 December:

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Cash and cash equivalents	40,938	26,960	42,056	29,802
Trade debtors	58,361	90,129	133,536	141,883
Refundable deposits	42,591	54,594	42,591	54,594
Other deposits	4,204	4,065	4,204	4,065
	146,094	175,748	222,387	230,344

Concentration of credit risk with respect to receivables is limited due to the large number of clients and markets in which the Group does business, as well as the dispersion across many geographical regions. Management does not believe significant risk exists in connection with the Group's concentrations of credit as of 31 December 2020.

(d) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group's objective is to ensure that it has the ability to generate sufficient cash either from internal or external sources, in a timely manner and cost-effective manner, to meet its commitments as they fall due. The Group manages liquidity risk by maintaining sufficient cash holdings and continuously monitoring future obligations against the availability of funding through its fully drawn loans, bank overdrafts and other financing activities.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows. Scenario analysis is continually undertaken to ensure that the Group's resources can meet its liquidity requirements.

The table below analyses the Group's financial liabilities, which will be settled on a net basis within the relevant maturity groupings based on the remaining period at the reporting to the contractual maturity date. The liabilities payable within 1 year are expected to be settled using the existing cash balance carried forward, expected cash inflows from trade and other debtors, cash inflow expected to be generated from operations, asset sales and potential long term loan funding support through the Airline's shareholder. In addition the Group has in place an existing overdraft facility with its bank that will be utilised when required. The liabilities payable over 2020 and subsequent years are expected to be settled through cash inflows generated from operating activities, ongoing assets sales as part of the ongoing restructure exercise and access to shareholder support in the form of long term loan funding support where prevailing circumstances warrant such support.

	Total	Less than 1 Year	Between 1 and 2 Years	Between 2 and 5 Years	Over 5 Years
	K'000	K'000	K'000	K'000	K'000
At 31 December 2020					
Trade and other payables	590,082	590,082	-	-	-
Aircraft refurbishment loan	10,589	2,269	2,269	6,051	-
Residential apartment loan	86,629	15,638	31,276	39,715	-
Aircraft financing loan	6,581	5,259	1,322	-	-
Lease liability	226,458	140,273	86,185	-	-
	920,339	753,521	121,052	45,766	-
At 31 December 2019					
Trade and other payables	436,204	436,204	-	-	-
Aircraft refurbishment loan	12,858	2,269	2,269	6,807	1,513
Aircraft financing loan	105,632	15,638	31,276	46,913	11,805
Residential apartment loan	11,840	5,259	5,259	1,322	-
Lease liability	328,929	102,470	140,273	86,186	-
	895,463	561,840	179,077	141,228	13,318

(e) Operational Risks

Operational risk is the potential exposure to unexpected financial or non-financial losses arising from the way in which the Group conducts its business. Operational risk is managed through formal policies, documented procedures, business practices and compliance monitoring. An independent audit function also conducts regular reviews to monitor compliance with policy and regulatory environment and the general standards of internal controls. The Group also undergoes regular operational audits from various service contractors, regulatory authorities, and IATA.

(C) Fair Values

The estimated fair value of the Group's financial instruments held or issued to finance the Group's operations is summarised below. Certain estimates and judgements were required to develop the fair value amounts. The fair value amounts shown below are not necessarily indicative of the amounts that the Group would realise upon disposition nor do they indicate the Group's intent or ability to dispose of the financial instrument.

AUDITOR-GENERAL'S OFFICE

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

Consolidated

	2020		2019	
	Carrying Value K'000	Fair Value K'000	Carrying Value K'000	Fair Value K'000
Financial Assets				
Cash and cash equivalents	40,938	40,938	26,960	26,960
Trade debtors and other debtors	58,361	58,361	90,129	90,129
Deposits	4,204	4,204	4,065	4,065
Other long term assets	42,591	42,591	54,594	54,594
	146,094	**146,094**	**175,748**	**175,748**
Financial Liabilities				
Trade creditors and accruals	590,082	590,082	436,204	436,204
Borrowings - residential duplex	109,703	109,703	112,843	112,843
Aircraft refurbishment loan	6,828	6,828	7,266	7,266
Aircraft financing	9,750	9,750	10,877	10,877
Lease liability	227,959	227,959	293,263	293,263
	944,322	**944,322**	**860,453**	**860,453**

Parent Company

	2020		2019	
	Carrying Value K'000	Fair Value K'000	Carrying Value K'000	Fair Value K'000
Financial Assets				
Cash and cash equivalents	42,056	42,056	29,802	29,802
Trade debtors and other debtors	133,536	133,536	141,883	141,883
Deposits	4,204	4,204	4,065	4,065
Other long term assets	42,591	42,591	54,594	54,594
	222,387	**222,387**	**230,344**	**230,344**
Financial Liabilities				
Trade creditors and accruals	482,143	482,143	380,265	380,265
Borrowings	109,703	109,703	112,843	112,843
Aircraft refurbishment loan	6,828	6,828	7,266	7,266
Aircraft financing	9,750	9,750	10,877	10,877
Lease liability	227,959	227,959	293,263	293,263
	836,383	**836,383**	**804,514**	**804,514**

The above financial assets and liabilities as at 31 December 2020 are categorised into different levels of fair value hierarchy as follows:

	Consolidated 2020			Parent 2020		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets	K'000	K'000	K'000	K'000	K'000	K'000
Cash and cash equivalents	40,938	-	-	42,056	-	-
Trade and other receivables	-	105,156	-	-	180,331	-
Financial liabilities						
Trade and other payables	-	590,082	-	-	482,143	-
Bank loans	-	-	126,281	-	-	126,281
Lease liability			227,959			227,959

	Consolidated 2019			Parent 2019		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets	K'000	K'000	K'000	K'000	K'000	K'000
Cash and cash equivalents	26,960	-	-	29,802	-	-
Trade and other receivables	-	148,788	-	-	200,542	-
Financial liabilities						
Trade and other payables	-	436,204	-	-	380,265	-
Bank loans	-	-	130,986	-	-	130,986
Lease liability	-	-	293,263	-	-	293,263

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following methods were used to estimate the fair values for each class of financial instrument:

Debtors, creditors and bank balances
The carrying value of each of the above item is equivalent to the fair value. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Term Liabilities
The fair value of the Group's term liabilities is estimated based on current market rates available to the Group for debt of similar maturity.

(D) Capital Risk Management

The Group's objective when managing capital is to safeguard the Group's ability to continue as going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (includes current and non-current borrowings as shown in the statement of financial position less cash and cash equivalents). Total capital is calculated as equity as shown in the statement of financial position plus net debt.

	Consolidated		Company	
	2020	2019	2020	2019
	K'000	K'000	K'000	K'000
Total borrowings	354,240	424,249	354,240	424,249
Less : Cash and cash equivalents	40,938	26,960	42,056	29,802
Net Debt	313,302	397,289	312,184	394,447
Total Equity	(52,580)	194,428	72,820	304,960
Total Capital	**260,722**	**591,717**	**385,005**	**699,407**
Gearing ratio	**120.17%**	**67.14%**	**81.09%**	**56.40%**

31. EMPLOYEES

The Group contributes to the National Superannuation Fund of Papua New Guinea in respect of its national employees. Employer contributions during the year amounted to K7.6 million (2019: K7.6 million). In accordance with the Union agreement with National Pilots, the Group is required to make certain payments upon retirement of pilots. This agreement came into effect on August 2007. The full amount of the estimated liability is provided in the accounts.

The average number of staff employed by the Group during the year was 1,897 (2019: 1,908)

32. CONTINGENT LIABILITIES

(A) LITIGATION

Air Niugini continues to face a number of claims that have been made against the Group and are subject to ongoing litigation . The general nature of these claims includes claims of an industrial relations nature for disputed employee entitlements and others relating to the ordinary course of business. The Group has disputed the claims and continues to defend all actions. Certain claims are for unspecified amounts and others are still subject to legal arbitration. The Group's legal advisors consider it is unlikely that any significant liability will arise in respect of these claims. Due to these inherent uncertainties, management has not quantified these claims.

(B) BANK GUARANTEES

Bank Guarantees/Standby Letters of Credit outstanding for the year 2020 amounted to K6.2 million (2019: K6.2 million)

Unused facilities for the Bank Guarantees and Standby Letter of Credit outstanding for the year 2020 amounted to K3.7 million (2019: K3.7 million).

The facilities are secured by a fixed and floating charge over the whole of the assets, called and uncalled capital, registered mortgages over various leasehold and subleased properties, sale and purchase agreement over aircraft, letter of set-off against term deposits, sale and repurchase agreement, operating lease agreement and master aircraft lease agreements.

AUDITOR-GENERAL'S OFFICE

33. SUBSEQUENT EVENTS

The COVID 19 pandemic in 2020 has had a significant impact on the Group's operations. It caused a significant reduction in the international sector schedule impacting on the international passenger revenue side of the business. In the domestic sector, the lock down measures, implemented by the PNG government in curbing the virus caused uncertainty resulting in reduced flying and/or a reduction in the number of passengers. The Group took measures to address the situation by reviewing and reducing the schedule, cutting down on staff numbers or putting staff on leave, implementing controls on discretionary spending, outsourcing

Subsequent to year ended 31 December 2020 Kumul Consolidated has provided funding of K50 in the form of loan assistance in 2021.

GENERAL'S OFFICE ★ AUDITOR-