



## 2008 ANNUAL REPORT

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## WELCOME

Welcome to the 2008 Annual Report of the PNG Ports Corporation Limited (PNGPCL). This report gives an overview of what PNGPCL has achieved in this financial year and how the corporation plans to build on these going forward.

The PNGPCL is a state owned entity charged with the responsibility for the development, management and maintenance of all of the declared ports in the maritime provinces of Papua New Guinea. PNGPCL is a successor company to PNG Harbours Limited and its predecessor the PNG Harbours Board. The specific powers and functions of PNGPCL are governed by the Harbours Act Chapter 240. As a State Owned Enterprise ("SOE") it is also subject to direct policy directives of the Government through the Ministry of State Enterprises.

PNGPCL performs certain regulatory functions delegated by the Department of Transport. The issuing and administration of regulatory contracts or licensing of PNGPCL is the responsibility of the Independent Consumer and Competition Commission ('ICCC'). Moreover, PNGPCL is a self-funding corporate body but as a government entity, it is accountable to the Independent Public Business Corporation ('IPBC') who is the sole shareholder, holding shares for the company on behalf of the state of Papua New Guinea.

PNGPCL is responsible for the management of the 21 declared ports in the country of which only 16 are operational as at 31st December 2008. PNGPCL directly operated 14 of them while the ports of Aitape and Samarai were managed by agents under agreement with PNGPCL. At the 14 declared ports which it operates, PNGPCL provides the following services.

- Berthing Services
- Berth Reservations
- Wharfage Services
- Pilotage services
- Cargo & container storage services.
- Administering stevedoring licenses and providing port utilities and;
- All other miscellaneous port services

In addition, PNGPCL is the delegated marine pilotage authority in the country under the National Maritime Safety Act 2003, providing pilotage services to international vessels.

### **The Network of Declared ports operated by PNGPCL in 2008.**

- |           |                |           |                          |
|-----------|----------------|-----------|--------------------------|
| ● Lae     | ● Port Moresby | ● Madang  | ● Rabaul                 |
| ● Daru    | ● Alotau       | ● Oro Bay | ● Kimbe                  |
| ● Kavieng | ● Lorengau     | ● Vanimu  | ● Wewak                  |
| ● Kieta   | ● Buka         | ● Aitape  | ● Samarai<br>(via agent) |



## VISION

PNGPCL will be the premier port operator and the most respected organisation in the South Pacific Region.

## MISSION

“To facilitate trade through the establishment, provision, and management of an efficient, safe and environmentally friendly port system to enhance value to its stakeholders.”

To accomplish our mission:

- PNGPCL will plan, develop, maintain and administer all economical ports corporately or in partnership with local authorities, private sector or resource developers consistent with the national policy.
- PNGPCL will endeavour to expand the revenue base within the port industry.
- PNGPCL will provide an environment conducive for long-term staff development for the organisation and the port industry.
- PNGPCL will develop and foster a harmonious working relationship at the waterfront.
- PNGPCL will promote a performance based remuneration policy for its employees.

## PERFORMANCE

	2008 (K)' 000	2007 (K)' 000	Change (K)' 000	Change (%)
Total Operating Revenue	94,249	78,091	16,158	20.69
Operating costs	(70,343)	(46,062)	24,281	52.71
EBITDA	23,907	32,029	(8,122)	(25.36)
Depreciation and Amortisation	(7,534)	(5,549)	1,985	35.77
EBIT	16,373	26,480	(10,107)	(38.17)
Interest	3,166	3,146	20	0.64
Net Profit Before Tax (NPBT)	19,539	29,626	(10,087)	(34.05)
Tax	(22,496)	-	22,496	100
Net Profit/ (loss) After Tax (NPAT)	(2,957)	29,626	(32,583)	109.98

The financial results have been prepared in accordance with the International Financial Reporting Standard (IFRS).

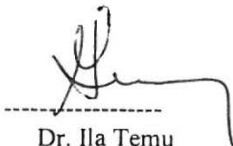
**Dividend**

The Directors have not declared any dividend for the year ended 31st December 2008.

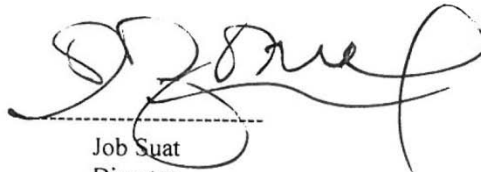
**Annual Report**

The Board of Directors is pleased to present the Annual Report of PNGPCL for the year ended 31st December 2008.

For, and on behalf of the Board of Directors:



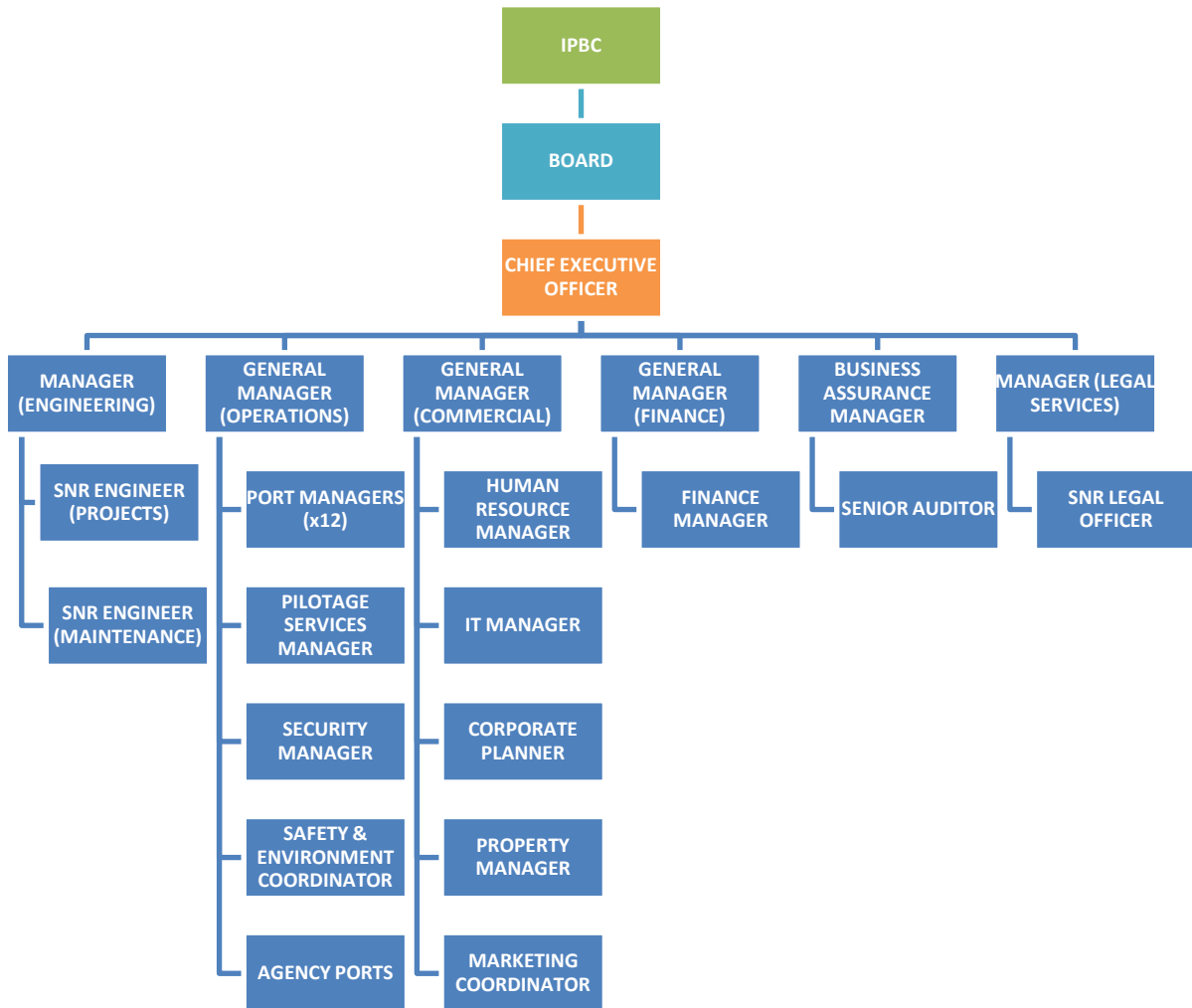
Dr. Ila Temu  
Chairman  
Dated: 31/05/10



Job Suat  
Director  
Dated: 31/05/10



## ORGANISATIONAL STRUCTURE

PNGPCL High Level Corporate Structure as of December 31<sup>st</sup> 2008

## REPORT FROM THE CHAIRMAN

In 2008 PNGPCL had consolidated its strategic focus of ensuring port infrastructure and systems are put in place to accommodate for the projected growth in cargo traffic at its ports. In view of the capacity constraints the Board has supported the Management to prioritise substantial capital spending under the revised five (5) year Capital Expenditure (Capex) Program (2007-2011).

This has seen a number of priority investments made on key infrastructure in the major ports of Lae and Port Moresby, given that these two ports will be at the forefront of absorbing the bulk of the increasing trade volumes. Traffic in Lae in particular is projected to grow exponentially over the next five year and thus the commencement of the Berth 3 extension project this year is timely. A number of major rehabilitation and maintenance projects commenced in 2007 and were ongoing throughout 2008. It is an achievement for PNGPCL that strong financial performance over the last four years and substantial funding from the Government of Papua New Guinea (GoPNG) and Australian Aid Program (AusAid) through the Transport Sector Support Program (TSSP) has enabled these urgent rehabilitation works to get off the ground.

A milestone achievement was the procurement of a US\$100 million loan from the Asian Development Bank ('ADB') for the proposed Lae Tidal Basin Port Development project. The loan agreement was signed on the 12<sup>th</sup> of June facilitated by the GoPNG, which will inject US\$45.75 million as counter funding, the total funding therefore is US\$145.75 million (about K488.12 million). The project will involve the construction of port facilities, incorporating a 2, 80,000 square metre tidal basin and multipurpose berths with all associated wharf side infrastructure and systems. Procurement of such a substantial funding by way of this loan agreement is a milestone for PNGPCL as the Tidal Basin wharf is envisaged to provide the long term solution to the capacity constraints at the Lae Port. Given the scope of the works that the project will involve, there will be an extensive prequalification and tendering process for experienced contractors before Phase one (1) of construction can begin.

### Financial Performance

PNGPCL made a net loss K2.96 million for the 2008 financial year. Factoring heavily in this loss was the reversing and accruing of additional tax payables which were unaccounted for in 2007 and carried forward to 2008. Financially the loss somewhat overshadowed the impressive operational performance of PNGPCL in 2008 and is a significant reversal from the K29.6 million profit declared in 2007. Nonetheless, the operational performance in terms of cargo throughput and shipping activity at the ports is reflected by the 20% jump in operating revenue from K78.1 million in 2007 to K94.3 million in 2008. In line with this, operating expenditure also increased by a notable 42%. This increase is attributed largely to the increase spending on the smaller non-profitable ports with the inclusion of Lorengau and Kieta which were recently transferred back under PNGPCL management.

Nonetheless, these financial figures are strong and reflect the commitment made by PNGPCL in improving customer focus and efficiency in its operations. As would be expected the three major port of Lae, Port Moresby and Kimbe generated over 90% of PNGPCL's total revenue, close to 100 % of the Net income and handled 78.9% of total throughput. As yet there has not been any strategic arrangement in terms of the managements of the smaller ports. The smaller ports are still kept operational by cross subsidies from the earnings of the larger profitable ports, with moves towards other alternative arrangements such as Private Public Partnerships and Community Service Obligations still in the conceptual stages.

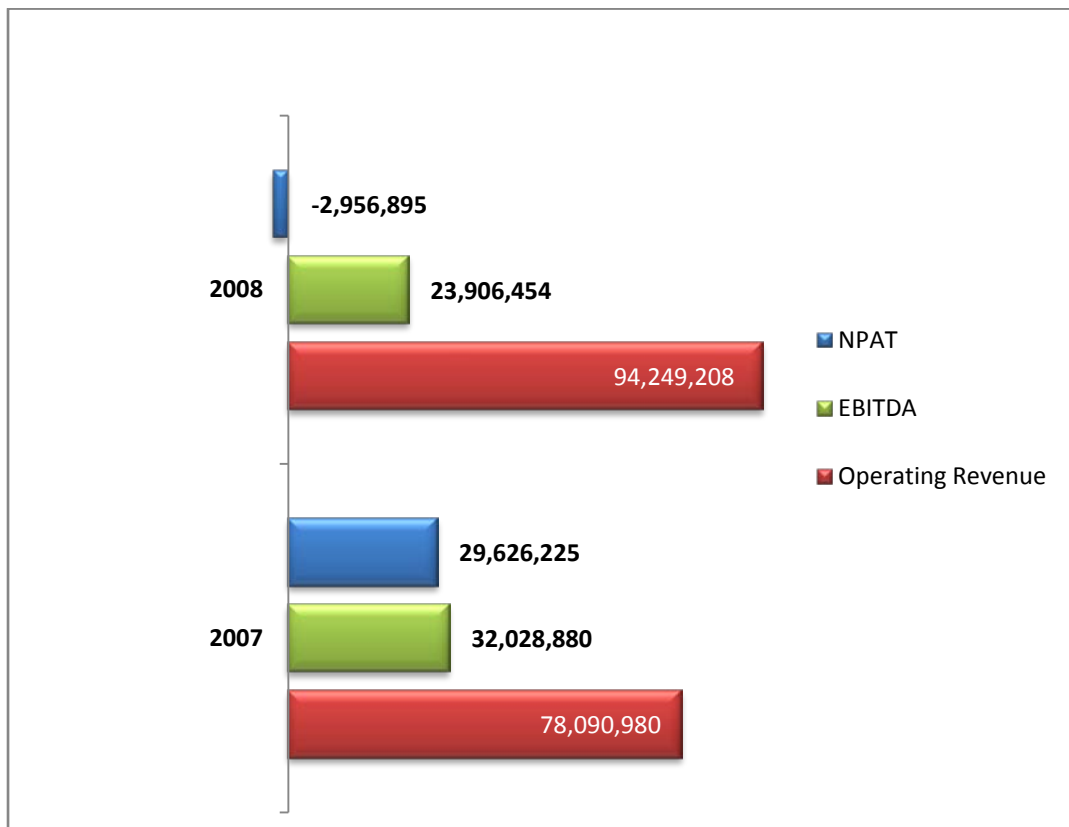
### Capacity Building

The year also saw continuation of the retrenchment program with more long serving staff leaving the company. This has made way for vigorous recruitment drives targeted at recruiting a more vibrant workforce. Consistent with the current corporate strategy the Board and Management have stressed the idea that it is imperative that the workforce develop a commercially oriented work culture to be parallel with the transition that the corporation is currently undergoing. Under the Boards direction, the Management has prioritized capacity building and institutional strengthening by way of sponsoring further training and specially designed courses and the involvement of technical advisors.

The most significant people change this year has been the recruitment of the company's new Chief Executive Officer ('CEO'), Mr. Brian Riches. Mr. Riches took the helm of the PNGPCL's operations from the Acting CEO Mr. Robert Nilkare who was acting in the role upon the untimely death of the former CEO, MR. Joshua Taruna, earlier in 2008. The Board appointed Mr. Riches after a rigorous recruitment process lasting 4 months. We are confident that he has the necessary back ground to chart PNGPCL's strategic direction going forward, given his extensive experience in corporate change management. The Board has strived to build a good working relationship with the CEO and have worked well together setting the foundations for the long benefit of PNGPCL.

PNG Ports also hosted the 2008 Pacific Countries Ports Association (PCPA) conference at the Holiday Inn on the 23<sup>rd</sup> of May. PNGPCL is a key member of the PCPA since its ports are the largest in the region. Through the PCPA we hope to enhance the growth of our ports through regional cooperation and networking to meet international efficiency and safety standards. The incumbent president of the PCPA is our very own CEO, Mr. Brian Riches, who with the Board aims to build strong networks with PCPA member countries while at the same time using this to build the company's own internal capacity going forward. This includes benchmarking against these other ports in the region.

**Financial Growth- 2007 versus 2008**





**Going Forward**

The 2008 financial year was a challenging year for PNGPCL with the company going through significant phase of corporate change. The country's favourable economic environment provided additional challenges with increased trade volumes which are expected to grow even further in the next four (4) to five (5) years. The Board has strived to work closely with Management to address these challenges and to ensure our internal capabilities are on par with the external environment and also with stakeholder expectations. There is still a lot to be achieved in this regard over the next year and onward and I believe with the same governance approach and prudent management practises PNGPCL will be well on its way to achieving its long term vision of being the premier port operator in the region.

## REPORT FROM THE CHIEF EXECUTIVE OFFICER

It is with pleasure that I report that PNGPCL have achieved a record high throughput level this year. These record trade volumes were largely related to favourable domestic economic conditions that have prevailed throughout the year. Having said that, such growth was anticipated and there has been extensive work done over the last two years to upgrade and expand the wharves and berthing facilities through our five (5) year Capital Expenditure Program. This is a major strategic priority and PNGPCL has made progress towards achieving these through strong financial performance and good support from external stakeholders.

In line with this a number of major projects were initiated this year. Projects which involved much needed rehabilitation on existing facilities, necessary expansion to accommodate for increase cargo and vessel dimensions and new facilities to meet stakeholder obligations. The PNGPCL Management is proud to report that a number of important projects which the company has made commitments for have been initiated this year.

### **Lae Berth No.3 Extension**

The extension of this berth was timely given the anticipated growth in cargo volumes at Lae, related to the boom in exports expected over the coming years. The project was awarded to Nawae Construction and will cost a total of K88 million to complete. This is by far the largest project that PNGPCL has undertaken in 2008 and it is conceptually estimated to extend the wharf by 100 metres. The project is ongoing and is expected to take 16 months for construction to be completed. Timely funding for the project was sourced from the 2008 GoPNG Public Infrastructure Budget.

### **Wewak Overseas Wharf Extension**

The extension of the Wewak wharf was another project funded by the GoPNG Program at an estimated cost of K47 million. The project was aimed at extending the causeway and berthing facilities by 80 meters. Project is currently in the design stage.

### **Kupiano Wharf**

As part of PNGPCL's social obligation it has entered into a jointing funding arrangement with the Government for the reconstruction of the Kupiano wharf. The government has appropriated K3 million with PNGPCL committing K1.5 million for this project. PNGPCL has engaged qualified contractors to carry out the works and once completed the port will service the people of Kupiano and the surrounding areas of the Abau District in the Central Province.

In addition to these two major expansion projects, funding commitment have been made to priority maintenance and rehabilitation projects in various ports in need of urgent work. Rehabilitation and maintenance projects carried out this year include;

- Lae berth 1 rehabilitation
- Lae berth 2 and 3 concrete repairs

- Lae berth 1 trestle repairs
- Lae pavement resealing
- Port Moresby Main wharf rehabilitation
- Port Moresby Berth 4A concrete resealing
- Wewak overseas wharf fenders
- Wewak drainage clearance and repairs
- Buka Pavement rehabilitation
- Alotau main wharf pavement repairs
- Daru causeway rehabilitation

PNGPCL is in a stage of significant management change and corporate restructure. In the 2008 financial year PNGPCL has taken bold steps towards meeting its key strategic priorities. The company is fast shaping itself to become a more customer focused result driven entity. In order to realise this, Management has set targets to accurately identify operational gaps within the organisation in order to develop a better understanding of its internal capabilities. This would then place the company in good stead to adapt to changes in the economic environment and also to changes in stakeholder demands.

To this end the management has placed significant emphasis on institutional strengthening and capacity building. Consistent with the company's strategic direction, management believes that a more result oriented and customer focused workforce will be the key drivers of this change. Investment in staff training and mentoring of existing staff through tailor made courses and specialised outside trainings reflects the Board and managements commitments to this end.

The 2008 financial year has been an eventful year for PNGPCL and I take this opportunity to thank the Chairman of the Board Dr. Ila Temu and his Board for their support and direction throughout the year. I also would like to extend my sincere appreciation to the management team and the staff of PNGPCL for the invaluable efforts in meeting the challenges the 2008 year had presented.

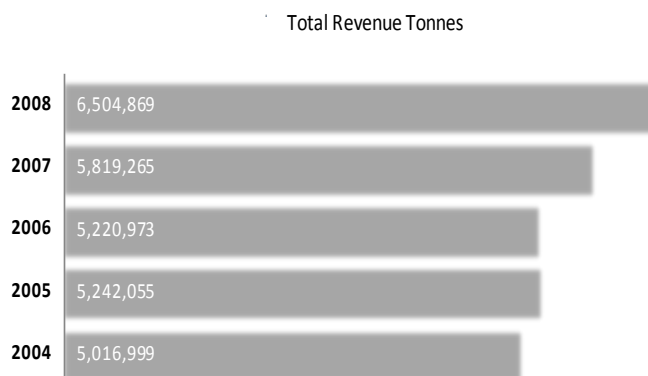
## TRADE REVIEW 2008

**Cargo throughput**

The highlight of the year had been the increases in the overall cargo and container volumes, driven by higher international commodity prices and domestic economic growth. These economic factors had the flow on effect of expanding the manufacturing, construction and the agricultural sectors. Also increased commercial bank lending, investments by the private sector and increased government spending further contributed to providing the necessary conditions for the increased trade. The favourable trade conditions persisted for the first two quarters of the year, until domestic inflationary pressures and the onset of the global financial crisis started to affect growth towards the end of 2008. Nonetheless, PNGPCL experienced a record cargo volume of 6,504,869 revenue tonnes as of 31<sup>st</sup> December 2008. The 2008 total is an 11.8% improvement from 2007's total throughput volume of 5,819,265 tonnes.

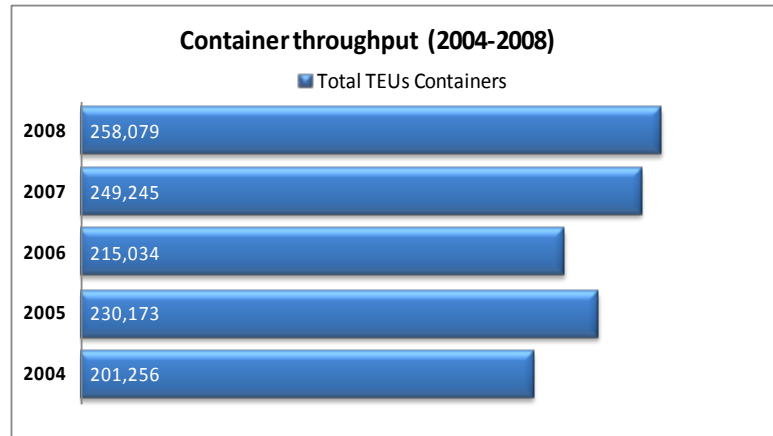
Of the overall throughput, volume of overseas exports rose to 13.9%, compared to an increase of 13.0% in overseas imports while the coastal trade experienced an overall 11.1% increase in trade. In terms of the composition of trade there were no significant changes with the ratio of overseas imports to exports increasing 38.5% to 18.2% from 2007's 38.1% to 17.7% split. The share of coastal trade fell slightly, making up the other 41.7%. Factoring heavily in this increased cargo volumes were the ports of Lae, Port Moresby, Kimbe and Rabaul which accounted for more than three-quarters of the total cargo throughput.

In terms of trade direction overseas cargo increased by 12.3 % and coastal trade 11.1% percent in 2008. The increase in overseas trade resulted from more overseas trade in Lae, Port Moresby and Kimbe in containerized exports by 22.9%, break bulk imports by 25.6%, petroleum imports by 65.7%, Coastal Trade also increased in the same cargo segments with increases in inward and outward containerized cargo of 21.4% and 12.1% respectively and also improvement in break bulk imports of 18.1%.

**Total Revenue Tonnes (2004-2008)**

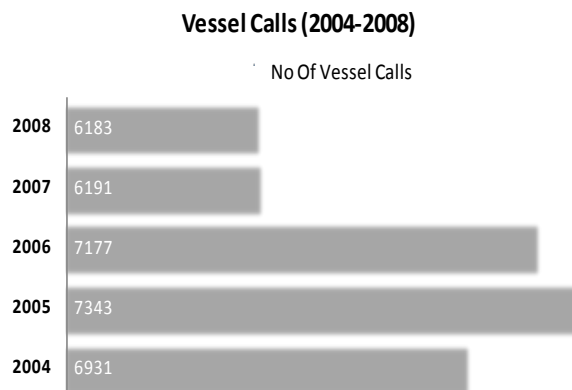
### TEU Throughput

Overall container traffic in all PNGPCL ports saw a total 258,079 TEU units being handled in 2008 compared to the 2007 total of 249,245 TEU units, an increase of 3.5 %. The increase in total TEUs handled from 2007 to 2008 was due to an 8 % increase in coastal TEUs while on the other hand, the number of overseas TEUs dropped by 0.14 %. This general decline in the number of overseas TEU units was due mainly to a reduction in the number of empty TEU containers. In spite of this, there were healthy increases in overseas inward and outward full containers of 8.5% and 6% respectively. The increase in Coastal TEUs was the result of a 14.4% and 9.2% increase in coastal inwards and outward full TEU containers.



### Vessel Throughput

A total of 6,183 vessels called into PNGPCL's ports in 2008, 2,563 of which were overseas vessels and 3,620 were coastal vessels. This represented a fall by 8 vessels or 0.1 percent from the 2007 total of 6,191 tonnes. Overseas vessel calls recorded a 4 % decrease while coastal vessel calls recorded a 3% increase from 2007. There were considerably more container vessels, barges and tankers which effectively meant more cargo being loaded and discharged. However, the number of general cargo vessels, log ships and fishing vessels all declined. There were also 37 more passenger vessels recorded in 2008 than in 2007.

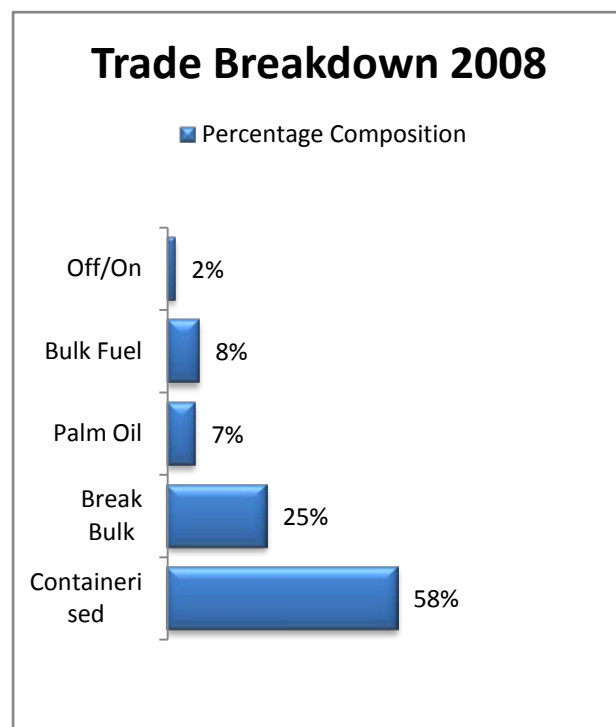
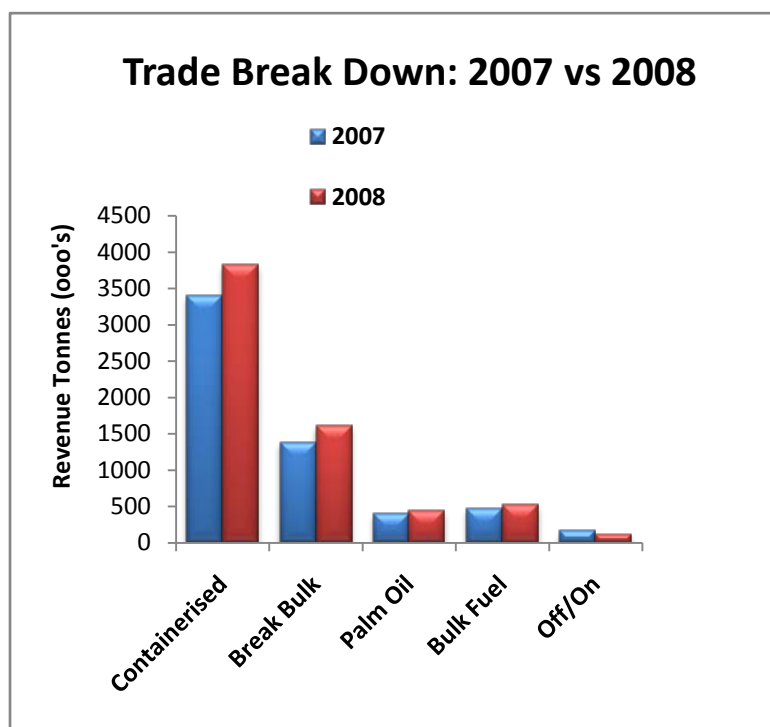


## Trade Breakdown

### Containerised Cargo

The total volume of containerised cargo exchanged through all ports rose by 11.8% to 3,819,957 tonnes, which is an 11 % increase from last year's volume of 3,401,818 tonnes. Containerised cargo still made up more than half of total overall cargo tonnage in 2008 with a 58.7% share.

The container export sector is expected to remain strong in the coming years with increasing economic growth and will be further boosted by the commencement of major resource projects in the National Capital District and the Highlands region. A significant share of the container trade is expected to be comprised of imports of general consumables bound for the retail industry to meet the growing domestic consumption levels.



### Break Bulk

The Break bulks trade registered 3,819,957 tonnes this year, a 12.3% increase from the previous year's volume of 3,401,818 tonnes of which constituted 24.8% of the total trade volume in 2008. Break-bulk cargo is expected to increase in line with the imports of large amounts of project and industrial materials bound for the numerous resource projects in operation around the country.

The increase also reflected higher demand and the ensuing expansion of economic activities and growth in the agriculture, forestry, fisheries and manufacturing sectors with construction commencing on several large scale building and engineering projects in NCD and the Highlands region. Thus a large proportion of the total break-bulk cargo consisted of construction and industrial raw materials and intermediate goods. By ports, Lae recorded 870,920 tonnes of break bulk while that of Port Moresby was 295,947 tonnes for the same with Lae leading in terms of exports in this sector.



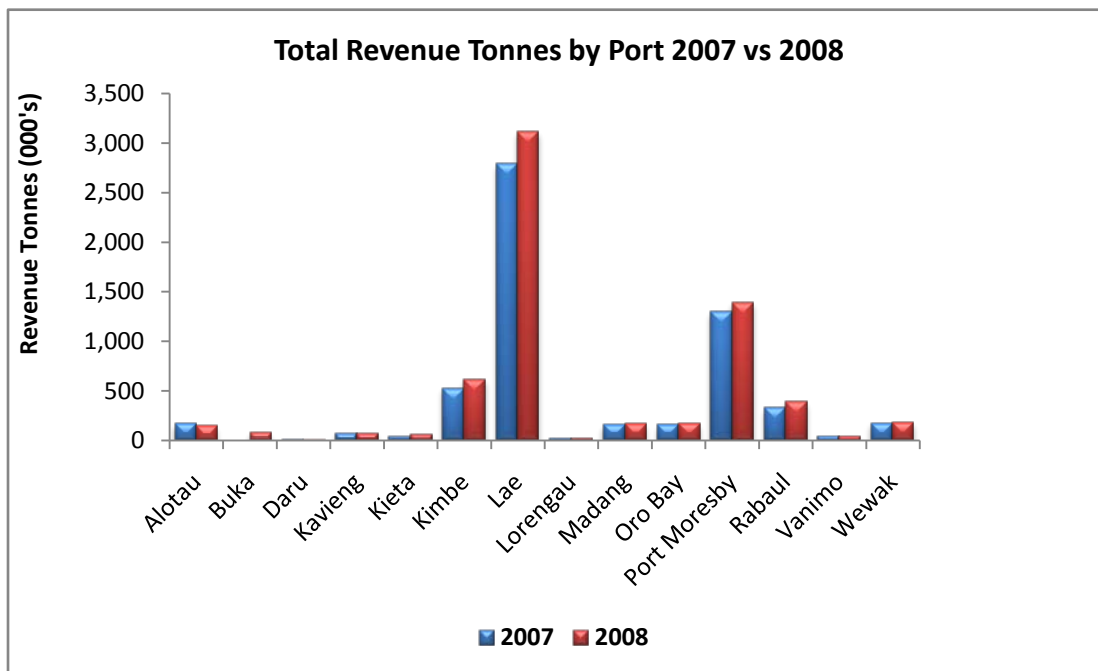
### Palm Oil

The total palm oil export for the year increased by 9.6% to 437,533 tonnes from 399,314 as recorded from the previous year. Again favourable international demand and strong prices have prompted increases exports in the producing Provinces of West New Britain, Northern Province and Milne Bay. The palm oil export is anticipated to maintain the increase given the 12 months recovery window for the crop and proposals for new plantations in the Oro and the Morobe provinces.

### Bulk Fuel

The import of bulk fuel experienced an increase of 11.3% to record 517,758 litre tonnes in total in 2008. Due to the current volatility of fuel prices, it is not possible to envisage any significant changes to this figure in the foreseeable future. However, prospects of increase petroleum export volumes can be held high with the various on-going Petroleum projects in Southern Highlands province still producing substantial quantities for markets around the region. Both coastal and overseas bulk fuel imports are expected to rise, thus there is a pressing need to upgrade facilities in the smaller ports to cater for the handling of bulk petroleum products.

### Port Performance



### Port Moresby

The Port Moresby port accounted for a 21.4% of the total cargo throughput passing through all the PNGPCL ports in 2008 with a total cargo volume of 1,393,622 tonnes and 68,666 TEU containers. Imports accounted for the bulk of the throughput with a 68 % share, while exports made up 29 % with other 3% coming from off and on cargo. In terms of trade source the split between overseas and coastal cargo was 53 % to 47 % respectively. Overall the total cargo throughput increased by 7% from 2007's total throughput. Based on current economic trends imports of petroleum products, timber and construction materials are projected to increase at the Port Moresby port in the next three years.

**Daru**

Daru port accounted for the smallest share of total cargo throughput in 2008 with 4,750 tonnes. In comparison with 2007 this total represents a substantial decline in throughput by 4,648 revenue tonnes. This is also in line with the fact that the port did not experience any overseas trade and zero container activity in 2008. The poor performance of the port this year in comparison with the previous year is a direct result of the deteriorating condition of the berthing facilities and the decline in economic activity in the Western Province.

**Oro Bay**

Total cargo tonnage at the port of Oro Bay made up 2.7% of the PNGPCL total in 2008 with 176,713 tonnes. This figure represents an overall increase of 8% for the year compared to the total tonnage for 2007. Coastal trade and overseas trade each contributed 39% and 61% respectively to the total tonnage for the port. Overall the port experienced a 7% increase in throughput from 2007's figure, owing to general increases in both coastal and overseas cargo.

**Alotau**

The port of Alotau accounted for a 2.3% share PNGPCL total trade volume for 2008 with 148,007 tonnes. This figure represents a 19% fall from the 2007 total of 176,238 tonnes. The drop in cargo for the port is linked with the substantial fall in overseas trade at the port. Coastal trade increased only marginally in 2008.

**Lae**

The Lae port consolidated its place as the largest of all the PNCPL ports in terms of cargo volume making up almost half of the total throughput of all the ports put together. The ports share of total trade volume was 48% with a total of 3,117,639 tonnes and 130,682 TEU containers. From the above total the split between overseas and coastal cargo amounted to 65% and 35% respectively. In terms of trade direction, imports dominated with 63% while exports accounted for 35% of the trade with the other 2% owing to off and on cargo.

Overall total trade volume at the Lae port rose by 10.4% compared to the total volume in 2007. Factoring heavily in this overall growth was a 14 % increase in containerized exports of agricultural commodities and a 15% increase in dry bulk imports of construction materials and general consumables. Cargo volumes and ship calls for the port is expected to further increase in the next three (3) years consistent with the projected growth in mineral and commodity exports and general consumables imports.

**Madang**

The port of Madang registered a modest 4% increase in total cargo tonnages with 169,073 tonnes compared to a total of 159,271 tonnes in 2007. The ports relative contribution to the total tonnage for 2008 was 2.6%. The split between coastal and overseas cargo out of the above total was 29% and 71% respectively. In terms of trade direction imports accounted for 55% of trade while exports accounted for the 41%. The overall increase for the port in 2008 was largely the result of growth in coastal exports.

**Wewak**

The port of Wewak contributed 2.9% of PNGPCL's total cargo throughput for 2008 with a total of 188,099 tonnes. The relative contribution of coastal and overseas cargo saw a split of 82% and 18% respectively. In terms of exports and imports out of the port, exports contributed a 35% share of total trade to imports relative contribution of coastal and overseas cargo saw a split of 82% and 18% respectively. In terms of exports and imports out of the port, exports contributed a 35% share of total trade to imports share of 65% for 2008. Generally, the port experienced a 13% increase in cargo volumes owing to moderate increments in both overseas and coastal cargo volumes.

**Vanimo**

The port of Vanimo experienced a notable increase in total cargo throughput in 2007 with a total of 43,213 tonnes up by 23% from 2007's total of 177,658 tonnes. Nonetheless, its relative contribution to the total throughput for all the ports inclusive was only 0.7%. Trade at the ports for 2008 was dominated by overseas exports largely consisting of logs and forestry products.

**Lorengau**

The remote port of Lorengau in the Manus Province registered a total throughput of 28,345 tonnes for the 2008 year. The port was previously operated by agents and was transferred back under PNGPCL management in 2006. Under the management of PNGPCL the port registered an increase of 3,655 tonnes in cargo throughput between 2007 and 2008. Imports accounted for the bulk of the trade volumes as the port is the only means by which essential goods and services enter into the island Province of Manus.

**Rabaul**

The Rabaul port contributed a 6% share of PNGPCL's total cargo throughput in 2008. The port performed strongly in 2008 with a total cargo throughput of 392,129 tonnes, up 16% from the 2007 total of 329,904 tonnes. The increase was generally the result of a combination of growth in both overseas and coastal trade. The direction of trade at the port leaned more towards imports with the break-up between imports and exports being 70% and 30% respectively.

**Kimbe**

The Kimbe port consolidated its position as PNGPCL's third largest port in terms of cargo throughput in 2008. The port accounted for 10% of PNGPCL's total cargo throughput for 2008 with a total of 622,893 tonnes which is a 15% rise from 2007's total of 527,834 tonnes. The strong trade performance was due to general increase in all cargo segments. Overseas exports dominated at the Kimbe port with a share of 57% of total cargo volumes.

**Kavieng**

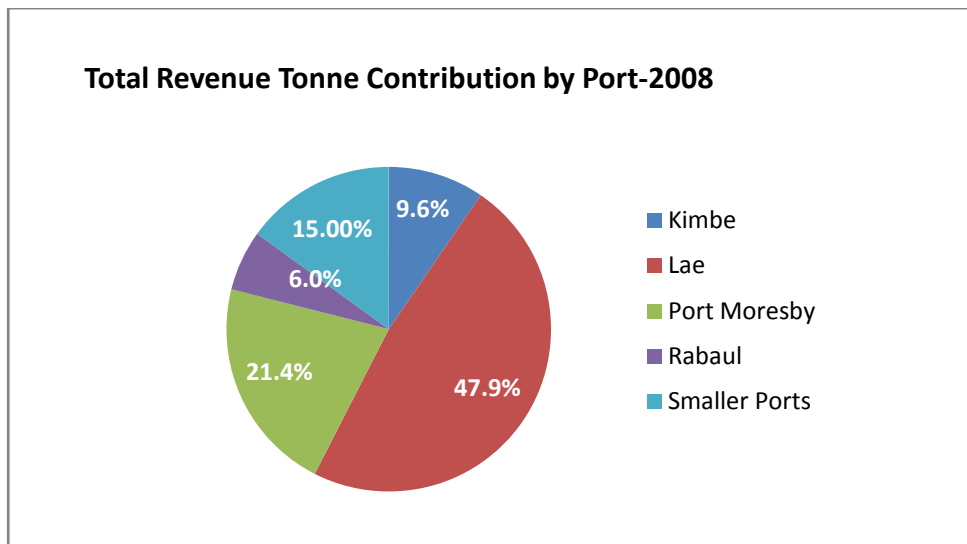
The Kavieng port did not experience any significant increase in throughput in 2008. Total cargo throughput for the port in 2008 was 74,026 tonnes. The port had little by way of overseas trade with coastal trade making up 81% of total cargo throughput. In terms of trade direction at the port, a larger share of trade consists of coastal imports.

**Buka**

The Buka port was transferred from agency management in 2007 and this year started registering shipping activity under the management of PNGPCL. Total cargo throughput for the port in 2008 was 81,954 tonnes with coastal trade accounting for the bulk of the cargo handled at the port with a 95% share of trade. The direction of trade at the port was still largely import based. Relatively the Buka port contributed 1% of PNGPCL's total cargo throughput in 2008.

**Kieta**

The port of Kieta recorded a total of 64,406 tonnes in cargo throughput in 2008. Relatively this total represents 1% of the total throughput for PNGPCL in 2008. The bulk of the trade at the port was coastal imports and overseas exports with the split between overseas and coastal trade for the year being 66% and 34% respectively. Overall the ports total cargo throughput increased by 22,816 tonnes compared to 2007's total of 41,590 tonnes.

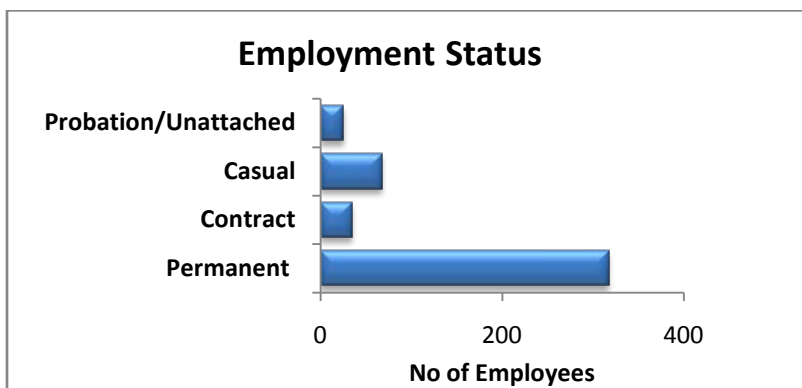


## SUPPORTING OUR PEOPLE

**Staff Strength**

There were quite a number of changes with PNGPCL workforce this year. At the year's end a total of 446 people were employed by the company compared to 443 in 2007, 72% of which were made up of port based operational staff. A total of 318 people were permanently employed, 35 were contract officers and the 68 were employed as casuals. The majority of casual employees were hired for work at the ports to alleviate manpower constraints in view of the increase operations at the larger ports.

A number of high level personnel changes took place this year including the recruitment of Mr. Brian Riches as the company's Chief Executive, the untimely death of Mr. Joshua Taruna, the General Manager Operations who had over 30 years experience in the industry. A total of 35 people were hired on contract, 22 of which were high level Technical and Managerial positions based at the company Head Quarters. There are still a considerable number of vacancies and recruitment is on-going and focused on hiring qualified personnel that can contribute towards the changing strategic direction of the organisation.

**Staff Benefits and Development**

PNG Ports has placed a lot of emphasis on the welfare of its staff as they will be the drivers of the company's strategic vision. There was a comprehensive review of the benefits structure of the company with a focus on a more performance based benefits structure. Important ones include Housing allowances, where all staff are paid an accommodation allowance commensurate with their salary grade under the Hays remuneration grade structure and is based on current market rental rates. Leave benefits structure has also been reviewed to be in accordance with 2002 Determination which allows for sick leave, compassionate leave, maternity leave, study leave, furlough leave and annual recreational leave.

Consistent with the company's focus on a performance based benefit structure the company has also introduced a bonus payment system for excellent performance to reward and also to motivate staff. A performance appraisal system has been put in place to evaluate staff performance and eligibility for bonus payments which will be paid at the end of the year as a percentage of total gross salary. The maximum amount that can be earned is 15% of total salary and the system applies to all salary grades.

Other significant staff benefits are a Domestic Market Allowance (DMA) structure to retain skilled technical officers with expertise that are scarce in the domestic market. PNGPCL has also in 2008 rolled out ex-gratia payments to pay retrenched staff with a maximum of 20 years of service to PNGPCL.

Considerable emphasis has been placed on staff training programs as it is essential in building the productive capacity of the workforce. Numerous special needs training courses, cadetship and apprenticeship programs have been progressive in 2008 to meet the changing personnel needs of PNGPCL. A number of employees were sponsored this year to undertake post graduate studies particularly in Management in prominent Institutions around the country and also abroad. Training Needs Analysis is an ongoing exercise to evaluate training requirements of staff towards how they can add more value to the company. Important staff training undertaken by PNG Ports this year include:

Major Staff Training and Study Programs-2008	
Human Resource Manager completed ILO Development Program Course in Singapore.	
Certified Practising Accountants (CPA) Examinations and Accounts Technician training for senior Finance Department staff.	
Port Worker Development Training conducted by PNG Ports Training Unit to selected PNG Ports operational staff.	
Management degree and diploma programs at Divine Word University for 10 middle managers and port business managers.	
Directors Training Workshop at the PNG Institute of Banking and Business Management.	
Corporate Management Training workshop for selected Senior Managers.	
Safety of Life at Sea (SOLAS) Seamanship training courses at the PNG Maritime Institute for selected pilotage staff.	

Further capacity building has come by way of the Transport Sector Support Program ('TSSP') which has engaged technical advisors to support the various Departments within the company. These advisors have and will continue to provide mentoring and direction to staff on a daily basis as well as provide advise to the Management on their specific technical fields of expertise. In addition to the TSSP advisors PNGPCL also engaged experts from the Australian Business Volunteers ('ABV') which provided advice and assistance on specific business needs within the Divisions and also provided practical advise to the staff on ways to increase efficiency and cost effectiveness in their work.



## Employee Health and Safety

With PNGPCL's drive towards a more commercially oriented work setting the company has also ensured that the safety of its workforce is not compromised in the process. Safety training programs are a necessary requirement at all ports. The varieties of safety training programs developed were designed to meet the employers and employees needs of the work environment in an effort to reduce workplace accidents and meet regulatory requirements. The safety division has reported that there has not been any major workplace injury this year.

Major Job Safety observation policies and training conducted in 2008
In house Safety Policies, procedures program awareness conducted by safety unit.
Basic First Aid training to all Administration and Operational staff conducted St John's and the Red Cross.
Risk Assessment and risk management conducted in-house and also externally by Seifti PNG.
Fire fighting and emergency response exercises conducted by PNG Fire service and port business partners.
Investigating and reporting accidents ongoing in-house training and by recognised institutions.
Issue of personal safety equipment to all Operation and administration staff.
Handling of dangerous goods-in-house and on the job training by safety division along with operation's staff.

## PORTFOLIOS – EXECUTIVE MANAGEMENT



**Mr. Brian Riches**  
**Chief Executive Officer**

Mr. Brian Riches commenced as PNGPCL's Chief Executive Officer on the 5th of March this year. Mr. Riches is an Australian with Papua New Guinean citizenship having spent over 25 years holding diverse management roles in the country. He also has over five years experience in the International and Development sector.

Previous management roles held by Mr. Riches prior to joining PNGPCL include Chief Operations Officer (Post PNG), Financial Management Advisor (PNG Forest Authority) and Financial & Operations Advisor (PNG Cocoa and Coconut Research Institute). Through these roles Mr. Riches has acquired extensive experience in corporate change management.

Mr. Riches holds a Master of Business Administration (MBA) from the Southern Cross University of New South Wales Australia. He also has affiliations with renowned professional bodies in both Australia and Papua New Guinea. He is an Associate Fellow of the Australian Institute of Management, a professional member of the National Institute of Accountants and a member of the PNG Institute of Directors.



**Mr. Ben Pukai**  
**Chief Operating Officer (Acting)**

Mr. Ben Pukai commenced employment with the company as a Trainee Wharf Supervisor on 08<sup>th</sup> November, 1973. He was promoted to the position of Port Manager Kavieng on February 1975. While at Kavieng, he applied for and was awarded a British Council's Technical Assistance Scholarship to study "Ports and Shipping Administration" at the University of Wales Institute of Technology (UWIST) Cardiff – United Kingdom for 10 months – 1976 to 1977 and graduated with a Diploma in Port and Shipping Administration (Dip PSA) which also qualified him to be a member of the Chartered Institute of Transport (MCIT).

Upon his return to PNG, he was posted to localised ports of Kieta, Rabaul and Madang – the three ports that were managed originally by expatriate Port Managers. During his many years of service, he also served as Port Manager – Wewak, Alotau, Oro Bay and Port Moresby. Mr. Pukai was appointed Acting General Manager (Commercial Operations) on 08<sup>th</sup> August, 2007 and Acting Chief Operating Officer when the former position was abolished on 17<sup>th</sup> October, 2008.



Mr. Avosa Oeri

**Executive Manager Finance and Administration**

Mr. Avosa Oeri joined the then Papua New Guinea Harbours Board in 1994 initially as an Audit Officer. In 2000 he was appointed as Management Accountant and later became Finance Manager.

He has been in the acting Executive Manager Finance role since 2003. Mr. Oeri comes from the Gulf Province and is an Accountant by Profession. Prior to joining PNGHL he worked for the Westpac Bank and PNG Power Limited.

Mr. Oeri holds a Diploma in Commerce and Bachelor of Commerce (Accountancy) from the PNG University of Technology. His professional affiliation includes CPA member with Certified Practicing Accountants PNG and associate member with the Institute of Internal Auditors.

**General Manager- Commercial Operations**

Mr. Ben Pukai was acting in the role of General Manager Commercial Operations since August 2007 and was later appointed as Acting Chief Operating Officer from 17th October to year end. The Position of General Manger Commercial Manger is still Vacant.

## CORPORATE SOCIAL OBLIGATIONS

PNGPCL is the sole statutory authority responsible for providing essential port services and infrastructure to the maritime provinces of Papua New Guinea. As such the company has Community Service Obligation by which it assists the wider community especially those around the vicinity of the ports by way of community sponsorship program. These sponsorships are targeted at community related and socially enriching causes, such as charity groups, sporting club, schools and related organisations and institutions.

In 2008 PNGPCL has assisted the wider community in quite a number of ongoing and new sponsorship assistants focused on promoting certain social and sporting activities involving communities and individuals in the rural and urban areas of the Maritime Provinces. Sponsorship assistance basically came under two areas; Community sponsorship and Sporting Sponsorship. The following causes received financial assistance from PNGPCL in 2008, with the total value of all corporate sponsorships for the year amounting to K3, 098,417 million.

Community Sponsorships	
1.	Financial assistance and establishing medical appeal for Mr. Rawali Kila to undergo major heart operation in Cairns, Australia.
2.	2008 Trukai Fun-Run T-shirts to Taurama Primary School
3.	UPNG (School of Medicine) Corporate Dinner – MBBS 2008
4.	Madang Cultural Festival
5.	Tourism Promotion Authority- Corporate Sponsorship for the 5th National Tourism Conference
6.	National Fisheries Authority- Support in Hosting 4th WCPFC Scientific Committee Meeting in Port Moresby
7.	The Leditami Foundation
8.	Supreme Industries Limited Sponsorship Payment – Little Princess of the World Contest
9.	Oxfam International PNG- PNG Gun Coalition Peace Meal
10.	PNG Fire Service Sponsorship - Lae
11.	Institute of Engineers PNG Inc.- Sponsor of 2008 National Conference
12.	Port Moresby Kiwi Club- Sponsorship for Table of 12
13.	PNG Red Cross Sponsor – Miss PNG Quest 2008
14.	On the job training assistance to unemployed youths at the Port Moresby City Mission

Sports Sponsorship	
1.	Sponsorship of Junior Tennis Tournament 2008
2.	Yumi Yet Basketball Team - Arawa
3.	PNG Paralympic Team to Beijing, 2008 games
4.	Oceania Archery Championships 2008
5.	Ms Isabel Seseare- Masters Tournament to Gold Coast, Australia 2008
6.	University Inter Football Club
7.	PNG Police Rugby League Team
8.	Team NCD PNG & Arafura -Corporate Dinner-Team NCD
9.	PNG Ports Volleyball Team
10.	New Ireland Provincial Independence Anniversary- Independence Day Corporate Float Parade
11.	PNG Ports Volleyball Team- Uniforms
12.	Port Moresby Corporate Touch- Awards Presentation Dinner







## SUPPORTING OUR ENVIRONMENT

PNG Ports has a commitment to conducting its business in an environmentally responsible manner in all its ports and port facilities for the benefit of all employees, stakeholders and the surrounding marine environment. The company's mission clearly emphasises this commitment to the environment and has strived to maintain this in this reporting period.

PNGPCL has endeavoured to foster a co-operative effort in meeting all necessary environmental standards, reducing risk of degradation and mitigating impacts. To this end PNGPCL has undertaken measures this year to establish an effective Waste Management Policy. PNGPCL through the respective Port Mangers have been in consultation with their respective stakeholders to develop and maintain complementary waste management system to effectively manage ship and port generated waste. PNGPCL has continually monitored and improved its waste management system to meet national and international standards.

The Company has complied with all regulatory requirements of the Department of Environment and conservation, the National Maritime Safety Authority (NMSA), and other relevant regulations that pertain to port waste management such as the Environment Act 2003 and Contaminants Act 1978 and Environmental Contaminants (Pesticides) Act 1978.

As the country's port authority handling international vessels the Company has also strived to comply with international and regional Environmental Laws and Conventions in particular the;

- International Maritime Organisation (IMO)
- United Nations Environment Program (UNEP)
- The MARPOL 73/78 (International Convention for the Prevention of Pollution from Ships)
- London Dumping Convention.
- Basel Convention
- Rotterdam Convention
- Stockholm Convention
- Noumea (SPREP) Protocol

PNGPCL has also aimed to integrate these waste management policy with those of the normal public solid, liquid and hazardous waste management operations of the relevant town and city authorities in which the ports are located.

In addition PNGPCL has maintained to provide to environmental regulators of the government the necessary Environmental Impact Assessments for major development projects on its ports as required by the Department of Environment and Conservation. The company has strived to maintain a transparent process by which these assessments are done and the ensuing environmental Impact Statements are documented and submitted by qualified professional consultants.

## CORPORATE GOVERNANCE

### Role of the Board

The Board of PNG Ports is responsible for the corporate governance of the company. Corporate governance is vital to the company's long term objectives as it progresses on to establishing itself as a genuine corporate entity. The Board executes this responsibility by setting the company's strategic direction, establishing targets for management, providing direction towards meeting these targets and monitoring performance of the management.

The Board is also responsible for appointing the Chief Executive Officer (CEO) to oversee and directs the day to day operations of the company. The CEO is accountable for the operational performance of PNGPCL and is the first point of contact when the board interacts with the Management.

### Board Composition

PNGPCL is a sole State Owned Enterprise, Corporatised under the Privatisation Act 2002. The Independent Public Business Corporation (IPBC) is the sole shareholder holding shares on the States behalf and as such the IPBC Act (Amended) 2007 sets forth the underlying provisions by which the company is governed and the appointment of its Board. In turn the IPBC reports to the Ministry of State Enterprises. In the absence of a company constitution PNGPCL as a corporation is also subject to the provision of the Company's Act 1997 in terms of the specific roles of the Board.

In accordance with the IPBC Act 2007, the Board members are appointed by the IPBC subject to the approval of the National Executive Council. The IPBC as the sole shareholder of PNGPCL under the IPBC Act appoints directors, the Chairman and deputy chairman. PNGPCL as of the 31<sup>st</sup> of December 2008 had five (5) Board, inclusive of the Chairman, which were appointed by the IPBC through the due process stipulate by the IPBC Act 2007.

### Ethical Standards

The Directors strive to uphold exceptional ethical standards when conducting themselves in the capacity as Directors of the PNGPCL Board. This also encompasses complying with all relevant legislations and codes of conduct of the State of Papua New Guinea and the Company's Act 1997.

### Directors Interest

As at the end of 31<sup>st</sup> December 2008 none of the Directors was a shareholder to the Company and did not have any material interest with PNGPCL or any related entity that undertook business with the company.

**Remuneration of Board**

In accordance with the Provisions of the Company's Act 1997, Section 212 (f) and (g), the shareholder of the company, through ordinary resolution has resolved that the company will not disclose details of the Directors remuneration in the 2008 annual report.

**Board Meetings**

Each year there are periodically scheduled Board Meetings to deliberate on agendas pertaining to the operations of PNGPCL. The management provides Board information papers to inform the Board on progress of certain projects or to propose recommendation for the Board's approval. In accordance with Schedule 4 of the Company's Act 1997 two days notice are given to all directors for a meeting and the meeting will proceed if there is a quorum of majority of the directors. All Board resolution is passed through a majority vote.

**Indemnity**

As prescribed by the IPBC Act 2007 the IPBC has the discretion to indemnify any director of his/her actions as director of PNGPCL. Breaches of the law and criminal acts are specifically exempted from this provision.

**Financial Results**

The Directors and the Shareholder are provided monthly and quarterly financial reports in approved templates. In terms of the annual financial statements the Board and the Management ensures that they are prepared in accordance with the generally accepted International Financial Reporting Standards (IFRS). The financial statements are also ensured to be in line with the requirements of the Company's Act 1997 which explicitly states that this is the responsibility of the Board.

**Auditors**

The Auditor of the company is the Auditor General of PNG (AG). The AG conducts the audit or appoints an agent to conduct audits of the company's accounts on its behalf at the end of each reporting period. The Audit Report is then provided by AG to the IPBC which then forwards it to the State Enterprises Minister to be presented in parliament.

## PORTFOLIOS – DIRECTORS



Dr. Ila Temu  
**Board Chairman**

Dr. Ila Temu holds a Bachelor's Degree (Hons) in Economics from the University of Papua New Guinea and a Masters Degree in Agricultural Development Economics from the Australian National University. After completing a PhD in Agricultural Economics from the University of California, Davis in 1990, he held various academic positions including Senior Lecturer of Economics at UPNG, Director of the National Research Institute in PNG and Director of the Pacific Islands Program at NCDS, Australian National University, Australia.

Dr. Temu has held a number of Board positions including Independent Public Business Corporation (IPBC), National Economic and Fiscal Commission (NEFC), and the PNG Incentive Fund. His current appointments are Board Director Bank of South Pacific, Chairman BSP Capital, Chairman PNG Ports Corporation Ltd and Council Member Divine Word University, Madang.

He commenced employment with Placer Dome as General Manager, Government Relations in the Port Moresby Office in 2000. Prior to this, Dr. Temu was Managing Director of Mineral Resources Development Company (MRDC) from 1996. MRDC is set up and owned by the State to manage State and Landowner equity in all major mining and petroleum projects in PNG. His most recent appointment was in October 2005 as the General Manager, Placer Dome, Tanzania. He was recalled to PNG following the acquisition of Placer Dome by Gold. He was appointed Country Manager, Barrick (PNG) in May 2006. Dr. Temu was appointed Chairman to the Board of PNG Ports Corporation Ltd in 2007 which he currently holds office.



Mr. Job Suat, BTS, MGIS  
**Director**

Mr. Suat is from the East Sepik Province and lives in Lae. He was appointed to the Board on the 9th January 2003. He graduated with a Bachelor of Technology in Surveying from the University of Technology, Lae, Morobe Province. He also holds a Masters Degree in Geographical Information System (GIS) from the University of Queensland, Australia. He currently holds the position of Head of Department for the Surveying and Land Studies. Prior to his teaching career, Mr. Suat was the Provincial Surveyor with the Department of Works in Wewak, East Sepik Province.



Mr. Michael Ikau  
**Director**

Mr. Michael Ikau is private Businessman from the East Sepik Province and is based in Wewak town. He was appointed to the Board on the 9th January 2003. He worked with Garrison Engineer (North) in Wewak for four (4) years, from 1984 - 1988 before establishing his own company.



Mr. Robert Nilkare  
**Director**

Mr. Robert Nilkare holds a Bachelor Degree in Commerce from Bond University, Australia. He has experience in senior executive positions both in the private and public sector businesses. Mr. Nilkare developed his commercial background in the consumables industry in marketing, brand management and research.

He attended the General Manager Program at the Australian Graduate School of Management (UNSW) and successfully completed the program in 2007. Mr. Nilkare has senior executive experience through his association with various family owned enterprises ranging from the gaming industry, transport through to coffee. His current senior position has developed him in areas of strategic planning, organizational restructuring, corporate acquisitions and transactions.

Mr. Nilkare is currently employed as Project Manager/Executive Advisor for the Independent Public Business Corporation (IPBC) since 2003. He currently serves as a Director in various companies namely; CTC (PNG) Ltd (formerly Pacific Rim Plantations Ltd), PNG Forest Products Ltd and Open Bay Timber Ltd. He was appointed to the Board of PNG Ports Corporation Ltd in 2007. He is also a member of the Electricity Industry Policy Task Force, providing advice from an industry participants perspective (IPBC owns PNG Power Ltd). Current role as Executive Advisor is providing policy and strategic management support to the SOE Boards and CEO's when necessary.



Mr. Kepas Wali  
**Director**

Mr. Kepas Wali joined PNG Harbours Limited in November 2003 and since then has been the Acting General Manager for the organisation. Mr. Wali is from the New Ireland Province and is a Petroleum Engineer by profession and had a distinguished career in the petroleum industry spanning over two decades.

His career started with the Department of Minerals and Energy as a scientific officer. In 1990 he joined Chevron Niugini and was posted overseas to their Chevron Overseas Petroleum Inc. Company as their Petroleum and Production Engineer working in USA in the states of Texas, Oklahoma, Kansas and Mississippi. He later transferred to Port Moresby and then to Cairns and Brisbane as Technical Representative and Petroleum Engineer for Chevron on the PNG Gas Project. Mr. Wali left Chevron in 2001 and worked as a consultant for Sofreco on a World Bank funded project on Gas Development and Utilisation Project in PNG.

He graduated from UPNG with a Bachelor of Science in 1980 and also holds a Post Graduate Diploma in Petroleum Engineering. His professional affiliations includes; member of Institute of Engineers PNG and member of Society of Petroleum Engineers (USA chapter). Mr. Wali also serves as a Director on the Board of the National Maritime Safety Authority

## REPORT FROM THE DIRECTORS

In our opinion, the attached Financial Statements and Notes thereto have been drawn up so as to present fairly the results of the operations for the year ended 31 December 2008 and the state of affairs of PNG Ports Corporation Limited as at that date.

Except as disclosed in the attached statements or in the notes thereto, we are of the opinion that: -

- (a) The results of PNG Ports Corporation Limited for the year have not been materially affected by items, transactions or events of an abnormal character,
- (b) No circumstances have arisen which would render any amount shown in the statements misleading,
- (c) The current assets of PNG Ports Corporation Limited including debtors are expected to be realised in the ordinary course of business at least the value at which they are included in the statements,
- (d) Fixed assets including 'Work-In-Progress' to the values shown in the statements were all in existence at 31 December 2008, and
- (e) All contingent liabilities that would materially affect the ability of PNG Ports Corporation Limited to meet its obligations as and when they become due have been disclosed in the statements.  
(Refer note 20)

### Activities

The principle activity of the company as promulgated by the Harbour Act (Chapter 240) is the provision of management services, operations and control of all activities governing the movement of ships and cargo handling within its declared ports strategically located throughout Papua New Guinea.

### Result

The net profit/ (loss) after taxation and prior year adjustments for the year was a loss of K2, 956,895 (2007: profit K29, 626,225)

### Dividends

During the year the directors have declared dividends of K nil (2007: K nil).

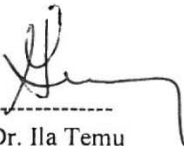
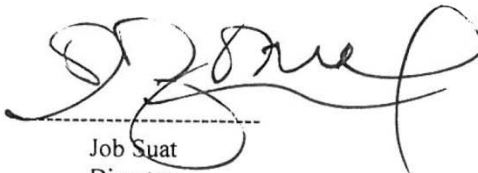
### Directors Interest

No Director was a shareholder of the company as at 31 December 2008 and none had any material interest in any contract or arrangement with the company or any related entity during the year.



**Remuneration of Directors and Employees**

In accordance with the provisions of the Companies Act 1997(section 212, (f) and (g)), the shareholders of the company have resolved that the company does not need to disclose Directors and Employees remuneration in its annual report.

  
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Dr. Ila Temu  
Chairman  
Dated... 31/05/10 .....  
-----  
Job Suat  
Director  
Dated: 31/05/10 .....

## REPORTING OUR FINANCIALS



Phone : (+675) 301 2200 Fax: (+675) 325 2872 Email: agopng@ago.gov.pg Website: www.ago.gov.pg

Date: October 7, 2010

Reference: 31-63-4

### AUDITOR'S REPORT TO THE MEMBERS OF PNG PORTS CORPORATION LIMITED

I have audited the accompanying financial statements of **PNG Ports Corporation Limited** for the year ended **31 December, 2008** as set out on pages 36 to 57, which comprise the statement of financial position as at 31 December, 2008, and the income statement, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### Responsibility for the Financial Statements

Directors and Management are responsible for the preparation and fair presentation of the financial statements in accordance with *International Financial Reporting Standards and the Companies' Act 1997* and other statutory requirements. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and presentation of the financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

#### Responsibility of the Auditor General

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the *Audit Act and International Standards on Auditing*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

#### BASIS FOR DISCLAIMER OF OPINION

##### Limitation of Scope arising out of prior year's Disclaimer of Opinion

I audited the financial statements of the Corporation for the year ended 31 December, 2007 and issued a full disclaimer of opinion on them. Consequently, I am unable to quantify the effects of such material misstatements of the opening balances that might have a bearing on the balances reported in 2008 financial statements. I was unable to perform sufficient audit procedure to satisfy myself as to the accuracy and the completeness of the opening balances.

Any adjustment that are found to be necessary on such opening balances would have a consequential effect on the profit and loss account for the year ended 31 December, 2008 and the comparative profit and loss account presented.

#### **Internal Control Environment**

Several weaknesses were noted in PNGPCL's accounting systems and the overall internal control environment of the period under audit. I also noted that weakness in the management information system contributed to the ineffective monitoring of the preparation and quality of the financial statements.

#### **Property, Plant & Equipment- K239,866,298**

The review of fixed asset register revealed that fully depreciated fixed assets were reinstated and depreciated due to the transition from Old System (Oracle) to new system (Finance Technology One). The total written down value of fixed assets of K156,186,551 was transferred from Oracle to the Finance Technology One. It was noted that those fully depreciated assets in the fixed asset register were reinstated to the original cost due to an error by recording the date of transition period as acquisition date. Further, this error has resulted in incorrect and excess depreciation being charged in 2008 and as a result, written down values had been misstated at the balance date. Consequently, I was unable to verify the completeness and accuracy of the property, plant & equipment balance at the year end.

#### **Unrecoverable Investments in K16 million in Lehman Brothers and K9 million in Metal Storm Limited.**

PNGPCL made Investments in international financial institutions through BSP Capital Limited, the Investment Manager for PNGPCL. According to documents I have reviewed, Lehman Brothers had gone bankrupt and legal proceedings are being undertaken by a legal firm to take hold of the collateral and to recoup investors' money. Metal Strom Ltd had been declared insolvent subsequent to 31 December, 2008 as per their investment manager, BSP Capital Limited. Subsequent to audit, PNG Ports Corporation Limited (PNGPCL) has fully provided for K16 million, the book value of investments in Lehman Brothers. I was unable to verify the carrying value of these investments at balance date due to lack of audit evidence from PNGPCL.

#### **Taxation – K22,495,609**

As disclosed in Note 13(c) to the financial statement, income tax expense for the year was computed on prim facie basis without considering any tax adjustments. Thus, PNGPCL has not calculated or adjusted the tax effect in the financial statements and has not complied with the *International Accounting Standard 12 (IAS 12)* on income taxes. I was unable to verify the current year tax balances and prior period tax adjustments due to lack of audit evidence. In my opinion, tax balances and expenses for the year ended are materially misstated.

**Non Lodgement of Annual Returns as Required by the Companies Act, 1997**

I observed that important statutory compliance matters such as Annual Return was not lodged with the Registrar of Companies as required by the *Companies Act, 1997*. The only Annual Return provided for audit verification was that for 2005 while the Annual Returns for 2006 and 2007 were yet to be lodged with the Internal Revenue Commission. Non-lodgement of Annual Returns is not in compliance with the *Companies Act, 1997*.

**Adjustments to Retained Earnings –K2,956,895**

There was a variance of K2,956,895 in the opening balance of retained earnings in 2008. As per the PNGPCL management these were brought forward from 2005 and had not been reconciled in a timely manner. PNGPCL could not provide any detailed listings for these adjustments amounting to K4,866,854. Due to lack of audit evidence, I was unable to comment on the completeness and accuracy of these transactions which were charged to profit and loss in 2008.

**DISCLAIMER OF AUDIT OPINION**

In my opinion, because of the significance of the matters discussed in the preceding paragraphs, I am unable to and do not express an opinion on the financial statements of the Company for the year ended 31 December, 2008.

**Other Legal and Regulatory Requirements****Breach of *Public Finances (Management) Act, 1995* and *Companies Act, 1997***

The Company did not comply with the provisions of the *Public Finances (Management) Act, 1995* and the *Companies Act, 1997* in preparing and presenting the audited financial statements within the required timeframe. The 2008 financial statements were submitted to audit only on 16 June, 2009 and due to the Company's inability to provide timely information, the audit was suspended on numerous occasions and finally concluded in July 2010.



**GEORGE W. SULLIMANN**  
*Auditor-General*



BALANCE SHEET AS AT 31<sup>ST</sup> DECEMBER 2008

	NOTES	2008 K	2007 K
<b>ASSETS</b>			
<b>Current assets</b>			
Trade and sundry debtors	10	14,303,030	6,083,325
Cash on hand and at Bank		1,658,293	9,781,229
Interest receivable and prepayments	11	26,788,190	497,900
		<u>42,749,513</u>	<u>16,362,454</u>
<b>Non-current assets</b>			
Loans to shareholder	6	1,504,210	1,504,210
Property, plant & equipment	4	239,866,298	192,641,200
Deferred tax asset	13(a)	-	2,795,172
		<u>241,370,508</u>	<u>196,940,582</u>
<b>Investments</b>			
Short Term Deposits	8	6,373,336	48,140,906
Long Term Deposits	8	25,060,000	9,103,016
Provision for Investments	8	(16,060,000))	-
Investment cost	8	-	35,607
		<u>15,373,336</u>	<u>57,279,529</u>
<b>Total Assets</b>		299,493,357	270,582,565
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
International loans	7	15,145,638	17,245,638
Trust funds & cargo levies	9(i)	987,116	896,947
Trust funds – wharf projects	9(ii)	4,548,301	19,775,410
Trade creditors & accruals	3	7,760,746	5,591,308
Employee provisions	18	5,151,368	4,547,013
Provision for dividend	12	-	-
Provision for income tax	13(b)	12,536,138	(6,246,638)
		<u>46,129,307</u>	<u>41,809,678</u>
<b>Non-current liabilities</b>			
Deferred Income		22,810,034	1,786,953
Deferred Tax Liability	13(a)	34,248,586	(1,470,872)
		<u>57,058,620</u>	<u>316,081</u>
<b>Total Liabilities</b>		103,187,927	42,125,759
<b>NET ASSETS</b>		<u>196,305,430</u>	<u>228,456,806</u>
<b>CAPITAL &amp; RESERVES</b>			
Equity Capital	2	15,339,965	15,339,965
Accumulated Profits(Losses)		15,469,933	18,426,828
Asset Revaluation Reserve	5	165,495,532	194,690,013
<b>Total Capital and Reserves</b>		<u>196,305,430</u>	<u>228,456,806</u>

PROFIT AND LOSS STATEMENT FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2008

	NOTE	2008 K	2007 K
Operating Revenue	15	94,249,208	78,090,980
Deduct: Operating Expenditure	17	(70,342,754)	(46,062,100)
Operating Profit		23,906,454	32,028,880
<b>Add: Other Income</b>	16	3,166,277	3,145,810
<b>Less:</b>			
Finance Cost		-	-
Depreciation Expenses	17	(7,534,017)	(5,548,465)
Profit Before Tax		<b>19,538,714</b>	<b>29,626,225</b>
Income tax expense @30%	14	(22,495,609)	-
<b>Net profit/ (loss) for the year</b>		<b>(2,956,895)</b>	<b>29,626,225</b>

To be read in conjunction with the notes to and forming part of the financial statements as set out on pages 38 to 54.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2008

	Establishment Capital	Asset Revaluation Reserve	Accumulated Profit/ (Losses)	Total Retained Earnings
Balance at 31 Dec 2007	15,339,965	194,690,013	18,426,828	228,456,806
2008 Profits/ (loss)	-	-	(2,956,895)	(2,956,895)
Balance as at 31/12/08	<b>15,339,965</b>	<b>194,690,013</b>	<b>15,469,933</b>	<b>225,499,911</b>
Revaluation Adjustments	-	(29,194,481)	-	(29,194,481)
Balance as at 31/12/08	<b>15,339,965</b>	<b>165,495,532</b>	<b>15,469,933</b>	<b>196,305,430</b>

To be read in conjunction with the notes to and forming part of the financial statements as set out on pages 38 to 54.



STATEMENT OF CASHFLOWS FOR THE YEAR ENDED 31<sup>ST</sup> DECEMBER 2008

	<u>NOTE</u>	<u>2008 K</u>	<u>2007 K</u>
<b>Cash flows from operating activities</b>			
Cash receipts from customers		94,170,429	84,056,121
Cash paid to suppliers and employees		(62,611,937)	(42,696,663)
<b>Cash Generated from operations</b>		<b>31,558,492</b>	<b>41,359,458</b>
Income Taxes Paid		(6,677,580)	(11,169,275)
<b>Net cash from operating activities</b>		<b>24,880,912</b>	<b>30,190,183</b>
<b>Cash flows from investing activities</b>			
Advance paid to Contractors		(26,788,190)	
Purchases of Property Plant and Equipment		(54,261,215)	(18,234,771)
Proceeds from the sale of equipment		271,148	768,721
<b>Net cash used in investing activities</b>		<b>(80,778,257)</b>	<b>(17,466,050)</b>
<b>Cash flow from financing activities</b>			
Proceeds from Trust Funds		5,795,972	18,105,351
Loan repayments		(2,100,000)	(2,360,890)
Interest Income		2,172,244	1,524,139
<b>Net cash from financing activities</b>		<b>5,868,216</b>	<b>17,268,600</b>
<b>Net Increase/(decrease) in cash held</b>		<b>(50,029,129)</b>	<b>29,992,733</b>
<b>Cash at beginning of the financial year</b>		<b>67,060,758</b>	<b>37,068,025</b>
<b>Cash at the end of the financial year</b>		<b>17,031,629</b>	<b>67,060,758</b>
<b>Cash represented by:</b>			
- Cash on hand and in bank		1,658,293	9,781,229
- Cash equivalents: - Short Term Deposits	8	6,373,336	48,140,906
.... - Long Term Deposits	8	9,000,000	9,138,623
		<b>17,031,629</b>	<b>67,060,758</b>

To be read in conjunction with the notes to and forming part of the financial statements as set out on pages 38 to 54.

## NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENT

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of Preparation

These financial statements are prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") which include the International Accounting Standards (IAS). The accounting policies adopted are consistent with those of the previous year unless otherwise stated.

### b. Property Plant and Equipment

#### **Cost/Valuation**

Property, Plant and Equipment are stated at the lower of cost, valuation or recoverable amount. In relation to port installations cost, represent the accumulation of all development expenditures incurred to expand the capacity of the wharves. Any gain or loss on the disposal of assets is determined as the difference between the carrying value at the time of disposal and the proceeds from disposal and is included in the results of the period of disposal.

#### **Depreciation**

Depreciation is calculated on a straight-line basis so as to write off the net cost or valuation of each asset during its expected life. Additions are depreciated from the date of acquisition. Principal annual rates in use are based on the following estimated useful lives: -

Leasehold Land	- not amortised or depreciated,
Buildings	- 30 years straight line,
Machinery and Equipment	- 5 years straight line,
Motor Vehicles	- 3 years straight line,

### c. Income Tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry forward of unused tax assets and unused tax losses can be utilized.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (con't)

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

### d. Revenue recognition

#### **Operational Revenue**

Revenue related to the provision of management services, operations and control of all activities governing the movement of ships and cargo handling are brought to account when the service has been rendered by or on behalf of the Company.

#### **Government grants.**

Grants provided by government agencies are recognised as revenue and accounted for in accordance with the International Accounting Standard number 20 (IAS 20) on "Accounting for Government Grants and Disclosure of Government Assistance".

#### *Other income*

Other income includes interest on short terms deposits and investments and gains from the sale of non-current assets.

### e. Employee Benefits

Provision is made for long service leave and annual leave estimated to be payable to employees on the basis of statutory and contractual requirements. Prorate leave provisions and contributions to superannuation funds are charged against earnings when due.

### f. Receivables

Receivables are stated at their nominal amounts less allowance for any doubtful debts.

### g. Payables

Trade payables and accruals are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services.

### h. Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provision for doubtful debts are made for all debts over 60 days old to reflect provisions of credit policy in place.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(con't)*

### i. Cash and cash equivalents

For the purposes of the statement of cash flows, cash includes cash at bank and on hand and interest bearing investments readily convertible into cash net of bank overdrafts.

### J Borrowings

Loans payable to the Government are carried at cost, or adjusted cost.

## 2. CONSTITUTION AND CAPITAL

### (i) Constitution

The PNG Harbours Board was incorporated as PNG Harbours Limited on the 19<sup>th</sup> June 2002 under the Privatisation Policy approved by the NEC in pursuance of the Privatisation Act 1999, which replaced Harbours Board Act (Chapter No.240) with the Harbours Act, Chapter 240. The name has been changed since to PNG Ports Corporation Limited.

### (ii) Equity

The capital of the PNG Ports Corporation Limited is deemed to be the initial capital as stated under the Harbours Act, Chapter 240 Section 11. This is supported by Legislation, Section 27 and 28 of the Harbours Act requiring the Minister to grant special purpose leases over the following ports: - Port Moresby, Rabaul, Lae, Madang, Kavieng, Samarai, Wewak, Kieta and Kimbe.

The values at which the ports were transferred including pre-existing facilities were as follows:

	2008 K	2007 K
<b>Initial Capital Contribution</b>		
Port Moresby	1,704,700	1,704,700
Rabaul	1,340,800	1,340,800
Lae	800,500	800,500
Madang	1,350,000	1,350,000
Kavieng	154,800	154,800
Samarai	262,200	262,200
Wewak	860,000	860,000
Kieta	670,000	670,000
Kimbe	980,000	980,000
	<u>8,123,000</u>	<u>8,123,000</u>
Write down on valuation	(293,000)	( 293,000)
	<u>7,830,000</u>	<u>7,830,000</u>
Stakeholders fund reserves	7,509,965	7,509,965
<b>Total Equity</b>	<u><u>15,339,965</u></u>	<u><u>15,339,965</u></u>

Stakeholder fund reserves are State contributions as Shareholders to fund the port installations projects. These funds are reflected as the shareholder capital contribution to PNGPCL. These funds were initially reflected as trust funds held on behalf of the State for the port installation projects, Refer note 9(ii)

### 3. TRADE CREDITORS AND ACCRUALS

	2008 K	2007 K
Trade creditors	3,048,891	859,39
Accruals	1,764,371	2,472,772
Navigational aids	-	92,577
Withholding tax	274,265	(1,104)
Goods & services taxes payable	1,005,325	1,227,917
Stevedores security deposit	10,000	-
Tender deposits	105,708	-
Staff creditors	2,681	13,952
NFA suspense	11,355	422
Retention Money	1,538,150	-
Garnishee	-	925,374
	<b><u>7,760,746</u></b>	<b><u>5,591,308</u></b>

### 4. PROPERTY, PLANT AND EQUIPMENT

Fixed Assets are accounted for in accordance with the policy set out in Note 1(b).

Operating assets include wharves, buildings, fences, electrical and sewerage installations grouped in the Balance Sheet under the heading "Wharves, Facilities and Buildings" and are stated at valuation. Formal valuations are required every three years to meet IAS 16 on Property, Plant and Equipment in relation to revaluations. An independent valuation was performed this financial year in an attempt to bring to account operational assets at fair market value.

All the other assets are valued at cost except:

- (a) Land, which is carried at a combination of the valuation of the Valuer-General on land, transferred to PNGPCL from the Government and cost where PNG Ports Corporation Limited has reclaimed land and acquired land.

A summary of all fixed assets is given below: -



Note 4 cont...	Leasehold	Wharves, Facilities	Residential	Vehicles	Office Machines &	Work in	Total
<u>Fixed Assets Summary</u>	Land	and Buildings	Buildings & Fittings	and Boats	Other Equipment	Progress	
	K	K	K	K	K	K	K
<b>Cost or Valuation</b>							
Opening balance at cost 1 January 2008	6,829,024	307,853,059	15,568,345	6,637,578	8,793,044	45,358,056	393,039,106
Additions/Capitalisations		18,640,183	80,889	1,017,477	1,498,963		21,237,512
Asset Valuation Increase							-
Asset Valuation adjustments							-
Work In Progress (Act-51010)						31,257,486	30,556,936
Capital Work In Progress (Act-51050)						22,681,809	22,681,809
Capital Work In Progress (Act-51070)						(1,371)	(1,371)
Capital Work In Progress (Act-51080)						3,963,206	3,963,206
Less: WIP capitalized/expensed in 2008						(24,118,076)	(23,684,123)
Disposals & Retirements	(53,000)		(515,000)	(122, 127)	(3,959)		(694,086)
<b>Ending Balance- 31 DECEMBER 2008</b>	<b>6,776,024</b>	<b>326,493,242</b>	<b>15,134,234</b>	<b>7,532,928</b>	<b>10,288,048</b>	<b>79,193,350</b>	<b>445,417,826</b>
<b>Depreciation/Amortisation</b>							
Accumulated depreciation- 1 January 2008		177,027,077	10,091,909	5,949,330	5,381,839		198,450,155
Charge for the year		4,754,381	620,841	712,687	1,436,681		7,524,589
Decrease in Depreciation- Asset Valuation		60,930	(26,770)	5,294	5,115		44,570
Disposals and Retirements			(341,700)	(122,127)	(3,959)		(467,786)
<b>Ending Balance- 31 DECEMBER 2008</b>	<b>-</b>	<b>181,842,388</b>	<b>10,344,280</b>	<b>6,545,186</b>	<b>6,819,675</b>	<b>-</b>	<b>205,551,528</b>
<b>Net Book Value- 31 DECEMBER 2008</b>	<b>6,776,024</b>	<b>149,561,573</b>	<b>4,789,954</b>	<b>987,742</b>	<b>3,468,373</b>	<b>78,920,753</b>	<b>239,866,298</b>
<b>Net Book Value- 31 DECEMBER 2007</b>	<b>6,829,024</b>	<b>130,825,982</b>	<b>5,476,436</b>	<b>688,247</b>	<b>3,411,205</b>	<b>45,410,296</b>	<b>192,641,200</b>

## 5. ASSET REVALUATION RESERVE

The Fair Market Value of the land, wharves, buildings and site improvements have been established by assessing their market values and then assessing added values arising from improvements to these assets. Added values include consideration of special types of construction or fit-out, which have been carried out to suit PNGPCL.

The purpose of the valuation is to reflect fair market values as required by the International Financial Reporting Standards. No amortisation was charged against the revaluation reserve during the year.

A valuation was carried out in 2008 with a net decrease of K29,194,481 in asset values by a real estate agent. The amount of K165,495,532 (2007: K194,690,013) represents revaluation of land and operational assets as detailed below:-

	2008	2007
	K	K
Balance 1 January 2008	194,690,013	97,375,076
Add: Revaluation Surplus/ (deficit)	(29,194,481)	97,314,937
<b>Total Revaluation Reserve</b>	<b>165,495,532</b>	<b>194,690,013</b>

## 6. LOANS TO SHAREHOLDER

	2008	2007
	K	K
Balance 1 January 2008	1,504,210	1,504,210
Movements	-	-
<b>Total</b>	<b>1,504,210</b>	<b>1,504,210</b>

Loans to State as shareholder are as a result of undeclared dividends paid to the State between 1995 and 2001. The Company expects to recover these loans by offsetting against amounts payable on loans from the State where negotiations are still in progress.

## 7. LOANS

### International Loans

	Principal 2008 K	Principal 2007 K
Asian Development Bank No SF repayable in half yearly instalments from December 1988	nil	700,000
Asian development bank No. PNG 468 repayable in half Yearly instalments from December 1988	15,145,638	16,545,638
<b>Total Loans</b>	<b>15,145,638</b>	<b>17,245,638</b>

The Government of Papua New Guinea is the primary borrower of the above International Agency Loans, and PNG Ports Corporation Limited, acting as a sub-borrower and executing agency. The amounts shown represent amounts payable by PNGPCL to the State at years end. As at the 31 December 2008, the loans payable to the State were unsecured and interest free. These amounts can be called up by the State at any time.

## 8. INVESTMENTS AND INVESTMENT COST

Investments comprise the amount of interest bearing deposits placed with various commercial banks and financial institutions. Investment cost is the premium paid for the acquisition of the inscribed stocks purchased during 2004. This cost is being amortised over the life of the Inscribed Stocks Investment and will be fully amortised when the stock matures in May 2008.

	2008 K	2007 K
<b>INVESTMENTS</b>		
<b>Short term deposits</b>		
Bank South Pacific	25,060,000	13,060,000
Provision for Investment Losses	(16,060,000)	-
Interest bearing deposits	6,373,336	35,080,906
	<b>15,373,336</b>	<b>48,140,906</b>
<b>Long Term Investments</b>		
Inscribed stocks	-	9,103,016
	<b>15,373,336</b>	<b>57,243,923</b>
<b>Total investments</b>		
	<b>15,373,336</b>	<b>57,243,923</b>
<b>INVESTMENT COST</b>		
Inscribed stock premium/(discount)	-	130,561
Amortisation cost	-	(94,954)
<b>Total investment cost</b>	<b>-</b>	<b>35,607</b>

The balance of Short Term Deposits includes K4.458 million (2007: K19.7 million) relating to Trust Funds held in various term deposits with commercial banks.

## 9. TRUST FUNDS & CARGO LEVIES

- (i) This fund is utilised to provide for the short fall in Guaranteed Minimum Wages and Attendance Money to registered Waterside Workers in Port Moresby and is financed by a levy on cargo handled as per Section 24 and 25 of the Harbours Act, Chapter No.240.

	2008 K	2007 K
Trust funds	948,182	565,082
Cargo levies	38,934	331,866
<b>Total Funds</b>	<b>987,116</b>	<b>896,948</b>

### (ii) TRUST FUNDS – WHARF PROJECTS

The Government has provided the company with funds totalling over K23,000,000 to finance the building of a proposed multi-purpose wharf at Kavieng, Kupiano wharf rehabilitation, Lae tidal basin and Wewak overseas wharf construction. These projects are being funded by the Government and the PNGPCL would assist and facilitate with the project implementation and construction. A separate Trust Account is maintained to receive all funds provided by the State for these projects and make payments for the projects expenses. Excess funds are currently being invested in interest bearing deposits with commercial banks.

	2008 K	2007 K
Project Funds (Kupiano, Lae, Wewak)	1,081,589	16,279,016
Kavieng Wharf	2,220,311	2,285,854
Kanzarua Wharf	1,008,612	979,616
Port Moresby Wharf Relocation	237,789	230,924
<b>Total</b>	<b>4,548,301</b>	<b>19,775,410</b>

**10. TRADE AND SUNDRY DEBTORS**

	<b>2008 K</b>	<b>2007 K</b>
Trade debtors	16,603,506	13,675,426
Less: Provision for doubtful debts	(3,136,307)	(8,020,635)
	<b>13,467,199</b>	<b>5,654,791</b>
Sundry debtors	653,895	376,912
Staff debtors	181,936	51,622
<b>Total trade &amp; sundry debtors</b>	<b>14,303,030</b>	<b>6,083,325</b>

**11. INTEREST RECEIVABLES AND PREPAYMENTS**

	<b>2008 K</b>	<b>2007 K</b>
Other prepayment	26,786,139	352,624
Interest receivable	2,051	145,276
<b>Total</b>	<b>26,788,190</b>	<b>497,900</b>

During the year, the board of PNG Ports Corporation Limited proposed no dividends. (2007: Nil)

**12. DIVIDEND**

During the year, the board of PNG Ports Corporation Limited proposed no dividends. (2007: Nil)

### 13. DEFERRED TAX AND PROVISION FOR INCOME TAX

As stated in note 1(c), PNG Ports Corporation Limited has adopted tax effect accounting in accordance with IAS 12.

#### a) Deferred Tax Asset

	2008 K	2007 K
Employee entitlements	1,545,410	388,981
Provision for doubtful debts	912,091	2,406,191
Accruals	-	-
<b>Balance</b>	<b>2,457,502</b>	<b>2,795,172</b>

#### Deferred Tax Liability

WDV difference on property, plant & equipment	(36,685,298)	(30,006,850)
Accrued Interest income	(615)	(43,583)
Prepaid Insurance	(20,175)	-
<b>Balance</b>	<b>(36,706,088)</b>	<b>(30,050,432)</b>
<b>Net Deferred Tax Asset/(Liability)</b>	<b>(34,248,586)</b>	<b>(26,293,142)</b>

#### b) Provision for Income Tax

The tax provision is calculated as follows: -

	2008 K	2007 K
Balance at beginning of the year	(6,246,638)	(325,271)
Current year charges	13,077,582	-
Deferred tax expense	-	-
	<b>6,830,944</b>	<b>(325,271)</b>
Adjustment for prior years' taxes	(12,689,502)	-
Payments	(6,677,580)	(5,921,367)
<b>Balance at end of the year</b>	<b>(12,536,138)</b>	<b>(6,246,638)</b>



**14. INCOME TAX EXPENDITURE**

The prima facie tax payable on the operating profit differs from the income tax provided in the accounts and is reconciled as follows: -

	2008 K	2007 K
Operating profit/(loss) before tax	19,538,714	29,626,225
Prima facie income tax @ 30%	5,861,614	8,887,868
Adjustments to reflect permanent difference:		
Interest		
Entertainment		
Club subscription		
Interest withholding tax expensed – estimated		
Provisions for losses on investments		
Prior year per accounts	7,418,041	-
Provision for losses in investments – term deposit		-
Double deductions	-	
Current year income tax expense	13,279,655	8,887,868
Tax effect - Permanent differences	43,472	-
Adjustments	9,172,482	-
<b>Income tax expense</b>	<b>22,495,609</b>	<b>8,887,868</b>

**15. OPERATING REVENUE**

	<b>2008</b>	<b>2007</b>
	<b>K</b>	<b>K</b>
Wharfage	39,958,488	34,955,106
Berthing & berth reservation	9,129,503	8,187,188
Storage	16,635,315	8,557,428
Port and cargo dues	-	-
Licenses	1,330,207	1,273,631
Pilotage	14,024,440	12,702,927
Transshipment, break bulk, shed rent & utilities	9,377,196	9,479,149
Miscellaneous charges	3,794,059	2,935,551
	<b>94,249,208</b>	<b>78,090,980</b>

**16. NON-OPERATING INCOME**

	<b>2008</b>	<b>2007</b>
	<b>K</b>	<b>K</b>
Interest income	2,172,244	1,524,139
Miscellaneous Income	722,885	852,950
Profit on sale of assets	271,148	768,721
	<b>3,166,277</b>	<b>3,145,810</b>

**17. EXPENDITURE**

	2008 K	2007 K
Audit fees	250,000	175,102
Directors remuneration and expenses	335,048	355,166
Staff /Personal costs	24,604,425	24,427,653
Office costs	4,767,281	4,370,768
Maintenance	3,036,428	5,500,893
Public utilities	5,637,144	4,857,958
Other expenses	5,734,860	4,847,342
Insurance	1,952,296	1,527,218
Corporate Social Obligations	3,098,417	-
Investments Write Down	16,060,000	-
Prior Year Adjustment	4,866,855	-
	<b>70,342,754</b>	<b>46,062,100</b>
Add: Depreciation	7,534,017	5,548,465
<b>Total</b>	<b>77,876.771</b>	<b>51,610,565</b>

**18. EMPLOYEE PROVISIONS**

	2008 K	2007 K
Gratuities	118,976	43,346
Long service leave	3,914,001	3,560,971
Annual leave	1,118,391	942,696
	<b>5,151,368</b>	<b>4,547,013</b>

## 19. PRIOR YEAR ADJUSTMENTS

Reconciliation of accounts has resulted in adjustment to retained earnings of approximately K4.8m as follows;

Adjustments due to:	2008 K	2007 K
	DR(CR)	DR(CR)
Provision for taxation adjustment	12,284,896	-
Accrued expenses adjustment	(2,437,713)	-
Provision for doubtful debt	(4,980,328)	-
<b>Total</b>	<b>4,866,855</b>	<b>-</b>

## 20. CONTINGENCIES & COMMITMENTS

Investments in Metal Storm of approximately K9m could be considered as investments gone bad as post balance day information revealed that the company may go into liquidation.

There are ongoing legal matters for and against the company, which may result in the net liability of K10.51 million. The company does not believe these matters will succeed and therefore has not booked any liability in the current year as per legal advice.

### Commitment

Location	Project Description	Committed	Paid	Outstanding
Wewak	Overseas wharf Fenders	309,590	264,209	45,381
Port Moresby	Berth 4A concrete repairs	60,777,013	794,347	59,982,666
Lae	Berth 1 restoration	6,364,897	6,014,711	350,186
Lae	Berth 2 & 3 Concrete repairs	38,655,235	31,742,404	6,912,831
Lae	Overseas wharf extension	97,778,065	13,200,942	84,577,123
Lae	Pavement repair	6,734,213	4,371,235	2,362,978
Buka	Pavement repair	4,953,135	3,117,674	1,835,461
Port Moresby	Sealing section 19	618,287	467,545	150,742
Daru	Causeway rehabilitation	4,428,167	55,977	4,372,190
Lae	Berth 1 trestle repairs	1,307,648	531,981	775,667
Alotau	Main wharf concrete repairs	938,573	475,966	462,607
Lae	Berth 1 reconstruction	1,191,811	998,312	193,499
Port Moresby	Main wharf rehab.	1,355,247	372,455	982,792
<b>TOTAL</b>		<b>225,411,881</b>	<b>62,407,758</b>	<b>163,004,123</b>

## **21.ADVANCES TO CONTRACTORS**

The Contractor (Nawae Construction Limited)) was paid an Advance to work on the Lae and Kimbe wharf extensions, as part of Conditions of Contract entered into between PNGPCL and the Contractor.

## **22.SHAREHOLDERS**

The sole shareholder of the PNGPCL is the State. The Independent Public Business Corporation is the holding company holds PNGPCL's shares for and on behalf of the State.