

2009

PNG Ports Corporation Limited Annual Report



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About PNG Ports Corporation Limited



Our Corporate Background

PNG Ports Corporation Limited ("PNGPCL") is a fully corporatised State Owned Enterprise. PNGPCL is registered under the Papua New Guinea Companies Act 1997 and is domiciled in PNG. It is a successor company to PNG Harbours Limited and its predecessor the PNG Harbours Board. Its powers and functions are governed by the Harbours Act Chapter 240. Being an essential service provider, parts of its services are regulated pursuant to the ICCA Act 2000 and the 'Regulatory Contract 2006 - 2009'. The Independent Public Business Corporation is a trustee shareholder holding 100 percent shares in PNGPCL under trust for and on behalf of the Government.

Our Business

PNGPCL provides the following services at the 14 declared ports:-

- Berth Reservation & Berthing.
- Wharfage and Pilotage.
- Cargo & Container Storage.
- Port facilities.
- Administration of Stevedoring Licences.

Our Clients

PNGPCL's clients (both direct and indirect) include:-

- Shipping Companies and Agents.
- Stevedores and Freight Forwarders.
- Importers and Exporters.
- General Public who uses sea transportation.

Our vision is to be the Premier Port Operator and the most respected organisation in the South Pacific region.

And our Mission is to facilitate trade through the establishment, provision and management of an efficient, safe and environmentally friendly port system to enhance value to the stakeholders.



Fig. 1 Port of Vanimo

Chairman's Report



On behalf of my Board members, I once again have a pleasure in presenting another annual report for PNGPCL covering the 2009 financial year.

Our corporate vision has placed on us a huge responsibility to fulfil with due diligence at all material times with a view to attaining the best possible financial and operational outcomes for our company and ultimately to increasing our shareholders' wealth.

The fundamental principle of corporatisation had remained central in our entire decision making so as to ensure that PNGPCL was consistently committed to, at a foremost, serve the needs and expectations of its customers and by extension contribute toward socio-economic development of the country without compromising its capacity to generate adequate revenues to cover for its operations.

The strong and sound collaboration which my Board had had with the Management helped guided the operation of the company to be consistent with the approved standards, guidelines and strategic plan.

This ultimately resulted in an after-tax profit of K23, 442,694 – which was a major achievement for us at the time when the global economy slipped into the major recession and had a significant effect on international trade and also when most of the port operators within the region performed comparatively poor financially during this period.

However, after carefully considering the scale of the planned capital expenditure ("capex") program of PNGPCL over the next three years, the Board unanimously decided to plough back the full after-tax profit into the company. Keeping all the facilities at its ports up to the required Service Standards for purpose of all uses regardless of the level of their financial performances is one of the major social obligations

PNGPCL has toward the communities in which it has its presence.

Moreover, the Board have shared a unified view that undertaking of necessary capital works program in all the major ports at this stage was crucial to up-scaling their capacities to cater for a burgeoning cargo and vessel turnovers projected for the next five years.

However, getting this done is always a difficult task especially when it requires investments up to millions of Kina. PNGPCL faces internal funding constraint and so in order to fill the deficits in its capital expenditure program; it will continue to source assistance of the government, international development partners and financial institutions.

In 2009, PNG Ports received a total funding of K55 million from the National Government. Such a huge level of support obtained has given us a greater confidence to always look forward toward ensuring PNGPCL fulfilling its obligations toward individuals, business community and the country as a whole in terms of continuous modernisation of its services and facilities within the context of the resource constraints.

PNGPCL is one of the few companies in the country that highly values social dynamics. It has, therefore, integrated Corporate Social Obligation (CSO) into its business model with a goal of having a positive impact on the employees, communities, stakeholders and all other members of the public sphere through its sponsorship of various social and community activities including taking part in community coalition in the fight against major issues confronting the communities and the country as a whole such as public corruption.

Like in preceding years, PNGPCL funded various social activities amounting to K193, 177 in 2009 and in doing so projected a positive image about itself on the communities with which it had engaged. CSO will remain an integral part of PNGPCL's activities in the coming years.

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Chairman's Report *continued...*



The Board will continue to ensure that the Management improve and apply an integrated waste management system to meet the national and international environmental laws and standards in order to minimise the environmental impact our company may exert on the marine ecology including people through its operations.

The future looks very promising for PNGPCL. The commencement of various multimillion dollar resource development projects like the Liquefied Natural Gas (LNG) project as well as broad economic expansions in other sectors at a scale never before experienced in the country are anticipated to create immense business opportunities for the company.

My Board will, therefore, work closely with the Management to ensure that the company fully maximises all the business opportunities that are resulting from the current economic boom.

In summary, my Board in line with the corporate strategy will ensure that the management continuously endeavors to build on from the improved performance by increasing the shareholder value through sustainable and profitable trading operations, capex rehabilitation, customer focus and exploration of potential or new business development opportunities.

With that I sincerely thank my current Board members for making their invaluable contributions toward PNGPCL's success this year and am looking forward to having their untiring support for an even better result of the company in the coming year.

A handwritten signature in black ink, appearing to be "Ila Temu", with a long horizontal line extending to the right.

Dr. Ila Temu
CHAIRMAN

Board of Directors



Dr Ila Temu, PhD – California University (USA), MEcon – ANU (Aus)
Chairman

Dr. Temu held various academic positions at UPNG, National Research Institute and Australia National University. He was a Managing Director of Mineral Resources Development Company; General Manager, Government Relations - Placer Dome; General Manager - Placer Dome, Tanzania. He is now the Country Manager, Barrick (PNG). He has held the chairmanship since 2007. Dr. Temu also holds the chairmanship in BSP Capital and directorships in Bank of South Pacific, Independent Public Business Corporation, National Economic and Fiscal Commission, and PNG Incentive Fund.



Mr. Job Suat, MSc, (Aus)
Director

Mr. Suat holds a Bachelor of Technology in Surveying from the Papua New Guinea University of Technology and a Masters Degree in Geographical Information System (GIS) from the University of Queensland, Australia. He is a lecturer and Head of the Department of Surveying and Land Studies at the University of Technology. Prior to becoming an academic, Mr. Suat was a Provincial Surveyor with the East Sepik Provincial Government.



Mr. Michael Ikau, BEng
Director

Mr. Michael Ikau is a professional engineer and a private businessman based in Wewak town. He worked with Garrison Engineer in Wewak from 1984-1988 before establishing his own company.



Mr. Kepas Wali, BSc, MPEng
Director

Mr. Wali is a Petroleum Engineer with a distinguished career in the petroleum industry spanning over two decades. He started his career with the then Department of Minerals and Energy and later joined Chevron Niugini having worked both onshore and offshore in various petroleum engineering roles. Mr. Wali left Chevron in 2001 to work as a consultant for Sofreco on the World Bank *Gas Development and Utilisation* project in PNG. He is a member of the Institute of Engineers PNG and a member of the Society of Petroleum Engineers (USA chapter). Mr. Wali is also a Director of the National Maritime Safety Authority.



Robert Nilkare, B.Com, Bond University (Aus), Cert in Mgt, UNSW (Aus)
Director

Mr. Nilkare has broad private and public sector experiences in the areas of marketing, brand management, strategic planning, organisational change and corporate acquisition. He is currently a Project Manager/Executive Advisor to the Independent Public Business Corporation. He also holds directorships on the Board of CTC (PNG) Ltd; PNG Forest Products Ltd, Open Bay Timber Ltd. In his current role with the IPBC, Mr. Nilkare provides strategic management and advisory services to the Board and Management of SOE.

Chief Executive Officer's Report



I am pleased to report that the PNGPCL's 2009 financial performance was very impressive on the back of mixed trade results with the latter attributable to the global economic depression.

The broad ranges of measures that were applied by my management team as part of our efforts to improve efficiency and productivity at our major ports as well as to control our operational expenditures paid off significantly with an after-tax profit of K23, 442, 694 following last year's after-tax loss.

However, PNGPCL whose business is largely dependent on international trade experienced a reduction in cargo volume by 5 percent due to contraction in global demand as was associated with the economic depression.

The container trade and the overall vessels' calls negligibly improved by less than one percent.

Again, the ports of Port Moresby, Lae and Kimbe have aggregately accounted for more than 80 percent of the overall sea-borne trade and correspondingly generated over 90 percent of PNGPCL's total operating revenue.

When large corporations around the globe were pursuing corporate restructuring with respect to operations and investments streamlining in order to survive the major economic depression; PNGPCL was unfalteringly focused on delivering its services to its customers as well as fulfilling its wider social obligations as per its contractual obligations under the current regulatory contract.

The smaller ports have still been kept operational through cross-subsidisation by the earnings of the larger profitable ports, with moves towards other alternative arrangements such as the Private Public Partnerships still in the conceptual stage.

The management have been constantly embarking on strategic measures to enhance the ports' efficiency and capacity to handle an anticipated increase in both the cargo volume and number of vessels in the strategic ports.

On this note, the management explored funding options including a bold but calculated cultural change move to secure a debt financing of K100 million from the Bank of South Pacific to fund the capital expenditure program in the next two years.

PNGPCL received a funding of K55 million, an increase of K32 million from 2008 funding, from the Government to facilitate implementation and construction of various projects at the following ports: Lae, Port Moresby, Kimbe, Kavieng, Wewak, Aitape and Kanarua.

These projects' grants were put into a separate Trust Account with excess invested in the interest bearing deposits with the commercial banks.

The challenge faced by the management, though, was in trying to find the right balance between funding capital expenditure requirements and maintaining the daily operational activities.

This was further compounded by issues relating to the uncertainties surrounding the redemption of PNGPCL's K9 million investments in Metal Storm and the PNG 30 Notes Series valued at about K16 million.

The management have continued to place a significant emphasis on the institutional strengthening and capacity building as key drivers of PNG Ports' strategic change to achieve the operational efficiency and productivity.

Therefore, an increase in the expenditure level by about K17.5 million in 2008 to about K67 million in 2009 is a direct result of this.

In the 2009 financial year, PNGPCL took bold steps in meeting its key strategic priorities.

The company is fast shaping itself to become a more customer-focused and result-driven entity.

We reaffirm our commitment to continuously introducing strategic changes to the way PNGPCL conducts its business in order to achieve higher efficiency and productivity and position PNGPCL on a path of maximising huge opportunities that are currently emanating from various large scale resource developments in the country.

With that I sincerely thank my management team for their effort and cooperation in making 2009 a successful financial year for PNGPCL and looking forward to your continued support for an even better result in the next financial year.

A blue ink signature of Brian Riches, consisting of a stylized, flowing script that starts with a large 'B' and ends with a long horizontal stroke.

Brian Riches

Chief Executive Officer

Historical Highlight: Financial and Trade

Key Performance Data	Actual 2009	Actual 2008	Actual 2007
Revenue from main operating activity	K 108,569,850	K 94,249,208	78,090,980
Total Expenses (excl. interest and tax)	(89,323,552)	(78,170,851)	(46,062,100)
Earnings Before Interest & Tax	20,772,045	17,404,278	35,174,690
Profit (Loss) before Taxes	21,413,529	19,538,714	29,626,225
Profit(Loss) after Taxes & prior year adjustment	23,442,694	(2,956,895)	29,626,225
Dividend	Nil	Nil	Nil
Current Assets	123,435,266	66,297,758	16,362,454
Current Liabilities	162,067,501	75,610,038	41,809,678
Financial Debts	15,145,638	15,145,638	17,245,638
Total Liabilities	190,346,436	112,316,126	42,125,759
Total Assets	410,094,560	308,621,557	270,582,565
Capital and Reserves	219,748,125	196,305,431	228,456,806

Key Performance Indicators	Actual 2009	Actual 2008	Actual 2007
Profitability			
Return on Capital Employed	8.4%	7.5%	15.4%
Return on Shareholders Fund	10.7%	-1.5%	12.9%
EBIT Margin	19.1%	18.5%	45%
Financial Structure			
Gearing	0.069	0.077	0.07
Liquidity			
Debit Ratio	0.46	0.36	0.16
Current Ratio	0.76	0.88	0.39
Debt Protection			
Interest Cover	-	-	-
Asset Turnover Ratio	0.26	0.31	0.29

Trade Performances	Actual 2009	Actual 2008	Actual 2007
Overseas Cargo Throughputs (RTs)	3,677,190	3,789,904	3,376,130
Coastal Cargo Throughputs (RTs)	2,545,950	2,714,965	2,443,135
Overseas Container Volume (TEU)	143,590	135,066	135,249
Coastal Container Volume (TEU)	1,114,677	123,013	113,996
Overseas Vessel Calls	2,655	2,563	2,671
Coastal Vessel Calls	3,551	3,620	3,520

Financial Performance



This section covers the presentation of key financial performances together with an analysis on their major underlying factors. It is intended to provide information on PNGPCL's profitability, solvency, liquidity and stability. Table 1 gives a financial summary under two reporting periods.

Summary	Year ended 31st December 2009	Year ended 31st December 2008
Revenue from Operation	108,569,850	94,249,208
Operating Profit	41,616,737	23,906,454
Earning Before Interest, Dept & Taxation	20,772,045	17,404,278
Net (After Tax) Profit	23,442,694	(2,956,895)

Revenue & Expenditures

PNGPCL's operating revenue increased by 15.3 percent to about K108.6 million from last year's result.

This increase was heavily associated with Australian Reef Pilot Project on the Jomad passage in Milne Bay Province as well as a general increase in throughput due to enhanced operational efficiencies throughout the coastal ports.

The performances of the major revenue sources are highlighted as follow:

- **Pilotage** Revenue was up by 33 percent from the previous year's level due to more vessel calls and increased ARP transfers for the Jomard project.
- **Berthage** Revenue was up by 9 percent from the previous year's level due to more vessels berthing this year compared to last year.
- **Wharfage** Revenue was higher by 23 percent compared to last year's due to increased cargo and container throughput.
- **Storage** Revenue remained unchanged as it showed insignificant movement.
- **Lease Rental** Revenue increased by 14 percent from last the year's due to the increased activity this year.

In terms of a comparison of income on a broader scale, the aggregate regulated income from both the coastal and overseas ports exceeded the total unregulated income by about K10 million.

The regulated income sources which included Berth Reservation Service, Berthing Service and wharfing service (per PNG Ports Regulatory Contract, s.1) generated a sum of about K59 million whereas all the unregulated operating activities generated a total of about K49.5 million.

Non-operating income was generated by PNGPCL's investment activity.

In 2009, interest on income from the investments held to maturity totalled K1, 046,192, representing a decline by about 52 percent.

Investment funds generally comprised of the Government funds for projects that have been placed in trust accounts and drawn upon to be invested in short-term interest bearing investments.

The operating expense (excluding depreciation, interest payment, taxes as well as provisions for investment write down, corporate social obligation and prior year adjustments) increased by about 44 percent from last year's level to K66.8 million and was heavily influenced by positive change in Staff and Office expenses.

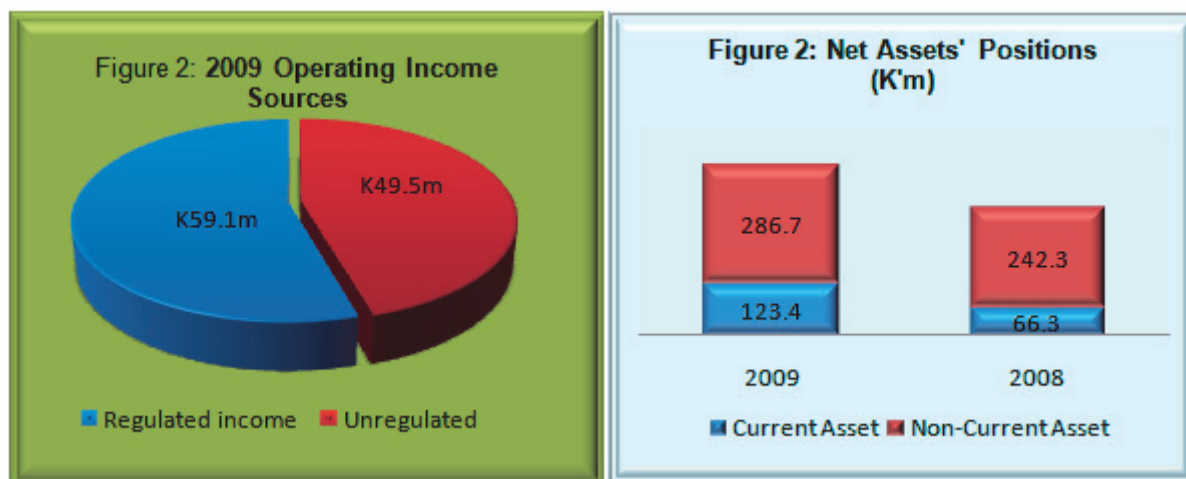
These two cost components account for more than half of the total operating expenses in 2009 reflecting PNGPCL's continuous endeavour to build capacity and manage change to improve its operational efficiency and productivity.

Financial Performance *continued...*



Depreciation costs based on the actual capital assets registry totalled about K8.7 million representing an increase of about 20 percent from last year's total. The increase in depreciation reflects the impact of spending on completed capital works to increase quality, efficiency and productivity of the ports over the last few years.

Assets & Liabilities



The company had a strong balance sheet with a non financial risk and a debt ratio of 46 percent with nil interest cover for the year, indicating that most of PNGPCL's assets were financed through equity and safe from debtor's claim.

In 2009, PNGPCL's net assets were worth about K410.1 million which represented an increase of about 33 percent from last year's net worth.

This increase was significantly linked to a 100 percent plough back of the net profits to the company coupled with appreciation of the value of fixed assets by about 22 percent following an independent valuation, which is normally done every 3 years under the Generally Accepted Accounting Standards, to bring the account operating assets to their fair market value.

The value of current assets was about K123.4 million, representing an increase of about 86 percent largely due to increase in availability of cash and accounted for about 30 percent of the overall assets value; and the value of fixed assets was K284.2 million accounting for about 69 percent of the total assets' value.

Deferred tax assets accounted for about 1 percent of the

overall assets value whereas investments including loans to the shareholder form as part of the current assets.

PNGPCL carried a total liability of K190.3 million representing an increase of about 70 percent from 2008's, which were largely due to various projects' funding, treated as loans, from the government and deferred income, which would be converted to cash once actual services were provided to entities that had prepaid for them.

These two forms of liabilities accounted for one-third of the total liabilities and have increased from last year by more than doubled.

Financial Performance *continued...*



The total owner's equity and reserves increased to K219, 748, 935 from the last year's level by about 12 percent due largely to retaining of the full after tax profit of K23, 442,694 for the year.

The return on the shareholders funds is 9% after PNGPCL's social obligation costs. The Revenues from the profitable ports of Port Moresby, Lae and Kimbe subsidized the operations of the rest of the unprofitable ports. They are considered as Community Social Obligation ("CSO") liability and pose potential risk in the face of stiff competition from within the industry and externally from the general business environment.

Key Financial Ratios

Ratios	2009 Result	Benchmark	Comments
Profit margin	22%	40%	PNGPCL's profit margin was half the benchmark – which indicated that the operating expenses have been increasing more than the operating revenue.
Net Profit Margin	18%	30%	K0.18 of sales was left after all expenses were paid, and has remained as net profit.
Return on Capital Employed	8.4%	10%	ROCE is just below the benchmark by 1.6 percentage point. However, PNGPCL has expected that an increase in borrowing will not significantly reduce shareholders' earnings.
Asset Turnover Ratio	0.26	1:1	Utilisation of every kina worth of fixed asset generated a return of about 26 toea. Asset Turnover Ratio falling slightly below the benchmark has meant that PNGPCL's fixed assets were quite inefficiently used in its operations.
Debit Ratio	46%	50%	Implies that most of PNGPCL's assets are financed through equity and that PNGPCL is safe from creditors starting to claim repayment for their debts.
Interest Cover	-	-	PNGPCL did not pay or amortise any interests payment on the outstanding international loan this period.
Gearing Ratio	0.069	-	Indicates that less than 10 percent of PNG Ports business is funded by debt.

Trade and Port Performances



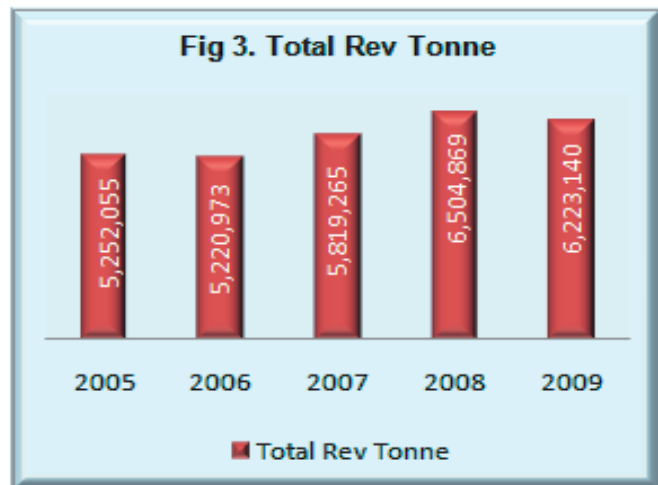
PNGPCL recorded a modest contraction in the overall turnover of cargo and container volumes. The global economic downturn due to the collapse of the US financial market intensified in the first quarter of 2009. Thus, demand declined in the major economies during the first quarter and remained subdued through the last quarter of 2009. The recessionary effects filtered through to the domestic financial sector resulting in a reduction in lending across all

the major financial institutions. The reduced demand and hence decline in the export prices for the major export commodities coupled with a restrained lending eased the domestic output which included a modest decline in the output of all the tradable goods. Whilst there has been an increase in public spending to stimulate demand, this had minimal impact on the trade sector.

OVERALL REPORTING

Overall Cargo Throughput

Against this backdrop, aggregate cargo volume decreased by 6 percent from a record turnover of 6,504,869 Revenue Tonnes (RTs) in 2008 to 6,223,140 RTs in 2009. In terms of the composition of trade, coastal trade constitutes about 40.9 percent (down by 0.8 percentage point), imports about 40.5 percent (up by 2 percentage points) and exports by about 17 percent (down by about 2 percentage points).



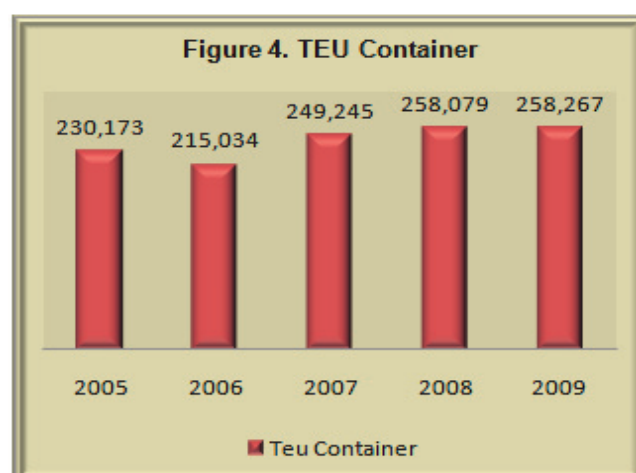
In terms of relative performance of different components of trade; volumes of overseas exports declined by about 10 percent and coastal trade also declined by about 6 percent whereas imports increased marginally by 5 basis points relative to previous year's. This marginal growth in imports was underpinned by a modest rise in domestic demand in quarter 2 especially by the construction and household sectors. In terms of the overall direction of trade overseas cargo decreased by 2.9 basis points and coastal trade decreased by 6.2 percent (or 620 basis points) in 2009 relative to 2008.

Overall Vessel Call

PNGPCL recorded a total of 6206 vessels calls in all its ports in 2009 compared to 6,183 in the previous year. This represented a slight increase by less than 1 percent. In terms of origination of vessels, overall overseas vessels call equated to 2,655 vessels representing an increase of about 3 percent from the 2008's record whereas overall coastal vessels call amounted to 3,551, which represented a modest fall by 1.9 percent.

In terms of the monthly flow of vessels, an average of 221 overseas vessels and 296 coastal vessels called throughout the ports per month. Generally, the container and barge vessels significantly accounted for in the overseas vessel calls. Generally the passenger and fishing vessels significantly accounted for the coastal vessels calls particularly in the regional ports.

Overall Container Throughput



Trade and Port Performances *continued...*



The overall container traffic recorded across all of PNGPCL's ports was 258,267 Throughputs (TEUs) as compared to 258,079 TEUs in 2008. This represented less than 0.1 percent improvement, which was primarily attributed to an increase in overseas TEUs by about 10 percent and was generally linked to an improvement in full inward and outward containers.

The coastal TEUs on the other hand dropped by 6.7 percent to 114,677 TEUs in 2009 as compared to 123,013 TEUs in 2008. This generally resulted from a reduction in the full inward and outward flow of containers.

DECOMPOSITION OF TRADE

Containerised Cargo

In 2009, the total volume of containerised cargo traded through all the ports was 3,569,414 RTs, which represented a modest decline from last year's figure by 6.56 percent. In spite of the decline, containerised cargo trade had continued to outperform the other cargo type by accounting for almost

58 percent of the overall cargo tonnage. The containerised cargo trade is expected to remain strong and even grow after the rebound of the global economy into the foreseeable future in the country given the current and projected growth in the Gross Domestic Product (GDP) and general liquidity in the economy.

Fig. 5a

Trade Breakdown (volume composition)

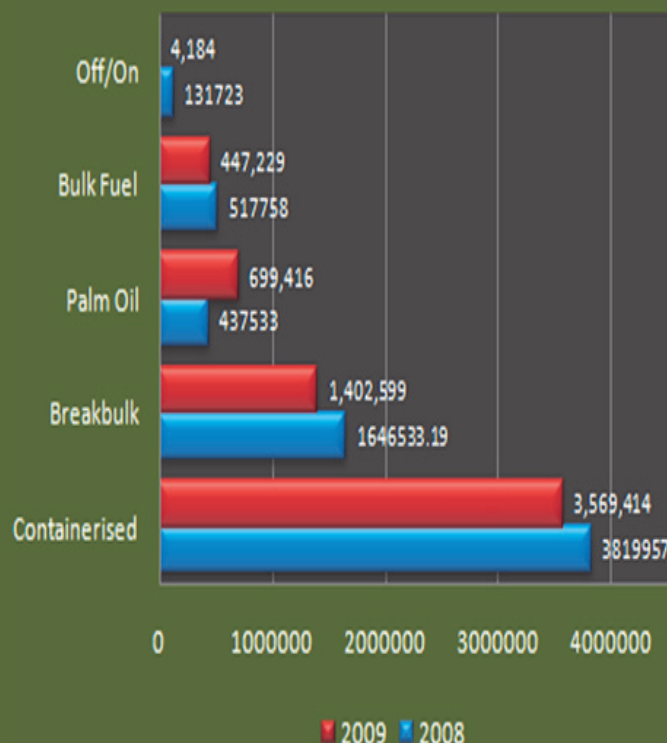
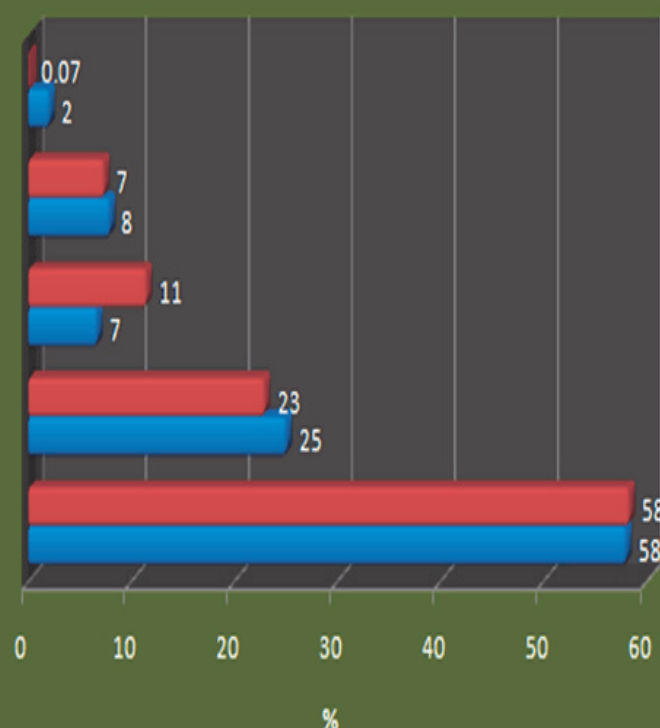


Fig. 5b

Tradebreakdown (% Composition)



Trade and Ports Performances *continued...*

Break Bulk

The overall volume of break bulk cargo traded in 2009 was 1,402,599 RTs as compared to 1,646,533 RTs in the previous year. This represented a decline of 14.82 percent. In terms of its overall performance against other cargo types, Break Bulk accounted for 23 percent in the overall trade. Whilst a modest contraction in volume had been experienced due to a persistence of the effects of global recession throughout the four quarters of 2009, the projected growth in import of resource and construction projects including industrial materials associated with projected growth across major resource sectors including building and construction in the country will likely underpin an expansion in the break bulk trade into the foreseeable future.

Palm Oil

Palm oil was the only cargo type that recorded a positive turnover in volume amidst general contractions in the other cargo trade. Its export increased significantly by 59.85 percent to 699,416 RTs from 437,533 RTs in the previous. It accounted for 11 percent in the overall cargo trade. Whilst the effect of global recession had not receded completely, the crude palm oil price rose amid rising global demand. Such favourable price spurred increase in its production in the palm oil producing provinces of West New Britain, Oro, Milne Bay and Madang. High global demand for crude palm oil is expected to persist. Increased price coupled with expansion of palm oil farming in other provinces will provide a basis for a sustainably strong performance of palm oil trade.

PORT PERFORMANCE

Fig 6a. RT contribution by Port 2009

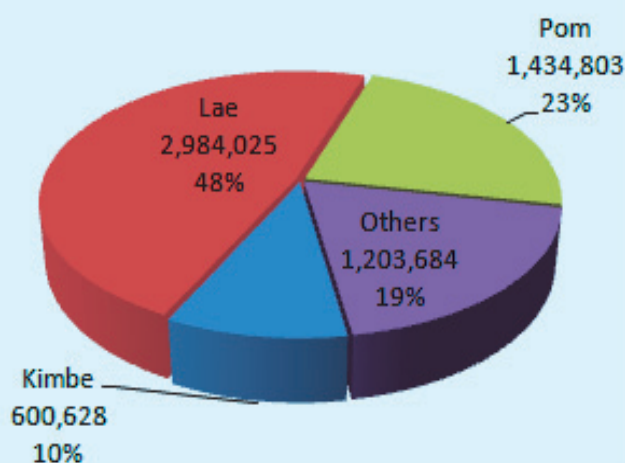
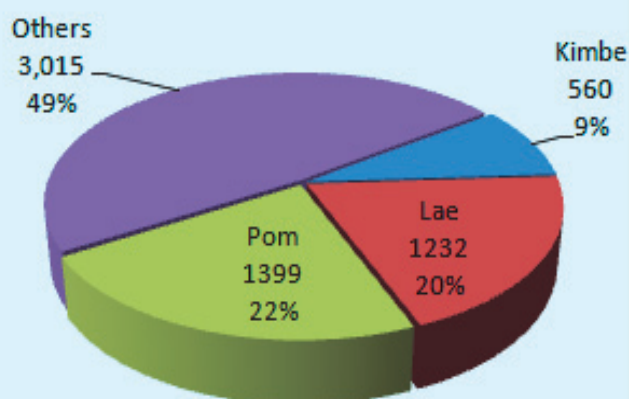


Fig 6b. Vessel Calls by Port 2009



Tier 1 Ports

Tier 1 ports, which include Lae, Port Moresby and Kimbe, had continued to dominate the movement of cargo by sea into and out of PNG and accounted for about 80 percent of the overall sea borne trade. They contributed 5,019,456 RT of cargo which represented a slight decrease from their previous contribution by approximately 4 percent. The Lae port alone

contributed almost 50 percent with more than half of the cargo traded in containerised form; Port Moresby about 23 percent with some 70 percent of it as containerised cargo; and Kimbe about 10 percent with palm oil constituting half of it. In terms of the direction of trade in the two premier ports, the total inward cargo at both Port Moresby and Lae ports exceeded the outward cargo by 575,000 and 1,243,895 RTs respectively reflecting net domestic demand for foreign goods.

Trade and Ports Performances *continued...*



The impressive performance of Lae port has, as usual, been underpinned by its strategic location through its road connection to the highlands region which accommodates the largest population and major economic activities including the major natural resource developments.

Lae port is expected to consolidate its dominant position in catering for PNG's seaborne trade into the foreseeable future. Port Moresby's performance has been underpinned by activities in the construction, distribution, wholesale and retail sectors. Lastly, Kimbe's performance has been solely underpinned by the export of palm oil.

Tier 2 Ports

Tier 2 Ports includes the rest of the regional ports. Whilst the revenue tonne of cargo recorded in tier 2 Ports was minimal amounting to about a quarter of the 2009's overall total, the 12 regional ports in this tier constituted more than 50 percent of the overall vessel calls (6,206).

In this tier, Wewak recorded the highest vessel calls numbering 840 with fish and passenger services which accounted for nearly half these calls.

In relative terms, this represented 13 percent of the total. Alotau, Kimbe, Madang and Rabaul together accounted for between 450 and 550 vessel calls each or between 7 – 9 percent of the total.

Calls at Kimbe have been generated by logs and passengers; Rabaul by logs; and Madang by fish and container vessels.

The coastal calls at the regional ports outperformed the overseas calls by about 10 percent reflecting increased activities by the locally based shipping lines throughout these regional ports.



Fig 7: Lae Port in Tier 1 Ports



Fig 8: Oro Bay Port in Tier 2 Ports

Major Ports' Project

As at 31st December 2009, out of the 21 declared ports in the country, 16 of them have been in operations in which 14 of them have fallen under the direct operations by PNGPCL while the ports of Aitape and Samarai have been operated by agents through agreements with PNGPCL. These ports are shown on the map below.

At the 14 declared ports, PNGPCL has provided:-

- Berthing services;
- Berth reservations;
- Wharfage services;
- Pilotage services;
- Cargo & Container storage services;
- Stevedoring licenses
- Port utilities; and
- all other miscellaneous services.

Consistent with its CSO function, one of the PNGPCL's

priorities is to keep these ports fit for all purposes at all times even when some of them have been consistently underperforming.

In 2009, the Board approved a total of K230.85 million for various capex projects at the major ports [although their implementation would likely overlap into the following years].

Whilst the capex projects were undertaken in both the performing and non-performing ports throughout the country, the major ports in which the capex concentrated most were:

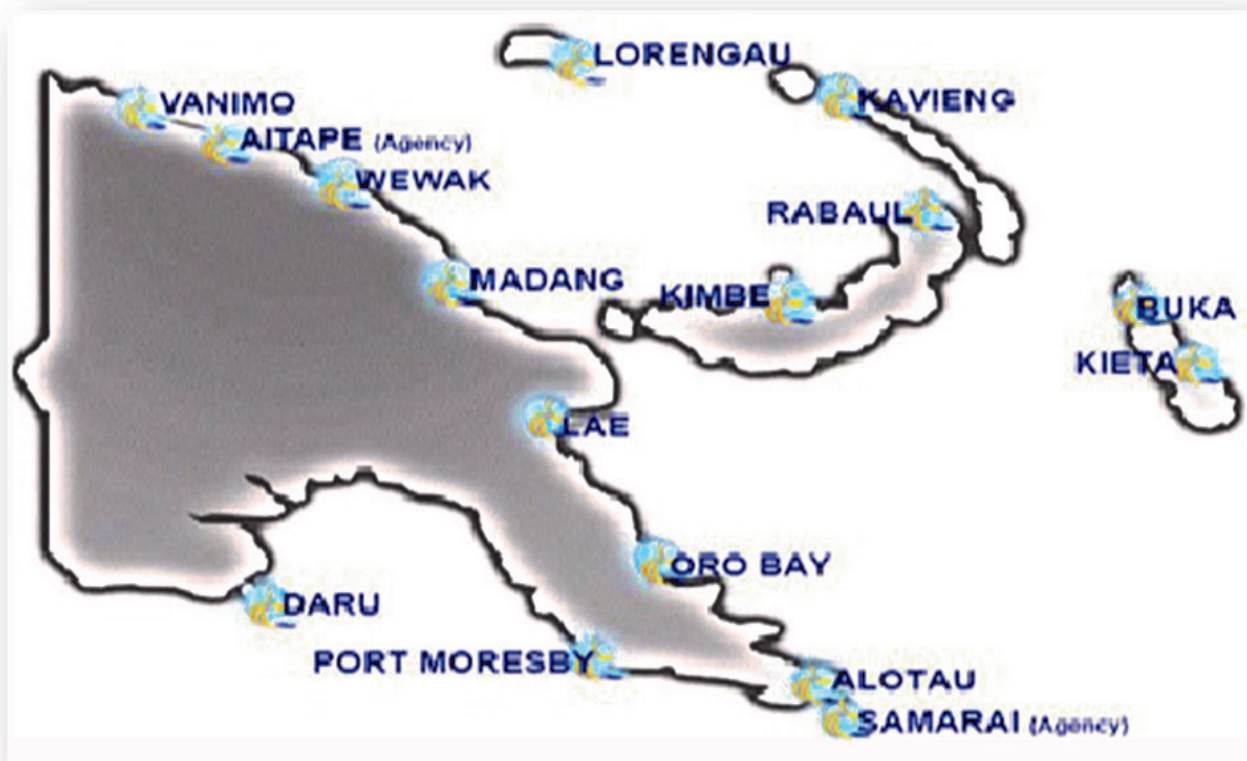


Fig 9: Map showing PNGPCL's ports locations

Major Ports' Projects *continued...*



- Lae Port: Shed 3 demolition and relocation, pavement repairs, improvement of Cathodic Protection and introduction of Mobile Crane. These projects on aggregate absorbed about 65 percent of the total approved capex budget for the year under review.
- Port Moresby Port: concrete repairs at Berth 4, APEC improvement, Main Wharf rehabilitation and introduction of Mobile Crane at an aggregate budget of about 30 percent of the total approved capex budget for that year; and
- Kimbe Port: improvement on the Coastal Barge and Tanker Loading at an aggregate budget of about 1 percent of the total approved capex budget for 2009.

Allocation of a significant amount of capex budget on the ports of Lae, Port Moresby and Kimbe was necessary to improve their level of efficiency and productivity in handling an expected growth in vessel calls and cargo throughputs in the coming years.

From economic standpoint, these are the most strategic ports as they cater for importation into the country input materials for the current large-scale resource development projects and consumer merchandises for the major consumer bases in the economically active provinces. They also facilitate outward cargos which include PNG's major export commodities.

Significant funding for these projects was sourced from the government under the 2009 Development Budget for infrastructure development.

In total, the government contributed K55 million toward wharf infrastructure rehabilitation, which PNGPCL has held as trust fund with the commercial bank to periodically draw down to finance the capex programs.

PNGPCL also obtained a commercial loan of K100m from BSP to fund the CAPEX program following approval by the PNGPCL Board and IPBC.

Part of the funds was allocated to the projects for that year.



As a result of its continuous capex undertakings, all the ports that are under the PNGPCL's direct operations have been able to contribute meaningfully toward the socio-economic development of the country, which includes serving a large number of people who are directly dependent on sea transportation to fulfil their daily needs and wants.

Corporate Social Responsibility



Following its full corporatisation and rising into eminence as one of the major corporations in the country, PNGPCL has adopted a Mission Statement that basically underlies a clear basis for its operation in a socially supportive and environmentally conscious manner. PNG Ports has been

committed to developing policies that integrate responsible practices into its daily business operation. Like in preceding years, PNG Ports' major Corporate Social Responsibility (CSR) initiatives in this reporting period are reported under the two main subheadings below.

COMMUNITY AND SPORTING SPONSORSHIPS

PNGPCL in demonstrating its character as one of the good corporate citizens has again distributed part of its economic surplus to the communities in which it has conducted its business operations as well as to various social and sporting groups and non-government organisations that have sought from PNGPCL various types of corporate sponsorships.

In 2009 PNGPCL funded various social obligation activities at a total cost of K193, 177 excluding contributions to the City Mission. These activities including their respective funding were:

- Donation to Churches K1500
- Donations to Charity Organisations K53,971
- Donations to Sporting Activities K63,320
- Donations to Youth Group K10,850
- Donations to Women's Group K950
- Donation to Students Education K50,586
- Donation IPBC and Government Departments K7000

One of the very significant decisions made by the Board in 2009 was to increase PNGPCL's annual contribution to the City Mission to K100, 000 per annum considering this organization was responsible for taking care of the underprivileged group of population including the orphans which the government was likely to overlook. This will take effect in subsequent years.

Apart from its direct financial sponsorships, PNGPCL also became part of the community alliance in various campaigns against the major issues that are currently destroying the fabric of our society as well as impeding PNG's socio-economic development progress.

In particular, PNGPCL took part in the campaigns against Domestic Violence; the spread of HIV and Aids by its participation in the Red Ribbon Day; and public corruption through its participation in the Walk Against Corruption event.

CSR toward the Environment

Being well aware that the marine environment supports a significant coastal population for their social and economic livelihoods as well as contributing significant amount of highly priced economic resources to the country, PNGPCL has taken a serious stance on meeting necessary policies and regulations governing preservation of the quality of environment in which it operates.

The Company has complied with all the 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 prior to undertaking major ports' projects and/or rehabilitations.

Corporate Social Responsibility *continued...*



PNG has also strived to comply with international and regional environmental laws and conventions which included 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; and Noumea (SPREP) Protocol.

The particular measures which PNG Ports adopted in 2009 to demonstrate its seriousness in meeting those standards, policies and regulations as well as to build onto its existing environmental management measures included the following:

- Engagement of Mausell Australia Ltd at a cost of K1 million to produce a detailed work specification for the rehabilitation of Port Moresby Berth 4A – one of the major objectives of which was to reduce any potential environmental risks;
- Provision to the Department of Environment and Conservation necessary Environmental Impact Assessment for major projects produced on behalf of PNG Ports by the qualified professional consultants with international experiences;
- Board's resolution on the adoption and application of Cost Benefit Analysis on the proposed project prior to any other decisions are made. In the CBA, environmental impacts would be internalised; and
- Institution of regulations and policies to govern the manner in which the stevedores, ship owners and masters and freight forwarders conducted their operations with a view to reduce environmental impacts.

Figure 11 Kimbe Port

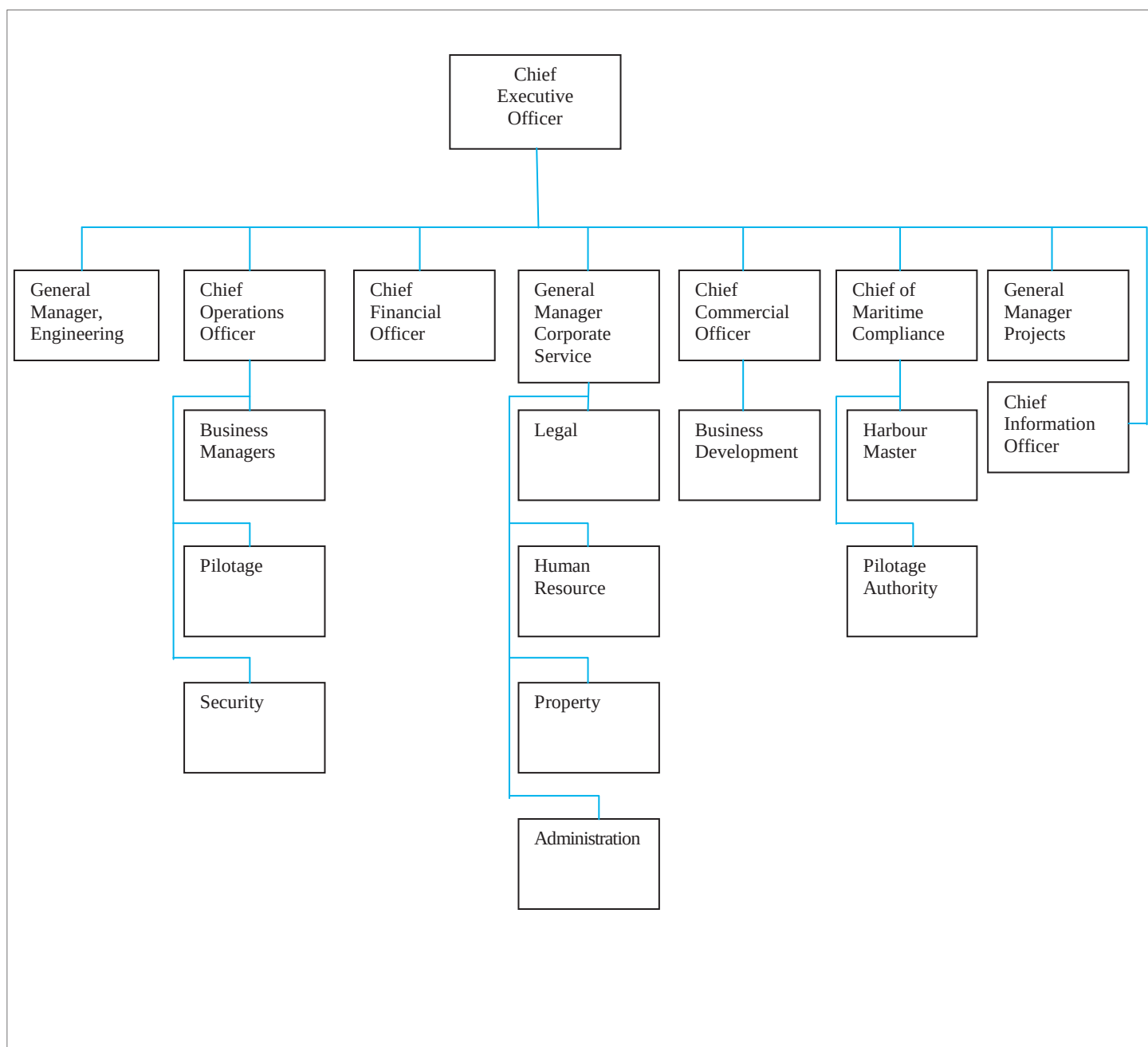


Management Report



EXECUTIVE MANAGEMENT STRUCTURE (In transition)

PNGPCL undertook a series of corporate restructure this year to orientate itself in tune with new challenges and opportunities that were emerging in the industry and the overall economy. This structure has been adopted to be implemented immediately as a transition to the proposed long term structure to be implemented within the next 2-3 years in line with strategic planning.



SIZE OF LABOUR FORCE

PNGPCL acknowledged that a well-constituted labour force with sound expertise and experience was necessary to bring organisational change and operational efficiency. Therefore, it deployed a diligent staff recruitment, training and retention program against criteria consistent with the needs of the company.

As at the end of 2009, PNGPCL had a total labour force of 524 employees representing an increase of about 20 percent as compared to the size of its labour force in 2008.

However, statistics indicate a gender imbalance with 21 percent of PNGPCL’s workforce consisting of female employees whilst 79 percent are male employees.

The composition of the labour force by category of employment and the domicile of employment are presented in the two graphs below.

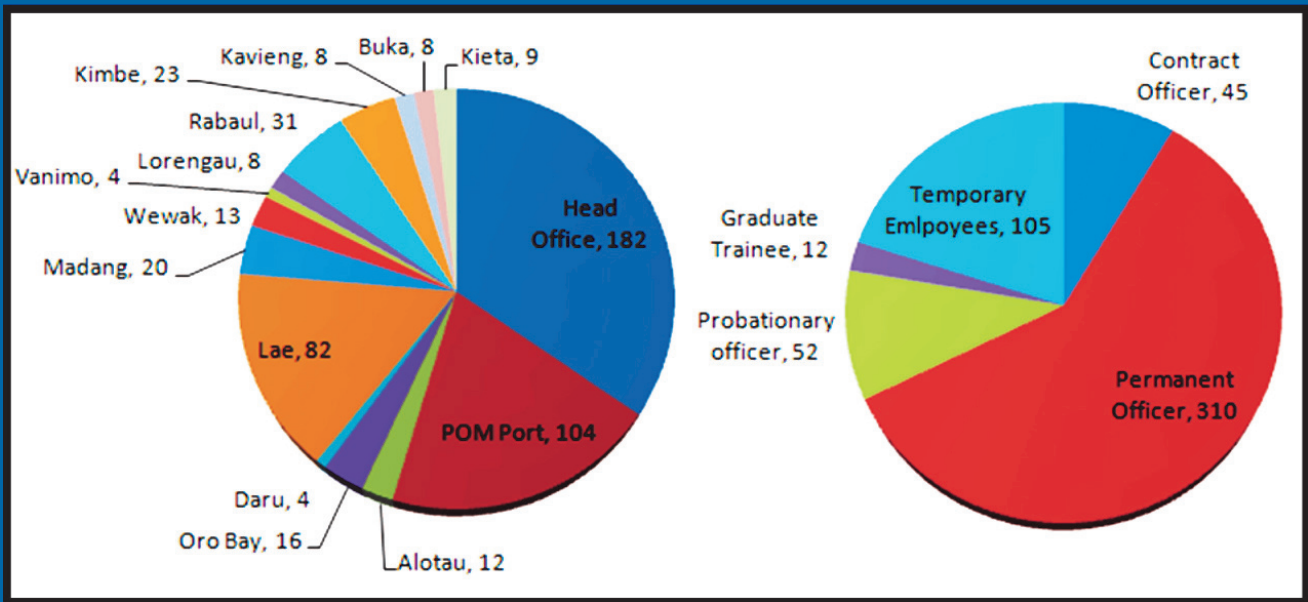


Fig 13: Employments by Operational Domiciles and Class of Employment

STAFF PRODUCTIVITY ENHANCEMENTS

Whilst fully appreciating that PNGPCL was operating in a highly dynamic environment, consistently developing a highly competitive and skilled labour force was important to keeping the company within a defined path toward realising its goals, mission and vision as well as increasing the value of the shareholder's wealth. PNGPCL, therefore, employed two specific strategies to realise this outcome: which included the traditional approach of taking good care of its employees' welfare as well as supporting its staff with training opportunities.

In respect of this, PNGPCL reviewed and increased the Staff Housing allowance in 2009 to reflect the current market price; assisted staff with owner's equity for the purchase of property; and provided medical insurance cover.

PNGPCL implemented other staff benefits that were introduced in 2008 which included annual performance bonus of 15 percent on the base salary for all employees and other benefits like the Domestic Market Allowance and Contract Gratuity to retain highly skilled workforce.

Like in the preceeding years, PNGPCL has provided both domestic and off-shore trainings for its staff in various programs ranging from short course certificate programs to post graduated programs at various institutions. Courses in ports management, finance, Occupational Health and Safety, ports operations, Engineering amongst other specific technical fields have been offered to a number of its employees based on the Staff Training Needs Assessments.

In the last quarter of 2009 the following trainings were undertaken:-

- PFSO Training conducted back to back with Security Audit. This was attended by 16 PFSO and 2 DA officers. The training was done jointly by South Pacific Community based in Suva and PNG Ports.
- TAA Cert IV Workplace Training and assessment conducted by MRWED Training and Assessment Consulting Group of Brisbane, Australia. Assessment to be closed off by this month (January 2010) followed on with Certifications by February 2010.

- Morrissey Security, Safety and Dangerous Goods Handling Workshop final printed workbook to be printed and sent to us as soon as printing is completed in Australia.
- Contract Administration course was to be conducted on the 2-3 December 2009, but deferred to 3-4th February, 2010. The course is to be facilitated jointly by Contract Control international (Brisbane) and PNG Ports Corporation LTD.
- Great Managers and Talented Employees Training (Outbound) for the 3 batches who underwent Team Building with IBS completed in early November
- School Leaver Trainee program completed for those who were engaged for 6 weeks. Works had one from POM Tech. College, ICT has 3 for Don Bosco, and Port office has one from a technical school.

Through the Transport Sector Support Program (TSSP) under the auspices of Aus-AID, a number of technical advisors have been continued to be placed in various Departments within PNGPCL.

These advisors have and will continue to provide mentoring and direction to the staff who work directly with them on different assignments as well as advice to the management on specific technical areas.

Like in 2008, PNGPCL also engaged experts from the Australian Business Volunteers to provide assistance and advice on specific business needs and practical advice to staff on ways to increase their efficiencies.

Our Values



At PNGPCL, we the management and staff share a common view that the values that we adopt set important benchmarks on what we consider as acceptable conduct required of each and everyone of us.

We also share a firm view that these values provide our customers and stakeholders alike with an indication of what they can expect from PNGPCL in terms of output and service excellence.

Service Excellence

Strive to serve our customers efficiently, competently and courteously – which will be reflected in our ongoing commitment to provide necessary technical and soft-skill training to support our personnel so as to ensure continuous improvement in service delivery.

Commercially Astute

We are committed to maximising our shareholder's returns and mitigating risks through an established risk mitigation framework.

Forward Thinking and Improvement

We are dedicated to improving every aspect of our organisation's business activities through a commitment to learning, innovation, communication and investing in technical and civic infrastructure.

Safety and Security First

Safety and security are our priority in everything we do.

Teamwork

We are committed to operating on the basis of teamwork and mutual respect, whilst maximising professional growth and development of our employees.

Zero Tolerance

We have a zero tolerance approach to fraud and corruption within the organisation. All employees are to act with integrity and honesty at all times.

Sustainable Outcomes

We are committed to servicing the community and managing the impacts our activities have on the environment and social life of people.

Corporate Governance Report



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 direct 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 the 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 31st of December 2008 had five (5)

Board members, inclusive of the Chairman, which were appointed by the IPBC through the due process stipulated 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 31st 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.

Directors Responsibility

The current Directors whilst certifying the 2009 Financial Report and associated notes also draw the caveat that they were not the Directors in office for the period to which this Financial Report relates to.

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 2009 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.

Corporate Governance Report *continued...*



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 ensure that the statements are prepared in accordance with the generally accepted International Financial Reporting Standards (IFRS). The financial statements also adhere to 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.

PNG Ports Corporation Limited

Financial Statements for the year ended 31 December 2009

Directors' Report



Your directors present their financial statements on the affairs of the company for the year ended 31 December 2009.

Activities

The principal activities of the Company during the course of the financial year were, as promulgated by the Harbours 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.

There were no other significant changes in the nature of the activities of the Company during the year.

Results

The net profit after taxation for the year was K 23,442,694 (2008: Loss of K2, 956,895).

Dividends

No dividends was declared during the year.

Directors

The directors at the date of the report of the company are listed on page 1. No director was a shareholder of the Company at 31st December 2009 and none had any material interests in any contract or arrangement with the company or any related entity during the year. The directors during the year ended 31st December 2009 were as follow:

Dr. Ila Iemu
Job Suat
Michael Ikau
Kepas Wali
Robert Nilkare

Remuneration of Directors and Employees

In accordance with the provisions of the Companies Act 1997 (section 212(3)), the shareholders of PNG Ports Corporation Limited have resolved that the Company does not need to disclose directors and employees remuneration in its annual report.

For and on behalf o the board of directors.

A handwritten signature in blue ink, appearing to read "R. Nilkare", with a large number "3" written above it.

Director
Date

A handwritten signature in blue ink, appearing to read "J. Suat", written in a cursive style.

Director
Date



Phone: (+675) 3012200 Fax: (+675) 325 2872

Email: agopng@ago.gov.pg

Website: www.ago.gov.pg

Date: 30 March, 2012

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, 2009 as set out on pages 4 to 29, which comprise the statement of financial position as at 31 December, 2009, 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 PNGPCL for the years ended 31 December, 2005, 2006 and 2007 and issued a disclaimer of opinion on each of the years. This opinion has been upheld in the 2008 financial statements. 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 2009 financial statements.

Auditor General's Report *continued...*



I was unable to perform sufficient audit procedure to satisfy myself as to the accuracy and the completeness of the opening balances or comparatives presented in the financial statements. 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, 2009 and the comparative profit and loss account presented and the respective statement of financial positions and statement of cash flows.

Carrying Value of Property, Plant and Equipment

Review of the fixed assets register revealed that fully depreciated assets were reinstated at their original cost and depreciated. This occurred due to the transition from Oracle (old system) to Finance Technology One (new system) where the date of transition was recorded as the date of acquisition.

As such, the system read the transaction date as the date of acquisition and applied depreciation to assets which were fully depreciated. This error has resulted in incorrect and excess depreciation being charged to the profit and loss in 2009 and carrying value of the fixed assets being misstated at balance date. I therefore, could not verify the accuracy of the depreciation charged and carrying value of the fixed assets as at balance date. If the corrections were made, the profit after tax, retained earnings and property, plant and equipment would be reduced. Additionally, tax provision and deferred tax balances would be effected.

Wharf Installation Write-off

I noted that wharf installation write-off adjustments of K10,096,537 was effected in the accounts for which no proper information was made available to me to verify the basis of the write-off. I was unable to ascertain the existence of this expenditure and validity of the write-off. If the write-off was reversed, profit after tax, retained earnings and investments would increase by K10,096,537. Additionally tax provision and deferred tax balances would also be affected.

Unrecoverable Investments of K9 million in Metal Storm Limited

PNGPCL has invested in Metal Storm Limited of K9 million. Metal Storm Limited appears to be insolvent. No provision has been made on the Metal Storm Investment. If this provision was made, profit after tax, retained earnings and investments would decrease by K9 million.

Taxation

PNGPCL has computed tax expense on a prime facie basis without considering non taxable income and non allowable deductions. The net impact of this is an understatement of income tax expense and provision by K3,084,698. Additionally, a prior period adjustment was made resulting in a reduction in income tax expense and provision for income tax by K8,400,000. Sufficient and appropriate information was not provided by the Company to explain the adjustment. Should both of these aspects were properly addressed, the income tax expense and provision for tax would be materially different.



Auditor General's Report *continued...*



DISCLAIMER OF OPINION

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements for the year ended 31 December, 2009.

A handwritten signature in blue ink, appearing to read "P. Nauga".

PHILIP NAUGA
Acting Auditor-General



Financial Statements *continued...*



Statement of Comprehensive Income for the Year ending 31st December 2009

	Note	2009 K	2008 K
Revenue	6	108,569,850	94,249,208
Cost of sales		(10,921,290)	(4,084,283)
Gross profit		<u>97,648,560</u>	<u>90,164,925</u>
Other revenue	7	1,525,747	1,325,885
Personnel expenses	10	(24,604,707)	(22,037,958)
Depreciation		(8,741,203)	(7,534,017)
Administrative expenses		(16,816,831)	(12,161,287)
Other operating expenses		(28,239,521)	(32,353,270)
Results from operating activities		<u>20,772,045</u>	<u>17,404,278</u>
Finance income	11(a)	1,046,192	2,172,244
Finance costs	11(b)	(404,710)	(37,808)
Net finance expense		<u>641,482</u>	<u>2,134,436</u>
Profit before tax		<u>21,413,529</u>	<u>19,538,714</u>
Income tax expense	12(a)	2,029,165	(22,495,609)
Profit for the period		<u>23,442,694</u>	<u>(2,956,895)</u>
Other comprehensive income		-	-
Other comprehensive income for the period (net of income tax)		-	-
Total comprehensive income for the period		<u>23,442,694</u>	<u>(2,956,895)</u>

The statement of comprehensive income are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 29.

Financial Statements *continued...*



Balance Sheet as at 31st December 2009

	Note	2009 K	2008 K
ASSETS			
Property, plant and equipment	13	284,238,466	239,866,297
Deferred tax assets	14	2,420,828	2,457,502
Total non-current assets		<u>286,659,294</u>	<u>242,323,799</u>
Inventories		2,673	-
Trade and other receivables	16	55,412,353	49,266,129
Other investment	15	53,217,110	15,373,336
Cash and cash equivalents	28	14,803,130	17,031,629
Total current assets		<u>123,435,266</u>	<u>66,297,758</u>
Total assets		<u>410,094,560</u>	<u>308,621,557</u>
EQUITY			
Share capital	17	7,830,000	7,830,000
Reserves	18	173,005,498	173,005,498
Retained earnings		38,912,627	15,469,933
Total equity		<u>219,748,125</u>	<u>196,305,431</u>
LIABILITIES			
Deferred tax liabilities	14	28,278,935	36,706,088
Total non-current liabilities		<u>28,278,935</u>	<u>36,706,088</u>
Trade and other payables	20	38,043,329	14,470,377
Trust fund payables	21	39,490,376	5,496,483
Loans and borrowings	19	15,145,638	15,145,638
Provision for taxes payable	12 (b)	14,510,910	12,536,138
Employee benefits	22	5,067,214	5,151,368
Deferred income		49,810,034	22,810,034
Total current liabilities		<u>162,067,501</u>	<u>75,610,038</u>
Total liabilities		<u>190,346,436</u>	<u>112,316,126</u>
Total equity and liabilities		<u>410,094,560</u>	<u>308,621,557</u>

The statement of financial position are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 29.



Financial Statements *continued...*



Statement of Changes in Equity for Year Ending December 2009

	Notes	Share Capital K	Reserves K	Retained Earnings K	Total K
Balance at 1 January 2008		7,830,000	202,199,979	18,426,828	228,456,807
Total comprehensive income for the year	-	-	-	(2,956,895)	(2,956,895)
Revaluation adjustment	-	-	(29,194,481)	-	(29,194,481)
Transactions with owners					
Contributions by and distributions to owners					
Dividends to equity holders	-	-	-	-	-
Total contributions by and distributions to owners	-	-	-	-	-
Balance at 31 December 2008		7,830,000	173,005,498	15,469,933	196,305,431
Total comprehensive income for the year	-	-	-	23,442,694	23,442,694
Transactions with owners					
Contributions by and distributions to owners					
Dividends to equity holders	-	-	-	-	-
Balance at 31 December 2009		7,830,000	173,005,498	38,912,627	219,748,125

The statements of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 29.



Financial Statements *continued...*



Statement of Cash-Flow for Year ending 31st December 2009

	Note	2009 K	2008 K
Cash flows from operating activities			
Cash receipts from customers		124,776,084	94,170,429
Cash paid to suppliers and employees		(43,362,314)	(62,611,937)
Cash generated from operating activities		81,413,770	31,558,492
Interest paid		-	-
Income taxes paid		(3,723,184)	(6,677,580)
Net cash from operating activities	28	80,121,795	24,788,190
Cash flows from investing activities			
Dividends received		-	-
Interest received		-	-
Proceeds from sale of property, plant and equipment		872,606	271,148
Acquisition of property, plant and equipment		(63,999,682)	(54,261,215)
Advance payment to contractor		-	(26,788,190)
Proceeds from government grants		-	-
Acquisition of other investments		-	-
Acquisition of investment property		-	-
Net cash from investing activities		(63,127,076)	(80,778,257)
Cash flows from financing activities			
Proceeds from / repayments of borrowings		-	(2,100,000)
Payment of finance lease liabilities		-	-
Proceeds from Trust Funds		33,993,892	5,795,972
Interest income		-	2,172,244
Proceeds from issue of share capital		-	-
Net cash from financing activities		33,993,892	5,868,216
Net increase in cash and cash equivalents	28	50,988,611	(50,029,129)
Cash and cash equivalents at beginning of the year		8,031,629	58,060,758
Cash and cash equivalents at end of the year	28	59,020,240	8,031,629



The statements of cash flows are to be read in conjunction with the notes to and forming part of the financial statements set out on pages 9 to 29.

For and on behalf of the board of directors


Director
Date


Director
Date

Notes to and forming part of the Financial Statements

1. Reporting entity

PNG Ports Corporation (the "Company") is a company domiciled in Papua New Guinea. The address of the Company's registered office is Stanley Esplanade, Port Moresby. The financial statements of the Company as at and for the year ended 31 December 2009 comprise the Company. The Company primarily is involved in the provision of management services, operations and control of activities governing the movement of ships and cargoes within its declared ports.

2. Basis of Preparation

(a) Statement of compliance

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the Accounting Standards Board of Papua New Guinea (ASB) and the requirements of the Papua New Guinea Companies Act 1997.

The financial statements have been authorised for issue by the Board of Directors on 31 March 2010

(b) Basis of preparation

The financial statements have been prepared primarily on the historical cost basis except for the following material items in the statement of financial position

Available-for-sale financial assets are measured at fair value

Investment property is measured at fair value

(c) Functional Currency

The financial statements are presented in the Papua New Guinea currency, the Kina which is the Company's functional currency.

(d) Use of estimates and judgements

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised and in future period if affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following note:

Notes 25 – provisions and contingencies.

(e) Changes in accounting policies

(i) Overview

Starting as of 1 January 2009, the Company has changed its accounting policies in the following areas:

Accounting for borrowing costs and Presentation of financial statements.

(ii) Accounting for borrowing costs

In respect of borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009, the Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Previously, the Company immediately recognised all borrowing costs as an expense. This change in accounting policy was due to the adoption of IAS 23 *Borrowing Costs* (2007) in accordance.



with the transitional provision of such standard; comparative figures have not been restated. The change in accounting policy had no material impact on earnings per share.

(iii) Presentation of financial statements

The Company applies revised IAS 1 *Presentation of Financial Statements* (2007), which became effective as of 1 January 2009. As a result, the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

(iv) Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company, except as explained in note 2(e), which addresses changes in accounting policies.

(f) Foreign Currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the exporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the function currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the data of the transaction.

(g) Financial instruments

Non-derivative financial assets

All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a part to the contractual provisions of the instrument. The company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liability are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets; held-to-maturity financial asset and receivables.

Held-to-maturity financial assets

If the Company has the positive intend and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification for all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables (see note 16).

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are payable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

(ii) Non-derivative financial liabilities

The Company initially recognises all liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial positions when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Company has the following non-derivative financial liabilities; trust payable, and trade and other payables. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measures at amortised cost using the effective interest method.

(iii) Share Capital

The share capital is classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

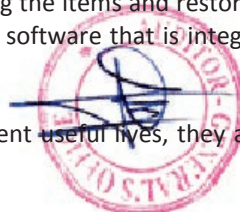
(h) Property Plant and Equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-construction assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, and capitalised borrowing costs (see note 2(e)(ii)). Purchased software that is integral to the functionality of the related equipment is capitalised as part of the equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.



Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

(ii) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied with the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day serving of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or to the amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonable certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

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

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(i) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average costs and includes incurred in acquiring the inventories.

(j) Impairment

(i) Non-derivative financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the company on terms that the Company would not consider otherwise, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investments securities are assessed for specific impairment. All individually significant receivables and held-to-maturity for any impairment that has been incurred but not yet identified.

Receivables and held-to-maturity investment security that not individually significant are collectively assessed for impairment by companying together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Company uses historical trend of the probability of default, timing of recovering and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets (including receivables)

The carrying amounts of the Company's non-financial assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

(k) Employee benefit plans

A liability is made for benefit accruing to employees in respect of annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

(i) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(ii) Other long-term employee benefits

Liabilities recognised in respect of employee benefits which are not expected to be settlement with 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to reporting date.

(iii) Short-term employment benefits

Liabilities recognised in respect of employee benefits expected to be settlement within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

(l) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that and be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle that obligation.

(m) Revenue

(i) 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.

(ii) Other income

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



(iii) Government grants

Grants provided by government agencies are recognised as revenue and accounted for in accordance to the International Accounting Standard number 20 (IAS20) on "Accounting for Government Grants and Disclosure of Government Assistance".

(n) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it occurs in profit or loss, using the effective interest method. Finance cost comprises interest expenses on borrowing. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary difference, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

4. Determination of fair value

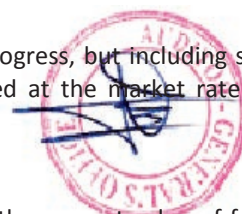
A number of the Company's accounting policies and disclosures require that determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measures and/or disclosure purposed based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(i) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, but including service concessions receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(ii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of converting notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.



5. Financial risk management

The Company has exposure to the following risk from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operation risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors oversee how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and investment securities.

The Management has established a credit policy under which each new customer is analysed individually for credit worthiness before the Company's standard payment and delivery terms and conditions are offered. The Company's review included external ratings, when available, and in some cases bank references. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

More than 95 percent of the Company's customers have been transaction with the Company for over five years, and losses have occurred infrequently. In monitoring customer credit risk, customers are grouped according to their credit characteristics, including whether they are an individual or legal entity, whether they are wholesale, retail or end-user customer, geographic location, industry, again profile, maturity and existence of previous financial difficulties.

Trade and other receivables relate mainly to the Company's credit customers. Customers that are graded as 'high risk' are placed on a restricted customer list and monitored by the management, and future sales are made on a prepayment basis.



Investments

The Company limits its exposure to credit risk by investing only in liquid securities. Management actively monitors credit ratings and given that the Company only has invested in securities with high credit ratings, management does not expect any counterparty to fail to meet its obligations.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operation expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicated, such as natural disasters.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

(iv) Operational risk

Operating risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Company's operations.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board of Directors monitors the return on capital, which the Company defines as a result from operating activities divided by total shareholder's equity.

The Company's debt to adjusted capital ratio at the end of the reporting period was as follows:

<i>In thousands of Kina</i>	2009	2008
Total liabilities	190,346,436	112,316,126
Less: cash and cash equivalents	<u>14,803,130</u>	<u>1,658,293</u>
Net debt	175,543,306	110,657,833
Total equity	219,748,125	196,305,431
Less: amounts accumulated in equity related to cash flows hedges	-	-
Adjusted equity	219,748,125	196,305,431
Debt to adjusted capital ratio at 31 December	0.80	0.56

There were no changes in the Company's approach to capital management during the year.

The Company is not subject to externally imposed capital requirements.

Financial Statements *continued...*



6. Revenue

	2009	2008
	K	K
Rendering of Services	108,569,850	94,249,208
Total Revenue	<u>108,569,850</u>	<u>94,249,208</u>

7. Other revenue

Other revenue	552,968	722,885
Realised foreign exchange gain	232,521	-
Net gain on sale of property, plant and equipment	663,015	603,000
Rental income from property subleases	77,243	-
Total other revenue	<u>1,525,747</u>	<u>1,325,885</u>

8. Other operating expenses

Operating profit/(loss) for the year is stated after changing the following items;	2009	2008
	K	K
Charging		
Auditors remuneration	250,000	250,000
Depreciation of fixed assets	8,741,203	7,534,017
Loss on sale of fixed assets	10,013,704	331,852
Interest expense	222,188	-
Donations	<u>207,039</u>	<u>234,677</u>

9. Employees

The number of employees at the end of the year was 689 (2008:400)

10. Personnel expenses

	2009	2008
	K	K
Wages and salaries	17,896,009	16,672,583
Contributions to defined contribution plans	827,218	892,148
Other staff costs	5,881,480	4,473,227
	<u>24,604,707</u>	<u>22,037,958</u>

11. Financing income and costs

(a) Finance income

Interest income on		
Held-to-maturity investments	1,046,192	2,172,244
Dividend income	-	-
Total finance income	<u>1,525,747</u>	<u>1,325,885</u>



PNG PORTS
CORPORATION

Interest expense on financial liabilities measured at amortised cost	404,710	37,808
Total finance costs	404,710	37,808

2009 2008

8,35
1,34
(1,29

Financial Statements *continued...*

13. Property, Plant & Equipment

	HOS Land & Leasehold Land	Wharfs, Facilities & Buildings	Fa- & Buildings	Residential Buildings & Fittings	Vehicles & Boats	Office Machines & Other Equip-ment	Work In pro-gress	Total
	K	K	K	K	K	K	K	K
Cost								
At 1 January 2009	6,776,024	326,493,242	15,134,234	7,532,928	10,288,048	79,193,350	445,417,826	
Additions	-	-	64,858	1,053,273	872,189	62,009,362	63,999,682	
Disposals/Transfers	(153,000)	(10,599,506)	(545,000)	(53,797)	-	-	(11,351,303)	
Disposals	-	-	-	-	-	-	-	
At 31 December 2009	<u>6,623,024</u>	<u>315,893,736</u>	<u>14,654,092</u>	<u>8,532,404</u>	<u>11,160,237</u>	<u>141,202,712</u>	<u>498,066,205</u>	
Depreciation								
At 1 January 2009	-	181,842,388	10,344,280	6,545,186	6,819,675	-	205,551,529	
Charge for the year		7,839,648	75,954	240,652	584,949	-	8,741,203	
Disposals/Transfers		(161,510)	(228,345)	(11,365)	(63,773)	-	(464,993)	
Disposal		-	-	-	-	-	-	
At 31 December 2009		<u>189,520,526</u>	<u>10,191,889</u>	<u>6,774,473</u>	<u>7,340,851</u>	-	<u>213,827,739</u>	
Carrying amounts								
At 31 December 2009	<u>6,623,024</u>	<u>126,373,210</u>	<u>4,462,203</u>	<u>1,757,931</u>	<u>3,819,386</u>	<u>141,202,712</u>	<u>284,238,466</u>	
At 1 January 2009	6776,024	144,650,854	4,789,954	987,742	3,468,373	79,193,350	239,866,297	



Financial Statements *continued...*



(14) Deferred tax assets and liabilities

Deferred tax assets and deferred tax liabilities at 31 December 2009 and 2008 are attributable to the items detailed in the tables below:

	Asset K	2009 Liability K	Net K	Asset K	2008 Liability K	Net K
Property, plant and equipment	-	(28,198,466)	(28,198,466)	-	(36,685,298)	(36,685,298)
Accrued interests	-	(80,469)	(80,469)	-	(615)	(615)
Employee benefits	1,520,164	-	1,520,164	1,545,410	-	-
Prepaid insurance	-	-	-	-	(20,175)	(20,175)
Provisions	900,664	-	900,664	912,092	-	912,092
Tax value of loss carry-forwards	-	-	-	-	-	-
Net tax assets/liabilities	<u>2,420,828</u>	<u>(25,278,935)</u>	<u>(25,858,107)</u>	<u>2,457,502</u>	<u>(36,706,088)</u>	<u>(934,248,586)</u>

Movements in deferred tax assets and liabilities during the year.

	Asset K	2009 Liability K	Net K	Asset K	2008 Liability K	Net K
Opening balance at 1 January	2,457,502	(36,706,088)	(34,248,586)	3,757,291	(30,050,432)	(26,293,141)
Recognised in income statement	(36,674)	-	8,427,153	(1,299,789)	(6,655,656)	(7,955,455)
Recognised in other comprehensive income	-	-	-	-	-	-
Closing balance at 31 December	<u>2,420,828</u>	<u>(28,278,935)</u>	<u>(25,858,107)</u>	<u>2,457,502</u>	<u>(36,708,088)</u>	<u>(34,248,586)</u>

Investments

2009
K

2008
K

BSP Capital Limited

25,060,000

25,060,000

Provision for investments

(16,060,000)

(16,060,000)

9,000,000

9,000,000



Financial Statements *continued...*



15. Trade and Other Receivables

2009

2008

	K	K
Trade debtors	13,213,848	16,603,506
Less: Provisions for doubtful debts	(3,002,214)	(3,136,307)
Amount owed by related corporations	1,504,210	1,504,210
Other debtors and prepayments	43,696,509	34,294,720
	<u>55,412,353</u>	<u>49,266,129</u>
Current	55,412,353	49,266,129
Non-Current	-	-
Total	<u>55,412,353</u>	<u>49,266,129</u>

16. Share Capital

2009

2008

	K	K
Issued ordinary share capital		
Established capital at 1 January 2009	7,830,000	7,830,000
Established capital during the year	-	-
Established capital at 31 December 2009	7,830,000	7,830,000

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 Legislations, 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, Samarai, Wewak, Kieta and Kimbe.

17. Reserves

2009

2008

		K	K
Asset revaluation reserve	(a)	165,495,532	165,495,532
Stakeholder fund reserve	(b)	7,509,966	7,509,966
		<u>173,005,498</u>	<u>173,005,498</u>

(a) Asset revaluation reserves

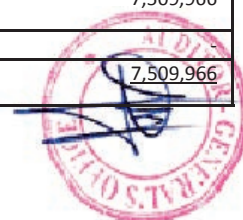
Balance at 1 January	165,495,532	194,690,013
Surplus/(deficit) on revaluation of properties	-	(29,194,481)
Surplus/(deficit) on revaluation of investments	-	-
Transfer to retained profits	-	-
Balance at 31 December	<u>165,495,532</u>	<u>165,495,532</u>

(b) Stakeholder fund reserve

Balance at 1 January	7,509,966	7,509,966
Transfer (to)/from retained earnings	-	-
	<u>7,509,966</u>	<u>7,509,966</u>

Asset revaluation reserve

The revaluation reserve relates to the revaluation of property, plant and equipment.



Financial Statements *continued...*



Shareholder fund reserve

Shareholder 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 21.

18. Loans and borrowings

2009

2008

	K	K
Current		
Asia Development Bank No. PNG 468 repayable in half	<u>15,145,638</u>	<u>15,145,638</u>
Yearly instalments from December 1998	<u>15,145,638</u>	<u>15,145,638</u>

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 year end. As at the 31 December 2007, the loan payable to the State was unsecured and interest free. This amount can be called up by the state at any time.

19. Trade and other payables

2009

2008

	K	K
Trade creditors	6,422,074	3,048,891
Amounts owed to related corporations	-	-
Other creditors and accrued expenses	<u>31,621,255</u>	<u>11,421,486</u>
	<u>38,043,329</u>	<u>14,470,377</u>

20. Trust Funds

Kanzaru Wharf Project Fund	1,027,880	1,008,612
Pom Port Relocation Project Fund	250,392	237,789
Kavieng Overseas Wharf Project Fund	1,240,372	2,220,311
National Project Fund	1,081,555	1,081,589
POM Port Redevelopment Project	10,084,029	-
Wewak Wharf Upgrade	20,167,275	-
Kimbe Wharf Upgrade	4,033,646	-
Lae Port Expansion	58	-
Aitape Wharf Project	1,000,329	-
Cargo Levy	591,110	948,182
Jomad Marine Development	13,730	-
	<u>39,490,376</u>	<u>5,496,483</u>

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 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. Excess funds are currently being invested in interest bearing deposits with commercial banks.

Financial Statements *continued...*



Trust Funds – Cargo Levies

This fund is utilised to provide for the shortfall 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.

21. Employee Benefits

	2009	2008
	K	K
Non current		
Provisions for long service leave	<u>3,801,061</u>	<u>3,914,001</u>
Total non current	<u>3,801,061</u>	<u>3,914,001</u>
Current		
Provision for annual leave	1,200,383	1,118,392
Provision for gratuity	65,770	118,975
Total current	<u>1,266,153</u>	<u>1,237,367</u>

22. Financial Instruments

(a) Credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2009	2008
	K	K
Trade receivables	13,213,848	16,603,506
Other receivables	45,200,719	35,798,930
Cash and cash equivalents	<u>68,020,240</u>	<u>17,031,629</u>
Total	<u>126,434,807</u>	<u>69,434,065</u>

The maximum exposure to credit risk for receivables at the reporting date by geographic region was:

Papua New Guinea	13,213,848	16,603,506
Other Pacific countries	-	-
Total	<u>13,213,848</u>	<u>16,603,506</u>

The maximum exposure to credit risk for trade receivables at the reporting date by type of counterparty was:

	2009	2008
	K	K
Wholesale customers	-	-
Retail customers	<u>13,213,848</u>	<u>16,603,506</u>
Total	<u>13,213,848</u>	<u>16,603,506</u>

Impairment losses

The aging receivables at the reporting date were:

Not past due date	-	-
Past due 0-30 days	6,914,230	8,578,392
Past due 31-180 days	903,355	1,717,172
Past due 181-360 days	-	-
Past due more than 1 year	<u>5,396,263</u>	<u>6,307,941</u>
Total	<u>13,213,848</u>	<u>16,603,506</u>

Financial Statements *continued...*



The movement in the allowance for impairment in respect of receivables was as follows:

Balance at 1 January	3,136,307	8,020,635
Impairment recognised during the year	3,002,214	3,136,307
Impairment reversed during the year	(3,136,307)	(8,020,635)
Balance at 31 December Total	3,002,214	3,136,307

(b) Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

Amounts at 31 December 2009;

Non-derivative financial liabilities	Carrying amount	Contracted cash flows	Less than one year	1-2 years	2-5 years	More than 5 years
Unsecured loan facilities	15,145,638	-	15,145,638	-	-	-
Trade and other payables	38,043,329	-	38,043,329	-	-	-
Total	53,188,967	-	53,188,967	-	-	-
Amounts at 31 December 2008:						
Non-derivative Financial liabilities	Carrying amount	Contracted cash flows	Less than one year	1-2 years	2-5 years	More than 5 years
Unsecured loan facilities	15,145,638	-	-	-	-	-
Trade and other payables	14,470,377	-	-	-	-	-
Total	29,616,015	-	-	-	-	-

(c) Currency risk

The Company's exposure to foreign currency risk was K232, 521 for 2009 (2008: K nil)

(d) Interest rate risk

The Company's exposure to interest rate risk was nil for 2009 (2008: K nil)

(e) Air value versus carrying value

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	Fair Values		Carrying amounts	
	2009	2008	2009	2008
Loans and receivables	55,412,353	49,266,129	55,412,353	49,266,129
Cash and cash equivalents	68,020,240	17,031,629	68,020,240	17,031,629
Unsecured bank facilities	(15,145,638)	(15,145,638)	(15,145,638)	(15,145,638)
Trade and other payables	(36,952,334)	(14,470,377)	(14,470,334)	(15,470,377)
Total	71,334,621	36,681,743	71,334,621	36,681,743

Financial Statements *continued...*



23. Commitments

PNG Ports Corporation Limited had the following capital commitments as at 31 December 2009.

	Budgeted	Paid
Airport Wharf Rehabilitation	1,400,000	-
Alotau Wharf Upgrade	3,700,000	731,902
Buka Wharf Upgrade	4,300,000	7,922,335
Daru Wharf Upgrade	6,300,000	5,032,171
Kavieng Wharf Upgrade	-	5,500
Kimbe Wharf Upgrade	2,400,000	88,778
Lae Wharf & Facilities Upgrade	62,740,000	106,263,926
Madang Wharf & Facilities Upgrade	3,400,000	797,117
Orobay Wharf Restoration	450,000	507,911
POM Wharf & Facilities Upgrade	25,350,000	18,644,616
Rabaul Wharf & Facilities Upgrade	1,300,000	-
Wewak Wharf & Facilities Upgrade	1,450,000	1,208,456
	<u>112,790,000</u>	<u>141,202,712</u>

24. Contingencies

There were no contingent liabilities as at 31 December 2009 (2008: Nil) not provided for in the accounts.

Litigation

There are ongoing legal matters for and against the company, which may result in the net liability of K1.174 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.

25. Related Party Transaction

All transactions are commercial transactions made on an arm's length basis. The following are the related party transactions disclosed in accordance with the IAS 24;

ICCC (Independent Consumer & Competition Commission)

The Independent Consumer & Competition Commission is a government price regulator. Accordingly the ICC regulates amongst many other SOE's the PNG Ports regulated tariffs like pilotage, berthing and berthing reservations. The ICC charges an annual fee of K336, 000 which the PNG Ports Corporation Limited pays in four quarterly instalments during the year.

IPBC (Independent Public Business Corporation)

The Independent Public Business Corporation is the government business arm that controls government business which includes the state owned enterprises (SOE). The PNG Ports Corporation Limited is a government owned business enterprise involved in providing essential ports services and is registered under the PNG Companies Act. PNG Ports Corporation Limited does not pay any kind of fee to IPBC but is expected to make dividend payments to the government as the sole shareholder through IPBC from any declared profits.

26. Events Subsequent to the Balance Sheet Date

There were no significant events subsequent to the balance sheet date which require adjustment or disclosure to the financial statements.



27. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to related items in the balance sheet as follows:

		2009	2008
		K	K
Cash and bank balances		14,803,130	1,658,293
Short term deposits	Note 28b	<u>44,217,110</u>	<u>6,373,336</u>
		<u>59,020,240</u>	<u>8,031,129</u>

(b) Short term investments includes funds received on trust and invested in the IBDs as follows;

Investments – PNG Ports	7,646,864	4,085,252
Investments – Kavieng Overseas Wharf Project Fund	1,068,931	1,045,597
Investments – Kanzarua Wharf Project Fund	-	1,005,444
Investments – POM Port Relocation Project Fund	246,572	237,043
Investments – POM Port Redevelopment	10,075,138	-
Investments – Wewak Wharf Upgrade	20,149,551	-
Investments – Kimbe Wharf Upgrade	4,030,054	-
Investments – Aitape Wharf Project Fund	1,000,000	-
	<u>44,217,110</u>	<u>6,373,337</u>

The Company's exposure to interest risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

(c) Reconciliation of operating profit after income tax to net cash provided by operating activities.

Operating Profit/(loss) after income tax	23,442,693	(2,956,896)
Add/(deduct) items classified as investing/financing activities:		
Profit/loss on sale of non-current assets	9,350,347	(271,148)
Interest income	(1,046,192)	-
Provision for investment	-	16,060,000
Add/(deduct) non-cash items:	-	-
Amortisation of investment cost	-	35,607
Exchange losses	(232,521)	-
Depreciation	8,741,203	7,534,017
Provision for doubtful debts	(2,371,500)	
Income tax expense	<u>(2,029,165)</u>	<u>22,495,609</u>
Net cash provided by operating activities before changes in assets and liabilities	35,854,865	42,897,216

Financial Statements *continued...*



Changes in assets and liabilities

(Increase)/decrease in inventories	(2,673)	-
(Increase)/decrease in trade debtors	3,255,565	(8,219,705)
(Increase)/decrease in prepayments	3,952,565	(26,290,290)
(increase)/decrease in other debtors	(13,427,205)	-
Increase/(decrease) in trade creditors and other creditors	23,572,952	2,169,438
Increase/(decrease) in employee provisions	(84,154)	604,355
Increase/(decrease) in deferred income	27,000,000	21,023,081
Increase/(decrease) in provisions for taxes payable	-	-
Increase/(decrease) in provision for deferred tax	-	(7,303,156)
Net cash provided by operating activities	80,121,795	24,880,939

