



2010 **ANNUAL REPORT**



PNG PORTS CORPORATION LIMITED

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Abbreviations and Initials

BPNG	Bank of Papua New Guinea
CEO	Chief Executive Officer
CSO	Community Service Obligation
Capex	Capital expenditure
DoT	Department of Transport
EBIT	Earnings before Interest and Taxes
ICCC	Independent Consumer and Competition Commission
IFRS	International Financial Reporting Standards
IMO	International Maritime Organisation
IPBC	Independent Public Business Corporation
LNG	Liquefied Natural Gas
NMSA	National Maritime Safety Authority
PNGHMS	PNG Harbour Management Service
PNGPCL	PNG Ports Corporation Limited
Pom	Port Moresby
RT	Revenue Tonne
TEU	Twenty foot Equivalent Unit

Technical terms

RT	A Revenue Ton (RT) is a shipping term describing the measurement on which the shipment is freighted. If cargo is rated as weight or measure, whichever produces the highest revenue will be considered the revenue ton. Weights are based on metric tonnes and measures are based on cubic meters (1 RT = 1 tonne or 1 m ³)
TEU	Twenty-foot equivalent unit (TEU) is a measure used for capacity in container transportation (1 TEU = represents the cargo capacity of a standard intermodal container, 20 feet long and 8 feet wide)



About PNG Ports Corporation Limited

Our Vision

To be the premier port operator and the most respected organisation in South Pacific region.

Our Mission

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

Our Values



We the management and staff of PNGPCL share a common view that the values we adopt set important benchmarks on what we consider as acceptable conduct required of each and every one of us. We believe these values provide our customers and stakeholders alike with an indication of what they can expect from us in terms of output and service excellence.



Chairman's Report



Whilst the global recession was reaching its peak and impacting on most of the corporations worldwide including those within the region, PNGPCL has achieved another milestone achievement: As at the close of 2010 financial year, an after-tax profit of K42.4 million was posted – which factored heavily on the increased turnovers across all service lines. Its EBIT has been growing to K 48.7 million and assets base to over K264 million, close to 20 percent more than what they were three years ago.

All these key achievements have ranked PNGPCL as one of the best performing SOEs and reflected a close collaboration the Board had with the management.

After careful consideration of PNGPCL's Capital Expenditure Plan 2010 – 2014, the Board has decided not to declare any dividends and plough back the profits into the company. This has strengthened the balance sheet position, hence providing leverage for PNGPCL to undertake its planned capex. It also enhanced PNGPCL's liquidity position to secure debt finance, which is part of a capex financing strategy.

We occupy a central position in the trade and logistical chains and pride our self as one of the major partners in the country's development. Being cognizant of this status, the Board has been committed to balancing its decision between commercial excellence and sustainable service delivery. In pursuit of commercial excellence, we have not negated our duty to continue facilitating service delivery for the country's populace that are dependent on maritime transportation for their socio-economic livelihoods. We will continue to perform this important function until an alternative management and operational structure is developed.

In 2010, key infrastructure development and rehabilitation projects were initiated across some ports to improve service delivery. The government's support included allocation of funds totalling K23 million under the transport infrastructure development budget to PNGPCL for such improvements.

Chairman's Report

In light of PNGPCL's planned scope of capex projects, we will continue to seek the government's support, either in a form of equity injection via the IPBC or direct maritime infrastructure development grants. We will also seek any other grants and/or concessionary loans from the multilateral financial institutions and donors for any financing gaps.

The high capital flow into the resource sector has been driving conservatively high economic growth over the last six years. This growth is anticipated to persist for sometimes. In light of this, we anticipate many opportunities and challenges ahead of us.

I reaffirm that the Board will continue to provide sound strategic direction and due diligence for PNGPCL to counter and tap into any emerging challenges and opportunities with a view to creating further success as well as supporting the government in delivering its development goals and aspirations.

In our pursuits, we will ensure that PNGPCL operates as a responsible corporate entity complying fully with domestic and international laws, conventions, agreements and administrative governance process on the ports management and operations to ensure a maximum security and protection for the environment, lives of people and business of the company. This has been the key pillar of the company's past operations.

To this end, I would like to take the opportunity to acknowledge and thank the former Board Chairman Dr. Illa Temu and members of the Board for providing the strategic guidance for successful running of the company during the reporting period.

*This report relates to the period during which PNGPCL was under the chairmanship of Dr. Illa Temu.

Nathaniel Poya, OBE
Chairman

Corporate Governance Report

Corporate governance is vital to the company's long term objectives as it progresses on to establishing itself as a genuine corporate entity. As such the Board has endeavoured to uphold high corporate governance standards without impartiality in every commercial decisions and/or undertakings it has made.

Role of the Board

The Board of PNG Ports is responsible for the corporate governance of the company. 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 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 a State Owned Entity, Corporatized under the Privatisation Act 2002. The IPBC is the sole shareholder holding shares in trust on behalf of the Go-PNG 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 Public Enterprise and State Investment.

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 2010 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.

Corporate Governance Report *continued...*

Directors Interest

As at the end of 31st December 2010 none of the Directors was a shareholder to the Company and did not have any material interest in PNGPCL or any related entity that undertook business with the company.

Remuneration of Board

In accordance with the Provisions of the Company's Act 1997, Section 212 (f) and (g), the shareholder of the company, through ordinary resolution has resolved that the company will not disclose details of the Directors remuneration in the 2010 annual report.

Board Meetings

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

Indemnity

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

Financial Results

The Directors and the Shareholder are provided monthly and quarterly financial reports in approved templates. In terms of the annual financial statements the Board and the Management ensure that the statements are prepared in accordance with the generally accepted 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. The Auditor General 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 Auditor General to the IPBC which then forwards it to the Public Enterprise and State Investment Minister to be presented in parliament.

Board of Directors



Dr. Illa Temu, PhD, MEcon

Dr. Temu is a Country Manager, Barrick (PNG) and has been appointed as the Chairman since 2007. He also holds chairmanship in BSP Capital and directorships in Bank of South Pacific, Independent Public Business Corporation, National Economic and Fiscal Commission and PNG Incentive Fund. Dr. Temu has broad public and private sector experiences having held seniority positions in statutory authorities, universities and mining and petroleum sector both in PNG and throughout a number of countries.



Mr. Wali Kepas, MPEng

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, a member of the Society of Petroleum Engineers (USA chapter) and a Director of National Maritime Safety



Mr. Robert Nilkare, BCom

Robert 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.



Mr. John Suat, MSc

Suat 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. He holds a Bachelor of Technology in Surveying from the Papua New Guinea University of Technology and a Masters Degree in Geographical Information System from the University of Queensland, Australia.



Mr. Michael Ikau, BEng

Mr. Ikau is a businessman and engineer by profession. He had worked for Garrison Engineer from 1984-1988 before starting and running his own company in Wewak.



Financial and Trade Highlights

Financial Summary

Year ended 31 December	2010 K'm	2009 K'm	2008 K'm	2007 K'm
Operating Results				
Operating revenue	168.1	108.6	94.2	78.1
Operating expenses	(17.9)	(89.3)	(78.2)	(46.1)
Operating profit before interest and tax	48.7	20.8	17.4	35.2
Finance costs	(3.3)	(.6)	(3.2)	(3.1)
Profit (Loss) before Taxes	46.5	21.4	19.5	29.6
Profit(Loss) after Taxes & prior year adjustments	42.4	23.4	-3	29.6
Financial Position				
Total Assets	464.2	410.1	308.6	270.6
Total Liabilities	200.4	190.3	112.3	42.1
Net Assets	264.8	219.8	196.3	228.5
Contributed Capital and Reserves	263.8	219.7	196.3	228.5
Retained earnings	81.4	38.9	112.3	42.1
Total Equity & Liabilities	464.2	410.1	308.6	270.6
Cash flows				
Net Cash flows from operating activities	52.5	80.1	24.9	30.2
Net Cash flows from investing activities	(68.1)	(63.1)	(80.8)	(17.5)
Net Cash flows from financing activities	24.0	34.0	5.9	17.3
Net Cash flows	67.5	59.0	(50.0)	30.0
Capex	67.7	134.9		

Trade Summary

Year ended 31 December	2010	2009	2008	2007
Overseas Cargo Throughputs (RTs)	4,434,022	3,677,190	3,789,904	3,376,130
Coastal Cargo Throughputs (RTs)	2,536,740	2,545,950	2,714,965	2,443,135
Total Cargo Throughputs (RTs)	2,536,740	6,223,140	6,504,869	5,819,265
Overseas Container Volume (TEU)	1,037,827	143,590	135,066	135,249
Coastal Container Volume (TEU)	485,240	1,114,677	123,013	113,996
Total Container volumes (TEU)	1,523,067	1,258,267	258,079	249,245
Overseas Vessel Calls	3,342	2,655	2,563	2,671
Coastal Vessel Calls	3,643	3,551	3,620	3,520
Total Vessel Calls	6,985	6,206	6,183	6,191

Chief Executive Officer's Report



In spite of the global recession, overall trade has performed impressively on the back of a strong domestic growth in 2010: Volume of cargo grew by 15 percent to 7151687 RT and container by 13 percent to 290337 TEU. Vessels calls at our network of ports and port limits were 6987.

Lae, Pom and Kimbe consolidated their status profitable ports and accounted for 81 percent of the total cargo trade and generated more than 85 percent of the consolidated operating revenues.

As part of its CSO, PNGPCL has cross-subsidised operations of the underperforming ports with funds generated by the profitable ports to ensure continuity of service delivery. Due to emerging competition from the private sector, cross subsidization is unsustainable in the long run and PNGPCL has already commenced work on a best-fit operational structure for the latter ports.

Customer satisfaction and service delivery have remained the focal point for PNGPCL. In 2010, PNGPCL expended a total capital outlay of K67.66 million to improve service standards and operational efficiencies. A significant capex was spent on the two premier ports – with key projects at Pom included main wharf rehabilitation; berth 4A concrete repairs and port redevelopment and Lae included Berth 2 and 3 concrete repairs, CP concrete monitoring system, Tanker berth and cement wharf repairs, Overseas wharf Extension.

The level of capex spending was consistent with the capex requirements as set out in the new five-year regulatory contract that PNGPCL entered into with the ICCC beginning in 2010. The contract sets out a fixed price path for the duration of the current regulatory period, which expires at the end of 2014.

Capex funding structure comprised of equity, development funds and debt. PNGPCL drew down a loan of K24 million from an approved BSP loan, Management has taken measures to ensure loan funds are optimally utilised in priority areas.

Since corporatisation, PNGPCL has been on a path of transitioning into a fully corporatized entity by initiating new changes. In 2010, a number of key policy reforms pertaining to administrative, commercial and operational facets were introduced to provide the sound corporate governance framework required. Amongst this was an adoption of the company's constitution, which is compatible with PNG's Companies Act 1997.



Chief Executive Officer's Report *continued...*

We have also been undertaking a recruitment drive with an aim of developing a multi-disciplinary and solid workforce to reflect on our multi-dimensional nature of operations. We were successful in recruiting qualified personnel including General Manager Engineering, who joins our executive management team early 2011. He will be directly responsible for overseeing infrastructure development and rehabilitation.

We have been engaged with the private, public sector bodies and civil society to take a unified stance on social issues that are detrimental to our communities such as white collar crime, HIV/AIDs and domestic violence. We do this because we believe raising awareness on these important issues. We have also contributed to community projects including assistance to the City Mission to support their role in addressing urban poverty and other forms of social disparities.

Finally, I would like to take this opportunity to acknowledge and thank the former Chief Executive Officer, Mr. Brian Riches, for his outstanding leadership as well as the executive management team and staff members for their commitment in 2010.

*This report relates to the period during which PNGPCL was under the leadership of former Chief Executive Officer Mr. Brian Riches.

Stanley Alphonse

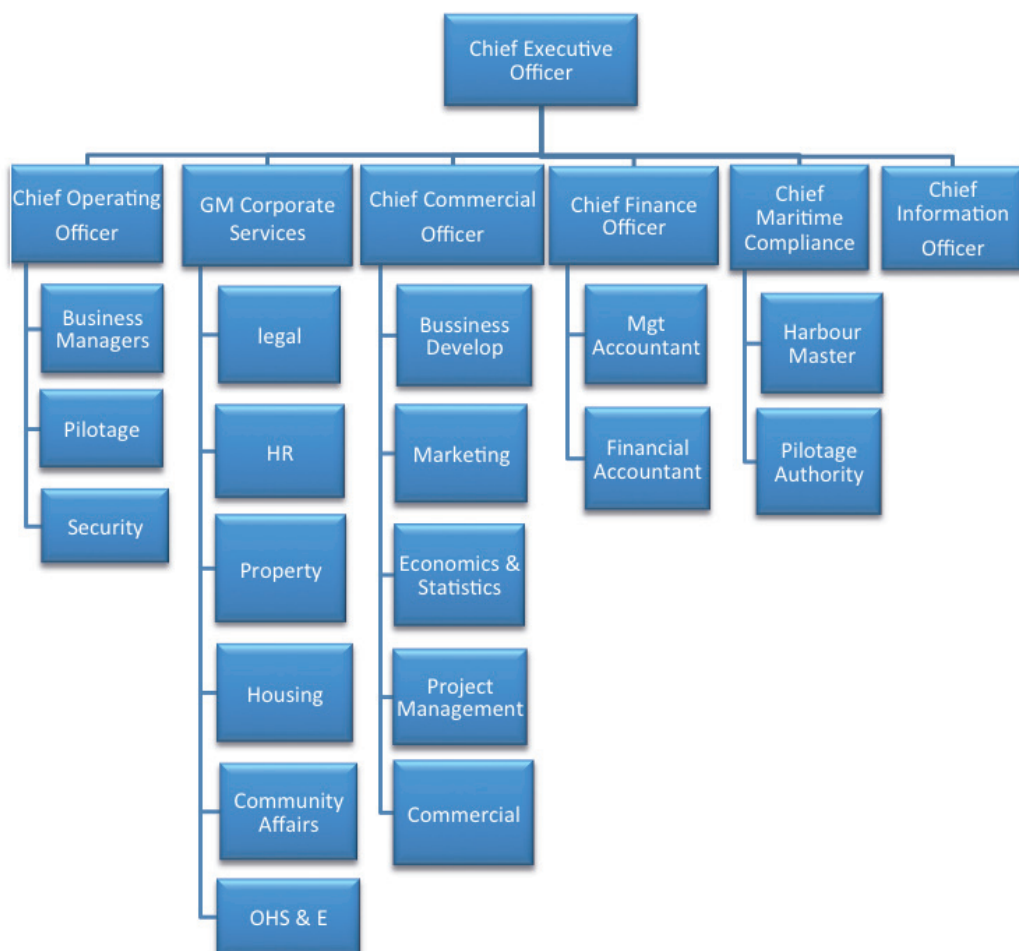
Chief Executive Officer



PNGPCL – Overview

PNGPCL provides a comprehensive network of port services throughout 16 locations in PNG. It occupies a central position in the country's logistical chain for both domestic and international trade. Following corporatization, PNGPCLs has undergone an on-going change management in its business and operational structures to take on new challenges and opportunities associated with the unprecedented economic growth.

Organisational structure



PNGPCL – Overview *continued...*

Port authority and operation

PNGPCL is empowered by the Harbours Act Chapter 240 to develop, manage and operate declared ports. It currently owns and operates 16 of the declared ports across the Maritime Provinces. PNGPCL offers pilotage, berthage and wharfage services for shipping companies and storage for container and generalised cargo. All other activities including stevedoring, inland cartage, clearances and towage services are outsourced to private entities that meet PNGPCL's requirements on service provisions.

Delegated Responsibilities

Through an instrument of delegation by the DoT, a delegated authority is vested with PNGPCL to provide regulatory oversight over the development and operation of all ports through its subsidiary, PNGHMS. The PNGHMS discharges its function in consultation with the NMSA and DoT with a view to ensuring all ports are safely developed and operated in accordance with Ports Management and Safety Regulation, International Ship and Port Facility Security Convention, IMO Convention on Safety of Life at Sea and IMO Marine Environment Convention and Harbours Act (Ch. 240).

Ports infrastructure

The ports infrastructures were built during the colonial period and had been deteriorated over the past years due to lack of adequate and consistent rehabilitations. Following corporatisation, PNGPCL has been consistently undertaking ports' rehabilitations under its capex program throughout its entire network of ports. As a result, PNGPCL's assets have been performing at a higher productivity and efficiency level. Major part of rehabilitation and remodelling initiatives have been centred around Lae and Pom ports, which on average handle more than 80 percent of PNG's domestic and international trade.

Corporate transition

Consistent with the Corporatisation policy, the management have been pursuing change management initiatives to transform PNGPCL into a dynamic commercial entity and deliver efficient services. On the back of this transition, PNGPCL has been delivering impressive financial and operating results since 2006, an improved outcome that had rarely been realised when the organisation was part of the public service.

PNGPCL – Overview *continued...*

Pricing of services

The Minister responsible for treasury matters has declared PNG Ports and its services as a regulated entity and regulated services respectively under section 32 of the ICCA Act 2000. PNG Ports' core commercial functions are, therefore, subject to regulation through a binding regulatory contract. In 2010, PNG Ports and the ICCA entered into a new Regulatory Contract. This Contract has established a new price path, which is linked to a set of new operating parameters including a required annual capex level for the next five year regulatory period.

Economic Contribution

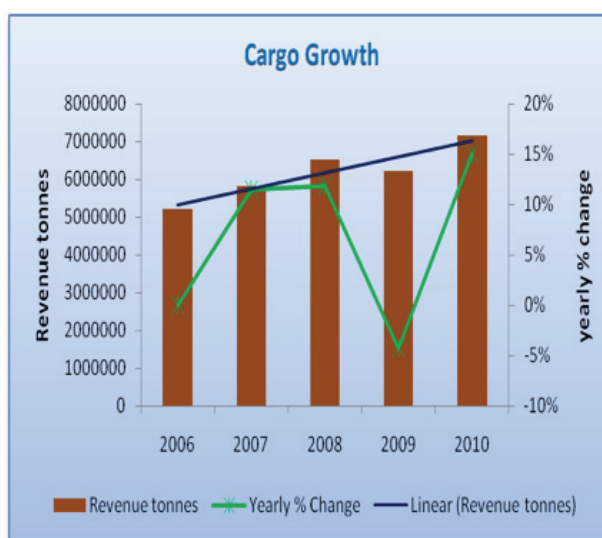
On one hand, PNG, being a developing island nation, depends on international trade to cater for its domestic consumption demands and earn foreign exchange earnings from exports of primary produces. On the other hand, PNG's coastal and islands provinces are scattered and unlinked by roads and aerodromes to some extents. PNGPCL, therefore, plays a pivotal role by facilitating trade and mobility via provision of port infrastructure and network. In respect of its role, PNGPCL prides itself as one of the major partners in the socio economic development of PNG.

Trade Performance

Overall, the 2010 year has seen another record increase in throughputs of cargo and TEU as well as vessel calls. The impressive performance has been positively correlated with the domestic growth in business and economic activities particularly in the petrochemical, mining, agriculture and manufacturing industries despite heavy global economic and financial meltdown. The foreign exchange rate, PNG kina against US dollar, has been stable for a number of months and this has also been a significant factor in the increased level of imports and exports in the country. According to industry and BPNG's reports, the positive growth trend is expected to continue beyond 2010.

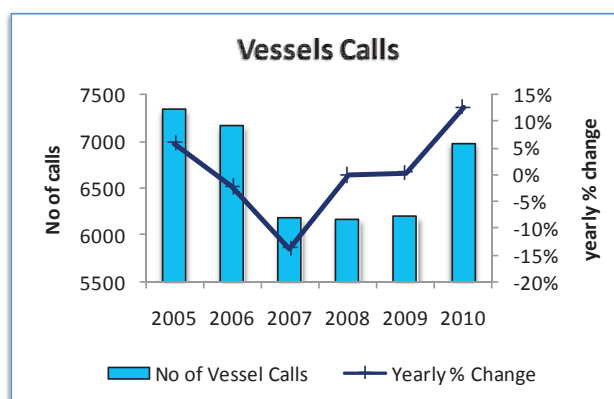
Trade growth

Trade volumes grew by about 15 percent from 6,223,140 RT in 2009 to 7,151,687 RT in 2010. Growth was driven by the impressive domestic economic growth, which correlated with the US\$19 billion Liquefied Natural Gas project. The coastal trade volume constituted 38 percent of the overall trade, representing a decline of about 3 percentage points whereas overseas 62 percent representing a gain of about 3 percentage points as compared to 2009's result. In terms of the direction of overseas trade, imports volume constituted about 71 percent and export 27 percent for that year whereas the remaining constituted on and off cargo. The trend line shows cargo volume has been growing year on year as well as a positive growth prospect for PNGPCL's business over the coming years.



Vessel calls

A total of 6,985 vessels were recorded across the entire network of ports and port limits. This represented an increase of about 13 percent. Of this, the coastal vessel calls accounted for about 52 percent representing an increase of about 3 percent whilst overseas about 48 percent representing an increase of about 26 percent compared to 2009's record.

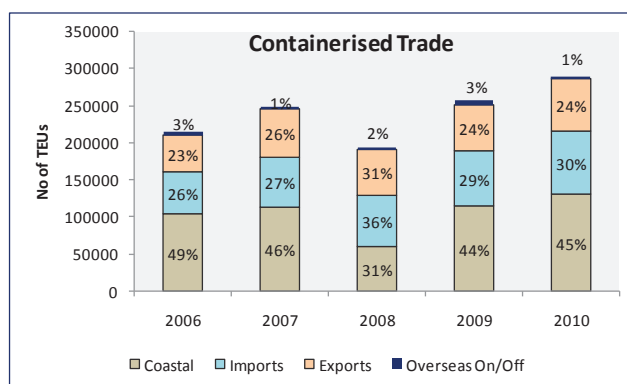


Trade Performance *continued...*

Overseas fishing vessel represented a significant number of the vessel calls and equated to 745. However, most of the fishing vessels have not taken the actual berths but were passing through the PNGPCL's port limits and others were taking anchoring at the anchorage points for restocking of food supplies. Therefore, the container and tanker vessels are of relevance since they have taken berths and paid applicable port charges.

Containerised trade

In 2010, a total of 290,337 TEUs were recorded. This represented an increase of about 12 percent on the previous year. In terms of the direction of trade, coastal container trade constituted about 45 percent while overseas about 55 percent. The volume of imports exceeded that of exports and made up of about 54 percent of the total share of overseas container trade reflecting a continuously strong domestic demand for foreign goods.



Non-containerised trade

The main forms of non-containerised trade included break-bulk, bulk fuel and on/off cargo. In 2010, imported break bulk represented a significant share, 29%, of the non-containerised trade. One of the major contributing factors was the ongoing construction activity at the LNG project, which commenced in 2008. Palm Oil export was the next major contributor; due to expansions of palm oil production in the major producing provinces including Kimbe, Madang, Oro and Milne Bay. Coastal break bulk represented about 19 percent of the total non-containerised trade was another major domestic trade.



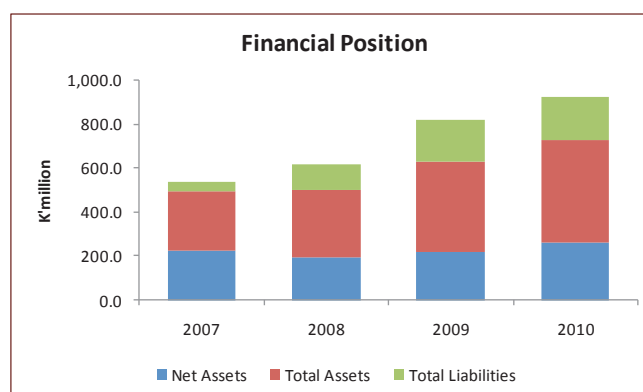
PNGPCL delivered another strong financial result as at the close of 2010 due to sound performances across all main service lines. It also reflected on the dedication of the hard-working staff.

Financial Performance

Balance sheet

As at 31 December 2010, PNGPCL had a strong balance sheet position with net assets value increased by 21 percent in 2009 to K264.8 million.

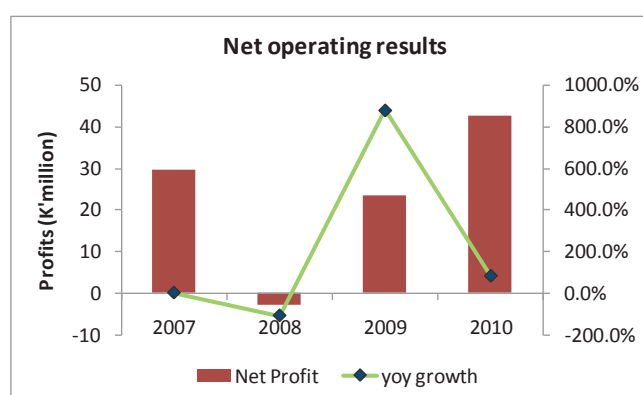
Current assets comprising of cash, investments, receivables and inventories were valued at K109.3 million while non-current assets including property, plant and equipment K354.8 million. The net asset increased by about K62.2 million on the previous year.



The total current liabilities were K135.3 million, a reduction by about 15 percent on the previous year. This was due to an offsetting of trade and other payables of K38.04 million that was carried forward by the company by about K18 million and (deferred) taxes payable by about 54 percent from K14.5million. The total non-current liabilities were K200.4 million, up by K32.0 million on the previous year. The owner's equity increased to K263.8 million from K219.7 million in 2009 following increase in the reserves and retained earnings by the margin increase.

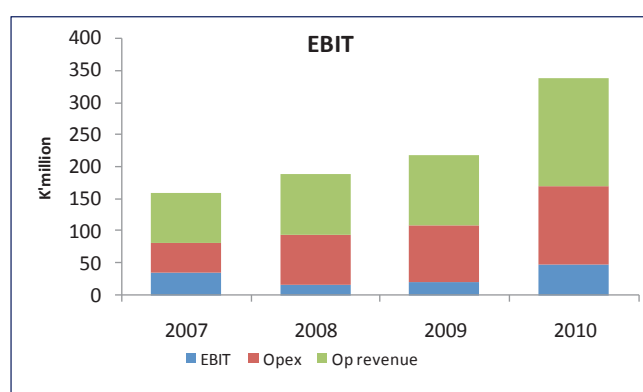
Net operating result

PNGPCL recorded an after-tax profit of K42.4 million, which represented an increase of 87 percent on the previous year 2010. The record profit growth was associated with an overall growth in the company's main business lines.



EBIT

The EBIT increased by K27.9 million to K48.7 million in 2010. As indicated, the EBIT has demonstrated continued growth over the last five years. Sustained EBIT growth has placed PNGPCL in a better position to cover interest and loan repayments on a periodic basis, hence enhancing its ability to secure debt finance as part of its financing strategy to finance its capex. The EBIT has also been adequate to support funding of the prioritised capex as well as a continuation of the CSOs.



Financial Performance *continued...*

Revenue

A record operating revenue of about K168 million was recorded, higher by 54 percent on the previous year. Of this, wharfage revenue represented 40 percent; storage 30 percent, pilotage 14 percent, berthage about 8 percent other service lines made up the rest. Revenue growth in 2010 compared to 2009 has been achieved on the back of improvement to efficiency in service delivery and enhancement of capacity in the key phases. Thus, the PNGPCL has become the preferred port of call for many coastal and overseas vessels. This resulted in higher throughputs. Furthermore, revenue growth was also partly attributed to the standard increases to both the regulated tariff for Tier 1 ports by 10% and Tier 2 ports by 20% and marginal increases in the unregulated tariffs. Interests on investments held to maturity were K1.2 million whereas gains from foreign exchanges and sale of property, plant and equipment equated to K1.6 million. These constitute non-operating incomes

Expenditure

Operating expenditures were K121.1 million, representing an increase of 35 percent on the previous year. About half (53 percent) of this expense was absorbed by the administrative and personnel costs, which again has shown PNGPCL's ongoing effort in building internal resource capacity to drive the overall change management process so as to foster overall operational efficiency and productivity across the network of ports. Depreciation costs based on the actual capital registry totalled about K13, 397,49, up by 53% on the previous year. This increase reflected PNGPCL's ongoing acquisition and efforts to increase its stock of assets.

Capex

Overall Capex for the year indicated that PNGPCL accounted for 38% of the Capex program against budget due to slow implementation of the Capex program. Actual YTD Capex was K67.664m compared to K134.888m budget.

Some of the major capex projects which were implemented in 2010 centred around the two premier ports – the key projects at Pom included main wharf rehabilitation; berth 4A concrete repairs and port redevelopment. The Lae projects included Berth 2 and 3 concrete repairs, CP concrete monitoring system, Tanker berth and cement wharf repairs, Overseas wharf Extension

Our Ports and Contacts



• AITAPE	-	Phone :	457 2124	• LORENGAU	-	Phone :	970 9060
• ALOTAU	-	Phone :	641 1266	• MADANG	-	Phone :	422 2351
• BUKA	-	Phone :	973 9927	• ORO BAY	-	Phone :	629 7798
• DARU	-	Phone :	645 9137	• PORT MORESBY	-	Phone :	308 4200
• KAVIENG	-	Phone :	984 2245	• RABAUL	-	Phone :	982 1533
• KIETA	-	Phone :	986 8005	• SAMARAI	-	Phone :	642 1008 (Agency)
• KIMBE	-	Phone :	983 5355	• VANIMO	-	Phone :	457 1086
• LAE	-	Phone :	472 2477	• WEWAK	-	Phone :	456 2298

Port Operation

The ports of Lae, Port Moresby and Kimbe have been profitable whereas the remainder have been underperforming and have been maintained through cross-subsidization under the CSO arrangement. The smaller ports have common-user wharf facilities serving mainly domestic vessels. Pilotage is compulsory in major ports including other ports that actively take overseas vessels. As at end of this year, there were no wharf-mounted cranes in all the ports. Mobile cranes and forklifts had been relied on for loading and discharge of cargoes with most of the equipment having capability of lifting on average 20-ton cargo. All communications have been made via VHF system whilst plan is in place for migration to VTS system. Due to capital intensive nature and to limit vertical integration, PNGPCL has outsourced stevedoring, tugs, towages, barges and mooring gangs to private operators that had met licence requirements.

Overview on individual ports

Port of Lae

Lae has two coastal and overseas berths each and a tanker berth facility. It has an undercover storage area of 12,600 square meters and an open storage area of 39,000 square meters. Lae is an industrial and commercial hub of PNG and serves all the Highlands Provinces, parts of Momase including some of the Pacific shipping routes.

This year Lae has again consolidated its status as the largest port in PNG – in terms of both cargo and revenue turnovers. It handled total cargo throughputs of 3,290,350 RT, up by 10.3 percent on previous year. This accounts for 46 percent of PNGPCL's aggregate cargo throughputs for that year. In term of container turnover, Lae handled a total of 142,146 TEUs, up by 10.2 percent on the previous year. Overall, Lae handled almost half (49 percent) of the aggregate TEUs. A total of 1,008 vessels called into Lae.

With a strong growth in cargo trade, PNGPCL has been taking appropriate measures to improve efficiency and productivity. This included removal of unclaimed goods and empty containers in the storage yards and an on-going redevelopment exercises. The latter included rehabilitation of Berth 3B, and extension and demolishing of dolphin 1 rehabilitation of Berth 2, which are still in progress. A planned demolition of Shed 3 to cater for both additional storage space and pathway for MHCs is yet to commence.

A new accommodation facility was completed and has already accommodated all PNGPCL staff who have been on business trips to Lae, thus, saving significant costs, which used to be incurred by PNGPCL on temporary hotel accommodation.

Port Operation *continued...*

Port Moresby

Port Moresby had 4 berths with berths 1, 2 and 3 having the capacity to accommodate large vessels of a maximum LOA of 200 meters and Deadweight of 40,000 and four main storage areas with a combined area of 41,910 square meters.

Port Moresby is PNGPCL's second largest port in terms of revenue and cargo turnovers. In 2010, Port Moresby handled a total of 1,839,516 RT of cargo, up by 22 percent on previous year. This translated to about a quarter of the total cargo trade. In terms of the container trade, Port Moresby recorded a total of 87,889 TEUs, which is an increase of about 14 percent on previous year. This represented a third of the overall container ranking. A total vessel call of 1617 was recorded.

The business growth for Port Moresby is forecasted to remain strong due to the construction of LNG plant as well as general growth in the construction activities in the real estate sector and increase in consumer demand for imported consumer merchandises.

The Company has also undertaken a number of general improvement and maintenance work and is continuing to fixing potholes and erecting road safety signs around the Port area. General upgrading of the APC and Main Wharf bollards including repairs on Sheds 2 and 4 are continuing.

Kimbe

Kimbe has 3 berths. The main wharf - Berth 1, which is the biggest, has a dimension of 117 meters by 12.1 meters; a water depth of 10.7 meters; and depth height of 3.1 meters. Its undercover storage area is 740 square meter and open storage area 6000 square metres.

Kimbe is one the three operationally and financially performing ports. Its performance has been underpinned by the logging and oil palm production activities. In 2010, Kimbe recorded a total of 670,640 RTs of cargo, representing an increase of 11 percent on the previous year and about 10 percent of the total cargo ranking.

The total container throughputs traded at that port was 13,836, representing a rise of 12 percent and about 5 percent in total container ranking.

The total vessel calls was 654. Major vessel visits for the Port were coastal passengers, log ships and tankers for palm oil products. The tanker activity is constant with the berth congestion at present under control. All port facilities are generally in fair working condition, thus any development activity on the port will largely be geared towards major port works.

Port Operation *continued...*

Rabaul

Rabaul has 2 berths. The bigger one is Berth 2 with a length of 152 m and width of 15.2 m; and has a water depth of 10.2 m and deck height of 2.8. Its undercover storage area is 10179 square meter and open storage area 20300 square metres.

In 2010, Rabaul recorded an increase in cargo throughputs by 4% to 343449 RTs. Total container traded was 14,343 TEUs, up by about 18 percent on previous year. Moreover, with an increased level of economic activity in building construction, manufacturing and agricultural activities in ENB, general demand is anticipated to continue to rise in the short to medium term.

The port of Rabaul is one of the leading destinations for cruise ships in the country.

Rabaul has generated enough revenue to maintain its status as fourth most profitable port for PNGPCL.

Minor repairs and maintenance work were been carried out by the port's works staff. Apart from a contractor that is continuing to remove silt from the yard, there is no major capital works being undertaken.

Discussions on the use of the port by Nautilus Minerals are ongoing. Accordingly, Nautilus Minerals are gradually increasing their operations within and around the port.

Madang

Madang has 3 berths. The bigger one is Berth 1 with a length of 132 m and width of 12.8 m; and has a water depth of 10.1 m and deck height of 3.29. Its total undercover storage area is 3590 square meter and a total open storage area of 8830 square metres.

Madang is on the northern cost of PNG and is sometimes included as a port of call for cruises between Australia and Asia. It is a regional port responsible for the ports of Wewak, Vanimo and Lorengau.

In 2010, Madang experienced a decline in cargo throughputs by 6 percent to 151289 RTs and a rise in container trade by about 23 percent to 4,752. Whilst Madang hosts some major economic projects, some of the major developers use private ports as allowed for by the Project Agreements. For example, Ramu Nickel bring in project cargoes to Madang for clearance and then to Basamuk for discharge. Likewise RD Tuna Cannery brings in inputs and exports outputs through its own port facility. However, in the medium to long term, Madang is expected to experience a stable growth in cargo demand with development of the Pacific Marine Industrial Zone and Yandera Mine

The Company is also working towards introducing compulsory pilotage service at Basamuk under its delegate pilotage authority mandate. Madang has also experienced influx of tourists through the Port, and port management is taking necessary measures to maintain attractiveness of the harbour precincts.

Port Operation *continued...*

Alotau

Alotau has 2 berths. Berth 1 serves overseas vessels while berth 2 coastal. The overseas berth has a length of 93 m and width of 18 m; and has a water depth of 10.2 m and deck height of 2.4. Its undercover storage area is 2480 square meter and open storage area 7640 square metres.

In 2010, the cargo traded at this port was 173,587 RTs, up by 17.5 percent on the previous year, whereas container trade was 5,466 TEUs, up by 12.5 percent. These increases were due to increase in shipping activities as seen by a rise of about 86 percent to 453, which is the sixth highest.

As part of our efforts to ensuring continued and uninterrupted supply of electricity to the port, a 100 KVA standby generator has been installed and is now awaiting PNG Power certification for power line connection. Further repair works on chipping and painting of the wharf head bollards have been completed. There is still some need for repair and maintenance to port holes and galvanised fence including the port office.

Wewak

Kimbe has 3 berths. Berth 1 serves overseas vessels whereas 2 and 3 coastal berths. The overseas berth has a maximum length of 73 m and width of 12.1 m; a water depth of 6.2 m; and deck height of 3.5. Domestic berths can suit local vessels currently in operation. Kimbe's undercover storage area is 2220 square meter and open storage area is 11500 square metres.

In 2010, the volume of cargo increased by about 12% to 193669 RTs and container by 12.5 percent to 7426 TEUs. Wewak also registered a modest increase of 2 percent in vessel calls to 840.

New bollards were fitted on bollard position numbers 4 and 5, rehabilitation of concrete and reinforcement of concrete bars on Wharf 3

is still in progress. There were instances where unsafe berthing and/or unberthing practices had been resulting in damage to the wharf. As a result PNGPCL is now refusing berthing services to these vessels unless Pilots are engaged.

The issue of compulsory pilotage for Wewak Port is also being reviewed as the port has seen an increase in the number of fishing vessels with over 30–100 metres on LOA frequently calling in to the Port for berthing services.

Port Operation *continued...*

Kavieng

Kavieng has 1 common-user berth with a length of 94 m and width of 12 m; and has a water depth of 7.0 m and deck height of 2.7m. Its undercover storage area is 750 square meter and open storage area is 3000 square metres.

In 2010, the Port of Kavieng recorded a total cargo trade of 69,322 RTs, up by a modest 5% on the previous year. Total container trade was 3,309, which was an increase of 10.6 percent on previous year.

All assets have been well maintained with only few repair and maintenance work carried out by the works staff. Any major repair and maintenance work will be addressed in accordance with the Management's infrastructure rehabilitation plan.

Lorengau

Lorengau has two common-user berths with berth 2 being the biggest with a length of 40 m and width of 20 m; and has a water depth of 4.0 m and a maximum deck height of 5m. It has an open storage area of 1000 square metres.

In 2010, Lorengau recorded a total cargo volume of 34,241 RTs, a modest decrease by 0.6 percent relative to previous year. Total container traded was 352, representing a significant rise by 7 fold on the previous year. Total vessel calls registered was 110. Kavieng has experienced a significant built up of silt following heavy erosion from King Tide in 2009.

Vanimo

Vanimo has a common-user wharf with a length of 28.6m and 10.0m wide; a water depth of 4.51m and deck height of 2.70m. Its undercover storage area is 135 square m and open storage area is 9000 square m.

In 2010, Vanimo recorded a modest decline of 1 percent in cargo trade to 32,625 RTs and a significant increase of 30 percent in container trade to 1185 TEUs. Decline in cargo trade was mainly due to a decrease in cargo shipping activities through the province.

From an operational perspective, there were no major safety and security issues and no major repair and maintenance work was also undertaken.

There have been frequent visits by a landing craft owned by the Boarder Development Authority ("BDA") in recent times which is operating services to the Telefomin and Green River Districts. The Frieda Gold Mine preparation is underway. It will be in its full operations in 2013, and as a result both cargo and cargo vessel are expected to increase.

Port Operation *continued...*

Oro Bay

Oro Bay has 2 common-user berths with berth 1 being the biggest with a length of 70 m and width of 12.2 m; a water depth of 11.4 m; and deck height of 2.82m. Its undercover storage area is 740 square m and open storage area 4650 square m.

The cargo throughput in the port of Oro Bay significantly increased by about 36 percent to 203,644 RTs and container trade by about 13 percent to 5311 TEUs. These increases reflected rise in economic activities mainly driven by palm oil production.

In terms of a general operational update, a WW2 bomb discovered at the port facility was disposed of safely at the sea by the Provincial Disaster Officers. A new tank was erected around the port and the Business Manager's residence. There is a need to undertake further maintenance to the broken fire hydrant pipe line, leaking shed, stevedoring ablution blocks, generator house roofs and fenders at main berth.

Daru

Daru has a common-user berth with a length of 30 m and width of 2.4 m; and has a water depth of 2.4 m and deck height of 4.8m. It has an open storage area 1000 square metres.

The Daru Port did not experience any significant change in port operational and shipping activities compared to same last year due to berth restrictions forcing cargo operations to take place elsewhere. However, on the overall, it was seen to contribute only 0.3% of the overall throughput of the country.

Load restrictions are being enforced on the trestle during bunkering. As a result vessels are doing cargo operations at Perfume Point as an alternative to the main PNGPCL Wharf. Due to safety reasons, there have been ongoing public and stakeholder concerns.

PNGPCL is currently in discussions with the PNG Sustainable Development Program Ltd ("PNGSDPL") to solicit funding of the major repair and upgrade work of the Trestle head. Negotiations have been positive so far and a positive conclusion is anticipated.

Kieta

Kieta's berth 1 is for overseas vessels and 2 coastal wharf with berth 1 having a length of 122m and width of 10.9m; and has a water depth of 7.5 m and deck height of 3.0m. It has an undercover storage of 2780 square meters and open storage of 14,200 square meters.

Port Operation *continued...*

In 2010, the Kieta Port recorded a cargo throughput of 55,077 RTs, up by about 47 percent on previous year, and container throughputs of 2,644, an increase of 44.7 percent on the previous year. The increase was mainly due to increase in exports of cocoa and copra and imports of break bulk cargoes for Japanese contractors engaged in bridge and road construction works in the province. A recent change of management of the Port has also resulted in greater accuracy in cargo records and hence revenue generation from the Port.

Buka

Buka has a main wharf and a berth for small ships. The main wharf has a length of 31 m and width of 5.4 m; and has a water depth of 3.6 m and deck height of 2.2m. It has an under storage area of 165square metres and open storage of 1000 square meter.

The total cargo and container traded at Buka were 63,782 RTs and 2635 TEUs, which were pretty much flat compared to the previous year. The cargo and container throughputs were largely driven by the opening of Berth 2. Berth 1 is awaiting assurance from Leta landowners before the contractor commences work at the damage done by Gazelle Coast. Landowner related issues continue to pose an operational challenge at the Port of Buka which PNGPCL is keen to carefully deal with to continue operational presence. Barge ramp (B3) is in good condition and the seawall around it has been repaired. Pavement work on the wharf surface is nearing completion. Currently, two mobile generators are being used to provide lighting which has been costly to operate. Port of Buka has not recorded any security and safety issues; however, as a general initiative towards ensuring all our ports are ISPS Code compliant, work is currently being planned to upgrade the fencing.

Aitape

Aitape has three common-user berths with main wharf having a length of 18 m and width of 6.2 m; and has a water depth of 4.3 m and deck height of 2.5m. It has an undercover storage area of 125 square meters and open storage area of 1000 square meters.

The Port facility and the wharf itself require major rehabilitation work. PNGPCL had already put a formal request to the Office of the local member so as to solicit financial support for the rehabilitation program

The Port of Aitape is one of the thirteen loss-making ports. Vessel calls and throughput have been minimal. In 2010, Vanimo recorded cargo throughputs of 63,782 RTs, a slight decrease of 1 percent on previous year, and container throughputs of 1185 TEUs, an increase of 41 percent on the previous year.

Port Operation *continued...*

Shipping activities were slowly picking up despite the current status of the wharf. The Department of Agriculture & Livestock has encouraged local growers to transport cocoa by ship to Lae. Statistics revealed that up to about 10,000 tonnes smoked beans have been packed and were ready for shipment by DAL.

Port safety and management

Being a responsible corporate citizen, PNGPCL is committed to ensuring that safety occupies a central position in its entire operational aspects despite a considerable involvement of financial cost to the business.

The Maritime Division of the DoT initially had a complete power to exercise both control and regulatory oversight over the declared and undeclared ports. On 12th March 2010, a key event took place whereby this power was devolved to the recently-established Maritime Compliance Division within PNGPCL through an instrument of delegation.

The delegation of powers saw the introduction of the Port (Management and Safety) Regulation 2010. This is a principal Regulation that has established a sound and comprehensive regulatory framework for governing of the conducts and operations of all the entities that are operating within the industry and include port developers, owners and operators; owners, masters and charters of vessels; stevedores; and operators of mooring and tugboat services. Its underlying objective was to promote due diligence practices, hence safety of ports infrastructures, vessels, cargo, environment and human lives.

In addition to Port (Management and Safety) Regulation 2010, PNGPCL through the Maritime Compliance Division has also ensured that activities of the different players conformed with the supplementing legislations including the Environment Act 2003, Contaminants Act 1978 and Environmental Contaminants (Pesticides) Act 1978 as well as international and regional Environmental laws, conventions, protocols and procedures. Furthermore,

Community Service Obligations

Following corporatization, PNGPCL has been empowered to capture economic returns on its assets. In furtherance of this objective, it has also been required through successive broad policy directives to continue delivering essential port services to an acceptable level for the communities in which it has a presence on a sustainable basis without regard to whether or not it sufficiently recovers cost to maintain its operations. The latter function, despite not being supported by a well-defined national CSO policy, PNGPCL has not backed away from it – rather, it has been committed to fulfilling it through cross-subsidisation arrangement while other viable operating options are being under considerations.

Port Operation *continued...*

In this financial year, the ports of Port Moresby, Lae and Kimbe were trading profitably on a standalone basis and generated up to 80% of the total revenue of the business. Those that were operating at a loss included Kavieng, Daru, Vaimo, Lorengau, Buka, Kieta and Aitape. Whilst Samaria, Alotau, Wewak and Madang respectively produced net operating surplus, the respective turnovers were so negligible that they could not support the operations of these ports if they were to operate as a stand-alone operating ports.

It was unlikely the non-performing ports would ever become profitable in any foreseeable future. In spite of this, PNGPCL had no immediate intention of liquidating its interest in the non-performing ports and retain the portfolio of performing ports.

PNGPCL is committed to sustaining their operations through its on-going cross-subsidization practice with surplus generated by the 3 most profitable ports. This is to ensure continuity in its facilitative role for delivery of goods and services to majority of population in the Maritime Provinces where air transport is normally affordable and road network is nonexistent.

Without PNGPCL's dedication, the nonperforming ports would lack financial capability to fund and sustain their operations, hence would cease to operate, if they were to operate as standalone ports.

In this financial year, PNGPCL incurred a net CSO cost of K1.5 million following an offset of a net operating loss of K10.6million incurred in quarter one by the net operating income of K9.1 million generated in the three subsequent quarters. The above CSO cost was understated as it only represented the opex and did not include the capex spent with the actual surpluses of or debt-funds which were likely to be serviced by cash flow created by the performing ports.

In light of a growing competition following entry of private operators into the industry, continued cross- subsidisation is unsustainable in the long-term. As such PNGPCL is working to define a best fit operational structure for the non-profitable ports and a detailed cost and revenue allocation exercise to identify and put in place mechanism that can assist PNGPCL in streamlining its costs and revenues to achieve greater efficiencies. This project is also envisaged to prepare PNGPCL to make an effective contribution to the National Government CSO policy development.

Port planning and development

The ports operational landscape has changed significantly from that of the past. With a sustained growth in the economy, PNGPCL is beginning to encounter massive increase in the throughputs of cargo, container and vessels particularly at its three major ports. It looks certain that these ports will encounter capacity issues in the next five to ten years. Considering that PNGPCL is the prime Port Authority in the country with an important role to play in the country's socio-economic development, a strategic port planning and development was undertaken in 2010.

Challenges ahead

The major ports were forecasted to face capacity constraints from 2012 onward. Without capacity improvement initiatives, Lae's main berths (1, 2 and 3) would reach full utilisation by 2012, thus, constraining them to handling a maximum of 153,000 TEUS. Pom's major berths, 4A and Main Wharf, would reach full utilisation by 2012, thus, constraining them to handling a maximum of 90,000 TEUs and no additional cargo beyond this limit would be handled beyond 2012. In addition, storage area for Port Moresby would also be capacity constraint from 2012 onward. The key drivers of the berth utilisation levels are the productivity rates and cargo growth rates. With the increased cargo volumes projected for the coming years, the current operating facilities and equipment would not be able to meet the increasing demand. This would be a major challenge for PNGPCL.

Strategic capital expenditure plan

In 2010, PNGPCL adopted a Strategic Capital Plan for 2010 to 2014. This plan, whilst responding to the regulatory requirements also sets out to address the productivity and efficiency issues as alluded to above. The Plan has identified a mix of key capital investment projects to be undertaken within the set time frame through prudent capital investments.

The Plan is intended to achieve expansion of port footprints including rehabilitation of ageing infrastructure as well as optimisation of the existing asset base through productivity improvement and augmentation of equipment. A series of capex projects that were alluded to previously have marked beginning of the implementation of this plan.

Short-term strategy

Consistent with the Strategic Capital Plan, a short term strategy has been considered to address capacity constraints at the two ports. The Board and Management of PNGPCL had approved the procurement of MHCs and RTGs to be deployed at the two ports. Planned financing options included internal cash flow and government funding.

Port planning and development *continued...*

The National Government through the 2011 Development Budget had already approved K30.0 million for the procurement of two mobile harbour cranes and PNG Ports has already commenced liaison with Treasury and Planning Departments to facilitate early draw down of the funds.

PNGPCL is also awaiting final approval from the IPBC Board for the additional K8.0 million sought for the Port Moresby harbour crane.

The rubber tyred gantry cranes and mobile harbour cranes are expected to drive productivity improvements, hence, increase capacity to about 130,000 TEUs, which is sufficient to meet forecast cargo growth until 2017 in the case of Port Moresby and about 230,000 TEUs, which is sufficient to meet forecast cargo growth until 2015 in the case of Lae.

Long-term strategy

The Board and Management have also been considering a longer term solution for the two ports. In the case of Port Moresby, beyond 2017 a relocation of Port Moresby port has been considered as a feasible option. The relocation concept emerged in 1998 when the Cabinet directed the then Harbours Board to study and report findings of the relocation options. Subsequently, PNG Ports has commissioned various studies on the future port. The capacity issue reinvigorates the need for the relocation study and in 2010 a High Level Engineering Review was conducted on the findings of the past studies. The review established four potential relocation sites within NCD with Tatana represented the best long-term solution as it could cater for terminal expansion beyond 2080. Coffey Project has been engaged as an Engineering Project Manager to progress this project forward.

In the case of Lae, the Lae Tidal Basin project could offer a long-term solution. No concrete ground work has already been started, however, this could commence in early 2011.

Management and Staff

Executive management team

The members who constituted the senior management team were as follow:

- **Mr. Brian Riches**, Chief Executive Officer
- **Mr. Michael Nye**, Chief Operating Officer
- **Mr Stanley Alphonse**, Chief Commercial Officer
- **Mr. Jerome Peniasi**, General Manager, Corporate Services
- **Mr. Max Suwary**, Chief Finance Officer
- **Mr Selwyn Ryan**, General Manager Engineering
- **Mr. Paul Unas**, Chief Maritime Compliance
- **Mr. Philip Connors**, Chief Information officer
- **Mr John C Dotson**, Business Assurance Manager

Senior recruitments

Larry Hore joined the executive management team in as General Manager for Engineering. Mr. Hore has been working as a professional engineer for over 20 years in industries including aviation, telecommunications and maritime with 13 years in the port sector. He holds a Bachelor of Engineering and a MBA and brings with him a wealth of expertise to oversee projects across the ports.

Other senior recruitments included:

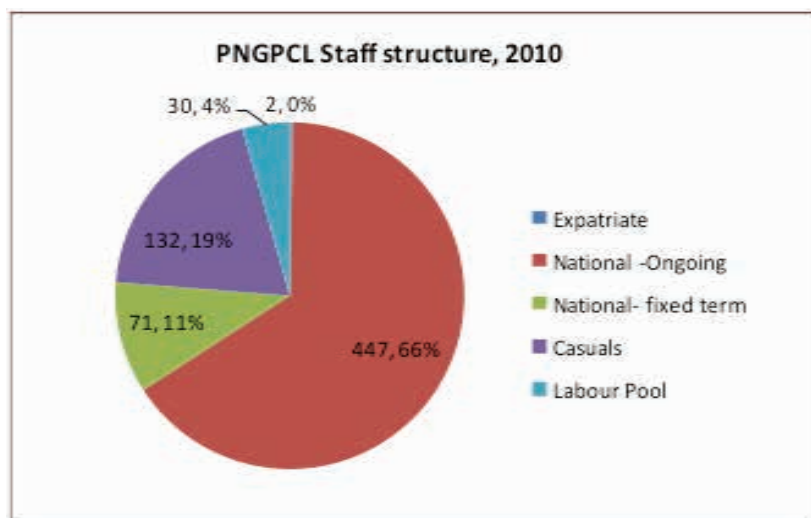
Recruitee	Position title
William Luke	Project Manager Engineering
Jonathan Kewe	Senior Executive Officer
Leo Kola	OHS & E Manager
Clement Herry	Support Systems Manager
Kupulu Mere	Business Transformation Manager

Total workforce

The total workforce as at 31 December, 2010 was 682. This represented an increase of 23% on the previous year and was associated with business expansion coupled with engagement of vacation students during the Christmas holiday period. (*cont'd next page*)

Management and Staff *continued...*

A composition of the workforce is presented in the chart below.



Employment distribution

A distinct gender disparity existed within PNGPCL. Whilst recruitment for both male and female increased, the former had exceeded the latter by 13 percent in 2010. The senior management team was all occupied by the male while a handful of women occupied middle-level supervisory roles.

Employment distribution by gender		
Gender	Years	
	2009	2010
Male	76.72%	78.5%
Female	23.28%	21.5%

Being an equal opportunity provider, PNGPCL has already begun introducing new recruitment strategies to reduce the current gap. These have been captured into the recruitment drive, Graduate Development Program and Cadetship Program throughout the year. It is anticipated that the gap will decrease in the next five years.

Management and Staff *continued...*

Major organisational policies

Reflecting an on-going organisational transition, PNGPCL has been migrating away from the public service organisational culture into adopting new policies, rules and procedural framework for administration of its HR.

In 2010, PNGPCL introduced a number of key organisational policies to effectively deal with issues relating to employment, welfare, industrial relation, finance and other aspects of organisational management. Some examples included:

- Acting in Higher Duty Policy
- The code of Conduct
- Employment Probation Policy
- Employee Promotion and Transfer Policy
- Employee Retention Policy
- Performance Bonus Policy
- Employment Contract Policy
- Payroll Policy and Procedures
- Performance Bonus Policy
- Motor Vehicle Fleet Management Policy and Procedures
- Position Description Policy
- Remuneration Policy

HR Capacity building and strengthening

Recognising that a strong human capital base is one of the factors behind a progressive success of an organisation, PNG PCL has a long-term commitment in offering a highly competitive employment condition to attract and retain a qualified and competent workforce and as well as capacity building and strengthening opportunities.

Graduate Development Program

Graduate Development Program is aimed at introducing fresh graduates from the universities to PNGPCL and preparing them as future Managers and professional career employees.

In 2010, PNGPCL introduced a policy document titled Graduate Development Program, which included a Graduate Rotation Plan. The Graduate Rotation Plan would roll out in 2011 and allow the graduates to rotate within PNGPCL's various departments for 12 months to get a feel of the key departments and their respective roles before being permanently assigned to a department relevant to their area of study.

Management and Staff *continued...*

Cadetship Development Program

PNGPCL also introduced a program called Cadetship Development Program, which aimed at introducing and preparing fresh graduates for professional career with PNGPCL. The selected Cadets who completed their studies at Maritime College would commence in 2012.

PNGPCL successfully concluded a Cadets' sea-time arrangement with Steamship Shipping for four PNGPCL Cadets to take up 18 months sea time with Steamships Shipping Company on a three-months on-one-month-off rotation program. Under this arrangement, the cadets would have an opportunity to board 500 – 1500 gross tonnage vessels owned and operated by Steamships Shipping Company.

2010 Annual Training Plan

About 70% of 2010 Annual Training Plan has been accomplished. Many of the training programs identified by this plan were in line with HR Strategic Plan for 2010, which stands alongside with the PNGPCL's Corporate Plan. The deliverable outcomes of the strategic plan addressed through the training plan would demonstrate achievement of the corporate plan.

Year 2011 Annual Training Plan was completed based on 2010 programs and challenges. Plans indicated training would be more in-house or externally through both domestic and international levels starting 2011. The intention is to fully utilise or equip officers, train many employees at minimal cost, improve quality and encourage business culture change.

Staff Trainings

Some of the key trainings that were conducted in 2010 were:-

- Attaché payroll conducted by Frambry Software services for HR and Finance Staff
- Finance One training conducted by Technology One of Australia for finance staff
- Win-Win Negotiation training facilitated by Deloitte
- Contract Administration training for Engineering, audit and project departments
- Civil Cad – Capacity training for infrastructure staff
- Container Terminal/Container Yard Operations for Port Operations staff
- Security trainings – Security personal for compliance to ISPS code
- Computer Trainings – Tech One & Klein
- On-line postgraduates and undergraduates for high growth potential employees

Succession planning

Based on PNGPCL's Succession Plan Policy, national employees who were identified with medical conditions and nearing retirement age would be considered in the succession planning. Current employees who were identified as 'high flyers' or high growth potential' would be aligned to understudy the former group.

Management and Staff *continued...*

The Training Team finalized data collated for the Succession Plan. The 'high potential candidates' identified for succession would have individual training plans to be spread over a period of 3-5 years starting January, 2011.

HR Welfare

PNGPCL has also been taking a proactive approach in promoting welfare of the staff. Besides, providing appropriate remuneration package reflective of the current cost of living in the urban centres, it has also been directly involved in introducing programs with an aim of promoting a good health and welfare care for its employees.

HIV & Aids Workplace Policy

In 2010, PNGPCL, with the help of BAHA, developed a workplace HIV & AIDS Management Policy. A committee was setup to drive the PNGPCL HIV & AIDS Management workplace policy throughout all Ports. Condom dispensers have been placed in all rest rooms and the front gates at the head office and the Port Moresby port respectively and plans are underway to extend this service to other ports.

PNGPCL also allocated a Donga next to the IRC building to Anglicare Stop Aids PNG to provide HIV Training and awareness, STI checks, HIV testing's and referrals and other medical services for the staff, port users and the general public under the Memorandum of Understanding with Anglicare. An officer from Anglicare has been attached on secondment basis as Life Skill Coach. He has been already rolling out training and awareness programs on HIV. PNGPCL provided items such as office furniture, medical consumables, and cleaning materials for the donga.

Medical Check

PNGPCL initiated "Employee Health Check" program, which has already commenced in Port Moresby. The health check exercise will be extended to other ports as soon as the checks in Port Moresby were completed.

The medical check would include a thorough medical examination including blood pressure, cholesterol and blood sugar level. Staff members diagnosed with health issues that may be of concern will be referred by the doctor to seek further investigation and or treatment.

A detailed medical report of each employee would be made available to the Human Resources manager by the attending doctor seven (7) days after the medical checks have been completed. These reports would be kept strictly confidential and used for the purposes of assisting staff.

Community engagements

PNGPCL has directly integrated into its business model its corporate responsibility towards the communities in which it has its presence as well as to the country as a whole. Like in preceding years, PNG Ports has also invested widely in community service engagement programs which are highly visible and effective so as to establish its corporate image as an entity that cares for the country and its people by effectively contributing towards building a strong civil society, democracy and institutional governance.

Engagement with City Mission

PNGPCL is one of the major corporate entities that has an active involvement with City Mission, a charity organisation with a mission of providing a refuge for the underprivileged, mistreated and overlooked populace at its Centres. Considering the kind of role it plays and impacts it has on the marginalised group mainly as in terms of providing an opportunity for them to develop necessary life-skills, PNGPCL has increased its direct yearly financial donation toward the City Mission to the tune of K100, 000. This was followed by the Board's resolution of 2009. PNGPCL has also contracted the City Mission to provide cleaning service in and around the Port, Port Office and the Head Office.

PNGPCL has responded favourably to various fundraising calls by providing direct financial assistances to various individuals, private and civil organisations, government and statutory organisations and sporting groups for a worthy cause. The broad beneficiaries of PNGPCL's corporate sponsorship program in 2010 included the following:

- Donation to Churches
- Donations to Charity Organisations
- Donations to Sporting Activities
- Donations to Youth Group
- Donations to Women's Group
- Donation to Students Education
- Donation to major medical appeals
- Donation IPBC and Government Departments

Volunteer Youth Ambassador Program

In mid-2010, PNGPCL launched a VYA program, a community engagement initiative aimed at engaging young volunteers to promote PNG to visitors on a cruise visit. VYA Program has provided a useful interface for the visitors to gain information about PNG and at the same time develop patriotism for the country and confidence in cross-cultural interactions. PNGPCL offered a one-day intensive training to the first batch of fifty (50) young men and women who were later being engaged to guide the tourists during their tours to different sites in Port Moresby. The VYA program has been earmarked to be rolled out later to other maritime provinces which have frequent cruise ship visits based on the success of the pilot program.

Community engagements *continued...*

Fight against HIV and AIDS

In 2010, PNGPCL formally joined a national coalition in the fight against HIV and AIDS in PNG via institutionalisation of this campaign. With a help of BAHA, PNGPCL developed a workplace HIV & AIDS Management Policy and instituted practical measures to promote a HIV and AIDS free society. A committee has been setup to drive the PNGPCL HIV & AIDS Management workplace policy throughout all Ports. Condom dispensers have been placed in all rest rooms and the front gates at the head office and the Port Moresby port respectively and plans are underway to extend this service to other ports.

PNGPCL has also signed a Memorandum of Understanding with Stop AIDS PNG to allocate a Donga next to the IRC building for the latter to provide HIV Training and awareness, STI checks, HIV testing and referrals and other medical services for the staff, port users and the general public. An officer from Anglicare has commenced providing the services. PNGPCL provided items such as office furniture, medical consumables, and cleaning materials for the donga.

Participation in Regular Events

PNGPCL has also forged a partnership with the prime public, private, NGO and Civil societies in taking bold stances against various social evils that have been crippling the society through organised annual events which include:

- Red Ribbon day for HIV/AIDS
- Community walk against Corruption
- Campaign against Domestic Violence

PNG Ports Corporation Limited
Financial Statements for the year ended
31 December 2010



Financial Statements for the year ended 31 Dec 2010

Directors Report

Your directors present their financial statements on the affairs of the company for the year ended 31 December 2010

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 K42, 440,872 (2009: net profit of K 23,442,694)

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 2010 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. Illa Temu

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

Statements of financial position

	Note	2010 K	2009 K
ASSETS			
Cash and cash equivalents	28	67,493,727	59,020,240
Investment	15	-	9,000,000
Trade and other receivables	16	41,774,015	55,412,353
Inventories		48,014	2,673
Total current assets		109,315,756	123,435,266
Deferred tax assets	14	8,380,999	2,420,828
Property, plant and equipment	13	346,456,403	284,238,466
Total non-current assets		354,837,402	286,659,294
Total assets		465,153,158	410,094,560
LIABILITIES			
Trade and other payables	20	20,127,379	38,043,329
Provision for taxes payable	12(b)	6,748,749	14,510,910
Employee benefits	22	2,027,696	1,266,153
Trust payables	21	41,188,684	39,490,376
Loans and borrowings	19	15,419,909	15,145,638
Deferred income		49,810,034	49,810,034
Total current liabilities		135,322,451	158,266,440
Employee benefits	22	11,947,708	3,801,061
Loans and borrowings	19	24,344,643	-
Deferred tax liabilities	14	28,752,603	28,278,935
Total non-current liabilities		65,044,954	32,079,996
Total liabilities		200,367,405	190,346,436
EQUITY			
Share capital	17	7,830,000	7,830,000
Reserves	18	174,601,498	173,005,498
Retained earnings		81,354,255	38,912,627
Total equity		263,785,753	219,748,125
Total equity and liabilities		464,153,158	410,094,560

For and on behalf of the board of directors

Director
Date

Director
Date

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 8 to 29.

Statement of comprehensive income

	Note	2010 K	2009 K
Revenue	6	168,165,328	108,569,850
Cost of sales		(17,884,735)	(10,921,290)
Gross profit		<u>150,280,593</u>	<u>97,648,560</u>
Other revenue	7	1,597,008	(8,487,957)
Personnel expenses	10	(43,949,899)	(24,604,707)
Depreciation		(13,397,459)	(8,741,203)
Administrative expenses		(24,239,163)	(16,816,831)
Other operating expenses		(21,586,456)	(18,003,627)
Results from operating activities		<u>48,704,624</u>	<u>20,994,234</u>
Finance income	11(a)	1,086,985	1,046,192
Finance costs	11(b)	(3,285,631)	(626,898)
Net finance expense		<u>(2,198,646)</u>	<u>419,294</u>
Profit before tax		<u>46,505,978</u>	<u>21,413,529</u>
Income tax expense	12(a)	(4,065,106)	2,029,165
Profit for the year		<u>42,440,872</u>	<u>23,442,694</u>
Other comprehensive income		-	-
Other comprehensive income for the year (net of income tax)		-	-
Total comprehensive income for the year		<u>42,440,872</u>	<u>23,442,694</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 8 to 29.

Statement of changes in equity

	Notes	Share Capital K	Reserves K	Retained Earnings K	Total K
Balance at 1 January 2009		7,830,000	173,005,498	15,469,933	196,305,431
Total comprehensive income for the year		-	-	23,442,694	23,442,694
Balance at 31 December 2008		<u>7,830,000</u>	<u>173,005,498</u>	<u>38,912,627</u>	<u>219,748,125</u>
Total comprehensive income for the year		-	-	42,440,872	42,440,872
Opening balance adjustment		-	-	756	756
Revaluation adjustment		-	1,596,000	-	1,596,000
Balance at 31 December 2009		<u>7,830,000</u>	<u>174,601,498</u>	<u>81,354,255</u>	<u>263,785,753</u>

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.

Statement of cash flows

	Note	2010 K	2009 K
Cash flows from operating activities			
Cash receipts from customers		180,603,848	124,776,084
Cash paid to suppliers and employees		(107,673,194)	(43,362,314)
Cash generated from operating activities		72,930,654	81,413,770
Interest paid		-	-
Income taxes paid		(20,408,335)	(1,291,976)
Net cash from operating activities	28	52,522,319	80,121,795
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		239,552	872,606
Acquisition of property, plant and equipment		(68,288,384)	(63,999,682)
Net cash from investing activities		(68,048,832)	(63,127,076)
Cash flows from financing activities			
Proceeds from /(repayments) of borrowings		24,000,000	-
Proceeds from Trust Funds		-	33,993,892
Net cash from financing activities		24,000,000	33,993,892
Net increase in cash and cash equivalents	28	8,473,487	50,988,611
Cash and cash equivalents at beginning of the year		59,020,240	8,031,629
Cash and cash equivalents at end of the year	28(a)	67,493,727	59,020,240

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 8 to 29.

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 2010 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 cargos 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 authorized for issue by the Board of Directors on .....

(b) Basis of preparation

The financial statements have been prepared primarily on the historical cost basis.

(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 judgments

The preparation of the financial statements in conformity with IFRSs requires management to make judgments, 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 estimate is revised and in future periods if affected.

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

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

Notes 25 – provisions and contingencies.

Notes to and forming part of the financial statements *continued...*

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.

3 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.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Foreign currency

(i) 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 reporting 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 functional 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 exchange rate 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 date of the transaction.

(b) Financial instruments

(i) Non-derivative financial assets

All other financial assets are recognised initially on the trade date at which the Company becomes a party 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 liabilities 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.

Financial assets and liabilities 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.

Notes to and forming part of the financial statements *continued...*

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Non-derivative financial assets (continued)

Held-to-maturity financial assets

If the Company has the positive intent 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 any 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 of 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 repayable 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 are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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 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 liabilities: trust payables, 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 measured at amortised cost using the effective interest method.

Notes to and forming part of the financial statements *continued...*

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(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.

(c) Borrowing cost

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.

(d) 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-constructed 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 3(c)). Purchased software that is integral to the functionality of the related equipment is capitalised as part of that 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 within 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 servicing 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 other 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 reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Notes to and forming part of the financial statements *continued...*

3 Significant accounting policies (continued)

(d) Property Plant and Equipment (continued)

(iii) Depreciation (continued)

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

Leasehold land	not amortised
Building	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.

(e) 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 expenditure incurred in acquiring the inventories.

(f) Impairment

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

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 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, 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 investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are 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 trends of the probability of default, timing of recoveries 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.

Notes to and forming part of the financial statements *continued...***3 Significant accounting policies (continued)****(f) Impairment (continued)****(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.

(g) Employee benefit plans

A liability is made for benefits 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 settled within 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 settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

(h) Provisions

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

(i) 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 non-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 (IAS 20) on "Accounting for Government Grants and Disclosure of Government Assistance".

(j) Finance income and finance costs

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Notes to and forming part of the financial statements *continued...*

3 Significant accounting policies (continued)

(i) Finance income and finance costs (continued)

Finance costs comprise interest expense on borrowings. 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.

(k) 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 differences, 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 realized.

4 Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. 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 concession 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 convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option.

Notes to and forming part of the financial statements *continued...*

5 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk
- Operational 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 oversees 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.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk, particularly in the currently deteriorating economic circumstances. However, geographically there is no concentration of credit risk.

The Management has established a credit policy under which each new customer is analysed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on a prepayment basis.

Notes to and forming part of the financial statements *continued...*

5 Financial risk management (continued)

(i) Credit risk (continued)

More than 95 percent of the Company's customers have been transacting 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 a wholesale, retail or end-user customer, geographic location, industry, aging profile, maturity and existence of previous financial difficulties. Trade and other receivables relate mainly to the Company's credit customers.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

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 risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational 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 predicted, 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

Operational 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.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Company's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

Notes to and forming part of the financial statements *continued...***5 Financial risk management (continued)****(iv) Operational risk (continued)****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 result from operating activities divided by total shareholders' equity.

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

	2010	2009
Total liabilities	200,367,437	190,346,436
Less: cash and cash equivalents	<u>23,840,360</u>	<u>14,803,130</u>
Net debt	176,527,077	175,543,306
Total equity	263,785,720	219,748,125
Less: amounts accumulated in equity related to cash flows hedges	-	-
Adjusted equity	<u>263,785,720</u>	<u>219,748,125</u>
Debt to adjusted capital ratio at 31 December	0.67	0.80

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.

6 Revenue

	2010 K	2009 K
Rendering of services	168,165,328	108,569,850
Total revenue	<u>168,165,328</u>	<u>108,569,850</u>

7 Other revenue

Other revenue	715,475	552,968
Realised foreign exchange gain	685,922	232,521
Net gain/(loss) on sale of property, plant and equipment	195,611	(9,350,689)
Rental income from property subleases	-	77,243
Total other revenue	<u>1,597,008</u>	<u>(8,487,957)</u>

8 Other operating expenses

Operating profit / (loss) for the year is stated after charging the following items;

	2010 K	2009 K
Charging		
Auditors remuneration	180,515	250,000
Depreciation of fixed assets	13,397,459	8,741,203
Donations	371,318	207,039

Notes to and forming part of the financial statements *continued...*

9 Employees

The number of employees at the end of the year was 657 (2009: 689)

10 Personnel expenses

	2010	2009
	K	K
Wages and salaries	27,045,631	17,896,009
Contributions to defined contribution plans	1,148,232	827,218
Other staff costs	<u>15,756,036</u>	<u>5,881,480</u>
	<u>43,949,899</u>	<u>24,604,707</u>

11 Finance income and costs**(a) Finance income**

Interest income on		
- Held-to-maturity investments	<u>1,086,985</u>	<u>1,046,192</u>
Total finance income	<u>1,086,985</u>	<u>1,046,192</u>

(b) Finance costs

Interest expense on financial liabilities measured at amortised cost	<u>3,285,631</u>	<u>626,898</u>
Total finance costs	<u>3,285,631</u>	<u>626,898</u>

Notes to and forming part of the financial statements *continued...*

12 Income tax	2010	2009
	K	K
(a) Income tax expense		
Current tax expense		
- Current year	14,001,913	6,451,421
- Adjustments to prior year	-	-
	<u>14,001,913</u>	<u>6,451,421</u>
Change in deferred taxes		
- Origination and reversal of deferred taxes	(9,936,806)	(8,480,586)
- Changes in unrecognised temporary differences	-	-
- Recognition of previously unrecognised tax losses	-	-
	<u>(9,936,806)</u>	<u>(8,480,586)</u>
Income tax expense	<u>4,065,106</u>	<u>(2,029,165)</u>
The prima facie tax charge on the profit for the year is reconciled to the tax expense as follows:		
Accounting profit before tax	<u>46,505,978</u>	<u>21,413,528</u>
Tax on the profit for the year at 30% (2008 : 30%)	13,951,793	6,424,058
Non deductible items	50,119	27,363
Non taxable items	-	-
Changes in unrecognised temporary differences	-	-
Recognition of previously unrecognised tax losses	-	-
Prior year tax losses recouped	-	-
Under / (over) provision in prior years	<u>(9,936,806)</u>	<u>(8,480,586)</u>
	<u>4,065,106</u>	<u>(2,029,165)</u>
(b) Provision for income taxes payable		
At 1 January 2009	(14,510,910)	(12,536,138)
Income tax expense for the year	4,065,106	(2,029,165)
Income tax on comprehensive income	-	-
Movement in deferred taxes	5,486,503	-
Under/over provision in prior years	18,618,877	1,346,369
Income taxes paid during the year	<u>(20,408,325)</u>	<u>(1,291,976)</u>
At 31 December 2010	<u>(6,748,749)</u>	<u>(14,510,910)</u>

13 Property, plant and equipment							
	HOS Land & Leasehold Land	Wharfs, Facilities & Buildings	Residential Buildings, & Fittings	Vehicles & Boats	Office Machines & Other Equipment	Work In Progress	Total
	K	K	K	K	K	K	K
Cost							
At 1 January 2010	6,623,024	315,893,736	14,654,092	8,532,404	11,160,237	141,202,712	498,066,205
Additions	8,791,363	-	1,986,429	2,104,462	3,470,695	51,935,435	68,288,384
Disposals/Retirements	-	-	(199,983)	-	(277,838)	-	(477,821)
Adjustments/Transfers	-	10,913,302	140,000	-	(2,454)	(3,684,699)	7,366,149
At 31 December 2010	15,414,387	326,807,038	16,580,538	10,636,866	14,350,640	189,453,449	573,242,918
Depreciation							
At 1 January 2010	-	189,520,526	10,191,889	6,774,474	7,340,851	-	213,827,739
Charge for the year	-	8,279,274	1,197,468	808,364	3,112,353	-	13,397,459
Adjustments	-	(289)	4,840	-	(9,355)	-	(4,804)
Disposals/ Transfers	-	-	(156,043)	-	(277,838)	-	(433,881)
At 31 December 2010	-	197,799,511	11,238,154	7,582,838	10,166,012	-	226,786,514
Carrying amounts							
At 31 December 2010	15,414,387	129,007,527	5,342,384	3,054,028	4,184,628	189,453,449	346,456,403
At 31 December 2009	6,623,024	126,373,210	4,462,203	1,757,931	3,819,386	143,035,754	284,238,466

Notes to and forming part of the financial statements *continued...***14 Deferred tax assets and liabilities**

- (a) Deferred tax assets and deferred tax liabilities at 31 December 2010 and 2009 are attributable to the items detailed in the tables below:

	2010			2009		
	Asset K	Liability K	Net K	Asset K	Liability K	Net K
Property, plant and equipment	-	(28,749,255)	(28,749,255)	-	(28,198,466)	(28,198,466)
Accrued interest	-	(72,522)	(72,522)	-	(80,469)	(80,469)
Employee benefits	4,192,621	-	4,192,621	1,520,164	-	1,520,164
Prepaid insurance	-	69,174	69,174	-	-	-
Provisions	4,188,377	-	4,188,377	900,664	-	900,664
Tax value of loss carry-forwards	-	-	-	-	-	-
Net tax assets / liabilities	<u>8,380,999</u>	<u>(28,752,603)</u>	<u>(20,371,604)</u>	<u>2,420,828</u>	<u>(28,278,935)</u>	<u>(25,858,107)</u>

- (b) Movement in deferred tax assets and liabilities during the year.

	2010			2009		
	Asset K	Liability K	Net K	Asset K	Liability K	Net K
Opening Balance at 1 January	2,420,828	(28,278,935)	(25,858,107)	2,457,502	(36,706,088)	(34,248,586)
Recognised in income statement	5,960,171	(473,668)	5,486,503	(36,674)	8,427,153	8,390,479
Recognised in other comprehensive income	-	-	-	-	-	-
Closing balance at 31 December	<u>8,380,999</u>	<u>(28,752,603)</u>	<u>(20,371,604)</u>	<u>2,420,828</u>	<u>(28,278,935)</u>	<u>(25,858,107)</u>

Notes to and forming part of the financial statements *continued...*

15 Investments	2010 K	2009 K
BSP capital limited	25,060,000	25,060,000
Provision for investments	<u>(25,060,000)</u>	<u>(16,060,000)</u>
	<u>-</u>	<u>9,000,000</u>

The provision for investments represents the impairment of investments made on PNG 30 notes series with BSP Capital of K 16,060,000 and Metal Strom convertible notes of K 9,000,000.

16 Trade and other receivables	2010 K	2009 K
Trade debtors	20,173,158	13,213,848
Less : Provision for doubtful debts	(4,961,258)	(3,002,214)
Amounts owed by related company	1,504,210	1,504,210
Other debtors and prepayments	<u>25,057,905</u>	<u>43,696,509</u>
	<u>41,774,015</u>	<u>55,412,353</u>
Current	41,774,015	55,412,353
Non-Current	-	-
Total	<u>41,774,015</u>	<u>55,412,353</u>

17 Share capital	2010 K	2009 K
Issued ordinary share capital		
Established capital at 1 January 2010	7,830,000	7,830,000
Established capital at 31 December 2010	<u>7,830,000</u>	<u>7,830,000</u>

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

Notes to and forming part of the financial statements *continued...*

18 Reserves		2010	2009
		K	K
Asset revaluation reserve	(a)	167,091,532	165,495,532
Stakeholder fund reserve	(b)	7,509,966	7,509,966
		<u>174,601,498</u>	<u>173,005,498</u>
(a) Asset revaluation reserve			
Balance at 1 January		165,495,532	165,495,532
Surplus / (deficit) on revaluation of properties		1,596,000	-
Surplus / (deficit) on revaluation of investments		-	-
Transfer to retained profits		-	-
Balance at 31 December		<u>167,091,532</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.

Stakeholder fund reserve

Stakeholder fund reserves are State contributions as Shareholders to fund the port installations projects. These funds are reflected as the shareholder capital contribution to PNGPCL. These funds were initially reflected as trust funds held on behalf of the State for the port installation projects, refer note 21.

19 Loans and borrowings		2010	2009
		K	K
Current			
Asia Development Bank No. PNG 468 repayable in half		14,945,638	15,145,638
ANZ Finance Lease		162,843	-
BSP Capex Loan		311,428	-
		<u>15,419,909</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.

	2010	2009
	K	K
Non-Current		
BSP Capex Loan	24,000,000	-
ANZ Finance Lease	344,643	-
	<u>24,344,643</u>	<u>38,043,329</u>

The bank loans are secured by Registered Fixed and Floating Charge over the whole of the company assets.

Notes to and forming part of the financial statements *continued...*

20 Trade and other payables	2010 K	2009 K
Trade creditors	6,534,685	6,422,074
Other creditors and accrued expenses	<u>13,592,694</u>	<u>31,621,255</u>
	<u>20,127,379</u>	<u>38,043,329</u>
21 Trust funds		
Kanzarua Wharf Project Fund	1,042,705	1,027,880
Pom Port Relocation Project Fund	254,752	250,392
Kavieng Overseas Wharf Project Fund	1,260,437	1,240,372
National Project Fund	1,081,419	1,081,555
POM Port Redevelopment Project	10,277,194	10,084,029
Wewak Wharf Upgrade	20,574,816	20,167,275
Kimbe Wharf Upgrade	4,115,304	4,033,646
Lae Port Expansion	156	58
Aitape Wharf Project	1,019,058	1,000,329
Cargo Levy	1,562,843	591,110
Jomad Marine Development	-	13,730
	<u>41,188,684</u>	<u>39,490,376</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.

Trust Funds – Cargo Levies

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

22 Employee benefits	2010 K	2009 K
Non current		
Provision for long service leave	4,799,042	3,801,061
Staff retention	<u>7,148,666</u>	-
Total non current	<u>11,947,708</u>	<u>3,801,061</u>
Current		
Provision for annual leave	1,953,642	1,200,383
Provision for gratuity	<u>74,054</u>	<u>65,770</u>
Total current	<u>2,027,696</u>	<u>1,266,153</u>

Notes to and forming part of the financial statements *continued...***23 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:

	2010 K	2009 K
Trade receivables	20,173,158	13,213,848
Other receivables	26,562,115	45,200,719
Cash and cash equivalents	67,493,727	59,020,240
Total	<u>114,229,000</u>	<u>117,434,807</u>

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

Papua New Guinea	20,173,158	13,213,848
Other Pacific countries	-	-
Total	<u>20,173,158</u>	<u>13,213,848</u>

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

	2010 K	2009 K
Wholesale customers	-	-
Retail customers	20,173,158	13,213,848
Total	<u>20,173,158</u>	<u>13,213,848</u>

Impairment losses

The aging receivables at the reporting date was:

Not past due	-	-
Past due 0-30 days	10,323,591	6,914,230
Past due 31-180 days	7,130,644	903,355
Past due 181-360days	700,319	-
Past due more than 1 year	2,018,604	5,396,263
Total	<u>20,173,158</u>	<u>13,213,848</u>

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

Balance at 1 January	3,002,214	3,136,307
Impairment recognized during the year	4,961,258	3,002,214
Impairment reversed during the year	(3,002,214)	(3,136,307)
Balance at 31 December Total	<u>4,961,258</u>	<u>3,002,214</u>

Notes to and forming part of the financial statements *continued...*

23 Financial instruments (continued)

(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 2010:

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	39,764,551	-	14,945,638	474,271	344,643	24,000,000
Trade and other payables	20,127,379	-	20,127,379	-	-	-
Total	59,891,930	-	35,073,017	474,271	344,643	24,000,000

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	-	-	-

(c) Currency risk

The Company's exposure to foreign currency risk was K685,922 for 2010 (2009: K232,521)

(d) Interest rate risk

The Company's exposure to interest rate risk was nil for 2010 (2009: K nil)

(e) Fair 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	
	2010	2009	2010	2009
Loans and receivables	41,774,015	55,412,353	41,774,015	55,412,353
Cash and cash equivalents	67,493,727	59,020,240	67,493,727	59,020,240
Unsecured bank facilities	(14,945,638)	(15,145,638)	(14,945,638)	(15,145,638)
Other loan facilities	(24,818,913)	-	(24,818,913)	-
Trade and other payables	(20,127,378)	(38,043,329)	(20,127,378)	(38,043,329)
Total	49,375,813	61,243,626	49,375,813	61,243,626

Notes to and forming part of the financial statements *continued...***24 Commitments**

PNG Ports Corporation Limited had the following capital commitments as at 31 December 2010.

Port	Contract	Paid
Alotau Projects	1,237,125	731,902
Buka Port Projects	9,626,751	8,861,476
Daru Port Projects	4,476,908	5,057,121
Kavieng Port Projects	-	5,500
Kimbe Port Projects	-	88,778
Lae Port Projects	209,291,638	139,167,056
Madang Port Projects	1,161,903	830,599
Orobay Port Projects	561,863	507,911
POM Port Projects	50,841,942	33,101,231
Wewak Port Projects	2,029,639	1,101,874
	<u>279,227,769</u>	<u>189,453,448</u>

25 Contingencies

There were no contingent liabilities as at 31 December 2010 (2009: Nil) not provided for in the accounts. Nawae has submitted a delayed claim for approximately K26m and the claim is currently under review and is anticipated that the claim may be lower per legal advice.

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.

26 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 ICCC regulates amongst many other SOE's the PNG Ports regulated tariffs like pilotage, berthing and berthing reservation. The ICCC charges an annual fee of K420,000 which the PNG Ports Corporation Limited pays in four quarterly installments 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.

Notes to and forming part of the financial statements *continued...*

27 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.

28 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 the related items in the balance sheet as follows:

	2010	2009
	K	K
Cash and bank balances	23,840,360	14,803,130
Short term deposits	Note 28b	
	<u>43,653,367</u>	<u>44,217,110</u>
	<u>67,493,727</u>	<u>59,020,240</u>

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

Investments – PNG Ports	7,944,847	7,646,864
Investments – Kavieng Overseas Wharf Project Fund	1,089,302	1,068,931
Investments – Kanzarua Wharf Project Fund	1,042,705	-
Investments – POM Port Relocation Project Fund	254,752	246,572
Investments – POM Port Redevelopment	7,693,495	10,075,138
Investments – Wewak Wharf Upgrade	20,494,061	20,149,551
Investments – Kimbe Wharf Upgrade	4,115,147	4,030,054
Investments – Aitape Wharf Project Fund	<u>1,019,058</u>	<u>1,000,000</u>
	<u>43,653,367</u>	<u>44,217,110</u>

The Company's exposure to interest rate 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	42,440,872	23,442,693
Add / (deduct) items classified as investing / financing activities:		
(Profit) / loss on sale of non-current assets	(195,611)	9,350,689
Interest income	(1,086,985)	(1,046,192)
Provision for investment	9,000,000	-
Add / (deduct) non-cash items:		
Exchange losses	(685,922)	(232,521)
Prior year expenses	(9,435,610)	-
Depreciation	13,397,459	8,741,203
Provision for doubtful debts	(3,602,055)	(2,371,500)
Income tax expense	<u>4,065,106</u>	<u>(2,029,165)</u>
Net cash provided by operating activities before changes in assets and liabilities	53,897,254	35,854,865

Notes to and forming part of the financial statements *continued...***Changes in assets and liabilities**

(Increase) / decrease in inventories	(45,342)	(2,673)
(Increase) / decrease in trade debtors	(5,000,265)	3,255,565
(Increase) / decrease in prepayments	(868,004)	3,952,445
(Increase) / decrease in other debtors	19,506,607	(13,427,205)
Increase / (decrease) in trade creditors and other creditors	(17,915,950)	23,572,952
Increase / (decrease) in employee provisions	8,908,190	(84,154)
Increase / (decrease) in deferred income	-	27,000,000
Increase / (decrease) in provision for taxes payable	(5,960,171)	-
Increase / (decrease) in provision for deferred tax	-	-
Net cash provided by operating activities	52,522,319	80,121,795

29 LEASES

PNG Ports Corporation Limited (PNG PCL) entered into a lease facility arrangement with the ANZ Bank to purchase motor vehicles under both operating and finance lease arrangements.

PNGPCL has also entered into an operating lease facility with the BSP Bank for the purchase of standby generators for Lae Port.

PNG PCL adopted IAS 17 Leases in accounting for all lease transaction.

(a) Operating leases

In accordance with IAS 17.3.5, non-cancellable Operating Lease payables are as follows;

Payable:

	2010	2009
Less than one year	914,719	-
Between one and five years	929,340	-
More than five years	-	-
Total	1,844,060	-

(b) Finance leases

In accordance with IAS 17.3.5, non-cancellable Finance Lease payables are recorded under Note 19: Loans and Borrowings.



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