

## ANNUAL REPORT 2016



**PNG PORTS**  
CORPORATION



# PORTS FOR PROSPERITY



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# Vision and Mission





## **VISION**

To be Papua New Guinea's premier gateway for maritime trade.

## **MISSION**

PNG Ports Corporation Limited will be the leading;

- Trade facilitator,
- Terminal Operator,
- Seaport developer; and
- Seaport administrator

by providing internationally competitive gateway facilities and services through superior customer focus.

Values







### **Service Excellence**

To strive to serve our customers efficiently, competently and courteously. This will be reflected in our ongoing commitment to provide the necessary technical and soft skill training to support our personnel to ensure continuous improvement in service delivery.

### **Commercially Astute**

We are committed to maximising our shareholder value and mitigating risks through an established risk management framework.

### **Forward Thinking and Improvement**

We are dedicated to improving every aspect of the organisation's business activities through a commitment to learning, innovation, communication and investing in technical and world class port management practices.

### **Safety and Security First**

Safety and security are our priority in everything we do.

### **Teamwork**

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

### **Zero Tolerance**

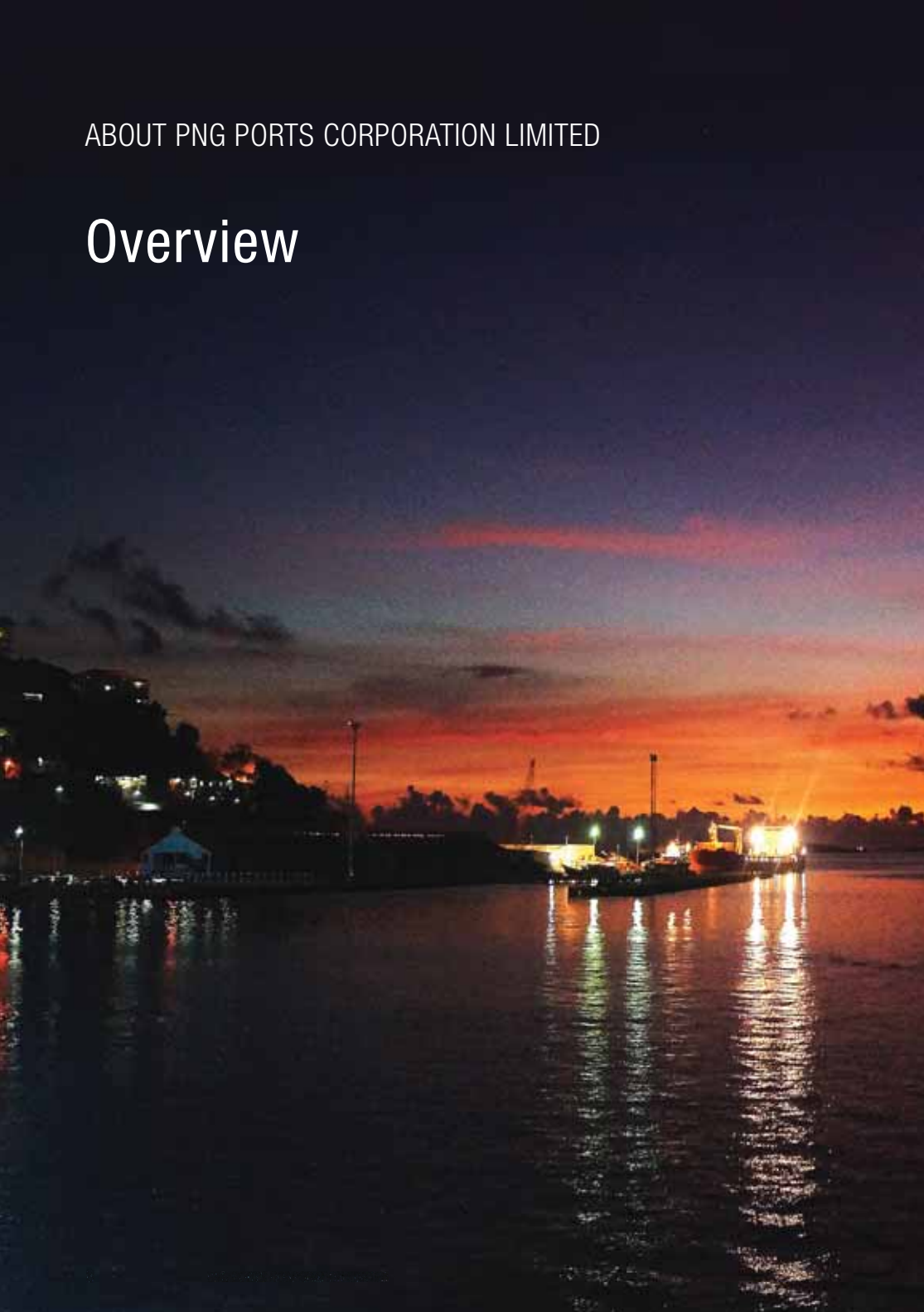
We have a zero tolerance approach to fraud and corruption within the organisation. All employees are expected to act with integrity and honesty at all times.

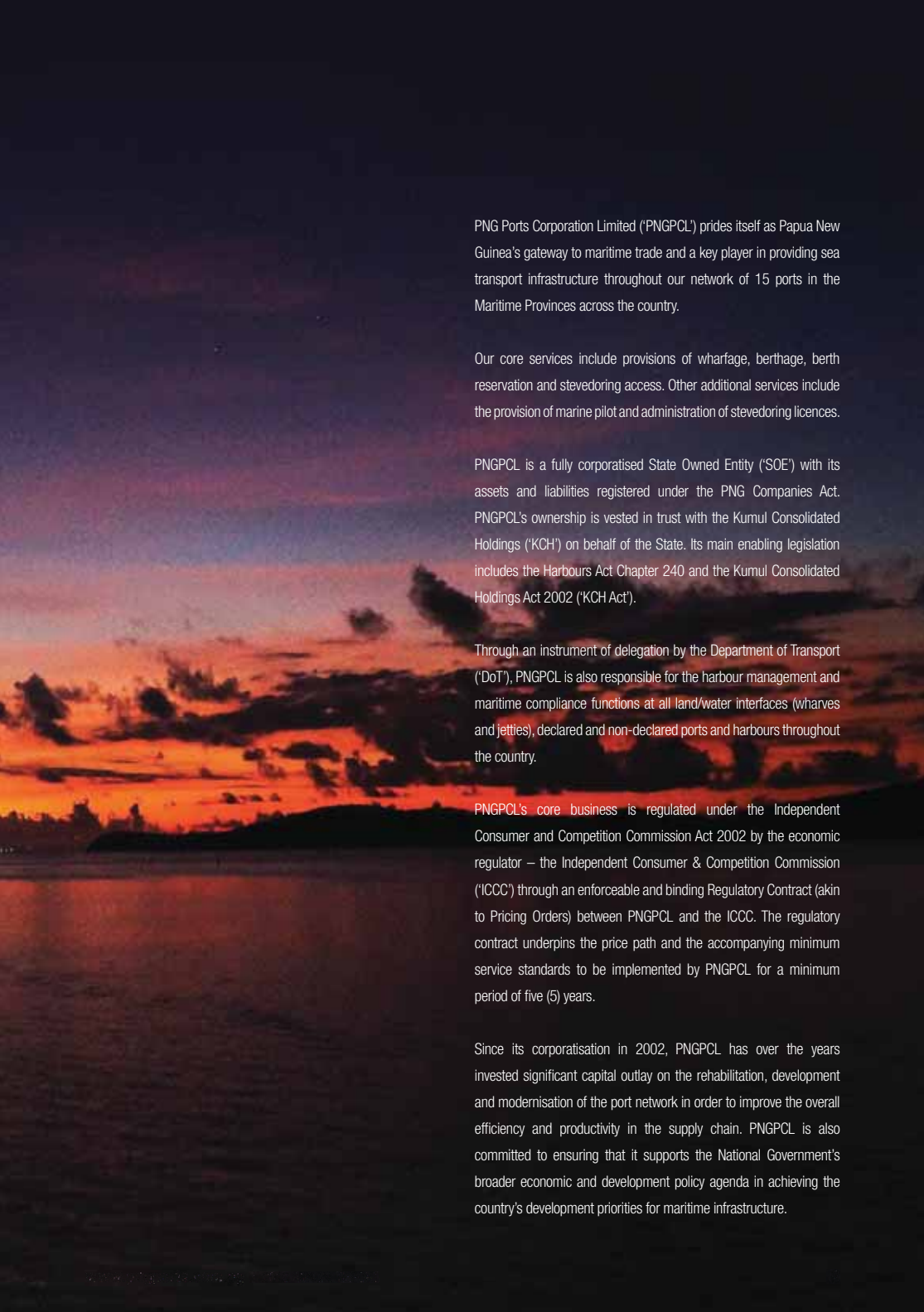
### **Sustainable Outcomes**

We are committed to servicing the community whilst ensuring that appropriate systems and policies are in place to mitigate any social and environmental impact of our activities.

ABOUT PNG PORTS CORPORATION LIMITED

# Overview





PNG Ports Corporation Limited ('PNGPCL') prides itself as Papua New Guinea's gateway to maritime trade and a key player in providing sea transport infrastructure throughout our network of 15 ports in the Maritime Provinces across the country.

Our core services include provisions of wharfage, berthage, berth reservation and stevedoring access. Other additional services include the provision of marine pilot and administration of stevedoring licences.

PNGPCL is a fully corporatised State Owned Entity ('SOE') with its assets and liabilities registered under the PNG Companies Act. PNGPCL's ownership is vested in trust with the Kumul Consolidated Holdings ('KCH') on behalf of the State. Its main enabling legislation includes the Harbours Act Chapter 240 and the Kumul Consolidated Holdings Act 2002 ('KCH Act').

Through an instrument of delegation by the Department of Transport ('DoT'), PNGPCL is also responsible for the harbour management and maritime compliance functions at all land/water interfaces (wharves and jetties), declared and non-declared ports and harbours throughout the country.

PNGPCL's core business is regulated under the Independent Consumer and Competition Commission Act 2002 by the economic regulator – the Independent Consumer & Competition Commission ('ICCC') through an enforceable and binding Regulatory Contract (akin to Pricing Orders) between PNGPCL and the ICCC. The regulatory contract underpins the price path and the accompanying minimum service standards to be implemented by PNGPCL for a minimum period of five (5) years.

Since its corporatisation in 2002, PNGPCL has over the years invested significant capital outlay on the rehabilitation, development and modernisation of the port network in order to improve the overall efficiency and productivity in the supply chain. PNGPCL is also committed to ensuring that it supports the National Government's broader economic and development policy agenda in achieving the country's development priorities for maritime infrastructure.

The background image is a close-up, low-angle shot of a ship's superstructure. A prominent, bright orange vertical beam or ladder runs diagonally from the bottom left towards the top right. To its left, a dark green structure, possibly a hull or a large door, is visible. Various mechanical components, including pipes, bolts, and a horizontal metal bar, are scattered throughout the frame. The top of the image shows a clear blue sky, while the bottom right corner reveals a glimpse of the sea with gentle waves. The overall lighting is bright, suggesting a sunny day.

# Our 15 Ports





Aitape	- Tel (675) 457 2540
Alotau	- Tel (675) 641 1266
Buka	- Tel (675) 973 9927
Daru	- Tel (675) 645 9137
Kavieng	- Tel (675) 984 2245
Kieta	- Tel (675) 276 9238
Kimbe	- Tel (675) 983 5355
Lae	- Tel (675) 473 4100
Lorengau	- Tel (675) 970 9060
Madang	- Tel (675) 422 2351
Oro Bay	- Tel (675) 276 3616
Port Moresby	- Tel (675) 308 4200
Rabaul	- Tel (675) 982 1533
Vainimo	- Tel (675) 457 1086
Wewak	- Tel (675) 456 2298



# Year at a glance





## Chairman's Report

## Managing Director's Report



# Chairman's Report




It gives me great pleasure to present to all our stakeholders, valued clients and the general public the PNG Ports Corporation Limited ('PNGPCL') 2016 Annual Report.

2016 has been a challenging yet successful year for PNGPCL with the company earning a Net Profit after-Tax ('NPAT') of K41 million. The 88% decline in NPAT from the 2015 financial year ('FY') is due to the abnormally inflated NPAT resulting from the K298.8 million gain realised on the Motukea port transaction that year. Overall, the lower profit margin was largely underpinned by declining revenue performance.

PNGPCL's balance sheet for the FY 2016 reflected a 12% growth in total assets (K1.8 billion) from the corresponding period which recorded K1.6 billion. The steady growth in the company's asset base since 2013 is attributed to the ongoing rehabilitation of the port infrastructure throughout the port network and fair valuation of the company's land, buildings and wharf facilities.

The company's debt level increased considerably this year by 39% with total liabilities recorded at K546.9 million due to increased loans and borrowings. Despite the increase in debts, they were maintained at a manageable level as financial indicators showed a debt ratio of 30 percent which is below the 50 percent industry benchmark. Owner's equity grew by 3 percent recording K1.27 billion. This was largely attributed to the increase in the company's retained earnings of K805 million.





## YEAR AT A GLANCE | Chairman's Report

With respect to operating revenue, PNGPCL generated K241 million from the provision of its services as reflected in the 2016 Income Statement. This represented a slight drop of 3 percent from the corresponding period due to the downward turn in revenue lines resulting from declining volume impacted by the drop in world trade. The spread in the revenue includes a 65% of revenue generated from the regulated services while 35% from the non-regulated services.

PNGPCL remains focused on fulfilling its obligation as a state owned entity in line with the National Government's medium term development strategies. Part of this is the company's commitment to rehabilitating the core port infrastructure for the entire ports network in order to improve our port operations and facilitate the country's growing economy.

One of the major capital expenditure ("CAPEX") projects that PNGPCL is committed to is the Motukea New Wharf Extension and associated facility project valued at K269 million. Works for this project have begun this year and anticipated to be completed within the next 18 months followed by the full transfer of the port operations from POM port. The other key projects include the Tidal Basin Portion 508 in Lae which will be funded through a concessional loan of K350 million from

the China Exim Bank and the new Head Office building valued at over K25 million of which construction is expected to commence soon.

2016 has certainly been a good year and PNGPCL will continue to make strategic investments into the core port infrastructure across the port network. This is to support the National Government in meeting the nation's needs for transportation of goods and people while primarily serving as PNG's gateway to trade.

As Chairman I would like to conclude my report by thanking members of the Board, the Managing Director Mr. Stanley Alphonse, his dedicated executive management team and staff of PNGPCL for the company's achievements this year. I certainly look forward to the same level of dedication and support in 2017 and beyond.



**Sir Nathaniel Poya, Kt., OBE**

Chairman

# Managing Director's Report



The economic downturn over the last 18 months has had a direct impact on our 2016 financial and operational performance. Our business is a demand driven business hence the decline in trade especially imports and exports has impacted our performance. The aggregate volumes for cargo throughput, vessel calls and container traffic has experienced a steady decline.

PNGPCL recorded an overall cargo throughput of 7.2 revenue tonnages in 2016 indicating a marginal increase of 1.2 percent from the previous year while container trade declined by 2.4 percent recording 335, 587 Twenty-foot Equivalent Units ("TEUs") from the previous year. The combined international and domestic Vessel calls also experienced a drop by 21 percent. It registered a total of 5,636 vessel calls at all our 15 declared ports.

Tier 1 ports of Lae, Port Moresby and Kimbe which are also our biggest ports by volume catered for the majority of the company's domestic and international trade. Lae port handled 50 percent of the ports overall cargo volumes, followed by Port Moresby port handling 19 percent, and Kimbe port with 9 percent. These three ports generated 78 percent of the company's operating revenue. The operations of the other ports are largely break-even or loss making whose operations are cross subsidised from the profitable ports. This therefore enables the continuity and sustainability of the operations of these small non-profitable ports.

Cargo volumes and vessel calls for Rabaul, Wewak and Kavieng ports are predicted to increase within the next 5 year period as soon as current investments in Oil Palm projects in each of these provinces reach their full production stage.

In terms of financial performance, PNGPCL earned a Net Profit after-Tax ('NPAT') of K41 million in FY 2016 representing an 88 percent decline from the corresponding period. The net asset value was K1.8 billion, an improvement of 12 percent from FY 2015 whilst the company's debt level was well managed at 30 percent which is 20 percent below the industry benchmark.

Revenue levels dropped by 3 percent due to the decline in volumes through our ports as a result of the continued economic

recession. The management is confident that revenue levels will normalise and gradually pick up in the coming year after the completion of all the major port capital expenditure projects that are aimed at enhancing productivity and efficiency.

A number of port capital expenditure ('CAPEX') projects were undertaken during this period that aimed at upgrading our core infrastructure. The highest value project in this mix is the Motukea New Wharf Extension and associated facility project which accounted for a total of K269 million. Construction work on the Motukea Port extension has commenced this year after a formal approval by the National Executive Council ('NEC'). To give us a start, we made a drawdown of K150 million from the K350 million loan obtained from commercial institution, Bank of South Pacific ('BSP'). The Motukea project is expected to be completed within the next 18 months period and the full transfer of port operations to the new port henceforth. This project and other planned projects further compliment PNGPCL's continued drive towards strategically investing in core port infrastructure under the company's twenty year corporate strategic plan 2012 - 2032.

The other two key projects that PNGPCL has embarked on during this period is the Tidal Basin Portion 508 in Lae and the Head Office Building in Port Moresby. For the Portion 508 we secured a concessional loan of K350 million from the China Exim Bank to finance the project. Our plan is to develop approximately 90 hectares of land on the western side of the new tidal basin and lease out to interested stakeholders on a long term basis. For the Head Office building PNGPCL entered into an investment partnership with the China Railway Construction Engineering Group (PNG) Real Estate Co., Ltd ('CRCG') to undertake it. Construction will soon commence when all conceptual designs are completed.

On the company's Human Resource front, human capital assets continue to be vital assets to PNGPCL's success. As such continued training programs have been rolled out this year to up-skill and enhance the knowledge of employees so that they perform their roles diligently and meet the future needs of the company in an ever changing business environment. I am pleased to declare that PNGPCL has at present a total staff strength of 606.

PNGPCL as part of its community service initiatives and consistent with its corporate social responsibility, continued to provide sponsorships and donations to various social oriented activities at a value of over K381, 757. To further reinforce its company values, the company also joined civil societies and other corporate bodies throughout the country to observe important dates in the social calendar such as White Ribbon Day (Elimination of Violence against Women & Children), Red Ribbon Day (World HIV/Aids Day) and Pink Ribbon Day (Awareness on Breast Cancer).

FY 2016 has indeed proven to be a good year for PNGPCL and I'm confident that the organisation will continue to perform beyond expectations in the years to come. To conclude, I would like to sincerely thank the Board, executive management team and staff members for their efforts and commitment this year and look forward to the continued support and cooperation in 2017.



**STANLEY ALPHONSE**

Managing Director

# OPERATIONS REVIEW







**HUMAN CAPITAL**

**MAJOR PORTS**

**INTERNATIONAL ACCREDITATION**

**COMMUNITY ENGAGEMENT**

**TRADE PERFORMANCE**

# Human Capital



The Human Capital Division ('HCD') provides vital support to the company through its various functions of Human Resources ('HR') Management, HR Services (Information systems & Benefits), Recruitment, Organisational Structure, Employee Relations, Policy & Planning, as well as Training and Development.



#### **Voluntary Retrenchment Program**

The company has a Voluntary Retrenchment Program effected in 2015 through the HCD. Under this program, staff who have served the organisation for 15 years and more are given the option to voluntarily retrench themselves from their employment. In acknowledgement of their invaluable contribution to the organisation, PNGPCL ensures that the retrenching staff are paid their full entitlements. In 2016, only one long serving employee exited the company under this program bringing the total number of retrenched long serving staff to 44 since 2015.

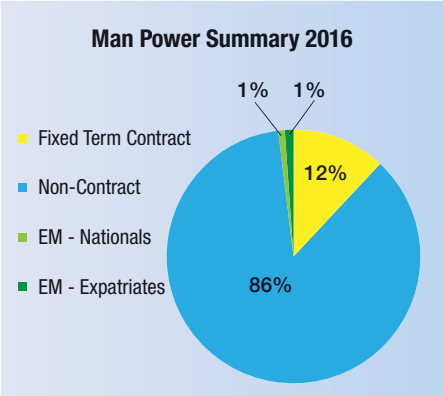
#### **Policy & Procedures Awareness**

The internal HR Policies and Procedures provide guidelines for PNGPCL to manage its staff as well as a framework within which consistent decisions are made and promote equity in the way staff are treated. Annually, the organisation through the HCD conducts the HR policy awareness throughout its 15 network of ports including the Head Office in Port Moresby to ensure that staff are reminded of their obligation to adhere to the existing policies during the term of their employment with the company.

In 2016 HCD team conducted the policy awareness programme from 5th of April to the 19th of May at 11 of the 15 ports.

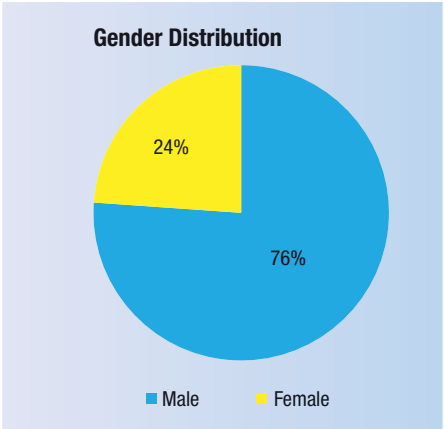
**Man Power Summary & Distribution**

PNGPCL had a total staff strength of 607 as at 31st December 2016. This represents a steady decline of 8 percent from the preceding year. From the total staff, 532 were permanent employees (86%), 74 were employed on fixed- term contracts (12%), while at the executive management level, 6 nationals (1%) and 4 expatriates (1%) were employed.



**Fig 1**

In terms of gender distribution, the male population dominated the workforce with a total of 456 while there were 150 female employees. Despite this imbalance, a handful of women occupied middle level supervisory roles with one in the executive management level team. PNGPCL continued to promote gender equality through its recruitment drives to reduce the current gap.



**Fig 2**

**Graduate Development Program**

Skills enhancement and capacity building programs remain an important key deliverable for HCD. The Graduate Development Program is one such program that aims to attract young, vibrant and energetic University graduates to be part of PNGPCL's dynamic workforce. Under the program, the graduates undergo an 18 months on-the-job training that is targeted at enhancing their skills and knowledge in their respective field of study.

The program is carried out biannually and is spearheaded by the internal Learning and Development team within the HCD. In 2016, 6 university graduates were recruited under this program after meeting the necessary requirements and successfully going through the recruitment process.

Since its inception in 2010, PNGPCL has seen quite a number of graduates progressing to senior and managerial positions after the completion of the program.





**Annual Health Checks**

Health Checks are organised annually by the company for staff as part of a proactive approach in promoting a healthy lifestyle and encouraging work life balance.

Health checks conducted this year included, physical examination, electrocardiogram, chest X-ray, Blood sugar, Hepatitis B, Liver Function Test, mammogram and Tuberculosis ('TB') tests. Employees diagnosed with health issues of concern were referred by the medical practitioners to seek further investigation and treatment.

## OPERATIONS REVIEW

# Major Projects

### MODERNISATION EXERCISE

Port infrastructure is vital for PNGPCL to function as a port facility and service provider. The growing demand for port services within the country and Asia Pacific Region positions PNGPCL's main ports of POM and Lae as the key transshipment hub in the region.

In order to cater for this demand and create efficiency within the port network, PNGPCL has invested K 421 million this year into the port modernisation exercise. This included the upgrade and expansion of existing port facilities throughout the country as well as the construction of new port facilities such as the Motukea wharf and Lae Tidal Basin.



### **Motukea New Wharf**

Following an extensive asset conditional audit of the Port Moresby Main wharf and Container Terminal Infrastructure, while also taking into account the future expansion plan for the Port Moresby CBD and the current government's decision to relocate the port area, PNGPCL opted for Motukea as a preferred relocation site for the new Port Moresby Port after a

lengthy deliberation of the agenda. The move is also essential for PNGPCL as a port facility provider to cater for the demands of the country's growing economy.

The official relocation of the Port Moresby port to the new Motukea port commenced on July 29th 2014.



In March 2016, the National Executive Council ('NEC') formally approved for further expansion and construction of the international berth at the Motukea port to cater for the relocation of the International wharf from the existing Port Moresby port.

Following the NEC decision, PNGPCL successfully made a drawdown of K150 million from the K300 million loan acquired from the Bank of South Pacific Bank ('BSP').

Upon the drawdown the project contractor Curtin Bros PNG Ltd commenced the actual construction work in May 2016. The construction will include the reclamation of approximately 60 hectares of underwater lease in order to extend the wharf by 500 metres, mounted tracks at the storage facilities and a new port access route.

As part of the strategic arrangement going forward, PNGPCL plans to establish a Special Purpose Vehicle ('SPV') to operate the Motukea port and most preferably an international operator. The SPV will own Motukea Port and operate the port through a Public Private Partnership ('PPP') including any future capital investment on the extension. The existing assets and liabilities of Port Moresby Port will be transferred to the new SPV.

The two Port Moresby coastal wharves (Main Wharf and APC wharf) and the port Administration office were transferred over to Motukea port towards the end of this year. The international wharf will follow suit upon completion of the new international wharf at Motukea potentially in 2018.

## OPERATIONS REVIEW | Major Projects



### Lae Tidal Basin – Portion 508

The first phase of the Lae Tidal Basin was successfully completed by China Harbour Engineering Company Limited and commissioned on the 17th of December 2014. On the 2nd of April 2015 the Tidal Basin was formally handed over to PNGPCL by Kumul Consolidated Holdings ('KCH').

PNGPCL entered into a temporary arrangement with Consort Express Lines to undertake coastal operations at Phase 1.

In March 2016, the NEC approved for PNGPCL to commence with the development and commercialization of the western side of Lae Tidal Basin. Following the approval, PNGPCL secured a concessional loan of K350 million from the China Exim Bank to finance the proposed development. A formal agreement was signed in July 2016. Approximately 90 hectares of land on the western side of the new tidal basin will be developed and leased out to stakeholders on a long term basis.

The project developer, China Jiangsu International has commenced with the conceptual designs with actual construction works to commence before the end of this year. In the meantime, PNGPCL has commenced pre-leasing negotiations with a number of interested clients and potential long term lessees for sections of the Phase 3 land which is the western side of the new Tidal Basin.

### Port Moresby Head Office Building

The relocation of the Port Moresby port and the proposed waterfront development along the Stanley Esplanade has forced PNGPCL to look for an alternative location to relocate its Head Office from the current port precinct.

PNGPCL entered into an investment partnership with the China Railway Construction Engineering Group (PNG) Real Estate Co., Ltd ('CRCC') to develop PNGPCL's vacant land portion adjacent to the Internal Revenue Commission ('IRC') Building to house its head office staff. The project is valued at over K25 million.

The project is currently in the final design stage. PNGPCL's building permit application to the National Capital District Commission ('NCDC') Physical Planning Building Board was approved in September 2016 by the NCDC Physical Planning and is pending signoff by the Building Board. Negotiations regarding contract execution and supervision agreements between CRCC and PNGPCL will be finalised soon and followed by the commencement of the construction.



# International Accreditation

PORT SAFETY AND  
MANAGEMENT



## International Accreditation - Port Safety & Management

The PNGPCL Harbours Management Services (The Regulatory Division of PNGPCL) continues to ensure that business practices within the declared ports are in compliance with the safety and environmental management requirements pursuant to the Environment Act 2003, Contaminants Act 1978 and Environmental Contaminants (Pesticides) Act 1978 including relevant international conventions and protocols to protect and enhance the environment, the welfare of the employees and the surrounding community.

The company has further implemented the Health Safety & Environment Safety Management System for the Head office, Port Moresby port and Lae port. The system is consistent with requirements of the ISO 9000 group of standards and the company is especially proud to be certified in the following categories;

- ISO 14001:2004 – International Standard – Environmental Management Systems;
- OHSE 18001:2007 – International Standard – Safety Management Systems ; and
- AS/NZS 4801:2001 – Australia and New Zealand Standard – Safety Management Systems.

# Community Engagements



### Highlights

PNGPCL has demonstrated this year that it is a good corporate citizen by providing assistance to communities through sponsorships and donations. The company facilitated about 30 sponsorships and donation requests at the value of K381, 757.92 towards various areas including Education, Sports, Health and others.

### Education

PNGPCL allocated approximately K31, 000.00 in total for Education. This assistance was given to 5 schools in the country to help fund their school activities and projects. Apart from the financial support the organisation also donated computers and other IT equipment to the Limana Vocational School in Port Moresby.

### Sports

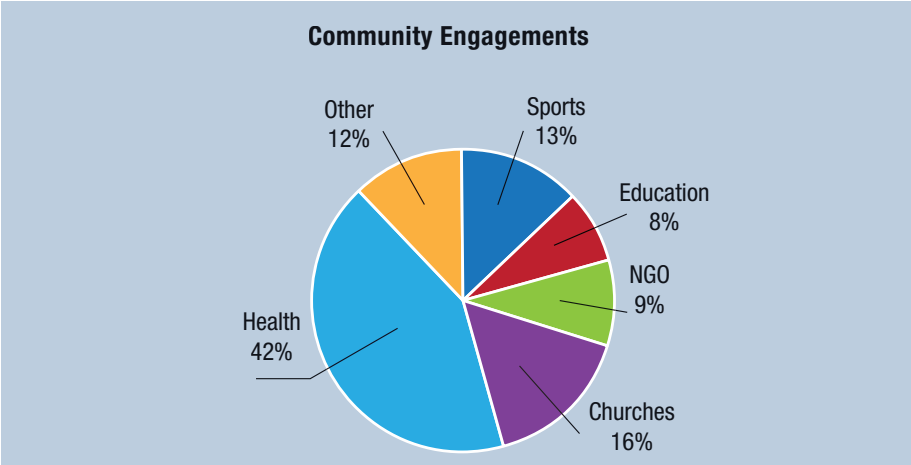
PNGPCL also allocated K50, 730.00 in total for Sports which is an integral part of the community structure as it reduces social tension, crime and provides young people with opportunities to become disciplined and learn good moral values.

### Health

Another area that PNGPCL prioritized this year is Health. A sponsorship value of K160, 520.00 was allocated to hospitals, clinics and medical appeals. This included the assistance given for the purchase of the multi-purpose scanner worth K150, 000.00 for the Port Moresby General Hospital and K5, 000.00 for the Daru General Hospital maintenance.

Other causes that received financial assistance from PNGPCL included;

- **NGOs – K32, 500.00;**
- **Religion – K61,007.92;**
- **National Events – K35,000.00; &**
- **Others – K11,000.00**



**Fig 3**

Apart from direct financial assistance, PNGPCL also took a proactive approach this year in promoting a cleaner, healthier and safer environment by organising corporate clean-a-thon exercises within the nation's capital. The program involved half a day's clean-up of the Ela Beach and Konebada beachfront. PNGPCL also participated in various campaigns against major

issues that have a negative impact on the country's socio-economic development. These included the Fight against HIV and Aids and Fight against Corruption aimed at eradicating bad practices within the organisation and the nation as a whole.

# Trade Performance

## ANALYSIS

### Cargo Throughput

In 2016, PNGPCL handled an overall cargo throughput of 7, 245,710 Revenue Tonnages representing a slight increase by 1.02 percent from the corresponding period. The cargo volumes was stabilised despite the slower economic growth on both the domestic and international fronts including the low commodity prices.

The cargo throughput analysis for the last 5 years (Fig 4) indicates an 8.24 percent downward drop in the overall cargo volumes from 2012 to 2013. This was contributed by the scaling down of the Liquefied Natural Gas ("LNG") construction phase and the drop in export commodities. There was an improvement in 2014 by 3 percent with a total of 7.5 million Revenue Tonnages driven by a substantial 9 percent growth in coastal cargo trade, as well as the commencement of the production and export of the LNG and strong activity in the non-mineral private sector. The 5.6 percent downward decline from 2014 to 2015 in the overall cargo throughput is a reflection of the continued recession in the international and local economy.

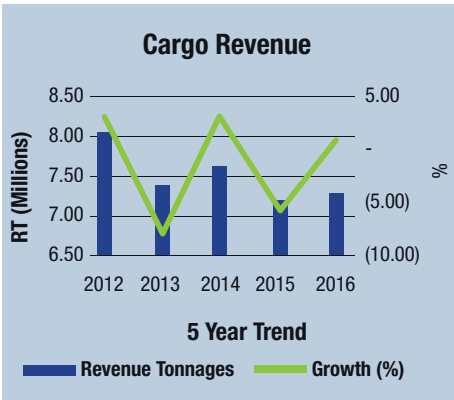


Fig 4

### Coastal & Overseas Cargo

The 2016 port statistics indicated a slight drop in the coastal cargo trade from the previous year by 1.6 percent recording a throughput of 2, 459,176 Revenue Tonnages. Despite the decline the graph in fig 5 indicates an increase in the growth rate.

The Coastal cargo analysis for the last 5 years (Fig 5) indicated a steady decline by nearly 2 percent in Coastal Cargo throughput from 2012 to 2013. Coastal cargo picked up significantly in 2014 by 9.4 percent recording 2,789,824 Revenue Tonnages however declined dramatically again by 10.4 percent in 2015 recording 2, 499, 689 Revenue Tonnages.

There was a slight improvement in the Overseas Cargo in 2016 compared to the previous year. The port statistics recorded a throughput of 4, 786,533 Revenue Tonnages indicating an increase of 2.5 percent. (Fig 6). The highest overseas cargo throughput in the last 5 years was recorded in 2012 with a total of 5, 403, 063 Revenue Tonnages.

In relation to the international trade there was a significant imbalance in trade with import constituting about 68 percent and export about 32 percent of the total 7, 245,710 Revenue Tonnages. The trade is mainly for containers, break bulk, palm oil and bulk fuel.

Lae, Port Moresby and Kimbe handled the majority of the cargo volumes (Fig 7). Lae port handled 3,579,224 Revenue Tonnages (1.94 percent slight increase from the previous year) which accounted for 50 percent of total cargo throughput; Port Moresby port handled 1, 473, 805 Revenue Tonnages (5.71 percent decrease) which constituted 19 percent of cargo throughput, while Kimbe port's cargo volumes increased by 14.55 percent from the previous year handling 613, 652 Revenue Tonnages, making up 9 percent of cargo throughput.



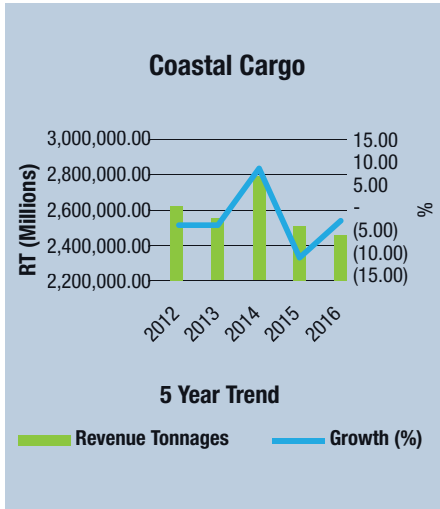


Fig 5

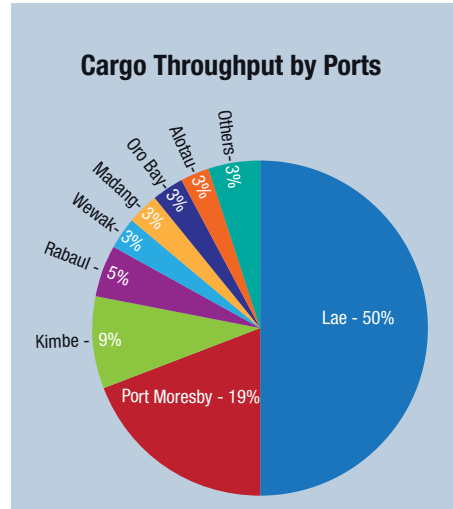


Fig 7

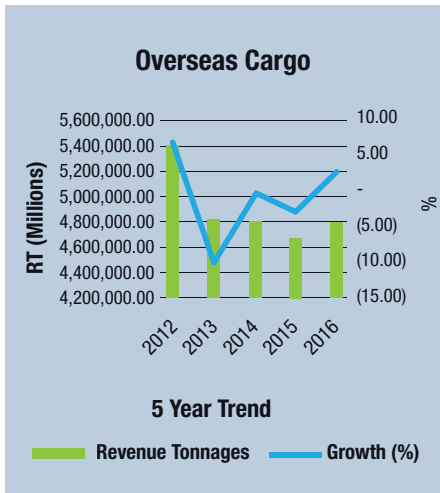


Fig 6

#### Containerised trade

2016 Port statistics recorded a container throughput of 335,587 Twenty-Foot Equivalent Units ('TEU') indicating a 2.3 percent slump from the previous year (Fig 8). Despite the decline there was a marginal increase in the growth rate from 2015 which recorded a considerable drop of 3.6 percent from the preceding year. The highest recorded TEUs within the last 5 years was recorded in 2014 with 356,918 TEUs (Fig 8).

In terms of percentage growth, container throughput reached the highest growth of 7 percent in 2012 with a total of 338,160 TEUs. Container volumes climbed steadily in 2013 (1%) and 2014 (4%). (Fig 8).

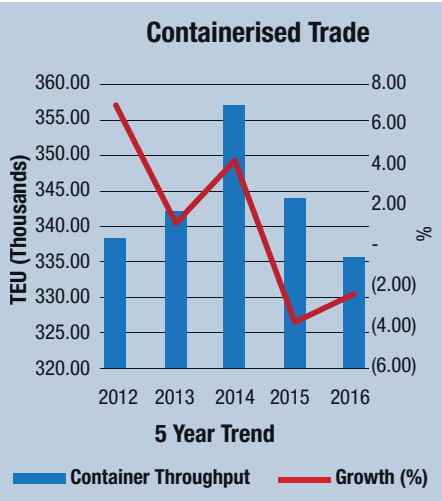


Fig 8

**Coastal and Overseas Trade**

The coastal container throughput accounted for a total of 125, 082 TEUs making up 37.3 % while overseas containers accounted for 210, 505 TEUs which is 62.7% of the total of the containerised trade (Fig 9). In relation to the overseas trade in the container volume, imports accounted for 51 % while exports accounted for 49%.

The two busiest ports of Lae and Port Moresby dominated the overall container trade by accounting for more than half of the container volumes that passed through the port network. Lae port alone contributed 56 % of containerised cargo (187, 256 TEUs), Port Moresby port accounted for 20% (68, 475 TEUs). The three ports of Kimbe, Rabaul and Madang also accounted for 4% each of the total container volumes. (Fig 10).

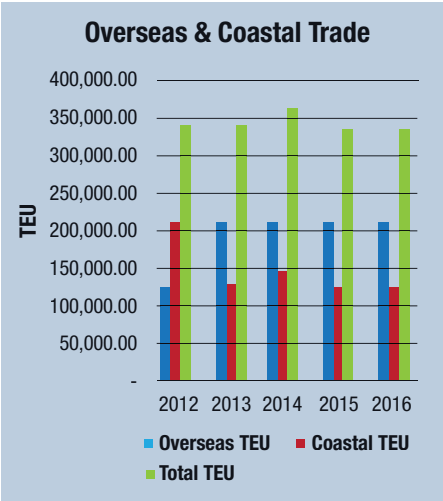


Fig 9

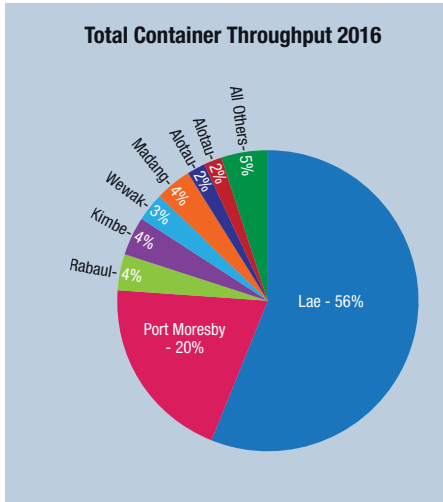


Fig 10

**Vessel Calls**

A total of 5,636 vessel calls was recorded in 2016 throughout the port network as compared to 5,974 vessel calls in the previous year. This indicated a decline by 5.6 percent. Despite the decline there was an increase in the growth as shown in the graph (Fig 11).

The highest number of vessel calls totalling 7,331 was recorded in 2012. Since then, there has been a modest decline in vessel throughput as per the 5 year comparative analysis (Fig 11). 2013 results reflected a 6.6% decrease, followed by another slight decline of 1.9 % in 2014 and a noticeable 11% drop in 2015. 2016 vessel throughput was the lowest recorded number of vessel calls in the last 5 years.

**Coastal and Overseas Calls**

There has been a steady decline in the overall vessel calls over the last 5 years. In 2016 vessel movement within the domestic waters recorded total vessel calls of 2, 967 while overseas vessel calls recorded 2,668 (Fig 12). This indicated a drop by 5.3 percent in the combined vessel calls recorded at all the declared ports in the country. Coastal vessel calls accounted for 53 percent of total vessel calls and consisted mainly of general vessels, tanker and barge vessels, as well as passenger and fishing vessels. Overseas calls made up 47 percent and consisted of container vessels, tankers, cruise vessels, logging vessels, fishing vessels as well as roll-on roll-off vessels.

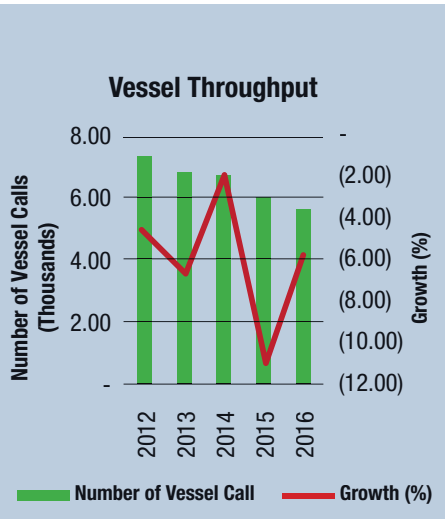


Fig 11

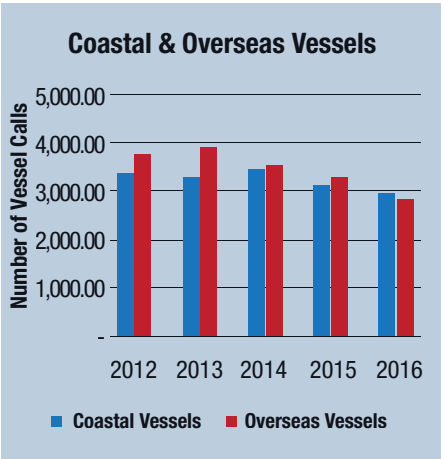


Fig 12

## OPERATIONS REVIEW | Trade Performance - Analysis

Port Moresby, Lae and Rabaul ports recorded a majority of vessel calls (Fig 13) in 2016. Port Moresby accounted for 25% of total vessel calls recording 1,423 calls which indicated a 3.3 percent drop from the previous year. Lae port had the second highest number of vessel calls recording 977 and accounted for 17 percent of total vessel calls. This was a noticeable 5.9 percent decline as well from the corresponding period while Rabaul port had the third highest number of vessel calls recording 823 calls and accounting for 15 percent of total vessel throughput, a 14 percent growth from the previous year.

Wewak port recorded 502 vessel calls which was the fourth highest and accounted for 9 percent of total calls. Kimbe and Madang ports had the fifth and sixth highest calls recording 450 and 332 vessel calls respectively (both accounted for 8 percent and 6 percent respectively). The rest of the other 9 ports including Oro, Alotau, Kavieng, Daru, Vanimo, Buka, Lorengau, Kieta and Aitape recorded less than 300 vessel calls in the year and accounted for less than 4 percent of total calls respectively.

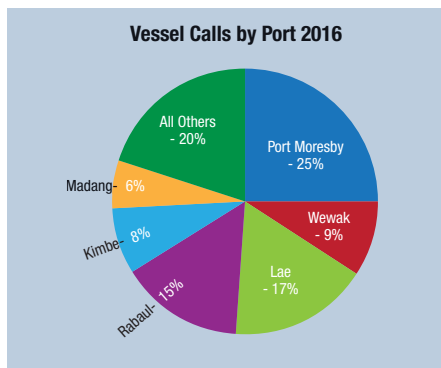


Fig 13







# CORPORATE GOVERNANCE



**BOARD OF DIRECTORS**

**MANAGEMENT TEAM**

**CORPORATE VALUES**

**CORPORATE GOVERNANCE PRACTICE**

**FINANCIAL REVIEW**

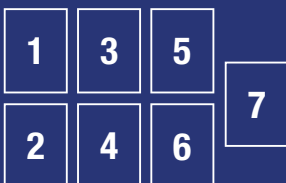


CORPORATE GOVERNANCE

# Board of Directors







- 1 NATHANIEL POYA, OBE,  
Chairman
- 2 FABIAN CHOW  
Deputy Chairman
- 3 HARVEY NII  
Director
- 4 Eddie Hessingut  
Director
- 5 Patrick Amini, OBE  
Director
- 6 Luke Niap  
Director
- 7 Stanley Alphonse  
Acting Managing Director

CORPORATE GOVERNANCE

# Executive Management



**PNG PORTS**  
CORPORATION



STANLEY ALPHONSE  
Acting Managing Director



FEGO OTA KINIIFA  
Chief Commercial Officer



STEVE TESAR  
Chief Operating Officer



SIMON TIO  
Chief Finance Officer



WAQA BAULEKA  
Chief Infrastructure Officer



HANE KILA  
Chief Maritime Compliance Officer



JOSEPH AISA  
General Manager Corporate Affairs



ALLAN KAMALE  
General Manager - Governance  
& Risk



ROBERT HANCOCK  
General Manager Project  
Management Unit

## Corporate Governance Practice

PNGPCL is highly committed to developing, adopting and practising high corporate governance standards and practices in its day-to-day operations and management. The Board and Management of PNGPCL genuinely recognises this as one of the pillars for corporate success – and with this recognition, continuously endeavours to uphold and practice high corporate governance standards in all commercial decisions.

### Role of the Board

The operations of the board is governed by the Companies' Act 1997 ('Companies Act') and the Kumul Consolidated Holdings Act 2002 ('KCH Act'). The Board of PNGPCL is responsible for the broad policy and 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 Managing Director to oversee and direct the day to day operations of the company. The Managing Director 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 KCH is the sole shareholder holding shares in trust on behalf of the State and as such the KCH Act sets forth the underlying provisions by which the company is governed and the appointment of its Board. In turn the KCH reports to the KCH Board and the Ministry of Public Enterprise and State Investment and National Executive Council.

In accordance with the provisions of the KCH Act, the Board members are appointed by the KCH subject to the approval of the National Executive Council. The KCH as the sole shareholder of PNGPCL under the KCH Act appoints directors, the Chairman and deputy chairman. PNGPCL as of the 31st of December 2016 had seven (7) Board members, inclusive of the Chairman, which were appointed by the KCH through the due process stipulated by the KCH Act 2002.

### Ethical Standards

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

### Directors Interest

As at the end of 31st December 2016 none of the Directors were 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 Section 212 (f) and (g) of the Companies' Act, the shareholder of the company, through ordinary resolution has resolved that the company will not disclose details of the Directors remuneration in the 2016 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 resolutions are passed through a majority vote.



## Corporate Governance Practice

### Indemnity

As prescribed by the KCH Act, the KCH 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 an acceptable format required by Board and Management. The annual financial statements are prepared in accordance with the generally accepted International Financial Reporting Standards ("IFRS"). The financial statements also adhere to the requirements of the Companies' 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 KCH, which is then forwarded to the Public Enterprise and State Investment Minister to be presented in parliament.

## Financial | Summary

Year ended 31st December	2016	2015	2014 As restated	2014	2013 As restated	2012
	K'm	K'm	K'm	K'm	K'm	K'm

### Operating Result

Operating revenue	241	249	242	242	222.5	255.9
Operating expenses	173.6	174	188.2	188.2	234.8	165.2
Operating profit before interest and tax	73.9	371.6	25.9	25.9	(16.6)	100.2
Finance costs	12.6	8.2	8.2	6.5	9.7	2.1
Profit (Loss) before Taxes	61.8	364.3	20.2	20.2	(25.8)	98.8
Profit(Loss) after Taxes	41	346.6	15.6	8	(18.3)	75.9

### Financial Position

Total Assets	1,821.60	1,626.40	1,311.80	1,311.80	1,291.90	1,332.1
Total Liabilities	546.9	392.7	500.6	521.4	509.5	497.5
Contributed Capital and Reserves	469	473	620	620	640.3	650.0
Retained earnings	805	760	191	170.5	142.1	184.6
Total Equity & Liabilities	1,821.60	1,626.40	1,311.80	1,311.80	1,291.90	1,332.1

### Cash Flows

Net Cash flows from operating activities	96.3	131	71.8	71.8	42.3	137.2
Net Cash flows from investing activities	(174.9)	(155.6)	(65.6)	(65.6)	(88.5)	(98.8)
Net Cash flows from financing activities	150	(23.9)	49.8	49.8	(26)	34.2
Net Cash flows	146.7	75.2	123.7	123.7	67.7	140

## Financial Review

### Financial Performance | Analysis

This is a comparative analysis of PNGPCL's financial performance over a 5 year period with a particular focus on 2016 and 2015's results.

#### Financial position

PNGPCL's balance sheet indicated a good financial position with total assets recorded at K1.8 billion for the year ended 31st December 2016. This indicated a significant increase of K195.2 million and a 12% growth from the corresponding period. Cash, cash equivalents, trade and other receivables formed a large component of this growth.

The steady growth in the company's asset base (Fig 14) since 2013 is also attributed to the ongoing upgrade of the port infrastructure and fair valuation of property, plant and equipment giving rise to the value of the company's fixed assets.

PNGPCL's debt level increased considerably by 39% with total liabilities recorded at K546.9 million as compared to K392.7 million recorded in the previous year's balance sheet. An increase in total loans and borrowings was a contributing factor. Despite the increase in liabilities they have been maintained at a manageable level resulting in a solid net asset position over this period.

#### Earnings before Interest and Tax

PNGPCL generated an operating revenue of K241 million in 2016 from the provision of its services reflecting a slight drop of 3% from the previous year (Fig 15). This was due to a downward turn in revenue lines. On average, 65% of revenue was generated from the regulated services and 35% from the non-regulated services. In terms of port revenue contribution, Lae port contributed the highest with an average of 43% of total revenue, followed by POM port with 31%, Rabaul port with 8%, Kimbe port with 5 % and the other ports contributing 13%. Operating revenue had climbed steadily from 2013 to 2015 due to the strong business growth in that period and eventually dropped this year by 3%.

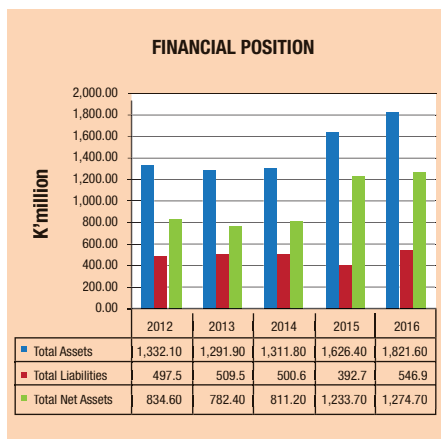


Fig 14

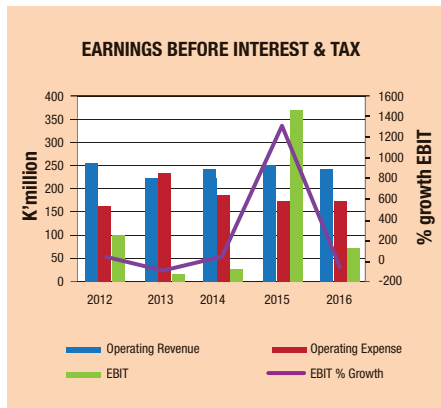


Fig 15

## Financial Performance | Analysis

The total expenditure in 2016 declined slightly by 0.2 % recording K173.6 million on the Statement of Comprehensive Income. Expenditure was below budget as a result of management cost control. This is also reflected in the EBIT graph (Fig 15) where expenditure has gradually decreased since 2013.

The earnings before interest and tax dropped significantly by 80% in 2016 (Fig 15) recording K73.9 million compared to K371.6 million recorded in the previous financial year. This was largely attributed to the decline in revenue.

### Net Operating Result

PNGPCL recorded a Net Profit- after-tax ('NPAT') of K41 million in the 2016 Statement of Comprehensive Income (Fig 16). This reflected a substantial decline by 88% and a difference of K305.6 million from the corresponding period that recorded a NPAT of K346.6 million. The large negative variance between the NPAT for YTD 2015 and YTD 2016 is due to the abnormally inflated NPAT for YTD 2015 resulting from the K298.8 million gain realised on the Motukea port transaction in 2015. Overall the lower profit margin is largely underpinned by lower revenue performance.

### Owner's Equity

Total equity improved by 3 percent in 2016 amounting to K1.27 billion. This reflected an increase of K40 million from the corresponding period which recorded K1.23 billion. This growth was largely attributed to the company's retained earnings of K805. Total reserves amounted to K461 million and consisted of asset revaluation reserve and stockholder fund reserve.

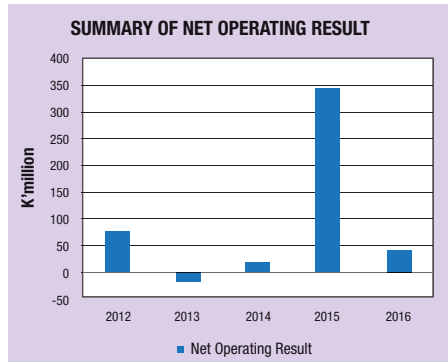


Fig 16

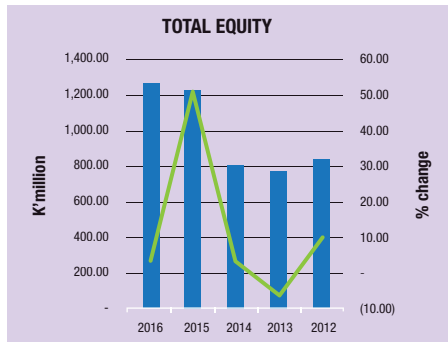


Fig 17

## Financial Performance | Analysis

### Performance Indicators

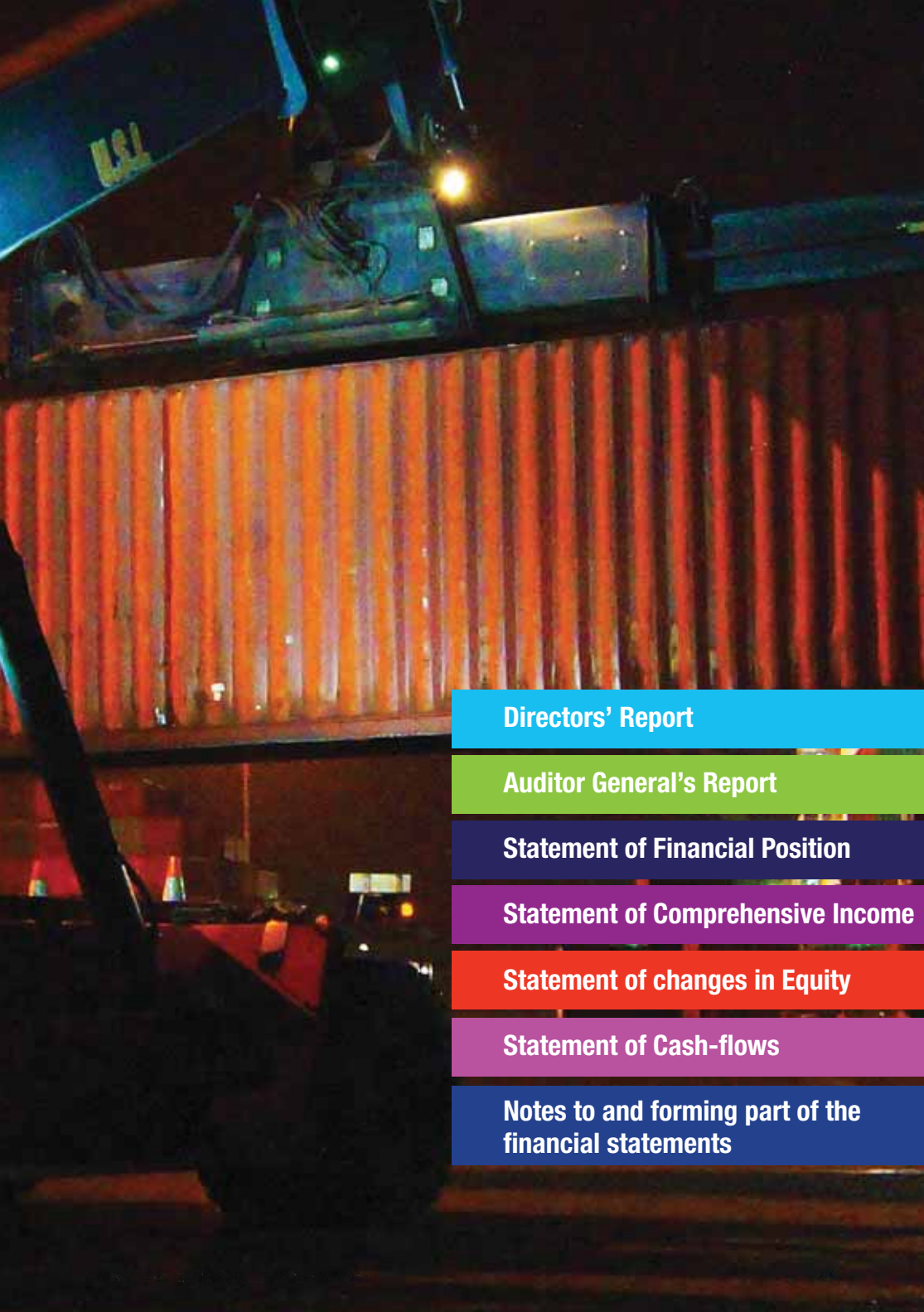
The benchmark ratios were developed by Mari Trade PNG Ltd and NKA Chartered Accountants in 2010. The benchmark for PNGPCL is an average compared to various Australian and NZ Port benchmarks for financial results.

Financial Ratios	2016	2015	Bench mark	Remarks
Net Profit Margin	17%	139.2%	30%	The NPM for this year was 17%, 13% below the industry benchmark and also a decline of 122.2% from the previous financial year. This attributes to the drop in net profit by 88% and increase in depreciation charges.
Return on Capital Employed	4%	24%	10%	The ROCE for this year dropped considerably by 20% from the previous period and is also 6% below the industry benchmark. This indicates that that the company did not deploy its capital as efficiently as the previous financial year.
Asset Turnover	13%	15%	50%	The Asset turnover ratio dropped by 2% from the corresponding period as a result of the proportionate increase in total assets by 12%. Revenue generated from asset utilization is yet to be realized as the infrastructure improvement program is still in progress.
Current ratio	2.2:1	1.2: 1	2:1	The current ratio for the year improved by 1 from the previous period. This improvement is underpinned by the decrease in current liabilities by 4% and the 75% growth in current assets. The company is in good financial health with a higher proportion of asset value relative to the value of liabilities hence PNGPCL is able to pay back its short term debts.
Debt to Equity	43%	31.8%	50%	The debt to equity ratio grew by 11.2% compared to the corresponding period. This was a result of the 3% increase in equity attributed to more retained earnings and also an increase in debts by 39%.
Debt Ratio	30%	24%	50%	This year, the debt ratio increased by 6% compared to the previous year indicating that PNGPCL increased its leverage but maintained the debt level below the 50 percent benchmark.
Equity Ratio	70%	76%	50%	The equity ratio in 2016 declined by 6% however remained above the industry's benchmark due to an increase in retained earnings by 6%.



# **FINANCIAL STATEMENTS**

The background image is a dark, atmospheric photograph of an industrial or construction site at night. A large, dark piece of machinery, possibly a crane or excavator, dominates the foreground and middle ground. It is partially illuminated by warm, orange and red lights, which create a strong contrast with the deep shadows. In the upper left, a bright orange light source, likely a lamp or fire, adds to the warm glow. In the upper right, a distinct blue light source, possibly a moon or a distant light, provides a cool contrast. The overall mood is mysterious and industrial.



**Directors' Report**

**Auditor General's Report**

**Statement of Financial Position**

**Statement of Comprehensive Income**

**Statement of changes in Equity**

**Statement of Cash-flows**

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

# Directors’ Report

The directors present their financial statements on the affairs of PNG Ports Corporation Limited (“the Company” or “PNGPCL”) for the year ended 31st December 2016.

## Activities

The principle 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.

## Results

The net profit after taxation for the year was K41, 017, 695 (2015: K346, 585, 219).

## Dividends

No dividends were declared in 2016 and 2015.

## Directors

The directors at the date of the report of the company are listed below. No director was a shareholder of the Company at 31st December 2016 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 2016 were as follows:

- Sir Nathaniel Poya, OBE  
Chairman
- Fabian C Chow  
Deputy Chairman  
(appointed 14 July 2016)
- Stanley Alphonse  
Managing Director
- Patrick K Amini  
Director

## FINANCIAL STATEMENTS | Directors' Report

- Harvey Nii  
Director
- Luke K Niap  
Director
- Eddie W Hesingut  
Director
- Job Suat  
(resigned effective 14th July 2016)
- John Pumwa  
(resigned effective 14th July 2016)
- Igo Oala  
(resigned effective 14th July 2016)

### 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 of the board of directors;



Director  
Date: 09/07/17

Director  
Date: 09/07/17

FINANCIAL STATEMENTS

# Auditor General's Report





Phone: (+675) 3012200 Fax: (+675) 325 2872 Email: agopng@ago.gov.pg Website: www.ago.gov.pg

**The Managing Director**  
PNG Ports Corporation Limited  
PO Box 671  
**PORT MORESBY**  
National Capital District

Date: 15<sup>th</sup> November, 2017  
Our Reference: 31-63-4  
Action Officer: U.Torbiso  
Designation: a/AAG  
Your Reference:

Dear Sir,

**AUDIT REPORT ON  
PNG PORTS CORPORATION LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2016**

I attach a copy of the Auditor-General's Report together with a copy of the certified financial statements of the above named Company for the year ended **31 December, 2016**.

Please ensure that these are tabled by you at the Company's Annual General Meeting.

Yours faithfully,

**LEMEKI ILA**  
Deputy Auditor-General  
(Statutory Bodies Audit Division)  
**FOR: AUDITOR-GENERAL**



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

Email: agopng@ago.gov.pg Website: www.ago.gov.pg



**INDEPENDENT AUDIT REPORT ON THE ACCOUNTS OF  
PNG PORTS CORPORATION LIMITED  
FOR THE YEAR ENDED 31 DECEMBER 2016**

**To the Shareholders**

I have audited the accompanying financial statements of **PNG Ports Corporation Limited** for the year ended **31 December, 2016**. The financial statements comprise:

- Statement of Financial Position;
- Statement of Comprehensive Income;
- Statement of Changes In Equity;
- Statement of Cash Flows; and
- Summary of Significant Accounting Policies and Other Explanatory Notes.

**Responsibility for the Financial Statements**

The Directors of the Company are responsible for preparing financial statements that give a true and fair presentation of the financial position and performance of the Company. The financial statements should comply with the *Companies Act, 1997* and other mandatory financial reporting requirements in Papua New Guinea in accordance with the *International Financial Reporting Standards*, which have been approved by the *Accounting Standards Board* as the financial reporting standards for use in Papua New Guinea. The Directors are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

**Responsibility of the Auditor-General**

I have conducted an independent audit in order to express an opinion to the shareholders. My audit has been planned and performed in accordance with *International Standards on Auditing* as promulgated by the *International Federation of Accountants* to obtain reasonable assurance whether the financial statements are free of material misstatement. The audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The nature of an audit is influenced by factors such as the use of professional judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. I have considered the risks, based on those assessments, on the internal controls relevant to the preparation and fair presentation of the financial statements in designing audit procedures that are considered appropriate in the circumstances.

Procedures were performed to assess whether, in all material respects, the financial statements present fairly, in accordance with the *Companies Act 1997*, the *International Financial Reporting Accounting Standards* and other mandatory financial reporting requirements, a view which is consistent with my understanding of the Company's financial position, and of its performance as represented by the results of their operations and cash flows.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for this report.

#### AUDIT OPINION

In my opinion:

- (a) the financial statements of PNG Ports Corporation Limited for the year ended 31 December, 2016:
  - (i) give a true and fair view of the financial position and the results of its operation and cash flows for the year ended on that date; and
  - (ii) the financial statements have been presented in accordance with the *Companies Act 1997*, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;
- (b) Proper accounting records have been kept by the Company as far as appears from my examination of those records; and
- (c) I have obtained all the information and explanations required.



**PHILIP NAUGA**  
Auditor-General

15 November, 2017

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<b>Statement of Changes in Equity</b>	61
<b>Statement of Cash Flows</b>	62
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## FINANCIAL STATEMENTS | **Company Information**

PNG Ports Corporation Limited is a registered company under the Papua New Guinea Companies Act 1997 and is incorporated and domiciled in Papua New Guinea.

Registered Office	Section 53, Lot 8, Stanley Esplanade, Port Moresby, National Capital District
Directors	Nathaniel Poya, OBE - Chairman Fabian C Chow – Deputy Chairman (appointed 14 July 2016) Stanley Alphonse – Managing Director Patrick K Amini Harvey Nii Luke K Niap Eddie W Hesingut Job Suat (resigned effective 14 July 2016) John Pumwa (resigned effective 14 July 2016) Igo Oala (resigned effective 14 July 2016)
Managing Director	Mr. Stanley Alphonse
Secretary	Mr. Joseph E Aisa
Auditor	Auditor General of Papua New Guinea PO Box 423 Waigani National Capital District
Bankers	Bank South Pacific Limited ANZ Banking Group (PNG) Limited Westpac Bank (PNG) Limited



## FINANCIAL STATEMENTS | Directors' Report

The directors present their financial statements on the affairs of PNG Ports Corporation Limited ("the Company" or "PNGPCL") for the year ended 31 December 2016.

### 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.

### Results

The net profit after taxation for the year was K41,017,695 (2015: K346,585,219).

### Dividends

No dividends were declared in 2016 and 2015.

### 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 31 December 2016 and none had any material interest in any contract or arrangement with the Company or any related entity during the year. The directors during the year ended 31 December 2016 were as follows:

Nathaniel Poya, OBE - Chairman  
Fabian C Chow – Deputy Chairman (appointed 14 July 2016)  
Stanley Alphonse – Managing Director  
Patrick K Amini  
Harvey Nii  
Luke K Niap  
Eddie W Hesingut  
Job Suat (resigned effective 14 July 2016)  
John Pumwa (resigned effective 14 July 2016)  
Igo Oala (resigned effective 14 July 2016)

### 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 employee remuneration in its annual report.

For and on behalf of the board of directors:

  
Director  
Date: 09/11/17

  
Director  
Date: 09/11/17

FINANCIAL STATEMENTS | **Statement of Financial Position**  
as at 31 December, 2016

	Note	2016 K	2015 K
<b>ASSETS</b>			
Cash and cash equivalents	21	146,781,838	75,215,551
Trade and other receivables	12	37,960,122	30,201,782
Investments	11	—	—
<b>Total current assets</b>		<b>184,741,960</b>	<b>105,417,333</b>
Deferred tax assets	9(c)	22,164,509	24,953,796
Receivable from related parties	12, 19	—	12,000,000
Property, plant and equipment	10	1,614,725,802	1,484,006,626
<b>Total non-current assets</b>		<b>1,636,890,311</b>	<b>1,520,960,422</b>
<b>Total assets</b>		<b>1,821,632,271</b>	<b>1,626,377,755</b>
<b>LIABILITIES</b>			
Trade and other payables	16	21,693,447	20,946,168
Provision for taxes payable	9(b)	26,786,707	17,681,640
Loans and borrowings	15	12,547,161	26,762,120
Trust payable	17(a)	8,462,521	7,607,696
Employee provisions	18	6,998,033	6,974,635
Deferred income	17(d)	7,525,124	7,525,124
<b>Total current liabilities</b>		<b>84,012,993</b>	<b>87,497,383</b>
Employee provision	18	14,452,897	12,399,941
Trust payables	17(a)	1,125,755	1,125,755
Loans and borrowings	15	278,554,689	115,066,138
Deferred income	17(d)	101,645,000	109,357,747
Deferred tax liabilities	9(d)	67,136,197	67,243,746
<b>Total non-current liabilities</b>		<b>462,914,538</b>	<b>305,193,327</b>
<b>Total liabilities</b>		<b>546,927,531</b>	<b>392,690,710</b>
<b>EQUITY</b>			
Share capital	13	7,830,000	7,830,000
Reserves	14	461,247,805	465,411,834
Retained earnings		805,626,935	760,445,211
<b>Total equity</b>		<b>1,274,704,740</b>	<b>1,233,687,045</b>
<b>Total equity and liabilities</b>		<b>1,821,632,271</b>	<b>1,626,377,755</b>

The statement of financial position is to be read in conjunction with the notes to and forming part of the financial statements.

For and on behalf of the board of directors

  
Director  
Date: 09/11/17

  
Director  
Date: 09/11/17

FINANCIAL STATEMENTS | **Statement of Comprehensive Income**  
31 December, 2016

	Note	2016 K	2015 K
Revenue from rendering of service		241,012,381	249,082,830
Direct costs		(10,044,196)	(9,992,052)
Gross profit		230,968,185	239,090,778
Other revenue - net	6	16,661,329	306,760,559
Personnel expenses	8	(58,374,748)	(66,997,264)
Depreciation	10	(56,780,048)	(45,822,191)
Administrative expenses		(29,653,862)	(26,712,015)
Other operating expenses	7	(28,854,463)	(34,739,807)
Total expenses		(173,663,121)	(174,271,277)
Results from operating activities		73,966,393	371,580,060
Finance income		604,875	956,361
Finance costs	15	(12,687,240)	(8,246,365)
Net finance expense		(12,082,365)	(7,290,024)
Profit before tax		61,884,028	364,290,036
Income tax expense	9(a)	(20,866,333)	(17,704,617)
Profit for the year		41,017,695	346,585,219
Other comprehensive income			
Revaluation increment		-	60,025,298
Income tax effect		-	1,765,950
Other comprehensive income for the year		-	61,791,248
Total comprehensive income for the year		41,017,695	408,376,467

*The statement of comprehensive income is to be read in conjunction with the notes to and forming part of the financial statements.*

FINANCIAL STATEMENTS | **Statement of Changes in Equity**  
for the year ended 31 December, 2016

	Share Capital K	Reserves K	Retained Earnings K	Total K
Balance at 1 January 2015	7,830,000	612,142,413	191,265,165	811,237,578
Profit for the year	–	–	346,585,219	346,585,219
Other comprehensive income	–	61,791,248	–	61,791,248
<b>Total comprehensive income</b>	<b>–</b>	<b>61,791,248</b>	<b>346,585,219</b>	<b>408,376,467</b>
Depreciation transfer for revalued assets (Note 14)	–	(222,594,827)	222,594,827	–
Transaction with shareholder (Note 14)	–	14,073,000	–	14,073,000
<b>Balance at 31 December 2015</b>	<b>7,830,000</b>	<b>465,411,834</b>	<b>760,445,211</b>	<b>1,233,687,045</b>
Profit for the year	–	–	41,017,695	41,017,695
Other comprehensive income	–	–	–	–
<b>Total comprehensive income</b>	<b>–</b>	<b>–</b>	<b>41,017,695</b>	<b>41,017,695</b>
Depreciation transfer for revalued assets (Note 14)	–	(4,164,029)	4,164,029	–
<b>Balance at 31 December 2016</b>	<b>7,830,000</b>	<b>461,247,805</b>	<b>805,626,935</b>	<b>1,274,704,740</b>

*The statements of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements.*

FINANCIAL STATEMENTS | **Statement of Cash Flows**  
31 December, 2016

	Note	2016 K	2015 K
<b>Cash flows from operating activities</b>			
Cash receipts from customers		242,225,824	332,300,007
Cash paid to suppliers and employees		(124,103,638)	(167,853,821)
Cash generated from operating activities	21(b)	118,122,186	164,446,186
Income taxes paid	9(b)	(9,079,528)	(25,201,364)
Interest paid		(12,687,240)	(8,246,385)
<b>Net cash from operating activities</b>		<b>96,355,419</b>	<b>130,998,437</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	10	(190,986,114)	(160,767,424)
Receipts from settlement of related party receivables		12,000,000	3,946,329
Interest received		604,875	956,361
Proceed from sale of property, plant and equipment		3,463,690	260,317
<b>Net cash used in investing activities</b>		<b>(174,917,549)</b>	<b>(155,604,417)</b>
<b>Cash flows from financing activities</b>			
Proceeds of borrowings	15	288,927,189	-
Payment of related party advances		(10,000,000)	-
Dividend payments	16, 19 (d)	-	(8,500,000)
Repayment of borrowings	15(c)	(129,454,043)	(15,275,580)
Proceed (payment of) from lease liabilities		(199,554)	987,744
Trust fund and related interest receipts		654,825	(1,075,181)
<b>Net cash from (used in) financing activities</b>		<b>150,128,417</b>	<b>(23,863,027)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>71,566,287</b>	<b>(48,469,007)</b>
Cash and cash equivalents at beginning of the year		75,215,551	123,684,558
<b>Cash and cash equivalents at end of the year</b>	21(a)	<b>146,781,838</b>	<b>75,215,551</b>

*The statements of cash flows is to be read in conjunction with the notes to and forming part of the financial statements.*

**1. GENERAL INFORMATION**

PNG Ports Corporation Limited ("Company" or "PNGPCL") is a company domiciled in Papua New Guinea. It is a State Owned Entity ("SOE") whose ownership is vested in trust with the Kumul Consolidated Holdings ("KCH") on behalf of the Government of PNG.

The Company is primarily involved in the provision of management services, operations and control of activities governing the movement of ships and cargos within its declared ports. It is the sole authority over all declared ports in the country and manages 15 of the 23 declared ports in PNG. These are Lae, Port Moresby, Kimbe, Madang, Aitau, Rabaul, Kavieng, Oro Bay, Kieta, Buka, Vanimo, Lorengau, Wewak, Daru and Aitape. The Company is vested with a delegated authority by the Department of Transport (DoT) to provide harbour management and maritime compliance responsibilities at all land/water interfaces (wharves and jetties) declared and non-declared ports and harbours throughout the country.

The registered address of the Company is located at Section 53, Lot 8, Stanley Esplanade, Port Moresby, National Capital District.

The financial statements have been authorised for issue by the Board of Directors on        2017.

**2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES****BASIS OF PREPARATION**

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

The financial statements have been prepared primarily on the historical cost basis, except for certain property, plant and equipment which are measured at fair value. All amounts are rounded to the nearest PGK, except as otherwise indicated.

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

**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.

**a. Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year, except in the current year, the Company adopted all new and revised IFRS, amendments to existing International Accounting Standards (IAS) and International Financial Reporting Interpretations Committee (IFRIC) Interpretation that are effective for annual periods beginning on or after 1 January 2016. The adoption of these standards did not have any effect on the financial performance or position of the Company.

Description	Effective for annual periods beginning on or after
IFRS 14 <i>Regulatory Deferral Accounts</i>	1 January 2016
Amendments to IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i>	1 January 2016
Amendments to IAS 16 and IAS 38: <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>	1 January 2016
Amendments to IFRS 11 <i>Joint Arrangements: Accounting for Acquisitions of Interest</i>	1 January 2016
Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i>	1 January 2016
Amendments to IAS 1 <i>Disclosure Initiative</i>	1 January 2016



Description	Effective for annual periods beginning on or after
Amendments to IFRS 10, IFRS 12 and IAS 28 <i>Investment Entities: Applying the Consolidation Exception</i>	1 January 2016
Annual Improvements to IFRSs (2012-2014 Cycle)	1 January 2016
IFRS 7 <i>Financial Instruments: Disclosures</i>	1 January 2016
IAS 19 <i>Employee Benefits</i>	1 January 2016
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 January 2016
IAS 34 <i>Interim Financial Reporting</i>	1 January 2016

**b. Future Changes in Accounting Policies**

The Company will adopt, where applicable, the following standards, amendments to existing standards and interpretations when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new standards and interpretations to have a significant impact on its financial statements:

Description	Effective for annual periods beginning on or after
Amendments to IFRS 10 and IAS 28: <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>	1 January 2017
IAS 7 <i>Disclosure Initiative</i> – Amendments to IAS 7	1 January 2017
IAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> - Amendments to IAS 12	1 January 2017
IFRS 15 <i>Revenue from Contracts with Customers</i>	1 January 2018
IFRS 9 <i>Financial Instruments</i>	1 January 2018
IFRS 2 <i>Classification and Measurement of Share-based Payment Transactions</i> - Amendments to IFRS 2	1 January 2018
IFRS 16 <i>Leases</i>	1 January 2019

The Company continues to assess the impact of the foregoing new and amended accounting standards and interpretations effective subsequent to 2015 on the Company's financial statements in the period of initial application. Additional disclosures required by these amendments will be included in the Company's financial statements when these amendments are adopted.

**c. Foreign currency transactions**

Transactions in foreign currencies are re-measured to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-measured to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items that are recognised in profit or loss 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 re-measured 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 re-measured 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 re-measured using the exchange rate at the date of the transaction. Foreign currency gains and losses are recorded on a net basis.

**d. Financial instruments**

**Financial assets**

All 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.

The Company has the following financial assets: loans and receivables and cash and cash equivalents.

**a. 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.

**b. Cash and cash equivalents**

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.

**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 expired.

The Company has the following financial liabilities: trust payables, loans and borrowings 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.

**Offsetting of financial instruments**

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.

**Impairment of Financial Assets**

The Company assesses at each financial reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event or events has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Objective evidence of impairment may include indications that the contracted parties or a

group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*Assets carried at amortized cost*

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced through the use of an allowance account. The amount of loss is recognized in profit or loss.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, any previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

**De-recognition of Financial Assets and Financial Liabilities**

*Financial assets*

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

*Financial liabilities*

A financial liability is derecognized when the obligation is discharged, cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

**e. Fair value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the assets or liability and the level of the fair value hierarchy.

**f. 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. Share capital is measured at the value of the shares issued.

**g. Borrowing cost**

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Capitalisation of borrowing costs commences when the activities to prepare the assets are in progress and expenditures and borrowing costs are being incurred. Capitalisation of borrowing cost ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

**h. Asset held for sale**

The Company classifies non-current assets as held for sale if their carrying amounts will be recovered principally through a sale or distribution rather than through continuing use. Such non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for sale. Asset held for sale are presented separately as current items in the statement of financial position.

**i. Property, plant and equipment**

*Recognition and measurement*

Items of property, plant and equipment are measured at cost/revalued amount 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Certain assets have been revalued. Valuations are performed frequently to ensure that the fair value of a revalued asset does not differ materially from its carrying value. Any revaluation surplus is credited to equity except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the statement of comprehensive income, in which case the increase is recognised in statement of comprehensive income.

A revaluation deficit is recognised in statement of comprehensive income except to the extent that it offsets an existing surplus on the same asset recognised in equity.

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 within other income in the statement of comprehensive income.

An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

*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.

*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.

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

Wharf facilities	30-50 years
Buildings	15-23 years
Machinery and equipment	5 years
Motor vehicles	3 years

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

**j. Impairment of non-financial assets**

The Company assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of comprehensive income in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to other comprehensive income. For such properties, the impairment is recognised in other comprehensive income up to the amount of any previous revaluation.

An assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

**k. Employee benefits**

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.

*Defined contribution plans*

Contributions to defined contribution superannuation plans are expensed when incurred.



*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.

*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.

**l. 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.

**m. Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company has concluded that it is the principal in all of its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The specific recognition criteria described below must also be met before revenue is recognised.

*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.

*Other income*

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

*Finance income*

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

**n. Government grants**

Grants provided by the national government are recognised as deferred revenue (deferred income). It is then recognised in profit or loss on a systematic basis (amortised over the useful life of the completed and commissioned project) in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

**o. Income tax**

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

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

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

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary 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 realised.

**p. Investment in subsidiaries**

Investments in subsidiaries are recorded at cost, which is the fair value of consideration transferred less impairment loss.

**3. 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.

*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.

*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.

**4. 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.

#### **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.

##### **a. 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.

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.

##### **b. 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.

#### **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.

#### **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates 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.

#### **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.

#### **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 capital using a gearing ratio. The Company policy is to keep the gearing ratio below 60%.

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

	2016	2015
	K	K
Total liabilities	546,927,531	392,690,710
Less: cash and cash equivalents	146,781,838	75,215,551
Net debt	400,145,693	317,475,159
Total equity	1,274,704,740	1,233,687,045
Debt to capital ratio at 31 December	31%	26%

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.

### **5. Management's Use of Significant Accounting Judgments, Estimates and Assumptions**

The preparation of the Company's financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and notes to the financial statements. In preparing the Company's financial statements, management has made its best estimates and judgments relating to certain amounts, giving due consideration to materiality.

In the opinion of management, these financial statements reflect all adjustments necessary to present fairly the results for the periods presented. Actual results could differ from these estimates, and the effect of any changes in estimates will be reflected in the Company's financial statements when they become reasonably determinable.

#### Judgment

In the process of applying the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which have the most significant effect on amounts recognized in the financial statements.

#### *Determination of the Company's functional currency*

Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency has been determined to be PGK. It is the currency that mainly influences the Company's operations.

#### *Operating lease commitments – Company as lessee*

Management assesses at the inception of the lease whether the arrangement is finance or operating lease based on who bears substantially all the risks and rewards incidental to ownership of the leased item. The Company has entered into property leases where it has determined that the risks and rewards related to the property are retained by the lessors. As such, the agreements are accounted for as operating leases.

#### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### *a. Revaluation of property, plant and equipment*

The Company measures land and buildings and other facilities at revalued amounts with changes in the fair value being recognised in other comprehensive income. An analysis and assessment of the company's land and buildings was performed internally to determine the fair value of the land and buildings as at 31 December 2015. Fair value of the properties was determined using the income approach specifically the discounted cash flow method. The discounted cash flow method considers the present value of the cash flows expected to be generated by the Company. The cash flows projections include specific estimates for 5 years. The expected cash flows are discounted using a risk adjusted discount rate (Note 10). There is no revaluation performed in 2016.

#### *b. Estimation of useful lives of property, plant and equipment*

This has been based on the estimated useful lives as determined by management. In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. The revision is made when considered necessary.

#### *c. Impairment of non-current assets*

The Company assesses impairment at each reporting date by evaluating conditions specific to the Company that may lead to impairment. Where an impairment trigger exists, the recoverable value is determined using value-in-use (VIU) calculations. No assets are considered impaired at year end.

#### *d. Allowance for doubtful accounts*

The Company maintains provisions for impaired accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this provision is evaluated by management based on collection experience and other factors that affect the collectability of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the customers, the customer's payment behaviour and other known market factors.

**e. Recognition of deferred income tax assets**

The Company reviews the carrying amount of deferred income tax assets at each reporting date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized.

**f. Amortisation of deferred income**

Grants provided by the national government are recognised as deferred revenue (deferred income). It is then recognised in the income statement on a systematic basis (amortised over the useful life of the completed and commissioned project) in accordance with IAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*.

**6. Other revenue - net**

	2016 K	2015 K
Gain (loss) on disposal of fixed assets (Note 10)	(23,200)	298,417,362
Realised foreign exchange loss - net	(206,608)	(17,083)
Other income	16,891,137	8,360,280
	<u>16,661,329</u>	<u>306,760,559</u>

**7. Other operating expenses**

Operating profit for the year is stated after charging the following items:

	2016 K	2015 K
Professional and consultancy fees	13,227,306	14,450,338
Insurance	7,725,695	7,577,291
Rental	2,471,530	2,493,533
Bad and doubtful debts (Note 12)	624,016	5,995,322
Donations and sponsorship	777,088	1,332,982
Advertising and promotion	471,484	880,201
ICCC fees	863,229	537,000
Publication and subscriptions	230,894	377,735
Bank charges	212,688	157,797
Auditors remuneration	435,937	622,545
Other expenses	1,814,596	315,063
	<u>28,654,463</u>	<u>34,739,807</u>

**8. Personnel expenses**

	2016 K	2015 K
Wages and salaries	49,747,194	57,106,737
Defined contribution plans	2,822,911	2,652,209
Other staff costs	5,804,643	7,038,318
	<u>58,374,748</u>	<u>66,997,264</u>



## 9. Income tax

## a. Income tax expense (benefit)

	2016	2015
	K	K
Profit for the year	61,884,028	364,290,036
Tax rate	30%	30%
Income tax on the profit	18,565,209	109,287,011
Under (over) provision in prior years	1,999,850	(12,893,254)
Tax effect of permanent differences	301,275	(78,688,940)
	<u>20,866,333</u>	<u>17,704,817</u>

	2016	2015
	K	K
Income tax expense (benefit) comprises:		
Current income tax	16,421,268	28,347,411
Deferred income tax	2,445,215	2,250,660
Overprovision in prior years	1,999,850	(12,893,254)
	<u>20,866,333</u>	<u>17,704,817</u>

## b. Income tax payable

	2016	2015
	K	K
Balance at beginning of the year	(17,681,640)	(27,282,398)
Current income tax	(16,421,268)	(28,347,411)
Overprovision in prior years	(1,763,327)	12,746,805
Tax paid	9,079,528	25,201,364
Balance at end of the year	<u>(26,786,707)</u>	<u>(17,681,640)</u>

## c. Deferred tax assets

	2016	2015
	K	K
Balance at beginning of the year	24,953,796	26,625,840
Charge to income tax expense	(2,789,287)	(1,672,044)
Reversal of timing difference	-	-
Balance at the end of the year	<u>22,164,509</u>	<u>24,953,796</u>

## d. Deferred tax liability

	2016	2015
	K	K
Balance at beginning of the year	(67,243,746)	(68,577,529)
Charge to income tax expense	344,071	(578,615)
Relating to revaluation reserve	-	1,785,950
Over (under) provision in prior year	(236,522)	146,448
Balance at the end of the year	<u>(67,136,197)</u>	<u>(67,243,746)</u>

**e. Net deferred tax liability**

	2016	2015
	K	K
Employee benefits	6,435,279	5,812,373
Provisions	219,230	931,423
Capitalized cost – wharf amortized	15,510,000	18,210,000
<b>Deferred tax assets</b>	<b>22,164,509</b>	<b>24,953,796</b>
Prepaid insurance	(239,707)	(562,190)
Accrued interest	(25,262)	(11,548)
Property, plant and equipment	(66,871,228)	(66,670,008)
<b>Deferred tax liability</b>	<b>(67,136,197)</b>	<b>(67,243,746)</b>
<b>Net deferred tax liability</b>	<b>(44,971,688)</b>	<b>(42,289,950)</b>

**10. Property, plant and equipment**

- a. An analysis and assessment of the Company's land and buildings was performed internally to determine the fair value of the land and buildings as at 31 December 2016. Fair value of the properties was determined using the income approach specifically the discounted cash flow method. The income approach converts future amounts (e.g. cash flows or income and expenses) to a single current discounted amount. When the income approach is used, the fair value measurement reflects current market expectations about those future amounts.

10. Property, plant and equipment

As at 31 December 2016:

	OS Land & Leasehold Land	Wharf facilities Land & Buildings	Buildings & Fittings	Vehicle & Boats	Office Machines & Other Equipment	Work in Progress	Total
	K	K	K	K	K	K	K
<b>Cost</b>							
As at 1 January 2016	37,178,000	1,448,616,447	46,052,462	22,481,452	86,310,514	52,692,137	1,893,331,012
Additions	-	797,849	63,782	8,908,988	1,815,951	176,106,197	187,692,768
Transfers	-	1,003,131	7,406,624	5,926,324	634,700	(14,970,778)	-
Revaluation	-	-	-	-	-	-	-
Write-off Disposals	-	-	(350,000)	(1,033,410)	(6,143)	-	(1,389,553)
As at 31 December 2016	37,178,000	1,450,417,427	53,172,848	36,283,354	88,755,022	213,827,556	1,879,634,227
<b>Accumulated Depreciation</b>							
As at 1 January 2016	-	156,072,393	10,309,356	11,885,593	31,052,044	-	209,324,386
Depreciation for the year	-	38,440,554	2,853,673	5,902,072	9,583,649	-	56,780,048
Disposals	-	-	(198,334)	(697,676)	-	-	(1,196,010)
As at 31 December 2016	-	194,518,247	12,964,695	16,789,989	40,635,693	-	264,908,424
<b>Net book value</b>	<b>37,178,000</b>	<b>1,255,899,180</b>	<b>40,208,173</b>	<b>19,493,365</b>	<b>48,119,329</b>	<b>213,827,556</b>	<b>1,614,725,802</b>

As at 31 December 2015:

	OS Land & Leasehold Land	Wharf facilities Land & Buildings	Buildings & Fittings	Vehicle & Boats	Office Machines & Other Equipment	Work in Progress	Total
	K	K	K	K	K	K	K
<b>Cost</b>							
As at 1 January 2015	34,647,000	1,045,758,374	40,796,524	13,291,082	83,001,075	23,583,835	1,241,077,850
Additions	-	761,250,000	294,220	9,409,779	608,664	77,564,761	849,517,424
Transfers	2,600,000	37,830,280	5,213,831	-	3,202,348	(48,846,459)	-
Revaluation	-	60,025,296	-	-	-	60,025,298	-
Write-off Disposals	(69,000)	(456,247,505)	(282,113)	(219,409)	(501,573)	-	(487,269,500)
As at 31 December 2015	37,178,000	1,448,616,447	46,052,462	22,481,452	86,310,514	52,692,137	1,893,331,012
<b>Accumulated Depreciation</b>							
As at 1 January 2015	-	169,061,149	7,916,690	9,338,324	21,705,677	-	208,021,840
Depreciation for the year	-	31,304,666	2,683,573	9,372,308	9,372,308	-	45,822,191
Disposals	-	(44,286,622)	(68,778)	(136,304)	(25,941)	-	(44,519,645)
As at 31 December 2015	-	156,077,993	10,309,356	11,886,593	31,052,044	-	209,324,386
<b>Net book value</b>	<b>37,178,000</b>	<b>1,292,539,054</b>	<b>35,743,106</b>	<b>10,595,859</b>	<b>55,258,470</b>	<b>52,692,137</b>	<b>1,484,006,626</b>

**11. Investment in subsidiaries**

	Ownership Interest	2016 K	2015 K
Dylup Estate Holdings Limited	100%	—	1
North Coast Agri Services Limited	100%	—	1
Total cost		—	2
Provision for impairment		—	(2)
		—	—

The company (Dylup Estate Holdings Limited) were incorporated to purchase the land and infrastructure of Dylup Cocoa and Copra plantation. In May 2016, Dylup which owns Allotment 2, Portion 6, Portion 489, Portion 488, Portion 376, Portion 42 and Portion 1 Milinch Malas, Fourmil Karkar, Madang was sold to Kumul Consolidated Holdings for a total consideration of K12 million (see Note 27).

In addition, North Coast Agri Service Limited (North Coast) was a service company created to take carriage of the cocoa and coconut operation of Dylup. Thus on Dylup's disposal, North Coast has no other purpose to serve but had to wind up.

**12. Trade and other receivables**

	2016 K	2015 K
Trade debtors	28,278,439	24,474,465
Provision for doubtful debts	(280,767)	(2,654,743)
<b>Trade debtors</b>	<b>27,997,672</b>	<b>21,819,722</b>
Amounts owed by related entities (Note 19)	—	25,833,765
Provision for doubtful debts (Note 19a and 19c)	—	(13,833,765)
<b>Amounts owed by related entities</b>	<b>—</b>	<b>12,000,000</b>
Storage fee receivables	3,485,325	4,075,651
GST receivables	3,600,382	—
PNG Harbour Management Services	1,337,559	867,757
Prepayments	799,023	1,903,034
Rental bonds	366,664	351,133
Staff debtors	289,291	189,036
Interest and withholding tax	84,206	38,482
Other debtors	—	956,957
<b>Other debtors and prepayments</b>	<b>9,982,450</b>	<b>8,382,060</b>
<b>Trade and other receivables</b>	<b>37,960,122</b>	<b>42,201,782</b>

Trade receivables are non-interest bearing and are generally on terms of 30 days.

Movement in provision for doubtful accounts follow:

	2016 K	2015 K
Beginning balance	16,488,508	9,770,256
Provisions (reversals) during the year (Notes 19c and 20)	(16,207,741)	6,718,252
	280,767	16,488,508

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Presented in the statement of financial position:

	2016 K	2015 K
Current	37,960,122	30,201,782
Non-Current	-	12,000,000
	<b>37,960,122</b>	<b>42,201,782</b>

### 13. Share capital

	2016 K	2015 K
<b>Issued ordinary share capital</b>		
As at 1 January	7,830,000	7,830,000
Issued during the year	-	-
As at 31 December	<b>7,830,000</b>	<b>7,830,000</b>

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

### 14. Reserves

	2016 K	2015 K
Asset revaluation reserve	439,664,839	443,828,868
Stockholder fund reserve	21,582,966	21,582,966
	<b>461,247,805</b>	<b>465,411,834</b>

	2016 K	2015 K
<b>Asset revaluation reserve</b>		
Balance at 1 January	443,828,868	604,632,447
Revaluation surplus	-	61,791,248
Transfer to retained earnings	(4,164,029)	(222,594,827)
Balance at 31 December	<b>439,664,839</b>	<b>443,828,868</b>

	2016 K	2015 K
<b>Stockholder reserve</b>		
Balance at 1 January	21,582,966	7,509,966
Additions	-	14,073,000
Balance at 31 December	<b>21,582,966</b>	<b>21,582,966</b>

#### a. Asset revaluation reserve

The asset revaluation reserve relates to the revaluation of property, plant and equipment. In 2015, revaluation surplus amounting to K61.79 million, net of tax, was recognised in relation to the revaluation of land and buildings. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued carrying amount of the assets and depreciation based on the asset's original cost. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. Transfer of asset revaluation to retained earnings amounted to K4.16 million in 2016 (2015: K222.59 million).

**b. Stockholder fund reserve**

Stockholder fund reserve is the State contributions as shareholder to fund the port installations projects. These funds are reflected as the shareholder capital contribution to the Company. These funds were initially reflected as trust funds held on behalf of the State for the port installation projects. In 2015, an additional contribution amounting to K14.07 million was recognized in relation to Motukea transaction (nil in 2016).

**15. Loans and borrowings**

	2016 K	2015 K
BSP Loan (Note 15b)	288,927,189	–
ANZ Finance Lease (Note 22)	2,174,661	2,374,215
Westpac Loan (Note 15a)	–	129,454,043
Loans from shareholders (Note 19a)	–	10,000,000
	<u>291,101,850</u>	<u>141,828,258</u>
Current portion	12,547,161	26,762,120
Noncurrent portion	<u>278,554,689</u>	<u>115,066,138</u>
	<u>291,101,850</u>	<u>141,828,258</u>

a. In August 2013, the Company refinanced its existing loan facility of K100,000,000 it had with Bank of South Pacific Limited with Westpac Bank (PNG) Limited. The loan is secured by a fixed and floating charge over all of the Company's assets. The loan is on a 3 year fixed interest of 5.96% with principal repayments of K2.5 million on a bi-annual basis. In 2014, the Company made additional drawdown amounting to K50 million. The loan is on a 5 year fixed interest of 6.25% with 1 repayments of K0.97million on a monthly basis. This loan was fully paid on 15 April 2016.

b. Bank of South Pacific has drawn down the Company's loan in two portions: one on the 15<sup>th</sup> of April 2016 and the other on the 20<sup>th</sup> of May 2016. Year to date funding claim for the project is K138,927,189.

Facility "A" of K150,000,000 was fully funded on 15<sup>th</sup> of April 2016. The facility is for a term of four and half years with repayments commencing 31 December 2017 and to occur quarterly thereof until maturity on 30<sup>th</sup> September 2020 at which point the remaining balance is to be repaid in full simultaneously with the remaining balance of Facility "B".

Facility "B" of K150,000,000 was partially funded for K49,914,775 on 20<sup>th</sup> of May 2016. Funding of the remaining balance of Facility "B" will occur on request from PNG Ports for Curtin Brother's progress claims relating to Motukea wharf expansion works. The facility is for a term of four and a half years with repayments commencing on 31<sup>st</sup> of December 2017 and to occur quarterly thereof until maturity of 30<sup>th</sup> of September 2020 at which point the remaining balance is to be repaid in full simultaneously with the remaining balance of Facility "A".

Interest expense recognized from these borrowings amounted to K12,687,240 (2015:K8,246,385) and recorded under finance costs in the statement of comprehensive income.



c. The movement in loans payable is as follows:

	2016	2015
	K	K
Beginning balance	129,454,043	142,929,624
Proceeds from loans	288,927,189	-
Repayment of loans	(129,454,043)	(13,475,581)
	<u>288,927,189</u>	<u>129,454,043</u>

#### 16. Trade and other payables

	2016	2015
	K	K
Trade creditors	4,408,988	6,040,829
Retention	10,487,535	3,065,129
GST payable	-	534,941
Other creditors and accrued expenses	6,796,924	11,305,269
Balance at 31 December	<u>21,693,447</u>	<u>20,946,168</u>

Terms and conditions of the above financial liabilities follow:

- Trade creditors are non-interest bearing and are normally settled on 30 day terms
- Other creditors are non-interest bearing and have an average term of six months
- Retention payable is normally settled throughout the financial year after the no defects period
- For terms and conditions with related parties, refer to Note 19.

#### 17. Trust payables and deferred income

##### a. Trust payables

	2016	2015
	K	K
Cargo Levy	8,462,521	7,607,696
National Project Fund	1,125,755	1,125,755
	<u>9,588,276</u>	<u>8,733,451</u>

The trust payable is presented in the statement of financial position as follows:

	2016	2015
	K	K
Current	8,462,521	7,607,696
Noncurrent	1,125,755	1,125,755
	<u>9,588,276</u>	<u>8,733,451</u>

##### b. Trust funds – Wharf projects

The Government has provided the Company with special purpose funds to facilitate wharf infrastructure development at various ports. The above special purpose funds (excluding Cargo Levy) represent existing funds received and are to be used for specific wharf projects. The Company 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.

**c. 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 Harbors Act, Chapter No 240.

**d. Deferred income**

	2016 K	2015 K
Completed projects	137,438,127	137,438,127
Accumulated amortization	(29,004,801)	(21,292,055)
Carrying value of completed projects	108,433,326	116,146,072
In-progress projects	736,799	736,799
	<u>109,170,125</u>	<u>116,882,871</u>

Movement in the accumulated amortization follows:

	2016 K	2015 K
Beginning balance	21,292,055	13,835,574
Amortization during the year	7,712,746	7,456,481
Ending balance	<u>29,004,801</u>	<u>21,292,055</u>

	2016 K	2015 K
Current portion	7,525,125	7,525,124
Noncurrent portion	101,645,000	109,357,747
	<u>109,170,125</u>	<u>116,882,871</u>

**18. Employee provision**

	2016 K	2015 K
Provision for annual leave	5,742,281	5,657,162
Provision for long service leave	14,452,897	12,399,941
Staff loyalty	1,255,752	1,317,473
	<u>21,450,930</u>	<u>19,374,576</u>

	2016 K	2015 K
Current portion	6,998,033	6,974,635
Noncurrent portion	14,452,897	12,399,941
	<u>21,450,930</u>	<u>19,374,576</u>

**19. Related Party Transaction**

Related party relationship exists when one party has the ability to control, directly or indirectly, through one or more intermediaries, the other party or exercise significant influence over the other party making in the financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with reporting enterprise, or between and/or among the reporting enterprise and their key management personnel, directors, or its officers.

All transactions are commercial transactions made on an arm's length basis. The following are the related party transactions that occurred during the year:

**a. Kumul Consolidated Holdings Limited (KCH)**

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

Transactions and outstanding balances with KCH are as follows:

		2016 K	2015 K
<b>Transaction during the year:</b>			
Loans from KCH	(i)	-	10,000,000
Sale of Dylup Estate Holdings Ltd and North Coast Agri Services Ltd	(i)	12,000,000	-
<b>Outstanding balances:</b>			
Loans/advances payable	(i)	-	10,000,000

- i. In 2014, the Company received K10 million advances from KCH for the settlement of the Nawae claims (see Note 16). This has no fixed repayment terms and therefore classified as current in the statement of financial position. This amount was settled in May 2016 during settlement on sale of Dylup.
- ii. On 1 April 2015, KCH handed over operations of the Lae Tidal Wharf to PNGPCL. The total construction cost amounted to approximately K734 million and was finance by the Government (GoPNG) and a loan from the Asian Development Bank (ADB). At the physical hand over of the asset, the ADB debt of approximately K434 million was not transferred and remains with KCH as the implementing agency in the interim. The related liability attached to the wharf still remains with KCH until such time as GoPNG, KCH and PNGPCL finalise discussions on this matter.

**b. Amounts owed by wholly owned subsidiaries**

	2016 K	2015 K
<b>Outstanding balances:</b>		
<b>Gross receivables:</b>		
Dylup Estate Holdings Limited	-	19,534,812
North Coast Agri Service Limited	-	4,794,743
	-	24,329,555
Provisions for doubtful debts (Note 12)	-	(12,329,555)
<b>Net receivables</b>	-	12,000,000

The Company's outstanding receivables from wholly owned subsidiaries are interest free. The cash advances were repayable on demand, however, the Company does not expect to collect these within 12 months after 31 December 2015 and therefore they are classified as non-current assets (see Note 20). In 2016, the amounts owed by the wholly subsidiaries were fully settled.

**c. Independent Consumer & Competition Commission (ICCC)**

ICCC is the government price regulator which includes PNG Ports regulated tariffs like pilotage, berthing and berthing reservation. ICCC charges an annual fee of K863,229 (2015:K537,000) which the Company pays in quarterly installments during the year.

**d. Key Management Personnel**

Compensation of key management personnel at reporting date as:

	2016 K	2015 K
Short term benefit	5,457,077	7,505,577
Post-employment benefit	433,184	436,741
	<b>5,890,261</b>	<b>7,942,318</b>

**20. Financial risk management****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:

	2016 K	2015 K
Trade receivables (Note 12)	27,997,672	21,819,722
Amounts owed by related parties (Notes 12 and 19)	-	12,000,000
Other receivables (Note 12)	5,563,045	6,479,026
Cash and cash equivalents	146,781,838	75,215,551
	<b>180,342,555</b>	<b>115,514,299</b>

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

	2016 K	2015 K
Papua New Guinea	27,997,672	21,819,722

The age analysis of gross trade receivables at reporting date was:

	2016 K	2015 K
Past due 0-30 days	10,781,484	15,057,415
Past due 31-180 days	10,735,452	7,980,864
Past due 181-360 days	2,918,654	888,359
Past due more than 1 year	4,681,750	547,827
Total	29,117,340	24,474,465

#### Impairment losses

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

	2016 K	2015 K
Balance at 1 January	2,654,743	961,235
Impairment recognised during the year (Note 12)	-	1,693,508
Impairment reversed during the year	(2,373,976)	-
Balance at 31 December	280,767	2,654,743

#### b. Liquidity risk

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

Non-derivative financial liabilities	Carrying amount	Contractual cash flows			
		Less than one year	1-2 years	2-5 years	More than 5 years
<b>31 December 2016:</b>					
Loans and borrowings (Note 15)	291,101,850	12,547,161	10,372,500	31,117,500	237,064,689
Future interest payments	52,129,971	–	24,398,720	27,731,257	–
Trade and other payables (Note 16)	21,693,445	21,693,445	–	–	–
Employee provisions (Note 18)	21,450,930	6,998,033	–	–	13,092,832
	386,376,196	41,238,639	34,771,220	58,848,757	250,157,521
<b>31 December 2015:</b>					
Loans and borrowings (Note 15)	141,828,258	26,762,120	14,387,905	43,163,716	57,514,517
Future interest payments	13,514,540	3,122,887	2,498,407	3,050,746	4,842,500
Trade and other payables (Note 16)	20,946,168	20,946,168	–	–	–
Employee provisions (Note 18)	19,374,576	6,974,635	–	–	12,399,941
	195,663,542	57,805,810	16,886,312	46,214,462	74,756,958

#### c. Currency risk

The Company does not have significant foreign currency risk at reporting date.

#### d. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates. However, the Company's loans payable bears fixed interest rates from date of release of loan until maturity date. The Company effectively locked its interest-bearing obligations to fixed interest to reduce its exposure to interest rate fluctuation.

## e. Fair value versus carrying value

The fair values of financial assets and liabilities approximate their fair value at reporting date.

## 21. Statement of cash flows notes

- a. 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 is reconciled to the related items in the statement of financial position as follows:

	2016 K	2015 K
Cash and bank balances	104,222,473	54,318,775
Short term deposits	42,559,365	20,896,776
	<u>146,781,838</u>	<u>75,215,551</u>

- b. Reconciliation of profit after income tax to net cash provided by operating activities

	2016 K	2015 K
Profit for the year	41,017,695	346,585,219
<b>Add / (deduct) items classified as investing / financing activities:</b>		
Interest income	(604,875)	(956,361)
Interest expense	12,687,240	8,246,385
<b>Add / (deduct) non-cash items:</b>		
(Profit) / loss on disposal of non-current assets	23,200	(298,417,362)
Amortisation of deferred income	(7,712,746)	(7,456,481)
Depreciation	56,780,048	45,822,191
Income tax expense	20,866,333	17,704,817
Write-off capital work in progress	-	(5,535,476)
<b>Cash generated before working capital changes</b>	<b>123,056,895</b>	<b>105,992,932</b>
(increase)/Decrease in trade debtors and other debtors	(7,758,341)	96,365,940
(Decrease)/Increase in trade creditors and other creditors	747,278	(39,595,695)
Increase in employee provisions	2,076,354	1,683,009
<b>Cash generated from operations</b>	<b>118,122,186</b>	<b>164,446,186</b>

## c. Non-cash items

- Addition to property, plant and equipment amounting to K761.25 million was paid by KCH on behalf of the Company at settlement date and therefore considered as noncash investing activity in the 2015 statement of cash flows. This amount includes the K72.50 million advance payment made by KCH in 2014 as a deposit in relation to the purchase of Motukea Port and therefore this amount is considered non-cash financing activity in the 2015 statement of cash flows
- Disposals as a result of the sale of Fairfax Harbour Port to KCH amounting to K710.93 million was charged against KCH's receivable from the above transaction and therefore this is considered noncash investing activity in the 2015 statement of cash flows.



**22. Leases**

The Company entered into a lease facility arrangement with the ANZ Bank to purchase motor vehicles under both operating and finance lease arrangements.

**a. Operating leases**

	2016	2015
	K	K
Less than one year	-	-
Between one and five years	-	-
More than five years	-	-
	<u>-</u>	<u>-</u>

**b. Finance leases (Note 15)**

	2016	2015
	K	K
Less than one year	1,242,924	1,171,640
Between one and five years	931,737	1,202,575
More than five years	-	-
	<u>2,174,661</u>	<u>2,374,215</u>

**23. Commitments**

At 31 December 2016, the Company had capital commitments of K183 million (2015: K37 million) relating to the projects in progress.

In relation to the purchase of Motukea port and consequential sales of the Fairfax Harbour Port, the Company will incur cost to relocate or transfer the assets from the existing port to the new port.

**24. Contingent assets and liabilities**

- The Company had contingent liabilities totaling to K1,152,000 as at 31 December 2016 (2015: K1,152,000) relating to litigation claims.
- On 1 April 2015, KCH handed over operations of the Lae Tidal Wharf to PNGPCL. The total construction costs amounted to approximately K734 million and was financed by the Government (GoPNG) and a loan from the Asian Development Bank (ADB). At the physical hand over of the asset, the ADB debt of approximately K434 million was not transferred and remains with KCH as the implementing agency in the interim. The related liability attached to the wharf still remains with KCH until such time as GoPNG, KCH and PNGPCL finalise discussions on this matter.
- GoPNG borrowed a sum of Y771,750,000 (PGK352,542,141) from the Export and Import (Exim) Bank of China. The purpose of loan is for the implementation of the construction of Lae Tidal Basin Industrial Development Project. The contract documents were signed by the Company and China Jiangsu International Economic & Technical Corporation Group Ltd on 23 November 2015. The Company will be the beneficiary or the end user in the whole scheme of things. The loan will be serviced by GoPNG as per the agreement. However, should GoPNG does not fulfil its obligation, then the Company may assist in some capacity as an obligor to the loan in servicing it as and when required.

**25. Employees**

The number of employees at the end of the year was 607 (2015: 660).

**26. Events Subsequent to the Reporting Date**

- a. A special board meeting number 19/2017, the Board resolved to pay dividend of K5 million to Kumul Consolidated Holdings.

## NOTES

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