



PNG PORTS
CORPORATION



2017 **ANNUAL REPORT**



Lorengau

Vanimo

Aitape

Wewak

Kavieng

Rabaul

Madang

Kimbe

Buka

Kieta

Lae

Oro Bay

Daru

Port Moresby

Alotau

PAPUA NEW GUINEA'S **Gateway TO Growth AND Prosperity**



PNG Ports Corporation Limited
Credit Corporation House - Level 5 & 6
Cuthbertson Street, Port Moresby
PO Box 671 Port Moresby
National Capital District
Papua New Guinea
Telephone: (675) 3084200
Facsimile : (675) 3211546

www.pngports.com.pg

Contents





Covers

Construction of Motukea-Port Moresby International Port Facility

PNGPCL Overview

Vision	5
Mission	5
Value	6

About PNGPCL

Overview	8
Chairman's Report	14
Acting Managing Director's Report	18

Operations Review

Human Capital	22
Major Projects	24
International Accreditation	28
Community Engagement	29
Trade Performance	30

Corporate Governance

Board of Directors	38
Executive Management Team	40
Corporate Governance Practice	42
Financial Review	44
Financial Performance Analysis	45
Financial Performance Indicators	47

Financial Statements

Company Information	50
Directors' Report	51
Auditor's General Report	52
Statement of Financial Position	55
Statement of Comprehensive Income	56
Statement of Changes in Equity	59
Statement of Cash-flows	60
Notes to and forming part of the Financial Statements	61

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,
- Port 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 team-work 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.



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 pilotage 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 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.



Our 15 ports locations >>

ABOUT PNG PORTS CORPORATION



- 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
- Vanimu - Tel (675) 457 1086
- Wewak - Tel (675) 456 2298



An aerial photograph of a large-scale port construction project. The foreground shows a vast, flat, brownish-yellow area of land, likely a reclaimed area or a large construction site. There are several large, rectangular concrete structures, possibly piers or breakwaters, extending into the water. The water is a deep blue-green color. In the background, there are rolling hills and mountains under a clear sky. A blue banner with white text is overlaid on the top left of the image.

CHAIRMAN'S REPORT

ACTING MANAGING DIRECTOR'S REPORT

Chairman's Report



On behalf of the PNG Ports Corporation Limited ('PNGPCL') board of Directors, I am delighted to present the 2017 PNGPCL Annual Report to all our stakeholders, valued clients and the general public.

The performance of PNGPCL for the 2017 financial year ('FY') represented a positive outcome. PNGPCL delivered a net profit after tax ('NPAT') of K42.3 million. This indicated a growth of 3 percent from the previous year's NPAT of K41 million and is factored mainly on the increased revenue collected from our tariff lines. Accordingly PNGPCL generated a total operating revenue of K260 million this year, an increase of 8 percent from the corresponding year which generated K241 million.

PNGPCL maintained a good balance sheet at the close of the year. FY2017 balance sheet reflected a total asset of K1.87 billion compared to K1.82 billion in the previous year. This increase was mainly factored by the company's major investment in capital assets particularly the expansion of Port Moresby Motukea Port Facilities and Lae Tidal Basin.

PNGPCL recorded a total of K561 million in debt compared to 2016's total debt of K546 million. This shows a little increase of 2.6 percent due to the increase in Loans and borrowings with PNGPCL refinancing one of its major loans to BSP (K300 million) for the development and expansion of Motukea wharf. PNGPCL was able to keep its debt level below the 50 percent industry bench mark by achieving a debt ratio of 30 percent which remains unchanged from last year.

Owners' Equity in FY2017 was K1.31 billion compared to K1.27 billion in the previous year. This shows an increase of 3 percent. The 5 percent growth in retained earnings (2017; K847 million, 2016; K805 million) contributed largely to the

increase in Owners' Equity this year. This placed PNGPCL in a better financial position as PNGPCL declared a dividend of K5 million to its shareholder. In FY2015 and FY2016, no dividend was declared as the full profit after tax was ploughed back into the company to rehabilitate and upgrade all its ports facilities up to the required international standards.

In line with PNGPCL's Corporate Strategic Plan 2017- 2037, the company continued to focus on improving its port facilities and services across its ports network. A range of development projects and operational enhancement initiatives were undertaken primarily for the major ports of Port Moresby and Lae.

This year PNGPCL allocated a budget of K558 million towards its port upgrade and modernisation program. The major capital expenditure (CAPEX) projects for this year included the Lae Tidal Basin- Portion 846 (formally known as Portion 508), Port Moresby Motukea Wharf Expansion and the new PNGPCL Head Office Building.

The Lae Tidal Basin-Portion 846 CAPEX project is valued at K350 million and is currently in its design stage. The Motukea Wharf Expansion valued at K269 million commenced in 2016 and is expected to be completed in 2018 while the new Head Office Building in Port Moresby is currently in construction. PNGPCL has committed K42.4 million to the project which is expected to be completed in 2020.

The execution of the Terminal Operating Agreements with International Container Terminal Services Inc ('ICTSI') was another major highlight of 2017. ICTSI of the Philippines will provide terminal services at the international ports of Motukea and Lae. The arrangements will significantly improve berth and yard productivity at both international ports. We expect the operations under the new terminal services arrangements to commence in the first quarter of 2018.

2017 has certainly been a good year for PNGPCL achieving favourable financial and operational results. As a state owned entity and a valued contributor to the nation's economic growth

through port infrastructure, PNGPCL will continue to support the National Government by maintaining and improving our port facilities up to the required international standards and provide essential port services to customers, clients and stakeholders.

In conclusion, I would like to thank members of the Board, the dedicated executive management team and staff of PNGPCL for the company's achievements in 2017. I certainly look forward to the same level of dedication and support in 2018 and beyond.

A handwritten signature in white ink, appearing to be 'N. Poia', is positioned above the printed name.

SIR NATHANIEL POYA, Kt., OBE
CHAIRMAN





Acting Managing Director's Report



Our 2017 operational and financial performance reflected good results. A broad range of measures were applied to improve efficiency and productivity at our major ports as well as cost control measures taken on our operational expenditures.

This year our overall cargo throughput recorded revenue tonnages of 7.6 compared to 7.2 in the previous year. This shows a 6 percent increase and it's mainly from the increase in the international trade activities. The total container traffic throughout the declared ports experienced a marginal decline by 1 percent with a total of 333,116 Twenty – Foot Equivalent Units (TEU's) compared to 335,587 recorded in the previous year. Total vessel calls into our ports also dropped by 9 percent recording 5,087 vessels.

The ports of Port Moresby, Lae and Kimbe continue to be the main financially performing ports which catered for a large volume of the company's domestic and international trade. Lae port is seen as the largest port in terms of both the cargo and revenue turnover. It handled 48 percent of the ports overall cargo volumes, followed by Port Moresby port handling 22 percent, and Kimbe port with 9 percent. These three ports earned 79 percent of the company's operating revenue. The operations of the other ports are cross subsidised with revenue from the profitable ports. This therefore enables the continuity and sustainability of the operations of these small non-profitable ports.

In terms of bottom line financial performance, the Net Profit after Tax ('NPAT') for FY2017 was K42.3 million which indicated a 3 percent growth from the corresponding period. The net asset value was K1.3 billion whilst the debt level was well managed at 30% which is below the industry benchmark of 50 percent. The FY2017 revenue increased by 8 percent with K260 million compared to K241 million in the previous year. The growth is attributed to higher revenues collected in the company's key revenue business streams.

We continue to improve and maintain our port facilities up to the required standards by investing annually. A total of K558

million was allocated to the development and upgrade of the port infrastructure throughout the ports network aimed at enhancing productivity and efficiency.

Port infrastructure improvement across the ports network is a comprehensive undertaking and most projects remain ongoing. The Motukea Wharf Expansion and Lae Tidal Basin Portion 846 (formerly portion 508) are two of the major existing capital expenditure ('CAPEX') projects in this mix.

The Lae Tidal Basin – Portion 846 will cost a total of K350 million to complete. The drawdown of the fund by China Exim Bank for this project was completed in September this year and is now in the design phase by the developer China Jiangsu International. This will be developed into an international transshipment hub to serve coastal and international shipping lines.

The Motukea Wharf Expansion project is worth K269 million. Works had commenced in 2016 and is anticipated to be completed in 2018. This project is necessary to improve the level of port efficiency and productivity in the coming years and to accommodate the upcoming international event, the Asia Pacific Economic Corporation to be hosted by PNG in the nation's capital in 2018.

The other key major project that PNGPCL embarked on in 2017 is the new Head Office Building located along the Stanley Esplanade, in downtown Port Moresby. PNGPCL has contributed up to K42.4 million into the Project which is now in the construction phase by the developer, China Railway Construction Engineering Group (PNG) Real Estate. The Head Office Building is expected to be completed and available for tenancy in 2020. The relocation will mean a reduction in our rental expenses and overall contribution towards PNGPCL's large asset base.

The projects compliment the company's continued drive towards strategically investing in core port infrastructure under the company's twenty year corporate strategic plan 2017 - 2037.

One of the most important company values is Port Safety. We ensure that the operations conducted within all declared ports are conducted in an environmentally sound manner and in compliance with the national and international environmental laws. We have in place the Health Safety and Environmental Safety Management System consistent with the requirements of the ISO 9000 group of standards

We also continue to strive towards attracting and maintaining high calibre staff with the required skills and knowledge to ensure the company is well positioned. This year a total of 581 employees were utilized, 75 percent of which consisted of males whilst 25 percent comprised of females. As a company we are proud to promote gender equality as evidenced with the number of females that increased by 1 percent as compared to the previous year.

The annual training programs were carried out across the network of ports to up skill and enable staff to perform their assigned roles and responsibilities diligently including the implementation of the twenty year corporate strategic plan 2017- 2037.

PNGPCL maintained its status as a good corporate citizen this year through various social community activities as part of its community service initiatives. PNGPCL facilitated a total of 29 sponsorships and donations at the value of K176, 772 towards sports, education, churches and NGOs. In addition PNGPCL 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).

FY2017 has proven to be a successful year for PNGPCL and I have no doubt that the organisation will perform exceptionally well in the years to come. To conclude, I would like to take this opportunity to acknowledge and thank the former Managing Director Mr Stanley Alphonse for his outstanding leadership as well as the Board, the executive management team and staff members for their efforts and commitment this year. I look forward to the continued support and cooperation in 2018.

****This report relates to the period during which PNGPCL was under the leadership of former Managing Director Mr. Stanley Alphonse.***



FEGO KINIAFA
ACTING MANAGING DIRECTOR



HUMAN CAPITAL

MAJOR PROJECTS

INTERNATIONAL ACCREDITATION

COMMUNITY ENGAGEMENT

TRADE PERFORMANCE



Human Capital Department



The Human Capital Department ('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.

Policy & Procedures Awareness

PNGPCL has its internal HR Policies and Procedures that provide a framework within which consistent decisions are made to 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 staff are reminded of their obligation to adhere to the existing policies during the term of their employment with the company. As part of this initiative HCD successfully conducted the 2017 policy awareness companywide covering the various policies including the School Runs, Appropriate Code of Dressing, Staff Attendance & Punctuality and so forth.

Man Power Summary & Distribution

The total number of PNGPCL staff as at 31st December 2017 was 581 compared to 607 staff in the previous year. Permanent staff constituted 87 percent with 512 employees, while staff on fixed-term contracts constituted 12 percent with 69 employees.

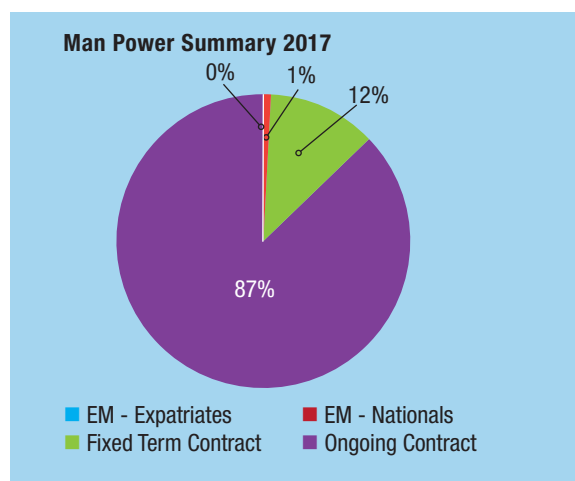


Figure 1

In terms of gender distribution, the male population dominated the workforce with a total of 436 while there were 145 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.

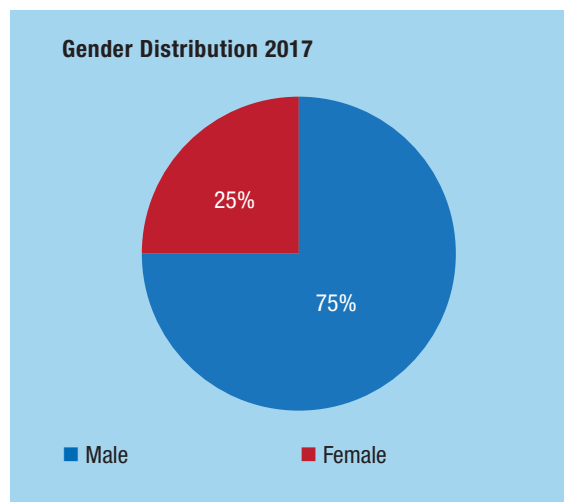


Figure 2

Graduate Development Program

The Graduate Development Program ('GDP') is part of the workforce planning interventions that is managed through the HCD. The program aims to recruit, develop and maintain a highly competitive workforce to provide the edge required to be an efficient and profitable company. Through this program HCD develop young University Graduates whose ideas, ambitions and leadership potentials help to shape the future of the company, which is essential for the growth, success and sustainability. The program is important in that it resolves the current and impending workforce shortages as a result of the aging workforce.

The program is carried out biannually and is spearheaded by the internal Learning and Development team within the HCD and it runs for a period of 18 months. In 2017 six graduates completed their 18 months program. The program has proven to be a success since its inception in 2010 with a number of graduates progressing to senior and managerial positions after the completion of the program.

Annual Health Checks

The company organises medical health checks annually for all its staff as part of a proactive approach in promoting a healthy lifestyle and encouraging work life balance. As such HCD facilitated medical check-ups for its entire staff at the Head Office and the Operations including those at the 15 established ports.

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 consultation and treatment.

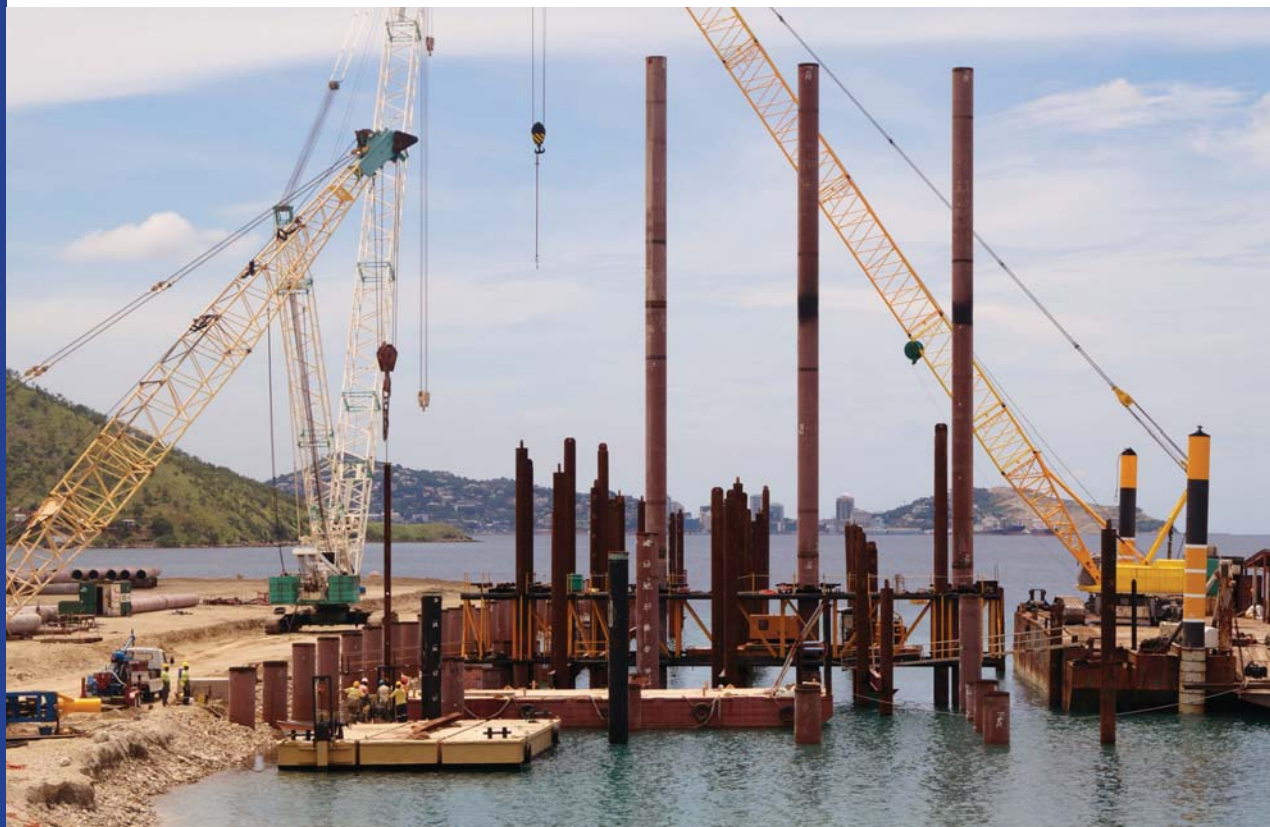
Learning & Development Activities

Skill enhancement remains an important deliverable for HCD to ensure that staff are equipped with the appropriate skills and knowledge to contribute effectively and efficiently. This year HCD focussed mainly on facilitating in-country training for its employees including few overseas training that were mostly technical/specialist trainings relating to Information Technology ('IT') and Audit. Overall, due to the impact of the tough economic environment faced by the country, HCD took drastic measures in reducing costs related to training.

Time and Access Management System

This year HCD also introduced the Time & Access Management System ('TAMS') to ensure staff routine check-in and check-out of work in the mornings and afternoons are accurately recorded for payroll purposes. TAMS installation has replaced the old manual card system and has been installed only at the Head Office in Port Moresby and will soon be rolled-out to the other ports.

Major Projects | Modernisation Exercise



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

In order to cater for this demand and create efficiency within the port network, PNGPCL has invested K 558.1 million this year into the port modernisation exercise. This included the expansion of the Motukea port facilities, Lae Tidal Basin and the Markham River Training project in Lae. The company has also taken a bold step consistent with its Corporate Strategic Plan 2017 – 2037 to enter into an Investment partnership with an international developer to construct its new Port Moresby Head Office.

Motukea New Facility

The Motukea Facility is an important capital expenditure undertaken by PNGPCL to relocate the existing Port Moresby port to Motukea port. The actual construction phase of the project commenced in May 2016 after a lengthy deliberation and consideration of the growing economy and the expansion of the Port Moresby CBD.

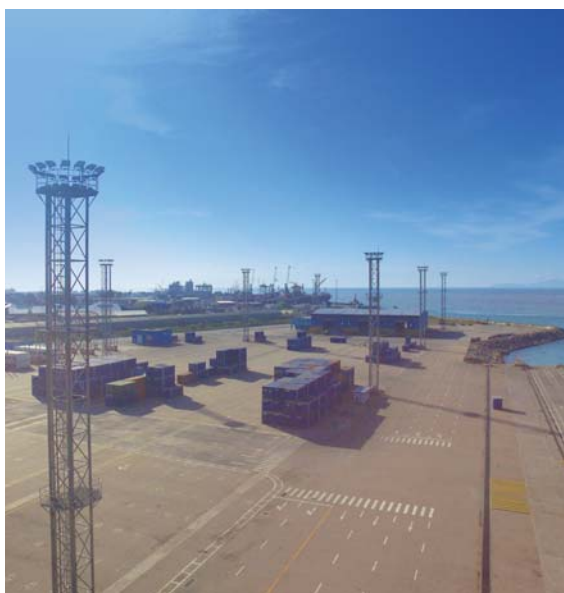
About 90 percent of the work has been achieved at the end of this year. The Asia Pacific Economic Cooperation ('APEC') meeting which is scheduled to be held in Port Moresby in October 2018 is pushing the project contractor, Curtain Brothers to have the wharf ready for operation by February 2018. When completed, all the port services at the existing international wharf in Port Moresby will be transferred to this new facility and existing facility will be handed over to the government to be used for APEC related activities.

At this stage the remaining project activities includes Reclamation of 18Ha of Land, Container Laydown area, Causeway, Access Bridge, Cast Deck Concreting and other Civil Works.

As part of the strategic arrangement going forward, PNGPCL with the blessing of the National Government entered into Terminal Operating Agreements with a Philippines based company, the International Container Terminal Services Inc. ('ICTSI') for the provision of terminal services at the international berths at both Motukea and Lae.

ICTSI is a global terminal operator with operations in 17 countries and further listed on the Philippines stock exchange. The terminal operating arrangements are expected to significantly improve the berth and yard productivity.

An important aspect of the new terminal operator services arrangement is the transition of the local affected communities into equity ownership positions in the terminal operating companies alongside ICTSI. Discussions with respect to this transition are currently in progress.



Lae Tidal Basin – Portion 846

In March 2016, NEC (National Executive Council') 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.

The project was awarded to China Jiangsu International ('CJI') per NEC's decision. CJI commenced on the investigation and design phase which is scheduled for completion by March 2018. However due to the continuous flooding of Markham River, progress on the project has been stalled. The floor washed out the southwest boundary and adversely effected the recently installed temporary river training works. This prompted CJI to propose a permanent engineering solution which is pending vetting and approval by KCH and NEC.

The engineering solution sought has been treated as a matter of urgency.

In a nutshell, works under the Contract includes access roads and service utilities to service about 60 hectares of land area plus new bulk liquid berth. In the meantime PNGPCL's internal divisions, Project Management Unit and Commercial Division are negotiating sub-lease agreements with potential tenants or users. This process ensures to fulfil the prerequisite conditions per loan agreement for China EXIM Bank to effect the actual funding drawdown for the Project. The actual loan drawdown has yet to be effected but pending all necessary processes to be completed. This process has already impacted the project schedule. At this stage, the western side development is earmarked to be available for business in the 2nd quarter of 2019.

Key milestone activities as scheduled and progressing are as follows;

- Site Investigation & Design Phase-
 - ✓ 70% complete. Scheduled to be completed by April 2018
- Site Establishment-
 - ✓ 10% complete. Scheduled to be completed by March 2018
- Shipment of Construction Equipment & Materials-
 - ✓ 50% complete. Scheduled to arrive on site by February 2018
- Construction Works-
 - ✓ 0%. Scheduled to commence by May 2018



Markham River Training and Flood Mitigation Project, Lae

The Markham River Training and Flood Mitigation Project involves works required to prevent ongoing scour/erosion to the river banks along the boundary of Portion 846. Markham river floods has had an adverse effect on the banks resulting in up to 15 hectares of land areas being washed away. The river is meandering into the south western end of Portion 846. The tidal basin west side industrial park project site is therefore highly vulnerable to further land erosion and flooding due to the adverse effect of the Markham River.

A reputable engineering consultant, AECOM was engaged by PNGPCL to investigate and ascertain a flood model necessary to inform the design process for the proposed river training and bank protection works. AECOM completed the modelling and concept design exercise in November 2017. A conceptual solution consists of installing a field of groyne structures along the impacted river bank together with a bund system to mitigate and control scouring and flooding from the south west boundaries of Portion 846.

Due to the engagement of China Jiangsu International ('CJI') on the West Side Industrial Park project and consistent with the NEC Decision, they were awarded the contract in November 2017 to complete the detailed design and construct the proposed works at a cost of K42 million. Actual work is scheduled to commence in June 2018 and aimed to be completed in April 2019.

Key milestone activities as scheduled and progressing are as follows;

- Detailed Design Phase-
 - ✓ 80% complete. Scheduled to be completed by March 2018
- Site Establishment-
 - ✓ 5% complete. Scheduled to be completed by March 2018
- Shipment of Construction Equipment & Materials -
 - ✓ 0% complete. Scheduled to arrive on site by February 2018
- Construction Works –
 - ✓ 0%. Scheduled to commence in May 2018



Port Moresby Head Office Building

PNGPCL has entered into an investment partnership with the China Railway Construction Engineering Group (PNC) Real Estate Co., Ltd ('CRCE') to develop the vacant PNGPCL land portion located along the Stanley Esplanade in downtown Port Moresby. A twenty-three (23) storey new head office building will be constructed and 2 levels of office floor space will be allocated to PNGPCL to establish its head office. PNGPCL has committed K42.4 million to the project.

The project has commenced with the permanent construction phase in March 2017 after PNGPCL obtained the Building permit from the National Capital District Commission ('NCDC') Physical Planning Building Board in November this year.

Structural works on the building foundation has been completed including the concrete for the first and second level basement. PNGPCL engaged RPS Project Managers, an independent verifier to ensure works are compliant with acceptable standards. At this stage, the new building will be available for occupancy and tenancy at the beginning of 2020.

International Accreditation | Port Safety and 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 in place 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 Engagement Highlights

Community Engagement is an essential part of PNGPCL's role in being a good corporate citizen as it gives PNGPCL the opportunity to assist communities and various stakeholders through sponsorships and donations.

This year, PNGPCL facilitated a total of 29 sponsorship and donation requests at the value of K176, 772 towards various areas such as Sports, Health, Professional groups, NGOs, Religion, National Events and others.

Sports

PNGPCL gave funding assistance at the total amount of K26, 270 to 7 various sporting teams in the country. Sports plays an integral part of the community structure that contributes to reducing social tension, crime and provides young people with opportunities to become disciplined and learn good moral values.

Health

In an effort to support health improvement programs in the country, PNGPCL provided sponsorship valued at K25, 500.00 to various health related activities including medical symposiums, medical appeals and fundraisings for clinics.

Professional groups

Another area that PNGPCL prioritised this year is the support of Professional groups such as the PNG Human Resource Institute, PNG Australia Alumni Association and others. Sponsorship valued at K33, 500 was allocated to support these groups with their various activities.

Other causes that received financial assistance from PNGPCL included;

- **NGOs** – K29, 156.00;
- **Religion** – K25, 000.00;
- **National Events** – K12, 346.00; &
- **Others** – K25, 000.00



Figure 3

Apart from direct financial assistance, PNGPCL continued its support to the delivery of the "Youth With A Mission" (YWAM) outreach program through provision of free pilotage services and no berthage and wharfage fees for their medical ship and full waiver of storage at any of the PNGPCL owned ports in the country. YWAM program aims at strengthening the delivery of health care and training in remote areas of PNG. PNGPCL also participated in various campaigns against major issues that have a negative impact on the country's socio-economic development. These included Fight against HIV and Aids and Fight against Corruption as well as the Walk for Women's Cancer, World Vision Hanuabada Clean-up and others.

Trade Performance | Analysis



Cargo Throughput

An overall cargo throughput of 7, 691, 822 Revenue Tonnages was handled by PNGPCL in 2017 representing an increase by 6.16 percent from the preceding year. The increase in cargo volumes is attributed to increase in international trade activities and demand for consumable goods.

The 5 year comparative analysis for cargo throughput (Fig 4) shows a 3.2 percent increase in the overall cargo volumes from 2013 to 2014. This was 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 in the overall cargo throughput in 2015 was a result of country's low economic growth including temporary closure of the Ok Tedi and Porgera Mines. There was a marginal increase by 1.06 percent in 2016 from the previous year.

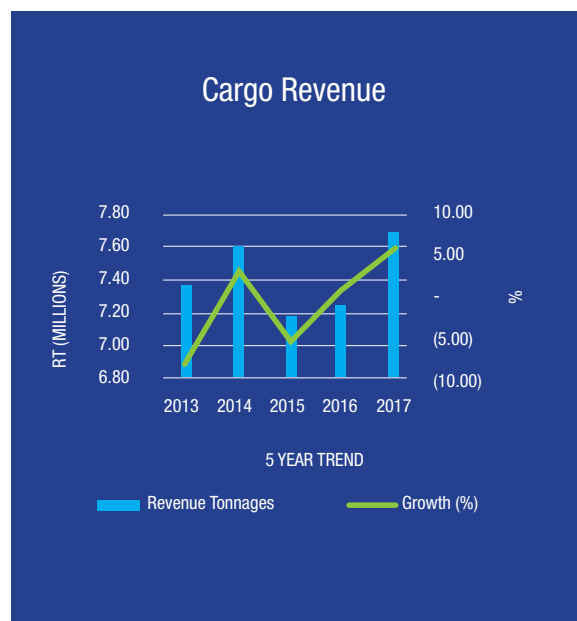


Figure 4

Coastal & Overseas Cargo

2017 port statistics showed coastal cargo trade dropping slightly by 2.1 percent from the previous year. It recorded a total throughput of 2, 407, 140 Revenue Tonnages.

The 5 year comparative analysis for coastal throughput cargo (Fig 5) shows that there was a considerable increase of 9.5 percent from 2013 to 2014. Revenue Tonnage however declined dramatically by 10.4 percent in 2015 recording 2, 499, 689 Revenue Tonnages. The decline continued in 2016 with coastal cargo recording 2, 459, 176 in Revenue Tonnages (Fig 5).

Overseas Cargo performed higher recording a throughput of 5, 284, 681 Revenue Tonnages in 2017. This is also the highest overseas cargo throughput recorded in the last 5 years. The port statistics shows a 10.41 percent increase compared to the previous year. This has continued from the 2.5 percent increase recorded in 2016 from the corresponding period. Overall overseas cargo throughput has been stable over the last 5 year period (Fig 5).

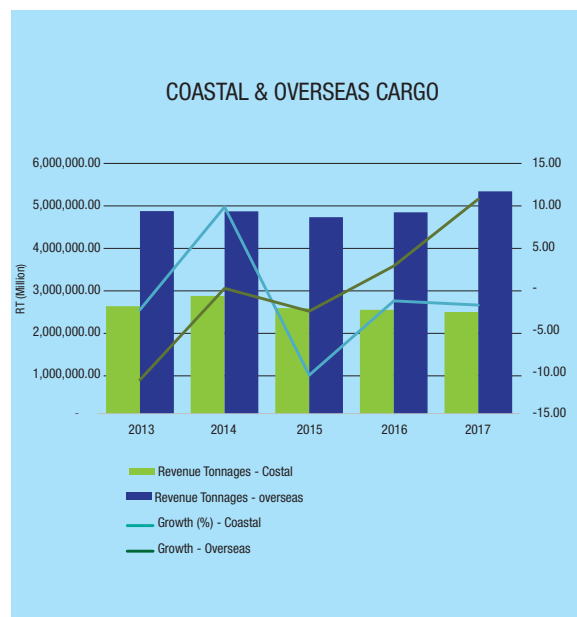


Figure 5

In terms of composition of international trade, import constituted 68 percent of the total overseas cargo throughput of 5, 284, 681 Revenue Tonnages while export constituted 32 percent. The trade is mainly for containers, break bulk, palm oil and bulk fuel.

The three main ports of Lae, Port Moresby and Kimbe handled majority of the cargo volumes (Fig 6). Lae port handled 3, 682, 460 Revenue Tonnages (0.92 percent slight increase from the previous year) which accounted for 48 percent of total cargo throughput; Port Moresby port handled 1, 692, 836 Revenue Tonnes Tonnages (21.82 percent considerable increase from the previous year) which constituted 22 percent of total cargo throughput, while Kimbe port's cargo volumes increased by 7.8 percent from the previous year handling 661, 231 Revenue Tonnages, making up 9 percent of cargo throughput.

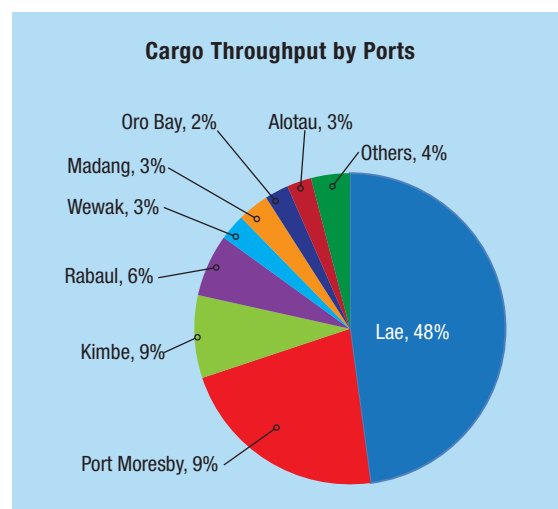


Figure 6

Containerised Trade

This year's port statistics recorded a container throughput of 333, 116 Twenty-Foot Equivalent Units ('TEU'). This represented a 0.74 percent marginal decline from the previous year. The highest TEUs within the last 5 years was recorded in 2014 with a total of 356, 918 TEUs. Since then TEU throughput has declined steadily in 2015 and 2016 by 3.68 percent and 2.38 percent respectively. Despite the constant decline in TEU, there is a notable rise in the growth rate during this period (2016;-2.38%; 2017;-0.74%) (Fig7).

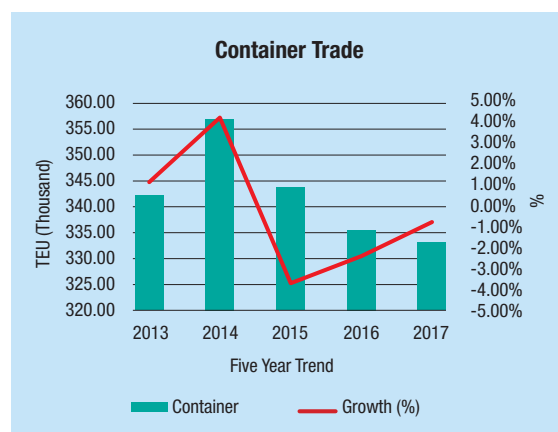


Figure 7



Coastal and Overseas Trade

This year coastal container throughput constituted 36.2 percent of containerised trade with a total of 120,705 TEUs while overseas containers accounted for 212,410 TEUs which is 63.8 percent of the total containerised trade (Fig 8).

In the overseas trade, imports accounted for 52.5 percent while exports accounted for 47.5 percent.

Lae, Port Moresby, Rabaul and Kimbe ports 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 54 percent of containerised cargo (177,122 TEUs), Port Moresby port accounted for 23 percent (76,356 TEUs), Rabaul port accounted for 5 percent (15,590 TEUs) and Kimbe port accounted for 4 percent. The ports of Madang and Wewak accounted for 3 percent each of the total container volumes while Oro bay and Alotau port accounted for 1% and 2% respectively. The rest of the other ports contributed 5 percent of the total TEU (Fig 9).

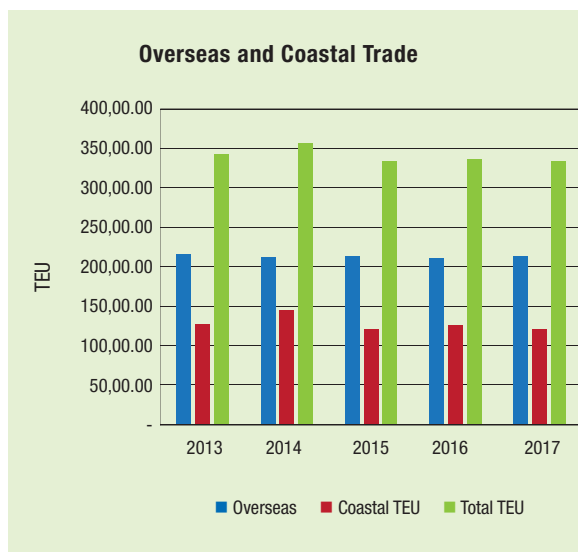


Figure 8

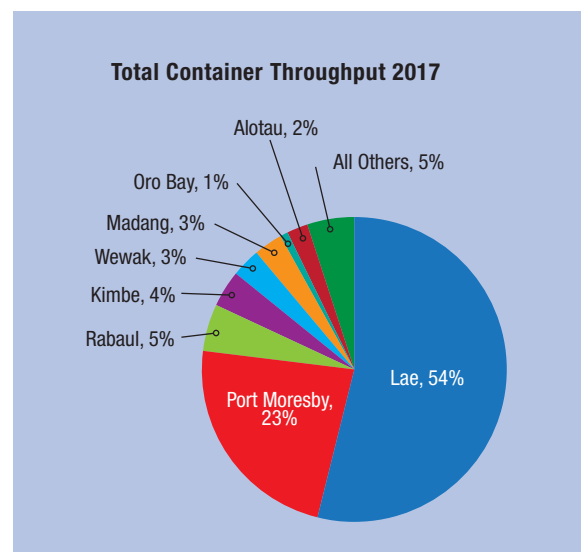


Figure 9



Vessel Calls

PNGPCL recorded 5,087 total vessel calls in 2017 throughout the port network as compared to 5,636 vessel calls in 2016.

This indicated a 9.74 percent decline. (Fig 10).

2013 recorded the highest number of vessel calls totalling 6,846. Since then, vessel calls have been in decline. 2014 reflected a 1.9 percent decrease, followed by a noticeable 10.98 percent decline in 2015 and another 5.6 percent decline in 2016. This year's vessel throughput is the lowest recorded number of vessel calls in the last 5 years.

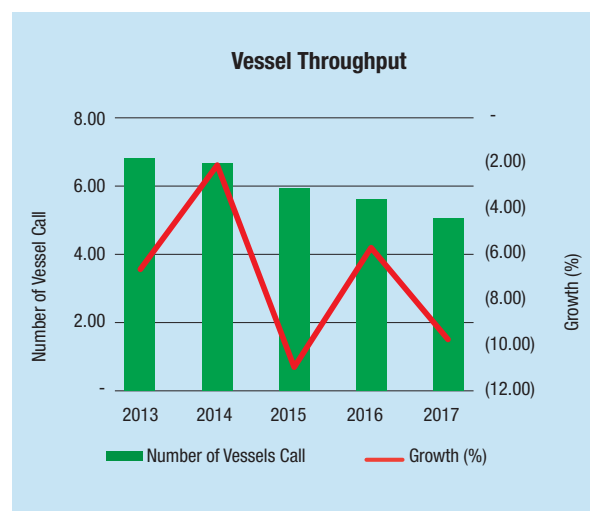


Figure 10

Trade Performance | Analysis

Coastal and Overseas Calls

This year coastal vessel calls amounted to 2, 535 which constitutes 51.6 percent of total vessel calls while overseas calls recorded 2,553 which accounts for 48.4 percent. There was a decline of 14.9 percent and 4.4 percent respectively from the previous year.

Overall there has been a steady decline in both coastal and overseas vessel calls over the last 5 years. This is attributed to the continued local recession during the period compounded by the temporary suspension of the country's major mining operations for OK Tedi and Porgera due to El Nino weather conditions in 2015 and 2016 (Fig 11).

Coastal vessel calls consisted mainly of general vessels, tanker and barge vessels, as well as passenger and fishing vessels while overseas calls consisted of container vessels, tankers, cruise vessels, logging vessels, fishing vessels as well as roll-on roll-off vessels.

In terms of performance by port, the biggest ports of Port Moresby, Lae and Rabaul recorded the highest number of vessel calls (Fig 12) in 2017. Total vessel calls for Port Moresby was 1, 133 and it indicated a 3.4 percent drop from the previous year. Lae port recorded the second highest number of vessel calls recording 852 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 recorded the third highest number of vessel calls recording 745 calls and accounting for 15 percent of total vessel throughput, a 14 percent growth from the previous year.

Wewak port maintained its fourth highest standing in vessel calls for 3 consecutive years. It recorded 540 vessel calls which accounted for 11 percent of total calls. Kimbe and Madang ports had the fifth and sixth highest calls recording 479 and 301 vessel calls respectively (both accounted for 9 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 5 percent of total calls respectively.

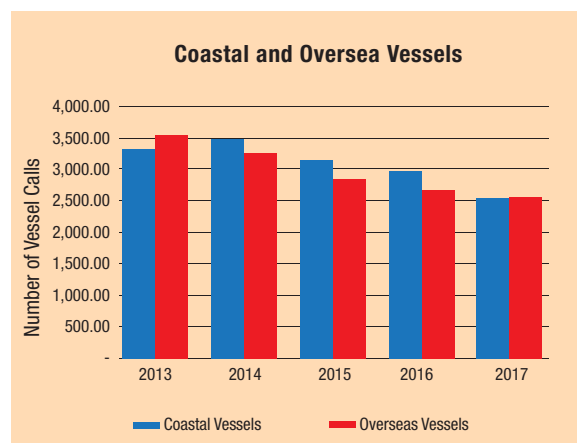


Figure 11

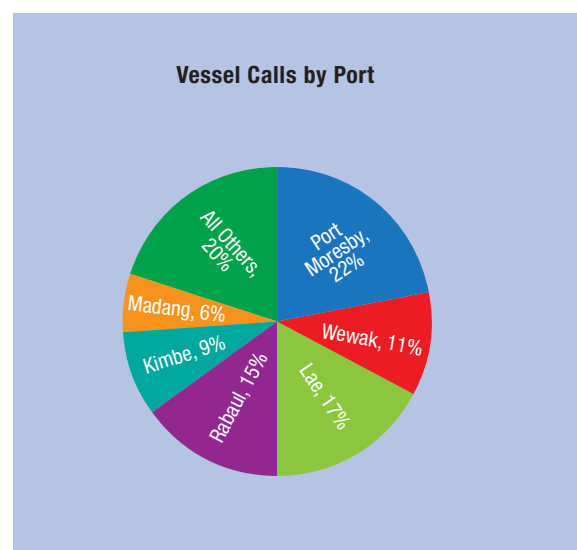


Figure 12





BOARD OF DIRECTORS

EXECUTIVE MANAGEMENT

CORPORATE VALUES

CORPORATE GOVERNANCE

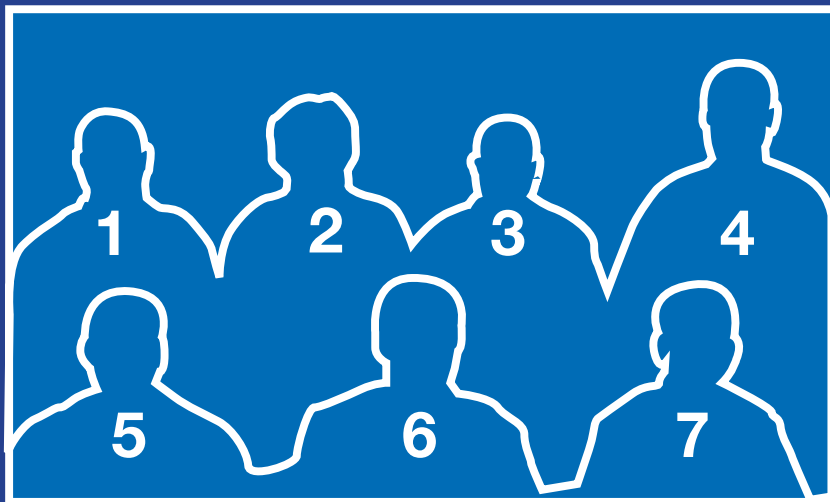
FINANCIAL REVIEW



Board of Directors >>

CORPORATE GOVERNANCE





- | | |
|------------------------------|----------------------|
| 1. Stanley Alphonse | - Executive Director |
| 2. The Late Patrick K. Amini | - Director |
| 3. Eddie W. Hesingut | - Director |
| 4. Harvey Nii | - Director |
| 5. Luke K Niap | - Director |
| 6. Nathaniel Poya, OBE | - Chairman |
| 7. Fabian C Chow | - Deputy Chairman |

** The Late Patrick K. Amini served in his capacity as a director of PNGPCL Board from 2014 to 2018.*

Executive Management

CORPORATE GOVERNANCE



Mr. Stanley Alphonse
MANAGING DIRECTOR



Mr. Fego Ota Kiniafa
CHIEF COMMERCIAL OFFICER
Commercial & New Business Division



Mr. Simon Tio
CHIEF FINANCE OFFICER
Finance Division



Mr. Vagi Eoima
CHIEF INFRASTRUCTURE OFFICER
Infrastructure Division



Mr. Joseph Aisa
GENERAL MANAGER
Corporate Affairs Division



Mr. Steve Tesar
CHIEF OPERATING OFFICER
Operations Division



Mr. Allan Kamale
GENERAL MANAGER
Governance & Risk



Ms. Hane Kila
CHIEF MARITIME COMPLIANCE OFFICER
PNG Harbours Management Services



Mr. Werner Gebauer
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 subject to the approval of the National Executive Council, 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, Corporatised 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 2017 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 2017 no Director was a shareholder of the Company and none had 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 2017 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.

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	2017	2016	2015	2014 As restated	2013 As restated
	K'm	K'm	K'm	K'm	K'm

Operating Result

Operating revenue	260.8	241	249	242	222.5
Operating expenses	185	173.6	174	188.2	234.8
Operating profit before interest and tax	74.4	73.9	371.6	25.9	(16.6)
Finance costs	18.6	12.6	8.2	6.4	9.7
Profit (Loss) before Taxes	56.3	61.8	364.3	20.2	(25.8)
Profit(Loss) after Taxes	42.3	41	346.6	15.6	(18.3)

Financial Position

Total Assets	1,873.20	1,821.63	1,626.40	1,311.80	1,291.90
Total Liabilities	561.2	546.9	392.7	500.6	509.5
Contributed Capital and Reserves	464.5	469	473.2	620	640.3
Retained earnings	847.5	805.6	760.4	191	142.1
Total Equity & Liabilities	1,873.20	1,821.60	1,626.40	1,311.80	1,291.90

Cash Flows

Net Cash flows from operating activities	106	96.3	131	71.8	42.3
Net Cash flows from investing activities	(171)	(174.9)	(155.6)	(65.6)	(88.5)
Net Cash flows from (used in) financing activities	(711)	150.1	(23.9)	49.8	(25.9)
Net Cash flows	82.6	148	75.2	123.7	67.7

**The restated financial figures for the FYs 2013 and 2014 are the outcome of adjustments made to the company's 2013 and 2014 accounts by the Auditor General's office.*

Financial Performance | Analysis

Financial Performance | Analysis

This is a comparative analysis of PNGPCL's financial performance over a 5 year period with a particular focus on the 2017 and 2016's results.

Financial position

PNGPCL achieved a healthy financial position in 2017 as total assets had increased from K1.82 billion to K1.87 billion. A large component of this 3% growth was from the rise in the fixed assets value including property, plant and equipment valued at K1.7 billion as compared to K1.6 billion from the corresponding period. Major investment in capital assets have also allowed PNGPCL to maintain a solid asset base over the last 5 years (Fig 13).

PNGPCL's debt level was managed well this year recording K561 million which indicated a slight increase of 2.6% from the corresponding period. This was attributed to an increase in trade creditors and other payables, provision for taxes payable, and loans and borrowings. Total equity was K1.3 billion reflecting a significant growth of 2.98% from the corresponding period. This was factored by an increase in retained earnings.

Earnings before Interest and Tax

There has been a steady growth in Operating Revenue over the 5 year period reflecting strong business growth of PNGPCL. (Fig 14). From 2014 to 2015, Operating Revenue had increased by 9% (K242 million) and 3% (K249 million) respectively. A slight drop in revenue by 3% (K241 million) in 2016 broke this trend but picked up in 2017 upon higher revenue collected in the company's key revenue streams including berthage, and pilotage as well as storage. Consequently

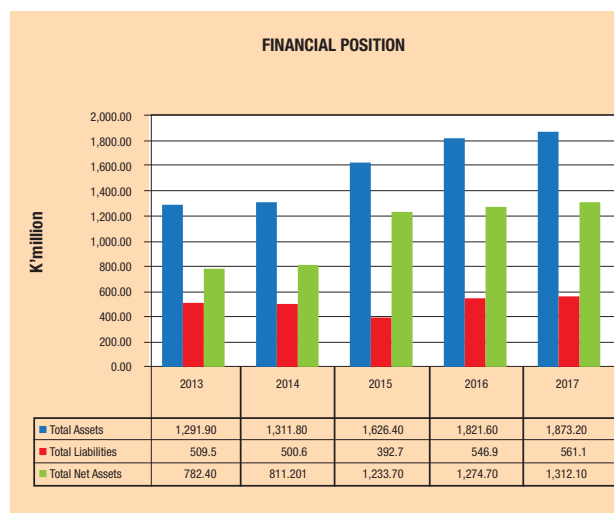


Figure 13

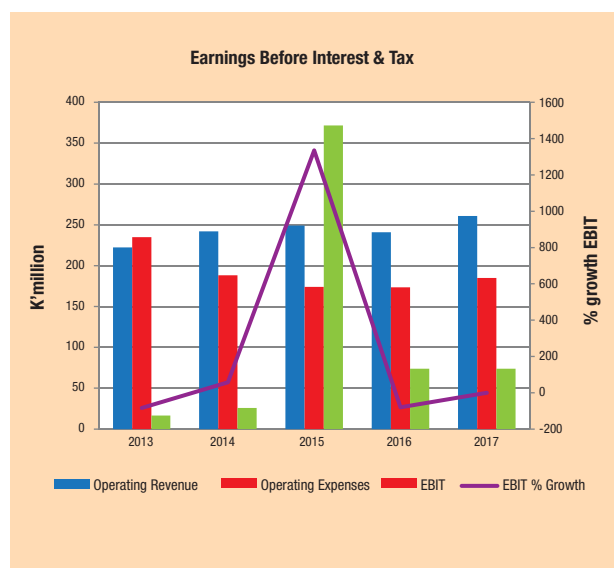


Figure 14

Financial Performance | Analysis



Operating Revenue this year amounted to K260 million showing an 8% increase from the previous year as well as recording the highest Operating Revenue over the last 5 years.

In 2017, 67% of revenue was generated from the regulated services and 33% from the non-regulated services.

In terms of port revenue contribution, Lae port contributed the highest revenue with an average of 39% of total revenue, followed by POM port with 34%, Rabaul port with 8%, Kimbe port with 5 % and the other remaining ports contributed 14%. PNGPCL was able to reduce Operating Expenses in 2014 by 20%, and again by 8% and 0.2% in 2015 and 2016 respectively. This was a result of effective management cost control. This year PNGPCL increased its expenditure by 7% with a total of K185 million (2016; K173 million) (Fig 14).

The Earnings before Interest and Tax (EBIT) had a minimal increase of 0.14% in 2017 (Fig 14) recording a total of K74.4 million compared to K73.9 million recorded in the 2016 financial year. In 2015 EBIT reached the highest peak of K371.6 million within the 5 year period. This was largely attributed to the gain of K298.4 million on the disposal of property (Port Moresby Port) that year. 2014 and 2013 recorded EBITs of K25.9 million and K16.5 million respectively.

Net Operating Result

PNGPCL recorded a Net Profit- after-tax ('NPAT') of K42.3 million this year (Fig 15). This reflected a 3% growth from the 2016 financial year as higher revenues were collected from our main tariff lines. Over the 5 year period, PNGPCL recorded its highest NPAT of K346.6 million in 2015. This was largely a result of the gain realized on the Motukea port transaction as mentioned in the previous section of this report. 2014 recorded a NPAT of K15.6 million, an upward improvement from the 2013 financial year which had recorded a loss of K18.3 million. The low profit margin during that period (2013) was due to low revenue performance.

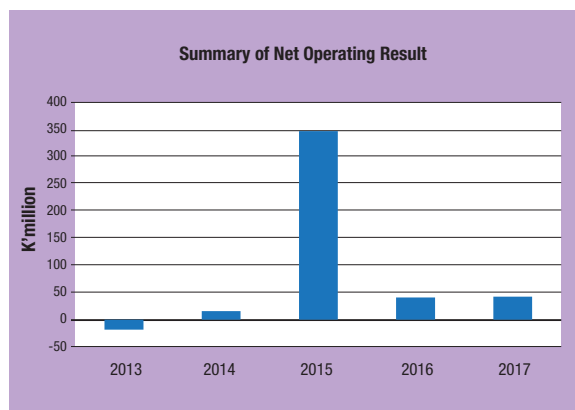


Figure 15

Owner's Equity

Total Shareholder's Equity grew by 3.71% from 2013 (K782 million) to 2014 (K811 million) followed by a sudden massive growth of 52% in 2015 (K1.23 billion) (Fig 16). This was a result of the company's retained earnings of K760 million that year. Total Shareholder's Equity has continued to increase steadily with this year recording K1.31 billion, a slight increase of 2.98% from the 2016 financial year which recorded K1.27 billion. This growth was also factored by the company's retained earnings of K847 million (K2016; K805 million). Total reserves this year amounted to K456 million (2016; K461 million) and consisted of asset revaluation reserve and stockholder fund reserve.

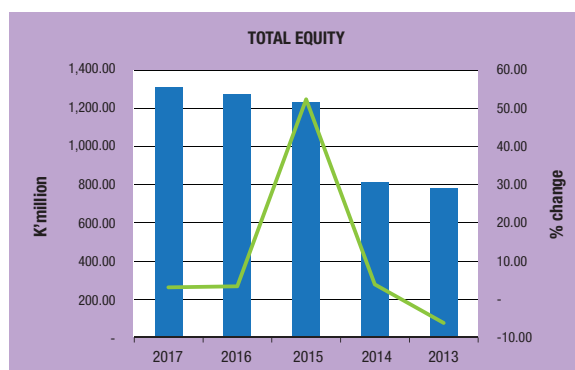


Figure 16

Performance Indicators | Analysis

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 New Zealand Port benchmarks for financial results.

Financial Ratios	2017	2016	Bench mark	Remarks
Net Profit Margin	16%	17%	30%	The NPM for 2017 shifted slightly downward by 1% from 2016. This was a result of the rise in PNGPCL's operational expenditure as well as finance costs relating to the company's capital assets and interest payments.
Return on Capital Employed	3%	4%	10%	The ROCE declined by 1% this year from the previous period and fell further below the industry benchmark by 7%. Although indicating that PNGPCL generated less returns on capital employed, it also reflects the company's significant investments in capital assets of which returns will be realized once the assets are fully utilized in the day to day operations.
Asset Turnover	14%	13%	50%	The Asset turnover ratio showed a 1% growth in 2017 from the corresponding period. This showed that the company was able to improve on its asset utilization and increase total revenue by 8%.
Current Ratio	1.1:1	2.2:1	2:1	The current ratio dropped by 1.1 compared to the previous year. This was attributed to the decrease in current assets by 32% and an increase in current liabilities by 34%. Despite the drop in the ratio, PNGPCL maintains good financial health with a higher proportion of asset value relative to the value of liabilities therefore the company is able to settle its short term obligations.
Debt to Equity	43%	43%	50%	There was no adjustment to the Debt to Equity ratio as it was maintained at 43% this year. Equity had grown by 3% attributed to more retained earnings, while debts had also increased by 2.6% this year.
Debt Ratio	30%	30%	50%	In 2017 the debt ratio was maintained at 30%, same as the previous year. There is a proportionate increase in total assets as a result of the ongoing upgrade of wharf facilities. There is also an increase in debt reflecting more borrowing of loans to finance capital assets. PNGPCL was able to keep its debt ratio below the industry benchmark of 50%.
Equity Ratio	70%	70%	50%	There was no change in the equity ratio as it was maintained at 70% this year. The equity ratio also remained above the industry's benchmark due to an increase in retained earnings by 5%.





COMPANY INFORMATION

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

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	Level 6, Credit Corporation Building, Cuthbertson Street, Port Moresby Capital District	
Directors	Nathaniel Poya, OBE	Chairman
	Fabian C Chow	Deputy Chairman
	Stanley Alphonse	Executive Director
	Patrick K Amini	Member
	Harvey Nii	Member
	Luke K Niap	Member
	Eddie W Hessingut	Member
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	

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 2017.

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 K42, 321,340 (2016: K41, 017,695).

Dividends

Dividends declared and paid in 2017 amounted to K5 million (2016: nil).

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 2017 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 31st December 2017 were as follows:

Names	Position	Status
Sir Nathaniel Poya, OBE	Chairman	Current
Fabian C Chow	Deputy Chairman	Current
Stanley Alphonse	Executive Director	Current
Patrick K Amini	Member	Current
Harvey Nii	Member	Current
Luke K Niap	Member	Current
Eddie W Hesingut	Member	Current

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 disclose directors and employee remuneration in its annual report.

For and on behalf of the board of directors;



Director

Date 27/09/18



Director

Date 27/09/18

Independent Auditor'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: 20th September, 2018
Our Reference: 31-63-4
Action Officer: L.Ila
Designation: DAG
Your Reference:

Dear Sir,

AUDIT REPORT ON PNG PORTS CORPORATION LIMITED FOR THE YEAR ENDED 31 DECEMBER 2017

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, 2017**.

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: A/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 2017

To the Shareholders

I have audited the accompanying financial statements of **PNG Ports Corporation Limited** for the year ended **31 December, 2017**. 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.

Independent Auditor's Report

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, 2017:
 - (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.



GORDEN KEGA, CPA
Acting Auditor-General

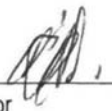
20 September, 2018

Statement of Financial Position

	Note	2017 K	2016 K
ASSETS			
Cash and cash equivalents	20	82,613,833	148,119,397
Trade and other receivables	11	43,740,767	36,622,563
Total current assets		126,354,600	184,741,960
Deferred tax assets	9(c)	19,424,831	22,164,509
Receivable from related parties	11, 18	-	-
Property, plant and equipment	10	1,727,424,749	1,614,725,802
Total non-current assets		1,746,849,580	1,636,890,311
Total assets		1,873,204,180	1,821,632,271
LIABILITIES			
Trade and other payables	15	37,905,278	21,693,445
Provision for taxes payable	9(b)	29,228,788	26,786,709
Loans and borrowings	14	22,574,737	12,547,161
Trust payable	16(a)	9,354,922	8,462,521
Employee provisions	17	6,258,301	6,998,033
Deferred income	16(d)	7,525,124	7,525,124
Total current liabilities		112,847,150	84,012,993
Employee provision	17	14,848,269	14,452,897
Trust payables	16(a)	-	1,125,755
Loans and borrowings	14	273,049,298	278,554,689
Deferred income	16(d)	94,463,231	101,645,000
Deferred tax liabilities	9(d)	65,970,152	67,136,197
Total non-current liabilities		448,330,950	462,914,538
Total liabilities		561,178,100	546,927,531
EQUITY			
Share capital	12	7,830,000	7,830,000
Reserves	13	456,666,185	461,247,805
Retained earnings		847,529,895	805,626,935
Total equity		1,312,029,080	1,274,704,740
Total equity and liabilities		1,873,204,180	1,821,632,271

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: 27/09/18


Director

Date: 27/09/18



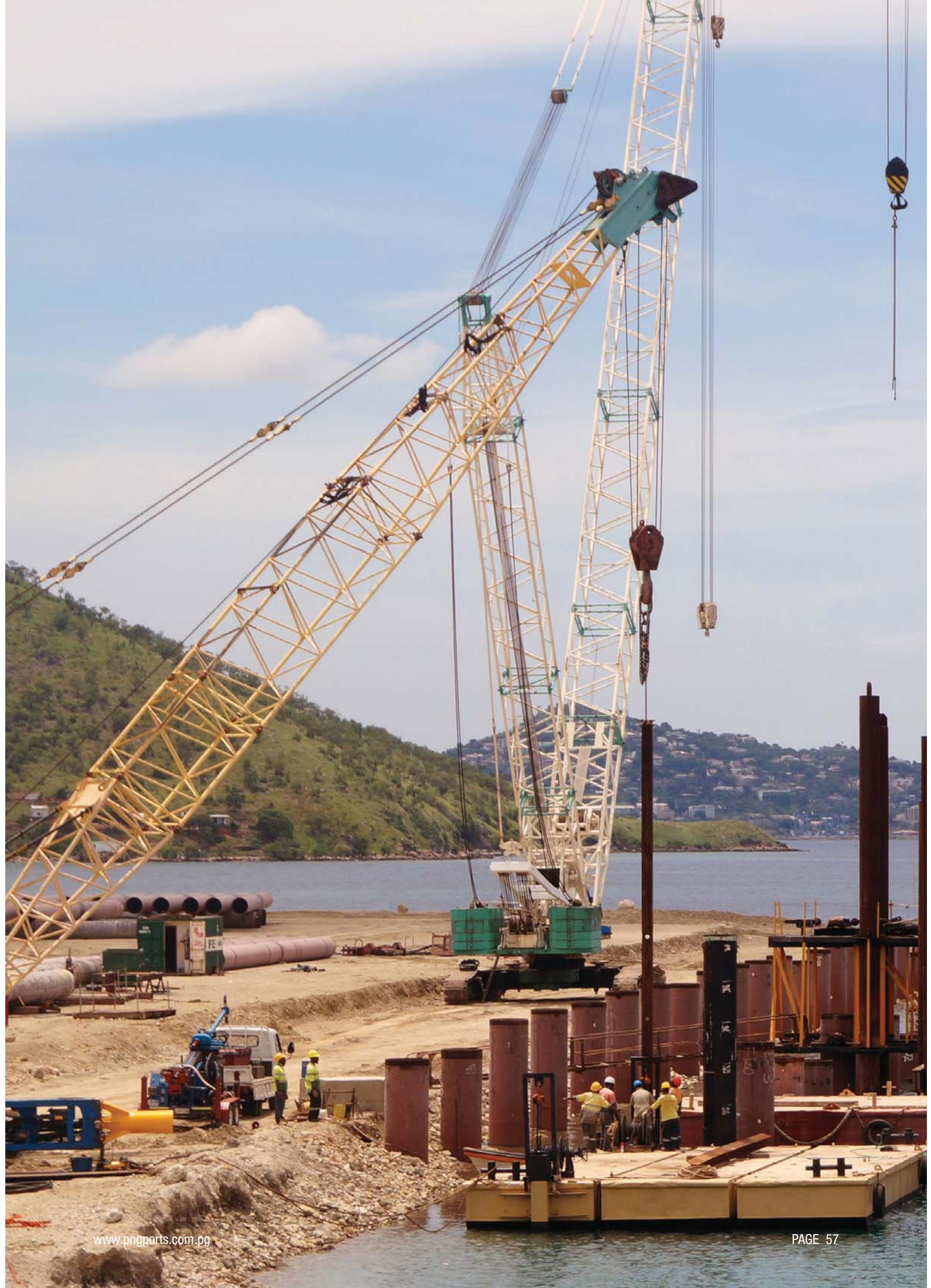
Statement of Comprehensive Income



	Note	2017 K	2016 K
Revenue from rendering of service		260,883,463	241,012,381
Direct costs		(10,002,756)	(10,044,196)
Gross profit		250,878,130	230,968,185
Other revenue – net	6	8,547,049	16,661,329
Personnel expenses	8	(58,833,951)	(58,374,748)
Depreciation	10	(58,834,911)	(56,780,048)
Administrative expenses		(32,179,852)	(29,653,862)
Other operating expenses	7	(35,174,757)	(28,854,463)
Total expenses		(185,023,471)	(173,663,121)
Results from operating activities		74,401,708	73,966,393
Finance income		588,749	604,875
Finance costs	14	(18,684,501)	(12,687,240)
Net finance expense		(18,095,752)	(12,082,365)
Profit before tax		56,305,956	61,884,028
Income tax expense	9(a)	(13,984,616)	(20,866,333)
Profit for the year		42,321,340	41,017,695
Other comprehensive income			
Revaluation increment		-	-
Income tax effect		-	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		42,321,340	41,017,695

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







Statement of Changes in Equity

	Share Capital K	Reserves K	Retained Earnings K	Total K
Balance at 1 January 2016	7,830,000	465,411,834	760,445,211	1,233,687,045
Profit for the year	–	–	41,017,695	41,017,695
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	41,017,695	41,017,695
Depreciation transfer for revalued assets (Note 14)	–	(4,164,029)	4,164,029	–
Balance at 31 December 2016	7,830,000	461,247,805	805,626,935	1,274,704,740
Profit for the year	–	–	42,321,340	42,321,340
Other comprehensive income	–	–	–	–
Total comprehensive income	–	–	42,321,340	42,321,340
Depreciation transfer for revalued assets (Note 14)	–	(4,581,620)	4,581,620	–
Payment of dividends	–	–	(5,000,000)	(5,000,000)
Balance at 31 December 2017	7,830,000	456,666,185	847,529,895	1,312,026,080

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



Statement of Cash Flows

	Note	2017 K	2016 K
Cash flows from operating activities			
Cash receipts from customers		255,127,862	242,225,824
Cash paid to suppliers and employees		(120,323,844)	(124,103,638)
Cash generated from operating activities	20(b)	134,804,018	118,122,186
Income taxes paid	9(b)	(9,968,903)	(9,079,527)
Interest paid		(18,684,501)	(12,687,240)
Net cash from operating activities		106,150,614	96,355,419
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(172,746,455)	(190,986,114)
Receipts from settlement of related party receivables		–	12,000,000
Interest received		588,749	604,875
Proceed from sale of property, plant and equipment		1,212,697	3,463,690
Net cash used in investing activities		(170,945,009)	(174,917,549)
Cash flows from financing activities			
Proceeds of borrowings	14	294,690,000	288,927,189
Payment of related party advances		–	(10,000,000)
Dividend payments	15,18 (d)	(5,000,000)	–
Repayment of borrowings	14,18	(288,927,189)	(129,454,043)
Proceed (payment of) from lease liabilities		(1,240,626)	(199,554)
Trust fund and related interest receipts		(233,354)	854,825
Net cash from (used in) financing activities		(711,169)	150,128,417
Net increase/(decrease) in cash and cash equivalents		(65,505,564)	71,566,287
Cash and cash equivalents at beginning of the year		148,119,397	76,553,110
Cash and cash equivalents at end of the year	20(a)	82,613,833	148,119,397

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



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, Alotau, 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 _____ 2018.

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 2017. 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
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 – Amendments to IAS 7</i>	1 January 2017
IAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12</i>	1 January 2017



Notes to and Forming Part of the Financial Statements



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
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> - <i>Amendments to IFRS 2</i>	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 2017 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.

Notes to and Forming Part of the Financial Statements



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.



Notes to and Forming Part of the Financial Statements



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.



Notes to and Forming Part of the Financial Statements



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*.

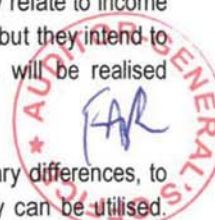
o. Income tax

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.

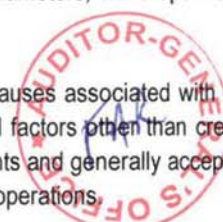
Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

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:

	2017 K	2016 K
Total liabilities	549,991,108	546,927,531
Less: cash and cash equivalents	82,613,833	146,781,838
Net debt	467,377,275	400,145,693
Total equity	1,312,029,080	1,274,704,740
Debt to capital ratio at 31 December	36%	31%

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.



Notes to and Forming Part of the Financial Statements



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

	2017 K	2016 K
Gain (loss) on disposal of fixed assets (Note 10)	100	(23,200)
Realised foreign exchange loss - net	(6,945)	(206,608)
Other income	8,553,894	16,891,137
	<u>8,547,049</u>	<u>16,661,329</u>

7. Other operating expenses

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

Professional and consultancy fees	14,379,152	13,227,306
Insurance	9,564,526	7,725,695
Rental	5,996,201	2,471,530
Bad and doubtful debts (Note 11)	272,645	624,016
Donations and sponsorship	766,577	777,088
Advertising and promotion	563,269	471,484
ICCC fees	479,000	863,229
Publication and subscriptions	451,149	230,894
Bank charges	125,191	212,688
Auditors remuneration	382,410	435,937
Other expenses	2,194,637	1,814,596
	<u>35,174,757</u>	<u>28,854,463</u>

8. Personnel expenses

Wages and salaries	49,550,287	49,747,194
Defined contribution plans	2,350,224	2,822,911
Other staff costs	6,933,440	5,804,643
	<u>58,833,951</u>	<u>58,374,748</u>



Notes to and Forming Part of the Financial Statements



9. Income tax

a. Income tax expense

	2017 K	2016 K
Profit for the year	56,309,122	61,884,028
Tax rate	30%	30%
Income tax on the profit	16,892,736	18,565,208
Under (over) provision in prior years	(2,840,510)	1,999,850
Tax effect of permanent differences	(67,610)	301,275
	<u>13,984,616</u>	<u>20,866,333</u>

Income tax expense comprises:

Current income tax	13,638,378	16,421,268
Deferred income tax	3,186,748	2,445,216
Overprovision in prior years	(2,840,510)	1,999,849
	<u>13,984,616</u>	<u>20,866,333</u>

b. Income tax payable

Balance at beginning of the year	(26,786,709)	(17,681,640)
Current income tax	(13,638,378)	(16,421,268)
Overprovision in prior years	1,238,355	(1,763,328)
Tax paid	9,957,944	9,079,527
Balance at end of the year	<u>(29,228,787)</u>	<u>(26,786,709)</u>

c. Deferred tax assets

Balance at beginning of the year	22,164,509	24,953,796
Charge to income tax expense	(2,739,679)	(2,789,287)
Reversal of timing difference	—	—
Balance at the end of the year	<u>19,424,830</u>	<u>22,164,509</u>

d. Deferred tax liability

Balance at beginning of the year	(67,136,197)	(67,243,746)
Charge to income tax expense	(447,070)	344,071
Over (under) provision in prior year	1,613,115	(236,522)
Balance at the end of the year	<u>(65,970,152)</u>	<u>(67,136,197)</u>



e. Net deferred tax liability

	2017 K	2016 K
Employee benefits	6,331,971	6,435,279
Provisions	282,859	219,230
Capitalized cost – wharf amortized	12,810,000	15,510,000
Deferred tax assets	19,424,830	22,164,509
Prepaid insurance	(2,899,745)	(239,707)
Accrued interest	(62,262)	(25,262)
Property, plant and equipment	(63,008,145)	(66,871,228)
Deferred tax liability	(65,970,152)	(67,136,197)
Net deferred tax liability	(46,545,322)	(44,971,688)

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 2015. 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 2017:

	OS Land & Leasehold Land K	Wharf facilities Land & Buildings K	Buildings & Fittings K	Vehicle & Boats K	Office Machines & Other Equipment K	Work in Progress K	Total K
Cost							
As at 1 January 2017	37,178,000	1,450,417,427	53,172,868	36,283,354	88,755,022	213,827,556	1,879,634,227
Additions	-	-	75,273	1,549,544	1,064,288	170,057,350	172,746,455
Transfers	-	24,665,919	23,648,070	-	4,858,290	(53,172,279)	-
Revaluation	-	-	-	-	-	-	-
Write-off/Disposals	-	-	-	-	-	(1,212,597)	(1,212,597)
As at 31 December 2017	37,178,000	1,475,083,346	76,896,211	37,832,898	94,677,600	329,500,030	2,051,168,085
Accumulated Depreciation							
As at 1 January 2017	-	194,518,047	12,964,695	16,789,989	40,635,693	-	264,908,425
Depreciation for the year	-	38,826,823	3,545,054	6,347,741	10,115,293	-	58,834,911
Disposals	-	-	-	-	-	-	-
As at 31 December 2017	-	233,344,870	16,509,749	23,137,730	50,750,986	-	323,743,336
Net book value	37,178,000	1,241,738,476	60,386,462	14,695,168	43,926,614	329,500,030	1,727,424,749

As at 31 December 2016:

	OS Land & Leasehold Land K	Wharf facilities Land & Buildings K	Buildings & Fittings K	Vehicle & Boats K	Office Machines & Other Equipment K	Work in Progress K	Total K
Cost							
As at 1 January 2016	37,178,000	1,448,616,447	46,052,462	22,481,452	86,310,514	52,692,137	1,693,331,012
Additions	-	797,849	63,782	8,908,988	1,815,951	203,595,820	215,182,390
Transfers	-	1,003,131	7,406,624	5,926,324	628,557	(42,460,401)	(27,495,765)
Revaluation	-	-	-	-	-	-	-
Write-off/Disposals	-	-	(350,000)	(1,033,410)	-	-	(1,383,410)
As at 31 December 2016	37,178,000	1,450,417,427	53,172,868	36,283,354	88,755,022	213,827,556	1,879,634,227
Accumulated Depreciation							
As at 1 January 2016	-	156,077,393	10,309,356	11,885,593	31,052,044	-	209,324,386
Depreciation for the year	-	38,440,654	2,853,673	5,902,072	9,583,649	-	56,780,048
Disposals	-	-	(198,334)	(997,676)	-	-	(1,196,010)
As at 31 December 2016	-	194,518,047	12,964,695	16,789,989	40,635,693	-	264,908,425
Net book value	37,178,000	1,255,899,380	40,208,173	19,493,365	48,119,329	213,827,556	1,614,725,802

	2017 K	2016 K
11. Trade and other receivables		
Trade debtors	28,650,062	28,278,439
Provision for doubtful debts	(505,364)	(280,767)
Trade debtors	28,144,698	27,997,672
Prepayments	9,665,818	799,023
Storage fee receivables	4,562,695	3,485,325
GST receivables	402,374	3,600,382
Staff debtors	643,591	289,291
Interest receivable	207,541	84,206
Rental bonds	114,050	366,664
Other debtors and prepayments	15,596,069	8,624,891
Trade and other receivables	43,740,767	36,622,563

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

Movement in provision for doubtful accounts follow:

Beginning balance	280,767	16,488,508
Provisions (reversals) during the year	224,597	(16,207,741)
	505,364	280,767

Presented in the statement of financial position:

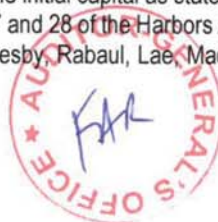
Current	45,569,919	37,960,122
Non-Current	-	-
	45,569,919	37,960,122

12. Share capital

Issued ordinary share capital

As at 1 January	7,830,000	7,830,000
Issued during the year	-	-
As at 31 December	7,830,000	7,830,000

The capital of the PNG Ports Corporation Limited is deemed to be the initial capital as stated under the 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.



Notes to and Forming Part of the Financial Statements



	2017 K	2016 K
13. Reserves		
Asset revaluation reserve	435,083,219	439,664,839
Stockholder fund reserve	21,582,966	21,582,966
	<u>456,666,185</u>	<u>461,247,805</u>
Asset revaluation reserve		
Balance at 1 January	439,664,839	443,828,868
Revaluation surplus	—	—
Transfer to retained earnings	(4,581,620)	(4,164,029)
Balance at 31 December	<u>435,083,219</u>	<u>439,664,839</u>
Stockholder reserve		
Balance at 1 January	21,582,966	21,582,966
Additions	—	—
Balance at 31 December	<u>21,582,966</u>	<u>21,582,966</u>

a. Asset revaluation reserve

The asset revaluation reserve relates to the revaluation of property, plant and equipment. 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 K4.58 million in 2017 (2016: K4.16 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 2017, no additional contribution was recognized in relation to Motukea transaction (nil in 2016).

14. Loans and borrowings

BSP Loan (Note 14a)	294,690,000	288,927,189
ANZ Finance Lease (Note 21a)	934,035	2,174,661
	<u>295,624,035</u>	<u>291,101,850</u>
Current portion	22,574,737	12,547,161
Noncurrent portion	273,049,298	278,554,689
	<u>295,624,035</u>	<u>291,101,850</u>

- a. Bank of South Pacific has drawn down the Company's loan in two portions: one on the 15th of April 2016 and the other on the 20th of May 2016.

Facility "A" of K150,000,000 was fully funded on 15th 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 30th 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 20th 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 31st of December 2017 and to occur quarterly thereof until maturity of 30th 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 K18,864,501 (2016: K12,687,240) and recorded under finance costs in the statement of comprehensive income.

b. The movement in loans payable is as follows:

	2017 K	2016 K
Beginning balance	288,927,189	129,454,043
Proceeds from loans	11,072,811	288,927,189
Repayment of loans	(5,310,000)	(129,454,043)
	<u>294,690,000</u>	<u>288,927,189</u>

15. Trade and other payables

Trade creditors	11,087,625	4,408,988
Retention	16,488,230	10,487,535
Other creditors and accrued expenses	10,329,423	6,796,922
Balance at 31 December	<u>37,905,278</u>	<u>21,693,445</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 18.

16. Trust payables and deferred income

a. Trust payables

Cargo Levy	9,354,922	8,462,521
National Project Fund	–	1,125,755
	<u>9,354,922</u>	<u>9,588,276</u>

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

Current	9,354,922	8,462,521
Noncurrent	–	1,125,755
	<u>9,354,922</u>	<u>9,588,276</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.

Notes to and Forming Part of the Financial Statements



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

	2017 K	2016 K
Completed projects	137,438,127	137,438,127
Accumulated amortization	(36,186,570)	(29,004,801)
Carrying value of completed projects	101,251,557	108,433,326
In-progress projects	736,798	736,798
	<u>101,988,355</u>	<u>109,170,124</u>

Movement in the accumulated amortization follows:

Beginning balance	29,004,801	21,292,055
Amortization during the year	7,181,769	7,712,746
Ending balance	<u>36,186,570</u>	<u>29,004,801</u>
Current portion	7,525,124	7,525,124
Noncurrent portion	94,463,231	101,645,000
	<u>101,988,355</u>	<u>109,170,124</u>

17. Employee provision

Provision for annual leave	5,017,549	5,742,281
Provision for long service leave	14,848,269	14,452,897
Staff loyalty	1,240,752	1,255,752
	<u>21,106,570</u>	<u>21,450,930</u>
Current portion	6,258,301	6,998,033
Noncurrent portion	14,848,269	14,452,897
	<u>21,106,570</u>	<u>21,450,930</u>

18. 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:

		2017 K	2016 K
Transaction during the year:			
Sale of Dylup Estate Holdings Ltd and North Coast Agri Services Ltd	(i)	–	12,000,000
Dividend payment to KCH	(iii)	5,000,000	
Outstanding balances:			
Loans/advances payable	(i)	–	–

- 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.
- iii. On 2 May 2017, the Board declared a dividend of K5 million. This was paid to KCH on 12 May 2017.

b. 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 K479,000 (2016: K863,229) which the Company pays in quarterly installments during the year.

c. Key Management Personnel

Compensation of key management personnel at reporting date as:

Short term benefit	3,068,591	5,457,077
Post- employment benefit	2,707	433,184
	<u>3,071,298</u>	<u>5,890,261</u>



Notes to and Forming Part of the Financial Statements



19. 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:

	2017 K	2016 K
Trade receivables (Note 11)	28,144,698	27,992,672
Amounts owed by related parties (Notes 18)	–	–
Other receivables (Note 11)	5,527,877	4,225,486
Cash and cash equivalents (Note 20)	82,613,833	148,119,397
	<u>116,286,408</u>	<u>180,342,555</u>

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

Papua New Guinea	<u>28,144,698</u>	<u>27,992,672</u>
------------------	-------------------	-------------------

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

Past due 0-30 days	16,648,158	10,781,484
Past due 31-180 days	12,001,904	10,735,452
Past due 181-360 days	–	2,918,654
Past due more than 1 year	–	4,681,750
Total	<u>28,650,062</u>	<u>29,117,340</u>

Impairment losses

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

Balance at 1 January	280,767	2,654,743
Impairment recognised during the year (Note 12)	224,597	–
Impairment reversed during the year	–	(2,373,976)
Balance at 31 December	<u>505,364</u>	<u>280,767</u>

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
31 December 2017:					
Loans and borrowings (Note 14)	295,624,035	–	295,624,035	–	–
Future interest payments	46,001,131	17,982,898	28,018,232	–	–
Trade and other payables (Note 15)	37,905,279	37,905,279	–	–	–
Employee provisions (Note 17)	25,106,570	6,258,301	–	–	18,848,269
	404,637,015	62,146,478	323,642,267	–	18,848,269

31 December 2016:

Loans and borrowings (Note 14)	291,101,850	12,547,161	10,372,500	268,182,189	—
Future interest payments	52,129,977	—	24,398,720	27,731,257	—
Trade and other payables (Note 15)	21,693,445	21,693,445	—	—	—
Employee provisions (Note 17)	21,450,930	6,998,033	—	—	14,452,897
	<u>386,376,202</u>	<u>41,238,639</u>	<u>34,771,220</u>	<u>295,913,446</u>	<u>14,452,897</u>

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.

20. 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:

	2017 K	2016 K
Cash and bank balances	<u>60,066,241</u>	<u>105,560,032</u>
Short term deposits	<u>22,547,592</u>	<u>42,559,365</u>
	<u>82,613,833</u>	<u>148,119,397</u>

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

Profit for the year	42,321,340	41,017,695
Add / (deduct) items classified as investing / financing activities:		
Interest income	(588,749)	(604,875)
Interest expense	18,684,501	12,687,240
Add / (deduct) non-cash items:		
(Profit) / loss on disposal of non-current assets	(100)	23,200
Amortisation of deferred income	(7,181,769)	(7,712,746)
Depreciation	58,834,911	56,780,048
Income tax expense	13,984,616	20,866,333
Cash generated before working capital changes	126,054,750	123,056,895
(Increase) in trade debtors and other debtors	(7,118,207)	(7,758,341)
Increase in trade creditors and other creditors	16,211,834	747,278
(Decrease)/Increase in employee provisions	(344,360)	2,076,354
Cash generated from operations	134,804,017	118,122,186



Notes to and Forming Part of the Financial Statements



21. Leases

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

a. Finance leases (Note 14)

	2017 K	2016 K
Less than one year	934,035	1,242,924
Between one and five years	–	931,737
More than five years	–	–
	<u>934,035</u>	<u>2,174,661</u>

22. Commitments

At 31 December 2017, the Company had capital commitments of K119 million (2016: K183 million) relating to the projects in progress.

23. Contingent assets and liabilities

- a. The Company had contingent liabilities totaling to K2,450,000 as at 31 December 2017 (2016: K1,152,000) relating to litigation claims.
- b. 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.
- c. 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.

24. Employees

The number of employees at the end of the year was 549 (2016: 607).

25. Events Subsequent to the Reporting Date

There has not been any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.



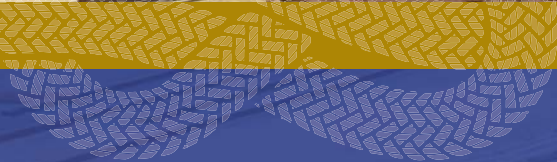
Notes

Notes



PORTS FOR PROSPERITY





PNG Ports Corporation Limited

PO Box 671 **PORT MORESBY**
National Capital District, Papua New Guinea

Telephone (675) 308 4200
Facsimile (675) 321 1546

Email: enquiries@pngports.com.pg
Website: www.pngports.com.pg