



ANNUAL REPORT 2011







Content

About us in brief	2-3
Our portfolio of ports	4-5
Overall performance highlight	7
Chairman's Report	8-9
Chief Executive Officer's Report	10-11
Operations Review	12-19
Corporate Governance	20-28
Financial Statements for the year ended 31 December 2011	
Directors's Report	31, 39-40
Auditor General's Report	32-36
Statement of Financial Position	42
Statement of Comprehensive Income	43
Statement of changes in Equity	44
Statement of Cash-flows	45
Note to and forming part of the financial statements	46-68



About us in brief



Our Vision

To be the premier maritime service company in PNG

Our Mission

To be the premier maritime service company in PNG by facilitating economic growth through:

- **Quality and efficient service delivery**
- **Profitability**
- **Sustainable investment in infrastructure**
- **Exceeding stakeholder and shareholder expectations and**
- **Meeting legislative and community service obligations**

We value....

- **Service Excellence**
- **Commercial Astuteness**
- **Forward thinking and improvement**
- **Safety and security first**
- **Teamwork**
- **Zero tolerance on fraud and corruption**
- **Sustainable outcomes**

PNG Ports Corporation Limited ("PNGPCL") is proud of itself as the national pillar for maritime trade and human's mobility through its providing of essential port services covering wharfage, berthage, pilotage and facilities for storage and handling of cargo at the fourteen (14) declared ports across the Maritime Provinces of Papua New Guinea ("PNG"). Following corporatisation, the Company has been committed to injecting significant capital outlay on the rehabilitation, development and modernisation of its network of ports with a goal of improving their overall operational efficiency and productivity. Whilst PNGPCL will continue to operate as a commercial entity with a firm focus on translating its investments into wealth creation and maximisation for its shareholder, it will continue to play its role as one of the key partners of the government in driving the national development plans and goals for the country as they relate to the maritime service. Through an instrument of delegation by the Department of Transport, PNGPCL ensures that the development and operations of all ports including that of its own are in accordance with relevant regulatory underpinnings. By the nature of its function, PNGPCL's commercial pursuit to a larger degree is regulated by the Independent Consumer and Competition Commission ("ICCC") through the Independent Consumer and Competition Commission Act 2000 and the binding Regulatory Contract. Since corporatisation, PNGPCL has been growing from strength to strength to become one of the modern and dynamic corporations in PNG with a long-term asset base of over K1.1 billion and a workforce of about 800 staff as at 31st December 2011 .

A large cargo ship, the 'KYOWA ORCHID', is shown at night. The ship's hull is dark blue with a red stripe. The name 'KYOWA ORCHID' is written in large, bold, white letters on the side. A bright light on the ship's mast creates a strong lens flare. The ship is docked, and its reflection is visible in the water. In the background, another ship with lights is visible on the water.

Our portfolio of ports

Ports and Contact details

Our Ports and Contacts



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



Year at a glance

Overall performance highlight

Chairman's report

Chief Executive Officer's report

Overall Performance Highlights

Total cargo throughputs movement

Increased by 7.8 %

Total containerised cargo movement

Increased by 8.3 %

Total non-containerised cargo movement

Increased by 7.8%

Top 3 leading cargo trading ports

Lae (46%), Port Moresby (26%) and Kimbe (9%)

Operating revenue

Increased by 44.7%

Operating expenditure ex depreciation

Increased by 38.1%

Net Profit after Tax

Increased by 168.2%

Net asset

Increased by 217.5%

Shareholder's fund

Increased by 216.2%

Return on shareholder's fund

6.3%

CHAIRMAN'S REPORT



I am delighted to present the 2011 Annual Report for PNG Ports Corporation Limited.

PNGPCL made a highest after tax profit of K47.6 million in its entire history. This profit surpassed the record 2010 performance by 169 percent. For the first time in many years, the Board declared a record dividend of K18.1 million, whilst the rest were ploughed back into the company to boost its balance sheet position for supporting an ongoing implementation of the five year capital expenditure ("capex") program.

The company also recorded a solid balance sheet with a well managed debt level reflected by a gearing ratio of 38 percent which is below the 50 percent benchmark and an interest cover of 47 percent. The total assets increased to over K1 billion in 2011 following significant investments in long-term capital assets. The owners equity increased significantly to over K756 million following retainment of about 62 percent of the profit and significant gains realised from assets revaluations.

The record performance was due to internal financial discipline, workforce's commitment, effective assets utilisation and more so by the solid growth in the

company's business, which saw a highest volume of cargo turnover of 7.7 million revenue tonnages ("RT"), an increase of 8 percent. The latter was driven by the un-abating domestic economic growth. With a positive growth outlook for the country in the foreseeable future, we are optimistic PNGPCL's business will continue to outperform the realised records in the years ahead.

Considering the current and future growth in demand, the Board supported the company introducing significant changes to the two premier ports, Lae and Port Moresby, that consistently handle more than 70 percent of the overall cargo throughput volumes. The company made a strategic investment in the procurements of three Mobile Harbour Cranes ("MHC") and ten Rubber Tyred Gantry Cranes ("RTGs") for deployment at these ports. In addition, the company has been having an effective collaboration with the Independent Public Business Corporation ("IPBC") to advance the Lae Tidal Basin project into development and operation. The signing of a contractual agreement between the Government of PNG for and on behalf of the IPBC and Chinese Harbour Engineering Corporation for the latter to commence construction on this project in early 2012 represented one of the fruitful outcomes of this collaboration.

The Return on Shareholders' Fund was 6.3 percent after the community service obligations. PNGPCL has continued to cross-subsidize the operations of eleven underperforming ports with the earnings generated by the top three profitable ports including Lae, Port Moresby and Kimbe. The Board will continue to ensure the company fulfills this important function until an alternative arrangement is instituted to support those underperforming ports since PNGPCL is a usefull

strategic partner of the government in supporting service delivery.

The Board values a high corporate governance standard by ensuring the company adopts, implements and refines sound internal audit systems and processes governing all facets of its operations, which includes having zero tolerance on corporate fraud and corruption.

In order to continue achieving business and operational excellence in the years ahead, the Board will continue to maintain the same level of cooperation and collaboration with the management in term of providing sound strategic

direction for the overall running of the company. With that I take this opportunity to thank the Board members and the management for their support and am looking forward to your continued support in the 2012 financial period.

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

A handwritten signature in dark ink, appearing to read 'N. Poya'.

Nathaniel Poya, OBE

Chairman

Chief Executive Officer's Report



PNGPCL achieved a strong growth in the overall trade in 2011. Cargo throughput recorded 7,709,939 RT representing an 8 percent increase from 2010. Container throughput also improved by 13 percent with a record of 314,411 Twenty-foot Equivalent Units ("TEUs") whilst the total number of Vessel calls registered for the year was 7,675 representing an increase of 10 percent.

The ports of Lae, POM and Kimbe continued to stand out as the busiest and profitable ports that handled 81 percent of PNGPCL's total cargo trade and generated 80 percent of total revenue. The underperforming ports on the other hand were cross – subsidised with funds generated from the profitable ports as part of PNGPCL's Community Service Obligation ("CSO") in order to maintain service delivery.

Indeed, service delivery and customer satisfaction have been the centre of PNGPCL's overall business conducts. Thus, in 2011 the company committed capital expenditures worth approximately K158 million toward port development initiatives. Such initiatives included the deployment of the RTGs and MHCs at Port Moresby and Lae ports. The state-of-the-art port equipment are anticipated to enhance port and terminal productivity.

The challenges ahead are enormous as some of these initiatives are critical and will directly address and affect the way business is conducted. As a result, some initiatives may be largely opposed due to misconceptions therefore a lot more awareness on the net gains inherent will need to be conducted to ensure harmony with different stakeholders.

PNGPCL achieved a good financial standing this year with the dramatic increase of total assets over the past 5 years to K1 billion. This reflects the significant investment in new capital assets to improve the operations of the ports.

PNGPCL also achieved another milestone this year in terms of safety and environmental regulations when it became an International Standard Organisation ("ISO") certified entity for various safety and management systems which are scheduled for implementation in 2012.

Knowledge and skills enhancement of staff is an integral part of the growth of PNGPCL. Through the Human Resource division, training programs were facilitated on areas of port operations, finance, infrastructure, safety, life skills and ICT. The organisation is also proud to have in place a Graduate Development Program and Maritime Cadetship program aimed at moulding university graduates into vibrant working professionals who can contribute effectively to PNGPCL.

This year PNGPCL took a proactive approach in promoting the welfare of its employees by organising

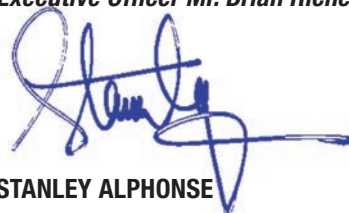
free medical checks for all Head office and POM port staff. Medical checks will also be rolled out to the outer ports.

PNGPCL continued to uphold itself as a responsible corporate citizen by undertaking a number of community service initiatives this year. This included the sponsorships of worthy causes for various organisations and individuals, as well as partnering with civil societies to take a stand against major social issues such as the Fight against HIV/AIDS and elimination of Violence against Women and Children.

2011 has certainly proven to be a successful year for PNGPCL and the organisation is determined to achieve

greater and better results in the coming year. I sincerely thank the executive management team and staff members for their efforts and commitment in 2011 and look forward to the continued support and cooperation in 2012.

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

A handwritten signature in blue ink, appearing to read "Stanley", with a long horizontal flourish extending to the right.

STANLEY ALPHONSE

Chief Executive Officer

Operations review

Human Resource

Major Projects

International Accreditation

Community Engagement

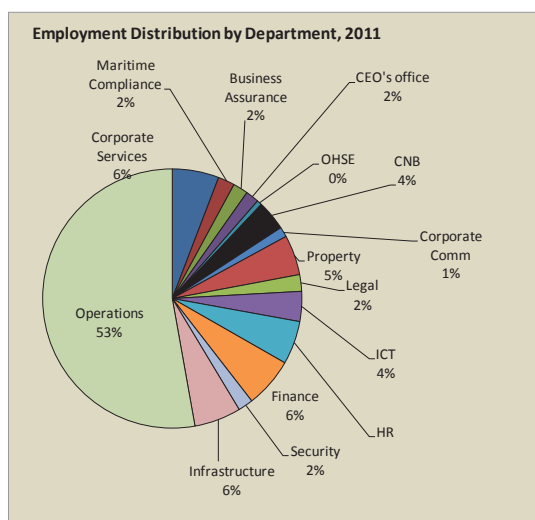
Trade Performance



Operations Review

Human Resource

The total staff strength as at the end of December 2011 was 782 representing a 14% increase from the corresponding period due to an ongoing recruitment drive including the engagement of vacation students for short-term employment. PNGPCL had 15 departments, the largest being Operations which constituted 53 percent of the entire workforce.



In terms of gender distribution, females constituted 27 percent of the workforce whereas males 73 percent. Even though the number of female employees has improved by 6 percent from 2010, there is still an evident gap in comparison to the male workforce. This has been taken note of and appropriate strategies will be implemented to reduce the gender imbalance.

Employees are a great asset as they are integral to the achievement of the company's goals and objectives. PNGPCL, thus, has employed well-defined strategies to improve the existing knowledge set of and motivate the staff to offer their expertise and loyalty without reservations.



In 2011, the management rolled out training programs to up-skill the employees on areas of Port operations, Infrastructure, Maintenance, Safety, Life Skills, Security, Finance, ICT and other areas of importance to PNGPCL's future business needs. Also in 2011, two graduates engaged with the Human Resource Department were confirmed to permanent positions whilst 15 attached to Port Moresby port entered into their third rotation stage within the Operations Department. After completion of the training, graduates would be permanently assigned to roles in the company subject to availability of vacant positions.

From the first batch of four (4) maritime cadets recruited in 2009, three (3) have commenced sea time training with Steamships Shipping Company in 2011. Under an arrangement between PNGPCL and Steamships, cadets take up 18 months sea time with Steamships on a three – months-one-month-off rotation program where they are given the opportunity to board 500 – 1500 gross tonnage vessels owned and operated by Steamships Shipping Company.

PNGPCL has been taking a proactive approach

Operations Review

in promoting the welfare of its employees. Apart from providing appropriate remuneration packages reflective of the current cost of living in urban areas, the management took a step further and implemented programs aimed at promoting the health of its employees.

Free medical checks were organised in May 2011 for all the employees at the Head Office and POM port. The medical check included a thorough medical examination for blood pressure, cholesterol and blood sugar level and Tuberculosis (TB). Employees diagnosed with health issues of concern were referred by the medical practitioners to seek further investigation and treatment. PNGPCL will be rolling out the Staff Medical Check program to the outer ports.

Major Port Modernisation Exercises

PNG has been experiencing a consistent economic growth over the past ten years. With the multi-billion kina LNG project scheduled to enter into the production phase by early 2014 coupled with a positive economic outlook in the other sectors, the PNG economy is on a path of extending its growth into the foreseeable future. As part of its preparation to meet the burgeoning demand associated with the current and future growth, PNGPCL undertook a strategic port remodelling and modernisation exercise at the two premier ports. The total capex of about K158 million for the year is inclusive of the cost of the above initiatives.

A total of ten RTG cranes were procured of which three were deployed at Port Moresby port and seven at Lae port.

The RTGs are scheduled to swing into full operation by May 2012. They are anticipated to be pivotal in maximising storage spaces and overall efficiency in container handling. In the face of growing container volume and spacing constraints, RTG represents an important capital asset acquisition.

Also in 2011, one MHC was purchased for Port Moresby port and is expected to be delivered by January 2012 after all the foundational activities are completed. Lae port has already been deployed with one MHC and another is scheduled to be delivered in February 2012. MHCs are anticipated to accelerate the rate of movements of inbound and outbound containers and shorten vessels' turnaround time, thus, reducing berth congestion and vessels' queues.

In late 2011, PNGPCL engaged STET Maritime of Singapore to conduct Port Planning and Terminal Operations training for 24 Port Operations Officers scheduled for 2012. Portek Ports Holdings Pte Ltd, the supplier of the RTGs will facilitate the training in line with its Training and Technical Services Agreement with PNGPCL.

Remodelling at the two premier ports involved redesigning and improvement in the layout of the quay face which included rearrangement of the container terminal areas to facilitate for efficient operations by all service providers and improve customer service delivery. The remodelling was valued at K41 million.

The Lae Tidal Basin Project is another key development initiative that is anticipated to improve the efficiency

Operations Review

of Lae port. Led by the IPBC, the project will involve the construction of a tidal basin (700 x 400 metres), a multipurpose berth and terminal works with a built-in flexibility to increase the capacity of the port. This state-of-the-art port infrastructure will provide 240 metres of extra berthing space and will be able to cater for Post-Panamax container vessels.

The PNG Government through the IPBC negotiated a loan from the Asian Development Bank ("ADB") to fund the construction of the Tidal Basin at a total cost of more than US\$300 million. Being an important stakeholder in this project, PNGPCL has been in close consultation with IPBC and other relevant government authorities on the plans to progress the project. The contract negotiation on the construction and supervision of the Tidal Basin Project has progressed well in 2011 with construction expected to commence in early 2012.

Other projects undertaken in 2011 included the general repairs and maintenance of port facilities in the outer network of ports such as:

- Causeway Lighting repairs at Wewak port
- New Gate Entrance at Rabaul port
- Renovation to Daru port office and Business Manager's residence
- Repairs to Wharf head flood lights at berth 1 for Madang port

PNGPCL will continue to pursue modernisation and redevelopment efforts, not only in the major ports but in other ports as well where demand necessitates.

International Accreditation Port Safety and Management

PNGPCL, again in 2011, conducted its operations 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.

Whilst the control and regulatory oversight over the development and operation of ports are vested with PNGPCL through the Harbour Management Service division, PNGPCL did not exploit its regulator status as in engaging in any practices that compromised with the required port safety and management standards under the regulatory framework.

In November 2011, PNGPCL achieved a milestone when it was assessed by an independent International Certification company to have developed and applied a sound management system relating to overall safety and environment management standards that are consistent with specific requirements of the ISO 9000 family of standards and was consequently 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.

Operations Review

Implementation of the systems will commence in 2012. The certification currently covers the PNGPCL Head Office and Port Moresby port. There are plans to extend the certification to the rest of PNGPCL's network of ports.

Community Engagements Highlights

In the reporting period, about 99 percent of the total EBITs was generated by the ports of Lae, Port Moresby, Kimbe and Rabaul whereas the other ports were still underperforming with no change in the prospect of them improving in the short to medium term horizons.

Nevertheless, PNGPCL is being committed to financing and sustaining their operations through the on-going cross-subsidisation program with surplus earnings derived from the profitable ports under its long-term commitment to partner with the government in facilitating service delivery to all the Maritime Provinces as espoused under the Country's medium term development and strategic plans.

In light of emerging competitive threats following the entries of other private port operators into the industry, a continuation of the cross-subsidisation program into the long-term would surely not be a viable practice. Thus, PNGPCL is considering developing and introducing an alternative operational structure, in close consultation with relevant stakeholders, to sustainably operate these ports into the long term. This represents one of the strategic actions of the company in the years ahead.

PNGPCL as a responsible corporate citizen is being committed to building and maintaining coordinal

stakeholder relationships with members of the communities through various forms of community service initiatives. In 2011, PNGPCL provided sponsorships in both cash and kind to various organisations and individuals for worthy causes. Some examples included:-

- Sponsorship of Canoe and Kundu Festival in Alotau, Milne bay Province
- Donation to displaced Manam Islanders, Madang province
- Sponsorship of PNG Paralympics Team to participate in Electronic Sports 2011 World Championships
- Sponsorship of Media Freedom Week
- Sponsorship of Divine Word University Cultural show
- Sponsorship of Medical Symposium

Also in 2011, PNGPCL, in partnership with various organisations and civil societies, participated in various annual events to raise awareness on the major social issues affecting the society at large which included:-

- White Ribbon Day (Elimination of Violence against Women & Children)
- Transparency International – Walk Against Corruption
- Red Ribbon Day (World HIV/AIDS Day)
- Pink Ribbon Day - Awareness on Breast Cancer

Operations Review

Trade Performance Analysis

Cargo throughput

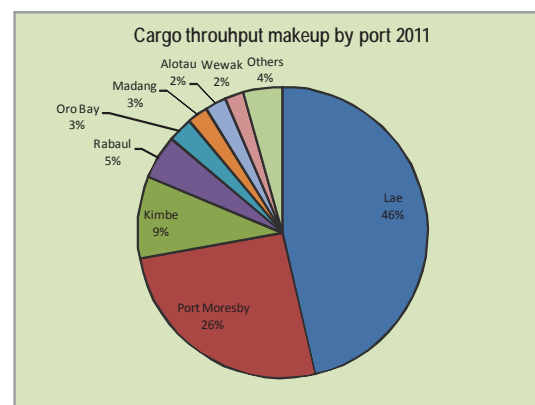
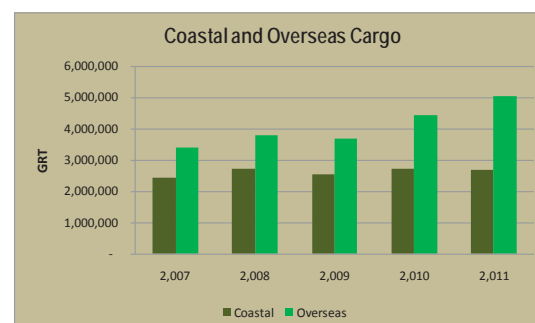
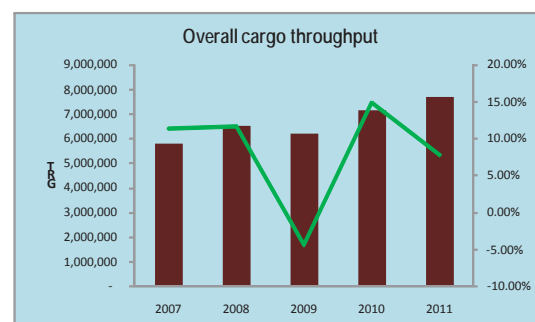
In 2011, PNGPCL handled another record overall cargo throughput volume of 7.2 million RT, representing an increase of 8 percent. The rise was mainly attributed to increased volumes in the external trade sector by 13 percent relative to the corresponding period due to both strong domestic output and demand for foreign goods.

In terms of decomposition of cargo by sources of trade, the volume of coastal cargo contracted by 1 percent compared to the corresponding period with the major cargos traded in the form of bulk fuel, barge, fish and pass. The volume of exports increased by 15 percent whereas imports 11 percent.

Lae consolidated its position as the leading port in handling the cargo movement. In 2011, the total volume of cargo it handled increased by about 10 percent from the previous year to about 2 million RT. This represent about a third of the throughputs of all the ports combined. Its relative standing in the two periods did not change by any significant percentage points.

Port Moresby port handled about a quarter of the total cargo throughput. Also its relative standing in the two respective periods did not differ by any significant percentage point. The total volume of cargo passed through Pom port increased slightly by 8 percent compared to previous period.

Kimbe handled about 9 percent of the total cargo throughputs which is similar to its standing in the corresponding period. The total volume of cargo passed through Kimbe port did not change much compared to the previous period. Rabaul is the fifth leading port handling about 5 percent of the total cargo throughputs. All the rest accounted for less than 5 percent of the total throughputs

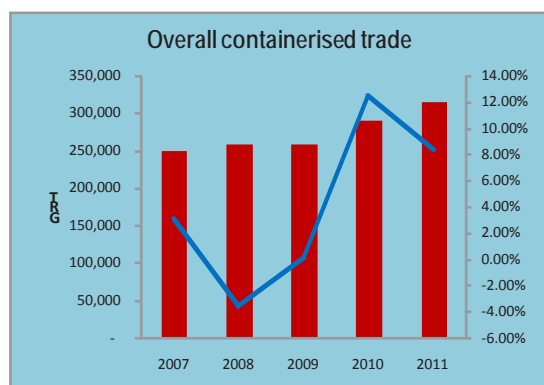


Operations Review

Containerised Trade

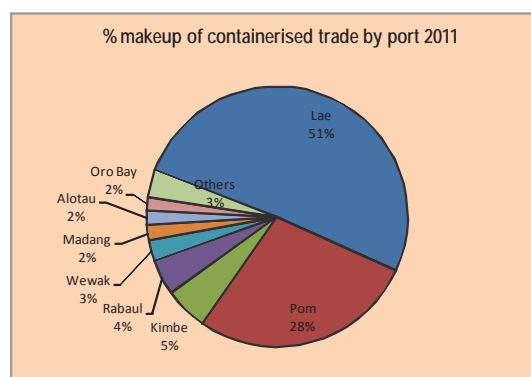
In 2011, a total of about 314,000 Twenty Foot Equivalent Units (TEUs) were traded through PNGPCL's ports. This represented an increase of about 65 percent from the corresponding period.

About 60 percent of them were international TEUs and the rest coastal. The increase in inward international TEU throughputs corresponded with increase in the domestic consumption demand for consumer merchandises. The volumes of inward and outward overseas TEUs were in equal proportion.



Lae, as usual, handled the most significant volume totalling of about 160 000 TEUs, which represented an increase of roughly 13 percent from the previous year's record. Lae's status as an industrial city and logistical hub for mass of the country's imports and exports is a

factor behind such a significant TEUs (as well as cargo) movements through its port. Port Moresby maintained its second position, though experiencing a flow of a stable volume of about 88,000 TEUs compared to the corresponding period. Lae and Port Moresby will certainly account for a flow of significant volume of cargo including the TEUs in many years to come.



Kimbe recorded a rise of about 16 percent due mainly to an increase in oil palm and timber trade. Rabaul port again consolidated its position as the fourth leading TEUs trading port, though experiencing a modest decline by about 4 percent. Wewak consolidated its position as the fifth trading port with the TEUs throughput increase by about 11 percent. Coastal TEUs accounted for a significant volume of container movement at Wewak port. The rest was handled by the other ports across the country.

Operations Review

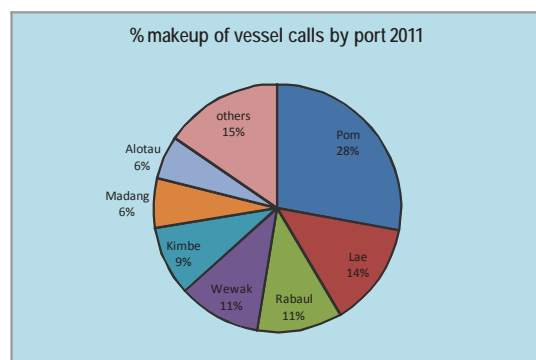
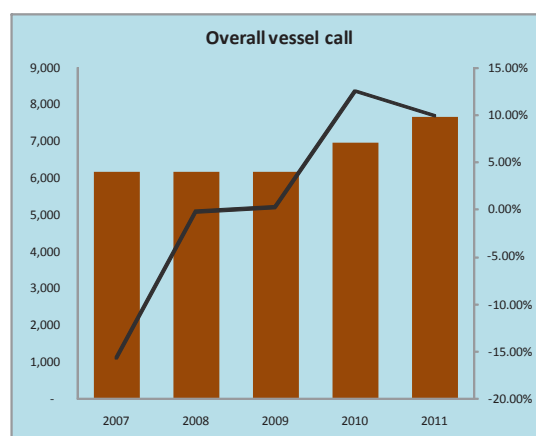
Vessel Call

PNGPCL registered overall vessel calls of 7,675 in 2011 representing an increase of about 10 percent compared to the previous period. Both the coastal and overseas calls accounted for equal share of the aggregate calls. The balanced distribution by the sources of call was similar to that of the previous period.

In terms of the comparison of call by port, Port Moresby received the largest calls amounting to 30 percent of the total vessel calls for that year. The calls it registered represented an increase of about 38 percent compared to the previous period. Overseas and coastal calls accounted for almost equal share in the total port calls. The relative weights did not change much from the previous period.

Overall, Lae registered the second highest number of calls equating to about 15 percent of the total calls which did not change much compared to its standing in the previous period. The number of vessels Lae port registered increased slightly by 4 percent from the previous period.

Rabaul port accounted for about 10 percent of the overall call which is similar to its previous period call registry. In terms of inter period call comparison at that port, the number of vessels increased by about 11 percent in 2011 from that of the previous period.



An aerial photograph of a port facility. In the foreground, a large blue container ship is docked at a pier, with a yellow crane positioned on its deck. To the left, another ship is partially visible. The water is a vibrant blue. In the background, a large hill with green vegetation and some buildings sits atop it. The sky is clear and blue.

Corporate Governance

Board of Directors

Management Team

Corporate Values

Corporate Governance practice

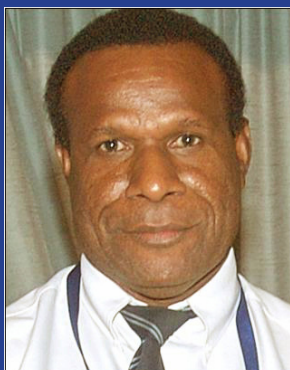
Financial Review

Corporate Governance

Directors



Dr. Ila Temu, PhD, MEcon
Chairman



Job Suat, MSc
Director



Michael Ikau, BEng
Director



Robert Nilkare, BCom
Director



Kepas Wali, MPEng
Director

Corporate Governance

Executive Management



Brian Riches
Chief Executive Officer



Stanley Alphonse
Chief Commercial Officer



Larry Hore
General Manager
Engineering



Paul M. Unas
Chief Maritime
Compliance office



Terrence Furphy
Director of Finance



Jerome Peniasi
General Manager
Corporate Services



Michael Nye
Chief Operating Officer



Philip C. Connors
Chief Information Officer

Corporate Governance

Corporate Values

At PNGPCL, we value...

- **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 returns and mitigating risks through an established risk 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 civic infrastructure.

- **Safety and Security First**

Safety and security are our priority in everything we do.

- **Teamwork**

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

- **Zero Tolerance**

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

- **Sustainable Outcomes**

We are committed to servicing the community and managing the social and environmental impact of our activities.

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 managements. The Board and Management of PNGPCL genuinely recognises this as one of the pillars for corporate success – and with this recognition, the Board and Management continuously endeavour to uphold and practice high corporate governance standards in all commercial decisions.

Role of the Board

The Board of PNG Ports is responsible for the corporate governance of the company. The Board executes this responsibility by setting the company's strategic direction, establishing targets for management, providing direction towards meeting these targets and monitoring performance of the management.

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

Board Composition

PNGPCL is a State Owned Entity, Corporatized under the Privatisation Act 2002. The IPBC is the sole shareholder holding shares in trust on behalf of the Go-PNG and as such the IPBC Act (Amended) 2007 sets forth the underlying provisions by which the company is governed and the appointment of its Board. In turn the IPBC reports to the Ministry of Public Enterprise and State Investment.

In the absence of a company constitution PNGPCL as a

corporation is also subject to the provision of the Company's Act 1997 in terms of the specific roles of the Board.

In accordance with the IPBC Act 2007, the Board members are appointed by the IPBC subject to the approval of the National Executive Council. The IPBC as the sole shareholder of PNGPCL under the IPBC Act appoints directors, the Chairman and deputy chairman. PNGPCL as of the 31st of December 2011 had five (5) Board members, inclusive of the Chairman, which were appointed by the IPBC through the due process stipulated by the IPBC Act 2007.

Ethical Standards

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

Directors Interest

As at the end of 31st December 2011 none of the Directors was a shareholder to the Company and did not have any material interest in PNGPCL or any related entity that undertook business with the company.

Corporate Governance

Remuneration of Board

In accordance with the Provisions of the Company's Act 1997, Section 212 (f) and (g), the shareholder of the company, through ordinary resolution has resolved that the company will not disclose details of the Directors remuneration in the 2011 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 IPBC Act 2007, the IPBC has the discretion to indemnify any director of his/her actions as director of PNGPCL. Breaches of the law and criminal acts are specifically exempted from this provision.

Financial Results

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

Auditors

The Auditor of the company is the Auditor General of PNG. The Auditor General conducts the audit or appoints an agent to conduct audits of the company's accounts on its behalf at the end of each reporting period. The Audit Report is then provided by Auditor General to the IPBC, which is then forwarded to the Public Enterprise and State Investment Minister to be presented in parliament.

Financials Review

Financial Summary

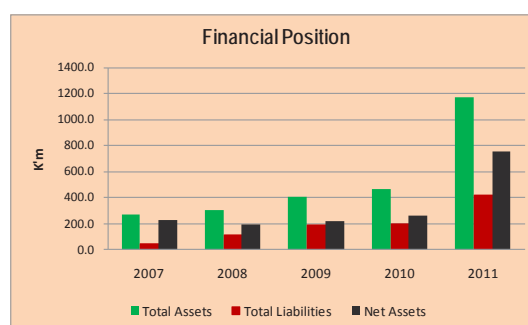
Year ended 31 December	2011	2010	2009	2008	2007
	K'm	K'm	K'm	K'm	K'm
Operating result					
Operating revenue	243.3	168.1	108.6	94.2	78.1
Operating expenses	186.9	17.9	89.3	78.2	46.1
Operating profit before interest and tax	68.4	48.7	20.8	17.4	35.2
Finance costs	1.4	(3.3)	(.6)	(3.2)	(3.1)
Profit (Loss) before Taxes	67.6	46.5	21.4	19.5	29.6
Profit (Loss) after Taxes	47.6	42.4	23.4	(3)	29.6
Financial position					
Total Assets	1,175.4	464.2	410.1	308.6	270.6
Total Liabilities	419.5	200.4	190.3	112.3	42.1
Contributed Capital and Reserves	660.0	263.8	219.7	196.3	228.5
Retained earnings	95.9	81.4	38.9	112.3	42.1
Total Equity & Liabilities	1,175.4	464.2	410.1	308.6	270.6
Cash flows					
Net Cash flows from operating activities	94.2	52.5	80.1	24.9	30.2
Net Cash flows from investing activities	(110.8)	(68.1)	(63.1)	(80.8)	(17.5)
Net Cash flows from financing activities	16.4	24.0	34.0	5.9	7.3
Net Cash flows	67.9	67.5	59.0	(50.0)	30.0

Corporate Governance

Financial Performance Analysis

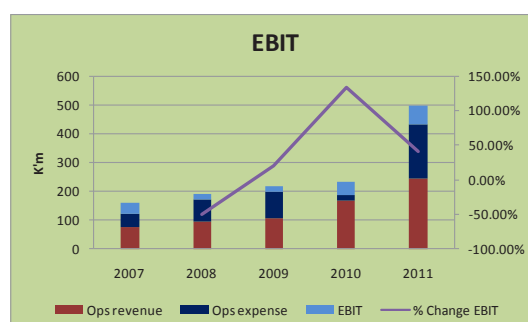
Financial Position

PNGPCL achieved a record financial position in 2011. Total assets increased dramatically over the past five years to more than K1 billion in 2011. Whilst liabilities have increased correspondingly, they have been maintained at a manageable level resulting in a solid net asset position over this period. The increase in net asset reflected significant investments in new capital assets to improve the operations of the ports. Major capital assets were financed out of the company's balance sheet as well as government's grants.



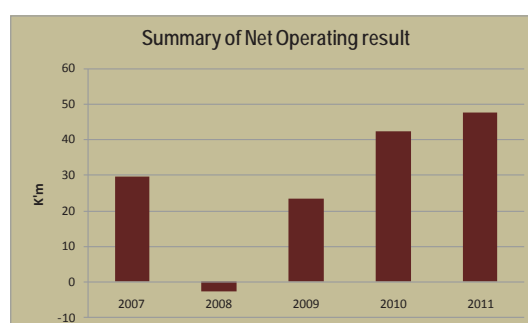
Earnings before Interest and Tax

PNGPCL's operating revenue has been increasing over the past five years. In 2011, a total of K243.3 million was recorded reflecting a strong business growth due to the successive domestic economic growth. All the tariff lines were performing well. The company's expenditure has also been rising, however, proportionately lower than the growth in operating income. This resulted in successive surplus EBITs. In 2011, PNGPCL's record EBIT was K68.4 million.



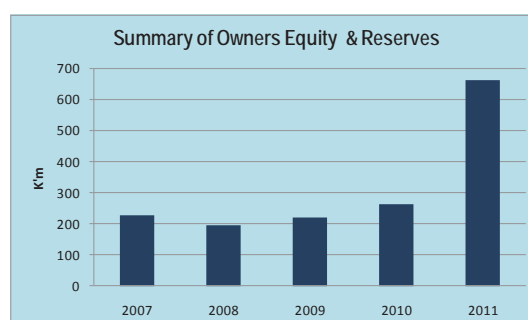
Net Operating Revenue

PNGPCL recorded an impressive net operating result of K47.6 million in 2011. Net operating profits have increased over the past five years except in 2008 when a net operating loss was made due to the global recession but started picking up in 2009. 2010 and 2011 respectively saw a record operating profits consolidating PNGPCL's position as one of the performing SOEs in the country.



Owners Equity

The total owner's equity jumped significantly to about K756 million in 2011 after being relatively flat for a number of previous years. This jump was factored in heavily by a massive increase in reserves of K652 million following revaluation of property, plant and equipment to current market value and a retained earnings of K95 million.



Performance Indicators

Ratios	2011	2010	Bench mark	Remark
Profit margin	20	25	30	NPM did not change much due to increase in costs relating to provisions and interest reflecting high level of activities in capital expenditure to position the company well to achieve anticipated growth over the next 10 years.
Return on capital employed	7%	12%	10	Although, the ROCE dropped below the benchmark, it indicated the Company's significant investment in capital assets, which require a time lag before they are fully and/or efficiently utilized in the daily operations
Asset Turnover ratio	0.21:1	0.36:1	0.5:1	Whilst the ratio declined, it demonstrated the company's significant investment in capital asset to improve its ability to meet throughput demand and enhance profitability.
Current ratio	0.87:1	1.47:1	2:1	In 2011, the current ratio indicated that current liabilities were accumulating proportionately higher than current liabilities; the company has considered instituting measures to address this in the following financial period.
Debt to Equity Ratio	55%	93%	50%	Retained profits saw less dependency on borrowed funds compared to last year. Profits were being used to fund other assets not funded by donor or project funds.
Debt Ratio	35%	48%	50%	The debt ratio has continued to decline from the benchmark in the last two years. This indicated that the level of debt had reduced and that of the asset increased or in other words PNGPCL was less dependent on leverage. There is room for PNGPCL to secure debt finance to finance any of its major capex programs in the following year, however, to an extent where the debt and equity ratio are rebalanced at 50:50.
Equity Ratio	64%	52%	50%	Equity ratio increased as a result of an increase in retained profits from the previous year and is above the industry's benchmark. Theoretically, in any event of liquidation, the shareholders would have a greater share of claim to the residual value of the firm. Higher ratio indicates that there is still room for company to obtain debt finance to undertake its capex programs in the following year



Financial Statements

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***



Financial Statements

Directors Report

Your directors present their financial statements on the affairs of PNG Ports Corporation Limited ("the Company" or "PNGPCL") for the year ended 31 December 2011

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.

Apart from acquisition of Dylup Plantation there were no other significant changes in the nature of activities of the Company during the year.

Results

The profit for the year ended December 2011 amounted to K47,599,426 (2010: K17,749,290)

Dividends

Dividend declared in 2011 amounted to K18,072,289 (2010: 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 2011 and none had any material interests in any contract or arrangement with the company or any related entity during the year. The directors during the year ended 31st December 2011 were as follows:

Dr. Ila Iemu

Job Suat

Michael Ikau

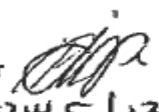
Kepas Wali

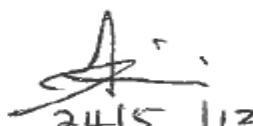
Robert Nilkare

Remuneration of Directors and Employees

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

For and on behalf of the board of directors

Director 
Date 24/5/13

Director 
Date 24/5/13



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: 10th July, 2013
Our Reference: 31-63-4
Action Officer: A. Gorre
Designation: DOA
Your Reference:

Dear Sir,

**AUDIT REPORT ON
PNG PORTS CORPORATION LIMITED
FOR THE YEAR ENDED 31 DECEMBER 2011**

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, 2011**.

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

Yours faithfully,

SINGER PRATHABAN
Assistant Auditor-General
(Statutory Bodies Audit Branch)
FOR: AUDITOR-GENERAL

Financial Statements



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

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

Reference: 31-63-4

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

I have audited the accompanying financial statements of **PNG Ports Corporation Limited** for the year ended 31 December, 2011 as set out on pages 4 to 28, which comprise the statement of financial position as at 31 December, 2011, and the statement of financial position, the statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility for the Financial Statements

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

Responsibility of the Auditor General

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the *Audit Act and International Standards on Auditing*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Financial Statements

PNG Ports Corporation Limited for the year ended 31 December 2011

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

BASIS FOR QUALIFIED OPINION

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

I audited the financial statements of the Corporation for years up to the year ended 31 December, 2010 and issued a disclaimer of opinion on them as I was unable to perform sufficient audit procedures to satisfy myself as to the accuracy and the completeness of the 2011 balances which are presented in the comparative financial information. Consequently, I was unable to quantify the effects of such material misstatements of the opening balances that might have a bearing on the balances reported in 2011 financial statements. Further, any adjustment that are found to be necessary on such opening balances would have a consequential effect on the profit and loss account for the year ended 31 December, 2011 and the comparative profit and loss account presented and the respective statement of financial positions and statement of cash flows. I was unable to perform sufficient audit procedure to satisfy myself as to the accuracy and the completeness of the opening balances.

Land

I was unable to inspect all the Certificate of Titles of land owned by the Corporation as disclosed in the financial statements. The information available to evidence the Corporation's ownership of certain blocks of land was not sufficient to allow me to perform audit procedures and satisfy myself as to the ownership and valuation of land as at 31 December 2011.

Capital Work in Progress-K309,941,850

Included in the fixed assets value was capital work in progress of K310 million. I was not provided with a listing of the projects composition of the work in progress and the status of each project. I understand some of the projects have been completed however, I was unable to establish the status of each project and the amounts to be transferred to the fixed assets register. Further, I was unable to determine the cost of completed projects and the corresponding depreciation charge. As a result, I was unable to determine whether any adjustment is necessary to fixed assets, capital work in progress, depreciation expense, retained earnings and the related tax calculations.

Financial Statements

PNG Ports Corporation Limited for the year ended 31 December 2011

Revaluation of Property, Plant & Equipment- adjustments of decrease in fair value

The revaluation deficit of certain assets amounting PGK38 million was recognized in other comprehensive income and accumulated in equity under the heading of reserves. *International Accounting Standard 16 (IAS 16)* Property, Plant and Equipment requires that where an asset's carrying amount is decreased as result of a revaluation, the decrease shall be recognized in profit or loss except to the extent that the decrease is reversing an existing revaluations surplus for the same asset. I was not provided with a listing of revaluated assets for the opening revaluation reserve of K167 million and the associated tax adjustments.

As a result, I was unable to satisfy myself whether the revaluation deficit has been appropriately recognised in the financial statements for the year ended 31 December 2011.

Revaluation of Property, Plant & Equipment-Revaluation of Class of Assets

During the year the Company carried out a revaluation for its land, buildings and wharf facilities resulting in an increase in the value of the property, plant and equipment by PGK568 million. However, the wharf facilities with a carrying value of PGK73 million were not considered for revaluation. This is in my opinion, a departure from IAS 16 which requires that where an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued. Had the wharf facilities been revalued entirely, the carrying value of property, plant and equipment and revaluation reserve may have been materially different to that recorded in the attached financial report. The financial effect of this matter is unable to be quantified.

Non-consolidation of subsidiaries

During the year the Company incorporated Dylup Estate Holdings Ltd and North Coast Agri Services Ltd, which are fully owned subsidiaries. However, these were not consolidated as the business activities are dissimilar to the Company's operations and will be sold in the near future. This is in my opinion, a departure from *International Accounting Standard 27 (IAS 27)* "consolidated and separate financial statements" which requires these subsidiaries should be consolidated.

QUALIFIED OPINION

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph above:

- (a) the financial statements of PNG Ports Corporation Limited for the year ended 31 December, 2011:
 - (i) give a true and fair view of the financial position and the results of its operations and cash flows for the year ended on that date; and


PNG Ports Corporation Limited for the year ended 31 December 2011

- (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; and
- (c) I have obtained all the information and explanations required.

OTHER MATTER

Borrowings with Bank South Pacific Limited

During 2010 the Company borrowed a capital expenditure loan of K100 million from Bank South Pacific Limited. As at 31 December, 2010 K24 million has been drawn down and was included in the statement of financial position. Any transaction in excess of K1 million has to be approved by the shareholder, Independent Public Business Corporation. I was not provided with any information to indicate that such an approval was either sought or received. As a result I was unable to satisfy myself as to the limited information available to me and the accuracy of the account balance at the year end.


PHILIP NAUGA
Auditor-General

10th July, 2013



FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2011

Financial Statements

Index

	Page No.
Company Information	1
Directors' Report	2
Independent Auditor's Report	3
Statement of financial position	4
Statement of comprehensive income	5
Statement of changes in equity	6
Statement of cash-flows	7
Notes to and forming part of the financial statements	8-28

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 & Principal Place of Business

Section 58, Lot 8, Stanley Esplanade, Port Moresby,
National Capital District

Directors

Dr Illa Temu	- Resigned 20 December 2012
Job Suat	- Reappointed 20 December 2012
Micheal Ikau	- Resigned 20 December 2012
Kepas Wali	- Resigned 20 December 2012
Robert Nilkare	- Resigned 20 December 2012
Harvey Nii	- Appointed 20 December 2012
Luke K Niap	- Appointed 20 December 2012
Eddie w Hesingut	- Appointed 20 December 2012
John Pumwa	- Appointed 20 December 2012
Nathaniel Poya	- Appointed 20 December 2012
Igo Oala	- Appointed 20 December 2012
Patrick K Amini	- Appointed 20 December 2012

Chief Executive Officer

Brian Riches Resign March 2012
Mr. Stanley Alphonse Appointed April 2012

Secretary

Mr. Joseph 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

Financial Statements

Directors' report

The directors present their financial statements on the affairs of PNG Ports Corporation Limited ("the Company" or "PNGPCL") for the year ended 31 December 2011.

Activities

The principal activities of the Company during the course of the financial year were, as promulgated by the Harbour Act (Chapter 240) is the provision of management services, operations and control of all activities governing the movement of ships and cargo handling within its declared ports strategically located throughout the maritime provinces of Papua New Guinea.

Apart from the acquisition of Dylup Plantation there were no other significant changes in the nature of the activities of the Company during the year.

Results

The profit for the year ended 31 December 2011 amounted to K47, 599,426 (2010: K17, 749,290).

Dividends

Dividend declared in 2011 amounted to K18, 072,289 (2010: Nil).

Directors

The directors at the date of the report of the company are listed on page 1. No director was a shareholder of the Company as at 31 December 2011 and none had any material interest in any contract or arrangement with the Company or any related entity during the year. The directors during the year ended 31 December 2011 were as follows:

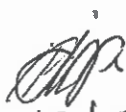
Dr Ila Temu
Job Suat
Michael Ikau
Kepas Wali
Robert Nilkare

Remuneration of Directors and Employees

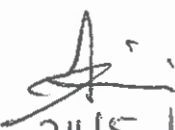
In accordance with the provisions of the Companies Act 1997 (section 212(3)), the shareholders of PNG Ports Corporation Limited have resolved that the company does not need to disclose directors and employee remuneration in its annual report.

For and on behalf of the board of directors

Director
Date


24/5/13

Director
Date


24/5/13



INDEPENDENT AUDITOR'S REPORT

Financial Statements

**Statement of financial position
As at 31 December 2011**

	Note	2011 K	2010 K
ASSETS			
Cash and cash equivalents	25	67,349,309	67,493,727
Investments	11	-	-
Trade and other receivables	12	49,087,197	18,221,348
Inventories		-	48,014
Total current assets		116,436,506	85,763,089
Deferred income tax assets	9(c)	8,697,005	5,680,998
Capital advances	12	21,398,569	23,552,667
Property, plant and equipment	10	1,028,852,022	346,456,403
Total non-current assets		1,058,947,596	375,690,068
Total assets		1,175,384,102	461,453,157
LIABILITIES			
Trade and other payables	16	78,074,385	20,127,379
Provision for taxes payable	9(b)	41,116,954	28,671,168
Trust payables	17	2,333,367	1,562,843
Employee benefits	18	5,306,538	2,027,696
Loans and borrowings	15	2,718,541	6,108,481
Deferred income	17(d)	3,150,000	-
Total current liabilities		132,699,785	58,497,567
Employee benefits	18	17,467,504	11,947,707
Trust payables	17	42,013,649	39,625,841
Loans and borrowings	15	50,310,927	33,656,071
Deferred income	17(d)	73,044,465	49,810,034
Deferred income tax liabilities	9 (d)	103,875,278	28,821,766
Total non-current liabilities		286,711,822	163,861,419
Total liabilities		419,411,607	222,358,986
EQUITY			
Share capital	13	7,830,000	7,830,000
Reserves	14	652,254,730	174,601,498
Retained earnings		95,887,765	56,662,673
Total equity		755,972,495	239,094,171
Total equity and liabilities		1,175,384,102	461,453,157

For and on behalf of the board of directors

Director



Director



Date

24/5/13

Date

24/5/13

The statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 8 to 28.



Financial Statements

Statement of comprehensive income
For the year ended 31 December 2011

	Note	2011 K	2010 K
Revenue		243,264,238	168,165,328
Direct costs		(22,678,327)	(17,884,735)
Gross profit		220,585,911	150,280,593
Other revenue	6	11,103,233	1,597,008
Personnel expenses	8	(57,408,174)	(43,949,899)
Depreciation	10	(37,360,346)	(13,397,459)
Administrative expenses		(27,831,033)	(24,239,163)
Other operating expenses		(40,714,782)	(21,586,456)
Results from operating activities		68,374,808	48,704,624
Finance income		651,907	1,086,985
Finance costs		(1,403,837)	(3,285,631)
Net finance expense		(751,930)	(2,198,646)
Profit before tax		67,622,878	46,505,978
Income tax expense	9(a)	(20,023,452)	(28,756,688)
Profit for the year		47,599,426	17,749,290
Other comprehensive income			
Revaluation adjustment	10	568,669,723	1,596,756
Income tax effect	9(d)	(81,318,536)	-
Other comprehensive income for the year , net of income tax		487,351,187	1,596,756
Total comprehensive income for the year		534,950,613	19,346,046

The statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 8 to 28.



Financial Statements

**Statement of changes in equity
For the year ended 31 December 2011**

	Share Capital K	Reserves K	Retained Earnings K	Total K
Balance at 1 January 2010	7,830,000	173,005,498	38,912,627	219,748,125
Profit for the year	-	-	17,749,290	17,749,290
Other comprehensive income	-	1,596,756	-	1,596,756
Total Comprehensive income	-	1,596,756	17,749,290	19,346,046
Depreciation attributable to asset revaluation	-	(756)	756	-
Balance at 31 December 2010	7,830,000	174,601,498	56,662,673	239,094,171
Profit for the year	-	-	47,599,426	47,599,426
Other comprehensive income	-	487,351,187	-	487,351,187
Total Comprehensive income	-	487,351,187	47,599,426	534,950,613
Depreciation attributable to asset revaluation	-	(9,697,955)	9,697,955	-
Dividend to equity holders	-	-	(18,072,289)	(18,072,289)
Balance at 31 December 2011	7,830,000	652,254,730	95,887,765	755,972,495

The statements of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 28.



Financial Statements

Statement of cash flows
For the year ended 31 December 2011

	Note	2011 K	2010 K
Cash flows from operating activities			
Cash receipts from customers		232,272,585	179,576,519
Cash paid to suppliers and employees		(119,782,776)	(112,671,347)
Cash generated from operating activities	25(c)	112,489,809	66,905,172
Income taxes paid		(16,858,696)	(20,408,335)
Interest paid		(1,403,837)	(3,285,631)
Net cash from operating activities		<u>94,227,276</u>	<u>43,211,206</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(121,738,195)	(61,922,166)
Government grant towards capital projects		30,000,000	-
Loans to subsidiaries		(19,686,579)	-
Interest income		651,907	627,673
Proceeds from sale of property, plant and equipment		-	239,552
Net cash used in investing activities		<u>(110,772,867)</u>	<u>(66,054,941)</u>
Cash flows from financing activities			
Proceeds of borrowings		19,205,082	24,818,914
Repayment of borrowings		(5,962,241)	(200,000)
Trust fund and related interest receipts		3,158,332	1,698,308
Net cash from financing activities		<u>16,401,173</u>	<u>26,317,222</u>
Net increase/(decrease) in cash and cash equivalents		(144,418)	8,473,487
Cash and cash equivalents at beginning of the year		67,493,727	59,020,240
Cash and cash equivalents at end of the year	25(a)	<u>67,349,309</u>	<u>67,493,727</u>

The statements of changes in equity is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 8 to 28.

Financial Statements

1 Reporting entity

PNG Ports Corporation Limited is a company domiciled in Papua New Guinea. The address of the Company's registered office is Section 58, Lot 8, Stanley Esplanade, Port Moresby, National Capital District. The Company primarily is involved in the provision of management services, operations and control of activities governing the movement of ships and cargos within its declared ports.

2 Basis of Preparation

(a) Statement of compliance

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

The Company has not yet made an assessment on the future impact of the Standards and Interpretations that have been issued by the IASB but are not yet effective for the year ended. However, the Board of Directors believes any of these standards and interpretations would not have a material impact on the financial statements. There are a number of standards that will be mandatory in the future reporting periods, but the Company has not elected to early apply.

(b) Basis of preparation

The financial statements have been prepared primarily on the historical cost basis, except for the revaluation of certain property, plant and equipment.

(c) Functional Currency

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

(d) Use of estimates and judgments

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

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

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

i. *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. The Company engaged an independent valuation specialist to perform the valuation. The valuation methodology based on the referenced to market based evidence, using comparable prices adjusted for specific market factors such as nature, location and condition of the property.

ii. *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.



Financial Statements

2 Basis of Preparation (continued)

(d) Use of estimates and judgments (continued)

iii. *Impairment of non-current assets*

The Company assess impairment at each reporting date by evaluating conditions specific to the Company that may lead to an impairment. Where an impairment trigger exists, the recoverable value is determined using value-in-use (VIU) calculations. No assets are considered impaired as at 31 December 2011.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, and have been applied consistently by the Company.

(a) Foreign currency transactions

Transactions in foreign currencies are translated 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 retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items that are recognised in the income statement is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Foreign currency gains and losses are recorded on a net basis.

(b) Financial instruments

(i) Non-derivative 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.

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

The Company has the following non-derivative financial assets: held-to-maturity financial asset, loans and receivables and cash and cash equivalents.

Financial Statements

3 Significant accounting policies (continued)**(b) Financial instruments (continued)****(i) Non-derivative financial assets (continued)***Held-to-maturity financial assets*

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

Loans and receivables

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

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.

(ii) Non-derivative financial liabilities

The Company initially recognises all liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

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

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



Financial Statements

3 Significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Share capital

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

(c) Borrowing cost

The Company capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost/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 (see note 3(c)). Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

A revaluation deficit is recognised in the income statement 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 net within other income in profit or loss.

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.

(ii) Subsequent costs

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

Financial Statements

3 Significant accounting policies (continued)**(d) Property, plant and equipment (continued)****(iii) Depreciation**

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

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

Asset Class	2011	2010	Basis of depreciation
Wharf facilities	2-8 years	30 years	Straight line
Buildings	15-23 years	30 years	Straight line
Machinery and equipment	5 years	5 years	Straight line
Motor vehicles	3 years	3 years	Straight line

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

(e) Impairment**Non-derivative financial assets (including receivables)****(i)**

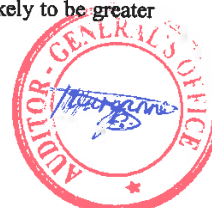
A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

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

Loans and receivables and held-to-maturity investment securities

The Company considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by combining together receivables and held-to-maturity investment securities with similar risk characteristics.

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



Financial Statements

3 Significant accounting policies (continued)

(e) Impairment (continued)

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

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

(ii) Non-financial assets (including receivables)

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

(f) Employee benefit plans

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

(i) Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when incurred.

(ii) Other long-term employee benefits

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

(iii) Short-term employment benefits

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

(g) 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.

(h) Revenue

(i) Operational revenue

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

(ii) Other income

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

Financial Statements

3 Significant accounting policies (continued)

(h) Revenue (continued)

(iii) Government grants

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) as in accordance to the International Accounting Standard number 20 (IAS 20) on "Accounting for Government Grants and Disclosure of Government Assistance".

(i) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

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

(j) 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.

(k) Investment in subsidiaries

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

(L) Comparatives

Where necessary, comparative figures have been adjusted to conform to the changes in presentation in the current year for better presentation. Accordingly, the trust payables amounting to K39,625,841 previously included as "current liabilities" has been classified to "non-current liabilities". This reclassification did not have any impact on the net assets at 31 December 2010 and performance for the year then ended.



Financial Statements

4 Determination of fair values

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

(i) Trade and other receivables

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

(ii) Non-derivative financial liabilities

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

5 Financial risk management

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

Risk management framework

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

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

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

(i) Credit risk

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

Financial Statements

5 Financial risk management (continued)**(i) Credit risk (continued)****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.

Investments

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

(ii) Liquidity risk

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

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

(iii) Market risk

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



Financial Statements

5 Financial risk management (continued)**(iv) Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior. 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 within 40%

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

	2011 K	2010 K
Total liabilities (loans, tax, trade and other payables)	172,220,807	88,563,099
Less: cash and cash equivalents	<u>67,349,309</u>	<u>67,493,727</u>
Net debt	104,871,498	21,069,372
Total equity	755,972,495	239,094,171
Debt to capital ratio at 31 December	13.9%	8.8%

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

The Company is not subject to externally imposed capital requirements.

6 Other revenue

Other revenue	10,263,128	715,475
Realised foreign exchange gain	840,105	685,922
Profit on sale of property, plant and equipment	-	195,611
Total other revenue	<u>11,103,233</u>	<u>1,597,008</u>

7 Other operating expenses

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

Charging

Auditors remuneration	375,000	180,515
Depreciation	37,360,347	13,397,459
Donations	298,666	371,318
Loss on write off of property, plant and equipment	11,212,711	-

Financial Statements

	2011 K	2010 K
8 Personnel expenses		
Wages and salaries	43,463,760	27,045,631
Contributions to defined contribution plans	2,233,396	1,148,232
Other staff costs	11,711,018	15,756,036
	<u>57,408,174</u>	<u>43,949,899</u>
9 Income tax		
(a) Income tax expense		
The prima facia tax charge on the profit is reconciled to the tax expense is as follow:		
Profit before tax	67,622,878	46,505,978
Income tax on the profit	20,286,864	13,951,793
Under (Over) provision in prior years	(2,663,968)	3,094,557
Unrecognised timing difference	2,773,268	8,960,219
Tax effect of permanent differences	(372,712)	2,750,119
	<u>20,023,452</u>	<u>28,756,688</u>
Income tax expense comprises:		
Current income tax	31,968,450	31,474,027
Deferred income tax	(9,281,030)	(5,811,896)
Under (Over) provision in prior years	(2,663,968)	3,094,557
	<u>20,023,452</u>	<u>28,756,688</u>
(b) Income tax payable		
Balance at beginning of the year	(28,671,168)	(14,510,910)
Current income tax	(31,968,450)	(31,474,027)
Over (Under) provision in prior years	2,663,968	(3,094,557)
Tax paid	16,858,696	20,408,326
Balance at end of the year	<u>(41,116,954)</u>	<u>(28,671,168)</u>
(c) Deferred income tax asset		
Balance at beginning of the year	5,680,998	2,420,828
Charge to income tax expense	3,016,006	3,260,170
Balance at the end of the year	<u>8,697,004</u>	<u>5,680,998</u>
(d) Deferred tax liabilities		
Balance at beginning of the year	(28,821,766)	(28,278,935)
Charge to income tax expense	6,265,024	(542,831)
Relating to revaluation reserve	(81,318,536)	-
Balance at the end of the year	<u>(103,875,278)</u>	<u>(28,821,766)</u>
Net deferred income tax liabilities	<u>(95,178,274)</u>	<u>(23,140,768)</u>
This balance comprises the tax effect of:		
Employee benefits	6,832,213	4,192,621
Provisions	1,864,792	1,488,377
	<u>8,697,004</u>	<u>5,680,998</u>
Prepaid insurance	(109,772)	-
Accrued interest	(15,364)	(72,511)
Deferred income	(945,000)	-
Property, plant and equipment	(102,805,142)	(28,749,255)
	<u>(103,875,278)</u>	<u>(28,821,766)</u>
Net deferred tax liability	<u>(95,178,274)</u>	<u>(23,140,768)</u>

Financial Statements

10 Property, plant and equipment

	HOS Land & Leasehold Land	Wharf Facilities Land & Buildings	Buildings & Fittings	Vehicle & Boats	Office Machines & Other Equipment	Work in Progress	Total
	K	K	K	K	K	K	K
2011							
Cost							
At 1 January 2011	15,414,387	326,807,038	16,580,538	10,636,866	14,350,640	189,453,448	573,242,917
Additions	650,000	444,382	123,141	1,681,668	3,101,266	158,370,419	164,370,876
Transfers	-	25,816,862	-	-	852,444	(26,669,306)	-
Revaluation	36,908,637	501,585,102	30,100,174	-	75,809	-	568,669,723
Revaluation depreciation adjustment	-	(159,603,991)	(9,175,002)	-	-	-	(168,778,993)
Written-off	-	-	-	-	-	(11,212,711)	(11,212,711)
Adjustments	-	(180,000)	(1,126,774)	(2,416,602)	(5,028,437)	-	(8,751,813)
At 31 December 2011	52,973,024	694,869,394	36,502,077	9,901,932	13,351,723	309,941,850	1,117,539,999
Depreciation							
At 1 January 2011	-	197,799,511	11,238,154	7,582,838	10,166,011	-	226,786,514
Revaluation depreciation adjustment	-	(159,603,991)	(9,175,002)	-	-	-	(168,778,993)
Adjustments	-	1,993,400	(1,283,883)	(2,416,885)	(4,972,521)	-	(6,679,890)
Change for the year	-	31,764,256	2,065,407	1,279,030	2,251,654	-	37,360,347
At 31 December 2011	-	71,953,176	2,844,676	6,444,983	7,445,144	-	88,687,978
Net Book Value - 2011	52,973,024	622,916,218	33,657,402	3,456,949	5,906,579	309,941,850	1,028,852,021



Financial Statements

2010							
	HOS Land & Leasehold Land K	Wharf Facilities & Buildings K	Buildings & Fittings K	Vehicle & Boats K	Office Machines & Other Equipment K	Work in Progress K	Total K
Cost							
At 1 January 2010	6,623,024	315,893,736	14,654,092	8,532,404	11,160,237	141,202,712	498,066,205
Revaluations	-	1,596,756	-	-	-	-	1,596,756
Additions	8,791,363	-	1,986,429	2,104,462	3,470,695	51,935,435	68,288,384
Disposals/Retirement	-	-	(199,983)	-	(277,838)	-	(477,821)
Write-off and adjustments	-	9,316,546	140,000	-	(2,454)	(3,684,699)	5,769,393
At 31 December 2010	15,414,387	326,807,038	16,580,538	10,636,866	14,350,640	189,453,448	573,242,917
Depreciation							
At 1 January 2010	-	189,520,526	10,191,889	6,774,474	7,340,851	-	213,827,740
Disposal/Transfers	-	-	(156,043)	-	(277,838)	-	(433,881)
Write-off and adjustments	-	(289)	4,840	-	(9,355)	-	(4,804)
Charge for the year	-	8,279,274	1,197,468	808,364	3,112,353	-	13,397,459
At 31 December 2010	-	197,799,511	11,238,154	7,582,838	10,166,011	-	226,786,514
Net Book Value - 2010	15,414,387	129,007,527	5,342,385	3,054,028	4,184,629	189,453,448	346,456,403

a) The carrying value of property, plant and equipment held under finance lease at 31 December 2011 amounted to K536,677 (2010:K457,562).

b) The amount of borrowing costs capitalised in 2011 amounted to K2, 911,397 (2010: Nil).

c) The Company uses the revaluation model for its land, buildings and wharf facilities. During the year the Company engaged NKA Consortium, an accredited independent valuer to assess the fair value of its assets. The valuation methodology is described in Note 2 (d) i. The valuation is effective 1 January 2011.

d) During the year, the Company changed its estimated useful lives of revalued assets. Accordingly, the existing carrying value of revalued assets (except land) are depreciated using the remaining useful lives and the revaluation surplus (except land) is depreciated over 10 years. Management believes that the revised practise reflects the more appropriate given the expected level of operations.



Financial Statements

11 Investments		2011 K	2010 K
	Ownership Interest		
(i) <i>Investment in subsidiaries</i>			
Dylup Estate Holdings Limited	100%	1	-
North Coast Agri Services Limited	100%	1	-
Total cost		2	-
Provision for impairment		(2)	-
		-	-

The companies were incorporated to purchase the land and infrastructure of Dylup Cocoa and Copra plantation. However the commercial operation has not commenced at 31 December 2011.

(ii) <i>Other investments</i>			
BSP Capital Limited		25,060,000	25,060,000
Provision for investments		(25,060,000)	(25,060,000)
		-	-

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

12 Trade and other receivables

Trade debtors	31,885,907	20,372,527
Less : Provision for doubtful debts	(5,840,971)	(4,961,258)
Amounts owed by related entities	14,913,579	1,504,210
Other debtors and prepayments	29,527,252	24,858,536
	70,485,766	41,774,015
Presented in the statement of financial position as follows:		
Current	49,087,197	18,221,348
Non-Current	21,398,569	23,552,667
Total	70,485,766	41,774,015

13 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 Harbours Act, Chapter 240 Section 11. This is supported by Legislation, Section 27 and 28 of the Harbours Act requiring the Minister to grant special purpose leases over the following ports: - Port Moresby, Rabaul, Lae, Madang, Kavieng, Samarai, Wewak, Kieta and Kimbe.

Financial Statements

14 Reserves	2011 K	2010 K
Asset revaluation reserve	(a) 644,744,764	167,091,532
Stakeholder fund reserve	(b) 7,509,966	7,509,966
	<u>652,254,730</u>	<u>174,601,498</u>
(a) Asset revaluation reserve		
Balance at 1 January	167,091,532	165,495,532
Surplus on revaluation of properties (net of tax)	487,351,187	1,596,756
Transfer to retained earnings	<u>(9,697,955)</u>	<u>(756)</u>
Balance at 31 December	<u>644,744,764</u>	<u>167,091,532</u>
(b) Stakeholder fund reserve		
Balance at 1 January	7,509,966	7,509,966
Transfer (to)/from retained earnings	<u>-</u>	<u>-</u>
Balance at 31 December	<u>7,509,966</u>	<u>7,509,966</u>

Asset revaluation reserve

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

Stakeholder fund reserve

Stakeholder fund reserve is the State contributions as Shareholder to fund the port installations projects. These funds are reflected as the shareholder capital contribution to PNGPCL. These funds were initially reflected as trust funds held on behalf of the State for the port installation projects, refer Note 17.

15 Loans and borrowings**Current**

Asia Development Bank	(a) 2,400,000	5,945,638
ANZ Finance Lease	318,541	162,843
BSP Capex Loan	(b) -	-
	<u>2,718,541</u>	<u>6,108,481</u>

- (a) The Government of Papua New Guinea is the primary borrower of the above International Agency Loans, and PNPCL, acting as a sub-borrower and executing agency. The amounts shown represent amounts payable by PNGPCL to the State at year end. As at the 31 December 2011, the loan payable to the State was unsecured and interest free. This amount can be called up by the state at any time.

Non-Current

Asia Development Bank	(a) 6,600,000	9,000,000
BSP Capex Loan	(b) 43,391,930	24,311,428
ANZ Finance Lease	318,997	344,643
	<u>50,310,927</u>	<u>33,656,071</u>

- (b) The loan is a K100 million facility, which is secured by Registered Fixed and Floating Charge over the whole of the Company assets. The loan carries interest of 5% plus the Bank's Indicator Lending rate and is repayable within 7 years.



Financial Statements

16 Trade and other payables	2011 K	2010 K
Trade creditors	5,206,747	6,534,685
Other creditors and accrued expenses	32,867,368	13,592,694
Claims payable*	40,000,000	-
	<u>78,074,385</u>	<u>20,127,379</u>

*Claims payable – This relates to the LAE 280 project. There were several variations against the original contract dated 24 June 2008 between the company and Nawae Construction Ltd. Subsequent to 31 December 2011, the parties entered into a contract for K65 million for variations and damages caused by delays in which K21 million was for breach of contract and K19 million for additional works carried out.

17 Trust payables

(a) Trust funds

Kanzarua Wharf Project Fund	1,062,551	1,042,705
Pom Port Relocation Project Fund	258,665	254,752
Kavieng Overseas Wharf Project Fund	1,277,975	1,260,437
National Project Fund	1,081,288	1,081,419
POM Port Redevelopment Project	7,312,057	10,277,194
Wewak Wharf Upgrade	20,883,289	20,574,816
Kimbe Wharf Upgrade	4,188,938	4,115,304
Lae Port Expansion	115	156
Aitape Wharf Project	5,948,772	1,019,058
Cargo Levy	2,333,367	1,562,843
	<u>44,347,016</u>	<u>41,188,684</u>

Presented in the statement of financial position as follows:

Current	2,333,367	1,562,843
Non-current	42,013,649	39,625,841
	<u>44,347,016</u>	<u>41,188,684</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 as listed above. PNGPCL would assist and facilitate with the project implementation and construction. A separate Trust Account is maintained to receive all funds provided by the State for these projects. Excess funds are currently being invested in interest bearing deposits with commercial banks.

(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 Harbours Act, Chapter No.240.

(d) Deferred Income

Current

Buka Wharf – completed
Amortisation

Non-Current

Projects in Progress

Total deferred income



3,500,000	-
(350,000)	-
3,150,000	-
73,044,465	49,810,034
<u>76,194,465</u>	<u>49,810,034</u>

Financial Statements

	2011 K	2010 K
18 Employee benefits		
Provision for annual leave	2,140,045	1,953,642
Provision for gratuity	7,943,665	74,054
Provision for long service leave	9,523,839	7,148,666
Staff loyalty	3,166,493	4,799,042
Total employees benefits	<u>22,774,042</u>	<u>13,975,404</u>
Presented in the statement of financial positions:		
Current	5,306,538	2,027,696
Non Current	<u>17,467,504</u>	<u>11,947,708</u>
Total Non current	<u>22,774,042</u>	<u>13,975,404</u>

19 Financial instruments**(a) Credit risk**

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

Trade receivables	31,885,907	20,372,527
Other receivables	44,485,831	26,362,746
Cash and cash equivalents	<u>67,349,309</u>	<u>67,493,727</u>
Total	<u>143,721,047</u>	<u>114,229,000</u>

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

Papua New Guinea	31,885,907	20,372,527
Other Pacific countries	-	-
Total	<u>31,885,907</u>	<u>20,372,527</u>

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

Retail customers	<u>31,885,907</u>	<u>20,372,527</u>
Total	<u>31,885,907</u>	<u>20,372,527</u>

The age analysis of debtors at reporting date was:

Past due 0-30 days	25,988,277	10,323,591
Past due 31-180 days	3,538,578	7,130,644
Past due 181-360 days	884,645	700,319
Past due more than 1 year	<u>1,474,407</u>	<u>2,217,973</u>
Total	<u>31,885,907</u>	<u>20,372,527</u>

Impairment losses

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

Balance at 1 January	4,961,258	3,002,214
Impairment recognised during the year	3,186,222	4,961,258
Impairment reversed during the year	<u>(2,306,509)</u>	<u>(3,002,214)</u>
Balance at 31 December	<u>5,840,971</u>	<u>4,961,258</u>



Financial Statements

19 Financial instruments (continued)**(b) Liquidity risk**

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

Amounts at 31 December 2011:

Non-derivative financial liabilities	Carrying amount	Contractual cash flows			
		Less than one year	1-2 years	2-5 years	More than 5 years
Loan facilities	53,029,467	2,772,933	2,617,209	4,286,632	71,314,635
Trade and other payables	78,074,385	78,074,385	-	-	-
	131,103,852	80,847,118	2,617,209	4,286,632	71,314,635

Amounts at 31 December 2010:

Loan facilities	39,764,552	14,945,638	474,271	344,643	24,000,000
Trade and other payables	20,127,379	20,127,379	-	-	-
	59,891,931	35,073,017	474,271	344,643	24,000,000

(c) Currency risk

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

(d) Interest rate risk

The Company's exposure to interest rate risk was nil for 2011 (2010: K nil) as it capitalised the entire interest expense.

(e) Fair value versus carrying value

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

20 Commitments

As at 31 December 2011, the Company has commitments amounting to K48, 755,635 (2010: K89, 774,321) relating to the projects in progress.

21 Contingencies

As at 31 December 2011, the Company has bank guarantees of K25, 180,000 in relations to its obligations.

Litigation

In addition to the claims discussed in Note 16, Nawae Construction Ltd has submitted another claim for damages and delays. However, no provision has been recognized in the financial statements as the amount is not reliably estimated due to early stage of the case.

22 Employees

The number of employees at the end of the year was 748 (2010: 657)

Financial Statements

23 Related Party Transaction

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

Independent Consumer & Competition Commission (ICCC)

ICCC is a government price regulator and accordingly, regulates amongst many other state owned enterprises (SOE) the PNG Ports regulated tariffs like pilotage, berthing and berthing reservation. The ICCC charges an annual fee of K420, 000 which the Company pays in four quarterly installments during the year.

Independent Public Business Corporation (IPBC)

The Independent Public Business Corporation is the government business arm that controls government business which includes the 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 IPBC but is expected to make dividend payments to the government as the sole shareholder through IPBC from any declared profits.

Loan to subsidiaries

For the year ended 31 December 2011, the Company granted an interest free loan to its subsidiaries amounting to K19, 685,579 of which K6, 277,210 were provided for. This loan is repayable on demand and hence, classified as current assets.

Key Management Personal

Compensation of key management personal at reporting date as:

	2011	2010
	K	K
Short term benefit	4,641,750	3,437,997
Post employment benefit	221,347	117,889
	<u>4,863,097</u>	<u>3,555,886</u>

24 Events Subsequent to the Reporting Date

There were no significant events subsequent to the reporting date other than described which require adjustment or disclosure to the financial statements.



Financial Statements

25 Statement of cash flows notes**(a) Reconciliation of cash**

For the purpose of the statement of cash flows, cash includes cash on hand and at bank and short-term deposits at call, net of outstanding bank overdrafts is reconciled to the related items in the statement of financial position as follows:

	Note	2011 K	2010 K
Cash and bank balances		18,463,433	23,840,360
Short term investments	25 (b)	48,885,876	43,653,367
		<u>67,349,309</u>	<u>67,493,727</u>

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

PNG Ports	8,125,422	7,944,847
Kavieng Overseas Wharf Project Fund	1,107,061	1,089,302
Kanzarua Wharf Project Fund	1,062,551	1,042,705
POM Port Relocation Project Fund	258,665	254,752
POM Port Redevelopment	7,311,507	7,693,495
Wewak Wharf Upgrade	20,883,174	20,494,061
Kimbe Wharf Upgrade	4,188,822	4,115,147
Aitape Wharf Project Fund	5,948,676	1,019,058
	<u>48,885,887</u>	<u>43,653,367</u>

The Company's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 19.

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

Profit for the year	47,599,426	17,749,290
Add / (deduct) items classified as investing / financing activities:		
Interest income	(651,907)	(1,113,475)
Interest expenses	1,403,837	3,285,631
Add / (deduct) non-cash items:		
Provision for investment	-	9,000,000
(Profit) / loss on disposal of non-current assets	17,366	(195,611)
Prior year other income adjustment	(6,459,871)	(12,135,611)
Write-off capital work in progress	11,212,711	-
Amortisation of deferred income	(350,000)	-
Depreciation	37,360,346	13,397,459
Provision for doubtful debts	3,182,407	3,602,055
Provision for investments	6,227,210	-
Income tax expense	<u>20,023,452</u>	<u>28,756,688</u>
Cash generated before changes in assets and liabilities	119,554,977	62,346,426
Changes in assets and liabilities		
(Increase) decrease in inventories	48,014	(45,342)
(Increase) decrease in trade and other receivables	(15,302,381)	13,611,848
Increase (decrease) in trade and other payables	8,798,638	(17,915,950)
Increase (decrease) in employee benefits	(669,439)	8,908,190
Cash generated from operations	<u>112,439,809</u>	<u>66,905,172</u>



Financial Statements

26 Leases

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

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

(a) Operating leases

At reporting date non-cancellable minimum operating lease payments are as follows;

	2011 K	2010 K
Less than one year	1,474,671	914,719
Between one and five years	538,425	929,340
Total	<u>2,013,096</u>	<u>1,844,060</u>

(b) Finance leases

The finance lease payables are disclosed in Note 15.





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