PNG PORTS CORPORATION

ANNUAL REPORT | 2012

CONTENT

ABOUT PNG PORTS CORPORATION LIMITED

VISION

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

MISSION

PNG Ports Corporation Limited will be the leading;

- Trade facilitator,
- Terminal Operator,
- Seaport Developer; and
- Seaport Administrator

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

VALUES

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

Commercially Astute
We are committed to maximising our shareholder 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.


PNGPORTS
CORPORATION

PNG PORTS CORPORATION LIMITED OVERVIEW

PNG Ports Corporation Limited ('PNGPCL') prides itself as Papua New Guinea's ('PNG') gateway to maritime trade and a key player in providing sea transport infrastructure through our network of 16 ports in the Maritime Provinces across the country.

Our services include wharfage, berthage, berth reservation, pilotage, cargo and container storage, stevedoring access and administration of stevedoring licences.

As a fully corporatised State Owned Entity ('SOE'), PNGPCL's ownership is vested in trust with the Independent Public Business Corporation ('IPBC') on behalf of the state. Its powers and functions are governed by the PNG Harbours Act Chapter 240.

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

PNGPCL also ensures that it complies commercially with the regulatory body of the Independent Consumer & Competition Commission ('ICCC') through the ICCC Act 2000 and the binding Regulatory Contract.

Since its corporatisation in 2002, PNGPCL has committed to injecting significant capital outlay on the rehabilitation, development and modernisation of the port network in order to improve overall efficiency and productivity. PNGPCL is also committed to ensuring that it supports the National Government in achieving the country's development goals for maritime infrastructure.

Our 16 port locations

The 2 ports of Aitape and Samarai are under agency management.

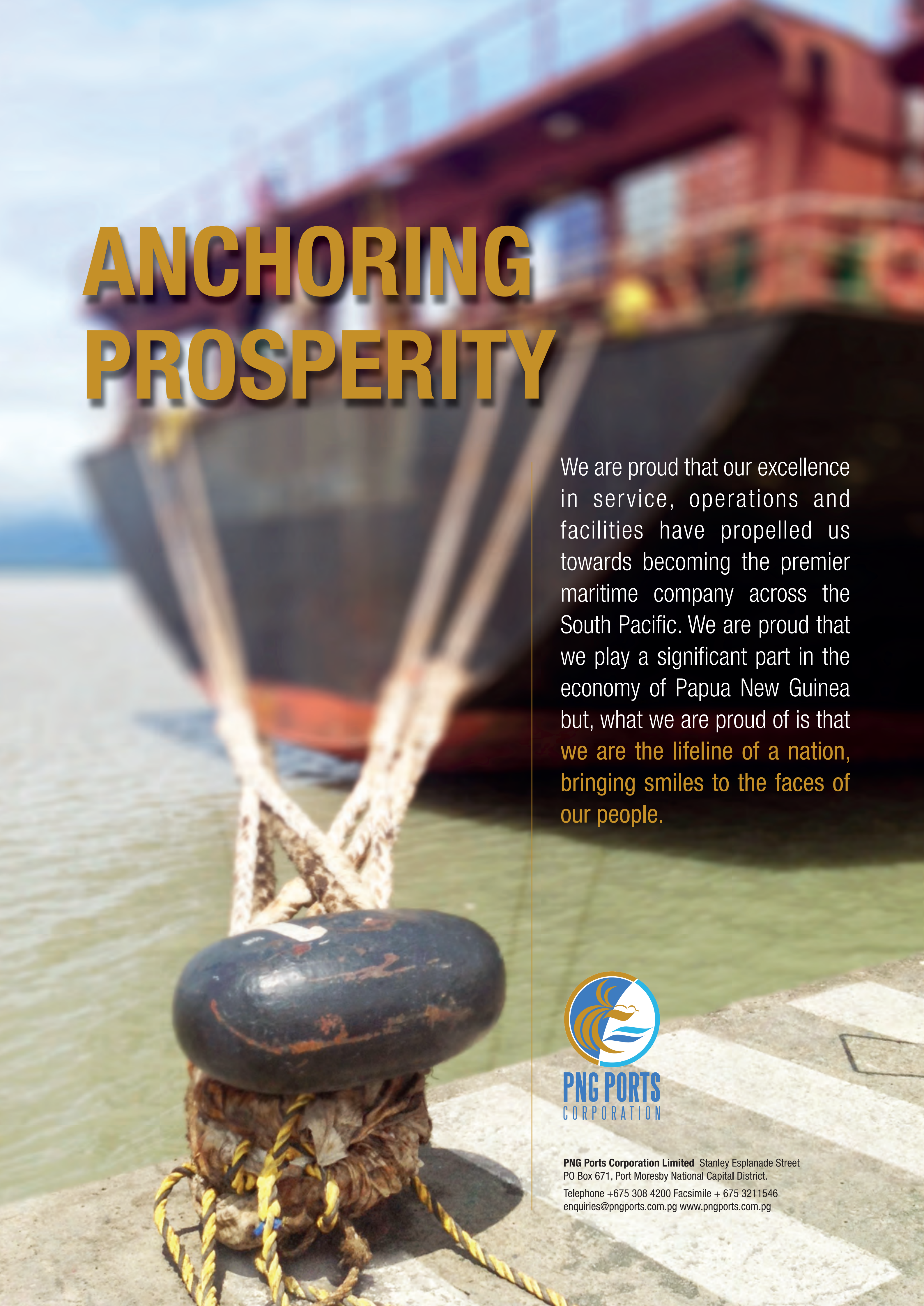
- Aitape - Tel (675) 457 2540
- Alotau - Tel (675) 641 1266
- Buka - Tel (675) 973 9927
- Daru - Tel (675) 645 9137
- Kavieng - Tel (675) 984 2245
- Kieta - Tel (675) 276 9238
- Kimbe - Tel (675) 983 5355
- Lae - Tel (675) 473 4100
- Lorengau - Tel (675) 970 9060
- Madang - Tel (675) 422 2351
- Oro Bay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

Year at a glance

Overall performance highlight

Chairman's report

Chief Executive Officer's report


ANCHORING PROSPERITY
We are proud that our excellence in service, operations and facilities have propelled us towards becoming the premier maritime company across the South Pacific. We are proud that we play a significant part in the economy of Papua New Guinea but, what we are proud of is that we are the lifeline of a nation, bringing smiles to the faces of our people.
PNG PORTS CORPORATION
PNG Ports Corporation Limited Stanley Esplanade Street
PO Box 671, Port Moresby National Capital District.
Telephone +675 308 4200 Facsimile + 675 3211546
enquiries@pngports.com.pg www.pngports.com.pg

YEAR AT A GLANCE

Overall Performance | Highlights

PNGPCL's overall performance is compared against 2011 results.

Total cargo throughputs movement
Increased by 2.88 %

Total containerised cargo movement
Increased by 6.57 %

Total non-containerised cargo movement
decreased by 1%

Top 3 leading cargo trading ports
Lae (51%), Port Moresby (24%) and Kimbe (8%)

Operating revenue
Increased by 5%

Operating expenditure ex depreciation
decreased by 12%

Net Profit after Tax
Increased by 59.5%

Net asset
Increased by 10.40%

Shareholder's fund
Increased by 10.40%

Return on shareholder's fund
Increased by 9%

Chairman's Report

It gives me great pleasure to present to all our stakeholders, valued clients and the general public the 2012 Annual Report for PNG Ports Corporation Limited.

2012 has been a wonderful year for the organisation as it continued to perform beyond expectations. PNGPCL made an after tax profit of K75.9 million, a 59 percent increase from the previous year and also a record breaking achievement. The Board declared a dividend of K15 million whilst the rest was ploughed back into the company to cushion its balance sheet position and to accommodate the ongoing implementation of the five year capital expenditure ("capex") program.

PNGPCL continued to maintain a solid financial position in 2012. Debt level was managed well with a ratio of 37 percent which is below the 50 percent industry benchmark. Total assets were recorded at K1.3 billion; a 13 percent increase from the previous year reflecting the organisation's major investments in new capital assets aimed at improving the operations of the ports. Owners equity recorded K835 million indicating an upward improvement by 10 percent.

2012 proved to be a year of strong business growth as PNGPCL recorded an operating revenue of K256 million. This is an upward improvement by 5 percent from the previous year. Evidently PNGPCL's impressive financial performance is a reflection of the management's ongoing financial discipline, commitment from the hardworking staff and effective assets utilisation.

This year, the company recorded a cargo throughput of 7.9 million revenue tonnes, the highest volume ever recorded in the last 5 years. Whilst this indicates positive growth in the country's economy, it has also given PNGPCL the opportunity to relook into the core business and identify areas of improvement in its operations. This led the company to investing heavily in new capital assets including the purchase of Rubber Tyred Gantries ('RTGs') and Mobile Harbour Cranes ('MHCs') for the major of ports of Lae and Port Moresby.

These assets are geared at improving the efficiency of both ports and are now semi-operational. PNGPCL is also well and truly in progress of other activities under its port development exercise which includes the construction of the Lae Tidal Basin valued at more than K800 million. This project is managed by the Independent Public Business Corporation ('IPBC') and expected to be completed in 2014.

Chairman's Report

The return on Shareholders' Fund in 2012 was 9 percent after the community service obligations. PNGPCL continued to cross – subsidize the operations of the underperforming ports with the operating revenues from the three profit making ports which are Lae, Port Moresby and Kimbe. The Board is committed to ensuring that PNGPCL fulfils this community service obligation so that it supports the government in service delivery.

Overall the Board and Management of PNGPCL is committed to playing its role as a key partner to the National Government by supporting the development objectives for maritime infrastructure in the country.

As PNGPCL journeys through this transition phase and grows from strength to strength, the Board will continue to uphold and practice high corporate governance standards in all commercial decisions and the overall management of the company.

I therefore would like to thank Stanley Alphonse, Chief Executive Officer, his dedicated executive management team and staff of PNGPCL for the company's growing achievements. I certainly look forward to the same level of dedication and support in 2013 and beyond.

Nathaniel Poya, OBE
Chairman

Chief Executive Officer's Report

2012 has been an exciting and fulfilling year for PNGPCL. I am proud of the achievements that this report will highlight to you particularly in terms of our operational and financial performance and equally pleased with the progress of various strategic initiatives geared towards enhancing our core business.

This year PNGPCL recorded an overall cargo throughput of 7.9 million revenue tonnes, the highest volume ever recorded in the last 5 years. Container trade also had an upward movement by 7 percent recording 336,000 Twenty-foot Equivalent Units ('TEU's) whilst the number of Vessel calls registered was 7,322.

Lae, Port Moresby and Kimbe port maintained their positions as the top three ports that cater for a majority of the company's domestic and international trade. Lae port handled 51 percent of the ports overall cargo volumes, followed by Port Moresby port handling 24 percent, and Kimbe port with 8 percent. These three ports earn 80 percent of the company's operating revenue. The remaining underperforming ports are cross subsidised with revenues from the profitable ports hence in this way PNGPCL maintains service delivery.

PNGPCL's financial performance this year was outstanding with the company earning an after tax profit of K75.9 million, the highest profit recorded in the last 5 years. The company also maintained a healthy financial position with assets reaching over 1.3 billion whilst debt levels remained stable. Operating revenues also rose by 5 percent reflecting the company's strong business growth this year.

Also this year PNGPCL embarked on the major port redevelopment exercise for the ports of POM and Lae. Ten (10) Rubber Tyred Gantries ('RTGs') were purchased with K23 million funding assistance from the National Government. The National Government also provided funding assistance of K30 million to the company for the purchase of four (4) Mobile Harbour Cranes ('MHCs'). These new assets are geared towards improving the rate of cargo handling on the wharf, shorten vessel turnaround times and reduce berth congestion. Another major port development initiative is the construction of the Lae tidal basin. Valued at more than K800 million, the project is co-funded by the Asian Development Bank ('ADB') and the PNG Government. Construction works for the project have already begun.

Chief Executive Officer's Report

Human resource are vital assets to PNGPCL as they contribute to achieving the company's goals and objectives. With the transition phase that the company is undergoing, training programs have been rolled out to up-skill and enhance the knowledge of employees. Despite the 12 percent increase in turnover, PNGPCL believes that it is part of the company's change process and will focus on retaining highly skilled staff.

PNGPCL as part of its community sevice initiatives provided sponsorships and donations for worthy causes at a value of over K100, 000. The company also joined civil societies and other corporate bodies throughout the country to observe important dates in the social calendar such as White Ribbon Day (Elimination of Violence against Women & Children), Red Ribbon Day (World HIV/Aids Day) and Pink Ribbon Day (Awareness on Breast Cancer).

2012 has indeed proven to be a fulfilling and successful year for PNGPCL and I'm confident that the organisation will continue to perform beyond expectations in the years to come. To conclude, I would like to sincerely thank the Board, executive management team, our key stakeholders and staff members for their efforts and commitment this year and look forward to the continued support and cooperation in 2013.

Stanley Alphonse, MCom, CPA, APNGIA
Chief Executive Officer


CHANGSHA
HONG KONG

Operations review

- Human Resource
- Major Projects
- International Accrediation
- Community Engagment
- Trade Performance

Human Resource

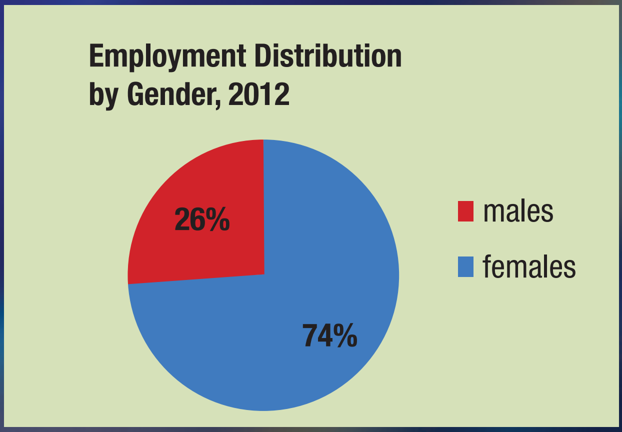
REPORTS

The total staff strength as at the end of December 2012 was 816 representing a 4 percent increase from the corresponding period. This increase is a result of the ongoing recruitment drive and the engagement of vacation students for short-term employment.

PNGPCL consists of 7 key departments; of which the largest being Operations representing 75 percent of the entire workforce.

- Operations
- Infrastructure
- Commercial & New Business
- Finance
- Corporate Services
- CEO's office
- Maritime Compliance

In terms of gender distribution, females constitute 26 percent of the workforce whereas males make up 74 percent.



PNGPCL's staff turnover increased by 12 percent from the corresponding period which is consistent with the company's organisational change process which is aim at retiring or re-deploying the aging workforce and encouraging, up skilling and retaining key staff. The Human Capital Division is focused on keeping the staff turnover at a good level with the primary aim of retaining highly – skilled staff who have the calibre and attitude to perform at PNGPCL.

	Manpower Total	Turnover by %
2011 (Year-end)	782	9.60
2012 (Year-end)	816	11.69

The management of PNGPCL recognises that employees are a great asset as they are integral to the growth and success of the company. With the transition phase that PNGPCL is currently undergoing, the company has rolled out various training programs to up-skill employees so that not only do they enhance their existing knowledge but are motivated to continue offering their expertise to the company.

In-house training facilitated throughout the year covered crucial areas of Port operations, Security, and Occupation Health & Safety. Under the Port Planning & Terminal Operations Programme, selected port staff underwent training on how to operate the Mobile Harbour Cranes. The same was also done for the operation of the Rubber Tyred

Human Resource | Report

Gantries. External Training overseas for other specialised areas were facilitated as well on a needs basis.

Under the Graduate Development Programme, 12 graduates successfully completed their training and were confirmed as permanent staff of PNGPCL. With the ongoing Cadetship programme, four (4) cadets from the PNG Maritime College are currently doing sea – time whilst eight (8) first – year cadets will return to the College upon commencement of the new semester in 2013.

PNGPCL has taken a proactive approach in promoting the welfare of its employees by organising free medical checks. Head Office staff, including those at the ports of Port Moresby, Buka, Alotau and Oro Bay underwent medical checks for blood pressure, cholesterol and blood sugar level as well as Tuberculosis (TB). Employees diagnosed with health issues of concern were referred by the medical practitioners to seek further medical assessment and treatment. PNGPCL plans to roll out the Staff Medical Check program for the rest of the ports.

Major Projects

MODERNISATION EXERCISE

The port redevelopment exercise for POM and Lae ports are progressing well.

RTGs and MHCs

Ten (10) Rubber Tyred Gantries ('RTG's) have been purchased and are now semi operational at the ports of Lae and Port Moresby. Seven (7) RTGs are stationed at Lae port while three (3) are stationed at POM port respectively. The concrete runways for the RTGs are under construction at both ports, which are a major aspect of the port redevelopment exercise. The runways will enable the RTGs to operate and stack a greater volume of containers. Track 1 and 2 for POM port are completed whilst Track 3 is still under construction. As for the Lae port, the Geo tech and design for the tracks have been completed and are undergoing review. PNGPCL received K 23 million funding from the National Government for the purchase of the Lae port RTGs under the 2012 Transport Rehabilitation and Maintenance Development Budget.

RTGs are a significant part of PNGPCL's efforts to modernise and uplift the ports to international standards and are aimed at improving container handling and maximizing cargo storage capacity of PNGPCL's storage yards.

PNGPCL has procured four (4) Mobile Harbour Cranes ('MHC') which are all operational. One MHC is stationed at POM port which was engaged on four (4) vessel operations in December this year whilst three (3) are stationed at Lae port and fully deployed on all vessels. PNGPCL received K 30 million funding from the National Government under the 2011 Development Budget for the purchase of the MHCs.

The MHCs are anticipated to improve the loading and unloading rate of containers at the ports, shorten vessel turnaround times and help reduce berth congestion.

Lae Tidal Basin

The construction of the 700 x 400 metre tidal basin at the port of Lae is part of Phase 1 of the overall New Lae Port Development project. It will be complemented by other port facilities including the 240 metre multipurpose wharf structure, container terminal works, cargo shed and other relevant building works and utilities.

The project valued at over K800 million is managed by the Independent Public Business Corporation ('IPBC') and co-funded by the Asian Development Bank ('ADB') and the PNG Government. China Harbour Engineering Company has been awarded the contract for the project. The project is expected to be completed in 2014.

Upon completion, the tidal basin is anticipated to bring about significant improvements to the port operational front including the increase in the port's capacity to accommodate more vessels and larger shipping liners thereby reducing the harbour traffic. There will also be an increase in yard space for the movement and storage of cargo hence relieving wharf congestion.

Major Projects | Modernisation

POM & Lae Stevedores Mess & R&D Building

The Lae Stevedores Mess was officially opened in April this year as part of PNGPCL's ongoing transformation to become an international port organisation. The mess facility is fully operational and serving meals to the stevedore companies contracted to operate within the Lae port. The mess will also, in the near future, service the requirements of other port users including PNGPCL staff.

The Stevedores Mess for POM port is under construction and scheduled for completion in the first quarter of 2013. General upgrade of port facilities continue to progress as well in the outer ports such as the Daru Trestle Rehabilitation, Aitape wharf facilities rehabilitation and Rabaul port office alterations.

International Accreditation

PORT SAFETY AND MANAGEMENT

PNGPCL is committed to ensuring that its operations are conducted in an environmentally responsible manner and as such complies with 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.

PNGPCL also has a PNG Harbours Management Services ('PNGHMS') division responsible for the control and regulation of all the declared ports and harbours that come under PNGPCL's mandate pursuant to the Harbours Act Chapter 240 of 2002 and the Ports Management and Safety Regulation 2010. These functions are performed under delegation from the Department of Tansport.

This year PNGPCL successfully implemented the Health Safety & Environment Safety Management System at Port Moresby port and the Head Office. The system is consistent with requirements of the ISO 9000 group of standards and the company is especially proud to be certified in the following categories;

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

The system will also be implemented in the other ports by the end of 2013.

Community Engagements

HIGHLIGHTS

PNGPCL continues to demonstrate that it is a good corporate citizen providing assistance to communities through sponsorships and donations. In 2012, the company facilitated over 30 sponsorships and donation requests at the value of over K100, 000.00 towards sports activities, education, churches and NGOs.

PNGPCL also took a proactive approach this year in promoting a cleaner, healthier and safer environment by organising quarterly corporate clean-a-thon exercises. The program involved half a day's clean up of the Head office premises and various locations around Port Moresby city.

The clean-a-thon falls in line with the company's Community Service Initiative to promote and drive corporate behavioural change as an obligation to other corporate entities and the surrounding communities.
Another community service initiative driven by the company is the Volunteer Youth Ambassador ('VYA') programme which is basically a guide service for tourists. Youths are invited to volunteer as tour guides for tourists that arrive on our shores on cruise vessels. The guides assist tourists to have easy access to services such as banking, postal services, internet kiosks and also include visits to tourist attractions sites within the city. The programme has proven to be a success since its commencement in March 2010.

PNGPCL in partnership with various organisations and civil societies also participated in 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);
- Red Ribbon Day (World HIV/AIDS Day); &
- Pink Ribbon Day - Awareness on Breast Cancer.

Trade Performance

ANALYSIS

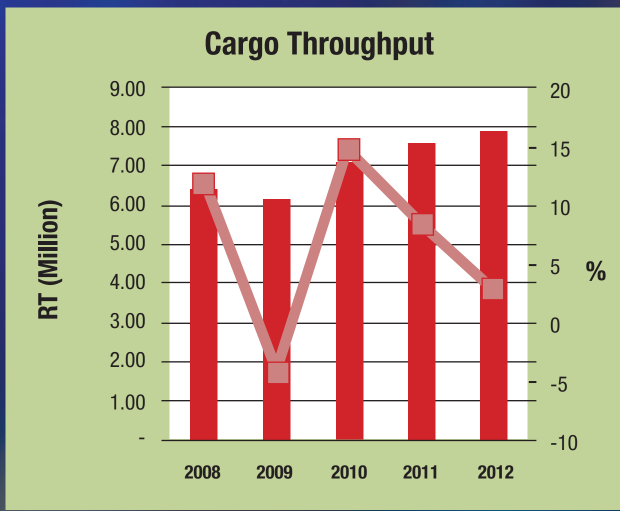
Cargo throughput

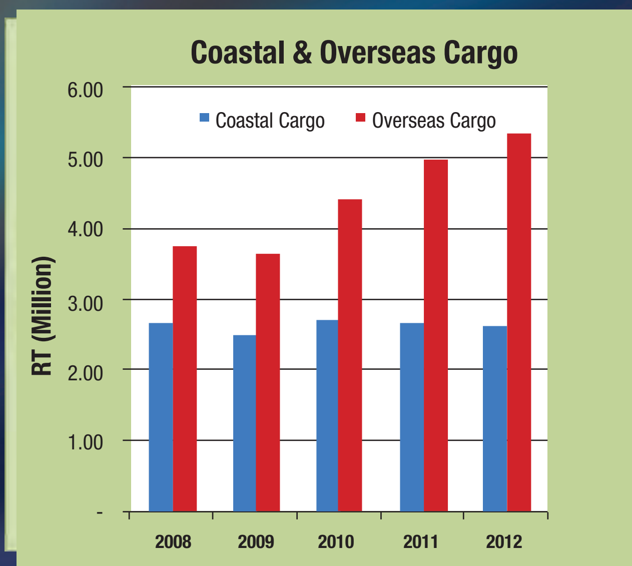
In 2012, PNGPCL handled another record overall cargo throughput volume of 7.9 million Revenue Tonnes, representing an increase of 3 percent. The rise was mainly attributed to increased volumes in the external trade sector by 7 percent relative to the corresponding period due to both strong domestic output and demand for foreign goods including the LNG Construction related demand.

Over the past 5 years, coastal cargo volumes have recorded an average of 2.6 million Revenue Tonnes. In 2012, the volume of coastal cargo declined by 3 percent compared to the corresponding period. The major cargos traded were in the form of break bulk, palm oil and fuel. The volume of overseas cargo have picked up from 2009 and continued to rise with 2012 recording 5.3 million Revenue Tonnes representing nearly a 7 percent increase from the previous year. Imports increased this year by 17 percent, whereas exports decreased by 7 percent.

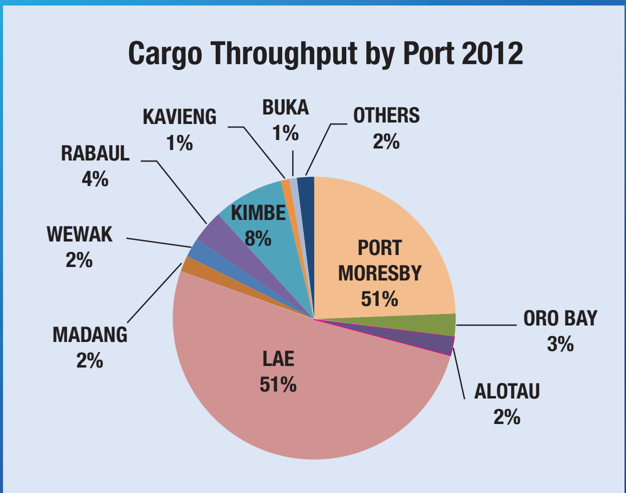
Lae maintained its position as the leading port in handling movement of cargo. This year its cargo volumes totalled approximately 4 million Revenue Tonnes. This represents a 13 percent increase from the previous year and makes up half of the throughputs of all the ports combined. Port Moresby port handled the second highest cargo volumes of 1.9 million Revenue Tonnes representing a quarter of the total cargo throughput. Its relative standing in the two respective periods did not differ by any significant percentage point.

Kimbe handled about 8 percent of the total cargo throughputs, its relative standing in the two respective periods also did not differ by any significant percentage points. The total volume of cargo passed through Kimbe port decreased by 9 percent from the previous period. Rabaul is the fourth leading port handling about 4 percent of the total cargo throughputs. All the other ports accounted for less than 4 percent of the total throughputs.





Trade Performance | Analysis



Containerised trade

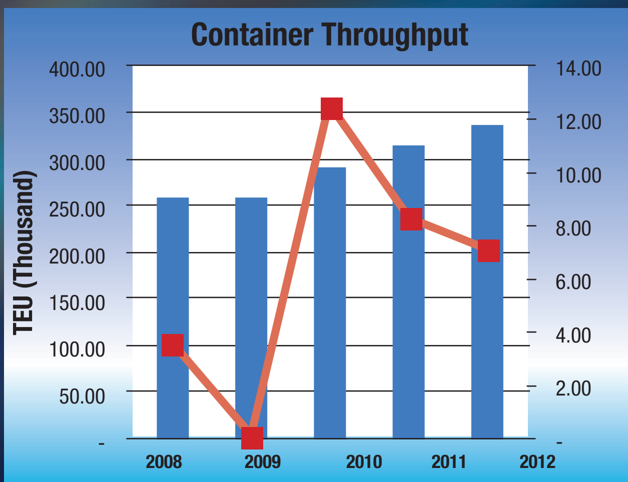
In 2012, a total of about 336, 740 Twenty Foot Equivalent Units (TEUs) were traded through PNGPCL's ports. This represented an increase of about 7 percent from the previous year. Since 2009, container throughput has continued to rise steadily with the highest percentage growth of 12 percent recorded in 2010.

In 2012, about 63 percent of TEUs were derived from international trade whilst the rest were from coastal trade. Inward international TEU throughputs have increased by 14 percent which corresponds with the increase in domestic consumption demand for consumer merchandises. The outward international TEU throughputs also increased by 19 percent from the corresponding period.

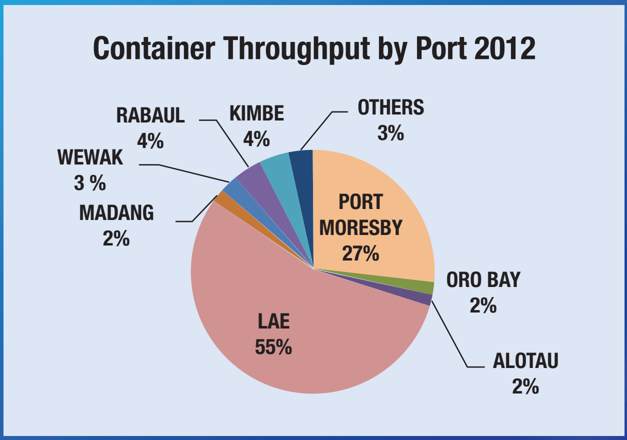
In terms of container throughput by port, Lae port, as usual, handled the most significant volume totalling of about 184, 491 TEUs. This represents more than 50 percent of total TEU throughput for all ports combined. It also indicates a14 percent increase from the previous year's record. Lae's status as an industrial city and logistical hub for mass of the country's imports and exports is a factor behind such significant TEUs (as well as cargo) movements through its port.

Port Moresby port maintained its second position, handling 89,503 TEUs, which is over a quarter of the ports total TEUs. As the 2 major ports in the network, Lae and Port Moresby combined will certainly account for a flow of significant volume of cargo including the TEUs in many years to come.

Kimbe port recorded the third highest container volume with a total of 13, 408 TEUs however this was a 21 percent decline from the previous year due to the fall in inward and outward flow of containers.



Trade Performance | Analysis



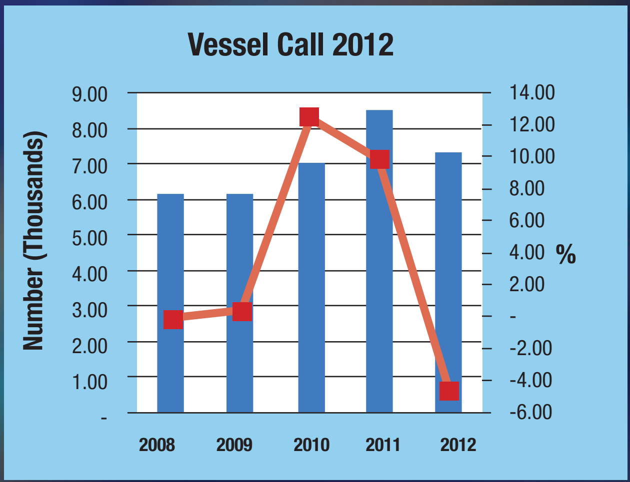
Rabaul port again consolidated its position as the fourth leading TEUs trading port, though experiencing a modest decline by about 6 percent.

Wewak maintained its position as the fifth trading port from the corresponding period with the TEUs throughput increase by about 3 percent. Coastal TEUs accounted for a significant volume of container movement at Wewak port. The rest of the TEUs were handled by the other ports across the country.

Vessel Call

PNGPCL registered overall vessel calls of 7,322 in 2012 representing a decrease of about 5 percent from the previous period. Overseas calls accounted for 54 percent of the aggregate calls whilst the rest were coastal calls. In the corresponding period, there was also a fairly even distribution of coastal and overseas calls.

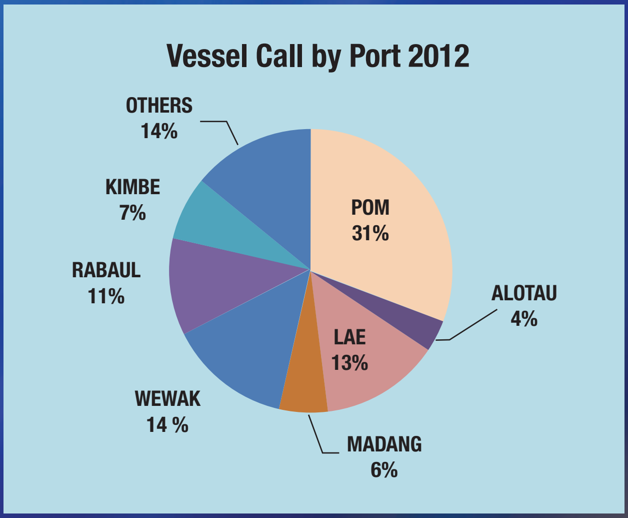
In terms of the comparison of call by port, Port Moresby received the largest calls amounting to 31 percent of the total vessel calls for that year. This indicated very little change to the number of vessel calls recorded in the previous period for POM port.



Trade Performance | Analysis

Wewak port registered the second highest number of calls amounting to 1,035 which made up 14 percent of the total number of calls. This was a good 25 percent increase from the previous year.

Lae port recorded 982 vessel calls which was a 6 percent drop from the corresponding period. Lae accounted for about 13 percent of the overall call which is similar to its previous period call registry.




CAPITAL

Corporate Governance

- Board of Directors
- Managment team
- Corproate values
- Corporate Governance practice
- Financial Review

PNGPCL Board of Directors

NATHANIEL POYA | OBE, Chairman

JOB SUAT | MSc, Deputy Chairman

HARVEY NII | Director

IGO OALA | Director

Prof JOHN PUMWA | Director

EDDIE W HESINGUT | Director

LUKE K NIAP | Director

PATRICK K AMINI | Director

PNGPCL Executive Management

STANLEY ALPHONSE | CEO

FEGO OTA KINIAFA
Chief Commercial Officer

STEVE TESAR
Chief Operations Officer

ROWINA BELAPUNA
Chief Financial Officer

WAQA BAULEKA
General Manager Infrastructure

PAUL M UNAS
Chief Maritime Compliance Offcier

MULAI NINIHILI-VUI
General Manager Corporate Services

Corporate Governance Practice

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

Role of the Board

The 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 2012 had eight (8) 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 2012 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 Practice

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 2012 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.

Financial | Review

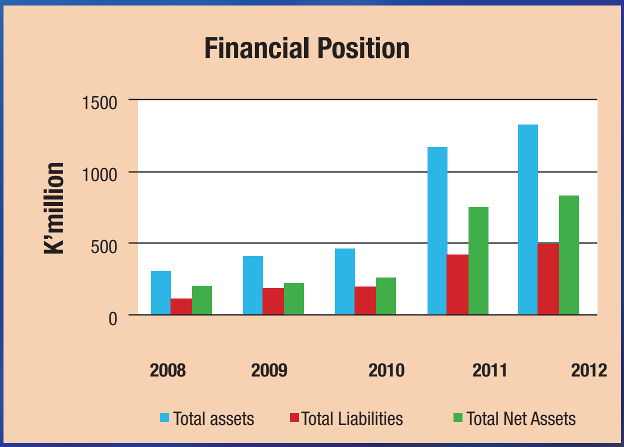
FINANCIAL | SUMMARY

Year ended 31 December	2012 K'm	2011 K'm	2010 K'm	2009 K'm	2008 K'm
Operating Result					
Operating revenue	255.9	243.3	168.1	108.6	94.2
Operating expenses	165.2	186.9	17.9	89.3	78.2
Operating profit before interest and tax	100.2	68.4	48.7	20.8	17.4
Finance costs	2.1	1.4	(3.3)	(.6)	(3.2)
Profit (Loss) before Taxes	98.8	67.6	46.5	21.4	19.5
Profit(Loss) after Taxes	75.9	47.6	42.4	23.4	(3)
Financial Position					
Total Assets	1,332.1	1,175.4	464.2	410.1	308.6
Total Liabilities	497.5	419.5	200.4	190.3	112.3
Contributed Capital and Reserves	650.0	660.0	263.8	219.7	196.3
Retained earnings	184.6	95.9	81.4	38.9	112.3
Total Equity & Liabilities	1,332.1	1,175.4	464.2	410.1	308.6
Cash Flows					
Net Cash flows from operating activities	137.2	94.2	52.5	80.1	24.9
Net Cash flows from investing activities	(98.8)	(110.8)	(68.1)	(63.1)	(80.8)
Net Cash flows from financing activities	34.2	16.4	24.0	34.0	5.9
Net Cash flows	140	67.9	67.5	59.0	(50.0)

Financial Performance | Analysis

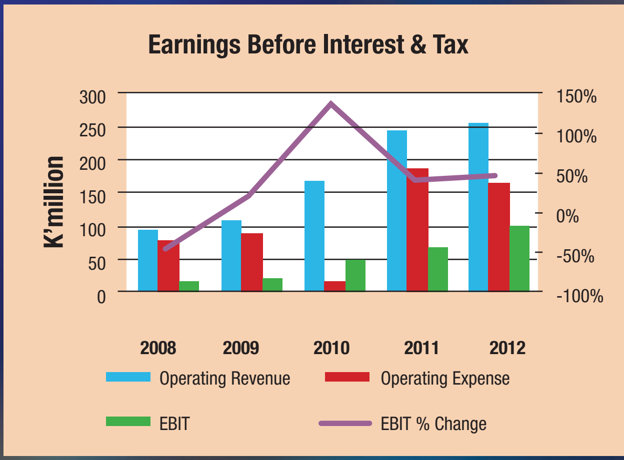
Financial position

For the past 5 years, PNGPCL's total assets have increased reaching over 1.3 billion in 2012. Liabilities have also increased correspondingly, however maintained at a manageable level resulting in a solid net asset position over this period. The increase in net assets reflects the organisation's major investments in new capital assets aimed at improving the operations of the ports. Major capital assets were financed out of the company's balance sheet as well as government's grants.

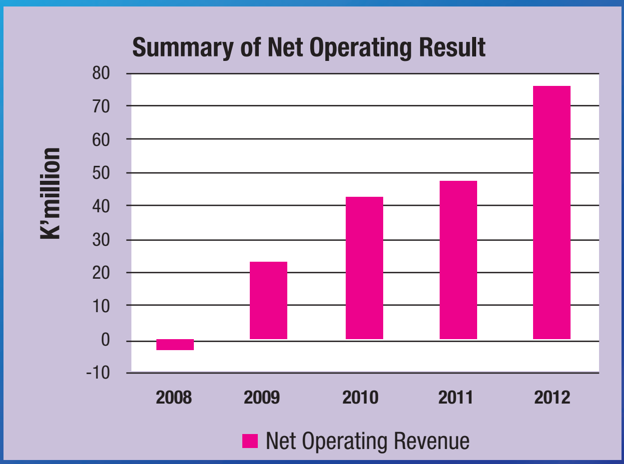


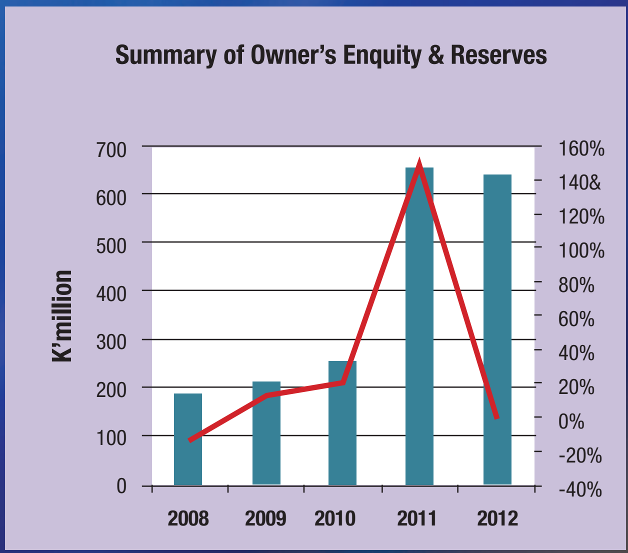
Earnings before Interest and Tax

PNGPCL's operating revenue has continued to grow over the past 5 years with this year recording a total of K256 million. This indicates a strong business growth of the company as a result of the successive domestic economic growth and revenues generated from the tariff lines. This year PNGPCL had a 12 percent decline in expenditure compared to the corresponding period and also achieved a surplus EBIT of K100.2 million, a significant improvement from 2011 EBIT of 68.4 million.



Financial Performance | Analysis





Net Operating Revenue

In 2012 PNGPCL recorded a net operating result of K75.9 million indicating a 59 percent increase from the previous year. PNGPCL's net operating profits have continued to rise since 2009 making it one of the performing SOEs in the country.

Owner's Equity

The total owner's equity this year recorded a total of K835 million representing a 10 percent increase from the corresponding period. This is factored by the increase in retained earnings that PNGPCL will use to reinvest in the core business and to pay off debts. Total reserves and share capital amounted to K650 million representing a slight 2 percent decrease from the previous year.

Financial Performance | Analysis

Performance Indicators

Ratios	2012	2011	Bench mark	Remark
Net Profit margin	30%	20%	30%	The NPM this year increased by 10 % in comparison to the previous year whilst also meeting the benchmark of 30%. This reflects the company's efforts in effectively implementing cost control measures and maintaining revenue levels.
Return on capital employed	8.39%	7%	10%	The ROCE has slightly increased by 1.4% compared to the corresponding period but still below the benchmark. This indicates the company's significant investment in capital assets which require a time lag before they are fully and efficiently utilised in the daily operations to generate revenue.
Asset Turnover ratio	0.19:1	0.21:1	0.5:1	The revenue produced by asset utilization for this year declined by 0.2% compared to the corresponding period and is 0.31% off the benchmark. This is due to asset revaluations, and the purchase and upgrade of capital assets that are currently in progress of which return on these investments will be realised when fully utilised in the company's daily operations.
Current ratio	1.13:1	0.87:1	2:1	In 2012, the current ratio slightly improved from the previous year factored by capital recovery, increase in debtors and prepayments. The company is working towards further improving the current ratio by reducing creditors to reach the targeted benchmark in the following financial period.
Debt to Equity Ratio	60%	55%	50%	This year the debt to equity ratio grew by 5% and was 10% above the benchmark. This was due to the increase in retained earnings that contributed to reduced dependency on borrowed funds. Profits were used to fund assets not funded by donor or project funds.
Debt Ratio	37%	35%	50%	This year, the debt ratio grew by 2% compared to the previous year indicating that PNGPCL has increased its leverage however maintaining the debt level below the benchmark. Increase in assets was factored by revaluation, increase in other debtors and prepayments. There is room for PNGPCL to secure debt finance to inject into its various major capex programs in the following year, however, to an extent where the debt and equity ratio are rebalanced at 50:50.
Equity Ratio	63%	64%	50%	The equity ratio in 2012 decreased by a percentage however remained above the industry's benchmark due to a 92% increase in retained earnings compared to the previous year. The asset revaluation was also a contributing factor particularly the revaluation of the company's capital assets such as wharf and building facilities, completion of new projects, and purchases of the Mobile Harbour Cranes and Rubber Tyred Gantry Cranes. Higher ratio indicates that there is still room for the company to obtain debt finance to undertake its capex programs in the following financial 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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Directors Report
Auditor General's Report
Statement of Financial Position
Statement of Comprehensive Income
Statement of changes in Equity
Statement of Cash-flows

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 2012.

Activities

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

Results

The net profit after taxation for the year was K75, 899,091.00 (2011: K47, 599,426.00)

Dividends

Dividend of K 15,000,000 was declared in 2011 but paid during the year (2011: 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 2012 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 2012 were as follows:

Nathaniel Poya, OBE	**Chairman**
Job Suat, MSc	**Deputy Chairman**
Harvey Nii	**Director**
Luke K Niap	**Director**
Eddie W Hesingut	**Director**
Prof John Pumwa	**Director**
Igo Oala	**Director**
Patrick K Amini	**Director**

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

AUDITOR-GENERAL'S OFFICE
PAPUA NEW GUINEA

PAPUA NEW GUINEA

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

Our Reference: 31-63-4

INDEPENDENT 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, 2012** as set out on pages **4** to **28**, which comprise the statement of financial position as at 31 December, 2012, and the statement of financial position, statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility for the Financial Statements

The Directors and Management of the Company 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, 1989 (as amended) and International Standards on Auditing*. Those standards require that I comply with relevant 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.

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

Land

I was unable to inspect certain of the Corporation's Certificate of Titles of land due to titles not being available for verification. 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 on the ownership and valuation of land as at 31 December, 2012.

Capital Work in Progress

My prior year report was qualified in relation to the composition of capital work in progress and progress status. I was unable to audit the opening balance to confirm that amounts recorded in the project balances are materially correct in relation to the balance, account and period. As a result, I am unable to satisfy myself the completeness and valuation of Capital Work in Progress at 31 December, 2012 as shown in the statement of financial position as at that date. Further, I was not able to determine whether any adjustment is necessary to property, plant and equipment, capital work in progress, depreciation expense, retained earnings and related tax accounts.

Revaluation of Property, Plant and Equipment – adjustment of decrease in fair value

In 2011, the revaluation deficit of certain assets amounting to K38 million was recognised 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 a result of a revaluation, the decrease shall be recognised in profit or loss except to the extent that the decrease is reversing an existing revaluation surplus for the same assets. I was not provided with a listing of revalued assets for the opening revaluation reserve of K167 million and the associated tax adjustments. As a result, I was unable to satisfy myself the completeness and valuation of revaluation reserve as at 31 December 2012 included under the caption "Reserve" as shown in the statement of financial position as at that date and any related impact on the statement of comprehensive income for the year ended 31 December 2011.

Revaluation of Property, Plant and Equipment – revaluation of entire class of assets

The Corporation carried out a revaluation in 2011 of land, buildings and wharf facilities resulting in an increase in the value of the property, plant and equipment by K568 million. However, wharf facilities with carrying value of K73 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 financial report. The financial effect of this matter is unable to be quantified.

Non-Consolidation of Subsidiaries

In 2011, the Company incorporated Dylup Estate Holdings Limited and North Coast Agri Services Limited, which are fully owned subsidiaries. However, these subsidiaries were not consolidated as the business activities are dissimilar to the Company's operations and will be sold in near future. This is in my opinion, a departure from *International Accounting Standards 27 "Consolidated and Separate Financial Statements"* which requires that these subsidiaries should be consolidated. Had these subsidiaries been consolidated, the non-current assets would have been increased and the current assets would have been decreased by K5.93 million at 31 December, 2012 and the profit after tax for the year then ended would have been decreased by K0.2 million.

QUALIFIED AUDIT 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, 2012:

  (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

  (ii) the financial statements have been presented in accordance with the *Companies Act 1997*, *International Financial Reporting Standards* and other generally accepted accounting practice in Papua New Guinea;

(b) proper accounting records have been kept by the Company as far as it appears from my examination of those records; and

(c) I have obtained all the information and explanations required for the purposes of my audit.

OTHER MATTERS

In accordance with the *Audit Act, 1989 (as amended)*, I have a duty to report on significant matters arising out of the financial statements, to which the report relates. I draw attention to the following issues:

Compliance with the *Companies Act, 1997*

The financial statements for the year ended 31 December 2012 is yet to be submitted to the Registrar. This is in my opinion, a contravention to the *Companies Act, 1997*, which requires the Directors of every company to, within five months after the balance date of the company, submit the duly signed financial statements to the Registrar unless the Registrar extended the period on the application of the company.

Borrowings with Bank South Pacific Limited

During the 2010 financial year, the Company obtained a K100 million loan facility which was fully drawn down as at 31 December, 2012 and reported in the statement of financial position under the heading of loans and borrowings. It is a requirement under the *Independent Public Business Corporation (IPBC) Act, 2002* that 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 obtained by the Company for the drawdown in the prior year. As a result, I was unable to determine whether this requirement of *IPBC Act* was complied with in the 2010 financial year.

PHILIP NAUGA
Auditor-General

25 August, 2014

PNG PORTS CORPORATION LIMITED

Financial Statements

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PNG Ports Corporation Limited
Financial statements for the year ended 31 December 2012

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	Nathaniel Poya, OBE Job Suat Harvey Nii Luke K Niap Eddie W Hesingut John Pumwa Igo Oala Patrick K Amini
Chief Executive Officer	Mr. Stanley Alphonse
Secretary	Mr. Joseph Aisa
Auditor	Auditor General of Papua New Guinea PO Box 423 Waigani National Capital District
Bankers	Bank South Pacific ANZ Banking Group (PNG) Limited

PNG Ports Corporation Limited
Financial statements for the year ended 31 December 201

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 2012.

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 Papua New Guinea.

Results

The net profit after taxation for the year was K75,899,091 (2011: K47,599,426).

Dividends

Dividend of K15,000,000 was declared in 2011 but paid during the year (2011: Knil).

Directors

The directors at the date of the report of the company are listed on page 1. No director was a shareholder of the Company at 31 December 2012 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 2012 were as follows:

Nathaniel Poya, OBE
Job Suat
Harvey Nii
Luke K Niap
Eddie W Hesingut
John Pumwa
Igo Oala
Patrick K Amini

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 17/7/14

Director
Date 17/07/14

PNG Ports Corporation Limited
Financial statements for the year ended 31 December 201

Statements of financial position
As at 31 December 2012

	Note	2012 K	2011 K
ASSETS			
Cash and cash equivalents	25	139,944,605	67,349,309
Trade and other receivables	12	35,238,161	49,087,197
Investments	11	-	-
Total current assets		175,182,766	116,436,506
Deferred tax assets	9(c)	40,118,676	8,697,005
Other receivables	12	13,581,001	21,398,569
Property, plant and equipment	10	1,103,190,049	1,028,852,022
Total non-current assets		1,156,889,726	1,058,947,596
Total assets		1,332,072,492	1,175,384,102
LIABILITIES			
Trade and other payables	16	28,636,956	78,074,304
Provision for taxes payable	9(b)	89,858,409	41,116,954
Trust payable	17	4,045,855	2,333,367
Employee benefits	18	11,443,805	5,306,538
Loans and borrowings	15	14,694,764	2,718,541
Deferred income	17(d)	5,952,167	3,150,000
Total current liabilities		154,631,956	132,699,704
Employee benefits	18	8,722,608	17,467,504
Trust payables	17	45,473,061	42,013,730
Loans and borrowings	15	92,738,682	50,310,927
Deferred income	17(d)	103,278,404	73,044,465
Deferred tax liabilities	9 (d)	92,669,906	103,875,278
Total non-current liabilities		342,882,661	286,711,903
Total liabilities		497,514,617	419,411,607
EQUITY			
Share capital	13	7,830,000	7,830,000
Reserves	14	642,170,774	652,254,730
Retained earnings		184,557,101	95,887,765
Total equity		834,557,875	755,972,495
Total equity and liabilities		1,332,072,492	1,175,384,102

For and on behalf of the board of directors

Director   Director

Date 17/7/14   Date 17/07/14

AUDITOR-GENERAL'S OFFICE

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

PNG Ports Corporation Limited
Financial statements for the year ended 31 December 2012

Statement of comprehensive income

	Note	2012 K	2011 K
Revenue		255,980,154	243,264,238
Direct costs		(11,553,879)	(22,678,327)
Gross profit		244,426,275	220,585,911
Other revenue	6	21,038,334	11,103,233
Personnel expenses	8	(69,482,120)	(57,408,174)
Depreciation	10	(41,816,188)	(37,360,346)
Administrative expenses		(28,058,739)	(27,831,033)
Other operating expenses		(25,860,393)	(40,714,782)
Results from operating activities		100,247,169	68,374,808
Finance income		677,494	651,907
Finance costs		(2,103,877)	(1,403,837)
Net finance expense		(1,426,383)	(751,930)
Profit before tax		98,820,786	67,622,878
Income tax expense	9(a)	(22,921,695)	(20,023,452)
Profit for the year		75,899,091	47,599,426
Other comprehensive income			
Revaluation adjustment	10	-	568,669,723
Income tax relating to other comprehensive income	9(d)	-	(81,318,536)
Other comprehensive income for the year , net of income tax		-	487,351,187
Total comprehensive income for the year		75,899,091	534,950,613

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

AUDITOR-GENERAL'S OFFICE

PNG Ports Corporation Limited
Financial statements for the year ended 31 December 201

Statement of changes in equity

	Share Capital K	Reserves K	Retained Earnings K	Total K
Balance at 1 January 2011	**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	7,830,000	487,351,187	47,599,426	534,950,613
Depreciation attributable to asset revaluation	-	(9,697,955)	9,697,955	-
Dividends declared	-	-	(18,072,289)	(18,072,289)
Balance at 31 December 2012	**7,830,000**	**652,254,730**	**95,887,765**	**755,972,495**
Profit for the year	-	-	75,899,091	75,899,091
Other comprehensive income	-	-	-	-
Total Comprehensive income	-	-	75,899,091	75,899,091
Depreciation attributable to asset revaluation	-	(9,697,956)	9,697,956	-
Reversal of revaluation increase	-	(386,000)	-	(386,000)
Reversal of dividend withholding tax	-	-	3,072,289	3,072,289
Balance at 31 December 2012	**7,830,000**	**642,170,774**	**184,557,101**	**834,557,875**

AUDITOR-GENERAL'S OFFICE

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.

PNG Ports Corporation Limited
Financial statements for the year ended 31 December 2012

Statement of cash flows

	Note	2012 K	2011 K
Cash flows from operating activities			
Cash receipts from customers		277,818,452	232,255,585
Cash paid to suppliers and employees		(121,687,995)	(119,782,776)
Cash generated from operating activities	25(c)	156,130,457	112,489,809
Income taxes paid		(16,807,283)	(16,858,696)
Interest paid		(2,103,877)	(1,403,837)
Net cash from operating activities		137,219,297	94,227,276
Cash flows from investing activities			
Purchase of property, plant and equipment		(150,189,714)	(121,738,195)
Government grant towards capital projects		33,100,000	30,000,000
Loans to subsidiaries		(1,199,233)	(19,686,579)
Interest income		677,494	651,907
Proceed from recovery on investment		18,795,000	-
Net cash used in investing activities		(98,816,453)	(110,772,867)
Cash flows from financing activities			
Proceeds of borrowings		57,197,463	19,205,082
Repayment of borrowings		(2,400,000)	(5,962,241)
Trust fund and related interest receipts		488,474	3,158,332
Release of grant		(5,700,000)	-
Payment of dividend		(15,000,000)	-
Payment of Lease liabilities		(393,485)	-
Net cash from financing activities		34,192,452	16,401,173
Net increase/(decrease) in cash and cash equivalents		72,595,295	(144,419)
Cash and cash equivalents at beginning of the year		67,349,309	67,493,727
Cash and cash equivalents at end of the year	25(a)	139,944,605	67,349,309

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

AUDITOR-GENERAL'S OFFICE

PNG Ports Corporation Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2012

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 directors believe 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 faculties 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.

AUDITOR GENERAL'S OFFICE

PNG Ports Corporation Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2012

2 Basis of Preparation (continued)

(d) Use of estimates and judgments (continued)

iii. Impairment of non-current assets

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

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.

AUDITOR-GENERAL'S OFFICE

PNG Ports Corporation Limited
Notes to and forming part of the financial statements
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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.

AUDITOR-GENERAL'S OFFICE

PNG Ports Corporation Limited
Notes to and forming part of the financial statements
For the year ended 31 December 2012

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.

AUDITOR-GENERAL'S OFFICE

PNG Ports Corporation Limited
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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	2012	2011	Basis of depreciation
Wharf facilities	2-8 years	2-8 years	Straight line
Buildings	15-23 years	15-23 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

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

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

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

Loans and receivables and held-to-maturity investment securities

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

PNG Ports Corporation Limited
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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.

AUDITOR-GENERAL'S OFFICE

PNG Ports Corporation Limited
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3 Significant accounting policies (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.

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.

AUDITOR GENERAL'S OFFICE

PNG Ports Corporation Limited
Notes to and forming part of the financial statements
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3 Significant accounting policies (continued)

(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.

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PNG Ports Corporation Limited
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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.

AUDITOR-GENERAL'S OFFICE

PNG Ports Corporation Limited
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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:

	2012	**2011**
	K	**K**
Total liabilities	497,514,617	419,411,607
Less: cash and cash equivalents	139,944,605	67,349,309
Net debt	357,570,012	352,062,298
Total equity	834,557,875	755,972,495
Debt to capital ratio at 31 December	43%	47%

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	1,962,331	10,263,128
Realised foreign exchange gain	178,146	840,105
Profit on sale of property, plant and equipment	102,857	-
Investment recovery	18,795,000	-
Total other revenue	**21,038,334**	**11,103,233**

7 Other operating expenses

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

Charging

Auditors remuneration	357,325	375,000
Depreciation	41,816,188	37,360,347
Donations	309,236	298,666
Loss on write off of property, plant and equipment	(102,857)	11,212,711

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PNG Ports Corporation Limited
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		2012	2011
8	**Personnel expenses**	**K**	**K**
	Wages and salaries	59,294,239	43,463,760
	Contributions to defined contribution plans	2,900,043	2,233,396
	Other staff costs	7,287,838	11,711,018
		69,482,120	57,408,174
9	**Income tax**		
(a)	**Income tax expense**		
	Profit for the year	98,820,786	67,622,878
	Income tax on the profit	29,646,236	20,286,864
	Under/(Over) provision in prior years	(939,133)	(2,663,968)
	Unrecognised timing difference	(522,898)	2,773,268
	Tax effect of permanent differences	(5,262,510)	(372,712)
		22,921,695	20,023,452
	Income tax expense comprises:		
	Current income tax	66,487,871	31,968,450
	Deferred income tax	(42,627,043)	(9,281,030)
	Under/(Over) provision in prior years	(939,133)	(2,663,968)
		22,921,695	20,023,452
(b)	**Income tax payable**		
	Balance at beginning of the year	(41,116,954)	(28,671,168)
	Current income tax	(66,487,871)	(31,968,450)
	Under/(Over) provision in prior years	939,133	2,663,968
	Tax paid	16,807,283	16,858,696
	Balance at end of the year	(89,858,409)	(41,116,954)
(c)	**Deferred tax asset**		
	Balance at beginning of the year	8,697,004	5,680,998
	Charge to income tax expense	31,421,672	3,016,006
	Balance at the end of the year	40,118,676	8,697,004
(d)	**Deferred tax liability**		
	Balance at beginning of the year	(103,875,278)	(28,821,766)
	Charge to income tax expense	11,205,372	6,265,024
	Relating to revaluation reserve	-	(81,318,536)
	Balance at the end of the year	(92,669,906)	(103,875,278)
	Net deferred tax liability	**(52,551,230)**	**(95,178,274)**
	This balance comprises the tax effect of:		
	Employee benefits	6,049,924	6,832,213
	Deferred income	32,769,172	-
	Provisions	1,299,580	1,864,792
		40,118,676	**8,697,005**
	Prepaid insurance	(185,391)	(109,772)
	Accrued interest	(6,825)	(15,364)
	Deferred income	-	(945,000)
	Property, plant and equipment	(92,477,690)	(102,805,142)
		(92,669,906)	**(103,875,278)**
	Net deferred tax liability	**(52,551,230)**	**(95,178,273)**

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PNG Ports Corporation Limited
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10 Property, plant and equipment

2012	HOS Land & Leasehold Land K	Wharf Facilities Land & Buildings K	Buidings & Fittings K	Vehicle & Boats K	Office Machines & Other Equipment K	Work in Progress K	Total K
Cost							
At 1 January 2012	52,973,024	694,869,394	36,502,077	9,901,932	13,351,723	309,925,248	1,117,523,398
Additions		9,065,022	1,020,283	864,204	1,635,069	106,143,431	118,728,009
Transfers		104,579,710	330,000		64,166,487	(169,076,197)	-
Written-off/disposals	-		(387,960)	(83,106)	(19,929)	(2,273,222)	(2,764,217)
At 31 December 2012	52,973,024	808,514,126	37,464,400	10,683,030	79,133,350	246,992,482	1,233,487,190
Depreciation							
At 1 January 2012	-	71,953,176	2,844,676	6,444,983	7,445,144	-	88,687,979
Disposal	-	700	(71,557)	(145,337)	9,167	-	(207,027)
Charge for the year	-	36,474,550	2,044,289	1,622,624	1,674,725	-	41,816,188
At 31 December 2012	-	108,428,426	4,817,408	7,922,270	9,129,036	-	130,297,141
Net Book Value - 2012	52,973,024	700,085,700	32,646,993	2,760,760	70,004,314	246,992,482	1,103,190,049

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PNG Ports Corporation Limited
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2011	HOS Land & Leasehold Land K	Wharf Facilities Land & Buildings K	Buidings & Fittings K	Vehicle & Boats K	Office Machines & Other Equipment K	Work in Progress K	Total K
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	158,353,817	164,354,274
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 depreciaion 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	309,925,248	1,117,523,397
Depreciation							
At 1 January 2011	-	197,799,511	11,238,154	7,582,838	10,166,011	-	226,786,514
Revaluation depreciaion 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)
Charge 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	309,925,248	1,028,835,419

AUDITOR-GENERAL'S OFFICE

a) The carrying value of property, plant and equipment held under finance lease at 31December 2012 was K833,445 (2011:K536,677).

b) The amount of borrowing costs capitalised during the year was K5,785,081 (2011: K2,911,397).

c) The Company uses the revaluation model for its land, buildings and wharf facilities.

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.

PNG Ports Corporation Limited
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			2012	2011
11	**Investments**		**K**	**K**
		Ownership Interest		
(i)	***Investment in subsidiaries***			
	Dylup Estate Holdings Limited	100%	1	1
	North Coast Agri Services Limited	100%	1	1
	Total cost		2	2
	Provision for impairment		(2)	(2)
			-	-

The companies were incorporated to purchase the land and infrastructure of Dylup Cocoa and Copra plantation.

		2012	2011
(ii)	***Other investments***		
	BSP Capital Limited	-	25,060,000
	Provision for investments	-	(25,060,000)
		-	-

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. In 2012, a total of K18.9m was recovered out of the K25,060,000 investments recognized under "Other income" in the statement of comprehensive income.

12 Trade and other receivables

	2012	2011
Trade debtors	30,337,240	31,885,907
Less : Provision for doubtful debts	(3,966,933)	(5,840,971)
Amounts owed by related entities	13,581,001	14,913,579
Other debtors and prepayments	8,867,854	29,527,252
	48,819,162	70,485,766
Presented in the Statement of Financial Position:		
Current	35,238,161	49,087,197
Non-Current	13,581,001	21,398,569
Total	48,819,162	70,485,766

13 Share capital

	2012	2011
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.

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			2012	2011
14	**Reserves**		**K**	**K**
	Asset revaluation reserve	**(a)**	634,660,808	644,744,764
	Stakeholder fund reserve	**(b)**	7,509,966	7,509,966
			642,170,774	652,254,730
(a)	**Asset revaluation reserve**			
	Balance at 1 January		644,744,764	167,091,532
	Surplus on revaluation of properties (net of tax)		(386,000)	487,351,187
	Transfer to retained earnings		(9,697,956)	(9,697,955)
	Balance at 31 December		634,663,808	644,744,764
(b)	**Stakeholder fund reserve**			
	Balance at 1 January		7,509,966	7,509,966
	Transfer (to)/from retained earnings		-	-
	Balance at 31 December		7,509,966	7,509,966

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

		2012	2011
Current			
State loan	**(a)**	2,400,000	2,400,000
ANZ Finance Lease		422,279	318,541
BSP Capex Loan	**(b)**	11,872,485	-
		14,694,764	2,718,541
Non-Current			
State loan	**(a)**	4,200,000	6,600,000
BSP Capex Loan	**(b)**	88,127,515	43,391,930
ANZ Finance Lease		411,167	318,997
		92,738,682	50,310,927

(a) The Government of Papua New Guinea is the primary borrower of the above International Agency Loans, and PNGPCL, acting as a sub-borrower and executing agency. The amounts shown represent amounts payable by PNGPCL to the State at year end. As at the 31 December 2007, the loan payable to the State was unsecured and interest free.

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(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.

16 Trade and other payables	**2012 K**	**2011 K**
Trade creditors	9,205,302	5,206,747
Other creditors and accrued expenses	19,431,654	32,867,368
Claims payable*	-	40,000,000
	28,636,956	78,074,385

*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. In 2012, the parties entered into a contract for K65 million for variations and damages caused by delays in which K21m was for breach of contract and K19m for additional works carried out. The K40m was paid in 2012, balance of K25m for completion of work to be done in 2013.

17 Trust payables

(a) Trust funds		
Kanzarua Wharf Project Fund	-	1,062,551
Pom Port Relocation Project Fund	263,013	258,665
Kavieng Overseas Wharf Project Fund	-	1,277,975
National Project Fund	1,081,168	1,081,288
POM Port Redevelopment Project	5,830,300	7,312,057
Wewak Wharf Upgrade	-	20,883,289
Kimbe Wharf Upgrade	4,262,398	4,188,938
Lae Port Expansion	17,849,848	115
Aitape Wharf Project	6,049,425	5,948,772
NPA Alotau	5,000,096	-
Government Fund - RTG	5,136,813	81
Cargo Levy	4,045,855	2,333,367
	49,518,916	44,347,097
Presented in the statement of financial position as follows:		
Current	4,045,855	2,333,367
Noncurrent	45,473,061	42,013,730
	49,518,916	44.347,097

(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.

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19 Financial risk management (continued)

Impairment losses

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

Balance at 1 January	5,840,971	4,961,258
Impairment recognised during the year	1,899,991	3,186,222
Impairment reversed during the year	(3,774,029)	(2,306,509)
Balance at 31 December	**3,966,933**	**5,840,971**

(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 2012:

		Contractual cash flows			
Non-derivative financial liabilities	**Carrying amount**	**Less than one year**	**1-2 years**	**2-5 years**	**More than 5 years**
Loan facilities	107,433,446	14,694,764	14,683,652	37,417,455	40,637,575
Trade and other payables	28,636,956	28,636,956	-	-	-
	136,070,402	**43,331,720**	**14,683,652**	**37,417,455**	**40,637,575**
Amounts at 31 December 2011:					
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**

(c) Currency risk

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

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with bank lending rate plus 5%.

(e) Fair value versus carrying value

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

20 Commitments

At 31 December 2012, the company had commitments of K 54,346,761 (2011: K48,755,639) relating to the projects in progress.

21 Contingencies

As at 31 December 2012, the company had bank guarantees of K25,000,000 in relations to its obligations.

Litigation

The company had various contingent liabilities totaling to K1,152,000 at 31 December 2012 (2011: nil)

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22 Employees

The number of employees at the end of the year was 859 (2011: 748)

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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;

ICCC (Independent Consumer & Competition Commission)
The Independent Consumer & Competition Commission is the government price regulator. Accordingly the ICCC regulates amongst many other SOE's the PNG Ports regulated tariffs like pilotage, berthing and berthing reservation. The ICCC charges an annual fee of K420,000 which PNG Ports Corporation Limited pays in four quarterly installments during the year.

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

Loan to subsidiaries
As at 31 December 2012, the Company granted an interest free loan to its subsidiaries amounting to K19, 685,579 of which K7,304,812 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:

	2012 K	2011 K
Short term benefit	7,645,772	4,641,750
Post employment benefit	411,683	221,347
	8,057,455	**4,863,097**

24 Events Subsequent to the Reporting Date

In August 2013, the company refinanced its existing loan facility of K100,000,000 it had with Bank of South Pacific Limited with Westpac Bank (PNG) Limited.

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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	2012	2011
		K	K
Cash and bank balances		91,310,041	18,463,433
Short term deposits	26 (b)	48,634,564	48,885,876
		139,944,605	**67,349,309**

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

PNG Ports	8,297,616	8,125,422
Kavieng Overseas Wharf Project Fund	-	1,107,061
Kanzarua Wharf Project Fund	-	1,062,551
POM Port Relocation Project Fund	263,013	258,665
POM Port Redevelopment	5.830,300	7,311,507
Wewak Wharf Upgrade	-	20,883,174
Kimbe Wharf Upgrade	4,262,398	4,188,822
Aitape Wharf Project Fund	6,049,425	5,948,676
BSP Capital Recovery	18,795,000	-
Aitape Wharf Project Fund	5,136,813	-
	48,634,564	**48,885,887**

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	75,899,091	47,587,804
Add / (deduct) items classified as investing / financing activities:		
Interest income	(677,494)	(651,907)
Interest expense	2,103,877	1,403,837
Add / (deduct) non-cash items:		
(Profit) / loss on disposal of non-current assets	(102,857)	17,366
Prior year other income adjustment	(18,795,000)	(6,459,871)
Write-off capital work in progress	2,273,222	11,212,711
Amortisation of deferred income	(458,059)	(350,000)
Depreciation	41,816,188	37,360,346
Provision for investments	2,531,811	6,227,210
Income tax expense	22,921,695	20,023,452
Cash generated before changes in assets and liabilities	127,512,474	119,545,977
Decrease in inventories	-	48,014
(Increase) / decrease in trade debtors and other debtors	20,334,026	(12,119,974)
Increase in trade creditors and other creditors	10,891,586	8,798,638
Decrease in employee provisions	(2,607,629)	(669,439)
Cash generated from operations	**156,130,457**	**112,439,809**

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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.

In addition, 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;

	2012	2011
	K	K
Less than one year	612,716	1,474,671
Between one and five years	552,338	538,425
More than five years	-	-
Total	**1,165,055**	**2,013,096**

(b) Finance leases

The finance lease payables are disclosed in Note 15.

27 Comparatives

Where necessary, comparative figures have been adjusted to conform to the changes in presentation in the current year for better presentation.

AUDITOR-GENERAL'S OFFICE

Our 16 port locations

The 2 ports of Aitape and Samarai are under agency management.

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

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