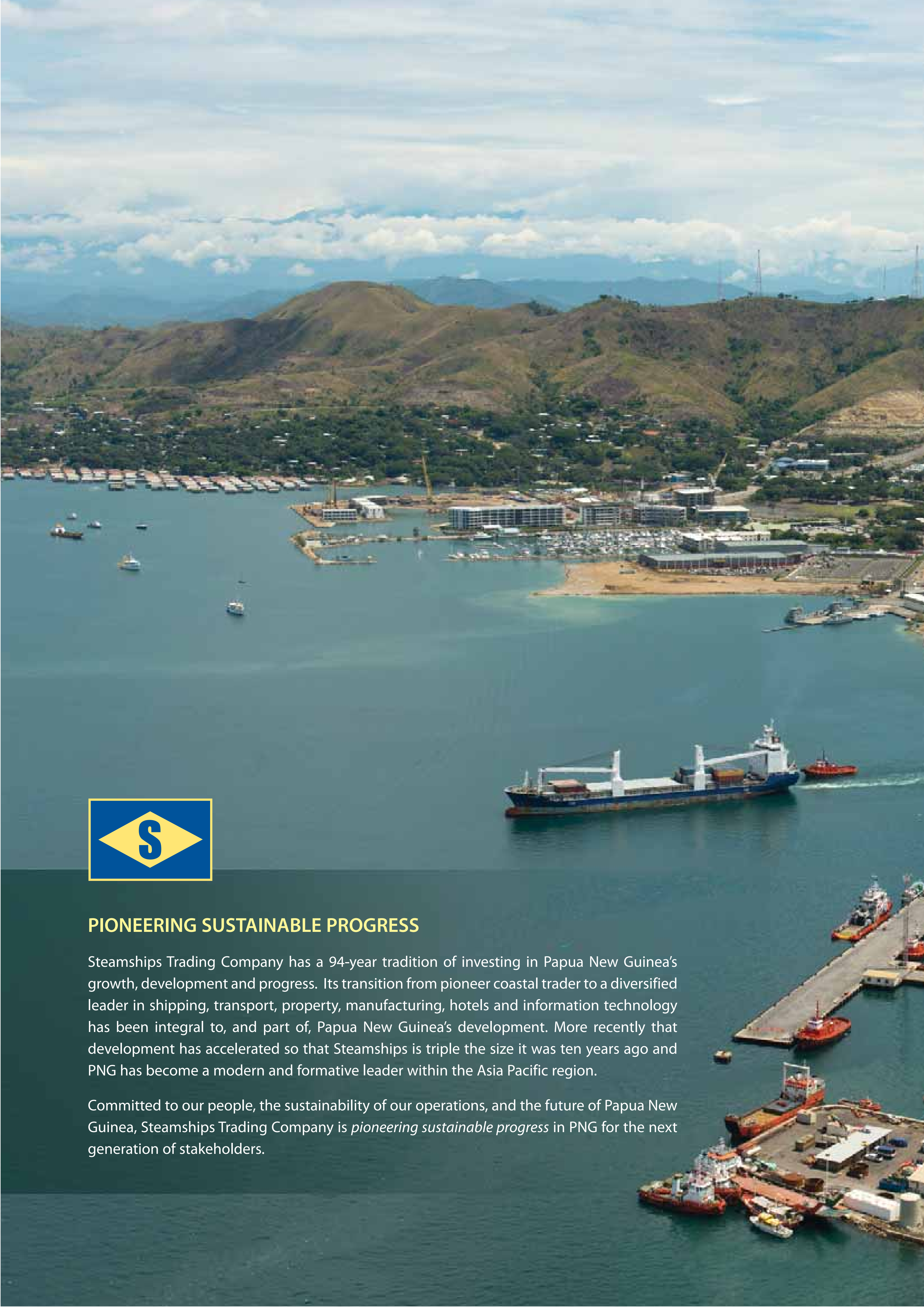
STEAMSHIPS TRADING COMPANY LIMITED

ANNUAL REPORT 2012



PIONEERING SUSTAINABLE PROGRESS

Steamships Trading Company has a 94-year tradition of investing in Papua New Guinea's growth, development and progress. Its transition from pioneer coastal trader to a diversified leader in shipping, transport, property, manufacturing, hotels and information technology has been integral to, and part of, Papua New Guinea's development. More recently that development has accelerated so that Steamships is triple the size it was ten years ago and PNG has become a modern and formative leader within the Asia Pacific region.

Committed to our people, the sustainability of our operations, and the future of Papua New Guinea, Steamships Trading Company is *pioneering sustainable progress* in PNG for the next generation of stakeholders.

ANNUAL REPORT 2012

Contents

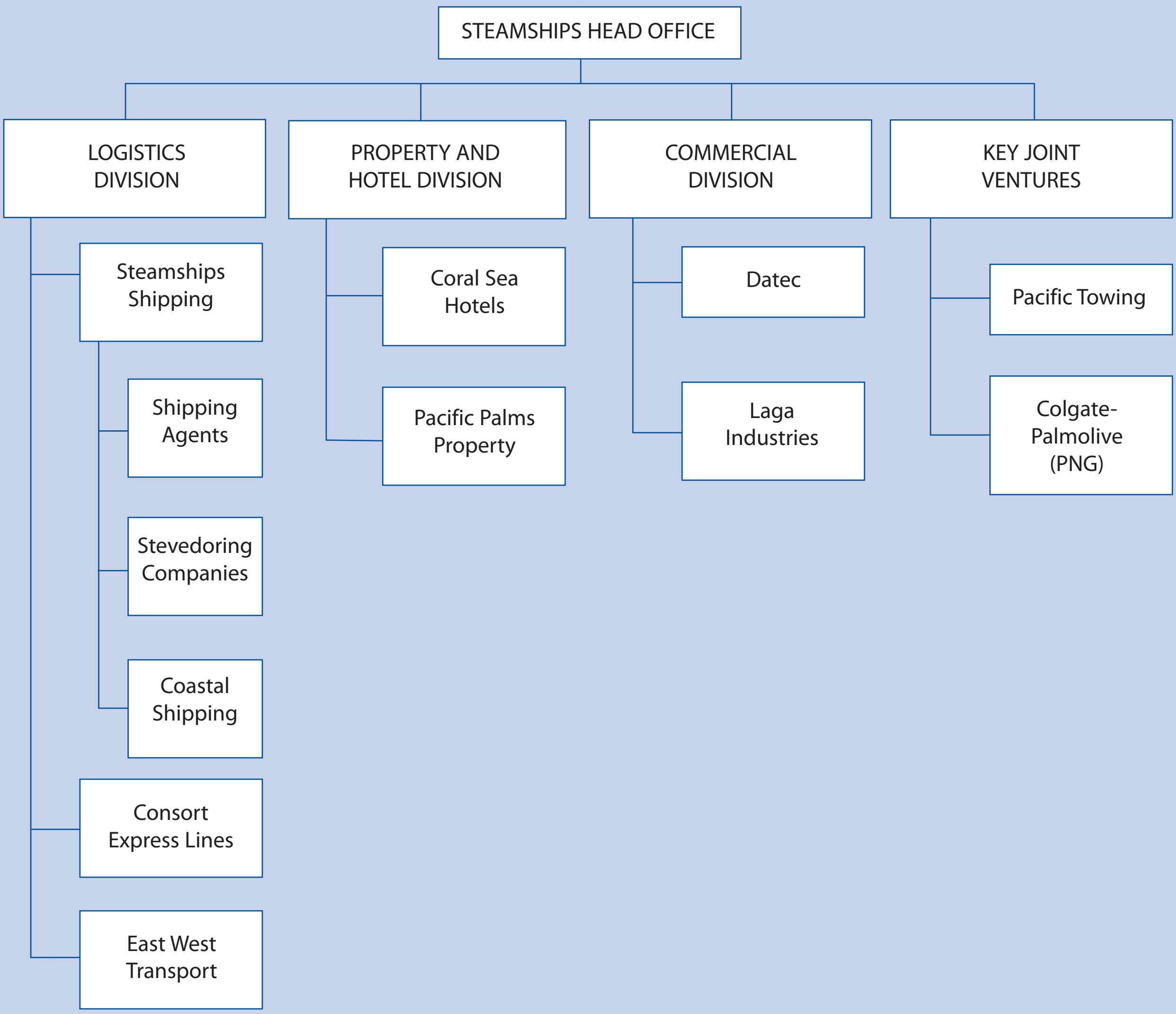
Brief Profile of Steamships Trading Company Ltd

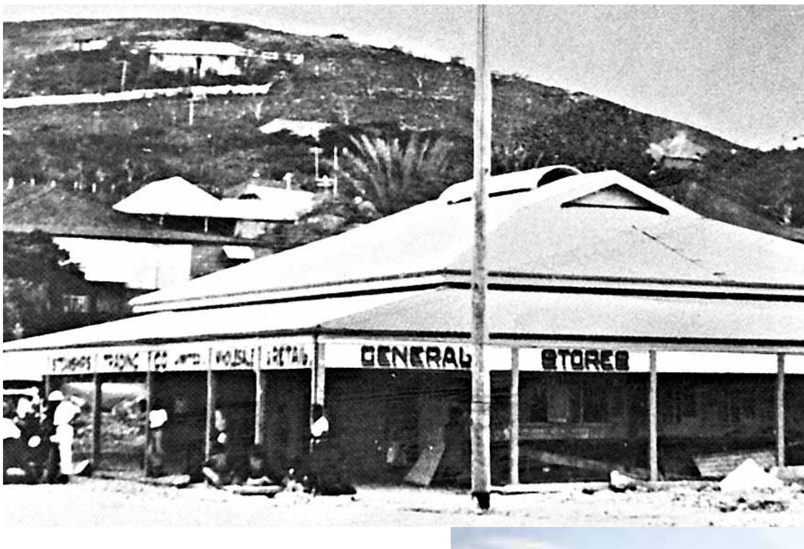
Steamships Trading Company Ltd (Steamships) is a Papua New Guinean success story. Today Steamships is a well-established business conglomerate with diverse commercial interests and public shareholding listings on both the Australian Securities Exchange and the Port Moresby Stock Exchange; a fact that belies its humble origins.

The Steamships story began in the early years of the 20th century in what was then one of the least known parts of the world. The Company was founded by retired Sea Captain, Algernon Sydney Fitch, to run salvage operations in Australia. A dynamic, dedicated and progressive man, Fitch was not averse to taking risks. Before too long he sailed the Company's first ship, the SS Queenscliffe, to Port Moresby to trade along the Papuan coast. In 1924 the Public Company was formed and the Steamships story had well and truly begun. It was to be not only the story of the Company and the Group, but of the formative years of Papua New Guinea, for the fortunes of the Group and the country have, from the first, been closely intertwined.

At each stage of the economic development of the largest nation and economy in the South Pacific, Steamships has fostered businesses and industries that have helped build PNG. The Group has boosted local economies through businesses initially established in Port Moresby, the gulf and western reaches of the former territory of Papua and later in New Guinea and the

STEAMSHIPS' ORGANISATIONAL STRUCTURE





Highlands. As the country started to develop and explore its rich and diverse endowment of natural resources, including plantation crops and mining, the economy required companies with the vision and energy of Steamships to supply coastal shipping services. In response to new opportunities, Steamships diversified into hotels, manufacturing, distribution and other services, all while continuing to supply the shipping and stevedoring services that are necessary if PNG is to continue to generate the economic growth required to meet the needs of its rapidly growing population.

In 2012 Steamships' annual revenues surpassed the K1 billion mark for the first time and the Group had net assets of over K761 million. The Group employs over 3,700 PNG citizens and non-citizens in seven diverse divisions grouped under the three operating categories of Logistics, Property and Hotels, and Commercial. It continues to uphold the Group philosophy which aims to offer quality, competitive goods and services to all its customers; provide safe, secure and challenging careers for its staff; maintain the highest business ethics at all times; minimise its impacts on the environment; make practical efforts to improve the lives of the communities in which it operates; and earn superior returns for its shareholders.

Steamships is aware of its pre-eminent position in the community and its responsibility to serve that community. The Group continues to be one of PNG's largest private sector employers and one of the largest supporters of community initiatives in education, health, environment and social welfare. Steamships ensures that core sustainability concepts are embedded in its business models and systems. Steamships cannot succeed without the engagement and support of the people it employs, the loyalty of and satisfaction of its customers, the local communities and the environment in which it operates.

Over 90 years on, Steamships is still showing it has the resources and capacity, vision and capability to meet the dynamic needs of a growing and vibrant country.

Financial Highlights

	2012 K'000	2011 K'000	Change
Revenue	1,038,195	934,717	11.1%
Operating Profit	296,509	265,116	11.8%
Profit attributed to shareholders	177,700	158,261	12.3%
Cash generated from operations	266,866	252,509	5.7%
Net cash inflow/(outflow) before financing	28,452	36,267	(21.6%)
Shareholders' funds	677,178	578,549	17.0%
External borrowings	461,253	379,088	21.7%

Note	2012 Toea	2011 Toea	
1. Earnings per share	573	510	12.3%
Dividend per share	285	190	50.0%
Shareholders' funds per share	2,183	1,866	17.1%

Note	2012	2011
2. Gearing ratio – percentage	40%	41%
3. Interest cover – times	9.6	8.5
4. Dividend cover – times	2.0	2.7

Notes

1. Earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares on issue during each year.
2. Gearing represents the ratio of debt to net debt plus equity.
3. Interest cover is calculated by dividing operating profit by net finance charges.
4. Dividend cover is calculated by dividing profit attributable to shareholders by the total dividends declared and proposed during the year.

Chairman's Report

2012 was a challenging year for PNG. A general election midyear, a slowdown in key export markets, financial instability in Europe and falling commodity prices all led to a weak first half year for Steamships. A decisive electoral result provided greater business confidence in PNG, while the subsequent budget and good progress on the establishment of the LNG project led to a stronger second half. This also provides greater confidence for the next few years.

Steamships' revenue for the year grew by 11 per cent to K1,038 million, with profit after tax attributed to shareholders increasing by 12 per cent to K178 million. The Property and Hotels Division performed well, with continued growth in revenue and profits and new industrial and commercial properties, as well as the Grand Papua Hotel, adding to Steamships' extensive portfolios. In spite of this, increased competition created by the current building boom is putting pressure on occupancies and lease and room rates. After a slow start, the manufacturing business registered an encouraging year of growth driven by improved efficiencies, while the IT Division recorded improved revenues in what was a period of significant industry change. Steamships' logistics businesses were weaker in 2012 due to congested wharf infrastructure, a general slowdown in projects and increasing competition on coastal trades. East West Transport road haulage was the exception though the Highlands Highway remains a significant challenge.

Steamships' performance was built upon a whole-of-group focus on cost management, improved efficiencies and strategic investments. A strong commitment to providing world-class customer service, to improving the skills and capability of our employees and to increasing the health and welfare of our communities stood the Group in good stead throughout the year. Capital expenditure in 2012 was K203 million; K76 million or 37 per cent of this was allocated to new investments which will come on line over the next three years.

PNG continues to develop strong agricultural and resource-based export trade, although these have been hit hard by appreciation of the PNG currency and falling commodity prices. Between March 2011 and March 2012, the Kina appreciated by close to 20 per cent against the US dollar – an extreme rise.[1] In 2012 the position was less severe, although appreciation was still estimated at close to 9 per cent for the first three quarters of the year. International spot prices for PNG's major resource export commodities (gold, copper, oil) were volatile throughout 2012, with copper in particular down from its 2011 peaks. Major agricultural exports of cocoa, coffee, copra and palm oil ended 2012 at prices that were significantly below 2011 levels. The challenges these trends present for companies operating in PNG are examined in the economic analysis elsewhere in this annual report.

The successful conduct of general elections in mid-2012 marked a positive step towards improved stability for the country. Buoyed by a comprehensive victory at the polls, Peter O'Neill's People's National Congress party established a strong coalition government and formed an experienced and responsible cabinet. From these foundations the Government has moved forward strongly, having identified that PNG needs to broaden economic growth and lift productivity, particularly in the resource sector. The 2013 National Budget includes a 50 per cent lift in spending for health, education, and law and order. It also commits an additional K12 billion in expenditure over the next five years to infrastructure such as roads, highways, ports and airports. Steamships is strongly supportive of these measures. In addition to directly improving the efficiency of many of our businesses and thus reducing the cost to our customers, it will improve the skills and living conditions of our many employees.

Just as the economy must be sustainable, so must individual company activities. Last year our annual report set out a framework to demonstrate our performance against some of the key indicators developed by the Global Reporting Initiative (GRI), the world's leading

[1] Source material related to the content of this report is available upon request from Steamships' Public Relations unit.

sustainability benchmark. Data related to our economic contribution to society, environmental stewardship and the development of our people was collected and reviewed. This process continued in 2012. A review of ongoing efforts to manage our sustainability responsibilities is featured in this report.

At Board level Steamships underwent a significant change at the end of 2012, with the retirement of David Cox as Managing Director. David joined Steamships in 1992 as hotels beverage manager, rising to Managing Director in 2004. David led Steamships through a most extraordinary period of growth for the Group despite periods of considerable government and societal instability in PNG. David's skill, dedication and achievement served shareholders and the Group extremely well throughout his tenure. As announced to shareholders in May 2012, David accepted the invitation to continue as a non-executive director on the Steamships Board.

Geoffrey Cundle assumed the role of Managing Director on 1 January 2013. Geoffrey joined the Group from Swire Pacific Ltd, where he was most recently an Executive Director of the Beverages Division and an Executive Director of the Trading and Industrial Division. Geoffrey was previously a General Manager of Steamships Shipping from 1989 to 1992 and a director of the Steamships Group between February 2006 and May 2007. He has been with the Swire Group for 33 years.

In August 2012 Steamships also farewelled Edward Ruha, who joined the Group in 1991 and became Finance Director and Company Secretary in 2008. He made a strong contribution to the Group's financial and corporate governance performance during his tenure.

Steamships welcomed Sean Pelling to the Group in August as Finance Director and Company Secretary. Sean was previously a Finance Director in Africa with James Finlay Limited, a wholly-owned subsidiary of John Swire & Sons Limited.

On behalf of the Board I would like to acknowledge all 3,742 employees across Steamships' many divisions and diverse locations. Their efforts and commitment in 2012 have ensured the Group is well placed to meet the challenges that lie ahead.

WL Rothery
Chairman

Directors' Economic Analysis

PNG has enjoyed several years of strong economic growth, driven largely by high commodity prices, structural reforms and sound macroeconomic policies. Economic expansion continued in 2012, at an estimated rate of 8 per cent, despite the impact of a stronger Kina and weaker international commodity prices, which resulted in lower than expected government revenue and rural incomes.

This was in the most part due to strong economic performance in the non-mineral sector, led by construction and transport – as development of the PNG LNG Project peaked – and higher government expenditure. The commencement of production at the Ramu nickel and cobalt mine in late 2012 boosted output in the mining sector and discounted the impact of a continued fall in output from PNG's declining oil reserves.

Beyond PNG, the global economic recovery remained stalled throughout 2012. Fiscal and banking difficulties persisted in Europe and moderate slowdowns in the large emerging economies (Brazil, India, the Russian Federation and the People's Republic of China) ensured global economic activity remained weak. The International Monetary Fund (IMF), in its October 2012 World Economic Outlook, revised its forecast for global growth downward to 3.3 per cent in 2012, from a July forecast of 3.5 per cent. Growth in 'Developing Asia,' a regional group that includes emerging economies such as China, India, Indonesia and PNG is forecast to be 6.7% in 2012, down from 7.8% in 2011.

As a consequence of the global slowdown, Pacific economies experienced declines in export earnings from agriculture, forestry and some minerals. The PNG economy, which is reliant on resource exports, has been affected more than others in the region. The PNG Government now expects a 2012 budget deficit equivalent to 1.2 per cent of GDP. The result reflects decreased revenues, particularly for gold and copper, and increased government expenditures. Steamships was not immune to these impacts with the Group's Logistics Division experiencing volatility in charter activity and cargo volumes across the year. The Group's manufacturing arm, Laga Industries, also suffered from a general decrease in disposable income.

The PNG economy benefited from lower inflation in 2012 with the expected headline rate averaging 4.1 per cent, down from over 7 per cent in 2011. The Kina appreciated by 8.9 per cent against the US dollar and close to 10 per cent against the Australian dollar in the first three quarters of 2012. In response to the lower inflation, the Bank of PNG moved to ease its monetary policy stance in September 2012, lowering its target interest rate from 7.75 to 6.75 per cent.

Continued growth in the economy has led to further increases in formal employment; the total level of employment in PNG increased by 7 per cent in the year to September 2012. Excluding the mineral sector, the level of employment increased by 6.6 per cent.

Trade

Steamships is not an export business. However, the Group's performance is directly impacted by fluctuations and developments in PNG trade because of its significant interests in logistics, retail and manufacturing, and by changes in the macroeconomic environment.

In 2012, foreign direct investment replaced the resource export sector as the main engine of growth in the PNG economy. According to the Bank of PNG, lower international commodity prices for PNG exports produced a deficit in the balance of payments of K868 million for the nine months to September 2012, compared to a surplus of K427 million in the same period of 2011. The weighted average price of PNG's exports was 16.2 per cent lower in the September quarter of 2012, compared to the corresponding quarter of 2011. This included a 14.7 per cent decline in the price of mineral exports and a 21.2 per cent decline in the price of agricultural and marine product exports. Lower Kina prices prevailed for all mineral and agricultural exports, with the exception of tea and marine products.

The stronger Kina coupled with lower commodity prices reduced export revenues in 2012, lowering incomes and spending power in export industries. Cash crop farmers are often the hardest hit, as they generally cut production when prices fall, lowering their income potential. This was especially true for PNG copra and coffee farmers in 2012, with declines in international prices matched by a decrease in year on year sales. Prices for palm oil, PNG's largest agricultural export commodity, were down 26 per cent in December 2012 compared to December 2011. Across the economy, total sales declined by 2.8 per cent in the twelve months to June 2012. This was driven by declines in the mineral, wholesale, manufacturing, transportation, agriculture/forestry/fisheries, financial/business and other services industries, while the building and construction and retail industries recorded increases.

The impact of these declines was felt heavily by Steamships' logistics businesses. Lower coffee volumes affected the Group's transport operations in Lae and the Highlands region, while an overall reduction in the growth of commodity volumes affected tonnages carried by the Group's coastal shipping operations.

In 2013, PNG will become more reliant on revenue from resource exports and less on foreign direct investment, as construction of the PNG LNG project begins to wind down. Fortunately, growth in Japan, China and Australia, PNG's main trading partners, is expected to remain stable. This is likely to result in continued demand for PNG's products including gold, copper, nickel, petroleum, and forestry and marine products.

PROSPECTS AND CHALLENGES FOR 2013

After achieving one of the highest growth rates in the Asia-Pacific region in 2012, PNG's economic growth is forecast to slow markedly in 2013 to 4 per cent, before rebounding to 7.5 per cent in 2014 as the PNG LNG project begins exporting large volumes of LNG to China, Japan and South Korea. In an economic briefing in December 2012, World Bank representatives in PNG pointed to short term difficulties in financing spending priorities because of slower, more heavily resource-driven economic growth, weaker public revenues and fewer new resource investments in the pipeline. Prospects for medium term growth are more encouraging. The IMF has forecast GDP growth of 20 per cent in 2015, when LNG production reaches full capacity, and an average annual GDP growth rate of around 5 per cent after 2018 as fiscal revenues from the project begin to flow. LNG-related government revenues are projected to grow to around 10 per cent of non-mineral GDP at their peak in 2024.

While economic growth is positive, it is an unhappy fact that PNG continues to perform poorly on important social indicators related to health, education and poverty. In 2011, life expectancy at birth in PNG was approximately 63 years, while the average PNG child received just six years of schooling. Between 1980 and 2011 per capita GNI[2] increased by just 20 per cent. At a regional level, some PNG provinces continue to rank amongst the lowest in the world on universally accepted indicators for human development.

The PNG Government has sought to address these challenges in the 2013 Budget. The proportion of expenditure allocated to health, education, infrastructure and law and order has grown from less than 20 per cent of total expenditure in 2007 to an estimated 31 per cent in 2013. Key initiatives include the Government's "free" education and health policies and an increase in police force numbers. Steamships commends the government on its commitment to address problems including poor access to nutrition for children, high maternal mortality, exposure to violence and to improving literacy and access to schools for younger Papua New Guineans. The Group is proud to support the PNG Government in these endeavours, both directly through our various community programs and indirectly through the efficient provision of essential goods and services, local employment and the distribution of wealth in the form of wages and payments for services.

Fiscal challenges

Fiscal challenges lie ahead for the PNG Government. The K13 billion 2013 national budget, which calls for a 23 per cent increase in nominal expenditure, will be accompanied by a significant slowdown in government revenue growth and only modest growth in consumption, income and corporate taxes. The budget is projected to create a fiscal deficit of K2.6 billion

---

[2] This is a measure of the market value of all officially recognised final goods and services produced within a country (GDP) plus net receipts from abroad of wages and salaries and of property income, divided by mid-year population.

(7.2 per cent of GDP) in 2013, and K2.3 billion in 2014, before returning to balance in 2015.

The Bank of PNG Governor, Loi Bakani, has warned that the historically large fiscal deficit and projected inflation of 8 per cent are major concerns given the current economic environment. Expenditure plans will have to be carefully managed if the PNG Government is to achieve its goal of macroeconomic stability in the medium term. Sound implementation of monetary policy is also required to ensure price stability is maintained.

As well as increasing expenditure in priority development sectors, the 2013 budget includes an 87 per cent increase in funding for the provincial and district levels of Government. This represents a positive shift in the National Government's approach to service delivery in rural areas.

Increased expenditure should improve development prospects, especially in the poorest areas, and help to counter falling domestic demand. However, the Government must ensure that the increase in expenditure translates into tangible improvements in the quantity and quality of service delivery. This will be most difficult at the sub-national level, where government has historically struggled to fully implement tangible public services.

Ongoing capacity constraints

Great strain will continue to be placed on PNG's transport infrastructure as the country ramps up resource exports in the coming years. These problems undermine the efficiency of Steamships' supply chain and limit productivity. In particular, deteriorating road conditions along the Highlands Highway have had a detrimental effect on Steamships' road transport business. Congestion at PNG's major ports, particularly the Port of Lae, impedes the Group's coastal shipping operations. Failure to improve transport infrastructure creates bottlenecks and deteriorates service delivery, hampering long term economic development and increasing business costs.

Increased business costs place constraints on industry, particularly non-minerals industries which find it difficult to compete with the gas and minerals industry. While the winding down of construction on the PNG LNG project should help alleviate some resources shortages, particularly labour, it will also slow growth in related non-minerals industries such as transportation and construction related services.

Strong global demand for PNG exports will be reflected in a strong Kina which will continue to create challenges for growth in non-mineral export related industries. Continued investment in the non-minerals economy is critical to promote broad-based growth and to minimise the damaging effects of "Dutch disease.[3] "

The 2013 National Budget commits an extra K12 billion over five years to "nation-building infrastructure". The refurbishment and building of new roads, highways, ports and airports will aid the PNG economy by improving access to markets and reducing transportation costs.

Importantly for Steamships and other logistics providers, work on the K700 million Lae port expansion and redevelopment project has progressed well since commencement in 2012. The project, which is being funded 70 per cent by the Asian Development Bank (ADB) and 30 per cent by the National Government, involves the construction of new port facilities including a tidal basin, a berth and a terminal. The ADB believes the new facilities will be fully functional in 2015.

Distributing the benefits of the boom

While an increase in infrastructure capacity helps minimise the impact of Dutch disease, costs across the economy must be lowered and loose monetary settings must be avoided to mitigate the appreciation of the exchange rate and inflation. The creation of Sovereign Wealth Funds (SWF) – foreign currency denominated

---

[3] A phenomenon where an increase in the exploitation of natural resources leads to a decline in other sectors of the economy, such as manufacturing and agriculture.

assets – is a key policy measure of the PNG Government. This strategy aims to sterilise foreign exchange inflows and reduce upwards pressure on the exchange rate, thereby reducing the PNG budget's underlying exposure to external forces. The SWF will capture wealth today for future generations.

According to plans for the SWF, government tax revenues will be saved in a "stabilisation" fund, while dividends from large resource projects, including the PNG LNG project, are to be spent through a "development" fund. The challenge for the PNG Government is to ensure that these revenues are invested in projects that generate broad-based, long term economic development and are not expended on short term operational requirements. The creation of legislation that guides spending from the SWF is an immediate priority given LNG dividends will start to flow in 2015.

Improving PNG's business climate

Papua New Guinea remains a challenging place to do business according to global rankings. In 2012, PNG ranked 104 out of 185 economies on the World Bank's annual "Ease of Doing Business" index. While it performed admirably on some indicators including "getting electricity" and "protecting investors," PNG's overall ranking was influenced by particularly poor results in areas influenced by regulation and related to investor certainty (starting a business, dealing with construction permits, registering property, enforcing contracts). These findings show how onerous regulations, costly taxes, corruption and ineffective public institutions can diminish productivity and increase sovereign risk. To encourage wider economic development PNG policy-makers need to create an environment which supports the development of local business and attracts foreign direct investment.

Corruption and the abuse of public funds have the potential to undermine Government programs and deter investment. Recent progress in this area has been encouraging. PNG's Investigation Task Force Sweep was established by the National Executive Council (NEC) in 2011. Led by members of the Department of Justice and the Police Force, the taskforce has been empowered to investigate, prosecute and recover the proceeds of crime. In 2012 it registered 174 complaints about corruption and investigated 52 cases involving amounts totalling approximately K2.162 billion.

Prime Minister O'Neill has warned that maintaining productivity is one of the most important economic challenges facing PNG. He pointed to the multibillion Kina cost blowout at the PNG LNG project as an example of the detrimental impact of rising costs. Measures that lift productivity will ensure the economic viability of energy and resource projects and generate a more favourable operating environment for companies like Steamships.

Privatisation, when accompanied with a pro-competitive legislative framework governing the operation of privatised entities, is a proven strategy to improve competitiveness, promote efficiency and encourage investment. The ongoing success of Bank South Pacific, which was established from the privatisation of the PNG Banking Corporation in 2002, shows how privatised enterprises can produce better returns and services and make prices more competitive. Privatisation of enterprises such as Air Niugini, PNG Power, Telikom PNG and the PNG Harbours Boards, which were considered in the past, would also deliver significant increases in productivity in the PNG economy.

In late 2012, Prime Minister Peter O'Neill announced plans to establish an independent Productivity Commission to advise the government on making the economy more competitive. He also committed to a wide-ranging review of the PNG tax system and dedicated efforts to speed up the approval process for large-scale development projects. Funding for the first stage of the tax review is included in the 2013 Budget. Steamships is wholly supportive of these efforts; a more competitive taxation regime will enhance both foreign and local investment, as well as generate a more productive and efficient economy.

Directors' Review

Steamships has had a successful year, with consolidated Group profit after tax increasing by 12 per cent to K178 million. This result included the profit on sale of a property of K48 million (prior year K12m) and an investment impairment of K25 million (prior year K7m); adjusting for these means the Group recorded a marginal gain in profit after tax.

In the Logistics category, Steamships Shipping performed satisfactorily in 2012 continuing to capitalise on a buoyant market, albeit with a general slowdown as a result of the PNG National Elections, held in June. Consequently, project cargo and charter activity during the mid-year period was lower than expected, but improved in the latter part of 2012. Coastal liner trade volumes held steady.

Steamships JV Stevedoring businesses had a respectable year in 2012, fuelled by continuous activity at most of PNG's major ports. The companies handled the highest volume of cargo in PNG history for the second year running, moving close to 2.5 million tonnes and surpassing last year's record of 2.3 million tonnes. Improved efficiencies in the management of the business and a robust training program have led to a 60 per cent increase in productivity across all ports and strengthened relations with customers, as well as the PNG Ports Corporation.

Steamships Shipping Agencies had a reasonable year mainly driven by a focus on container detention collections. However, in 2012 it was decided that the provision of agency services was not a core functionality of the Logistics division and consequently the agency business was transferred to the China Navigation Company Pte Limited (trading as Swire Shipping Agencies) with effect from 1st January 2013. This will result in a loss of contribution of approximately K1.5 million.

Consort Express Lines experienced a challenging year in 2012. Expected growth in tonnage did not materialise and consequently the division only achieved modest growth. The coastal shipping business was the hardest hit with total recurring tonnage decreasing as a result of increased competition and low agricultural commodity prices. Both PNG's National Elections and a significant reduction in the coffee crop year on year reduced growth

in total coastal volumes. The corresponding fall in recurring revenue and an increase in fixed costs, created largely by an intensive dry docking program, resulted in a weaker year for 2012.

In contrast, Consort's associates performed very well and made a significant contribution to Consort's final 2012 result. In particular, Riback Stevedoring benefited from the growth in cargo volumes to Lae during the construction phase of the PNG LNG project, as well as a successful diversification into complementary depot services.

East West Transport performed better in 2012, recording good year on year growth in revenue and market share across all operations, but more importantly improved the quality of its earnings through targeted key accounts. Depot operations in Lae and Port Moresby showed significant growth on the back of key contracts for haulage, equipment hire and depot-related storage services. Fuel volumes remained strong, particularly with the LNG project-related haulage in Port Moresby, but were lower across the outer port operations. Project haulage of reagent chemicals to the Hidden Valley mine site was strong throughout the year. The business was again forced to manage a number of operational challenges in 2012, particularly related to business along the highlands highway which has seen deteriorating road conditions and an increase in road users.

The Property & Hotels category performed well in 2012. Pacific Palms Property recorded solid year on year revenue growth and continued to successfully capitalise on PNG's ongoing property boom. The Group's commercial and residential properties throughout PNG increased their occupancy rate to 98 per cent in 2012, excluding projects under construction. Pacific Palms Property completed a range of developments during 2012, including three warehouses at Walter Bay in Badili, East West Transport's bond store at Baruni, and in early January 2013 completed eight Captain Fitch townhouses at Ela Beach in Port Moresby.

Coral Sea Hotels experienced a year of consolidation and debt reduction in 2012, however, did not achieve budgeted growth in revenue per available room, especially in its new flagship hotel, the Grand Papua. Business confidence and corporate guests returned after

the elections, with the business reporting strong overall trading in the latter part of 2012.

In the Commercial category, Laga Industries experienced some challenges in the first half of 2012, but recovered to record year on year revenue improvement overall. Growth was driven by a continued strategic focus on enhancing distribution channels, improving operating efficiencies and strengthening marketing efforts for key brands.

Datec registered high demand for most business lines in 2012. Although revenues were higher than 2011, profits were slightly down due to the completion of a major service contract during the year. In a significant development, Datec was awarded an international gateway licence in 2012 and is now able to provide direct high quality internet services via international suppliers. Datec also completed construction of next generation ISP infrastructure, which will provide customers with more affordable, reliable and faster internet access.

Steamships has two major joint venture companies in which it holds an interest. Pacific Towing, a marine towing business, had a challenging year, securing a lower number of consolidated jobs than previous years and recording only modest year on year revenue growth. Colgate-Palmolive (PNG), a manufacturer of personal and home care products, had a stronger year, with performance buoyed by increased demand for consumer goods and relatively firm margins.

Steamships continues to invest across the Group. A number of key projects are set to impact on Group performance in the 2013 to 2015 period. Steamships commenced various industrial, commercial and residential property developments in 2012 in Port Moresby, Lae and Madang with capital commitments of K121 million. These projects will cement the Property Division's position in the market. Further it is expected that a three-year redevelopment of the Hotel division's Melanesian Hotel will commence in 2013 at an expected cost of K110 million, with a view to capitalising on Lae's growth as the industrial hub of PNG. The Shipping division has also committed to a new build, a sister to the Kopi Chief, with a further committed spend of K10 million.

Logistics

STEAMSHIPS SHIPPING

Steamships has been a leader in coastal shipping in PNG since 1919. Through its *Steamships Shipping* division, the Group today operates a fleet of 18 coastal vessels designed for shallow water and river passage, with safety and technical specifications maintained to international standards. The fleet includes landing craft, bulk carriers, tankers, tugs and barges. While the division specialises in river shipping, it also has seven vessels fully certified for international trading, which regularly operate charters to Australia.

Steamships Shipping provides short and long term vessel charters, as well as reliable scheduled cargo liner services to the shores and rivers of the Gulf of Papua. It also develops, implements and supports intermodal logistics solutions linked to land based services such as road transport, cargo handling, storage, agencies, customs clearance, lay down areas and warehousing.

In addition to owning vessels, Steamships JV Stevedoring businesses offer a full range of stevedoring and handling facilities. They operate in the ports of Port Moresby, Lae, Oro, Madang, Kimbe, Kavieng and Kiunga. With a new fleet of specialist equipment the businesses handle all types of containers, as well as project cargo, break-bulk, RO-RO, LO-LO and grains. Local trucking businesses are also operated at several locations. The stevedoring companies are joint ventures between Steamships and local landowner groups at the respective ports. Each joint venture employs a local workforce and is structured in a manner so that earnings are able to filter back into the community.

Performance in 2012

Steamships Shipping performed satisfactorily in 2012, despite a general slowdown in project cargoes and increasing competition. Project cargo and charter activity during the mid-year period was lower than expected, but improved in the latter part of 2012. Cargo volumes through PNG's major ports were strong throughout the year and coastal liner trade volumes increased, generating increased business for the stevedoring and agency divisions.

The Kopi Chief, Steamships' newest vessel, joined the fleet in October 2012. The vessel was designed and built according to the highest safety, accommodation and environmental standards. Safety features include the ability to operate safely on one engine, spare generator capacity to ensure that the vessel and its cranes may still be powered if one generator is out of service, and bow thrusters for safer and easier manoeuvrability. Furthermore, the Kopi Chief is the first fully double-skinned landing craft in PNG, thus meeting the most stringent of environmental standards.

Steamships Marine Engineering Services (MES), the division's ship repair facility, offers dry-docking of vessels up to 45 metres in length and 500 tonnes in weight. MES had a busy year in 2012, catering to merchant vessels, as well as servicing fishing vessels, ferries, landing craft and recreational boats. Improvements in MES safety standards were a key focus throughout the year. Improved margins and results are expected in 2013.

Steamships Shipping has teamed up with strategic partners to establish a Centre of Excellence at the Madang Maritime College to offer progressive safety training courses to all seafarers in the fleet. The division understands that an ongoing commitment to staff development is vital to maintaining sufficient numbers of professionally trained and qualified employees in this growing PNG industry.

Steamships JV Stevedoring businesses had a respectable year in 2012, fuelled by continuous activity at most of PNG's major ports. In total they handled the highest volume of cargo in PNG history for the second year running, moving close to 2.5 million tonnes and surpassing last year's record of 2.3 million tonnes. Improved efficiencies in the management of the business and a robust training program have led to a 60 per cent increase in productivity across all ports and strengthened relations with customers, as well as the PNG Ports Corporation with whom the business has worked closely for the operation of their mobile harbour cranes and rubber-tyred gantries.

As representatives for several international lines, Steamships Shipping Agencies has served as a link


MUSTER STATION
KOPI CHIEF
PORT MORESBY

between PNG and global economies using a diverse fleet of vessels, with 2012 a year of internal business improvement and development for these businesses.

Following a review of operations, *Steamships Shipping* will discontinue all but one of its agency operations in PNG and with effect from 2013 these are being operated by China Navigation Company Pte Limited using the global brand name Swire Shipping Agencies.

Aims for 2013

Health and Safety Initiatives

The continued development of a strong safety culture is a priority for 2013. *Steamships Shipping* is focused on providing and maintaining a safe work environment that minimises health risks for all employees. The division is committed to planning and managing activities which assess and eliminate accidents and hazards. A number of initiatives have already been planned for 2013.

Management of Human Resources

Steamships Shipping is committed to maximising the potential of its human resources. Recruiting, developing, training and promoting Steamships people, both at sea and ashore, are key priorities in 2013. The division has planned a number of programs for next year, designed to improve its human resource capital and to encourage personal and professional excellence.

Fleet Expansion & Renewal

Steamships Shipping will continue to acquire new tonnage and replace older vessels in the coastal fleet in accordance with its long term growth and renewal program. A sister to the Kopi Chief is due for delivery in mid 2013. By lowering the age and risk profile of the fleet, the division will improve safety standards and ensure that it has the necessary capacity to meet the growing demand for shipping services from the resource industries and general commercial customers. The division will also focus on updating and standardising the Steamships JV Stevedoring fleet of materials-handling equipment to further increase productivity.

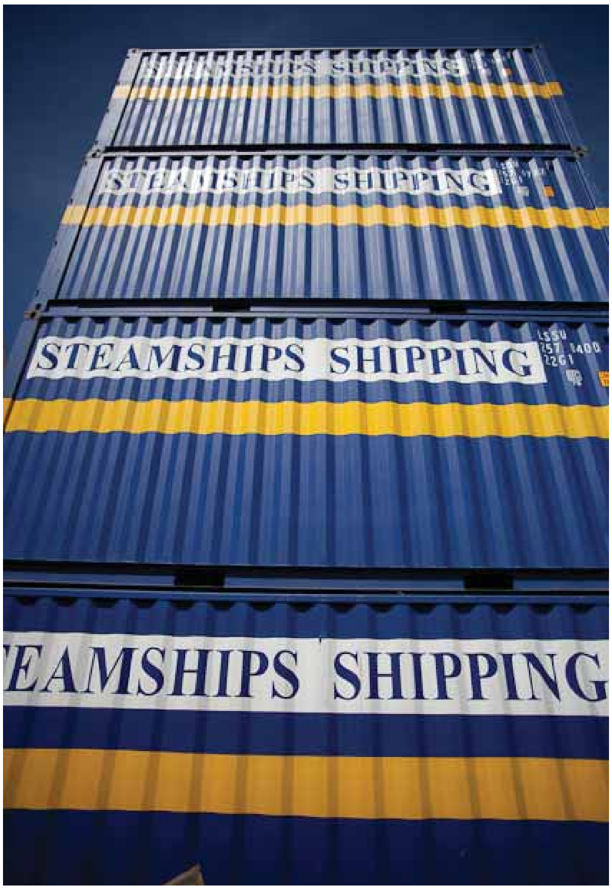
Improved Efficiencies

Improving efficiencies across Steamships JV Stevedoring businesses is a priority in 2013 and beyond. Measures aimed at optimising operations and minimising costs and losses through injury and damage were put in place in 2012 and will continue to develop in 2013.

Strategies to improve efficiencies in asset utilisation will be considered. The division is also investing in a new IT management system, "Cargo Pro", in order to improve staff management, invoice accuracy and efficiency and debtor settlement in all Steamships JV Stevedoring businesses.

Developing New Business Opportunities

Over the next 10 years PNG is expected to experience continued economic growth, leading to more disposable income and increased opportunities for coastal shipping in areas outside the major population centres of Port Moresby and Lae. *Steamships Shipping* aims to capitalise on this growth by developing integrated logistics solutions, which utilise the division's strong service offerings in coastal shipping, stevedoring and marine engineering services.



CONSORT EXPRESS LINES

As a complementary business to *Steamships Shipping*, Consort Express Lines Limited (*Consort*), established in 1978, provides scheduled coastal shipping services in the wider PNG archipelago. The division currently provides the most comprehensive network of scheduled liner shipping services in PNG. Operating from its hub in Lae, *Consort* connects 15 ports throughout the country and provides an international service to Townsville, Australia. The division has scheduled services to the North Coast (Madang, Basamuk, Wewak, Vanimo), South Coast (Port Moresby, Oro Bay, Alotau), New Guinea Islands (Kimbe, Rabaul, Kavieng), Bougainville (Buka, Kieta), Australia (Townsville) and, beginning in 2012 through linkages with *Steamships Shipping*, Western Province (Daru, Kiunga). *Consort* proudly serves the people of PNG by providing the sole supply link to many of the communities on its routes.

Consort owns and operates a fleet of nine geared, multi-purpose vessels (PNG flagged and manned) with all safety and technical specifications maintained according to international standards. The division can carry a range of cargoes including containerised, break-bulk, reefer, LCL and project cargo. *Consort* transports cargo for a diverse customer base from domestic manufacturers and wholesalers to international liner carriers transhipping cargoes to outports.

In addition to owning and operating ships, *Consort* provides complementary depot services to customers at the Lae hub (including bond yard, container storage, washbay facilities) and is a shareholder and manager of five stevedoring operations at five PNG ports (Riback Stevedoring, Lae; United Stevedoring Limited, Lae; United Stevedoring Limited, Port Moresby; Makerio Stevedoring, Buka; Nikana Stevedoring, Kieta). These stevedoring companies are partnerships between *Consort* and local landowner companies and provide significant employment opportunities for the nearby communities.

Performance in 2012

Consort's shipping services experienced a challenging year in 2012. Expected growth in tonnage did not materialise and consequently the division only achieved modest growth. The coastal shipping business was the hardest hit. Total recurring tonnage decreased, as a result of increased competition and low agricultural commodity prices and volumes, which reduced disposable income and suppressed demand for consumer goods in New Britain and Bougainville. The corresponding fall in recurring revenue and an increase in fixed costs, created largely by an intensive dry docking program, resulted in lower profits for 2012.

In contrast, *Consort's* depot services and JV Stevedoring Associates performed well and made a significant contribution to *Consort's* final 2012 result. The most notable performance was Riback Stevedoring, which benefitted from the growth in cargo volumes to Lae during the construction phase of the PNG LNG project, as well as a very successful diversification into complementary depot services.

Expanded Services

Consort responded to customer demand by launching fixed day sailings to three ports (Port Moresby, Madang and Wewak) in March 2012. These were facilitated by the additional capacity provided by the dredging of the coastal berth at Lae port (allowing all ships in the *Consort* fleet to call, which permitted improved cycling of ships in the congested Lae port) and the addition of a ninth vessel to the fleet. In February 2012, *Consort* took delivery of MV Nakanai Coast (5280dwt), a sister ship to three vessels already in the fleet.

In addition, *Consort* added two new ports to the network during 2012, offering customers direct shipments to Kiunga and Daru via a slot arrangement with *Steamships Shipping*.

Investment

Consort took delivery of 1,500 new 20' dry containers, 100 new 20' reefer containers and 180 new 40' containers in 2012. These investments replaced ageing stock, provided additional capacity for expected growth and ensure that *Consort* continues to provide customers with the most reliable products available.

Consort also invested in existing depot services and launched new services, including a new bond yard and washbay, during 2012. A new IT management system was introduced to improve the efficiency of depot operations.

Training

Consort offered 14 scholarships for the Consort Express Lines PNG Officer Cadetship Program in 2012. Established in the 1980s, these scholarships offer high performing PNG nationals a structured, four-year training and development program. A combination of at sea (onboard a vessel in the *Consort* fleet) and onshore training (at the PNG Maritime College, Madang) is provided for deck officers and engineers.

Together with *Steamships Shipping*, *Consort* has also partnered in the establishment of the Madang Centre of Excellence.

Aims for 2013

Improving Efficiencies

Improving the efficiency of operations will be a key focus in 2013 and beyond. Port congestion, particularly at the hub port of Lae, has been a significant issue. *Consort* plans to manage this by reorganising its shipping schedule to build in time buffers and prioritise services on competitive trades, together with potential strategic alliances.

In addition, *Consort* plans to invest in a trucking fleet in Port Moresby during 2013. This will provide a reliable land transport service. The division's Lae depot will also be redeveloped to provide better efficiencies and new opportunities for growth.

Closer cooperation with selected strategic partners and new management appointments will all contribute to efficiencies in the business in 2013. These measures will further assist *Consort* in providing the best value, most sustainable and reliable cargo transport services in PNG.

Business Development

A fixed day sailing to the port of Rabaul will be launched in 2013 and various other new routes will be pursued to previously unserviced PNG ports. Various resource sector strategic partnerships are being pursued to sustain the Australia service and expand depot operations. Agency and stevedoring services will also be developed in Vanimo.

Capital Investment

Consort will review tonnage in 2013 and propose a capital investment plan to maintain a viable asset base of vessels and operating equipment.

EAST WEST TRANSPORT

East West Transport (EWT) is one of Papua New Guinea's largest multifaceted transport and logistics companies. Based in Lae, it also has a significant presence in Port Moresby, Goroka, Wewak, Madang, Rabaul, Kavieng and Mount Hagen. With 770 employees, the division has a growing fleet of 144 prime movers, 46 heavy trucks, 9 light trucks and 49 forklifts. All of these are supported by division workshop facilities, safety and emergency vehicles and an in house training centre.

EWT operates across a wide spectrum of transport-related activities including bulk fuel, containerised grain, coffee, break-bulk cargoes and depot services such as equipment hire, warehousing, and yard storage. *EWT* also offers a licensed customs cargo clearance service in Lae and Port Moresby as well as operating a large export coffee processing facility in Lae. The division capitalises on its close relationships with sister companies in shipping and stevedoring by offering specialised project solutions for the mining, oil and gas sectors.

Performance in 2012

EWT performed better in 2012 recording strong growth in revenue and market share across all operations, but more importantly improved the quality of its earnings through targeted key accounts. Depot operations in Lae and Port Moresby showed significant growth on the back of key contracts for haulage, equipment hire and depot-related storage services. Fuel volumes remained strong, particularly with the LNG project-related haulage in Port Moresby, but were lower across the outer port operations. The Exxon Mobil bulk cartage contract was renewed for an additional three years in Port Moresby,

Lae and Madang after a successful operations integrity management system (OIMS) compliance audit earlier in the year.

Project haulage of reagent chemicals to the Hidden Valley mine site was also strong throughout the year. With projected mine expansions in the Morobe and Madang provincial area, *EWT* is positioning itself to take advantage of an anticipated growth in demand for specialised transportation. Ensuring compliance with international standards, a supply of fit for purpose equipment and a team of thoroughly trained and capable staff are all ongoing priorities.

The division was also pleased to announce the development of a joint venture partnership in West New Britain province during 2012. This venture will encompass a wide range of transport and related services.

The *EWT* fleet continued to grow in 2012 and now consists of prime mover and flat deck truck combinations, light vehicles and a wide range of trailers to cover all requirements for metro, highway and mine site haulage. Materials handling equipment also increased significantly with the addition of two empty container handlers at the Port Moresby depot and three reach stackers at the Lae depot for container and heavy break-bulk handling.

All mobile equipment additions to the fleet have been sourced from China, while trailers continue to be supplied from Singapore. The Company now has 61 Chinese trucks in the fleet and additional new and replacement fleet purchases are planned for 2013. These trucks will predominantly service metro operations, while 14 will be added to the Highlands Highway fleet.

During 2012 *EWT* invested in "Depot Pro" (yard management computer software) and will capitalise further on this in 2013 to enhance its logistics solutions delivery. In conjunction with Pacific Palms Property, *EWT* also took up a new racked warehouse facility at Baruni during the year that has expanded its logistics offering.

EWT managed a number of operational challenges in 2012, particularly in relation to its business along the Highlands Highway. Deteriorating road conditions and an increase in road users due to the PNG LNG project led to added difficulties. The use of B-Double configured trailers was not possible due to road conditions and this is unlikely to change in the foreseeable future. Furthermore, the 2012 coffee harvest was significantly lower in volume than 2011's unprecedented coffee season. These issues led to lower than expected revenues in this area of the business and a slow recovery has continued into the early stages of 2013.

Aims for 2013

There are indications that 2013 will be a challenging year. The winding down of construction at the PNG LNG project will see an increase in available tonnage capacity in the Morobe and Highlands regions and thus increased competition for business. *EWT* plans to meet this challenge by providing superior levels of service and a broader range of service offerings. Maintaining key long-term contracts is vital to the wellbeing of the business and the division continues to develop integrated logistics services for all customers, large and small.

The development of business on the Highlands Highway will be a key focus in 2013. The acquisition of more robust highway trucks commenced in 2012 and the division is investing in a live cargo and equipment tracking system, which will be established across the Lae, Goroka and Mt Hagen depots. Warehousing in these areas will be developed with capabilities modelled on the multifaceted Port Moresby operation.

Improving Efficiencies

Improving the efficiency of operations will be a priority for *EWT* in 2013. The division is committed to developing seamless links between wharf, customs, warehousing, local depot and highway operations, including bonded and fumigation facilities where required. It will also develop a national integrated container and break-bulk tracking system to improve performance. A strong focus on the quality of contracted and integrated services will continue through into 2013.

Business Development

EWT will focus on optimising current service offerings, while investing in new, diversified services in 2013. Ensuring reliable fit for purpose and efficient equipment options for cargo handling and haulage services will be a priority. The division will further develop empty container depot operations along with associated services such as container repairs and washing facilities. It will also target continued growth in equipment rental and other diversified services, including waste management, bus transport services and crane hire for larger corporate clients.

Investing in People

EWT will continue to develop health safety, security and environmental standards for all staff, with a particular focus on compliance with ISO standards. Staff training in administration and technical trades will continue to improve, while the acquisition of a driver simulator, supported by a national training manager, will increase the scope of the *EWT* training program. In-house training will also continue to be provided by key suppliers.

Property and Hotels

PACIFIC PALMS PROPERTY

Pacific Palms Property is one of the largest and most dynamic property developers in PNG. The division provides residential, commercial, retail and industrial property throughout the country. The division was originally established to manage the Steamships Group's internal needs, although today over three quarters of its business is conducted with external clients.

Today *Pacific Palms Property* focuses on two separate streams of business activity. Its development team manages land acquisition, investment assessment and construction management, whilst its lettings team manages marketing, tenant placements, rental collections and property maintenance. Building and land assets are located in Port Moresby, Lae, Madang, Wewak, Goroka, Mt Hagen, Popondetta and Rabaul. The division currently holds a total lettable space of 14,837m^2 of commercial property, 180,837m^2 of industrial property, 18,904m^2 of retail property and 18,904m^2 of residential property (comprising 108 units in total).

Performance in 2012

Pacific Palms Property had another successful year in 2012, recording solid year on year revenue growth. The division continued to successfully capitalise on PNG's property boom, benefiting from continued high rental yields and occupancy rates in major commercial centres across the country. Papua New Guinea's construction sector overall has enjoyed 18 per cent growth since 2007 and is now one of the economy's largest contributors to GDP, although there has been a 'cooling off' in the residential market due to recent increases in capacity. Despite this, *Pacific Palms'* properties throughout PNG increased their occupancy rate to 98 per cent in 2012, excluding projects under construction.

Pacific Palms Property had a range of developments ongoing during 2012.

In its Residential category, construction of the division's prestigious Windward Apartments continued with stage 2 comprising 40 luxury executive apartments scheduled for completion in 2013. Work on the 12-unit Blaikie Apartment complex located in Lae is also due to complete in 2013.

The eight Fitch Townhouses, named after the founder of Steamships and overlooking Ela Beach in Port Moresby were completed and occupied in January 2013.

In its Retail category, construction of the 5,300m^2 SVS supermarket and commercial complex in Lae and the 9,300m^2 Waigani Central Development incorporating the new Stop n Shop supermarket and Paradise Cinema complex in Port Moresby are both due for completion at the end on 2013.

In its Commercial category, construction of the 18,800m^2 Harbourside Office complex commenced in April 2012. This will be the first Green Star rated building of its kind in Papua New Guinea and is due for completion in January 2015. Pre-leasing of this high quality waterfront property will commence in 2013.

In its Industrial category the division completed construction of three warehouses at Walter Bay in Badili and EWT's bond store at Baruni. Further development of Baruni stage 3 comprising a 3.3 hectare subdivision is underway and construction of a new estate in Madang incorporating 12 mixed-use tenancies commenced in December 2012.

Aims for 2013

Developments

Looking ahead, *Pacific Palms Property* anticipates commencing the construction of eight warehouses at Six Mile in Port Moresby, the Huon Industrial & Commercial Centre in Lae, a joint venture retail development in Madang and further development of the Baruni warehousing.

Land Acquisition

Property and land acquisition face a challenging market where prices have increased to high levels over the last four years. While *Pacific Palms Property* will continue to acquire strategic properties to add to its significant land banks in Port Moresby and Lae, current market conditions, coupled with capacity constraints brought on by PNG's land tenure system, have made this difficult in recent years. To this extent *Pacific Palms Property* will be considering possible joint venture arrangements with other major property owners.


GRAND PAPUA
HOTEL
GRAND PAPUA
BDI 526

CORAL SEA HOTELS

Steamships' Hotel division is known in PNG by its trading name, *Coral Sea Hotels*. It operates nine hotel and apartment complexes offering full hotel facilities and serviced apartments as well as extensive meeting, conference and banqueting facilities.

Coral Sea Hotels is the largest and most geographically diverse hotel group in PNG. Today it offers a total of 626 hotel rooms and 135 apartments in PNG's major commercial centres. The group of nine hotels comprises the Grand Papua Hotel, the Ela Beach Hotel, Whittaker Apartments and Gateway Hotel and Apartments in Port Moresby; the Huon Gulf Hotel and Apartments and Melanesian Hotel and Apartments in Lae; the Highlander Hotel and Apartments in Mount Hagen; the Bird of Paradise Hotel and Apartments in Goroka, and the Coastwatchers Hotel in Madang.

Performance for 2012

2012 was a year of consolidation and debt reduction for *Coral Sea Hotels*. It followed a hectic period of expansion in which the Gateway, Ela Beach and Highlander Hotels added new rooms, restaurants and conference facilities. These facilities performed strongly in 2012 and have further strengthened *Coral Sea Hotels'* position as a quality provider of accommodation and conferencing facilities across the country.

It was a challenging year in many respects. *Coral Sea Hotels* did not achieve budgeted growth in revenue per available asset, especially for the division's flagship hotel, the Grand Papua Hotel. Business confidence and corporate guests returned after the elections, with the division reporting strong overall trading in the latter part of 2012.

Establishing the Grand Papua as the leading five star international hotel in the country was the division's greatest challenge in 2012. Nonetheless, by year end occupancy levels had nearly reached budgeted figures. Occupancy rates will continue to improve as the Grand Papua Hotel further establishes itself as PNG's benchmark for international service standards and product delivery.

Aims for 2013

Coral Sea Hotels' expansion plans were further developed in 2012. A redevelopment of the Melanesian Hotel in Lae has been proposed, along with an expansion of conference facilities and additional rooms in Mount Hagen, expanded staff quarters in Port Moresby, new food and beverage concepts for the Gateway Hotel and a general upgrading of facilities across all hotels.

New opportunities for business growth are also being considered. These include diversification into the provision of budget accommodation in Port Moresby and Lae, as well as the development of hotels in Western Province, which will capitalise on the growth of oil and gas exploration in that region.

Maintaining business levels in an increasingly competitive market will be a significant challenge for *Coral Sea Hotels* in 2013. The increased supply of hotel rooms and apartments, particularly in Port Moresby, has increased pressure on rates and occupancy levels. This will continue into 2013.

To counter this market shift, the *Coral Sea Hotels* sales and marketing team will be expanded. New marketing strategies will be adopted, not only focusing on direct sales, but also e-marketing and social media opportunities. The *Coral Sea Hotels* website will also be redeveloped to allow real time bookings and reservations for all hotels in the division. Existing relationships with tour operators, conference organisers and travel agents will be strengthened.

As competition increases, the supply of skilled staff will continue to be a challenge across PNG. Recruitment, training and the retention of personnel remain key priorities for the Group. *Coral Sea Hotels* is currently working with international and local training providers to expand its apprenticeship training program, to introduce a new cadet management scheme and to ensure all staff work in a safe and secure environment that offers career development prospects and job satisfaction.


CLASSIC
Strawberry
ICE CREAM
Mint-Chocolate Chips
Coffee-Chocolate Chips
Hokey Pokey

Commercial

LAGA INDUSTRIES

Headquartered in Lae, *Laga Industries* is PNG's premier consumer goods business and the country's leading manufacturer of ice creams, vegetable oils, drink powders, condiments and spirits. The division is also a distributor for international consumer goods companies including Diageo and Constellation Wines. Brands include Gala Ice Cream, distributed from the Gala Parlours found in most leading retail supermarkets, Laga and Highlands Meadow oils, Kools and Sunripe drinking powders, and Trade Winds spirits including popular ready-to-drink (RTD) premixed drinks. *Laga Industries* also bottles pure drinking water. Operationally, the division owns a plastics manufacturing plant and has a freezer and dry goods distribution facility in Port Moresby, with sales offices in Madang, Wewak, Goroka, Mt Hagen, Kimbe, Kavieng, Rabaul and Buka.

Performance in 2012

Laga Industries experienced some challenges in the first half of 2012, but recovered to record year on year revenue improvement overall. Growth was driven by a continued strategic focus on enhancing distribution channels, improving operating efficiencies and strengthening marketing efforts for key brands.

Expanded distribution systems were particularly important for growth in the flagship ice cream category. *Laga Industries'* ice cream cabinet placement program was implemented in 2012, with the goal of placing ice cream products "within arm's reach of desire" for the PNG consumer and now has a total of nearly 1,000 chest freezers around the country. The program involved the continued expansion of Gala Parlours within major retail centres, thereby improving brand visibility and the ease in which consumers can access Gala products across PNG.

Laga Industries expanded upon this program in December 2012 with the launch of the mobile vendor trolley program in Lae and Port Moresby. These trolleys utilise eutectic plate technology; when the frozen plates are inserted into the trolley they maintain a temperature that allows the vendor to sell ice cream remotely for up to eight hours. The division plans to distribute the first 60 trolleys during the first quarter of 2013.

The division's cooking oil products were affected by significant changes to the supply of bulk oil in PNG during the year. Local producers of palm oil could only supply 10 per cent of requirements in 2012, with 90 per cent of the required quality bulk oil sourced from alternatives in Indonesia and Malaysia. Future growth will rely on ensuring its Highlands Meadow and *Laga* brands remain competitive against increased supplies of cheap, imported bottled cooking oil, which began to arrive in PNG in late 2012. Improving efficiencies at the division's bottle manufacture and oil bottling operations is paramount.

Laga Industries' beverages category continued to grow in 2012, despite a year of liquor bans in a number of provinces due to the PNG general elections. RTD's and bottled water enjoyed solid growth, while two new spirit brands were launched early in the last quarter: McInnis Scotch whisky and Columbus dark rum, with repeat orders indicating both are making progress.

Concerns surrounding the erratic public power supply were addressed in 2012, with investment in an uninterruptible power supply system. The system has already led to marked improvements in productivity and machine downtime. Further investments were made to improve the capacity of the division's PET blow-moulding plant for increased volumes of oil and water bottle requirements, and for additional capacity to cope with growing powders and condiments volumes.

In a significant development, the division's HACCP accreditation was the subject of a site audit by Exxon Mobil, which declared *Laga Industries* compliant to the international company's requirements to supply water to its employees.

Employee development and training at all levels was a key focus for *Laga Industries* in 2012 and will continue to be so in 2013. The division's supervisors attended a number of courses throughout the year, including "Time Management/Introduction to Supervision" and "How to Manage People," both of which were conducted by external providers. Several senior employees were also sponsored to complete appropriate tertiary courses, while various operating equipment manufacturers provided training for key equipment operators at divisional sites.

Aims for 2013

Laga Industries continues to support the government's efforts to encourage growth in the manufacturing sector. It welcomes the removal of impediments to business and the reduction of regulatory burdens, the lowering of import tariffs and investment in land and transport infrastructure. The division believes these reforms, when completely implemented, should help to reduce the cost of business within the industry and spur continued, sustainable growth.

Whilst competition is increasing, *Laga Industries* has strength in its national reach and supply chain distribution network, which enables it to maintain its competitiveness, especially in the ice cream category and the highly competitive vegetable oil and alcoholic beverages categories. Looking ahead, *Laga Industries* will drive growth and build its brands through ongoing investment in expanded distribution systems, comprehensive strategic sales and marketing plans and the efficient production of high quality products.

Distribution

Laga Industries is committed to the further development of its distribution spread through placement of additional ice cream fridges and vendor trolleys, together with strategic placement of reefer freezers. Ready to drink fridges will also significantly increase in 2013.

New Product Development

Laga Industries will be reviewing new premium ice cream stick lines, cooking oil and bottled water sizes, and beverage offerings as well as development of the food service category.

Operating Efficiencies

A key focus for 2013 will be on preventative maintenance and equipment replacement as the business continues to grow, coupled with automation and increased stock turn initiatives.

DATEC

Datec (PNG) Limited (*Datec*) has been operating in PNG for 27 years and is the country's premier information and communications technology (ICT) company and Internet Service Provider (ISP). *Datec* provides a suite of ICT solutions to assist companies through the entire asset life cycle, from sourcing equipment to technical support, authorised repairs, maintenance and retiring old equipment. *Datec's* internet services are mainly delivered to the corporate sector and the division offers the fastest internet of any provider in PNG.

The business includes a data centre in Port Moresby, the largest computer retail store in the country (the Datec Megastore) as well as corporate and degree-level training and education through the Datec Learning Centre (an accredited academic certificate and diploma IT program). The ICT services provided cover network and communications, uninterruptible power supply (UPS), office automation and even software development.

Professional services backup is also a key part of the business and *Datec* is an accredited warranty centre for IBM, HP, Acer, PowerWare, Lenovo, Apple and Canon. In addition, the division has developed a closed-circuit TV (CCTV) and cabling business that designs, installs and services CCTV and electronic surveillance systems, as well as full service project management capability. Corporate sector sales are driven by the corporate sales team, whilst home users are catered for through the Datec Megastore.

Performance in 2012

Datec registered high demand for most business lines in 2012. Although revenues were higher than 2011, profits were slightly down due to the completion of a major service contract during the year.

The division's primary focus in 2012 was to build a scalable platform in order to leverage future growth in the small and medium business market, which meant ensuring efficient delivery and servicing of the current product range.

The division experienced growth in its training and education business in 2012 and has forecast another

strong year in 2013. The Retail Megastore, UPS, CCTV, cabling and Canon Imaging businesses also experienced growth in 2012, driven by improved inventory management and stronger corporate relationships.

In a significant development, *Datec* was awarded an international gateway licence in 2012 and is now able to provide high quality internet services via international suppliers, bypassing Telikom PNG. *Datec* also completed construction of next generation ISP infrastructure during 2012, which will provide customers with more affordable, reliable and faster internet access.

Aims for 2013

Datec's leading market position has given the division the confidence to recruit and train local staff in both sales and technical support, which in turn has further strengthened its competitive position. Looking forward, *Datec* plans to maintain its position as a market leader by innovating, introducing new products and adding value through its status as a warranty centre for major products.

The development and launch of the PNG Government's national gateway network is set to provide customers with an additional range of ISP services including metro area Ethernet, cloud computing, domain hosting, disaster recovery, virtual private server and dedicated physical server hosting. *Datec* is positioning itself to capitalise on this.

The Datec Learning Centre is a nascent business which is increasingly providing brand awareness and loyalty. *Datec* will continue to focus on its development as demand for education grows in PNG.

Datec's retail operations will be expanded into the Highlands region in 2013 through new agency partnerships. The division's professional services offering will continue to focus on accredited warranty work, but will increasingly provide a staff outsourcing solution to corporate customers. This will secure a knock-on advantage to other areas of the business.

Joint Ventures

COLGATE PALMOLIVE (PNG)

Steamships Trading Company holds a 50 per cent beneficial interest in Colgate-Palmolive (PNG) Ltd (*Colgate*), a company that manufactures and distributes oral, personal, home, and fabric care products in PNG. Management control is exercised by Colgate-Palmolive Australia.

Performance in 2012

Colgate had a strong year in 2012, exceeding both revenue and margin figures from the previous year and against budget expectations. The division managed to capitalise on the generally buoyant economy which has increased the demand for consumer goods. At the same time *Colgate* has also leveraged the cost reductions brought on by changes in foreign exchange and PNG duty conditions to implement pricing adjustments in the market.

The division developed and focused on two key strategic programs in 2012. The first was aimed at building *Colgate's* key brands in PNG and included establishing professional and government endorsement for the successful Bright Smiles Bright Future program for children and adults (BSBF/BSFA) and also the hand hygiene program for personal care. The second, an innovation growth strategy, involved the re-launch of Cold Power laundry powder with new enzymatic formulation, as well as improved brand activation campaigns in alignment with emerging market priorities.

Aims for 2013

Looking forward, *Colgate* will continue to align its PNG operations more closely with the Pan-Pacific region (Fiji and South Pacific island countries) and other emerging market operations to leverage synergies and best practices in all areas.

PACIFIC TOWING

Established in 1977 Pacific Towing PNG Limited (*Pacific Towing*) is a joint venture between Svitzer and Steamships Trading Company, in which Steamships maintains a 50 per cent beneficial interest. *Pacific Towing* is headquartered in Port Moresby and provides specialist and interrelated services to the marine industry. These comprise harbour towage and mooring services, terminal, and ocean towage, diving, salvage and emergency response services. The division operates 22 vessels, including tugs and line boats, in five ports across PNG (Port Moresby, Lae, Rabaul, Kimbe and Madang).

Performance in 2012

2012 proved to be a challenging year for the division, which secured a lower number of consolidated jobs than previous years and recorded only modest year on year revenue growth.

Towage services were maintained at the key regional ports throughout 2012, with mixed volumes recorded across the provinces. Peak traffic levels at Port Moresby eased during the year, due to a noticeable reduction in shipping for the PNG LNG Project. This was somewhat offset by an increase in volumes at the port of Lae. Towards the latter part of 2012 services were extended to the Solomon Islands with the vessel, "Turanguna," repositioned to Honiara.

There were few salvage opportunities in 2012, and no new salvage contracts were secured. However, a successful outcome was achieved through arbitration during the second part of the year in connection with the "2010 Hai Soon 5" salvage claim.

Commercial dive operations recorded a strong performance after another busy year. Further diver training courses in Australia are also scheduled for 2013. Accreditation for the provision of in-water class surveys was maintained with leading IACS member organisations.

Aims for 2013

The age of the fleet, high maintenance costs and difficulties associated with sourcing certified crew remain a concern for the business and will be addressed as key priorities in 2013.

Sustainability

SUSTAINABILITY: A MESSAGE FROM THE BOARD OF DIRECTORS

"Sustainability to the Steamships Group represents a meaningful investment in our people's future, a fundamental commitment to the highest standards of health and safety at work, practical efforts to improve the lives of the communities in which we operate and genuine measures to ensure we minimise any negative environmental impacts from our diverse activities. Only by focusing on these areas will Steamships be able to ensure that our long term growth, along with the economic and social development of Papua New Guinea, is truly sustainable."

In 2011 Steamships launched a comprehensive sustainability strategy, which focused the Group's commitment to sustainable development and established mechanisms to improve the management of its operational impacts.

A Sustainability Action Group was created to oversee initiatives focused in three broad areas, Our People, Our Environment and Our Community. Key benchmarks were developed in line with one of the leading global standards for sustainability reporting – the Global Reporting Initiative (GRI). Steamships' staff were initiated in data collection against these benchmarks and the Group was able to report on initial progress in establishing the new framework in the 2011 Annual Report.

In 2012, the focus was on improving the sustainability program and embedding it in Steamships' business practices. Plans and targets were revised, staff were trained on monitoring procedures, reporting structures were established and integrated into management systems, and awareness programs were implemented to have 'buy in' from all Steamships staff.

Inevitably there were 'teething problems'. These are discussed in greater detail in the following section. The strategy in 2012 was to address them in the early stages of the program's development. The result is that Steamships has now established a platform for accurate and reliable sustainability reporting which will benefit the Group for years to come.

Steamships celebrated a number of sustainability successes in 2012. Various new employee health, safety and security initiatives were launched in areas such as first aid, drug and alcohol abuse, TB and malaria. Enhanced training and development programs in general business skills together with health and safety were a feature. Steamships successfully implemented its Graduate Accountant Program during the year, launched a Graduate Development Program and confirmed plans to launch a group-wide Management Development Program in 2013. Two Steamships employees completed Masters Degrees in the UK under the Chevening Scholarship.

A notable development was Steamships' announcement in early 2012 of the inaugural recipient of the Swire Conservation Scholarship in Forest Science and Conservation. At the community level Steamships funding was again significant, with over K1.6 million provided to worthy programs in health and social welfare, education, environment and sports.

Steamships' sustainability strategy continues to grow and evolve. The Group remains steadfast in its commitment to supporting the people it employs, bettering the communities in which it operates and reducing the impacts it has on PNG's unique environment. It does so because it understands that its long-term business goals can only be achieved if its business operations are imbued with the principles of sustainable development.

STEAMSHIPS TRADING COMPANY & THE GLOBAL REPORTING INITIATIVE

Steamships utilises the Global Reporting Initiative's G3.1 Guidelines as a framework for its sustainability monitoring and reporting. Steamships has based its reporting on a C level of application of the GRI indicators.

The 2011 annual report served as an introduction to the Group's sustainability initiatives and plans. Specific data was not reported as management systems for monitoring and reporting were being established across the Group. These systems were enhanced in 2012 and are still being proven, particularly for reporting on energy consumption, water and greenhouse gas emissions. Whilst the Group collected data against all selected GRI's in 2012, it became apparent that there were some

deficiencies, which are being reviewed for correction. The aim is to establish reliable data sets to enable auditing of the reporting under the GRI model. This report therefore serves as an update on sustainability initiatives and plans, and it is the Group's intention to publish primary data, with a prior year comparative, in its 2013 results.

The full list of GRI Indicators adopted by Steamships can be found below. Steamships is committed to expanding reporting systems to provide a larger set of data from across the whole Group and to cover more of the GRI reporting requirements on a progressive basis as its systems mature over time. Steamships also aims to elevate transparency in its corporate governance and to align with a C+ level of GRI reporting. In 2013 Steamships will undertake a full disclosure review in line with the GRI's G4 reporting guidelines set to be launched in May 2013, with a view to adopting best practice reporting for the Group.

GRI GUIDELINES ADOPTED BY STEAMSHIPS TRADING COMPANY

AREA OF INTEREST	ASPECT	GRI	INDICATOR
Economic Performance	Economic performance	EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, retained earnings, and payments to capital providers and governments
	Market Presence	EC7	Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation
Labour Practices, Staff Development and Welfare Performance	Employment	LA1	Total workforce by employment type, employment contract, and region, broken down by gender
		LA2	Total number and rate of new employee hires and employee turnover by age group, gender, and region
	Occupational Health and Safety	LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programs
		LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender
	Training and Education	LA10	Average hours of training per year per employee by gender, and by employee category
Environmental Performance	Energy	EN3	Direct energy consumption by primary energy source
		EN4	Indirect energy consumption by primary source
	Water	EN8	Total water withdrawal by source
	Emissions, Effluent, and Waste	EN16	Total direct and indirect greenhouse gas emissions by weight
Community Engagement	Local community support	Part of EC1	Funds committed to Community Health and Social Welfare, Education, Sports and Culture development

Steamships' Sustainability Focus Areas

OUR PEOPLE

Steamships understands the importance of its people to achieving long-term business success. A strong focus on people is one of the three pillars of Steamships' Sustainability Strategy. The Group is one of the largest private employers in PNG. It recognises that efforts to build local talent benefit both the Group and the country's overall development. An effective and motivated team of 'Steamies,' as Steamships' employees are affectionately known, is at the heart of the Group's ability to deliver continued value to customers and shareholders.

Steamships' People Strategy

Steamships' "People" strategy aims to create an environment that promotes an engaged workforce, encourages the development of both hard and soft skills and facilitates an emerging generation of leaders. The provision of clear performance objectives and regular feedback are crucial components in the process.

Steamships' goal is to nurture an enjoyable, rewarding and long-term career for its employees. The Group understands that by building a culture of trust, respect, fairness, safety and inclusivity it can foster an environment that helps people succeed. To ensure this, it has prioritised education, occupational safety, and health as Key Performance Indicators.

Steamships' "People and Culture" web portal provides the organisation with a robust administrative platform for its human resources. It was expanded in 2012 to significantly improve the Group's transparency by enhancing monitoring and reporting capabilities in the areas of Health, Safety, Security and the Environment. An expansion of this program over the coming years will improve human resource capabilities, to the benefit of the Group and its people.

OUR PEOPLE: Review of Activities and Objectives

2012 HIGHLIGHTS	2013 OBJECTIVES
Developed action plans for divisional operations in training, performance management, procedures and policies. Established a 'first' Group wide 'People Compass' survey seeking feedback on working with Steamships. Various observations and commitments will be carried forward to 2013.	Implement strategies to deliver on action plans against these areas. Specifically the launch of a formal Performance Management system driven from the HR Portal and launch of 'Talent Boards' to identify and plan for personnel development. The Group also intends to embed welfare and gender committees in divisions to help address directly employees concerns with management.
Implemented a top down commitment to a Health and Safety culture and raised senior management leadership and cultural buy in at all levels. Conducted a schedule of audits across the year and improved the audit process by developing internal HSSE Audit guidelines.	Delivery of training and awareness programs for divisional management & staff that targets specific action plans to foster a Health and Safety culture. Complete a full employee and business asset external security review, implementing the recommendations as appropriate.
Developed new in house occupational health training modules for the specific needs of each Division.	Implement the training modules across the Group. Specifically the launch of an annual internal group 'Health Expo'.
Reviewed training budgets to more effectively target spending on value added skills development.	Implement quarterly training reviews to establish qualitative, quantitative ROI outcomes for the 2013 training strategy. Specifically the development of a training skills matrix by job type.
Developed a Group-wide Graduate Development Program (GDP).	Implementation of the GDP and establishment of a Management Development Program.
Improved the usage and functionality offered by the HR Portal.	Deploy a new module for HSSE within the Portal to replace an ageing Safeguard program. Implement new initiatives within the HR Portal to administer Our People more effectively.

Health

Steamships' efforts to improve employee knowledge and awareness of key health issues have gained traction and been well supported in all business divisions during 2012. Staff actively participated in awareness programs for first aid, drug and alcohol abuse, oral health, HIV, AIDS, Malaria and TB.

The DOTS (Directly Observed Treatment Short Course) program, a treatment strategy for TB, was implemented in 2012 and well received. The Group's Occupational Health Nurse conducted tests in high risk areas of the business that led to the provision of a number of treatments and contributed to a significant improvement in TB awareness. Further health training and awareness initiatives are planned for 2013.

Safety

Steamships works hard to ensure that safety is a management priority at all levels of the organisation. The Group prioritises a "Wok Seif" culture and has introduced a "Zero Harm" mandate aimed at ensuring it operates as an incident-free organisation. In order to achieve this, the Group is implementing a safety management system in which all incidents are recorded and analysed. In addition, in 2012 Steamships developed a robust reporting framework to identify and implement corrective actions and to reduce repeat occurrences.

The Group has established formal management-worker health and safety committees in all corporate divisions. These committees provide advice on occupational health and safety issues and help monitor key initiatives. They also ensure equitable input from all levels of staff. The results so far have been impressive, although more work is needed to further develop a robust framework for reporting.

Additional steps to enhance safety performance in 2012 included improved resourcing, proactive maintenance scheduling and the provision of specialist training. Internal and external safety audits were conducted in all divisions. The number of external audits will be increased in 2013 in an effort to ensure safety management improvements.

Steamships' increased safety focus has played a significant role in improving overall safety statistics and Group-wide awareness of near misses. Total injuries and lost days from work-related injuries continued to decline in 2012.

Security

Security is a fundamental concern for all businesses operating in PNG. Robberies and assaults are increasingly common in PNG's commercial centres, particularly Port Moresby and Lae. Unfortunately several Steamships staff were again affected by this in 2012.

Steamships reviewed its security policies and procedures in 2012 in an effort to minimise security risks within its current operating environments. People and assets were a strategic focus. Regular security briefs and site audits were carried out to ensure worksite security policies were being implemented. Action plans were further refined to provide all staff with security guidance and assistance in managing situations that occur within and outside the workplace. The Group has also implemented an EAP (Employee Assistance Program) to assist employees affected by increased levels of public violence, carjackings and hold-ups.

Steamships intends to conduct external security audits of all company premises in 2013. This will ensure all divisions remain vigilant and proactive regarding the security of the Group's people and assets.

Training and Development

Staff training and development is a cornerstone of Steamships' People Strategy. In 2012, the Group again invested heavily in educational initiatives across the organisation, spending approximately K3.9 million to deliver close to 80,000 hours of staff training.

Steamships' divisions have established independent training and development programs which seek to blend in-house educational initiatives for specific needs and skills with external opportunities for training in areas such as management, occupational safety, communication, first aid, and technical/operational training (includes plant & equipment operations and specialised training to meet industry & international standards). For example, Consort Express runs a Deck and Engineering Cadetship program, seagoing staff training at the PNG Maritime College and stevedore and yard staff training programs.

Steamships' Graduate Accountant Program was successfully implemented in 2012 and will assist participants to complete their professional qualifications and become chartered accountants within the Group.

Steamships will pursue a rigorous training and awareness program in 2013. This will be facilitated by the Group's Corporate Sustainability Department and focuses on the updated HSSE procedures that were circulated in 2012. Important health training and awareness activities are also included in the 2013 program.

Steamships will launch a Group-wide Management Development Program in 2013. This program will target high calibre employees, aiming to develop the key skills and core competencies required for high performance at management level. Plans to launch a Group-wide Graduate Development Program (Management Trainee scheme) are also underway. Together, these programs will establish the framework for a long term effort to build local management talent which can sustain the Steamships business into the future.

Steamships' relationship with majority shareholder, Swire, continues to provide Group managers with opportunities to further their development through a variety of executive education courses provided by INSEAD in Singapore and France. Swire's internal talent management organisation, 'Ethos,' also offers leadership and development initiatives for Steamships' executives.

Steamships is proud of the role it plays in assisting promising young Papua New Guineans to further their education. Each year Steamships and Swire fund and support two Chevening Scholarships for Papua New Guineans in conjunction with the UK Government. The program provides candidates with the opportunity for postgraduate study in UK universities. Two internal candidates were accepted into the prestigious program in 2012, while one candidate has been accepted to study a Master of Business in 2013. This scheme will be focused on external candidates in future, however may provide Steamships with an employment opportunity thereafter.

Company Culture

Steamships strives to be a "PNG Employer of Choice". The Group acknowledges the efforts of its people, ensures fair remuneration and transparent wealth and benefits distribution. It understands that the development of a strong organisational culture is not possible without the ongoing input of its people and has encouraged both informal input and participation in its annual employee survey.

Continued business expansion in 2012 ensured that Steamships' staff numbers increased. The proportion of PNG nationals in senior management positions also grew, although the percentage is still below expectations. Steamships aims to improve these numbers organically in the years ahead through expansion of the Graduate and Management Development Programs and use of external training sources.

Steamships is committed to fostering diversity at all levels of operation. Gender diversity is a particular focus and the Group considers itself a leader in this area. Steamships has a female board member – Lady Winifred Kamit has been a Director since 2005 – and various female employees in management and supervisory roles across its Divisions. In 2012, the number of female citizen employees increased by close to 22 per cent. By building an inclusive culture, improving talent management, enhancing recruitment practices and ensuring pay equity the Group believes this number will continue to grow in 2013.

Steamships' Employee Strength and Diversity 2012

	1st Quarter 2012	2nd Quarter 2012	3rd Quarter 2012	4th Quarter 2012
Budget Staff Strength	3,105	3,101	3,599	3,658
Actual Staff Strength	3,322	3,233	3,775	3,742
Non Citizen (M/F)	88	82	95	107
Citizen (M)	2,102	2,040	2,355	2,306
Citizen (F)	862	863	939	1,048
Casual FTE	275	253	386	281

CASE STUDY 1:

Tackling domestic violence in PNG

Steamships is working alongside the Coalition for Change PNG Inc (CFC) to bring attention to violence against women in PNG. Steamships has been a supporter of the CFC for some time and contributed K20,000 to the organisation in 2012.

Chaired by Lady Winifred Kamit CBE, the CFC is seeking to bring about appropriate policy and legislative reform for PNG. Since its inception in 2008 the CFC has been working to advance the Family Protection Bill, which has been endorsed by the Attorney General and the State Solicitors Offices and in 2012 was with PNG's National Executive Council.

Steamships believes the passage of the Bill is important to help women who are victims of domestic violence to have a voice. The Group is also considering introducing a policy on violence which impacts the workplace to protect its employees, over 1,000 of whom are female. If endorsed, Steamships believes it will become the first corporate entity in PNG to have a policy that addresses the issue of domestic violence.

CASE STUDY 2:

Westpac Women in Business

Steamships has continued its partnership with Westpac Bank PNG Limited as a platinum sponsor of the annual Westpac Women in Business Awards.

Specifically the Group provided the "Steamships Public Sector Award", which recognises outstanding achievement by a female manager in the public sector who has contributed significantly to the performance of any government service. The award went to Eleina Butuna, who is a lecturer at the University of Papua New Guinea.

Steamships is committed to developing and encouraging its female employees to excel in their respective roles. The Group was thrilled when Naime Tom, port supervisor with Steamships' Kiunga Stevedoring, received the IBBM Young Achiever's Award, which recognises outstanding achievement by a young woman in any category under the age of 30.

OUR ENVIRONMENT

Environmental sustainability is the second pillar of Steamships' Sustainability Strategy. It is a corporate priority and a Key Performance Indicator for the Group.

Papua New Guinea has a remarkably diverse environment, from mountain ranges rising to 4,400 metres above sea level to hot, humid lowland rainforests and swamps. It is also home to unique marine areas including diverse coral reefs, mangrove forests and coastal wetlands. A vast number of plant, mammal, reptile, fish and bird species highlight the incredible biodiversity of the country.

Steamships is very aware of the potential impacts its business operations can have on this unique environment and is committed to minimising its footprint at every stage of each operational process across the Group.

Approach to Environmental Sustainability

Coordinated by the Group HSSE Manager, Environmental Aspects & Impacts (EAIs) registries are being developed and implemented in each Division. EAIs identify, monitor and update Divisions on the specific environmental impacts of business operations and support the development of plans to minimise or eliminate these. Progress on EAIs is monitored across the year through an inspection and audit process.

Steamships firmly believes that environmental education is one of the most effective ways to ensure the principles of environmental sustainability are understood and adopted within the Group and the community. Steamships was an active participant in various community environmental programs in 2012, often working in collaboration with the PNG Government, local community groups and other private companies.

The Group was again a major supporter of PNG's World Environment Day celebrations, because of its focus on educating children about conservation and the PNG environment. Steamships supported the school component of the celebrations by sponsoring the prizes and awards for the competition "Best Environmentally Friendly School" at five schools in the National Capital District, as well as the "School Innovation Project."

Progress continues at the Swire Papua New Guinea Rainforest Study (SPRS), with plans to develop five new forest plots being finalised in 2012. The project continues to be well supported by local communities and has so far provided access to formal education to over 200 children in the research area.

Steamships was pleased to announce the inaugural recipient of the Swire Conservation Scholarship in Forest Science and Conservation during 2012. This Scholarship, funded by the Swire Educational Trust, aims to support individuals of exceptional promise in developing leadership roles in forest science and management in PNG. It provides the opportunity for a student from PNG to achieve a Master of Science by research at an international university of their choice.

OUR ENVIRONMENT: Review of Activities and Objectives

2012 HIGHLIGHTS	2013 OBJECTIVES
Commenced development of 2012 environmental action plans for Divisions.	Completion and implementation of action plans.
Included Environmental Aspects and Impacts registries in the regular HSSE internal audit process.	Environmental Aspects and Impacts registries to be implemented in all Divisions.
Promoted conservation and sustainability education with the introduction of the Swire Conservation Scholarship.	A further scholarship will be offered in 2013 to assist citizens wishing to pursue a Master course in this field.
Major sponsor of World Environment Day activities in PNG.	Increase support to K160,000.
Designed Group HSSE Portal facility to replace Safeguard.	Launch HSSE Portal. Increase training and awareness to improve quality of data entry.
Introduced waste management to Divisions through waste management survey.	Waste management plan to be developed. Training to increase awareness of different waste streams.
Started compiling baseline environmental data.	Improve data integrity for CO2 emissions and water use.

Energy Use, Water Use and Environmental Emissions

In 2011, Steamships developed mechanisms to report on direct and indirect energy consumption by primary source, greenhouse gas emissions and water usage with a view to manage and improve long term environmental impacts. Collecting and reporting accurate baseline data across the Group started in 2012. Some divisions utilised EAIs with great success. These registries helped identify action items for lowering emissions, energy and water usage and improving efficiency.

For example, Laga Industries found that excessive fuel use by the division's transport fleet was leading to high emissions and costs. In response, Laga began monitoring mileage usage and plans to purchase diesel car replacements. In its examination of waste management, Laga also found waste oil was draining from workshop equipment, risking soil contamination and water pollution from runoff. As a solution, Laga installed a waste oil collection tank and implemented an awareness program for proper oil handling procedures.

In 2012 both Steamships Shipping and East West Transport embarked on a fleet replacement program which specifically targeted improved fuel efficiency in new ship and prime mover capacity, the former estimated at 15 per cent and the latter at 33 per cent. Consort Express is working with a local manufacturer to investigate the potential for power generation from ship and machinery waste oil.

Pacific Palms Property was able to identify high electricity usage, costs and greenhouse gas emissions at the Company's plaza complex, NGI office and head office. In response, management launched a program to use energy-saving lamps and efficient electrical goods in all buildings. A staff awareness campaign was also launched to communicate energy saving procedures.

In 2013, Steamships will implement "Environmental Aspects and Impacts" registries in all divisions. Progress implementing corrective actions will be monitored to ensure actions are closed within required timeframes.

CASE STUDY 3:

Rainforest study welcomes Swire Conservation Scholarship

Rainforests are a vital part of PNG, with this country home to the third-largest tract of rainforest in the world. They shape the country's climate, representing life and livelihood to much of the PNG population. Given such importance, it is critical that PNG actively and correctly manages its rainforest and the land use needs of mining, commercial forestry and agriculture.

A fundamental requirement for sustaining the value of tropical forests in the long term is improved scientific understanding of how these systems work. In 2008 Steamships' majority shareholder, John Swire & Sons Limited, committed US$250,000 to establish the Swire PNG Rainforest Study (SPRS). The project has made good progress and in 2010 Steamships Chairman Bill Rothery officially launched the Swire Research Centre at Wanang in the Madang Province.

In 2012 the SPRS welcomed the establishment of the Swire Conservation Scholarship in Forest Science and Conservation, funded by the Swire Educational Trust. Its purpose is to support individuals of exceptional promise in developing leadership roles in forest science and management in Papua New Guinea, with the aim of improving long-term sustainable management of the nation's tropical forests. The scholarship provides a talented student from PNG the opportunity to study for a Master of Science degree by research at an international university of their choice.

Applications were sought in February 2012 and following an exhaustive process of interviews and study reviews by a selection committee of national and international academics and advisers, the inaugural scholarship was awarded in July to Bega Inaho, from Asaro in Eastern Highlands Province.

Bega completed an undergraduate degree in biology at the University of Papua New Guinea in 2007 and joined the Institute of Biological Research (IBR) in Goroka as a field assistant. The IBR sponsored him to continue studying for Honours at the University of Papua New Guinea in 2012. With the award of the Swire Conservation Scholarship, Bega has said he intends to study tropical forest biology and conservation, with particular interest in altitudinal variations in rainforest composition, structure and biodiversity in PNG.


Laga
Gala
Laga Industries Limited

OUR COMMUNITY

Community is the third and final pillar of Steamships' Sustainability Strategy. Community structures are very important in Papua New Guinea which, with a population of seven million, is home to some 700 distinct and diverse tribes and over 830 known languages. Tribal traditions and community culture remain strong in spite of the various social challenges associated with a fast-growing economy and modernising nation.

Steamships recognises the importance of strong relations with the communities in which it operates. They provide mutual benefits for the Group and community and aid progress towards local and national development goals.

Approach to Community Development

Steamships approach to community development is based on adding value to the communities in which the Group operates, over and above the economic benefits derived from employment, taxes and levies and associated businesses. The Steamships community investment program targets four key areas: health and social welfare, education, sports and culture. Funding to these areas and the environmental initiatives mentioned earlier, was over K1.6 million in 2012. Steamships' community strategy is to ensure effectiveness by focusing financial support on a select group of larger, high impact activities. An audit of activities was conducted in 2012 and led to the addition of several new community initiatives during the year.

Steamships' divisions support various initiatives at the local level in which they operate, over and above those supported by the Group. For example, Pacific Palms Property has pursued initiatives with community groups in Badili such as the upgrading of local sports fields.

OUR COMMUNITY: Review of Activities and Objectives

2012 HIGHLIGHTS	2013 OBJECTIVES
Initiated a program of community investment valued at over K1.6 million.	Appointment of a General Manager for Corporate Affairs who will further enhance the impact of our community investment program.
Advanced a number of community engagement activities at the division level.	Increase overall spend to approximately K2.03 million, together with the donation of land to the 2015 South Pacific Games.
Conducted an audit of activities and identified several new programs and existing programs that warrant further support.	Strengthen support for existing programs and establish support for new programs.

Summary of Community Investments in 2012

AREA	2012 Spending (Kina)	2013 Budget (Kina)
Health & Social Welfare	908,000	1,223,000
Education & Environment	542,000	449,000
Sports & Culture	158,000	355,000
TOTAL	**1,608,000**	**2,027,000**

Health and Social Welfare

Business Coalition Against HIV and AIDS (BAHA): Steamships is a gold sponsor of BAHA and supported the organisation in 2012 in its efforts to provide training and HIV/AIDS awareness programs in the private and public sectors. In 2011, Steamships committed a total of K150,000 to BAHA over a 3-year period.

Operation Open Heart (OOH): Steamships' OOH is an annual event, currently in its 16th year. It involves the flying in of doctors from Australia to carry out open heart surgery on patients that do not have access to treatment in PNG. Steamships' staff have benefited in the past from the surgical procedures and continue to have access to the operations, while PNG cardiac surgeons and doctors have learned and gained valuable experience. Steamships will increase its support to OOH from K20,000 to K30,000 in 2013.

Susu Mamas Inc: Steamships continues to support Susu Mamas' vision to reduce maternal and infant morbidity and mortality in PNG by part funding the operation of their clinics. In 2012, Steamships supported Susu Mamas' program to provide workshops on nutrition, breastfeeding and antenatal education in clinics around the country.

Cheshire Disability Services (CDS): CDS is the only organisation in PNG that takes care of, and trains, people living with disabilities. They currently house a total of 21 disabled people and provide training and education to others living in communities around Port Moresby. In 2012 Steamships funded the annual wages of two CDS staff.

Salvation Army Red Shield Appeal: Steamships continued its partnership with the Salvation Army, through which it annually hosts the Red Shield Golf Day tournament and provides K100,000 to launch the Red Shield Appeal.

Rotary against Malaria (RAM): RAM continues to fight to contain and prevent malaria in PNG. The organisation distributes mosquito nets to villages around the country. Steamships' support for RAM ensures that people in the rural areas in which the Group operates have access to treated mosquito nets.

Halfway House & Tembari Children Care Inc: The Halfway House gives women and children who are victims of violence and abuse a place to take shelter. Steamships supports the Halfway House by assisting in the purchase of food for the women and children that live there. Tembari Children Care Inc is a day care facility at the ATS Oro Settlement in Seven Mile, just outside Port Moresby.

Steamships' "Make a Child Smile" project: This project involves Steamships' employees visiting hospitals and other institutions over the Christmas season. Staff collected toys throughout the year and delivered them to the institution of their choice as gifts during Christmas.

Education

Buk Bilong Pikinini (BBP): Steamships has renewed its agreement with BBP, an independent not-for-profit organisation that aims to establish children's libraries and encourage reading and learning. Steamships will be providing financial support to the Lawes Road (Port Moresby), Lae and Goroka Libraries for the next five years. Steamships also provides rent-free space at its Bird of Paradise Hotel for BBP's Goroka library.

British Chevening Scholarships: Steamships & Swire continue to co-sponsor two Chevening scholars from PNG with the British High Commission. The program makes awards to outstanding scholars with leadership potential from around the world to study postgraduate courses at universities in the UK. In 2012 two scholarships were completed and for 2013 the recipient was Coral Sea Hotels Group Sales Manager, Misika Rea. In early 2013, Misika travelled to the United Kingdom to commence her studies.

PNG Maritime College: Steamships continued to provide support for the PNG Maritime College, which is the only institution in the country that provides comprehensive training for seagoing personnel. Further, Steamships has partnered with the China Navigation Company to establish a Madang Centre of Excellence to provide training which will ensure a culture of safety prevails at sea and onshore.

Sport

PNG Paralympics: Steamships continues to assist the PNG Paralympics Committee in their training of PNG athletes. Steamships is committed to giving disabled people the opportunity to achieve their dreams and aspirations.

Kone Kanu Klub: The Kone Kanu Klub is a rowing club based in Port Moresby that regularly represents the country in international competitions. Steamships, through its Shipping division, is a gold sponsor of the club.

Trukai Fun Run & PM's Golf Challenge: Steamships took part in the annual Trukai Fun Run in 2012 by sponsoring a number of primary and secondary schools in Port Moresby. It also supported the annual PM's Golf Challenge. These events raise funds for the PNG Sports Federation to assist with its programs. Steamships staff also participate in the events.

Culture

Literary development: Steamships sponsored PNG's prestigious literary award, the Crocodile Prize, allocating K10,000 for the 2012 Short Story Prize. The Crocodile Prize encourages and publishes Papua New Guinean writers, providing the opportunity for the people of PNG to read their national literature.

Publication support: In 2012 Steamships assisted the All Nation Women's Group, which launched its book 'Artists, Cooks & Storytellers: Moments in Papua New Guinea.' Funds from the sale of the book were used to create an educational bursary to help pay school fees for students attending the Hohola Youth Development Centre, located in a community close to the East West container depot.


3
Pacific
DUTY FREE

CASE STUDY 4:

Pacific Palms Property assists NCD schools

Pacific Palms Property has partnered with the National Capital District Commission to help primary schools in the NCD build their libraries and improve school road crossings. The initiative was planned in close consultation with NCD Governor, the Hon Powes Parkop, and established through the Government's public private partnership program.

New libraries are vital if PNG is to lift literacy rates and improve levels of education across the country. In 2011 the Asia South Pacific Association for Basic and Adult Education and the PNG Education Advocacy Network released the results of literacy surveys conducted over the previous five years in the National Capital District, New Ireland, Chimbu, Sandaun and Gulf provinces. While the results varied by province, in all cases rates of literacy were alarmingly low. For NCD and New Ireland, almost 41 per cent of those who attended primary school were found to be non-literate. For those who attended secondary school the rate only improved slightly to 38 per cent. In all cases, literacy rates were lower for females than males.

Steamships strongly promotes both safety and education in all its businesses, and while safety may be improved relatively quickly at school crossing points, addressing the challenges of education is a longer term project.

CASE STUDY 5:

Supporting health service delivery in remote PNG

In August 2012 Steamships announced a four-year partnership with Youth with a Mission Medical Ships Australia (YWAM MSA) to deliver health services in rural and remote parts of Papua New Guinea.

YWAM MSA provides health care and training needs in PNG in line with the PNG National Health Plan and the nation's commitment to address its Millennium Development Goals. It does this via its medical ship (MV Pacific Link) and land-based teams in rural PNG communities.

Between 2010 and 2012, YWAM MSA provided 103,384 training and health outcomes in the Gulf, Western and Central Provinces. These included primary health care, childhood immunisations, dentistry, optometry, ophthalmology, and education in association with key stakeholders and partners.

Steamships will be assisting with K400,000 annually towards the medical program. In addition to cash-based financial support, MV Pacific Link will be berthing at the Steamships Coastal Shipping (MES) wharf after each outreach in the Gulf and Western Provinces. Through the partnership, YWAM will be providing free medical service to Steamships employees during its Port Moresby outreach program.

Corporate Governance Statement

A commitment to good governance

Steamships and its Board are committed to achieving and demonstrating the highest standards of Corporate Governance and ethical behaviour, and they expect these standards from all employees. The Group believes that the maximisation of long term returns to shareholders is best achieved by acting in a socially responsible manner that recognises the interests of community stakeholders.

Steamships is committed to:

- Providing high-quality products and services to meet customers' needs;
- Maintaining high standards of business ethics and corporate governance;
- Ensuring the safety and wellbeing of employees and others with whom the Group has contact; and
- Promoting sustainable business practice.

Steamships believes it complied with the *2010 Australian Stock Exchange Corporate Governance Principles and Recommendations with 2010 amendments* during the twelve months ended 31 December 2012, except where noted in the following pages.

Steamships reports against the Australian Securities Exchange (ASX) recommendations by addressing each key principle in the order it is listed in the ASX guidelines. Each section addressing a key principle includes references to relevant information that appears elsewhere in the 2012 Annual Report.

Steamships acknowledges that the ASX envisages disclosure of certain corporate governance information related to its principles and recommendations in a specific corporate governance section on the Group's website. This information was not present on the Steamships website throughout 2012. However, the Group updated its website in the early part of 2013 to include a full corporate governance section which will contain all company charters and policies, board committee information, performance evaluation programs and other corporate governance initiatives as they are developed and adopted.

Lay solid foundations for management and oversight

Steamships focuses on the long-term development and growth of business where it can add value through its industry-specific expertise, its partnerships and its knowledge of Papua New Guinea, gained through its long history in the country. In order to achieve this, the Group combines the efforts of dedicated management teams in the individual business units, supported by a small corporate office management team, to provide services such as strategic direction, investment and performance review, treasury, legal support, health & safety development, human resources management and people development services.

Steamships' Board of Directors, together with divisional advisory boards, has the responsibility to set the strategic direction of the Group, to review the operational and financial performance of the Group's activities, to monitor the achievements of the Group against its objectives, to review the management of business risk, and to report to the shareholders. A formal Board Charter, which defines the functions reserved for the Board and those delegated to management, will be formalised and adopted in early 2013.

Steamships has adopted a structured approach to strategic business planning across all divisions. The Group has implemented a key performance indicator monitoring system to ensure that the business remains focused on the strategies and the action plans outlined to achieve them. Progress against the strategies and indicators are measured on a quarterly basis.

The Board has formed a Strategic Planning Committee that meets annually and provides a detailed review of the annual budget and the three-year planning process in discussion with the Divisional General Managers. This review in no way diminishes the responsibility of the full Board to review and approve the Group's strategy at a more macro level.

The selected strategy is implemented by means of programs, budgets and procedures. Implementation involves the organisation of the Group's resources and motivation of the staff to achieve objectives.

The Board and the Managing Director review the performance of senior executives regularly, with the Managing Director conducting an annual performance review with senior executives that incorporates reference to the key performance indicators mentioned above. Performance evaluations of senior executives were carried out during 2012 in accordance with this process.

The Group is committed to the development of its employees by ensuring its succession program is appropriate and monitored. Although the expertise and skills of expatriate staff are still required, an active program of training and skills transfer seeks to enable the Group to promote citizen staff and to build a strong, long-term workforce for the future.

Structure the Board to add value

The Steamships Board currently comprises two executive directors, two independent non-executive directors (Lady Winifred Kamit and Mr Gerea Aopi), and six non-executive directors, of whom four are also directors of other John Swire & Sons subsidiary companies. The roles of chairman and managing director are performed by separate individuals.

Steamships notes the ASX recommendations and comments concerning director independence and advises that the Group departs from these recommendations due to the nature of its shareholdings and its location. Steamships currently has 98 per cent of its shares held by three major shareholders, one of which holds 72 per cent of the shares. The pool of available independent representatives in Papua New Guinea is small, and it would be very difficult to find an adequate number of truly independent directors qualified to serve on the Board. To disqualify existing directors on the grounds of lack of independence would deprive the Group of valuable experience in the management of its affairs. While recognising the importance of the ASX recommendations, the Board feels that, under current circumstances, the recommendations are not practicable, and would not serve the interest of the Group or its shareholders.

Other than the Managing Director and the Finance Director, who are appointed by the Board, all directors retire on a rotational basis at least every three years. Retiring directors are eligible for re-election.

The Chairman in conjunction with all members of the Board has the responsibility for overseeing the nomination of all directors and for the review of the Board's membership, which is linked to its shareholding structure. The Board consequently does not operate a nominations committee and does not operate a formal performance evaluation process for directors.

The Board seeks to ensure its members have an appropriate mix of skills and experience to understand, critique and contribute to the Group's financial performance, strategic direction, risk management, operations, sustainability, values and culture. The skills, expertise, experience of each director and term of office at the date of this report are detailed in the Directors' Report.

In exercising their duties as directors, the Board, and individual members of it, can seek independent professional advice at the Group's expense. Requests for the provision of such advice are directed to the Chairman.

Promote ethical and responsible decision making

Steamships promotes ethical and responsible decision-making in all its divisions. This commitment falls within the Group's strong focus on ensuring the sustainability of its business operations, described separately in this annual report. The Group's evolving sustainability strategy promotes ethical and responsible behaviour in three key focus areas: People, Environment and Community. In early 2013, Steamships adopted a formal Group code of conduct which embodies previous informal practice. The Group currently has as part of the decision making process, the following committees:

- Strategic Planning Committee
- Audit and Risk Committee
- Remuneration Committee

Steamships began to consider some key benchmarks from the global standard on sustainability reporting – the Global Reporting Initiative (GRI) – in its 2011 annual report for the first time. By collecting relevant data and monitoring progress against these benchmarks, Steamships continues to promote ethical and responsible decision making, improve operations and increase transparency.

Key data and commentary on Group performance in health and safety, security, training and development, labour relations, diversity, in addition to environmental measures on energy, water, effluent and waste emissions and the Group's approach to community development can be found in the sustainability section of this annual report.

Diversity

ASX recommendations focus heavily on gender diversity. While Steamships is committed to fostering diversity at all levels, gender diversity has been and continues to be a priority for the Group. Its approach to gender diversity is based on fostering an inclusive culture, improving talent management, enhancing recruitment practices and ensuring pay equity. Key data and commentary on adopted measures are included in the sustainability section of the 2012 annual report.

Notwithstanding ASX recommendations, Steamships believes that for a Group operating entirely in Papua New Guinea, diversity must go further and incorporate culture. This country of just over seven million people is widely reported as having around 800 unique languages. The challenges of its mountainous and island terrain contribute to its highly traditional tribal and rural societies (less than 20% of PNG citizens live in urban centres).

Steamships operates in 12 of PNG's 20 provinces, consistent with its broad range of business interests. Having operated successfully in PNG since 1919, Steamships recognises the social and commercial value of diversity and strives to create a work environment which is inclusive of all people regardless of gender, age, race, disability, sexual orientation, cultural background, religion, family responsibilities or any other area of potential difference.

Safeguard integrity in financial reporting

While the Board maintains overall responsibility for the systems of internal control and monitors their effectiveness, it is assisted in discharging its responsibilities by the Audit and Risk Committee, which is composed of an independent non-executive chairman and two non-executive directors who are representatives of major shareholders.

Formal terms of reference for the Audit and Risk Committee were in place during 2012. A formal charter will be developed and adopted in early 2013. The Audit and Risk Committee recommends the appointment and remuneration of the external auditors, reviews the Group's financial statements and the adequacy and effectiveness of existing internal and external audit arrangements. It also considers management of the Group's risk. The findings and recommendations of the Committee are reported to the Board. The Committee meets four times a year, at which time it receives and discusses reports from senior management and from external auditors. The members of the Audit and Risk Committee, their qualifications and their attendance at meetings of the Committee held during 2012 are shown in the Directors' Report.

Different divisions within the Group have a number of internal audit and monitoring functions, dependent on need. In addition to this, regular reviews of the monthly accounts and balance sheets, conducted by senior divisional and corporate office management, seek to ensure that internal control is properly managed throughout the Group. In the opinion of the Board, this has been the most efficient and cost-effective means of managing internal control, given the diversity of the business and the nature of the risk. However, to enhance the internal system of control and business risk, the Board has given approval for the establishment of a standardised corporate office internal audit process in 2013.

Make timely and balanced disclosure

The Board seeks to inform shareholders of major issues affecting the Group by sending comprehensive annual reports to the shareholders, and through the release of reports to the Port Moresby Exchange, the Australian

Securities Exchange and appropriate media. These detail the Group's financial and operating performance.

In early 2013, Steamships will develop and adopt written policies designed to ensure compliance with the continuous public disclosure and external communications requirements of the Port Moresby Stock Exchange and Australian Securities Exchange, and the Board will ensure these are met at all times.

Steamships has explored methods to more effectively inform shareholders. While many local smallholders still rely solely on the postal system, an increasing number have access to the internet. By updating and improving its corporate website in early 2013, Steamships has further developed the mechanisms designed to ensure compliance with the ASX listing rule requirements, such that:

- All investors have equal and timely access to material information concerning the Group, including its financial position, performance, ownership and governance;
- Group announcements are factual and presented in a clear and balanced way, including disclosure of both positive and negative information.

Respect the rights of shareholders

As mentioned earlier, some 98% of Steamships shares are held by three major shareholders, two of which are represented on the Board. Steamships is nonetheless very aware that it has smaller shareholders and seeks to ensure they are fully empowered.

Steamships is incorporated in Papua New Guinea and accordingly holds its Annual General Meeting in Port Moresby, with shareholders encouraged to attend and participate.

Recognise and manage risk

Steamships has identified its material business risks and actively manages those risks. All material business risks that arise in the course of the Group's activities have clearly defined management ownership and accountability for reporting to the Board.

The Board is responsible for reviewing the Group's policies on risk oversight and management. In doing so, the Board satisfies itself that management has developed and implemented a sound system of risk management and internal control.

The Group is committed to the management of risks throughout its operations to protect its employees, the environment, Group assets, earnings and reputation.

Certain risks occur in the normal course of the Group's business and include foreign exchange and interest rate risks.

The Group Risk Management program utilises a risk management tool and database to assist in monitoring and enforcement of compliance with the Group's risk management procedures and policies. The Group also uses other risk management techniques, including insurance, to reduce the financial impact of any uncontrollable or catastrophic losses.

Steamships' management reports regularly to the Board on the effectiveness of its risk management systems and performance in managing material business risks.

Steamships is incorporated in Papua New Guinea and is not generally subject to the Australian Corporations Act, hence the Board does not require the Managing Director and the Finance Director to provide a declaration that is consistent with section 295A of the Australian Corporations Act 2001.

Remunerate fairly and responsibly

Steamships' policy is to ensure that the level and composition of remuneration for all employees is competitive and reasonable and that the relationship between remuneration and performance is clearly defined.

Steamships' Board has established a remuneration committee comprising the Steamships Chairman, the Managing Director and a Non-Executive Director. Steamships acknowledges the ASX recommendations that suggest this committee be chaired by an independent director, however the Board considers this committee structure appropriate given Steamships' shareholder structure (refer page 54).

The Remuneration Committee meets annually to determine the compensation of the Managing Director and the senior executive staff. Attendance at committee meetings is noted in the Directors' Report. The Committee also reviews the Group's staff development plans and is responsible for the succession planning of all senior manager positions. The recommendations of this Committee are minuted.

Steamships does not operate any schemes for retirement benefits for non-executive directors.

Steamships is incorporated in Papua New Guinea and is not generally subject to the Australian Corporations Act, hence section 300A the Australian Corporations Act 2001 concerning remuneration disclosure does not apply. Steamships reports company remuneration details in accordance with the Papua New Guinea Companies Act 1997.

Statements of Comprehensive Income

Steamships Trading Company Limited
Year ended 31 December 2012

		Consolidated		Parent Entity	
		Dec 12	Dec 11	Dec 12	Dec 11
Continuing Operations	Note	K'000	K'000	K'000	K'000
Revenue	3(a)	**986,310**	920,357	**84,318**	51,886
Other revenue	3(a)	**51,885**	14,360	**-**	-
Operating expenses	3(b)	**(741,686)**	(669,601)	**(5,535)**	(4,971)
OPERATING PROFIT		**296,509**	265,116	**78,783**	46,915
Finance costs – net	3(d)	**(30,935)**	(31,149)	**-**	-
Share of profit of associates and joint ventures	9(c)	**14,188**	13,859	**-**	-
PROFIT BEFORE INCOME TAX		**279,762**	247,826	**78,783**	46,915
Income tax expense	4(a)	**(81,414)**	(67,727)	**(59)**	(332)
PROFIT FROM CONTINUING OPERATIONS		**198,348**	180,099	**78,724**	46,583
Other comprehensive income		**-**	-	**-**	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**198,348**	180,099	**78,724**	46,583
Non-controlling interests		**(20,648)**	(21,838)	**-**	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO SHAREHOLDERS		**177,700**	158,261	**78,724**	46,583
Basic and Diluted Earnings per share continuing (toea)	3(f)	**573t**	510t		

These statements of comprehensive income are to be read in conjunction with the accompanying notes.

Statement of Changes in Equity

Steamships Trading Company Limited
Year ended 31 December 2012

	Share Capital	Proposed Dividend*	Retained Earnings	Total Capital & Reserves	Minority Interest	Total Equity
	K'000	K'000	K'000	K'000	K'000	K'000
BALANCE AT 1 JANUARY 2011	24,200	15,504	411,592	451,296	62,851	514,147
Profit from continuing operations	-	-	158,261	158,261	21,838	180,099
Other comprehensive income	-	-	-	-	-	-
Dividends paid 2011	-	(31,008)	-	(31,008)	(9,324)	(40,332)
Dividends proposed 2011	-	58,916	(58,916)	-	-	-
BALANCE AT 31 DECEMBER 2011	24,200	43,412	510,937	578,549	75,365	653,914
Profit from continuing operations	-	-	177,700	177,700	20,648	198,348
Other comprehensive income	-	-	-	-	-	-
Dividends paid 2012	-	(79,071)	-	(79,071)	(11,691)	(90,762)
Dividends proposed 2012	-	88,373	(88,373)	-	-	-
BALANCE AT 31 DECEMBER 2012	24,200	52,714	600,264	677,178	84,322	761,500

This statement of changes in equity is to be read in conjunction with the accompanying notes.

No statement of changes in equity is presented for the Parent Entity as the only movement in equity is represented by the retained earnings as shown in the statement of comprehensive income and dividend movements as reflected above for the Group.

* This amount relates to dividends proposed as at 31 December 2012, amounting to 170 toea per share (2011: 140 toea per share)

Statements of Financial Position

Steamships Trading Company Limited
As at 31 December 2012

		Consolidated		Parent Entity	
		Dec 12	Dec 11	Dec 12	Dec 11
	Note	K'000	K'000	K'000	K'000
Non-current assets					
Property, plant and equipment	8	**1,023,861**	938,709	**32,478**	36,166
Investments in subsidiaries, associates and joint ventures	9(a)	**38,687**	28,445	**63,342**	63,342
Goodwill	10	**17,183**	17,183	**-**	-
Deferred tax asset	4(c)	**-**	-	**756**	1,604
		1,079,731	984,337	**96,576**	101,112
Current assets					
Inventories	11	**68,381**	50,334	**-**	-
Trade and other receivables	13(a)	**242,553**	200,633	**3,770**	351
Loans to associates and incorporated joint ventures	14	**50,745**	1,907	**6,801**	3,126
Financial assets at fair value through profit and loss	13(b)	**20,307**	45,107	**-**	-
Non-current assets held for sale	12	**8,426**	-	**-**	-
Cash and cash equivalents	15	**21,508**	1,653	**-**	-
		411,920	299,634	**10,571**	3,477
TOTAL ASSETS		**1,491,651**	1,283,971	**107,147**	104,589
Current liabilities					
Trade and other payables	16	**149,007**	132,922	**-**	565
Provisions for other liabilities and charges	17	**12,658**	22,066	**-**	-
Loans from associates and incorporated joint ventures	18	**14,314**	7,769	**64,253**	59,774
Loan from Shareholder	19	**16,133**	18,460	**-**	-
Borrowings	19	**144,381**	48,697	**-**	-
Income tax payable		**33,903**	53,531	**(695)**	314
		370,396	283,445	**63,558**	60,653
Non-current liabilities					
Deferred tax liability	4(c)	**32,898**	7,664	**-**	-
Borrowings	19	**316,872**	330,391	**-**	-
Provisions for other liabilities and charges	17	**9,985**	8,557	**-**	-
		359,755	346,612	**-**	-
TOTAL LIABILITIES		**730,151**	630,057	**63,558**	60,653
NET ASSETS		**761,500**	653,914	**43,589**	43,936
EQUITY					
Issued capital	7	**24,200**	24,200	**24,200**	24,200
Retained earnings		**600,264**	510,937	**(33,325)**	(23,676)
Proposed final dividend		**52,714**	43,412	**52,714**	43,412
Capital and reserves attributable to the Company's shareholders		**677,178**	578,549	**43,589**	43,936
Non-controlling interests		**84,322**	75,365	**-**	-
TOTAL EQUITY		**761,500**	653,914	**43,589**	43,936

These statements of financial position are to be read in conjunction with the accompanying notes.

For and on behalf of the Board:
28 March 2013

W. L. Rothery
Chairman

G.L. Cundle
Managing Director

Statements of Cash Flows

Steamships Trading Company Limited
Year ended 31 December 2012

		Consolidated		Parent Entity	
		Dec 12	Dec 11	Dec 12	Dec 11
	Note	K'000	K'000	K'000	K'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from customers		**990,355**	896,724	**1,885**	9,366
Payments to suppliers and employees		**(616,746)**	(564,302)	**(1,435)**	(875)
Interest received		**135**	123	**-**	-
Interest and other finance costs paid		**(31,070)**	(31,272)	**-**	-
Income tax paid		**(75,808)**	(48,764)	**(219)**	(320)
Net cash provided by operating activities	21	**266,866**	252,509	**231**	8,171
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant & equipment		**(202,646)**	(231,302)	**(510)**	(1,317)
Proceeds from sales of property, plant & equipment		**4,917**	7,599	**-**	39
Loans made (to)/repaid by associated companies		**(44,620)**	1,470	**1,004**	1,021
Dividends received		**3,935**	7,191	**78,346**	23,094
Payment for acquisition of subsidiaries (net of cash acquired)		**-**	(1,200)	**-**	-
Net cash (used in)/provided by investing activities		**(238,414)**	(216,242)	**78,840**	22,837
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		**145,000**	40,000	**-**	-
Repayments of borrowings		**(51,319)**	(35,998)	**-**	-
Dividends paid		**(90,762)**	(40,332)	**(79,071)**	(31,008)
Net cash provided by/(used in) financing activities		**2,919**	(36,330)	**(79,071)**	(31,008)
NET INCREASE/(DECREASE) IN CASH HELD		**31,371**	(63)	**-**	-
CASH AT BEGINNING OF THE YEAR		**(47,044)**	(46,981)	**-**	-
CASH AT END OF THE YEAR		**(15,673)**	(47,044)	**-**	-
CASH COMPRISES:					
Cash and cash equivalents	15	**21,508**	1,653	**-**	-
Bank overdrafts	19	**(37,181)**	(48,697)	**-**	-
		(15,673)	(47,044)	**-**	-

These statements of cash flows are to be read in conjunction with the accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company is a company limited by shares and is incorporated and domiciled in Papua New Guinea.

These group consolidated financial statements were authorised for issue by the Board of Directors on 28 March 2013.

The Board of Directors has the power to amend the financial statements after its issue.

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Changes in accounting policy and disclosures

(i) Revised standard, amendments to existing standards and interpretations adopted by the Group

The following revised standard, amendments to existing standards and interpretations as approved by the IASB which are mandatory for annual periods beginning January 1, 2012:

- Amendments to IFRS 7, *Financial instruments: Disclosures* (effective January 1, 2012) on transfers of assets introduces additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments mainly affect entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendment was not relevant to the Group.

- Amendments to IFRS 1, *First time adoption* on fixed dates and hyperinflation are not relevant to the Group.

- Amendments to IAS 12 *Income taxes*, on deferred tax introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group has no investment property measured at fair value.

(ii) New standards, amendments and interpretations to existing standards that are not yet effective and not early adopted by the Group unless otherwise stated

- IAS 19, *Employee benefits* (effective 1 January 2013) require the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. The Group does not have a defined benefit pension scheme.

- Amendment to IAS 1, *Financial statement presentation* (effective 1 July 2012) regarding other comprehensive income requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. This will not affect the measurement of any items recognised in the balance sheet or profit and loss in the current period.

- IFRS 9, *Financial Instruments* (effective 1 January 2013) is the first phase of replacing IAS 39, Financial Instruments with a standard that is less complex and principles based. The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not expected to change the entity's existing accounting policy for its financial assets and liabilities.

- IFRS 10, *Consolidated Financial Statements* (effective 1 January 2013) replaces all of the guidance on control and consolidation in IAS 27, Consolidated and Separate Financial Statements, and SIC 12 Consolidation – Special Purpose Entities. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. The Group had opted to early adopt the said standard in 2011 whereby two new entities had been consolidated in 2011.

- IFRS 11, *Joint arrangements* (effective 1 January 2013) introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account for their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. As the Group is not a party to any joint arrangements, this standard will not have any impact on its financial statements.

- IFRS 12, *Disclosure of interests in other entities* (effective 1 January 2013) includes the disclosure requirements for all forms of interest in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. Application of this standard will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the Group's investments. The amendments also incorporate into IFRS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The Group will apply the amendments beginning January 1, 2012 but the adoption is not expected to have an impact on the financial statements.

- IFRS 13, *Fair value measurement* (effective 1 January 2013) aims to improve the consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group does not use fair value measurement extensively apart from certain investments and it is unlikely the new rules will have a significant impact on any amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements.

- IAS 27 (Revised 2011), *Separate financial statements* (effective 1 January 2013) is now a standard dealing solely with separate financial statements. Application of this standard will not affect any of the amounts recognised in the consolidated or parent entity financial statements but may impact the type of information disclosed in relation to the parent's investments in the separate parent entity financial statements.

- IAS 28 (revised 2011), *Associates and joint ventures* (effective 1 January 2013) includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS. The Group currently applies the principles of this standard.

- Amendment to IFRS 7, *Financial instruments: Disclosures* on offsetting financial assets and financial liabilities (effective 1 January 2013) enhance current offsetting disclosures. They are unlikely to affect the accounting for any of the Group's current offsetting arrangements, but will require a number of additional disclosures in relation to those arrangements.

- Amendment to IFRS 1, *First time adoption* on government loans (effective 1 January 2013) is not relevant to the Group.

- Annual improvements 2011 (effective 1 January 2013) include minor changes to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. The Group does not expect that any adjustments will be necessary as a result of applying the revised rules.

- Amendment to IFRS 10, *Consolidated financial statements*, IFRS 12 and IAS 27 for investment entities (effective 1 January 2014) provides an exemption to investment entities from consolidating controlled investees. The Group is not an investment entity and will not therefore be affected by these amendments.

(a) Basis of preparation

The accounts have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates, refer to note 1(aa). It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

(b) Foreign currency

The Company's functional and presentation currency is the Papua New Guinea Kina. Transactions in foreign currencies have been translated into the functional currency at rates ruling at the date of the transaction. Amounts payable to and by the Group in foreign currencies have been translated to the functional currency at rates of exchange ruling at the year end. Gains and losses arising from movements in foreign exchange rates are recognised in the statement of comprehensive income when they arise.

(c) Principles of consolidation

The consolidated accounts incorporate the assets and liabilities of all companies controlled by the Group as at the end of the reporting period and the results of all controlled companies for the year then ended. All inter-group transactions and balances have been eliminated. Non-controlling interests in controlled companies are shown separately in the consolidated statement of financial position and statement of comprehensive income. Interests in joint ventures and associates in which the Group holds 20%-50% or more of the issued share capital, and hold significant influence are accounted for under the equity method. Interests in subsidiaries, joint ventures, and associates are carried at cost by the parent entity.

(d) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in determining profit or loss as a bargain purchase.

(e) Property, plant and equipment

All property, plant and equipment (including investment properties) are initially recorded at cost. Depreciation is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful life as follows:

Properties	0 - 10%
Ships	5 - 10%
Plant and fittings	10 - 33%
Motor vehicles	20 - 33%

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statements of comprehensive income during the financial period in which they are incurred.

(f) Non-current assets held for resale

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

(g) Inventories

Inventories are valued at the lower of cost or net realisable value. In general, cost is determined on the weighted average basis and, where appropriate, includes a proportion of variable overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling costs.

(h) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the notional income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used in the determination of deferred income tax. Deferred tax assets are recognised to the extent that it is probable that the future taxable profit will be available, against which the temporary differences can be utilised.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resource embodying economic benefits will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made.

A liability for annual leave is recognised and measured at the amount of unpaid leave at amounts expected to be paid to settle the present entitlements. A liability for long service leave is recognised taking into consideration expected future wage and salary levels, experience of employee departures and periods of service, discounted to present values.

A provision for estimated ship dry docking costs is only recognised where the Group has a contractual obligation under a Bare Boat charter agreement in from a third party. Dry docking costs relating to ships not under third party long term charter agreements are only recognised as incurred, and are capitalised to the extent that the previously assessed economic benefits associated with the asset are restored.

(j) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition.

Goodwill is capitalised and assessed for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less impairment losses.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(k) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks and Treasury Bills with a maturity less than 90 days. Bank overdrafts are shown in current liabilities in the statement of financial position.

(l) Revenue recognition

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenue is recognised for the major business activities as follows:

Sale of goods - Revenue from the sale of goods is recognised when the entity sells a product to the customer and all significant risks and rewards have been transferred.

Services - Service revenue is recognised when the service has been rendered.

Interest income - Interest income is recognised using the effective interest method.

Dividend income - Dividends are recognised as revenue when the right to receive payment is established.

Rental income - Rental income is recognised on a straight line basis over the term of the lease.

(m) Employee benefits

(i) Short term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave and accumulating sick leave is recognised in the provision for employee benefits. All other sort term employee benefit obligations are presented as payables.

(ii) Other long-term employee benefit obligations

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of period in which the employees render the related service is recognised in the provision for the employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departments and periods of service. Expected future payments are discounted using the market yields at the end of the reporting period on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(n) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for any uncollectable debts. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

(o) Borrowings

Borrowings are recognised initially at fair value, net of any transaction costs incurred, and are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(p) Changes in accounting policies and comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation and accounting policies in the current year.

(q) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying value exceeds its fair value less costs to sell. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flow (cash generating units).

(r) Borrowing cost

Borrowing cost incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year, in this case 8.2% (2011 - 7.5%).

(s) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Strategic Steering Committee.

(t) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date. The Group creates a separate category within equity to recognise amounts set aside for payment of dividends that are declared post-year end but before the issue of the Annual Report.

(u) Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Group, by the weighted average number of ordinary shares outstanding during the financial year. There are no potential ordinary shares on issue and hence the diluted earning per share is equal to the basic earnings per share.

(v) Critical judgments in applying the entity's accounting policies

Judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(w) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(x) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST. Receivables and payables are stated inclusive of GST. The amount of GST recoverable from, or payable to, the Taxation authority is included with other receivables or payables in the statement of financial position.

(y) Financial assets

Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The Group does not hold any held to maturity investments or available for sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and cash and cash equivalents in the balance sheet.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade date – the date on which the Group commits to purchase or sell the asset.

Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. Impairment testing of trade receivables is described in note 1(n).

(z) Rounding of amounts

Amounts in the financial statements have been rounded off to the nearest thousand Kina.

(aa) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(ii) Estimated fair values of investments

The Group carries an indirect investment in an unlisted entity with changes in fair value being recognised in profit or loss. At the end of each reporting period, a future maintainable earnings calculation is performed, or if available, non observable market information is used to determine the appropriate fair value of the investment.

(iii) Provision for dry docking

For vessels on long term charter contracts, the cost of future dry docking is provided. The cost of dry docking is not accurately known until the vessels are surveyed and assessed at the commencement of docking. Management have made estimates based on the dry docking interval (ie Special or Interim), repairs identified at balance, its age, and docking history.

Docking intervals are assumed to be 30 month periods.

Docking costs are often incurred in either AUD, USD or SGD currencies. The costings are updated monthly for the foreign exchange rate.

2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks including market risk (including currency, and interest rate risk), credit risk, liquidity risk and capital risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. Risk management is carried out under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group engages in international purchase transactions and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Australian dollar. Foreign exchange risk arises from recognised assets and liabilities.

The Group's foreign currency purchases do not represent a significant proportion of the Group's costs and as such exposure to foreign currency risk is minimal. It is not the Group's policy to hedge foreign currency risk. As the foreign currency exposure is minimal no sensitivity analysis is provided.

(ii) Price risk

The Group is not significantly exposed to equity securities or commodities price risk.

(iii) Cash flow interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow and fair value interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Long term borrowings are at a fixed rate of interest. It is not the Group's policy to hedge cash flow and interest rate risk.

At 31 December 2012, if interest rates on PNG Kina-denominated borrowings had been 1.0% higher/lower with all other variables held constant, post-tax profit for the year would have been K1,311,000 (2011: K717,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The Group has no significant concentration of credit risk and it is not the Group's policy to hedge credit risk. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and has policies that limit the amount of credit exposure to any one customer. No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by counterparties.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by maintaining sufficient bank balances to fund its operations and the availability of funding through committed credit facilities.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

Undrawn finance facilities as of 31 December 2012 is as follows:

	2012	2011
	K'000	K'000
Undrawn Facilities	**102,819**	119,757

The table below analyses the Group's financial liabilities which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year	Between 1 & 2 years	Between 2 and 5 years	Over 5 years
	K'000	K'000	K'000	K'000
At 31 December 2012				
Borrowings	(171,288)	(25,365)	(262,117)	(89,212)
Trade & other payables	(149,007)	-	-	-
Income tax payable	(33,903)	-	-	-
At 31 December 2011				
Borrowings	(78,299)	(290,541)	(40,935)	(29,193)
Trade & other payables	(132,922)	-	-	-
Income tax payable	(53,531)	-	-	-

The Group does not hold derivative financial instruments.

(d) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as external borrowings and unsecured loans less cash and cash equivalents net of bank overdrafts. Total capital is calculated as capital and reserves attributable to the Company's shareholders plus net debt.

The gearing ratios at each balance date were as follows:

	2012	2011
	K'000	K'000
Total external borrowing & unsecured loans	**477,386**	397,548
Less: Cash & Cash equivalents	**21,508**	1,653
Net debt	**455,878**	395,895
Total equity	**677,178**	578,549
Total capital	**1,133,056**	974,444
Gearing ratio	**40%**	41%

(e) Fair value estimation

IFRS 7 "Financial Instruments: Disclosures" requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2012.

	Level 1	**Level 2**	**Level 3**
	K'000	**K'000**	**K'000**
at 31 December 2012			
Assets			
Financial assets at fair value through profit & loss:	-	-	20,307
Total Assets:	-	-	20,307
at 31 December 2011			
Assets			
Financial assets at fair value through profit & loss:	-	-	45,107
Total Assets:	-	-	45,107

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the change in level 3 instruments for the year ended 31 December 2012.

Consolidated	**Financial asset at fair value through profit and loss**	
	2012	**2011**
	K'000	**K'000**
Opening balance	**45,107**	52,583
Additions	-	-
Losses recognised in profit and loss	**(24,800)**	(7,476)
Closing Balance	**20,307**	45,107
Total losses for the period included in other operating expenses that relate to assets held at the end of the reporting period	**24,800**	7,476

The parent entity does not hold any financial assets.

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
3. OPERATING RESULTS				
(a) Revenue comprises:				
Revenue from sale of goods	**224,685**	174,867	**-**	-
Revenue from provision of service	**761,625**	745,490	**-**	-
Dividend income	**-**	-	**78,346**	23,094
Other income*	**51,885**	14,360	**5,972**	28,792
Total Revenue	**1,038,195**	934,717	**84,318**	51,886

* The increase in other revenue is due to the sale of a property.

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
(b) Operating expenses comprise:				
Cost of sales	**244,504**	217,878	**-**	-
Staff costs	**180,258**	155,592	**-**	-
Depreciation and amortisation	**98,379**	77,967	**4,100**	4,095
Electricity and fuel	**67,223**	60,162	**-**	-
Freight	**8,912**	6,614	**-**	-
Insurance	**19,046**	20,292	**-**	-
Motor vehicle expenses	**10,000**	9,935	**-**	-
Shipping and survey costs	**2,286**	12,411	**-**	-
Stevedoring	**24,582**	23,548	**-**	-
Telecommunication	**20,494**	16,781	**-**	-
Repairs and maintenance	**33,861**	31,001	**-**	-
Other operating expenses	**32,141**	37,420	**1,435**	876
Total operating expenses	**741,686**	669,601	**5,535**	4,971
(c) The operating profit before income tax is arrived at after charging and crediting the following specific items:				
Charges:				
Audit fees	**948**	875	**10**	10
Fees for non-audit services to Auditors	**688**	408	**-**	-
Bad and doubtful debts	**1,962**	944	**-**	-
Donations	**2,201**	1,921	**-**	-
Fair value impairment on financial assets	**24,800**	7,476	**-**	-
Credits:				
Net foreign exchange transaction gains	**3,567**	3,081	**-**	-
Profit (loss) on sale of properties	**48,937**	5,401	**-**	-
(d) Finance costs – net:				
Interest expense	**31,070**	31,272	**-**	-
Interest income	**(135)**	(123)	**-**	-
Net finance costs	**30,935**	31,149	**-**	-
(e) Staff costs:				
Wages and salaries	**124,938**	108,559	**-**	-
Retirement benefit contributions	**8,853**	8,694	**-**	-
Accommodation and other benefits	**46,467**	38,339	**-**	-
	180,258	155,592	**-**	-
Number of staff employed by the Group at year end:				
Full time	**3,742**	3,297	**-**	-

Notes to and Forming Part of the Accounts

Steamships Trading Company Limited
Year ended 31 December 2012

3. OPERATING RESULTS (continued)

(f) Earnings per share

Basic earnings per share are calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares on issue during the year. There is no difference between the basic and diluted earnings per share.

	Consolidated		Parent Entity	
	Dec 12	**Dec 11**	**Dec 12**	**Dec 11**
	K'000	**K'000**	**K'000**	**K'000**
Net profit attributable to shareholders	**177,700**	158,261	**-**	-
Weighted average number of ordinary shares on issue (thousands)	**31,008**	31,008	**-**	-
Basic earnings per share (continuing operations)	**573t**	510t	**-**	-

4. INCOME TAX

(a)

	Dec 12	Dec 11	Dec 12	Dec 11
Current tax	**56,180**	50,781	**59**	332
Deferred tax	**25,234**	16,946	**-**	-
	81,414	67,727	**59**	332

(b) The income tax in the Statement of Comprehensive Income is determined in accordance with the policy set out in note 1(h). The effective rate of tax charged differs from the statutory rate of 30% for the following reasons.

	Dec 12	Dec 11	Dec 12	Dec 11
Prima facie tax payable on operating profit	**79,672**	70,190	**23,635**	14,075
Tax effect of rebateable dividends	**-**	-	**(23,504)**	(6,928)
Expenses not deductible for tax	**8,952**	5,882	**-**	-
Deductible expenses not recognised for accounting purposes	**(533)**	(428)	**-**	-
Income not assessable for tax	**(14,519)**	(7,285)	**(72)**	(7,285)
Prior year over/under provisions	**7,842**	(632)	**-**	470
	81,414	67,727	**59**	332

(c) The deferred tax(liability)/ asset comprises:

	Dec 12	Dec 11	Dec 12	Dec 11
Provisions	**9,112**	8,788	**31**	(87)
Prepayments	**(2,840)**	(3,472)	**-**	-
Property, plant and equipment	**(39,170)**	(12,980)	**725**	1,691
	(32,898)	(7,664)	**756**	1,604

Unused tax losses for which no deferred tax asset has been recognised total K2,001,284 (2011: K1,318,367) in a subsidiary company.

(d) The gross movement on the deferred tax account is as follows:

	Dec 12	Dec 11	Dec 12	Dec 11
At January 1	**(7,664)**	9,282	**1,604**	1,511
Acquisition of subsidiary	**-**	27	**-**	-
Provisions credited to profit and loss	**324**	(1,119)	**118**	133
Prepayments credited to profit and loss	**632**	(1,094)	**-**	-
Tax depreciable assets charged to profit and loss	**(26,190)**	(14,760)	**(966)**	(40)
At December 31	**(32,898)**	(7,664)	**756**	1,604

4. INCOME TAX (continued)

(e) The ageing analysis of the deferred tax balance is as follows:

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Net deferred tax asset/(liability) expected to be recovered within 12 months	**(549)**	2,566	**31**	(87)
Net deferred tax asset/(liability) expected to be recovered after more than 12 months	**(32,349)**	(10,230)	**725**	1,691
	(32,898)	(7,664)	**756**	1,604

5. SEGMENTAL REPORTING

(a) Description of segments

The Board considers the business from both a product and a geographic perspective and has identified four reportable segments. A brief description of each segment is outlined below;

- Commercial – consists of the retail arm of the Group and is involved in the manufacture and distribution of food products and general IT retail sales.
- Hotels and Property – consists of the hotels owned and operated by the Group and also its property leasing division. The assets are stated at historical cost net of accumulated depreciation.
- Logistics – consists of shipping and land based freight transport divisions.
- Finance and Investment – consists of the head office administration function and internal property development projects prior to the transfer to the Hotel and Property segment.

(b) Segment information

The segment information provided to the Board for the reportable segments for the year ended 31 December 2012 is as follows:

5. SEGMENTAL REPORTING (continued)

(b) Segment information (continued)

	Commercial	Hotels & Property	Logistics	Finance & Investment	Total
	K'000	K'000	K'000	K'000	K'000
2012					
External revenue	259,003	261,546	465,761	-	986,310
Intersegmental revenue	2,748	36,878	18,995	-	58,621
Interest revenue	72	-	63	-	135
Interest expense	(30)	(718)	(5,593)	(24,729)	(31,070)
Gain on sale of properties	97	48,465	211	164	48,937
Fair value loss on financial asset	-	-	-	(24,800)	(24,800)
Segment results	13,706	227,305	36,808	(12,245)	265,574
Share of associate profit	3,988	-	10,200	-	14,188
Total tax expense	(4,112)	(68,191)	(11,042)	1,931	(81,414)
Profit from continuing operations	13,582	159,114	35,966	(10,314)	198,348
Segment assets	143,056	669,796	480,609	198,190	1,491,651
Segment liabilities	24,336	7,759	164,516	533,540	730,151
Net assets	118,720	662,037	316,093	(335,350)	761,500
Total assets includes investment in associates of	7,957	-	22,871	7,859	38,687
Capital expenditure	13,670	101,382	85,116	2,478	202,646
Depreciation and amortisation	7,643	38,416	50,931	1,389	98,379
2011					
External revenue	246,336	221,980	461,343	5,058	934,717
Intersegmental revenue	881	31,556	12,031	-	44,468
Interest revenue	72	-	51	-	123
Interest expense	(38)	(4,186)	(8,836)	(18,212)	(31,272)
Fair value loss on financial asset	-	-	-	(7,476)	(7,476)
Segment results	19,825	120,863	95,202	(1,923)	233,967
Share of associate profit	3,079	-	10,780	-	13,859
Total tax expense	(5,948)	(36,259)	(28,585)	3,065	(67,727)
Profit from continuing operations	16,956	84,604	77,397	1,142	180,099
Segment assets	122,448	573,285	428,270	159,968	1,283,971
Segment liabilities	22,152	7,130	168,025	432,750	630,057
Net assets	100,296	566,155	260,245	(272,782)	653,914
Total assets includes investment in associates of	6,470	-	14,116	7,859	28,445
Capital expenditure	8,066	164,003	57,324	1,909	231,302
Depreciation and amortisation	8,007	25,572	42,336	2,052	77,967

These figures include non-controlling interests share of operating profit and assets.

(c) Geography

The Group operates wholly in Papua New Guinea. It is not practical to provide a segment analysis by geographical region within Papua New Guinea.

6. RELATED PARTY DISCLOSURES

The Group is controlled by John Swire & Sons (PNG) Limited, which owns 72.12% of the Company's shares. Related parties comprise other companies within the John Swire & Sons (PNG) Group, together with associate and joint venture entities.

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
(a) Material transactions:				
Sales of goods and services				
Associates & joint ventures	**4,818**	4,335	**-**	-
Shareholders of associated companies	**29,507**	6,417	**-**	-
Lease and rental income				
Associates & joint ventures	**4,146**	302	**-**	-
Dividends received				
Associates & joint ventures	**3,935**	7,191	**78,346**	23,094
Management fees received				
Associates & joint ventures	**843**	180	**-**	-
Royalty/license income				
Associates & joint ventures	**1,460**	1,342	**-**	-
Purchase of goods and services				
Associates & joint ventures	**(25,272)**	(26,329)	**-**	-
Other shareholders	**(1,200)**	(2,014)	**-**	-
Shareholders of associated companies	**(4,184)**	(291)		
Management fees paid				
Other shareholders	**(259)**	(226)	**-**	-
Container/charter hire fees				
Other shareholders	**(8,340)**	(8,808)	**-**	-
Interest paid				
Associates & joint ventures	**(367)**	-	**-**	-
Other shareholders	**(916)**	(803)	**-**	-
Dividends paid				
Other shareholders	**(8,151)**	(2,809)	**-**	-
Shareholders of associated companies	**(57,025)**	(22,363)	**-**	-
Intercompany loan transactions				
Associates & joint ventures	**(10,533)**	(10,533)		
Additional investment in associate	**(7,858)**	(7,858)	**-**	-
Shareholders of associated companies	**11,938**	11,938	**-**	-

All transactions with related parties are made on normal commercial terms and conditions.

6. RELATED PARTY DISCLOSURES (continued)

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
(a) Material transactions (continued):				
Balances receivable (payable) from/to related companies:				
Consort associates	**(11,859)**	(7,152)	**-**	-
Harbourside Development Limited	**47,000**	-	**-**	-
Consort shareholders	**(15,000)**	(10,000)	**-**	-
Collins and Leahy	**(973)**	-	**-**	-
Basilok Ltd	**(160)**	(160)	**-**	-
Colgate Pamolive Ltd	**500**	500	**-**	-
Kelton Investments	**790**	790	**-**	-

(b) Directors:

G.J. Dunlop and W.L.Rothery are directors of John Swire & Sons (PNG) Limited and Collins & Leahy Holdings Limited. Dividends were received by those directors holding an interest in the Company as set out in the Directors' Report.

(c) Remuneration: Income received or due and receivable both by Directors and senior managers in connection with the management of the Group companies is shown in the Directors' Report. The Group paid K5,916,134 (2011: K4,748,493) to SCL Nominees Limited for management services.

(d) Interest in subsidiaries, associates and joint ventures: These are set out in note 9 and 24.

(e) Holding company: The ultimate Holding Company is John Swire & Sons Limited, incorporated in England.

7. CAPITAL

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Issued and fully paid: 31,008,237 shares	**24,200**	24,200	**24,200**	24,200

In accordance with the Papua New Guinea Companies Act 1997 the Group has no authorised share capital and shares of no par value.

8. PROPERTY, PLANT & EQUIPMENT

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Property				
Opening net book amount	**566,572**	450,488	**34,525**	37,211
Building under construction	**67,046**	63,203	**-**	-
Additions	**30,148**	71,688	**75**	912
Business Combinations	**-**	173	**-**	-
Disposals Cost	**(5,498)**	-	**(1,341)**	-
Disposals Accumulated Depreciation	**4,067**	-	**1,255**	-
Transfer to asset held for sale – Cost	**(22,383)**	-	**-**	-
Transfer to asset held for sale – Accumulated Depreciation	**13,957**	-	**-**	-
Depreciation charge	**(26,953)**	(18,980)	**(3,618)**	(3,598)
Closing net book amount	**626,956**	566,572	**30,896**	34,525
Cost or valuation	**761,761**	692,448	**75,569**	76,835
Accumulated depreciation	**(134,805)**	(125,876)	**(44,673)**	(42,310)
Net book amount	**626,956**	566,572	**30,896**	34,525
Ships				
Opening net book Amount	**175,649**	186,442	**-**	-
Additions	**32,413**	11,568	**-**	-
Disposals – Cost	**(10,125)**	-	**-**	-
Disposals – Accumulated Depreciation	**7,666**	-	**-**	-
Depreciation Charge	**(27,588)**	(22,361)	**-**	-
Closing net book Amount	**178,015**	175,649	**-**	-
Cost or valuation	**325,180**	302,892	**6,474**	6,474
Accumulated depreciation	**(147,165)**	(127,243)	**(6,474)**	(6,474)
Net book amount	**178,015**	175,649	**-**	-
Plant & Vehicles				
Opening net book Amount	**196,488**	149,580	**1,641**	1,772
Additions	**67,159**	84,843	**435**	405
Business Combinations	**-**	889	**-**	-
Disposals – Cost	**(11,512)**	(6,867)	**(18)**	(134)
Disposals – Accumulated Depreciation	**10,593**	4,669	**6**	95
Depreciation Charge	**(43,838)**	(36,626)	**(482)**	(497)
Closing net book Amount	**218,890**	196,488	**1,582**	1,641
Cost or valuation	**438,283**	382,639	**5,122**	4,705
Accumulated depreciation	**(219,393)**	(186,151)	**(3,540)**	(3,064)
Net book amount	**218,890**	196,488	**1,582**	1,641
Total property, plant and equipment	**1,023,861**	938,709	**32,478**	36,166

The cost of additions in 2012 includes capitalised borrowing costs of K9.4M (2010: K3.9M) in relation to qualifying assets. There are no other conditions that indicate impairment of property, plant and equipment as at 31 December 2012 and 31 December 2011.

The depreciation charge on ships includes an additional K4M due to impairment.

8. PROPERTY, PLANT & EQUIPMENT (continued)

Properties include commercial properties occupied by Group businesses together with commercial and residential investment properties which are available for external lease. An analysis of the carrying amount and estimated range of fair values for each category of property is shown below. Fair values have been estimated internally, based on market evidence of property values, supported by independent professional valuations as at December 2012 for a selected sample of representative properties.

Included in Properties are the following:

	NBV	Valuation Lower	Range Higher
	K'000	K'000	K'000
Commercial Internal	29,306	131,402	164,253
Commercial External	486,209	1,122,798	1,403,497
Residential	111,441	189,067	236,334
Total	626,956	1,443,267	1,804,084

The independent valuer utilised certain historical facts and relevant market data available up to the date of valuation in reaching their opinion to the valuation of the properties.

Minimum lease payments under non-cancellable operating leases of investment properties not recognised in the financial statements are receivable as follows:

	Dec 12	Dec 11
	K'000	K'000
Within one year	**92,066**	91,586
Later than one year but not later than five years	**245,279**	304,143
Later than five years	**-**	-
	337,345	395,729

Repairs and maintenance attributable to rental properties under non-cancellable leases	**3,765**	3,444
Operating expenses directly attributable to rental properties under non-cancellable leases	**24,115**	23,352

Rental income earned from investment property in 2012 amounted to K118.6M (2011: K102.4M)

9. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
(a) Investments are accounted for in accordance with the policy set out in Note 1(c) and relate to:				
Investments in subsidiary companies	**-**	-	**43,203**	43,203
Investments in associates and joint ventures	**38,687**	28,445	**20,139**	20,139
	38,687	28,445	**63,342**	63,342
(b) Movement in carrying amounts				
Carrying amount at the beginning of the year	**28,445**	15,416	**63,342**	42,142
Share of profits	**20,426**	19,508	**-**	-
Income tax expense	**(6,238)**	(5,649)	**-**	-
Dividends received/receivable	**(3,935)**	(7,191)	**-**	-
Transfers/sales	**(11)**	6,361	**-**	21,200
Carrying amount at the end of the year	**38,687**	28,445	**63,342**	63,342

9. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES (continued)

(c) Summarised financial information of equity accounted associates and joint ventures

The Group's share of the results of its principal associates and its aggregated assets (including goodwill) and liabilities are as follows

	Ownerships Interest	Assets	Liabilities	Carrying Value	Revenue	Profit
	%	K'000	K'000	K'000	K'000	K'000
2012						
Pacific Towing	50	14,238	3,544	10,694	17,508	4,733
Colgate	50	16,652	8,695	7,957	35,627	3,987
Harbourside Development	50	7,859	-	7,859	-	-
Makerio Stevedoring	23	937	330	607	580	287
Nikana Stevedoring	23	1,090	158	932	442	175
Riback Stevedoring	25	14,732	4,124	10,608	10,242	4,997
United Stevedoring	12	403	373	30	2,551	9
		55,911	17,224	38,687	66,950	14,188

	Ownerships Interest	Assets	Liabilities	Carrying Value	Revenue	Profit
	%	K'000	K'000	K'000	K'000	K'000
2011						
Pacific Towing	50	12,033	4,822	7,211	9,552	7,395
Colgate	50	9,632	3,162	6,470	13,425	3,078
Harbourside Development	50	7,859	-	7,859	-	-
Makerio Stevedoring	23	634	145	489	218	214
Nikana Stevedoring	23	934	180	754	211	279
Riback Stevedoring	25	6,298	681	5,617	3,267	2,881
United Stevedoring	12	305	260	45	501	12
		37,695	9,250	28,445	27,174	13,859

(d) Within the parent company, shares in subsidiary companies have been stated at cost or valuation less dividends received from pre-acquisition profits. Subsidiary companies are shown in note 24.

10. GOODWILL

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Opening net book amount	**17,183**	17,183	**-**	-
Additions	**-**	-	**-**	-
Impairment	**-**	-	**-**	-
Closing net book amount	**17,183**	17,183	**-**	-

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to operating segment. The goodwill balance of K17.2M (2011: K17.2M) is attributable to Datec (K9.2M), Consort (K0.5M) and the Manufacturing division (K7.5M). The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Growth beyond year five for the purpose of the impairment testing is set at 0%. A pre-tax discount rate of 18.3% has been used and reflects specific risks relating to the operating segment. No goodwill is considered to be impaired as at 31 December 2012.

11. INVENTORIES

	Consolidated		Parent Entity	
	2012	2011	2012	2011
	K'000	K'000	K'000	K'000
Raw materials	**29,000**	2,497	**-**	-
Work in progress	**3**	1,226	**-**	-
Finished goods	**41,494**	49,457	**-**	-
Provision for obsolescence	**(2,116)**	(2,846)	**-**	-
	68,381	50,334	**-**	-

Inventories recognised as expense during the year ended 31 December 2012 and included in cost of sales and cost of providing services amounted to K53.6M (2011: K46.9M).

Write downs of inventories to net realisable value as an expense during the year ended 31 December 2012 amounted to K1.7M (2011: K1.5M). The expense has been included in 'cost of sales' in the statement of comprehensive income.

12. NON-CURRENT ASSETS HELD FOR SALE

At 31 December 2012, two properties have been presented as held for sale following the approval of the Group's management and directors in August 2012 to sell the properties. The transactions are expected to be completed within twelve months from balance sheet date.

	2012	2011
	K'000	K'000
Property Plant and Equipment	**22,383**	-
Accumulated Depreciation	**(13,957)**	-
Carrying Value	**8,426**	-

13 (a). TRADE AND OTHER RECEIVABLES

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Trade receivables	**107,528**	133,459	**-**	-
Provision for impairment	**(5,102)**	(4,186)	**-**	-
	102,426	129,273	**-**	-
Other receivables & prepayments (see (iii) below)	**140,127**	71,360	**3,770**	351
	242,553	200,633	**3,770**	351

(i) Impaired trade receivables

As at 31 December 2012, trade receivables of K5.1M (2011: K4.2M) relating to trade debtors were considered impaired and were provided for by management. The ageing of these receivables is as follows:

3 to 6 months	**2,095**	1,200	**-**	-
Over 6 months	**3,007**	2,986	**-**	-
	5,102	4,186	**-**	-

Movement in the provision for impairment of trade receivables is as follows:

Opening balance	**4,186**	3,685	**-**	-
Provision for receivables impaired	**1,962**	944	**-**	-
Provision written off	**(1,046)**	(443)	**-**	-
Total	**5,102**	4,186	**-**	-

The creating and releasing of provision for impaired receivables is included in administration costs in the statement of comprehensive income. Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

(ii) Past due but not impaired

As at 31 December 2012, trade receivables of K7.7M (2011: K3.4M) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables are as follows:

3 to 6 months	**7,252**	3,414	**-**	-
Over 6 months	**91**	-	**-**	-
	7,317	3,414	**-**	-

The other classes within trade and other receivables do not contain impaired assets. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

(iii) Other receivables and prepayments

These amounts generally arise from transactions outside the usual operating activities of the Group. Interest may be charged at commercial rates where the terms of repayment exceed six months. Collateral is not normally obtained.

Prepayments

These amounts relate to advance payments for expenses not yet incurred.

13 (b). FINANCIAL ASSET HELD AT FAIR VALUE THROUGH THE PROFIT AND LOSS

	Consolidated		Parent Entity	
	Dec 12	**Dec 11**	**Dec 12**	**Dec 11**
	K'000	**K'000**	**K'000**	**K'000**
Opening balance	**45,107**	52,583	**-**	-
Additional investment	**-**	-	**-**	-
Fair value loss recorded in the profit and loss	**(24,800)**	(7,476)	**-**	-
Closing Balance	**20,307**	45,107	**-**	-

The financial asset is a convertible note in GEMS PNG Limited, which holds an investment in Bemobile Ltd.

14. LOANS TO ASSOCIATES AND INCORPORATED JOINT VENTURES

	Consolidated		Parent Entity	
	Dec 12	**Dec 11**	**Dec 12**	**Dec 11**
	K'000	**K'000**	**K'000**	**K'000**
Harbourside Development Limited	**47,000**	-	**-**	-
Consort associates	**2,455**	617	**-**	-
Colgate Palmolive	**500**	500	**-**	-
Kelton Investments Limited	**790**	790	**-**	-
Steamship group companies	**-**	-	**6,801**	3,126
	50,745	1,907	**6,801**	3,126

15. CASH AND CASH EQUIVALENTS

	Consolidated		Parent Entity	
	Dec 12	**Dec 11**	**Dec 12**	**Dec 11**
	K'000	**K'000**	**K'000**	**K'000**
Cash	**21,508**	1,653	**-**	-
	21,508	1,653	**-**	-

The maximum exposure to credit risk at the reporting date is the fair value of cash and cash equivalents in the statement of financial position.

16. TRADE AND OTHER PAYABLES

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Trade Payables	**74,098**	57,820	**-**	-
Accruals	**43,134**	44,183	**-**	-
Other payables	**31,775**	30,919	**-**	565
	149,007	132,922	**-**	565

All trade and other payables are due and payable within 12 months and are recorded at their carrying value.

17. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Employee	Dry Dock	Other	2012 Total	2011 Total
	K'000	K'000	K'000	K'000	K'000
At 31 December 2011	15,748	14,589	286	30,623	28,480
Charged to profit & loss	10,535	3,339	858	14,732	20,421
Utilised during year	(9,059)	(13,532)	(121)	(22,712)	(18,278)
	17,224	4,396	1,023	22,643	30,623
Short-term provisions at 31 December 2012	7,239	4,396	1,023	12,658	22,066
Long-term provisions at 31 December 2012	9,985	-	-	9,985	8,557
	17,224	4,396	1,023	22,643	30,623

A brief description of employee and dry dock provisions is disclosed in note 1i.

18. LOANS FROM ASSOCIATES AND INCORPORATED JOINT VENTURES

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Consort Associates	**14,314**	7,769	**-**	-
Steamship group companies	**-**	-	**64,253**	59,774
Total Loans	**14,314**	7,769	**64,253**	59,774

19. BORROWINGS

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Current:				
Bank overdrafts (secured)	**37,181**	48,697	**-**	-
Bank loans (secured)	**107,200**	-	**-**	-
Other loans (unsecured)	**16,133**	18,460	**-**	-
	160,514	67,157	**-**	-
Non-current:				
Bank loans (secured)	**316,872**	330,391	**-**	-
Total Borrowings	**477,386**	397,548	**-**	-

Mortgages over certain of the Group's properties and a registered equitable mortgage over the remainder of the Group's assets, undertakings and uncalled capital are held by the Group's bankers as security for the bank overdrafts and secured loans.

Interest is paid on all loans at commercial rates at a discount to Indicative Lending Rates. The effective interest rate on bank facilities at the balance sheet date was 8.2% (2011: 7.5%). Bank overdrafts are interest-only with no agreed repayment schedule. Bank loans are secured loans with varying terms.

20. COMMITMENTS

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
(a) Capital Commitments				
Contracts outstanding for capital expenditure:				
- less than 12 months	**127,126**	132,120	**-**	-
- 1-5 years	**3,716**	5,376	**-**	-
	130,842	137,496	**-**	-

(b) Lease commitments: group as lessee

The Group leases various properties under non-cancellable operating leases. The leases have varying terms and renewal rights. On renewal, the terms of the lease are renegotiated.

	Dec 12	Dec 11
	K'000	K'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**6,390**	7,137
Later than one year but not later than five years	**24**	76
Later than five years	**-**	-
	6,414	7,213

21. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent Entity	
	Dec 12	Dec 11	Dec 12	Dec 11
	K'000	K'000	K'000	K'000
Profit for the year	**198,348**	180,099	**78,724**	46,583
Depreciation	**98,379**	77,967	**4,100**	4,095
Dividend and interest income	**-**	-	**(78,346)**	(23,094)
Net gain on sale of non-current asset	**(48,937)**	(17,833)	**-**	(24,284)
Fair value adjustment on financial assets	**24,800**	7,476	**-**	-
Share of profit after tax of associates	**(14,188)**	(13,859)	**-**	-
Change in operating assets and liabilities, net of effects from purchase of controlled entity				
(Increase)/decrease in trade debtors	**26,847**	(18,821)	**(3,418)**	1,211
(Increase)/decrease in inventory	**(18,047)**	4,139	**-**	-
(Increase)/decrease in deferred tax asset	**-**	9,309	**848**	(93)
(Increase)/decrease in operating assets	**(14,048)**	5,120	**-**	-
Increase/(decrease) in trade creditors	**16,278**	1,550	**(668)**	3,648
(Decrease)/increase in other operating liabilities	**(8,172)**	6,899	**-**	-
(Decrease)/increase in provision for income tax payable	**(19,628)**	2,799	**(1,009)**	105
Increase/(decrease) in deferred tax liability	**25,234**	7,664	**-**	-
Net cash inflow from operating activities	**266,866**	252,509	**231**	8,171

22. RETIREMENT BENEFIT PLANS

The total cost of retirement benefits of the Group in 2012 was K11,058,826 (2011: K8,694,000). The Group participates in the National Superannuation Fund of Papua New Guinea, a multi-employer defined contribution fund, on behalf of all citizen employees with minimum employer and employee contribution rates established by legislation. The Group also contributes to a defined contribution superannuation plan on behalf of senior management. The defined contribution superannuation plan was established in 2002.

The parent entity does not employ staff directly; consequently there was no charge during the year.

23. CONTINGENT LIABILITIES

There were contingent liabilities at the Balance Sheet date as follows:

(a) The parent entity has given a secured guarantee respect of the bank overdrafts of certain subsidiaries.

(b) The parent entity has given letters of continuing financial support in respect of certain subsidiaries, associates and joint ventures.

No losses are anticipated in respect of these guarantees.

24. SUBSIDIARY COMPANIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1 (c):

Name of Entity	Country of Incorporation	Class of Shares	Equity Holdings* 2012	Equity Holdings* 2011
Consort Express Lines Limited	Papua New Guinea	Ordinary	51	51
Datec (PNG) Limited	Papua New Guinea	Ordinary	100	100
Kavieng Port Services	Papua New Guinea	Ordinary	60	60
Kiunga Stevedoring Company Limited	Papua New Guinea	Ordinary	100	100
Lae Port Services Limited	Papua New Guinea	Ordinary	51	51
Laga Industries	Papua New Guinea	Ordinary	68	68
Madang Port Services Limited	Papua New Guinea	Ordinary	60	60
Middle Fly Shipping Limited**	Papua New Guinea	Ordinary	50	50
New Britain Shipping Limited**	Papua New Guinea	Ordinary	50	50
Oro Agencies Ltd	Papua New Guinea	Ordinary	100	100
Pacific Rumana Limited	Papua New Guinea	Ordinary	50	50
Pacific Rumana Mobile Investments Limited	Papua New Guinea	Ordinary	83	83
PNG Link Limited	Papua New Guinea	Ordinary	100	100
Port Services PNG Limited	Papua New Guinea	Ordinary	54	54
Steamships Limited	Papua New Guinea	Ordinary	100	100
Windward Apartments Limited	Papua New Guinea	Ordinary	100	100

*The portion of ownership is equal to the proportion of voting power held.

** Consolidated by virtue of management control.

25. BUSINESS COMBINATIONS

2011

Summary of acquisitions

On 1 January 2011, the Group concluded a share purchase transaction that saw the Company attain 100% control of the share capital of Kiunga Stevedoring Company Limited (previously 24.5%). The total purchase price of K1,200,000 was settled in cash on acquisition. Total gain from the share purchase transaction was K290,000.

Kiunga Stevedoring Company Limited contributed revenues of K6,343,625 and net profit of K3,592,021 to the Group for the 2011 year.

26. SUBSEQUENT EVENTS

On 1 January 2013 the Steamships Shipping Agencies business was transferred to China Navigation Company Pte Limited using the global brand name 'Swire Shipping Agencies'.

On 26 February 2013 the Directors declared a final dividend of 170 toea per share to be payable immediately after the Annual General Meeting on 14 May 2013. The gross dividend of K52.7M has been recognised as a separate component of equity at 31 December 2012.

On the 1st March 2013, New Britain Shipping Limited acquired the trade and net assets of Kimbe Shipping and Transport Limited for K18 million.

Independent Auditor's Report to the Shareholders of Steamships Trading Company Limited

Report on the financial statements

We have audited the accompanying financial statements of Steamships Trading Company Limited (the Company), which comprise the statements of financial position as at 31 December 2012, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 31 December 2012 or from time to time during the financial year.

Directors' responsibility for the financial statements

The Directors are responsible for the preparation of these financial statements such that they give a true and fair view in accordance with generally accepted accounting practice in Papua New Guinea and the Companies Act 1997 and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, 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 Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report to the Shareholders of Steamships Trading Company Limited

Opinion

In our opinion, the accompanying financial statements:

1. comply with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea; and

2. give a true and fair view of the financial position of the Company and the Group as at 31 December 2012, and their financial performance and cash flows for the year then ended.

Report on other legal and regulatory requirements

The Companies Act 1997 requires in carrying out our audit we consider and report on the following matters. We confirm in relation to our audit of the financial statements for the year ended 31 December 2012:

1. we have obtained all the information and explanations that we have required;

2. in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records; and

3. we have no relationships with or interests in the Company or any of its subsidiaries other than in our capacities as auditor and tax advisor. These services have not impaired our independence as auditor of the Company and the Group.

Restriction on distribution or use

This report is made solely to the Company's shareholders, as a body, in accordance with the Companies Act 1997. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditor's report and for no other purpose. We do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

PricewaterhouseCoopers

Grant Burns

Engagement Leader

By: Brett Entwistle

Partner

Registered under the Accountants Act 1996

Port Moresby
28 March 2012

Directors' Report

Steamships Trading Company Limited
Year ended 31 December 2012

Steamships Trading Company Limited and Subsidiary Companies

The Directors submit their Annual Report for the year ended 31 December 2012 for the Company and its subsidiaries.

Principal Activities and Review of Operations

Full details of the Group's activities are given in the Directors' Review on page 15. The Group continues to operate in the segments of Commercial, Hotels and Property and Logistics.

The Directors believe that there will be no significant changes in the Group's activities for the foreseeable future.

Changes in Accounting Policies

There are no changes in Accounting Policies in the year.

Result

The Group operating profit for the year attributable to shareholders was K177,700,000 (2011: K158,261,000).

Dividend

The Directors advise that a final dividend of 170 toea per share will be paid immediately after the Annual General Meeting on 14 May 2013. The exchange rate Kina to Australian Dollar applying on 1 May 2013 will be used to calculate the dividends to shareholders resident outside Papua New Guinea.

Rounding Off

Amounts in the Directors' Report and accounts have been rounded off to the nearest thousand Kina.

Experience & Interests Register

Directors have disclosed the following experience and interests in shares in the Company and provided general disclosure of companies in which the Director is to be regarded as interested as set out below:

Particulars of Directors	Relevant Experience & Interests	Beneficial Shares Held
W.L. Rothery Member of the Remuneration Committee Member of the Strategic Planning Committee Director since 1997 Chairman since 2006	Mr Rothery is Chief Executive and a Director of John Swire & Sons Pty Ltd, as well as a Director of several other Swire subsidiary companies. He has been with the Swire Group for 30 years and has been based in Asia, the Middle East and for 20 years in Australia.	Nil
G. Aopi CBE Director since 1997	Mr Aopi is an Executive Director of Oil Search Ltd, where he is also Executive General Manager of External & Government Affairs and Sustainability. He has substantial public service and corporate experience in Papua New Guinea. He is a Director of Port Moresby Stock Exchange Ltd, Marsh Ltd, F.M. Morobe Ltd, Hirad Ltd, CDI Foundation, Wahinemo Ltd and various other private companies. He is a former Chairman of Telikom PNG Ltd.	Nil
T. Blackburn Director since 2011	Mr Blackburn is Managing Director of The China Navigation Company Pte Ltd (a Swire Group company) and Chairman of Mandarin Shipping Ltd. He was Director & General Manager (2009-2011) of Hong Kong Aero Engine Services, a Director of James Finlay Ltd (2005-2009) and from 1994 to 2005 worked for various subsidiaries and associates of John Swire & Sons Ltd, including Steamships Shipping & Transport.	Nil
Sir Michael Bromley KBE Member of the Audit and Risk Committee Member of the Remuneration Committee Member of the Strategic Planning Committee Director, 1986 to 1996 Director since 2000	Sir Michael Bromley has extensive international business experience from over 40 years of operating and advising companies in countries including Singapore, Indonesia, Australia, Russia, China and Papua New Guinea, principally in retail and logistics operations. He is Chairman of Heli Niugini Ltd, Waratah Resources Ltd and Chemica Ltd, in addition to being a Director of Maps Tuna Ltd, New Guinea Energy Ltd, Sek No: 35 Ltd, Sonway Ltd and Hoia investments Ltd.	Nil
D.H. Cox OL Member of the Remuneration Committee Managing Director 2004 to 2012 Director since 2003	Mr Cox joined Steamships as a Manager in 1992, rising to become Managing Director 2004-2012. He has extensive experience in the PNG business environment. He is also a Director of Telikom PNG Ltd, Bemobile Ltd, Capital Way PNG Ltd and GEMS PNG Ltd.	Nil
G.L. Cundle Managing Director from 2013 Director from 2013	Mr Cundle was appointed Steamships Managing Director on 1 January 2013. He joined the Swire Group in 1979 and has extensive corporate experience having worked with the Group in various divisions in Hong Kong, Australia, Korea, Japan and Papua New Guinea. He was a Non-Executive Director of Steamships in 2006-2007 and Steamships Shipping General Manager in 1989-1992.	Nil

Directors' Report

Steamships Trading Company Limited
Year ended 31 December 2012

Experience & Interests Register (continued)

Particulars of Directors	**Relevant Experience & Interests**	**Beneficial Shares Held**
G.J. Dunlop Member of the Audit and Risk Committee Member of the Strategic Planning Committee Managing Director 2000 to 2003 Director since 1995	Mr Dunlop is a chartered accountant with extensive experience in the Pacific region. He is a Director of John Swire & Sons (PNG) Ltd and Group companies, John Swire & Sons Pty Ltd, City Pharmacy Group Ltd, Credit Corporation (PNG) Ltd, Hardware Haus Pty Ltd and Mainland Holdings Ltd.	Nil
J.W.J. Hughes-Hallett CMG, SBS Director since 2010	Mr Hughes-Hallet originally joined the Swire Group in 1976 and has extensive corporate experience through working with the Group in Hong Kong, Taiwan, Japan, Australia and London. He is Chairman of John Swire & Sons Ltd and a Director of Swire Pacific Ltd, Cathay Pacific Ltd, Swire Properties Ltd and HSBC Holdings Ltd.	Nil
Lady Winifred Kamit CBE Chairperson of the Audit and Risk Committee Director since 2005	Lady Winifred Kamit is a former Senior Partner, and currently a consultant at Gadens Lawyers in Port Moresby. She is a Councillor of the Papua New Guinea Institute of National Affairs and Chairperson of Coalition for Change PNG. She is a Director & Secretary of Bunowen Services Ltd and Gadens Administration Services Ltd, and a Director of Newcrest Mining Ltd, Nautilus Minerals Niugini Ltd, Lihir Gold Ltd, Kamchild Ltd and ANZ Banking Group (PNG) Ltd.	Nil
S.C. Pelling Finance Director & Company Secretary (appointed 21 August 2012)	Mr Pelling is a chartered accountant who was previously Finance Director for agricultural operations in Africa with James Finlay Ltd, a wholly-owned subsidiary of John Swire & Sons Ltd. He is a Director of John Swire & Sons (PNG) Ltd and various Steamships Trading Company subsidiaries and associated companies.	Nil
E.H. Ruha Finance Director & Company Secretary (resigned 21 August 2012)	Mr Ruha is a chartered accountant who had an extensive career with the Steamships Group 1990-2012. He was a director of John Swire & Sons (PNG) Ltd and other Group companies.	Nil

Remuneration of Directors

Directors remuneration received or receivable from the Company as directors during the year, is as follows:

	2012 **K'000**	**2011** **K'000**
W.L. Rothery	**211**	70
D.H. Cox OL*	**-**	-
E. H. Ruha (resigned 21 August 2012)*	**-**	-
G. Aopi, CBE	**84**	42
T Blackburn	**84**	21
Sir Michael Bromley, KBE	**211**	90
G.J. Dunlop	**169**	84
J.W.J Hughes- Hallett CMG, SBS	**84**	42
Lady Winifred T. Kamit, CBE	**148**	82
C.R. Kendall (resigned 25 May 2011)	**-**	21
S. C. Pelling (appointed 21 August 2012)*	**-**	-

* Managing Director and Finance Director receive no fees for their service as Directors during the year.

Directors' Report

Steamships Trading Company Limited
Year ended 31 December 2012

Directors attendance of the relevant Board and Committee Meetings is disclosed below

	Board meeting	Audit & Risk Committees	Remuneration Committee	Strategic Planning Committee
W.L. Rothery	4/4		2/2	1/1
D.H. Cox OL	4/4		2/2	
E. H. Ruha	3/4			
G. Aopi, CBE	4/4			
T Blackburn	4/4			
Sir Michael Bromley, KBE	4/4	4/4	2/2	1/1
G.J. Dunlop	4/4	3/4		1/1
J. W. J Hughes- Hallett	0/4			
Lady W. T. Kamit, CBE	4/4	4/4		
S.C.Pelling	2/2			

Remuneration of Employees

The number of employees other than directors, whose remuneration and other benefits was within the specified bands are as follows:

Remuneration K'000	**Dec 12 No.**	Dec 11 No.	**Remuneration K'000**	**Dec 12 No.**	Dec 11 No.	**Remuneration K'000**	**Dec 12 No.**	Dec 11 No.
110-120	**1**	1	360-370	**3**	4	630-640	**-**	1
130-140	**5**	4	370-380	**1**	-	650-660	**1**	1
140-150	**3**	4	380-390	**2**	1	670-680	**1**	1
150-160	**9**	1	390-400	**4**	1	680-690	**2**	-
160-170	**4**	3	400-410	**5**	2	690-700	**1**	-
170-180	**5**	3	410-420	**2**	1	710-720	**-**	1
180-190	**6**	8	420-430	**1**	3	750-760	**-**	1
190-200	**3**	4	430-440	**5**	-	770-780	**1**	-
200-210	**4**	6	440-450	**2**	1	780-790	**-**	2
210-220	**2**	4	450-460	**3**	-	790-800	**1**	-
220-230	**4**	-	460-470	**2**	2	840-850	**-**	1
230-240	**5**	2	470-480	**-**	2	880-890	**-**	1
240-250	**6**	6	480-490	**3**	2	890-900	**1**	-
250-260	**2**	3	490-500	**2**	1	900-910	**-**	1
260-270	**-**	5	510-520	**1**	2	920-930	**1**	-
270-280	**3**	4	520-530	**1**	1	980-990	**-**	1
280-290	**2**	1	530-540	**3**	-	1,010-1,020	**-**	1
290-300	**5**	1	540-550	**-**	2	1,020-1,030	**1**	-
300-310	**1**	1	550-560	**-**	1	1,120-1,130	**1**	-
310-320	**-**	2	560-570	**1**	1	1,150-1,160	**-**	1
330-340	**1**	-	570-580	**-**	1	1,180-1,190	**-**	1
350-360	**1**	1	590-600	**2**	-	1,340-1,350	**-**	1

In addition, an amount of K5,916,134 (2011: K4,748,493) was paid to SCL Nominees Limited for management services. Details of auditors' remuneration and donations are shown in Note 3 to the accounts.

For and on behalf of the Board:
Port Moresby
28th March 2013

W. L Rothery
Chairman

G.L. Cundle
Managing Director

Table of Comparisons

Steamships Trading Company Limited
Year ended 31 December 2012

	2012	2011	2010	2009	2008	2007	2006	2005
	K'000	K'000	K'000	K'000	K'000	K'000	K'000	K'000
Balance Sheet								
Paid up capital	24,200	24,200	24,200	24,200	24,200	24,200	24,200	24,200
Reserves	652,978	554,349	428,157	353,883	302,595	254,230	218,833	196,161
Shareholders' funds	677,178	578,549	452,357	378,083	326,795	278,430	243,033	220,361
Minority shareholders' interest	84,322	75,365	62,851	43,854	18,336	13,684	11,094	10,056
	761,500	653,914	515,208	421,937	345,131	292,114	254,127	230,417
Fixed assets	1,023,861	938,709	786,510	664,196	353,261	263,276	227,773	193,639
Investments	38,687	28,445	15,416	17,939	33,337	22,225	16,839	10,572
Future deferred tax asset	-	-	9,282	7,305	4,150	5,358	12,944	24,207
Goodwill	17,183	17,183	17,183	17,183	7,578	3,568	3,568	3,068
Current assets	411,920	299,634	294,204	203,480	154,508	137,623	98,006	98,588
Total assets of the Group	1,491,651	1,283,971	1,122,595	910,103	552,834	432,050	359,130	330,074
Current liabilities	370,396	283,445	273,056	236,847	122,562	134,941	98,517	90,867
Non-current liabilities	359,755	346,612	334,331	251,319	85,141	4,995	6,486	8,790
Total liabilities of the Group	730,151	630,057	607,387	488,166	207,703	139,936	105,003	99,657
Net assets	761,500	653,914	515,208	421,937	345,131	292,114	254,127	230,417
Income statement								
Revenue	1,038,195	934,717	800,333	499,415	465,750	406,757	336,302	370,037
Operating profit before Income tax and abnormals	265,574	233,967	180,834	120,602	111,615	91,208	53,502	45,434
Share of associates' profit	14,188	13,859	11,416	16,732	11,758	10,756	10,937	9,398
Income tax expense	(81,414)	(67,727)	(53,935)	(34,637)	(27,729)	(23,596)	(14,179)	(12,598)
Minority interests	(20,648)	(21,838)	(21,870)	(6,137)	(5,418)	(4,211)	(2,781)	(2,026)
Net profitable attributable to shareholders	177,700	158,261	116,445	96,560	90,226	74,157	47,479	40,208
Prior year adjustment	-	(1,061)	-	-	-	-	-	-
Depreciation transfer	-	-	-	-	159	1,467	1,467	1,467
Dividends paid or provided	(88,373)	(58,916)	(31,008)	(45,272)	(45,272)	(38,760)	(31,008)	(20,157)
Earnings retained this year	89,327	98,284	85,437	51,288	45,113	36,864	17,938	21,518
Ratios								
Current assets to current liabilities	1.11	1.06	1.08	0.86	1.26	1.02	0.99	1.09
Borrowings to shareholders' funds (%)	68.11	65.52	83.34	73.32	34.17	13.28	10.13	12.97
Net tangible asset backing per share (toea)	24.00	20.53	16.06	13.05	11.13	9.42	8.20	7.43
Net profit to revenue %	17.12	16.93	14.55	19.33	19.37	18.23	14.12	10.87
Net profit to shareholders' funds %	26.24	27.35	25.74	25.54	27.61	26.63	19.54	18.25
Net profit per share (toea)	573.08	510.39	375.53	311.40	290.98	239.15	153.12	129.67
Dividends paid (toea)	285	190	100	146	146	125	100	65
Earnings per Shares	573t	510t	376t	311t	291t	239t	153t	130t
Earnings retained in relation to total earnings %	50.27	62.10	73.37	53.11	53.78	49.71	37.78	53.52

Stock Exchange Information

Steamships Trading Company Limited
Year ended 31 December 2012

Shares are listed on the Australian Securities Exchange and the Port Moresby Stock Exchange.
All shares carry equal voting rights.

SHAREHOLDINGS

At 19 February 2013, there were 379 shareholders.

270	Holding	1	-	1,000 units
82	Holding	1,001	-	5,000 units
14	Holding	5,001	-	10,000 units
13	Holding	10,001	-	and over

7 shareholders held less than a marketable parcel.

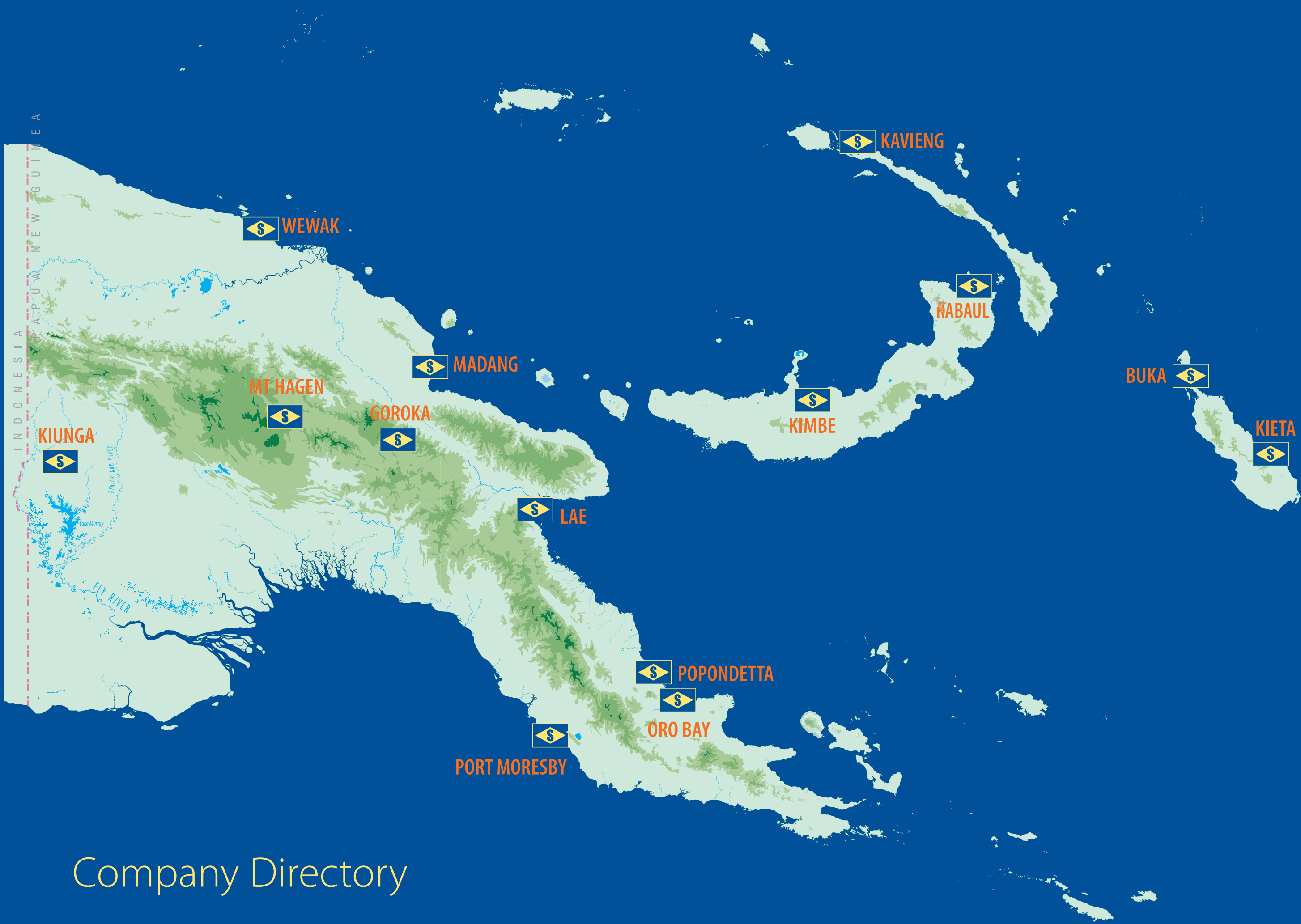
The 20 largest shareholders were:		%
John Swire & Sons (PNG) Limited	22,362,651	72.12
Bell Potter Nominees Ltd	6,201,000	20.00
National Superannuation Fund Ltd	1,859,446	6.00
John E Gill Operations Pty Ltd	54,727	0.18
Kelvinside Pty Ltd	25,000	0.08
Malcolm Burns Reid	22,867	0.07
Mr Ramesh Mahtani	21,700	0.07
Hylec Investments Pty Ltd	20,494	0.07
Intercontinental Assets Pty Ltd	15,000	0.05
Capital Nominees Limited	12,767	0.04
Bryce Family Super Fund	12,243	0.04
Engoordina Pty Ltd	11,078	0.04
Derrick Charles Whitaker	10,348	0.03
Jennifer May Forbes	10,000	0.03
Miss Shirin Moayyad	10,000	0.03
Mary Patricia Haughton	8,161	0.03
Mrs Judith Scottholland	8,161	0.03
Custodial Services Limited	7,768	0.03
Mr Michael Pairidis	7,500	0.02
Mrs Robyn A Gostelow	7,393	0.02
	30,668,304	98.98

APPLICABLE LEGISLATION

The Company is incorporated in Papua New Guinea and is not generally subject to Australian Corporations Law including, in particular, Chapter 6 of the Australian Corporations Law dealing with the acquisition of shares (including substantial shareholdings and takeovers). The Company is subject to the requirements of the Papua New Guinea Companies Act 1997, Securities Act 1997 and the Takeovers Code. The Companies Act and the Securities Act regulate the issue and buy-back of shares and contain provisions as to the trading in securities, provisions as to financial benefits to related parties, substantial shareholders provisions, remedies in cases of oppression or injustice and actions by, and access to, records by shareholders.

The Takeovers Code regulates offers where a person already holds more than 20% of the voting rights in a company or where a person becomes the holder of more than 20% of the voting rights in a manner permitted by the Code.

A code offer, which can either be a full offer or a partial offer, must be extended to all holders of voting securities in the Company. The Code also contains compulsory purchase and sale provisions if more than 90% of the shares are acquired under an offer.



Company Directory

Chairman
W. L. Rothery §&

Executive Directors
G. L. Cundle, §
Managing Director (appointed 1/1/2013)

S. C. Pelling
Finance Director (appointed 21/8/2012)

E.H Ruha
Finance Director (resigned 21/8/2012)

Non-Executive Directors
G. Aopi, CBE
T. Blackburn
Sir Michael Bromley, KBE §+&
G. J. Dunlop +&
J.W.J Hughes- Hallett CMG, SBS
Lady W. T. Kamit, CBE +
D. Cox OL (Managing director to 31/12/12)

\+ Member of the Audit and Risk Committee
§ Member of the Remuneration Committee
& Member of the Strategic Planning Committee

Secretary
S. C. Pelling

Registered Office
Champion Parade
Telephone: +675 322 0222
P.O. Box 1
Port Moresby
Papua New Guinea

Auditors
PricewaterhouseCoopers
P.O. Box 484
Port Moresby
Papua New Guinea

Share Registrars
Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001
AUSTRALIA
Telephone:
(Aus) 1300 85 05 05
(Overseas) +61 (0)3 9415 4000
Fax: +61 3 9473 2500

Stock Exchange
Shares are listed on both the Port Moresby Stock Exchange Limited and the Australian Securities Exchange Limited.

A. R. B. N.
055 836 952

STEAMSHIPS TRADING COMPANY LIMITED

INCORPORATED IN PAPUA NEW GUINEA ARBN 055 836 952

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Eighty-Ninth Annual General Meeting of Stockholders will be held at the Company's Registered Office, Corner of Champion Parade and Hunter Street, Port Moresby, Papua New Guinea, on Tuesday 14th May 2013 at 11.00am to consider the following items of business.

1. To receive the Directors' report and accounts for the year ended 31st December 2012.

2. To elect Directors S.C. Pelling and G.L. Cundle, having been appointed by the Board, whom in accordance with Clause 15.6 require election at the Meeting. D.H. Cox, OL and Lady Winifred T. Kamit, CBE retire as Directors in accordance with Clause 15.3 of the Constitution and, being eligible, offer themselves for re-election.

3. To re-appoint auditors and to fix their fees and expenses. PricewaterhouseCoopers, the retiring auditors, offer themselves for re-appointment.

4. To carry out any other business that may be brought before the Meeting in conformity with the Constitution.

By order of the Board
S.C. Pelling, Secretary

Port Moresby
12th April 2013

PROXY
SEE OVERLEAF

STEAMSHIPS TRADING COMPANY LIMITED

INCORPORATED IN PAPUA NEW GUINEA ARBN 055 836 952

PROXY FORM

The Secretary
Steamships Trading Company Limited
PO Box 1, Port Moresby, Papua New Guinea

I/We, ...(full names)

of..(address)

a member of Steamships Trading Company Limited appoint ....
or W. L. Rothery, Chairman of Directors and the nominee for casting votes, or failing him the Chairman of the Meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held at 11.00am on the 14th May 2013 and at any adjournment thereof.

Dated this ....day of...2013

Signed ....

A member entitled to attend and vote is entitled to appoint a proxy who need not be a member of the Company.

Proxies must be received at the Registered Office of the Company at least 48 hours before the time of the meeting.

Should you desire to direct your proxy how to vote, please place a mark in the appropriate box.

	For	Against
1. To receive the report and accounts	☐	☐
2. To elect Directors		
(i) S.C. Pelling	☐	☐
(ii) G.L. Cundle	☐	☐
(iii) D.H. Cox, OL	☐	☐
(iv) Lady W.T. Kamit, CBE	☐	☐
3. To re-appoint PricewaterhouseCoopers as auditors and fix their fees and expenses.	☐	☐