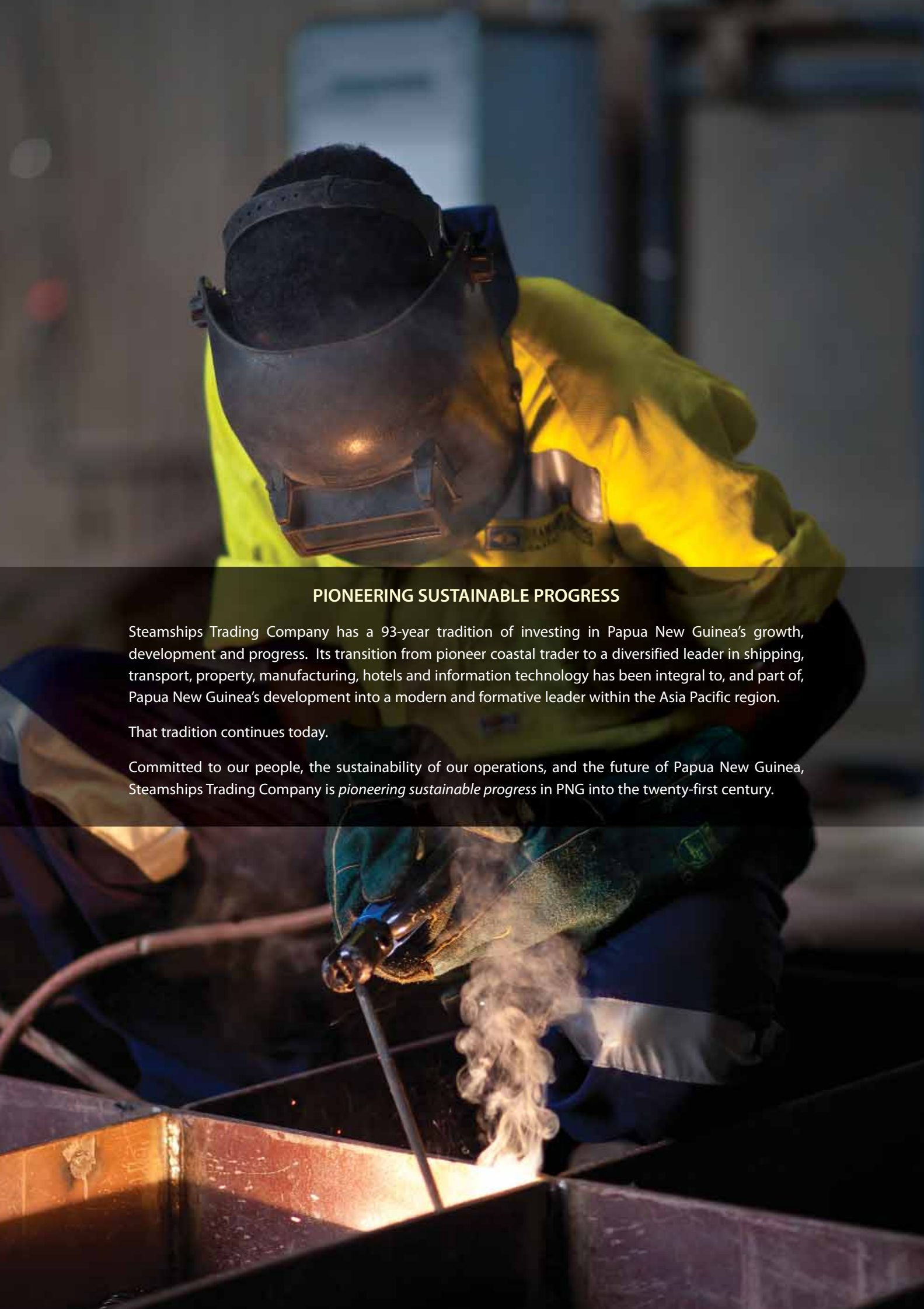




STEAMSHIPS TRADING COMPANY LIMITED

Annual Report 2011

A welder wearing a yellow protective suit and a dark welding mask is focused on their work. They are using a welding torch to join metal components, with bright sparks and a plume of white smoke rising from the point of contact. The background is dark and industrial, suggesting a workshop or factory setting.

PIONEERING SUSTAINABLE PROGRESS

Steamships Trading Company has a 93-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 into a modern and formative leader within the Asia Pacific region.

That tradition continues today.

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 into the twenty-first century.



CONTENTS

Brief Profile of Steamships Trading Company Ltd .	2
Financial Highlights	4
Chairman's Report	5
Directors' Economic Analysis	8
Directors' Review	13
Logistics	16
<i>Steamships Shipping</i>	16
<i>East West Transport</i>	20
Property and Hotels	22
<i>Steamships Property</i>	22
<i>Coral Sea Hotels</i>	24
Commercial	27
<i>Manufacturing</i>	27
<i>Information Technology</i>	29
Key Subsidiaries and Associates	31
<i>Consort Express Lines</i>	31
<i>Pacific Towing</i>	31
<i>Colgate Palmolive (PNG)</i>	31
Sustainability	32
Steamships' Sustainability Focus Areas	34
<i>Our People</i>	35
<i>Our Environment</i>	40
<i>Our Community</i>	45
Corporate Governance Statement	52
FINANCIAL SECTION	54
<i>Statements of Comprehensive Income</i>	54
<i>Statement of Changes in Equity</i>	55
<i>Statements of Financial Position</i>	56
<i>Statements of Cash Flows</i>	57
<i>Notes to and Forming Part of the Accounts</i>	58
<i>Independent Auditor's Report to the Shareholders of Steamships Trading Company Limited</i>	80
<i>Directors' Report</i>	82
<i>Table of Comparisons</i>	85
<i>Stock Exchange Information</i>	86
<i>Company Directory</i>	88

STEAMSHIPS TRADING COMPANY LIMITED

Annual Report 2011

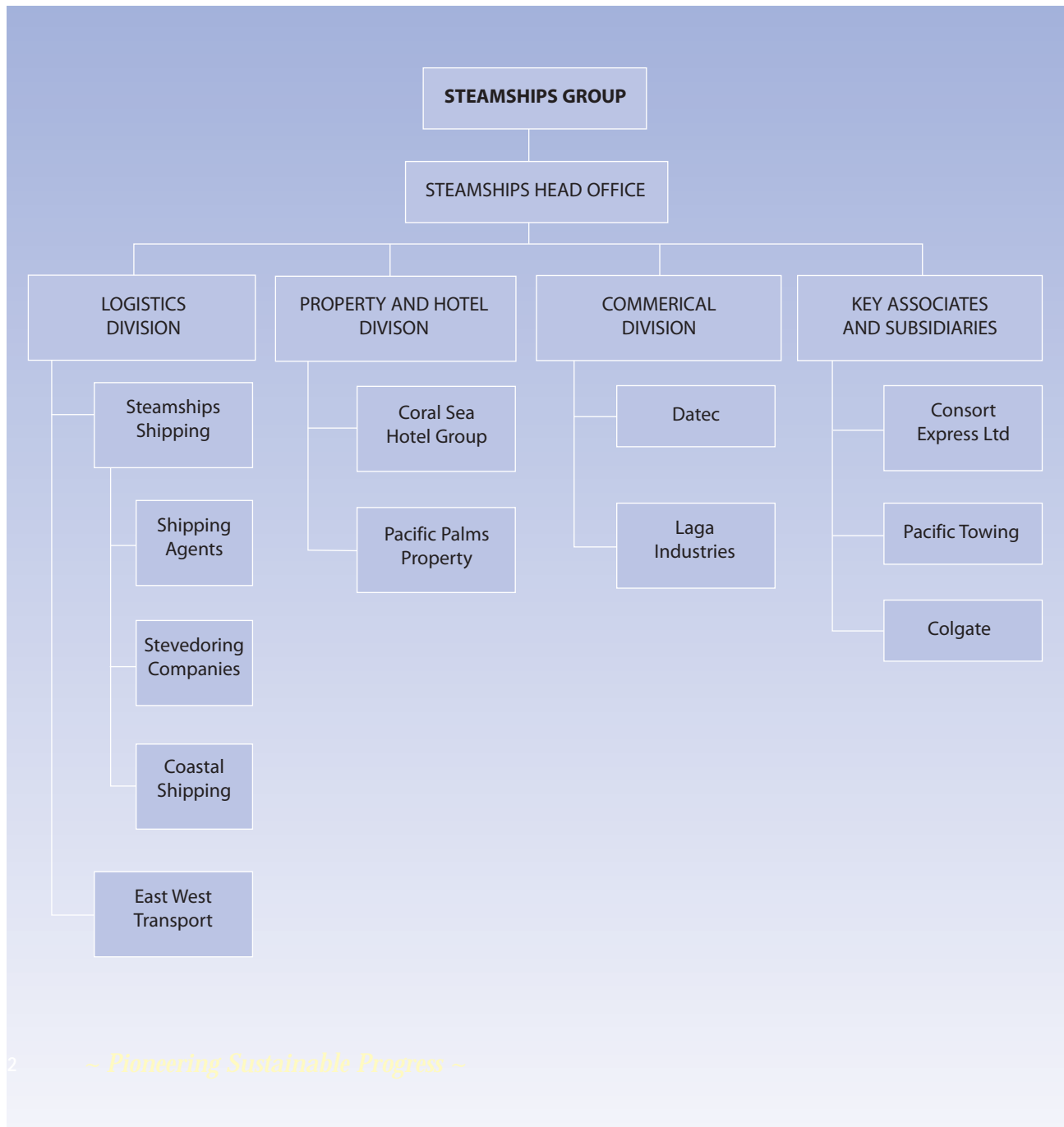
BRIEF PROFILE OF STEAMSHIPS TRADING COMPANY LTD

Steamships Trading Company is a Papua New Guinean success story. Today the Company is a well established business conglomerate with diverse commercial interests and listings on both the Australian and Port Moresby Stock Exchanges; 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 a company, but of the formative years of Papua New Guinea (PNG), for the fortunes of the Company and the country have, from the first, been very closely intertwined.

In 2011 Steamships Trading Company had annual revenues of K934.7 million and assets of over K1.28 billion. The Group employs over 3,200 PNG citizens and non-citizens in six diverse companies grouped under three operating divisions: Logistics, Property and Hotels, and



BRIEF PROFILE OF STEAMSHIPS TRADING COMPANY LTD *(continued)*

Commercial. It continues to uphold a company philosophy, embraced from the beginning, which aims to offer quality, competitive goods and services to all its customers; provide secure and challenging careers for its staff; maintain the highest business ethics at all times; protect the environment from harm; 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 Company continues to be one of PNG's largest private sector employers and one of its largest supporters of community initiatives in education, health,

environment and social welfare. Steamships ensures that core sustainability concepts are embedded in our business models and systems. We are wholly aware that our business goals cannot be achieved unless this is the case. We cannot succeed without the engagement and support of the people we employ, the loyalty of and satisfaction of our customers, and a commitment to the local communities and environment in which we operate.

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



SS Queenscliffe, 1918

FINANCIAL HIGHLIGHTS

	2011 K'000	2010 K'000	Change
Revenue	934,717	800,333	16.8%
Operating Profit	265,116	204,472	29.7%
Profit attributed to shareholders	158,261	116,445	35.9%
Cash generated from operations	252,509	159,740	58.1%
Net cash inflow/(outflow) before financing	36,267	(2,654)	1,466.5%
Shareholders' funds	578,549	452,357	27.9%
External borrowings	379,088	377,014	0.6%

Note	2011 Toea	2010 Toea	
1. Earnings per share	510	376	35.6%
Dividends per share	190	100	90.0%
Shareholders' funds per share	1,866	1,459	27.9%

Note	2011	2010
2. Gearing ratio – percentage	66%	83%
3. Interest cover – times	8.5	8.7
4. Dividend cover - times	2.7	3.8

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 net borrowings to shareholders' funds.
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 paid during the year.

CHAIRMAN'S REPORT

PNG leaders have long aspired to emulate the Asian 'Tiger' economies. Economic growth of 9 percent in 2011, the highest in PNG since Independence, satisfied these ambitions. Fittingly, Steamships Trading Company Limited had a record year.

Total turnover grew by 17% and Group profits increased 36% after tax. The Shipping businesses within the Logistics Division have been the cornerstone of the Group for its entire history. The past three years has seen significant growth in capacity and profitability. However the Road Transport business continues to struggle with poor road infrastructure and strong competition. Recent growth in Steamship's Property arm and the Coral Sea Hotels Group has been particularly pleasing. Both made major contributions to Group turnover and registered double-digit profit growth this year. The Commercial Division showed improvement over 2010 and further improvement is expected in 2012.

The high growth in PNG has stemmed largely from higher global commodity prices and continued demand for PNG's exports. This has increased employment opportunities and stimulated a real estate boom. Inflation also increased, reaching 9.5% in 2011. Steamships has been careful to invest in businesses in which growth will endure and to be wary of activities that have only shorter term business prospects. This year the Group oversaw the expansion of its shipping and land transport fleets; a comprehensive redevelopment and expansion of its hotel assets; and the continued development of a number of exciting residential and commercial properties. Steamships also celebrated the opening of the flagship Grand Papua Hotel in Port Moresby. The Grand Papua is a 161-room luxury hotel and the most technically advanced, and environmentally-friendly, building of its type in the country.

In today's world, no responsible company focuses only on the bottom line. Steamships has always been proud of its record of environmental protection, community engagement and its commitment to enhancing the skills and capabilities of its people. We have taken the opportunity to feature a number of these people throughout this report. Their personal stories help put a face to our business operations in PNG. They also



CHAIRMAN'S REPORT *(continued)*

highlight the impressive diversity and capabilities of the people employed by Steamships.

This year's Annual Report also includes a more detailed look at how we are managing our sustainability responsibilities. Our review of performance so far is based on the reporting framework of one of the world's leading sustainability programs, the Global Reporting Initiative (GRI), which has been adopted by the Swire Group of which Steamships is a member. This Annual Report sets out a framework to demonstrate our performance against some of the key GRI indicators that we consider critical. We have recently started to collect data in a number of these areas including economic contribution to society, environmental stewardship and the development and improvement of the welfare of our people. We intend to continue to build on this approach in the future.

The 2011 Annual Report also features an expanded analysis of the PNG operating environment. The *Director's Economic Analysis* gives economic and political context to the performance of the Group's key business divisions, which are outlined in the *Director's Review* of Group activities.

Papua New Guinea faces major challenges in the coming years. The mining boom has stretched the economy and country's infrastructure beyond capacity. Action is required to manage inflation and ensure non-mining industries are not 'hollowed out' by a high Kina and the escalating costs of doing business. A major challenge is to ensure that the new prosperity spreads to areas of PNG where incomes are low and services poor. A decade of stable government in PNG has demonstrated that it is a critical foundation of sustained economic growth. We must praise the PNG public service, government authorities and the general public for the professional way they conducted themselves during the political tensions which unfolded towards the end of 2011. The

challenge for PNG law-makers in 2012 is to ensure stability in Government in the lead up to and after the national elections, to ensure business confidence remains high and buoyant economic conditions continue.

The O'Neill government has pledged to implement key reforms to support economic growth. It passed PNG's largest ever budget (PGK10.5 billion) in December 2011 to fund the reform program. Education, infrastructure development, the creation of a Sovereign Wealth Fund, and maintenance of key infrastructure including the Highlands Highway, airports and seaports are top priorities. These programs must be implemented irrespective of the political campaigning that will dominate headlines in 2012. Reducing the cost of doing business is also vital. Past experience shows that when Governments cut red tape and engage the private sector to operate profit-making enterprises, everybody benefits from the economic gains that result and the improvement in the services provided.

At a forecast 7 percent, economic growth is expected to remain strong in 2012 and especially in some of those industries in which Steamships is actively involved. The Group's operating companies are looking ahead with confidence and with comprehensive plans to expand their businesses in this exciting and challenging environment. A continuing commitment to PNG, our employees, local communities and long-term economic development will be central to Steamship's growth in the year ahead.

In closing, on behalf of the Board, I would like to acknowledge the contribution of Steamships management and staff during 2011 and thank them for their commitment to the Company. Our continuing success would not be possible without their valuable efforts.

W.L. Rothery



DIRECTORS' ECONOMIC ANALYSIS

Papua New Guinea enjoyed record economic growth in 2011. Running at an estimated 9 percent, this placed it among the leading growth economies in the world. This was the nation's eighth consecutive year of economic expansion, creating the longest period of economic growth since independence.¹

PNG's economic performance in 2011 contrasts with the world economy where growth continues to slow, principally because of the European sovereign debt crisis and delays in reducing public debt in the United States. The World Bank estimates global GDP growth of around 2.7 percent in 2011. This is largely attributed to emerging and developing countries that are set to grow at 6 percent compared to growth of only 1.6 percent in high income economies.² In a more worrying sign, the World Bank recently revised global growth estimates down to 2.5 percent in 2012.

Financial instability in the world's industrialised economies has led to a softening in export demand globally. This growth slowdown has been particularly prominent in the industrial sector, while demand for commodities from resource rich economies, such as PNG, still remains strong.³ The Group operations remain relatively self-contained and closely tied to the continuing successful performance of the PNG economy which in turn is linked to the demand for agricultural commodities, oil and gas, and mineral resources.

Growth in PNG in 2011 was driven by higher commodity prices, growth in private sector employment, investments in all sectors, increased Government spending and increased private sector credit. As the economy expanded, total lending to the private sector increased. Advances were strongest to the transport and communication sectors, manufacturing, housing and agriculture.⁴ Construction grew 22 percent; Wholesale

and Retail, 18 percent; Transport, Storage and Communications, 16 percent; and Manufacturing, 13 percent.⁵ Steamships Group, with its diversified interests, benefited from many of these macro economic trends.

The strengthening of the economy has led to an increase in formal employment, with the total level of employment in PNG increasing by 7.3 percent in the year to September 2011. Inflation in 2011 was estimated to have risen to 9.5 percent. This led the Bank of Papua New Guinea to tighten monetary policy by increasing interest rates from 7 to 7.75 percent by September 2011.⁶ Inflation is expected to reach 8.0 percent in 2012 and remains a concern.⁷

Trade

Steamships is not an export business, but booming exports and investment in export industries is the driver of current growth in PNG.

Papua New Guinea's trade account recorded a surplus of USD2.4 billion over the nine months to September 2011, an increase of 16.1 percent over the corresponding period of 2010. The value of merchandise exports increased 8.7 percent in the September quarter of 2011 as compared with the corresponding quarter of 2010. This increase was due to higher export values of most major exports, with the exception of gold, cocoa, tea, logs and marine and refined petroleum products. This surplus in the trade account was largely due to high commodity prices. The weighted average price of PNG's exports increased 15.2 percent in the September quarter of 2011 compared with the same quarter in 2010. This included a 16.3 percent increase in the weighted average of mineral exports and a 12.1 percent increase for non-mineral exports.⁸

¹ Deloitte (2011), *2012 Budget Alert*, Executive Commentary and World Bank (2011a), *Navigating Turbulence, Sustaining Growth*, East Asia and Pacific Update 2011, Volume 2, Washington

² IMF (2011), *Slowing Growth, Rising Risks*, World Economic Outlook, September 2011

³ World Bank (2011a), *Navigating Turbulence, Sustaining Growth*, East Asia and Pacific Economic Update, p. 1

⁴ Bank PNG (2011), *Quarterly Economic Bulletin*, September 2011, Port Moresby, p. 4

⁵ Deloitte (2011), p. 4.

⁶ World Bank (2011a), p. 65

⁷ IMF (2011), p. 189

⁸ Bank PNG (2011), p. 14

DIRECTORS' ECONOMIC ANALYSIS *(continued)*

The IMF estimates that PNG's export volumes for goods and services increased by 15 percent in 2011. This is partly due to strong growth in exports of coffee. Steamships' logistics businesses, in particular, benefited from this increase. A general rise in income levels for coffee producers trickled back into the economy, boosting disposable income. This increase benefited both Highland and island people in PNG and increased demand for consumer goods.

Growth in Japan and Australia, PNG's main trading partners, is expected to increase in 2012 from 0.5 percent to 2.3 percent and 1.8 percent to 3.3 percent, respectively. This is likely to result in continued demand for Papua New Guinea's products including gold, petroleum, silver and platinum, and coffee.

The Kina continued to appreciate against major currencies in 2011, including the Australian dollar and the United States dollar. The increasing Kina will reduce the competitiveness of Papua New Guinea's exports, but will also reduce the price of imports. Given Steamships' businesses are focused on the internal PNG market, direct exposure to exports is limited, with the exception of the logistics businesses.

PROSPECTS AND CHALLENGES FOR 2012

Economic growth is expected to remain strong in 2012, despite easing to 7 percent according to the World Bank, as the rate of construction of the LNG PNG project begins to decrease and older mines mature. In the 2011/2012 PNG budget, growth in mining is anticipated to be a strong 20.2 percent, wholesale and retail sector 19 percent; electricity, gas and water 12 percent and the construction sector 9 percent.

It is difficult to forecast the extent to which the unfolding financial crisis in Europe will slow down the global economy and impact on PNG. China is expected to increase domestic demand, however uncertainties such as the makeup and policies of the new Chinese leadership to be installed in 2012 and growing concern about levels of debt and a potential property bubble in China may negatively affect China's strong growth rates.



The new, high rates of economic growth in PNG, whilst raising living standards for parts of the population, and stimulating demand, have also generated new economic challenges. They include the capacity limitations of key infrastructure such as the unreliable Highlands Highway and the congested Lae Port, inflationary pressures and, above all, containing the threat of "Dutch disease" – strong commodity exports increasing the exchange rate to such an extent other sectors become uncompetitive and contract.

While economic growth has been positive, an estimated 9 percent in 2011, it is an unhappy fact that PNG's performance on important social indicators such as poverty and rates of completion of primary and secondary school, is poor. Between 2000 and 2005 per capita GDP decreased by 12 percent and 75 percent of children were not educated. Provision of social services by Provincial Governments has also declined.

These issues have not gone unnoticed. The PNG Government recently promised to provide free education to children up to year 10 and made a large provision in the national budget to support this plan. Reform of this



magnitude is required across the economy to ensure the benefits from Papua New Guinea's economic growth are passed down to the bulk of the population that live in rural areas.⁹ While the natural resource sector is a significant contributor to economic growth in Papua New Guinea, linkages with the rest of the economy are relatively weak.¹⁰ For example, in the Southern Highlands, despite substantial income flows from minerals coming into the region, the local people still remain among the poorest in the country.¹¹ Steamships strongly supports initiatives to raise standards of living across the country. As a non-resource-based company, well integrated into the PNG real economy, Steamships continues to support the PNG community 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.

Inflationary pressures

Increased demand for labour, particularly from the minerals sector, has created a shortage of skilled labour and driven significant wage inflation. For Steamships, this has become a key challenge to our growth. Competition for resources has increased prices and is making it increasingly difficult for businesses competing with the minerals sector to secure access to materials.

In the September quarter of 2011, the highest price increases were recorded for food, housing, fuel, electricity, and clothing.¹² These inflationary pressures are expected to continue into the near future if adequate monetary policy settings are not implemented. Increasing global prices for goods have benefited many businesses operating in PNG, including exporters. They will however provide a mixed bag for Steamship's business activities.

⁹ Duncan, R. (2010), *Managing natural resource revenues in Papua New Guinea*, policy dialogue, Pacific Economic Bulletin, Vol. 25, No. 3, pp. 261- 264

¹⁰ Datt, G., Walker, T. (2006), *Does mining sector growth matter for poverty reduction in Papua New Guinea?*, Pacific Economic Bulletin, Vol. 21, No. 1, pp. 71-83

¹¹ Gouy, J., Kapa, J., Mokae, A., Levantis, T., (2010), *Parting with the past: Is Papua New Guinea poised to begin a new chapter towards development?*, Pacific Economic Bulletin, Vol. 25, No. 1, pp. 1 - 23

¹² Bank PNG (2011), p. 13

Papua New Guinea and Dutch Disease

PNG authorities, including the Bank of PNG Governor, Loi Bakani, warned this year the PNG LNG project threatened afflicting the PNG economy, particularly the agriculture sector, with the resource curse known as 'Dutch Disease'.¹³ This is the 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.¹⁴ This occurs, for example, if the natural resources boom appreciates the Kina to such an extent other export industries become uncompetitive and increased investment in the booming sector draws scarce resources, such as labour, away from the lagging industries. Given our exposure to the wider economy, Steamships remains concerned with the effect of this phenomenon on our businesses.

The "disease" can be treated if infrastructure capacity is increased, other costs throughout the economy are lowered and inflation is contained, particularly by curbing aggressive government expenditure and avoiding loose monetary settings to mitigate appreciation of the exchange rate and inflation. A key Government strategy is to establish Sovereign Wealth Funds - foreign currency denominated assets - which sterilise foreign exchange inflows and reduce the upwards pressure on the real exchange rate. A key challenge for the Government in Papua New Guinea is to ensure these funds are used to finance long-term development programs and not more immediate operational expenditures. Steamships fully supports the establishment and effective deployment of these funds in the future.

Capacity constraints

Strong investment in natural resource development, particularly the PNG LNG project, has placed great strain on infrastructure. Despite funding increases, infrastructure is still chronically inadequate and creates

tremendous challenges and costs for the country in maintaining efficient supply chain logistics. This has had a significantly negative effect on Steamships businesses. Ports and the Highlands Highway in particular are currently acute bottlenecks for business.

In urban areas such as Port Moresby and Lae the supply of appropriately qualified human capital is also a significant challenge to doing business. As well as Government support, it is incumbent upon companies such as Steamships to continue to help develop PNG's private sector skill base and we continue to work in this area.

MEETING THE DEMAND FOR INCREASED CAPACITY

To mitigate the pressures generated by the current economic boom, physical infrastructure needs to be increased, as does the skilled workforce. Government expenditure and a focus on the key issues have a very important role to play. Other measures to enhance economic efficiency are also vital.

A refocus on privatisation

Privatisation is an established strategy in other countries to reduce economy-wide costs and to unblock infrastructure bottlenecks and expand facilities. Privatisation, when accompanied with a pro-competitive legislative framework governing the operation of privatised entities, generally improves efficiency and expands infrastructure. PNG has already experienced how privatised enterprises can produce better returns and services and make prices more competitive. The sale a decade ago of the PNG Banking Corporation demonstrated this clearly. Strategies to privatise Air Niugini, PNG Power, Telikom PNG and the PNG Harbours Board were developed around the same time, but never followed through.¹⁵

¹³ Malum Nalu, (2011), *Dutch Disease a real threat to Papua New Guinea with gas project*, Thursday March 31 2011, accessible at: <http://malumnalu.blogspot.com/2011/03/dutch-disease-real-threat-to-papua-new.html>

¹⁴ The term 'Dutch Disease' was coined in the 1960s when the Netherlands experienced reduced non-gas exports and economic growth after the discovery of natural gas reserves in the North Sea.

¹⁵ Curtin, T. (2009), (n.d.), *Privatisation Policy in Papua New Guinea*, Chapter 18, Australian National University, accessible at: http://epress.anu.edu.au/ssgm/policy_making/pdf/ch18.pdf



Port operations and road transport - core businesses for Steamships - are under serious strain due to infrastructural challenges to meet the demands of PNG's burgeoning economy. The incapacity of PNG's ports infrastructure is a direct retardant to the sound economic development of PNG.¹⁶ Land titling also needs to be reformed to provide the necessary security of title for land to be traded and developed, especially in commercial and industrial areas. This issue directly impacts the ability of Steamships Property and Hotel companies to grow.

Stable Government

PNG has enjoyed steady growth in the past decade. A key feature has been stability in Government. In all countries, a constant change of government correlates directly to greater economic uncertainty and slower growth. Continuity and stability in Government are fundamental requirements to manage the challenges brought on by PNG's current phase of unparalleled economic growth.

Business confidence remains high in PNG despite the political tensions of late 2011. With the 2012 general elections on the horizon, PNG law-makers must ensure the business community is provided with continuity and a stable investment platform to plan ahead with confidence. The implementation of vital reforms in education, infrastructure development, the creation of a Sovereign Wealth Fund and further development of key infrastructure including the Highlands Highway, airports and seaports is essential. Fully committed to PNG, Steamships will continue to support initiatives to address the various challenges ahead.

¹⁶ Independent Consumer and Competition Commission, (2007), *Review of the PNG Coastal Shipping Industry*, Final Report, 16th February 2007

DIRECTORS' REVIEW

Steamships has had a successful year, with consolidated group profit after tax increasing by 36% to K158.3 million.

In the Logistics Division, Steamships Shipping performed well in 2011 with growth for shipping, stevedoring and agency interests driven by strong cargo volumes and charter activity through PNG's major ports. Steamships coastal vessels achieved a record number of project charter days for customers in 2011. Meanwhile, increased demand for river liner services in the North Fly region of Western Province has seen improved utilisation of assets. Human resources were reorganised to capitalise on growth opportunities and raise our standards of customer service.

Steamships stevedoring and handling businesses processed the highest volume of cargo in PNG history in 2010-2011, moving close to 2.3 million tonnes. This was aided by management efforts which helped significantly raise Port Moresby stevedoring productivity. Plans are currently in place to roll out these improvements to PNG's other major ports in 2012, with raising productivity in the Port of Lae an immediate priority.

East West Transport (EWT) began to see more solid improvements in the second half of what was another challenging year. 2011 volumes were in the region of 535,000 freight tons of cargo along with 330 million litres of fuel, which was an increase on 2010 levels. Boosted by these numbers, EWT recorded an increase in year-on-year (YOY) revenues, although this result lagged general growth in the industry, which was one of the nation's top performing sectors in 2011. However, operational measures put in place in 2011, along with current growth trends, bode well for increased volumes and an improved performance in 2012.

The Property and Hotels Division performed strongly in 2011. Steamships Property revenue was up YOY, capitalising on a PNG property boom in commercial centres across the country. The Group's commercial and residential properties throughout PNG have maintained a steady occupancy rate of 96.6%, excluding projects under construction.

Steamships Property completed the construction of a number of major projects this year and more will be completed in 2012. These include the eight 'Captain Fitch' townhouses at Ela Beach, the 40 unit 'Stage 2 Windward Apartments' in Port Moresby, the SVS supermarket and the 12 unit 'Blaikie Apartments' in Lae. Once again property and land acquisition has proven difficult in a market where prices have risen dramatically over the last four years. In spite of this, the Company did make some acquisitions throughout the year and will continue to acquire strategic properties to add to its significant land banks in Port Moresby and Lae.

The Coral Sea Hotels Group (CSH) also had a strong year. CSH capitalised on a generally buoyant economy and high demand for both long and short-term accommodation to record a significant revenue increase over 2010 and improved results across the board. Six of the CSH Group's nine hotel assets completed major expansion and upgrading works in 2011, while work is planned for the remaining assets in 2012. The most significant development for CSH this year was the opening of the Grand Papua Hotel in Port Moresby in November. The Grand Papua is a luxury 161-room hotel and the most technically-advanced building in the country, utilising a fully-integrated management system to maximise energy efficiency. Delivered on time and to budget, the Grand Papua will be a flagship asset for the Steamships Group for many years to come.

In the Commercial Division, Laga Industries had a stronger year on the back of substantial sector-wide growth and a continued focus on improving operating efficiencies. Profit and sales figures improved over what was a poor set of 2010 results. Driven by a brand-focused growth strategy, Laga Industries successfully launched a number of new products during the year and made significant investments in operational assets to support this. The Company installed and commissioned new plastics machinery and a new, world-class powders temperature-controlled packing facility. In addition the Company achieved 100% HACCP certification across total

DIRECTORS' REVIEW *(continued)*

manufacturing in April. This ensures the entire business is compliant to international standards and will not be restricted selling to customers that require suppliers to have internationally-recognised certification.

Datec registered growing demand for most lines of business in 2011. While overall revenues were slightly down on last year, improvements in efficiencies increased YOY Profits for 2011. The Company's primary focus this year was a restructuring of the business to improve the delivery of long-term solutions for clients. These efforts are expected to bear fruit in 2012. The Company experienced growth in its training and education business, its Retail Megastore and its CCTV and Cabling business, the latter of which was able to leverage from the success of PNG's current building boom. This year Datec also began moving forward with construction of a next generation ISP infrastructure which will provide PNG with a more reliable internet service and improve the ISP business unit performance of the Company.

Steamships has three major subsidiary or associate companies in which it holds an interest. Subsidiary Consort Express, a liner coastal shipping operator, had a reasonable year, although congestion in Lae and increasing competitive pressures impacted results. Associates Pacific Towing, a marine towing business, and Colgate Palmolive (PNG), a manufacturer of personal care products, both had satisfactory years. Pacific Towing benefited from increased ship movements in Port Moresby and outlying ports, as well as growth in salvage and the external towing business. Performance at Colgate was buoyed by increased demand for consumer goods and relatively firm margins.

In August, Mr C.R. Kendell retired from the Board after 4 years service. The Directors would like to record their thanks to him for his contribution to the success of the Steamships Group over that time. At the same time, Mr T.J. Blackburn, a Senior Manager with the Swire Group, was appointed to the Board.



STEAMSHIPS: OUR PEOPLE, OUR FUTURE

'Five minutes with Monica Toisenegila'

Monica Toisenegila has worked for Steamships for seven years. Hailing from Central Province, Monica started as Group Payroll Manager at Steamships Head Office and soon progressed to her current role as Group Human Resource Manager.

In 2011 Monica's superior work and outstanding commitment was recognised at the Westpac Women in Business Awards. These awards recognise the achievements and successes of women in Papua New Guinea. They aim to lift the profile of women and assist in establishing networks that support women in reaching their goals.

We recently spoke to Monica about her time and role at Steamships Trading Company:

1. How has Steamships developed in the time you've been here?

I have seen the Company grow from strength to strength. Strategically, I think Steamships management has been very astute. In my time the Group has sold some of its weaker business operations and acquired others that have become core to its operations. The Company is a true business leader in PNG today.

2. What exciting developments have taken place in your department over the last 12 months?

The Human Resources Department has been busy designing and implementing our new Human Resource System, the HR Portal. This exciting new system is going to help streamline our Group-wide HR processes. In line with the new system, we have also been reviewing and updating position descriptions for the entire group. Another exciting development has been the acceptance of the Company's new Tuberculosis (TB) Policy, which we will roll out across the Group in the coming weeks.

3. How is your department supporting local communities and charities?

We have close ties with World Vision for our TB Policy and the PNG Business Coalition against HIV and AIDS (BAHA) for our HIV policy. The Company has also sponsored and encouraged staff to help raise donations for charity organisations working in local communities. Examples include staff



participation in charity soccer games, The Corporate Canoeing Challenge, support for The Heart Foundation and the Violence against Women and Children campaign.

4. What does Steamships do better than other companies in PNG?

Steamship's and Swire's involvement in the rainforest project in Madang is very unique in PNG, and very important. It is a great initiative owned by the Company and I am proud to be part of this project.

5. Why is protecting the environment so important for companies in PNG?

As a corporate leader, it is essential that Steamships protects and takes care of the environment it is operating its business in. Human-beings and the environment must co-exist. When one is affected, the other will eventually suffer as well. Sustainability must be a part of all our business operations in PNG and at Steamships it most certainly is.

6. Why is Steamships a great place to work?

The Company's historical background, its commitment to the training and development of its employees and the opportunities it offers to students for work experience are very unique in PNG. This is what sets Steamships apart from the rest. I also play netball for Steamships FIN division. Many of the other Steamships companies also have netball teams which play against each other in a PNG league. We use the Steamships HQ car park to practice and our MES unit are currently making us new goal posts!



LOGISTICS

STEAMSHIPS SHIPPING

Steamships Trading Company has been a leader in coastal shipping in PNG since 1919. Today the Company, through its *Steamships Shipping Division*, operates a fleet of 17 coastal vessels all designed for shallow water and river passage, with safety and technical specifications maintained to International standards. The fleet includes landing craft, bulk carriers, diesel tankers, tugs and barges. While the Company specialises in river shipping, it also has 6 vessels, fully certified for international trading, which regularly operate for charters to Australia and on occasion as far as Singapore.

Steamships Shipping provides short and long term vessel charters, and reliable cargo liner services in the Gulf of Papua. It also develops, implements and supports inter-modal logistics solutions, linked to land based services such as road transport, cargo handling and storage. In addition to owning vessels, Steamships is a shareholder and manager of stevedoring companies at 7 of the country's ports, where it also operates the largest shipping agency network in PNG. As representatives for Swire Shipping and other international lines, these agents link the PNG economy to the world using a diverse fleet of vessels.

Steamships Shipping performed well in 2011 with satisfactory YOY growth. Demand for shipping services has mirrored economic growth. The PNG economy was buoyant in 2011 with increased activity generated by both the mining and non-mining industries. Cargo volumes and charter activity through PNG's major ports has been strong, leading to increased business for the division's shipping, stevedoring and agency interests.

Steamships coastal vessels achieved a record number of project charter days for customers in 2011. Further resource exploration in the North Fly region of Western Province grew liner service cargo volumes to Kiunga this year. To match this expanded demand, the division improved its utilisation of assets whilst adding resources to the management team to improve on our service commitments to customers.

The division's ship repair facility, which offers dry-docking of vessels up to 45 metres in length and 500 tonnes in weight, had a busy year in 2011. As did the division's life



raft servicing station, which is the only internationally-approved facility of its kind in PNG. In 2011 the station serviced in excess of 150 life rafts for domestic and international customers.

Steamships JV Stevedoring businesses offer a full range of ship handling facilities and operate in the main ports of Port Moresby and Lae and in the smaller ports of Oro Bay, Madang, Kimbe, Kavieng and Kiunga. With a young fleet of specialist equipment, the businesses handle all types of containers, as well as project cargo, breakbulk, RO-RO, LO-LO and grains. Several of the smaller locations also operate local trucking businesses. The stevedoring companies are joint venture partnerships between Steamships and local landowner groups at the ports. They employ a local workforce and are structured to allow for earnings to filter back into the nearby communities.

Buoyed by increased activity at most of PNG's major ports, **Steamships JV Stevedoring** businesses had a robust year in 2011. The companies handled the highest volume of cargo in PNG history in 2010-2011, moving close to 2.3 million tonnes. Management efforts have helped raise

Port Moresby stevedoring productivity by 20 percent in 2011, reducing to some extent the congestion that has plagued port operations this year. Plans are currently in place to roll out these improvements to PNG's other major ports in 2012. The Port of Lae is an immediate priority as its congestion challenges remain critical.

Recruitment and retention of quality human capital remains a challenge to the Company and in 2012 the introduction of an onshore cadet program across the various business units is intended to build a strong base of talent to help facilitate the growth opportunities ahead.

Other unique challenges and opportunities face **Steamships Shipping** in 2012 and beyond. Priorities for 2012 include:

Improved crew standards and responsibility

Improving the standards and responsibility of PNG-certified ship officers and crew is a priority for 2012. The division aims to increase its cooperation with other Swire Shipping companies to provide both training and increased opportunity for Steamships officers to advance

LOGISTICS *(continued)*

in the international shipping industry. The number of foreign officers providing onboard training will be increased on all vessels. A shortage of qualified PNG officers remains an ongoing concern, and over time will be addressed by increased cadet training and continued support of the Madang Maritime College.

Fleet Expansion and Renewal

To manage the expected growth of the division's project and liner shipping business, two new vessels are being built for delivery in 2012. These double-skinned and fuel-efficient vessels are constructed to the latest technological specifications, and will be the first new builds for *Steamships Shipping* since 1995. These investments in PNG shipping will help to keep *Steamships Shipping* at the forefront of the industry in the face of increased competition.

The division is also developing a long term fleet growth and renewal program for the next decade. The program will ensure the *Steamships Shipping* fleet provides the required capacity and reliability to meet the future demands of both the resource industries and general commercial customers.

Greater involvement in development of the industry

Steamships Shipping is committed to greater communication and co-operation with the National Maritime Safety Authority (NMSA) to improve PNG shipping safety and officer competence in 2012. As a matter of priority, the division also plans to open discussions with the NMSA and the Transport Ministry over the allowance of foreign-flagged vessels to participate in local project shipping in PNG. Ignoring the rules currently governing this makes it increasingly hard for PNG companies to operate PNG flagged vessels efficiently and will seriously erode the viability of a home grown and expanding PNG maritime industry.

Developing new business opportunities

By the close of 2012, Ok Tedi Mining Ltd (OTML) will end its charter of *Steamships*' vessels after twenty-five years of shipping copper concentrate and general cargo on the Fly River. The challenge will be to secure replacement



business. New opportunities in the project space are being pursued, as is the expansion of our Gulf of Papua liner network.

Over the next 10 years PNG is expected to experience continued economic growth, leading to growth in disposable income and increased opportunities for coastal shipping in areas outside of the two major population centres of Port Moresby and Lae. *Steamships Shipping* aims to capitalise on this growth by developing a fleet manned with PNG nationals to meet the demand. It will continue to uphold international standards for safety and environmental protection which exceed the current minimum regulations in PNG and remains committed to operating as a PNG-flagged operator.

STEAMSHIPS: OUR PEOPLE, OUR FUTURE

Lea Henao, Steamships Shipping Agency



"I just love my job; I wake up every morning looking forward to going to work... that's how passionate I am about my job."

Having worked for over 15 years with the Company, Lea has seen Steamships

Shipping grow considerably in that time.

"When I started here we had very few service lines in operation, but now we have our coastal shipping liners doing charters and Western Province runs; our New Zealand and Australia lines and vessels have increased from 3 to 5; and our South-East Asia lines have increased from 2 to 4. Our tonnage has also increased and that has increased the operation of the agency."

According to Lea, the increase in business has meant that a number of new positions have been added to the team of staff to ensure the expanding client base is kept happy. *"We maintain a good relationship with our clients and I am proud to say that we are doing quite well as a shipping agency compared to our competitors."*

Lea is also quick to commend the Company for the work it does in the community, *"I really think the various donations and contributions we have made to certain programs have really helped the local people."*



LOGISTICS (continued)

EAST WEST TRANSPORT

East West Transport (EWT) is one of Papua New Guinea's largest multifaceted transport and logistics companies. The Company is based in Lae, but also has a significant presence in Port Moresby, Goroka, Wewak, Madang, Rabaul, Kavieng and Mount Hagen.

EWT operates across a wide spectrum of transport-related activities including bulk fuel, containerised-grain, coffee and break-bulk cargoes. It also offers specialised project solutions for the mining and oil and gas sectors. Equipment hire, warehousing and yard storage facilities are available for clients in all main depots. In addition, the Company offers a licensed customs cargo clearance service in Lae and Port Moresby and provides customised transport solutions through its close relationships with sister companies in shipping and stevedoring. A large coffee processing facility is operated in Lae which services coffee produced for export in the Highlands regions of the country.

The Company experienced another challenging year in 2011, although began to see a sustained improvement in the second half. Volumes for the year were in the region of 535,000 freight tons of cargo along with 330 million litres of fuel, which was an increase on 2010 levels. Boosted by these numbers, *EWT* recorded an increase in YOY revenues. This result lagged the general growth in the industry, which was one of the nation's top



performing sectors in 2011, but operational measures put in place in 2011 bode well for an improved performance in 2012.

A number of developments supported the increase in volumes in 2011. Most notably, *EWT* was able to get larger double-configured trailers back on the Highlands Highway, which provided a much-needed boost to volumes. Similarly, an increase in coffee processing and transportation contributed to overall growth, while the Company was also successful in retaining major town transport and fuel distribution contracts in Port Moresby and Lae. Based on current growth trends, *EWT* expects volumes to increase again in 2012.

The *EWT* fleet continues to evolve in line with an increased and diversified demand from the resources sector. The Company, with a current fleet of 167 vehicles, owns a wide range of equipment ranging from 4 tonne



LOGISTICS (continued)

flat deck trucks to long haul prime movers capable of hauling three 20' containers within the metro areas or the Highlands regions of the country. Cargo handling equipment such as side-loading trailers and forklifts also form a large component of the Company's fleet with each depot having this capacity. In 2011 the Company welcomed the arrival of new equipment for the Port Moresby and Lae depots. These included twelve prime movers from China, one 52 tonne forklift, two 32 ton forklifts, two side loaders and five fuel tanker trailers.

EWT secured contract extensions in Port Moresby and Lae this year. It also began transporting bulk fuel to Mount Hagen. Looking ahead the Company will continue to focus on long term clients serving the local PNG economy and will benefit from the increased demand for transport services from the mining and energy sectors. *EWT's* growing reputation for reliability, safety and security, as well as its understanding of the unique challenges associated with delivering transport solutions in PNG should ensure it is the partner of choice for established PNG businesses, large resource conglomerates and fuel and energy providers.

Whilst integral to its customers needs, serving the Highlands region of PNG presented *EWT* with very significant operational and financial challenges in 2011. The continued deterioration of road and security conditions along the Highlands Highway regularly jeopardised customer supply chains to this populous region. The highway recorded 35 days of road closure this year, a figure marginally lower than previous years, and in all likelihood, one that is destined to increase in 2012. While the transport sector is the highest funded sector in PNG's development budget, only limited funds are being committed towards the rehabilitation and ongoing maintenance of highway infrastructure. Until this situation changes, *EWT* must continue to absorb the high operation costs associated with using this important highway.

There are a number of other challenges on the horizon. The increasing cost of labour and rising fuel prices present a significant concern to the industry going forward, with fuel and tyre costs facing some of the highest price increases in 2011. *EWT* must also contend



with increased competition across metro and highway operations from a plethora of smaller operators. To compete effectively *EWT* must focus on key customers and ensure performance standards are met.

The Company has committed to ensuring unnecessary staff turnover is kept to a minimum in the face of rising wages and increased job opportunities in other industries. In the coming months the Company's OH&S policies will be updated to focus on reinvigorating staff training, welfare and retention.

PROPERTY AND HOTELS

STEAMSHIPS PROPERTY

Steamships Property is one of the largest and most dynamic property developers in PNG. The Company provides residential, commercial, retail and industrial property throughout the country. The division was originally established to manage the Steamships Group's internal needs, but today over 74% of its business is conducted with external clients. *Steamships Property* oversees building and land assets in Port Moresby, Lae, Madang, Wewak, Goroka, Mt. Hagen, Popondetta and Rabaul. The division currently holds a total lettable space of 10,739m² of commercial property, 180,671m² of industrial property, 18,904m² of retail property and 17,785m² of residential property (comprising 100 units in total).

Steamships Property performed strongly in 2011. Revenue was up YOY as the division capitalised on a PNG property boom that has driven rental prices and occupancy rates up in Port Moresby and other commercial centres across the country. The Group's commercial and residential properties throughout PNG have maintained a steady occupancy rate of 96.6%, excluding projects under construction.

Shortages in commercial, residential and industrial properties have led to a building boom in commercial centres including Port Moresby and Lae. Despite this, there are still significant property shortages across PNG, an issue the division has continued to address in 2011.

This year *Steamships Property* completed the development of five warehouses in the Badili Estate as well as the new Port Moresby premises for East West Transport including offices, workshop and a hardstand area. Construction is currently underway on a further three warehouses in Badili and an EWT bond store and warehouse complex in Baruni.

A number of other major projects are in various states of construction and are due to be completed in 2012. These include the eight 'Captain Fitch' townhouses at Ela Beach, the 40 unit 'Stage 2 Windward Apartments' in Port Moresby, and the SVS supermarket and the 12 unit 'Blaikie Apartments' in Lae.

Looking ahead, the division will commence construction on the Nichiha Office project in Badili, two warehouses in Madang and the considerable Central Waigani Commercial Centre project, which aims to develop a new



PROPERTY AND HOTELS *(continued)*



9,300m² shopping district in the heart of Port Moresby's administrative district. Planning is also well advanced on the construction of a multi-storey office block and marina development at the Port Moresby waterfront.

Once again property and land acquisition has proven difficult in a stagnant market where prices have increased to high levels over the last four years. However, the division did make some acquisitions throughout the year,

purchasing an area of residential land in Port Moresby and a vacant 5,600m² lot in Madang with a commercial lease. While *Steamships 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 the country's land tenure system, have made this difficult in recent times.



PROPERTY AND HOTELS *(continued)*

CORAL SEA HOTELS

Steamships Hotels Division is known in PNG by its trading name, *Coral Sea Hotels (CSH)*. *CSH* operates nine hotel and apartment complexes offering full hotel facilities and serviced apartments plus extensive meeting and banqueting facilities.

This group of nine hotels comprises: the Ela Beach Hotel and Apartments, the Grand Papua Hotel, Whittaker Apartments and the 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.

The CSH Group is the largest and most represented hotel group in PNG. Today it offers a group total of 626 hotel rooms and 135 apartments in PNG's major commercial centres, a number that increased by approximately 67% over 2010.

2011 was a good year for *CSH*. The Group capitalised on a generally buoyant economy and high demand for both long and short-term accommodation, particularly in Port Moresby, to record a significant revenue increase over 2010 and an improved pre tax profit driven by solid annual group occupancy figures for rooms and apartments.



It was a year of transformation for the *CSH Group*, which completed a number of expansion projects and maintained an ongoing upgrade program for existing facilities. Were it not for a six month delay in the completion of some of these projects, group performance would have been even stronger in 2011.

The most significant development in 2011 was the opening of the flagship, Grand Papua Hotel in Port Moresby in December; a major project that was delivered on time and budget. The Grand Papua is a luxury 161-room hotel, situated on the highest point in the city, close to Ela Beach and the city's business and commercial centre. The hotel is the most technically-advanced building in the country with a fully integrated management system to maximise energy efficiency. This includes an innovative paperless check-in system using tablet technology. Other features include an exclusive executive lounge, three boardrooms, six conference rooms, three levels of underground secured parking, 24-hour security, spa and beauty treatment services, outdoor Jacuzzi, a 15-metre swimming pool and a fully-equipped fitness centre.

STEAMSHIPS: OUR PEOPLE, OUR FUTURE

Henao Garo, Manager, Huon Gulf Hotel, Coral Sea Hotels Group.

An employee of the Coral Sea Hotels Group for 20 years, Henao Garo, has never struggled to make guests feel at home in PNG.

"Because I come from a Christian background with Christian values, the concept of hospitality isn't a new thing. My family are hospitable people and that sort of came easy for me when it came to dealing with hotel guests."

Hailing from Rigo in Central Province, Henao started with the CSH Group as a switchboard operator at the Huon Gulf Hotel in the 1990's. From there she worked her way up through various roles at reception, on the reservation desk and in other areas of the hotel. By 1998, she had risen to the role of

Assistant Manager at the Huon Gulf Hotel. She then moved to the Melanesian Hotel where she was Front Office Manager and then Assistant Hotel Manager. In 2009, Henao returned to where it all began for her and she has been Manager of the Huon Gulf Hotel since.



According to Henao, *"Steamships, through the Coral Sea Hotels, is a great company because it has a career path for all of its employees. Throughout my stay with the Company, I have been through numerous trainings which have equipped me with the skills and knowledge that has made me a Manager today."*

PROPERTY AND HOTELS *(continued)*



The Gateway Hotel and Apartments had another strong year, recording good room occupancy despite the hotel being given a major facelift throughout much of the year. This expansion project included the completion of 35 additional hotel rooms, an upgraded lobby and new bar and conference facilities with the capacity to hold 600 delegates. All standard hotel rooms were also upgraded to premier rooms and 12 two bedroom units were constructed for Gateway staff.

A considerable expansion and upgrade program was also completed at the Ela Beach Hotel over the course of 2011. This project included the addition of 42 new rooms, a business centre, gym, pool and public areas. Renovations were also carried out on 30 tower rooms and the exterior of the hotel. The hotel performed admirably over the year maintaining room occupancy of 76%, despite the ongoing construction work.

The Highlander Hotel in Mount Hagen was another beneficiary of a wholesale redevelopment program, which saw the completion of 20 additional hotel rooms, a new restaurant, gym, bar and conference facilities. General upgrading of rooms and facilities was also carried out at the Bird of Paradise Hotel and the Coastwatchers Hotel.

In line with the Group's current growth strategy, plans are already underway for the Melanesian Hotel in Lae to be redeveloped over a two year period. This significant investment calls for a phased redevelopment of the site to accommodate a new 97-room hotel which will replace the existing 65-room hotel.

Looking ahead, the **CSH Group** foresees both challenge and opportunity on the horizon. Most pressing is the oversupply of hotel and apartment rooms in Port Moresby from 2012. Close to 317 new 3.5 to 5-star rooms have been added to the market in just 3 years, equal to a 50% increase in supply. With another 286 rooms opening in 2012, **CSH** foresees overall occupancy levels beginning to plateau and possibly fall in the year ahead. Coupled with this, increasing labour costs may also create a challenge for the hotel industry at a national level.

To maintain and improve rates of occupancy and revenues in Port Moresby and across the country, the **CSH Group** will continue to aggressively implement its upgrade program. Outside of infrastructure improvements, this includes the continued training and development of its staff in order to meet the challenges of providing superior service to the current hotels' clientele and to satisfy the demand for personnel across the expanded Group facilities. The Group has commenced discussions with an international training institute to conduct in-house training of cookery apprentices and is considering new programs for plumbing, refrigeration and electrical apprentices. Plans to introduce an 18-month corporate training scheme for young graduates are also well advanced. The Group will build on its relationships with domestic and international tour operators and travel agents to ensure **CSH** hotels, and especially the new Grand Papua Hotel, are the first choice of all potential clients.

COMMERCIAL

MANUFACTURING

Laga Industries is PNG's premier consumer goods business and the country's leading manufacturer of ice cream, vegetable oil, drink powders, condiments and spirits. The Company is also a distributor for international consumer goods companies including Diageo and Constellation Wines.

Headquartered in Lae, *Laga Industries* proudly produces two of PNG's most popular consumer product lines: Gala Ice Cream, distributed from the Gala Parlours found in most leading retail supermarkets, and Trade Winds spirits and popular RTD premixed drinks. Operationally, the Company owns a plastics manufacturing plant in PNG and has a freezer and dry goods distribution facility in Port Moresby and sales offices in Madang, Wewak, Goroka, Mt Hagen, Kimbe, Kavieng, Rabaul and Buka.

Laga Industries had a stronger year in 2011 on the back of substantial sector-wide growth and a continued focus on improving operating efficiencies. The Company recorded an increase in sales and profit in 2011 over what was a poor set of 2010 results.

Driven by its brand-focused growth strategy, the Company successfully launched a number of new products throughout the year.

Two new products were added to the Gala Ice Cream family. The first, a premium product, branded the Gala Gold Selection, was received very well and garnered immediate repeat orders from key customers. The second, an 8L bulk pack designed for the extended family, youth and church groups also had a strong off-take. The Company also launched a range of new Trade Winds alcoholic products for which there have been strong ordering patterns from all key accounts. In February, *Laga Industries* commenced distribution of a new range of 600ml water products and is currently producing 7 varieties of labels, including a new brand, Tropical Oasis, for key accounts.

Buoyed by strong growth in the sector and increased uptake of key product lines, the Company made a number of significant investments in operational assets in 2011. The Company installed and commissioned an additional cap injection machine, an additional PET blow-mould machine and a perform injection machine to



COMMERCIAL *(continued)*

ensure the business had a level of self sufficiency in terms of producing all bottles and caps for vegetable oil/water and demand for most condiments.

A new powders temperature-controlled packing facility was also constructed to ensure all mixing of ingredients, filling and packing is conducted in conditions that meet world food safety standards. These investments highlight the Company's optimism for continued growth in the manufacturing sector.

In another pleasing development, the Company achieved 100% HACCP certification across total manufacturing in April. This ensures the entire business is compliant to International standards and will not be restricted selling to customers that require suppliers to have internationally-recognised certification. The Company still sees significant advantages in improving operational efficiencies in 2012.

Despite encouraging growth in 2011, erratic electricity supply continues to be a problem for PNG's manufacturing industry and has resulted in significant damage to the Company's plant and equipment throughout the year. This has led to high levels of machine downtime, which has had some effect on the Company's supply to market. Looking ahead, *Laga*

Industries has already committed to investing in an uninterruptible power supply (UPS) system to eliminate this issue in 2012.

The Company is also committed to increased investment in its people. The manufacturing industry and many other non-mining sectors have experienced a considerable drain of quality employees in 2011 due to the development of PNGs' resources sector and the unprecedented increase in wages and conditions being offered. *Laga Industries* has felt the effects of this drain, with 3 senior managers and a number of quality employees leaving the Company this year. As a consequence, the Company has put processes in place to ensure a full team is onboard for 2012, all quality employees are retained and training and development is increased across the board.

Laga Industries supports 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 Company believes these reforms, when completely implemented, should help to reduce production costs within the industry and spur continued, sustainable growth.

STEAMSHIPS: OUR PEOPLE, OUR FUTURE

Brasty Kaupa, Laga Industries

"The priority that the Company has given to safety in the workplace speaks volumes of our no nonsense commitment to our safety policies. That's something I'm proud of."



Brasty has been the Production Manager at Laga Industries for 5 years. All of the Company's products, apart from the Trade Winds brands, come under his supervision.

"There has been rapid growth in the Company since I joined 5 years ago. Our product range and product

volume has increased over the years, which says a lot about the demand for our products. Meeting the demand is a great challenge, but it's satisfying when we see that our clients and their customers enjoy our products".

According to Brasty, the increase in product range, volume and staff has resulted in an increased focus on the Company's safety priorities. *"Safety takes precedence at our operations and no one works without having proper safety equipment on. The Steamships policy on safety ensures that the safety and well being of its staff are taken seriously. The Company really does care about its employees."*



INFORMATION TECHNOLOGY

Steamships technology arm, *Datec*, has been in business in PNG for 26 years and is a leading 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 even assistance in retiring old equipment.

The business has expanded to include a data centre in Port Moresby; the largest computer retail store in the country; and corporate and degree-level training and education. The ICT services provided cover network and communications, uninterruptible power supply, office automation and even software development. More recently, demand has driven the development of a CCTV and Cabling business which designs, installs and services CCTV and electronic surveillance systems, as well as full service project management capability.

Datec currently has a 20 percent share of the roughly K500 million ICT market in PNG. In 2011 the Company employed 230 IT professionals and it forecasts this number will grow to 300 by the end of 2012. *Datec* is proud to note that the majority of technical staff are national citizens.

Datec registered high demand for most lines of business in 2011. While overall revenues were slightly down on last year, improvements in efficiencies increased YOY profits for 2011. The Company's primary focus this year was to build a scalable platform to leverage for future growth. This involved restructuring the business to improve the delivery of long-term solutions for clients.

The Company experienced growth in its training and education business and has forecast another strong year in 2012. *Datec* recently invested in a new office space to accommodate future growth. The Retail Megastore and the CCTV and Cabling business also experienced growth

COMMERCIAL *(continued)*



in 2011, driven by improving inventory management and stronger corporate relationships. Similarly, the CCTV arm was able to leverage from the success of PNG's current building boom, emerging as a market leader in this relatively new industry for PNG.

In another pleasing development, the **Datec** Project Management Office (PMO) is now being requested by clients as a standalone chargeable service. This demand-driven growth has opened up a new range of commercial possibilities, which will be further developed in 2012.

Datec acknowledges that the government has taken a number of steps to promote growth in the industry, including the liberalisation of the communications sector and the development of an industry regulator, the National Information and Communications Technology Authority (NICTA), in 2010. The Authority gives PNG's IT companies the reassurance and confidence necessary to expand in the sector and invest in infrastructure projects. As a consequence, **Datec** is currently investing in the construction of next generation ISP infrastructure which will provide PNG with a more reliable internet service.

Datec operates one of the few authorised IT repair centres in PNG. Its national employees embody a large technical skill set developed from the Company's training programs. The result is that many major businesses, including PNG's banks, rely on **Datec** for their service and repairs. The creation and success of the **Datec** Concierge Desk has also been a pleasing development in 2011. It is a single point of contact to ensure the management and resolution of all stakeholder requests. Currently this is a unique service offering in PNG and **Datec** expects it will be the seed of a potential Business Process Outsourcing business.

Despite the improving performance of 2011, challenges to sustainable growth remain. The ICT sector is a young and emerging industry in PNG and competition has intensified in recent years. At the same time increased disposable income and rapid advances in technology, including smartphones, and the spread of social media, are likely to generate exponential demand for ICT services. **Datec** will need to continue to innovate and add value to capitalise on this growth and maintain its position as a market leader.

KEY SUBSIDIARIES AND ASSOCIATES

CONSORT EXPRESS LINES

Consort Express Lines Limited, based in Lae, was established in 1975 to conduct coastal trade in Papua New Guinea. The Company, currently operating 8 ocean going vessels, has grown to be the preeminent coastal liner shipping service in PNG. *Consort's* express shipping services regularly call at 14 key ports within Papua New Guinea, as well as Townsville, Australia. The Company also holds significant interests in several stevedoring operations across PNG.

Consort had a reasonable year in 2011, producing a satisfactory overall trading result. Shipping revenues continued to experience modest growth. Overseas volumes passing through Townsville were slightly down on last year, due to the impact on operations of Cyclone Yasi and the Queensland floods. However PNG coastal shipping volumes remained buoyant, driven by continued strong commodity prices for PNG's agricultural exports, and the downstream demand stimulation effects that these prices have had on local economies.

The modest revenue growth was achieved in the face of significantly increased activity from local competitors and severe berth congestion in several PNG ports, most notably the Port of Lae. In 2012, *Consort* plans to capitalise on anticipated increases in cargo volumes by adding an additional vessel to its fleet.

PACIFIC TOWING

Established in 1977 *Pacific Towing PNG Limited* is a joint venture between Svitzer and Steamships Trading Company, which has a 50% beneficial interest. *Pacific Towing* is headquartered in Port Moresby and provides specialist and interrelated services to the marine industry. These comprise harbour towage and moorings services, terminal, and ocean towage, diving, salvage and emergency response services. The Company operates 22 vessels, comprised of tugs and line boats, in 5 ports across PNG.

The Company turned in a satisfactory performance in 2011, with a YOY growth in revenues driven by increased vessel movements across several of the PNG ports of

operation and a control on operating costs. The smaller ports of Rabaul and Madang, as well as Port Moresby, saw particularly good growth, while operations at the Port of Lae were restricted by ongoing congestion issues. The Company's performance was boosted by several ad hoc salvage jobs and its commercial diving capability, which is both a useful and unique service in PNG.

Looking forward, the Company expects further growth in regional tows as a consequence of the surge in non-liner traffic at Port Moresby and Lae, both of which continue to support the construction phase of the PNG LNG project.

COLGATE PALMOLIVE (PNG)

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

The business had a strong year in 2011, exceeding both revenue and profit figures from the previous year. The Company managed to capitalise on the generally buoyant economy, which has increased both the demand for, and prices of, consumer goods. At the same time *Colgate Palmolive (PNG)* has also benefited from cost reductions due to changes in foreign exchange and duty conditions.

The Company developed and implemented two key strategic programs in 2011. The first was aimed at building *Colgate's* key brands in PNG and included garnering commercial and government endorsement for the successful Bright smiles for adults and hand hygiene (BSBF) program. The second, an innovation growth strategy, included the launch of a new demand planning module, which will be used to improve company processes and inventory management.

Looking forward, *Colgate Palmolive (PNG)* is planning to align its PNG operations more closely with those in Fiji to leverage synergies and share market research, especially in regards to the development of a number of innovative promotional and educational campaigns.

S U S T A I N A B I L I T Y

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 the Steamships Group be able to ensure that our long term growth, along with the economic and social development of Papua New Guinea, is truly sustainable.

Improving sustainability is, however, a process and requires systematic strategy. It starts with robust monitoring, and culminates in action. We are still at the early stages of this process and have set up a Sustainability Action Group to start to manage our impacts and to focus on three broad areas: *Our People, Our Environment and Our Community*. The initial challenges are in creating a long term plan and ensuring it is updated and expanded; and in the collection of meaningful data.

Credible sustainability planning requires engagement with stakeholders – staff, local communities, government bodies, investors and Non-Government Organisations (NGOs) - to understand properly their needs and problems. Our Sustainability Group will be the principal interface between Steamships and our PNG stakeholders.

We have begun to consider some key benchmarks from the global standard on sustainability reporting – the Global Reporting Initiative (GRI) - in our 2011 annual report for the first time. By starting to collect the data and monitoring our progress against these benchmarks, we aim to improve operations and increase transparency over the coming years. We believe these first steps will also lead to the production of a stand-alone Sustainability Report in the future.

The evolving sustainability strategy will guide our business operations and reflect our commitment to the safety and well being of our people; to the development of local communities; to generate wealth for the Government and improved welfare for the people of

PNG; to implement and support public health initiatives; to reduce environmental impacts; and to conserve PNG's unique landscapes.

Building on the legacy of 90 years of business leadership in PNG, Steamships aims to *pioneer sustainable progress* in PNG. Our dealings will be transparent and based on good governance. This first effort at incorporating sustainability benchmarks lays the foundation of our approach to sustainability and demonstrates our commitment to mitigate the negative environmental impacts and enhance the beneficial social and economic impacts of our operations. We do so because we understand that only business operations that are imbued with the principles of sustainable development can achieve their long-term business objectives.

STEAMSHIPS TRADING COMPANY AND THE GLOBAL REPORTING INITIATIVE

For the first time, Steamships has utilised the Global Reporting Initiative's G3.1 Guidelines as a framework for its sustainability monitoring and reporting. Steamships have based this report on a C level of application of the GRI guidelines.

Because 2011 is the Group's inaugural year for utilising the GRI's monitoring indicators, the Company has not included specific data to compare yearly progress in this report. Rather, this report serves as an introduction to the Group's sustainability initiatives and plans. Building yearly data sets through continuous monitoring and reporting is a goal over the coming years.

Materiality of reporting content was determined from engagement with internal stakeholders. The content of this report is not exhaustive, and there are a number of indicators that are material to Steamships' operations on which we do not yet report. Steamships will improve its processes for monitoring and recording such data over the coming years to enable expanded reporting.

Please note that this sustainability report has not been subject to audit. The Company believes that the report presents a fair and reasonable overview of its sustainability activities, but Steamships does not warrant the completeness or accuracy of the information contained in the report.



STEAMSHIPS' SUSTAINABILITY FOCUS AREAS

Our systems for sustainability monitoring and reporting have only recently been developed. As they become more established, the accuracy of annual data will improve.

The full list of GRI Indicators adopted by Steamships Trading Company can be found below. Data collection for these indicators was initiated in 2011 and will be improved upon in 2012. Steamships are 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 into the 2013/2014 period.

For any additional information, or to offer any comments regarding the content of this report, please contact our Group Sustainability Manager Iain Martin-Blakey, imblakey@steamships.com.pg.

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 *(continued)*



OUR PEOPLE

People are Steamships' greatest asset. As one of the largest private employers in PNG, the Company understands that it serves the country's overall development and business interests to continue to build local talent. Effective and motivated people are at the heart of Steamships' ability to deliver continued value to customers and shareholders.

Steamships' 'People' Strategy

A coherent and long term 'People' strategy is a crucial pillar for Steamships' long-term success. The Company's goal is to provide an enjoyable, rewarding and long-term career to employees. Steamships aims to create an environment that supports a satisfied workforce; provides clear objectives and regular development feedback; provides technical training; and improves management skills to facilitate an emerging generation of leaders.

Steamships understands that by building a culture of trust, safety, respect and fairness it can foster an environment which helps its people to succeed. To ensure this, it has prioritised occupational safety, health and education as Key Performance Indicators.

In 2011 Steamships developed a 'People and Culture' Portal to improve administration of its people. The portal places the organisation on a more robust administrative platform and provides a level of transparency that Steamships has not achieved before. The system will be further expanded through 2012. To improve monitoring and reporting, and assist in increasing transparency, the Group has also identified five GRI indicators for employment, occupational health and safety, and training and education. Continued monitoring of these indicators will both increase transparency in corporate governance, and improve our human resource capabilities over the coming years to the benefit of both the Company and its people.

STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*



Review of Activities and Objectives

2011 highlights	2012 objectives
Created a central Human Resources Steering Committee to manage and promote key people issues across the Steamships Group	Develop action plans for divisional operations in training, performance management, procedures and policies
Health, safety and security for staff became a KPI of the Divisions under the umbrella of the Sustainability Action Group	Ensure top down commitment to a Health and Safety culture that is the priority of the Group and raise senior management leadership and cultural buy-in at all levels Conduct a schedule of audits across the year and improve the audit process by developing internal HSSE Audit guidelines
Implemented occupational health initiatives such as employment of public health specialist, various first aid courses, and health awareness campaigns	Develop new in-house occupational health training modules for the specific needs of each Division
Commenced reporting on designated GRI indicators for employment, safety and training and education	Develop further GRI measures in areas of employment, occupational health and safety and Training
Invested over four million Kina in training programs throughout 2011	Review training budgets to more effectively target spending on value-adding skill development
Funded and developed programs to nurture local management talent, such as Chevening scholarships and the Accountant Graduate program	Develop a Group-wide Graduate Management trainee scheme Promote recruitment and development of PNG national staff throughout management layer of our organisation
Developed a leading 'People and Culture' Portal to administer our people more efficiently	Improve usage and functionality offered by this Portal including the addition of a HSSE module
Set up access to an Employee Assistance Program (EAP) for staff counselling and advice related to work issues and events	

STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*

Health

Steamships has commenced a number of initiatives to improve health indicators within the Group. For instance, the Group has employed an occupational health specialist with the aim of improving staff health knowledge and awareness of key health issues; actively participated in an Oral Health Awareness campaign; implemented an HIV and AIDS awareness program; and conducted various first aid courses and safety training sessions throughout 2011.

Steamships' programs cover HIV/AIDS, TB, Malaria, Hygiene, Childcare, Nutrition and other welfare initiatives. For instance, Steamships has committed to a workplace Tuberculosis policy and a corresponding Memorandum of Agreement was signed by Steamships, the PNG National Department of Health and World Vision in 2011.

The Group advanced a program to establish formal joint management-worker health and safety committees to help monitor and advise on occupational health and safety initiatives. The goal is to ensure suitable levels of representation of staff on divisional HSSE committees. The results so far have been pleasing, although more work is needed.

Safety

Safety is the management priority at all levels of the organisation. Steamships prioritises a culture of safety and aims to be an incident-free company. In order to achieve this, the Group has introduced a Safety Management System and strategies for corrective action.

This management system ensures that all injuries are recorded and analysed. Using the 'safeguard' system, corrective actions are developed to reduce repeat occurrences. This approach has assisted to decreased rates of injury, and lost days through absenteeism and work-related fatalities.

The Action Plan is based on a goal of zero tolerance of safety-related incidents. Improved safety statistics reflect the success of current initiatives. The total number of injuries consistently declined across the Divisions in 2011 and our goals are to continue this trend.



STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*



Safety management, specifically in the logistics area, is highest on the agenda. Various new initiatives involving improved resourcing, specialist training and proactive maintenance scheduling are being put in place to continuously improve safety performance for 2012.

Security

Security is an operational challenge for many businesses in PNG. Carjacking and hold-ups are increasingly common in Lae and Port Moresby. Unfortunately several staff have been affected by this.

Steamships has developed a security policy to minimise the risk to personnel. This includes regular site audits and implementation of worksite security policies. The Action Plan outlines security guidance to all staff and assists them in dealing with a security situation both at the

workplace and beyond. In 2012 Steamships intends to conduct a security audit of key operational premises of the Group, to ensure all Divisions remain vigilant and proactive for the security of staff and assets.

Training and Development

Quality staff training and educational initiatives are a key component of the Steamships 'People' strategy. The Group invested heavily in training across the organisation in 2011. This equated to a commitment of over four million Kina to deliver 50 000 hours of staff training over the course of the year.

Each Steamships Division has established training plans based on specific training modules, as well as external opportunities for training in fields such as information technology. Training modules are tailored to the scope

STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*

and skills required by each Division, but include areas such as management, occupational safety, communication, first aid, and technical/operational training (includes plant and equipment operations and specialised training to meet industry and international standards).

In future these efforts will expand to include a Group-wide Graduate Management Trainee scheme targeting high calibre graduates. This program will join existing initiatives such as the Accountant Graduate program, through which Steamships assists junior accountants to complete their professional qualifications and become chartered accountants.

Group Managers also participate in the Swire Group talent management program, which offers a variety of executive education courses provided by INSEAD in Singapore and France, and in leadership and development initiatives organised by Swire's internal talent management organisation 'Ethos.'

The Steamships approach includes providing scholarships and support to young Papua New Guinean's seeking educational opportunities. Steamships and Swire fund and support two Chevening Scholarships for Steamships employees in conjunction with the UK

Government. The program provides candidates with the opportunity for postgraduate study in UK universities. One candidate was accepted into the prestigious program in 2011, while two candidates have been accepted to study towards Business and Law degrees in 2012.

Company Culture

Steamships acknowledge and reward the work and efforts of staff. Employee remuneration is fair and wealth and benefits distribution is transparent. The number of staff employed by Steamships increased significantly during 2011 in line with business expansion. The Group gained almost 200 new full time employment positions. In 2011, only two percent of total staff were non-citizens, with a 98% Papua New Guinean workforce. A growing proportion of National Senior Managers are also employed, although the percentage is still below our expectations. Our goal remains to increase this representation in the years ahead. High staff turnover remains an issue for many companies operating here, and Steamships has experienced unsustainable levels of staff throughput in recent years. Although the levels have moderated in 2011, excessive turnover and wage inflation remain key challenges to address in the years ahead.

STEAMSHIPS: OUR PEOPLE, OUR FUTURE

Daniel Kuna, Chief Officer of the Kiunga Chief, Coastal Shipping

Daniel Kuna from Madang Province has been with Steamships Shipping Division for over 10 years. He has been an officer on board various Steamships vessels as they operate liner services to the Western Province and elsewhere.

According to Daniel, "Steamship's Shipping operations have grown a lot over the years. In my time here, the



Company has improved its ISO code and provided a lot of training to our seafarers, including sponsoring them to take up cadetships through the PNG Maritime College in Madang."

After completing his 'Mate 4' studies at the Maritime College, Daniel was pleased to be placed onboard a Swire vessel, the Kokopo Chief, as part of his training. Armed with an education and onboard experience, he has never looked back - "Our seafarers are given the opportunity to work onboard Swire vessels to gain experience in international waters and that gives them a boost in their career."



OUR ENVIRONMENT

PNG is fortunate to contain hugely diverse landscapes, climates and environments. Biodiversity is extremely rich, including over 10,000 known plant species, over 200 mammal species, and over 400 bird species. PNG is also home to a vast variety of reptiles, amphibians and fish species. Flora and fauna species new to science are still being regularly discovered.

Steamships recognises that to co-exist with these unique environments, the potential environmental impacts of business operations have to be identified and then minimised through every stage of each operational process.

Approach to Environmental Sustainability

The Steamships Sustainability Strategy elevates environmental sustainability as a corporate priority. Environmental sustainability has become a Key Performance Indicator for the Group.

The Strategy requires each Division to compile an environmental impact register. This has been coordinated by the Group Sustainability Manager. This register is used to identify the environmental impacts of business operations and show where management action is required to eliminate or minimise these impacts. Preparation of the register has facilitated the development of an initial Environmental Action Plan in each Division. Progress in implementing these plans will be reported through the inspection and audit process in 2012.

Steamships has already launched a number of initiatives to address the issues identified in 2011; progress in each is outlined in the following section. The Group also developed three GRI environmental reporting indicators for energy consumption, water management, and greenhouse gas emissions.

This year Steamships actively participated in community environmental programs in collaboration with the PNG Department of Environment and Conservation, and sponsored environmental educational activities across the country. The Company is particularly proud of the ongoing success of the Swire Papua New Guinea Rainforest Study (SPRS), as well as communication of the Swire Green Guidelines to minimise environmental impacts of business activities across Steamships Divisions. 2012 will see even greater focus in this area.

STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*



Review of Activities and Objectives

2011 highlights	2012 objectives
Created a Sustainability Action Group to promote environmental sustainability	Develop 2012 environmental action plans for Divisional operations
As part of the Sustainability portfolio, environmental sustainability became a KPI of the Divisions for the first time	Include environmental aspects in the regular HSSE internal audit process
Communicated the Swire Green Guidelines to minimise environmental impacts of our business activities	Raise levels of awareness of these guidelines across the Group and further down in the organisation
Commenced monitoring and reporting on designated GRI indicators for energy, consumption, water usage and greenhouse gas emissions	Extend GRI reporting by adding further indicators where material
Developed an environmental impact register to manage future impacts on the environment	Use this register to develop new initiatives to raise levels of sustainability
Contributed to environmental projects such as the Swire PNG Rainforest Study	Further promote conservation and sustainability training through introduction of an Environmental scholarship for PNG citizens wishing to pursue a Master course in 2012
Steamships was the major sponsor of the annual 'World Environment Day' activities in PNG during 2011	Increase support in 2012 to 40,000 Kina

STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*

Energy

The Group has for the first time developed mechanisms to report on direct and indirect energy consumption by primary source. Steamships has identified various energy management issues and corrective actions as part of the comprehensive action review in each Division. For instance Steamships Shipping is developing an efficiency measure process to monitor fuel consumption and ascertain each vessel's most fuel efficient operating speed. The Company expects this will result in optimised fuel efficiency with a target reduction of 5% of fuel consumption. The Coral Sea Hotels Group has also made significant adjustments to decrease its energy consumption. After identifying a 13% increase in electricity usage, Huon Gulf Hotel developed a strategy to install energy efficient lighting throughout the hotel, in addition to running staff awareness training on electricity conservation.

Emissions

In 2011 the Group made some gains in reducing greenhouse gas emissions, largely by improving energy efficiency. However, its accumulative greenhouse gas emissions increased slightly, mainly as a result of increased activities in shipping and transport. Steamships are working hard to reduce CO₂ emissions on a monthly basis. In 2011, Steamships Divisions undertook internal audits to identify the environmental impacts of their operations. This returned a number of areas where the Group are now introducing measures to reduce our emissions. For example, Laga Industries identified an issue with GHG emissions from the operation of a production plant. The Company subsequently reviewed the issue and set targets to reduce emissions. The implementation of energy efficiency strategies has already resulted in a 5% reduction of energy usage levels.

Water

In 2011 Steamships developed reporting mechanisms to record water usage, with a view to improve long term water management. This data has already assisted the Group in building a strategy to improve its water management. Steamships has identified a number of key challenges for 2012 and produced an action summary of 2012 commitments to improve management. For



instance, East West Transport identified the need to install a water treatment plant, and has already purchased equipment for the plant's installation. Likewise, Laga Industries developed a water recycling system to divert waste water, reducing water usage by 180 000 litres per week.





CASE STUDY

The Swire Papua New Guinea Rainforest Study

The Swire Papua New Guinea Rainforest Study (SPRS) was officially launched in late May 2010. In keeping with Steamships' commitment to the environment, parent company, John Swire and Sons Pty. Ltd., provided a quarter of a million US dollars to fund the extensive long-term study of PNG's rainforests.

The initiative aims to support a number of world leading international research institutions including Harvard University and the Smithsonian Tropical Research Institute, as well as the New Guinea Binatang Research Centre, the University of Minnesota, and several other partner institutions in PNG.

The project utilises a permanent 50 hectare forest-monitoring plot in the Wanang area of Madang Province, and represents the first long term study of carbon dynamics in PNG forests. It aims to increase scientists' ability to assess the response of Pacific forests to global climate change.

The project has been developed in partnership with the local community, who expressed their commitment to forest conservation by signing conservation agreements over ten years ago.

Part of the SPRS funding has been put towards community development projects in the area. After consultation with the community it became very clear that there was a need for a primary school. Since its construction, the Wanang School has grown rapidly to include four teachers, three classrooms and 150 students.

For these students, some as old as 18, this is their first experience of primary education. Steamships is proud to play a part in this successful example of development through targeted conservation.

Steamships is also participating in the Swire Conservation Scholarship program, which aims to develop PNG leadership in the area of forestry science and management by supporting post graduate study overseas.

CASE STUDY

Steamships Property's Harbourside Development, PNG's first green star development

Steamships Property's Harbourside development on the Port Moresby waterfront will be the first property in the country designed to secure an international green star rating.

The project, which was recently granted planning approval, comprises two multi-storey commercial office buildings consisting of 6 levels of commercial office space, ground floor retail, basement car parking and a small marina. It is being designed and will be constructed using the Australian 'Green Star' rating tools for low impact, environmentally sustainable buildings. 'Green' buildings are built for high energy and water efficiency and are known to be up to 30% less expensive to operate.

The Australian system uses 'star' ratings from one (poor) to six (world-leading) to evaluate buildings both on their

environmental sustainability at design and post construction. The Harbourside property will be the first PNG development to be measured against these internationally-recognised criteria.

Upon completion, the development will also have its emission levels measured against the Australian NABERS (the National Australian Built Environment Rating System) energy measurement framework. NABERS is a performance-based rating system measuring operational impacts on the environment.

Steamships intend to carry out a NABERS Energy modelling exercise to confirm what level NABERS Energy rating the development theoretically would achieve if situated in comparable environments such as Cairns or Darwin, Australia. An operational rating will also be evaluated after 12 months to confirm the NABERS Energy rating.



STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*

OUR COMMUNITY

Papua New Guinea is one of the most ethnically and culturally diverse countries in the world. It is home to over 830 known languages. Proud tribal traditions are maintained through traditional ritual and custom and as a way of life. High rates of internal migration have presented challenges to the preservation of PNG traditions; nonetheless community remains a cornerstone of PNG society.

Community is also a cornerstone of Steamships' corporate culture. The Company recognises the importance of community relations to the success of its operations and to progress on local and national development goals.

Approach to Community Development

Steamships believes in contributing to local communities beyond the scope of its usual business operations. The Steamships community investment program targets four key areas: Health and Social Welfare, Education, Sports and Culture. Overall funding to these areas reached well over 1.6 million Kina in 2011. In order to achieve best possible results and focus its contribution, the Group conducted an audit of activities in 2011 that saw several new initiatives join the existing community investment program. The Company's community investment program is set to expand again in 2012, as it continues support for existing projects and embarks on the financing of a number of new programs.



STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*



Review of Activities and Objectives

2011 highlights	2012 objectives
Initiated a program of community investment of over 1.6 million Kina in activities focusing on local community health, education, sports and culture	Develop a centralised team responsible for managing the community investment program
Commenced reporting on designated GRI indicators for wealth generation and distribution, and procedures for local hiring of staff and management	Extend reporting by adding relevant GRI indicators where material
Advanced a number of community engagement activities spearheaded by management of individual Divisions	Increase overall spend to 2 million Kina
Conducted an audit of activities and identified several new initiatives and existing initiatives that warrant further support	

Community Investments

Summary of Community Investments in 2011 (Kina)

AREA	2011 Budget	Actual Spending	2012 Budget
Health and Social Welfare	735,000	1,149,500	1,140,000
Education	365,000	497,400	655,000
Sports	105,000	106,000	105,000
Culture	120,000	168,100	100,000
TOTAL	1,325,000	1,921,000	2,000,000

STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*



Health and Social Welfare

Business Coalition Against HIV and AIDS (BAHA) - Steamships are Gold sponsors of BAHA and contributed K50,000 to the organisation in 2011 to assist in training and HIV/AIDS awareness programs in both the private and public sectors. Steamships has committed a total of K150,000 to BAHA over a 3 year period.

YWAM Medical Ship - Steamships committed K400,000 to support the work of the YWAM medical ship in 2011. During its 2011 program in the Gulf and Western Provinces, the ship visited 230 villages over 69 days delivering a total of 39,454 individual interventions in the area of primary healthcare, dentistry, optometry, education seminars, preventative health resource distributions, ophthalmology, and immunisations.

Operation Open Heart (OOH) - Steamships presented K10,000 for the program, after the organisation assisted a staff member to finance a heart operation. The Company is looking to extend this initiative in 2012 by doubling its contribution to the organisation.

Project Susu Mamas Inc - Steamships continues to assist in funding the operation of clinics by covering nurse wages, rent and general supplies. This year Steamships donated K100,000 for their outreach and training programs, focusing on nutrition, breastfeeding and

antenatal. In 2012 Steamships will continue with its usual support towards Susu Mama's vision to reduce maternal and infant morbidity and mortality in PNG.

Cheshire Disability Service - The Cheshire Disability Service is the only organisation in PNG that takes care of, and trains, people living with disabilities. Steamships' contribution represented a new funding initiative for the Group, which it is looking to extend in 2012 by exploring opportunities to assist the organisation's rehabilitation or infrastructure programs.

Salvation Army 'Red Shield Appeal' - Steamships continues to pay rentals for the Salvation Army HIV/AIDS Drop-in Centre and is also committed to its partnership with the Salvation Army where it annually hosts the Red Shield Golf Day tournament. Last year Steamships presented over K148,000 to the Salvation Army from the tournament.

Rotary Against Malaria (RAM) - RAM is committed to containing and preventing Malaria by distributing mosquito nets to villages around the country. Steamships assistance to RAM will allow for people in the rural areas in which it operates to have access to treated mosquito nets.

Halfway House - The Halfway House gives women and children who are victims of violence and abuse a place to

STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*



take shelter. Steamships supports the Halfway House through its assistance in purchasing food for the women and children who live there. In 2011 the Company's sponsorship was taken up in conjunction with the Australian High Commission. Steamships' direct involvement will commence in 2012.

Education

PNG Children's Library Project – the Buk Bilong Pikinini (Children's Libraries) organisation has to date opened six libraries in the National Capital District. Steamships assisted by distributing the basic school stationery to children using the libraries. 2012 will see Steamships support the Lawes Road library and Lae Library.

NCD School Projects – In 2011 Steamships supported the National Capital District Governor by providing K20,000 towards a public private partnership program of repairing and building classrooms for schools in the National Capital District (NCD). Steamships, spearheaded by the Property Division, will continue to support the Governor's project next year and increase the level of support to K220,000.

Sport

Steamships has assisted a number of PNG sports teams and events with a view to developing local talent. The

Company presented K11,000 to the PNG Paralympics team to help them attend the South Pacific Games in New Caledonia; sponsored the PNG Softball team by providing K75,000 to assist them participate in the Oceania Regional World Series Qualifier in Canberra; presented K10,000 to the University of Papua New Guinea team to help them compete at the Interschool Games held in Eastern Highlands Province; sponsored the annual PNG Golf Open; and took part in the annual Trukai Fun Run by sponsoring schools.

Culture

Literary Development – Steamships has recently agreed to sponsor 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 – Steamships is also sponsoring the All Nation's Women's Group Book called "Moments in Papua New Guinea, Artists, Cooks, and Storytellers," the proceeds from which will be used to create an educational bursary to help pay school fees for the students at Hohola Youth Development Centre, located in a community close to the East West container depot.

STEAMSHIPS: OUR PEOPLE, OUR FUTURE

Guba Halo, Forklift Driver, Port Services

"Juggling my work as well as my sporting career has been a challenge, but the Company has been very supportive."



Guba is not your ordinary forklift driver; she has won over twenty medals in the Arafura Games and the South Pacific Games as a PNG weightlifter in the 69kg category.

When she is not working, Guba is down at her small, self-made gym in Hanuabada, lifting weights. Because of her weightlifting career, Steamships has taken Guba

on as a permanent, casual staff member who gets called in when she is needed on the job. The flexible working hours allow her to train and prepare for the various tournaments in which PNG participates.

Guba is grateful to the Company for giving her the opportunity to pursue her career as a weightlifter representing PNG, *"I'm young and energetic, but the training can take its toll on me. In that respect, Steamships is very understanding when I need to take time off to attend trainings or to travel overseas with the PNG team. The Company is totally supportive and has even assisted with my expenses. They have been great."*



STEAMSHIPS' SUSTAINABILITY FOCUS AREAS *(continued)*



CASE STUDY

East West Transport assists community enterprise in Baruni

Steamship's East West Transport (EWT) shifted operations to Baruni from its Hohola Depot in 2011. Acknowledging that its operations would require frequent transiting through the Baruni Village, EWT consulted the villagers in order to understand how the operations could benefit the local community.

EWT met with senior members of the village, including Reverend Gahuna Obaha. It was decided that the outsourcing of business operations to village-based companies would be particularly beneficial. Consequentially, EWT assisted the village to form a local community-based company, Tago Security Services. The Company engaged and trained village people to perform security roles. It has since developed into a successful outfit of twenty employees, specialising in the provision of security services for facilities, vehicles, personnel and cargo.

Steamships form stevedoring joint ventures with local communities

Steamship's Port Services Stevedores have set up several joint venture (JV) arrangements with local landowner communities to manage and operate stevedoring businesses at the ports of Port Moresby, Lae, Kimbe, Madang and Kavieng.

The JV companies employ over 800 local employees and managers from nearby villages, providing permanent and part-time opportunities for young men and women in the various areas of the operation. The JV companies provide employees with experience and additional training to develop specialist skills such as vehicle and ship handling; health, security and safety awareness; and advanced management and technical skills.

In addition to the significant financial returns that are fed back into the communities from the jointly-owned businesses, Steamships provides support to local cultural and sporting activities through our community investment program. The Group intends to continue building on these strong relationships with the communities where we operate.

STEAMSHIPS: OUR PEOPLE, OUR FUTURE

'Five minutes with Luke Heve'

Luke Heve has worked for Steamships for just over 3 years. Born and raised in Morobe Province, Luke started with the Company as a Lab technician before moving into the role of New Products/Process Research and Development Officer. Today he is a Lab Manager with Laga Industries, part of Steamship's Commercial Division. In this role he manages the lab and coordinates New Product Research and Development as well as other Line Quality Control staff.

We recently spoke to Luke about his time and role at Steamships Trading Company:

1. Why is Steamships a great place to work?

It is a big company and part of one of the world's oldest and biggest business groups, that is, the Swire Group. So I always have the feeling I belong to an organisation that is grand and has ancient origins.

2. How has the Company developed since you first started at Steamships?

When I first started in 2008 Laga Industries had only one production plant, which manufactured ice cream, vegetable oil, plastics, and condiments. Now, Laga also owns the Trade Winds factory, with its own production staff, managers, supervisors and QC staff. Staff numbers for the production plant alone have doubled since I first began.

One of the biggest changes has been the imposition of stricter standards of work, especially in the areas of HSSE and good manufacturing practice, on the production floor. This has led to Laga Industries eventually being audited by NCSI and being awarded with an HACCP certification.

3. How is your company working with local communities?

Our company is very involved in the community. We are involved in a number of initiatives including the donation of ice cream to clubs such as the Lioness Club, who then do charity work at hospitals and the Angau Children's Ward. The Company also donates



200L plastic drums to displaced/homeless victims for collection of their drinking water. We also support Colgate Palmolive Healthy Teeth and Hands Awareness where Colgate's health educator promotes awareness and provides free tooth brushes and paste to Laga staff.

4. What does Steamships do better than other companies in PNG?

Steamships has an effective HSSE Management and Monitoring Systems which has resulted in a reduction of unnecessary injuries. Laga Industries has seen a huge improvement in these areas in 2011 and I hope we maintain this.

5. Why is protecting the environment so important for PNG companies like Steamships?

It is important that Steamships treats the environment with respect and minimises the impact of its operations where it can. I get a good sense from the various activities that I see or hear about that our company understands this commitment. After all, how can our people, which are any company's most important asset, survive without breathing clean air and drinking uncontaminated water?

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

Steamships and its Board are committed to achieving and demonstrating the highest standards of Corporate Governance and ethical standards, and they expect these standards from all employees. The Company 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 other 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 well-being of employees, and others with whom the Company has contact; and
- Promoting sustainable business practice.

A description of the Group's main corporate governance practices is set out below. Steamships complies with the August 2007 ASX Principles of Good Corporate Governance and Best Practice Recommendations except where noted below.

Board of Directors

The Board of Directors has the responsibility to set the strategic direction of the Company, 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.

The Steamships Board currently comprises two executive Directors, two independent non-executive Directors, Lady Winifred Kamit (chairperson of the Audit & Risk Committee) and Mr Gereia Aopi, and four non-executive Directors, of whom three are also Directors of other John Swire & Sons subsidiary companies.

The Australian Stock Exchange (ASX) recommends that the Chairperson and a majority of the Board, and all of the members of the Audit Committee, should be independent Directors.

The Company currently has 98% of its shares held by three major shareholders, one of which holds 72% 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 Company of valuable experience in the management of its affairs. While recognising the importance of the ASX's recommendations, the Board feels that, under current circumstances, the recommendations are not practicable, and would not serve the interest of the Company 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.

Executive Management

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 Company combines the efforts of dedicated management teams in the individual business units, supported by a small Head Office team to provide services such as strategic direction, investment and performance review, treasury, human resources management and people development services.

Steamships has adopted a structured approach to strategic business planning across all divisions. The Company 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 Company 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

CORPORATE GOVERNANCE STATEMENT *(continued)*

program of training and skills transfer seeks to enable the Company to promote citizen staff and to build a strong, long-term workforce for the future.

Audit Committee and Internal Control

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

The Audit Committee recommends the appointment and remuneration of the external auditors, reviews the Company'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 twice a year, at which time it receives and discusses reports from senior management and from the external auditors. The Audit Committee has a formal charter.

Different divisions within the Company 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 head office management, seek to ensure that internal control is properly managed throughout the Group. In the opinion of the Directors, this is the most efficient and cost-effective means of managing internal control, given the diversity of the business and the nature of the risk.

Risk Management

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

Certain risks occur in the normal course of the Company's business and include foreign exchange and interest rate risks. Exchange risks are minimised by borrowing in currencies other than Kina only when an equivalent cash flow is received.

A computer-based risk management database has been developed to assist the Company's Risk Management

Department to monitor and enforce compliance with the risk management procedures and policies.

The Company also uses other risk management techniques, including insurance, to reduce the financial impact of any uncontrollable or catastrophic losses.

Remuneration Committee

A Committee comprising the Chairman, the Managing Director and a non-executive Director meets annually to determine the compensation of the Managing Director and the senior executive staff. The Committee also reviews the Company's staff development plans and is responsible for the succession planning of all senior manager positions. The recommendations of this Committee are minuted.

Strategic Planning Committee

The Strategic Planning Committee 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 is after a quarterly review and update of the external plan by external advisors. This review in no way diminishes the responsibility of the full Board of Directors to review and approve the Company'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 firm's resources and motivation of the staff to achieve objectives.

Independent External Advice

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

Shareholder Information

The Board seeks to inform shareholders of major issues affecting the Company by sending comprehensive annual reports to the shareholders, and through the release of reports to the Port Moresby Exchange, the Australian Stock Exchange and appropriate media. These detail the Company's financial and operating performance. At all times, the Board ensures that the continuous disclosure requirements of the Port Moresby and Australian Stock Exchanges are met.

STATEMENTS OF COMPREHENSIVE INCOME

Steamships Trading Company Limited and Subsidiary Companies

	Note	Consolidated		Parent Entity	
		Dec 11	Dec 10	Dec 11	Dec 10
		K'000	K'000	K'000	K'000
Revenue from Continuing Operations	3(a)	920,357	789,918	51,886	48,938
Other revenue	3(a)	14,360	10,415	-	-
Operating expenses	3(b)	(669,601)	(595,861)	(4,971)	(4,508)
OPERATING PROFIT		265,116	204,472	46,915	44,430
Finance costs – net	3(d)	(31,149)	(23,638)	-	-
Share of profit of associates and joint ventures	9(c)	13,859	11,416	-	-
PROFIT BEFORE INCOME TAX		247,826	192,250	46,915	44,430
Income tax expense	4(a)	(67,727)	(53,935)	(332)	(35)
PROFIT FROM CONTINUING OPERATIONS		180,099	138,315	46,583	44,395
Other comprehensive income		-	-	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		180,099	138,315	46,583	44,395
Non-controlling interests		(21,838)	(21,870)	-	-
TOTAL COMPREHENSIVE INCOME					
ATTRIBUTABLE TO SHAREHOLDERS		158,261	116,445	46,583	44,395
Basic and diluted earnings per share continuing (toea)	3(f)	510t	376t		

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

STATEMENT OF CHANGES IN EQUITY

Steamships Trading Company Limited and Subsidiary Companies

	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 2010	24,200	26,667	327,216	378,083	45,211	423,294
Profit for the year	-	-	116,445	116,445	21,870	138,315
Other comprehensive income	-	-	-	-	-	-
Dividends paid	-	(42,171)	-	(42,171)	(4,230)	(46,401)
Dividends proposed	-	31,008	(31,008)	-	-	-
BALANCE AT 31 DECEMBER 2010	24,200	15,504	412,653	452,357	62,851	515,208
Profit for the year	-	-	158,261	158,261	21,838	180,099
Other comprehensive income	-	-	-	-	-	-
Dividends paid	-	(31,008)	-	(31,008)	(9,324)	(40,332)
Dividends proposed	-	58,916	(58,916)	-	-	-
Prior year adjustment *	-	-	(1,061)	(1,061)	-	(1,061)
BALANCE AT 31 DECEMBER 2011	24,200	43,412	510,937	578,549	75,365	653,914

This statement of changes in equity are 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 statements of comprehensive income and dividends declared or paid during the year.

* See note 1(z) for the details of the prior period adjustment.

STATEMENTS OF FINANCIAL POSITION

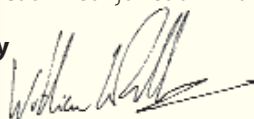
Steamships Trading Company Limited and Subsidiary Companies

	Note	Consolidated		Parent Entity	
		Dec 11	Dec 10	Dec 11	Dec 10
		K'000	K'000	K'000	K'000
EQUITY					
Issued capital	7	24,200	24,200	24,200	24,200
Retained earnings		510,937	412,653	(23,676)	(11,342)
Proposed final dividend		43,412	15,504	43,412	15,504
Capital and reserves attributable to the Company's shareholders		578,549	452,357	43,936	28,362
Non-controlling interests		75,365	62,851	-	-
TOTAL EQUITY		653,914	515,208	43,936	28,362
NON-CURRENT ASSETS					
Property, plant and equipment	8	938,709	786,510	36,166	38,983
Investments in subsidiaries, associates and joint ventures	9(a)	28,445	15,416	63,342	42,142
Goodwill	10	17,183	17,183	-	-
Deferred tax asset	4(c)	-	9,282	1,604	1,511
		984,337	828,391	101,112	82,636
CURRENT ASSETS					
Inventories	11	50,334	54,462	-	-
Trade and other receivables	12(a)	200,633	182,225	351	1,562
Loans to associates and incorporated joint ventures		1,907	1,290	24,671	21,854
Financial assets at fair value through profit and loss	12(b)	45,107	52,583	-	-
Cash and cash equivalents		1,653	3,644	-	-
		299,634	294,204	25,022	23,416
TOTAL ASSETS		1,283,971	1,122,595	126,134	106,052
CURRENT LIABILITIES					
Trade payables		57,820	56,220	-	-
Other payables and accruals	13	75,102	70,117	565	-
Provisions for other liabilities and charges	14	22,066	20,538	-	-
Loans from associates and incorporated joint ventures		7,769	18,302	81,319	77,481
Loan from Shareholder	15	18,460	6,522	-	-
Borrowings	15	48,697	50,625	-	-
Income tax payable		53,531	50,732	314	209
		283,445	273,056	82,198	77,690
NON-CURRENT LIABILITIES					
Deferred tax liability	4(c)	7,664	-	-	-
Borrowings	15	330,391	326,389	-	-
Provisions for other liabilities and charges	14	8,557	7,942	-	-
		346,612	334,331	-	-
TOTAL LIABILITIES		630,057	607,387	82,198	77,690
NET ASSETS		653,914	515,208	43,936	28,362

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

For and on behalf of the Board:
30 March 2012

W. L. Rothery
Chairman



D.H. Cox OL
Managing Director



STATEMENTS OF CASH FLOWS

Steamships Trading Company Limited and Subsidiary Companies

	Note	Consolidated		Parent Entity	
		Dec 11	Dec 10	Dec 11	Dec 10
		K'000	K'000	K'000	K'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipt from customers		896,724	738,130	9,366	4,247
Payments to suppliers and employees		(564,302)	(516,219)	(875)	(261)
Interest received		123	4,421	-	-
Interest and other finance costs paid		(31,272)	(28,059)	-	-
Income tax paid		(48,764)	(38,533)	(320)	(239)
Net cash provided by operating activities	17	252,509	159,740	8,171	3,747
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property, plant & equipment		(231,302)	(190,439)	(1,317)	(638)
Proceeds from sales of property, plant & equipment		7,599	8,844	39	6,898
Payment for purchase of other financial asset		-	(11,827)	-	-
Loans made (to)/repaid by associated companies		1,470	18,468	1,021	(12,123)
Dividends received		7,191	12,560	23,094	44,287
Payment for acquisition of subsidiaries (net of cash acquired)		(1,200)	-	-	-
Net cash used in investing activities		(216,242)	(162,394)	22,837	38,424
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from borrowings		40,000	102,164	-	-
Repayments of borrowings		(35,998)	(69,600)	-	-
Dividends paid		(40,332)	(46,401)	(31,008)	(42,171)
Net cash used in financing activities		(36,330)	(13,837)	(31,008)	(42,171)
NET DECREASE IN CASH HELD		(63)	(16,491)	-	-
CASH AT BEGINNING OF THE YEAR		(46,981)	(30,490)	-	-
CASH AT END OF THE YEAR		(47,044)	(46,981)	-	-
CASH COMPRISES:					
Cash and cash equivalents		1,653	3,644	-	-
Bank overdrafts	15	(48,697)	(50,625)	-	-
		(47,044)	(46,981)	-	-

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

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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 30 March 2012.

The Board of Directors have 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 and interpretations to existing standards and interpretations adopted by the Group*

The following revised standard, amendments and interpretations to existing standards and interpretations as approved by the IASB which are mandatory for annual periods beginning 1 January 2011:

- *IAS 24 (Revised), Related Party Disclosures* (effective 1 January, 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group has applied the revised standard from 1 January, 2011.

The following are the relevant amendments to IFRS which contains amendments that result in changes in accounting, presentation, recognition and measurement. It also includes amendments that are terminology or editorial changes only which have either minimal or no effect on accounting. These amendments are part of the IASB's annual improvements project published in August 2009. Unless otherwise stated, these improvements did not have a significant impact on the Group's financial statements.

- *IFRS 7, Financial Instruments: Disclosures* (effective 1 January, 2011). The amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.
- *IAS 1, Presentation of Financial Statements* (effective 1 January, 2011). The amendment clarifies that an entity may present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.
- (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 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income* (effective 1 July 2012).
- *IAS 12 (Amendment), Income Taxes - Deferred Tax* (effective 1 January 2012).
- *IAS 27 (Revised), Separate Financial Statements* (effective 1 January 2013).
- *IAS 28 (Revised), Investments in Associates and Joint Ventures* (effective 1 January 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The Group early applied the said standard but this has no significant impact to the Group.
- *IFRS 1 (Amendment), First-time Adoption of IFRS - Fixed Dates and Hyperinflation* (effective 1 July 2011).
- *IFRS 7 (Amendment), Financial Instruments: Disclosures - Derecognition* (effective 1 July 2011).
- *IFRS 9, Financial Instruments* (effective 1 January 2015).
- *IFRS 10, Consolidated Financial Statements* (effective 1 January 2013). This new standard builds on existing principles by identifying the

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has opted to early adopt the standard with two new entities being consolidated during the year.

- *IFRS 11, Joint Arrangements* (effective 1 January 2013). This new standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The standard has no significant impact to the Group as they do not have any joint arrangements.
- *IFRS 12, Disclosures of Interests in Other Entities* (effective 1 January 2013).
- *IFRS 13, Fair Value Measurement* (effective 1 January 2013).

(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(y). It also requires management to exercise its judgement in the process of applying the Company'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 determining operating profit 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% but not controlling 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.

The Group has early adopted IFRS 10 (Consolidated Financial Statements) during the year. As a result the Group has re-assessed whether control now exists across its various subsidiaries and associates. Based on this assessment, the Group has determined that they now control New Britain Shipping Limited and Middle Fly Shipping Limited which were previously equity accounted investments.

The change in accounting policy has been treated retrospectively and has resulted in K2,857,000 increase in net assets and minority interests.

(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

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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 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 against income during the financial period in which they are incurred.

(f) 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.

(g) 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.

(h) 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

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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 long-term charter agreement to 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.

(i) 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 is 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.

(j) 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.

(k) 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.

(l) Receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for any uncollectible 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.

(m) 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 reporting period.

(n) 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. For details of the change in accounting policy, see not 1(c).

(o) 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

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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).

(p) 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 7.5% (2010 - 7.25%).

(q) 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.

(r) 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.

(s) 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.

(t) 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.

(u) 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.

(v) 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 balance sheet.

(w) 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

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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 determining operating profit. 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 included within other income or operating expenses 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(o).

(x) Rounding of amounts

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

(y) 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 Bemobile Ltd at fair value with changes in the fair values recognised in profit or loss. At the end of each reporting period, a future maintainable earnings calculation is performed 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 has 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.

(z) Correction of error

In 2010 there was an error in accounting for the share of profits from Associates and consequently the investment in associates. This was due to changes in the associates final audited accounts that occurred after the Group accounts were issued. The effect was a decrease in retained earnings of K1,061,000 and a decrease in the investment in associates balance on the Statement of financial position.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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 2011, 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 seven hundred and seventeen thousand Kina (2010: five hundred and six thousand Kina) 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 2011 is as follows:

	2011	2010
	K'000	K'000
Undrawn Facilities	119,757	182,944

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.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

	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 2011

Borrowings	(78,299)	(290,541)	(40,935)	(29,193)
Trade & other payables	(132,922)	-	-	-
Income tax payable	(53,531)	-	-	-

At 31 December 2010

Borrowings	(75,254)	(29,595)	(266,895)	(111,389)
Trade & other payables	(126,337)	-	-	-
Income tax payable	(50,732)	-	-	-

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 "equity" as shown in the balance sheet plus net debt.

The gearing ratios at each balance date were as follows:

	2011	2010
	K'000	K'000
Total external borrowing & unsecured loans	397,548	383,536
Less: Cash & Cash equivalents	1,653	3,644
Net debt	395,895	379,892
Total equity	578,549	452,357
Total share capital	24,200	24,200
Gearing ratio	68%	84%

The lower gearing ratio in 2011 resulted primarily from the increase in profit.

(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).

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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

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

at 31 December 2010

Assets			
Financial assets at fair value through profit & loss:	-	-	52,583
Total Assets:	-	-	52,583

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 2011.

Consolidated	Financial asset at fair value through profit and loss	
	2011	2010
	K'000	K'000
Opening balance	52,583	48,822
Additions	-	11,827
Losses recognised in profit and loss	(7,476)	(8,066)
Closing Balance	45,107	52,583
Total losses for the period included in other operating expenses that relate to assets held at the end of the reporting period	7,476	8,066

The parent entity does not hold any financial assets.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
3. OPERATING RESULTS				
(a) Revenue comprises:				
Revenue from sale of goods	174,867	198,436	-	-
Revenue from provision of service	745,490	591,482	-	-
Dividend income	-	-	23,094	48,938
Other income	14,360	10,415	28,792	-
Total Revenue	934,717	800,333	51,886	48,938
(b) Operating expenses comprise:				
Cost of sales	217,878	200,554	-	-
Staff costs	155,592	137,993	-	-
Depreciation and amortisation	77,967	66,669	4,095	4,247
Electricity and fuel	61,582	52,954	-	-
Freight	6,614	6,198	-	-
Insurance	20,292	17,305	-	-
Motor vehicle expenses	12,399	6,536	-	-
Shipping and survey costs	12,411	6,114	-	-
Stevedoring	23,548	19,419	-	-
Telecommunication	16,781	13,558	-	-
Repairs & maintenance	31,001	33,366	-	-
Other operating expenses	33,536	35,195	876	261
Total operating expenses	669,601	595,861	4,971	4,508
(c) The operating profit before income tax is arrived at after charging and crediting the following specific items:-				
Charges:				
Audit fees	875	844	10	10
Fees for non-audit services to Auditors	408	461	-	-
Bad and doubtful debts	944	721	-	-
Donations	1,921	1,262	-	-
Fair value decrement on financial assets	7,476	8,066	-	-
Credits:				
Subsidiary companies' dividends	-	-	23,094	44,287
Net foreign exchange transaction gains	3,081	3,307	-	-
Profit (loss) on sale of properties	5,401	5,689	-	-
(d) Finance costs – net				
Interest expense	31,272	28,059	-	-
Interest income	(123)	(4,421)	-	-
Net finance costs	31,149	23,638	-	-
(e) Staff costs:				
Wages and salaries	108,559	94,625	-	-
Retirement benefit contributions	8,694	7,384	-	-
Accommodation and other benefits	38,339	35,984	-	-
	155,592	137,993	-	-
Number of staff employed by the Group at year end.				
Full time	3,297	3,064	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
(f) Earnings per share				
Basic earnings per share is 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.				
Net profit attributable to shareholders	158,261	116,445	-	-
Weighted average number of ordinary shares on issue (thousands)	31,008	31,008	-	-
Basic earnings per share	510t	376t	-	-
Split between:				
Continuing operations	510t	376t	-	-
Discontinued operations	-	-	-	-

4. INCOME TAX

(a) Current tax	50,781	49,431	332	35
Deferred tax	16,946	4,504	-	-
	67,727	53,935	332	35

(b) The income tax expense is determined in accordance with the policy set out in note 1(g).

The effective rate of tax charged differs from the statutory rate of 30% for the following reasons.

Prima facie tax payable on operating profit	70,190	54,250	14,075	13,329
Tax effect of rebateable dividends	-	-	(6,928)	(13,286)
Expenses not deductible for tax	5,882	1,215	-	-
Deductible expenses not recognised for accounting purposes	(428)	(208)	-	-
Income not assessable for tax	(7,285)	(1,322)	(7,285)	-
Prior year over/under provisions	(632)	-	470	(8)
	67,727	53,935	332	35

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

Provisions	8,788	9,907	(87)	(220)
Prepayments	(3,472)	(2,378)	-	-
Property, plant and equipment	(12,980)	1,753	1,691	1,731
	(7,664)	9,282	1,604	1,511

Unused tax losses for which no deferred tax asset has been recognised total K1,318,367 (2010: K1,598,502) in a subsidiary company.

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

At January 1	9,282	7,305	1,511	1,238
Acquisition of subsidiary	27	-	-	-
Charged to profit and loss	(16,973)	1,977	93	273
At December 31	(7,664)	9,282	1,604	1,511

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

5. SEGMENTAL REPORTING

(a) Description of segments

The Strategic Steering Committee 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 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 and also its property leasing division. The assets are stated at book value.
- 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 Strategic Steering Committee for the reportable segments for the year ended 31 December 2011 is as follows:

	Commercial	Hotels & Property	Logistics	Finance & Investment	Total
	K'000	K'000	K'000	K'000	K'000
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
2010					
External revenue	227,426	175,155	397,752	-	800,333
Intersegmental revenue	4,837	18,803	7,813	-	31,453
Interest revenue	72	-	39	4,310	4,421
Interest expense	(381)	(20)	(11,357)	(16,301)	(28,059)
Fair value loss on financial asset	-	-	-	(8,066)	(8,066)
Segment results	16,549	80,860	88,047	(4,622)	180,834
Share of associate profit	2,281	-	9,135	-	11,416
Total tax expense	(4,965)	(23,953)	(26,404)	1,387	(53,935)
Profit from continuing operations	13,865	56,907	70,778	(3,235)	138,315
Segment assets	130,350	497,424	391,377	103,444	1,122,595
Segment liabilities	32,612	343,369	164,417	66,989	607,387
Net assets	97,738	154,055	226,960	36,455	515,208
Total assets includes investment in associates of	5,490	-	9,926	-	15,416
Capital expenditure	10,176	128,479	50,195	1,589	190,439
Depreciation and amortisation	7,974	20,322	38,122	251	66,669

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.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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, including Collins & Leahy Holdings Limited, together with associate and joint venture entities.

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
(a) Material transactions:				
Sales of goods and services:				
Associates & Joint Ventures	4,335	3,972	-	-
Shareholders of Associated Companies	6,417	7,844	-	-
Lease and rental income				
Associates & Joint Ventures	302	176	-	-
Dividends received				
Associates & Joint Ventures	7,191	12,560	23,094	44,287
Management fees received				
Associates & Joint Ventures	180	180	-	-
Royalty/License Income				
Associates & Joint Ventures	1,342	1,177	-	-
Purchase of goods and services				
Associates & Joint Ventures	(26,329)	(30,116)	-	-
Other Shareholders	(2,014)	(1,437)	-	-
Shareholders of Associated Companies	(291)	(580)	-	-
Management fees paid				
Other Shareholders	(226)	(418)	-	-
Container/Charter hire fees				
Other Shareholders	(8,808)	(10,194)	-	-
Interest paid				
Other Shareholders	(803)	(808)	-	-
Dividends paid				
Other Shareholders	(2,809)	(985)	-	-
Shareholders of Associated Companies	(22,363)	(30,413)	-	-
Intercompany Loan Transactions				
Equity instrument in associate	-	(11,827)	-	-
Associates & Joint Ventures	(10,533)		-	-
Additional investment in Associate	(7,858)	20,357	-	-
Other Shareholders	-	(52,500)	-	-
Shareholders of Associated Companies	11,938	-	-	-

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

(b) Directors:

G.J. Dunlop and W.L.Rothery are directors of John Swire & Sons (PNG) Limited and Collins & Leahy Holdings Limited. E.H. Ruha is a Director of John Swire & Sons (PNG) 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 report of the Directors. The Group paid K4,748,493 (2010: K7,844,465) to SCL Nominees Limited for management services.

(d) Interest in subsidiaries, associates and joint ventures: These are set out in note 9 and 20.

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

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

7. CAPITAL

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	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

Property

Opening net book amount	450,488	350,001	37,211	40,478
Building construction costs	63,203	107,879	-	-
Additions	71,688	8,302	912	638
Business combinations	173	-	-	-
Disposals cost	-	(2,492)	-	(2,468)
Disposals accumulated depreciation	-	2,228	-	2,228
Depreciation charge	(18,980)	(15,430)	(3,598)	(3,665)
Closing net book amount	566,572	450,488	34,525	37,211
Cost or valuation	692,448	557,384	76,835	75,923
Accumulated depreciation	(125,876)	(106,896)	(42,310)	(38,712)
Net book amount	566,572	450,488	34,525	37,211

Ships

Opening net book amount	186,442	187,048	-	-
Additions	11,568	19,420	-	-
Disposals - Cost	-	(3,466)	-	-
Disposals - Accumulated depreciation	-	3,466	-	-
Depreciation charge	(22,361)	(20,026)	-	-
Closing net book amount	175,649	186,442	-	-
Cost or valuation	302,892	291,324	6,474	6,474
Accumulated depreciation	(127,243)	(104,882)	(6,474)	(6,474)
Net book amount	175,649	186,442	-	-

Plant & Vehicles

Opening net book amount	149,580	128,847	1,772	2,505
Additions	84,843	54,838	405	-
Business combinations	889	-	-	-
Disposals - Cost	(6,867)	(9,078)	(134)	(347)
Disposals - Accumulated depreciation	4,669	6,186	95	196
Depreciation charge	(36,626)	(31,213)	(497)	(582)
Closing net book amount	196,488	149,580	1,641	1,772
Cost or valuation	382,639	303,774	4,705	4,434
Accumulated depreciation	(186,151)	(154,194)	(3,064)	(2,662)
Net book amount	196,488	149,580	1,641	1,772
Total property, plant and equipment	938,709	786,510	36,166	38,983

Included in the 'Property' classification at 31 December 2011 are buildings under construction of K80.3M (2010: K211.2M). The cost of additions in 2011 includes capitalised borrowing costs of K3.9M (2010: K7.9) in relation to qualifying assets.

There are no conditions that indicate impairment of property, plant and equipment as at 31 December 2011 and 31 December 2010.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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 2011 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	28,658	118,230	130,594
Commercial External	464,017	1,203,570	1,343,941
Residential	73,897	243,440	256,684
Total	566,572	1,565,240	1,731,219

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.

9. INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
(a) Investments are accounted for in accordance with the policy set out in Note 1(b) and relate to:				
Investments in subsidiary companies	-	-	43,203	42,003
Investments in associates and joint ventures	28,445	15,416	20,139	139
	28,445	15,416	63,342	42,142
(b) Movement in carrying amounts				
Carrying amount at the beginning of the year	15,416	17,939	42,142	42,142
Share of profits	19,508	16,293	-	-
Income tax expense	(5,649)	(4,877)	-	-
Dividends received/receivable	(7,191)	(12,560)	-	-
Transfers/sales	6,361	(1,379)	21,200	-
Carrying amount at the end of the year	28,445	15,416	63,342	42,142

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

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 their aggregated assets (including goodwill) and liabilities are as follows:

	Ownerships			Carrying	Revenue	Profit
	Interest	Assets	Liabilities	Value		
	%	K'000	K'000	K'000		
2011						
Pacific Towing	50.00	12,033	4,822	7,211	9,552	7,395
Kiunga Stevedoring*	100.00	-	-	-	-	-
Colgate	50.00	9,632	3,162	6,470	13,425	3,078
Harbourside Development	50.00	7,859	-	7,859	-	-
Makerio Stevedoring	23.00	634	145	489	218	214
Nikana Stevedoring	23.00	934	180	754	211	279
Riback Stevedoring	25.00	6,298	681	5,617	3,267	2,881
United Stevedoring	12.00	305	260	45	501	12
		37,695	9,250	28,445	27,174	13,859

	Ownerships			Carrying	Revenue	Profit
	Interest	Assets	Liabilities	Value		
	%	K'000	K'000	K'000		
2010						
Pacific Towing	50.00	17,663	12,846	4,817	8,265	6,698
Kiunga Stevedoring	24.50	588	103	485	245	333
Colgate	50.00	10,833	5,343	5,490	11,774	2,280
Makerio Stevedoring	23.00	442	90	352	167	151
Nikana Stevedoring	23.00	736	261	475	207	308
Riback Stevedoring	25.00	5,311	1,564	3,747	2,456	1,637
United Stevedoring	12.00	273	223	50	462	9
		35,846	20,430	15,416	23,576	11,416

*Kiunga Stevedoring went from being an associate to a subsidiary during the 2011 year.

(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 20.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

10. GOODWILL

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	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 (2010: K17.2M) is attributable to Datec (K 9.1m), Consort (K 0.5m) and the Manufacturing division (K 7.5m). 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 12.8% has been used and reflects specific risks relating to the operating segment. No goodwill is considered to be impaired as at 31 December 2011.

11. INVENTORIES

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
Raw materials	2,497	28,286	-	-
Work in progress	1,226	542	-	-
Finished goods	49,457	28,999	-	-
Provision for obsolescence	(2,846)	(3,365)	-	-
	50,334	54,462	-	-

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

12 (A). TRADE AND OTHER RECEIVABLES

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
Trade receivables	133,459	112,837	-	-
Provision for impairment	(4,186)	(3,685)	-	-
	129,273	109,152	-	-
Other receivables & prepayments	71,360	73,073	351	1,562
External loans	-	-	-	-
	200,633	182,225	351	1,562

(i) Impaired trade receivables

As at 31 December 2011, trade receivables of K4.2 million (2010: K3.7 million) 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	1,200	1,614	-	-
Over 6 months	2,986	2,071	-	-
	4,186	3,685	-	-

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

Opening balance	3,685	2,878	-	-
Provision for receivables impaired	944	807	-	-
Provision written off	(443)	-	-	-
Total	4,186	3,685	-	-

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

(ii) Past due but not impaired

As at 31 December 2011, trade receivables of K3.4 million (2010: K7.1 million) 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	3,414	7,062	-	-
Over 6 months	-	-	-	-
	3,414	7,062	-	-

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.

12 (B). FINANCIAL ASSET HELD AT FAIR VALUE THROUGH THE PROFIT AND LOSS

Opening balance	52,583	48,822	-	-
Additional investment	-	11,827	-	-
Fair value loss recorded in the profit and loss	(7,476)	(8,066)	-	-
Closing Balance	45,107	52,583	-	-

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

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

13. OTHER PAYABLES AND ACCRUALS

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
Accruals	44,183	41,826	-	-
Other payables	30,919	28,291	565	-
	75,102	70,117	565	-

14. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Employee	Dry Dock	Other	2011	2010
				Total	
				K'000	
At 31 December 2010	16,773	11,233	474	28,480	25,528
Charged to profit & loss	7,948	12,411	62	20,421	11,719
Utilised during year	(8,973)	(9,055)	(250)	(18,278)	(8,767)
	15,748	14,589	286	30,623	28,480
Short-term provisions at 31 December 2011	7,191	14,589	286	22,066	20,538
Long-term provisions at 31 December 2011	8,557	-	-	8,557	7,942
	15,748	14,589	286	30,623	28,480

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

Other provisions comprise benefits under the home ownership scheme, and provisions for cargo claims.

15. BORROWINGS

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
Current:				
Bank overdrafts (secured)	48,697	50,625	-	-
Other loans (unsecured)	18,460	6,522	-	-
	67,157	57,147	-	-
Non-current:				
Bank loans (secured)	330,391	326,389	-	-
Total Borrowings	397,548	383,536	-	-

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 fixed commercial rates at a discount to ILR. The effective interest rate on bank facilities at the balance sheet date was 7.5% (2010: 7.75%). Bank overdrafts are interest-only with no agreed repayment schedule. Bank loans are secured loans with a one to five year term.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

16. CAPITAL EXPENDITURE COMMITMENTS

	Consolidated		Parent Entity	
	Dec 11	Dec 10	Dec 11	Dec 10
	K'000	K'000	K'000	K'000
Contracts outstanding for capital expenditure:				
- less than 12 months	132,120	127,436	-	-
- 1-5 years	5,376	29,283	-	-
	137,496	156,719	-	-

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

Profit for the year	180,099	138,315	46,583	44,395
Depreciation and amortisation	77,967	66,669	4,095	4,247
Dividend and Interest income	-	-	(23,094)	(44,287)
Net gain on sale of non-current asset	(5,401)	(5,689)	(24,284)	(6,507)
Gain on sale of land & acquisition of subsidiary	(12,432)	-	-	-
Fair value adjustment on financial assets	7,476	8,066	-	-
Share of profit after tax of associates	(13,859)	(11,416)	-	-
Change in operating assets and liabilities, net of effects from purchase of controlled entity				
(Increase)/Decrease in trade debtors	(18,821)	(39,026)	1,211	(235)
(Increase)/Decrease in inventory	4,139	(20,211)	-	-
(Increase)/Decrease in deferred tax asset	9,309	(1,484)	(93)	(273)
Decrease/(Increase) in other operating assets	5,120	(25,998)	-	-
Increase in trade creditors	1,550	22,541	3,648	6,338
Increase in other operating liabilities	6,899	9,558	-	-
Increase in provision for income tax payable	2,799	18,738	105	69
Increase/(Decrease) in deferred tax liability	7,664	(323)	-	-
Net cash inflow from operating activities	252,509	159,740	8,171	3,747

18. RETIREMENT BENEFIT PLANS

The total cost of retirement benefits of the Group in 2011, was K8,694,000 (2010: K7,384,000). 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.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

19. CONTINGENT ASSETS AND LIABILITIES

Contingent Liabilities

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

- (a) The parent company has given a secured guarantee in respect of the bank overdrafts of certain subsidiaries.
- (b) The parent company 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.

20. 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* 2011	Equity Holdings* 2010
Consort Express Lines Limited	Papua New Guinea	Ordinary	51	51
Datec (PNG) Limited	Papua New Guinea	Ordinary	100	100
Kavieng Port Services Limited	Papua New Guinea	Ordinary	60	60
Kiunga Stevedoring Company Limited	Papua New Guinea	Ordinary	100	24.5
Lae Port Services Limited	Papua New Guinea	Ordinary	51	51
Laga Industries Services Limited	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 Limited	Papua New Guinea	Ordinary	100	100
Pacific Rumana Limited ***	Papua New Guinea	Ordinary	50	50
Pacific Rumana Mobile Investments Limited	Papua New Guinea	Ordinary	79	79
PNG Link Limited	Papua New Guinea	Ordinary	100	100
Port Services PNG Limited	Papua New Guinea	Ordinary	54	54
Progressive Traders Limited	Papua New Guinea	Ordinary	100	100
Steamships Limited	Papua New Guinea	Ordinary	100	100
Tanubada Food Processors Limited	Papua New Guinea	Ordinary	88	88
Windward Apartments Limited	Papua New Guinea	Ordinary	100	100

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

** In light of the amendment of IFRS 10, the Group has re-assessed that they now control these subsidiaries.

*** Consistent from prior year, the group has accessed that they control this subsidiary because of various agreements.

NOTES TO AND FORMING PART OF THE ACCOUNTS

Steamships Trading Company Limited and Subsidiary Companies

21. BUSINESS COMBINATIONS

2011

(a) Summary of acquisitions

On 1st 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 before tax of K3,592,021 to the Group for the year.

The fair value of the assets and liabilities acquired are based on the carrying values at the time of acquisition.

There were no business combinations in 2010.

22. SUBSEQUENT EVENTS

On 23 February 2012 the Directors declared a final dividend of 140 toea per share to be payable immediately after the Annual General Meeting on 15 May 2012. The gross dividend of K43.4M has been recognised as a separate component of equity at 31 December 2011.

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 2011, the statements of comprehensive income, statement of changes in equity and statements of cash flows for the year ended on that date, a summary of significant accounting policies, and other explanatory notes for both Steamships Trading Company Limited and the Steamships Group (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled at the year end or from time to time during the financial year.

Directors' responsibility for the financial statements

The Directors of the Company are responsible for the preparation and fair presentation of the financial statements 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 is 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 the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These auditing standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial statements.

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

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF STEAMSHIPS TRADING COMPANY LIMITED

Auditor's opinion

In our opinion the financial statements of Steamships Trading Company Limited are in accordance with the Companies Act 1997, including giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2011 and of their performance for the year ended on that date; and complying with International Financial Reporting Standards and other generally accepted accounting practice in Papua New Guinea.

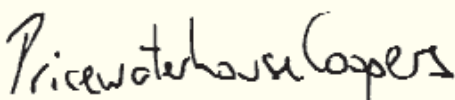
Report on other legal and regulatory requirements

The Companies Act 1997 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

1. in our opinion proper accounting records have been kept by the Company, so far as appears from our examination of those records;
2. we have obtained all the information and explanations we have required; and
3. in conducting our audit we followed applicable independence requirements of Certified Practising Accountants Papua New Guinea.

Other matters

This report, including the opinion, has been prepared for and only for the Company's shareholders as a body in accordance with the Companies Act 1997 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



PricewaterhouseCoopers



By: Brett Entwistle
Partner
Registered under the Accountants Act 1996



Grant Burns
Engagement Leader

Port Moresby
30 March 2012

DIRECTORS' REPORT

Steamships Trading Company Limited and Subsidiary Companies

Steamships Trading Company Limited and Subsidiary Companies

The Directors submit their Annual Report for the year ended 31 December 2011 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 13. 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

Due to the change in the definition of control per IFRS 10 which has been early adopted by the Company, the Group has consolidated its previously held investment in associates (New Britain Shipping Limited and Middle Fly Shipping Limited) during the year. Such change has been accounted for retrospectively.

Result

The Group operating profit for the year attributable to shareholders was K158,261,000 (2010: K116,445,000).

Dividend

The Directors advise that a final dividend of 140 toea per share will be paid immediately after the Annual General Meeting on 15th May 2012. The exchange rate Kina to Australian Dollar applying on 1st May 2012 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.

DIRECTORS' REPORT

Steamships Trading Company Limited and Subsidiary Companies

Interests Register

Directors have disclosed the following 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 Interests	Beneficial Shares Held
W.L. Rothery Member of the Remuneration Committee Member of the Strategic Planning Committee Director since 1997 Chairman since 2006	Executive and Director, John Swire & Sons Pty Ltd and group companies, Director, John Swire & Sons (PNG) Ltd and group companies.	Nil
D.H. Cox OL Member of the Remuneration Committee Managing Director 2004 Director since 2003	Director: Bemobile Ltd, Capital Way PNG Ltd and GEMS PNG Ltd.	Nil
E. H. Ruha Finance Director & Company Secretary since 2008	Director, John Swire & Sons (PNG) Ltd and group companies	Nil
G. Aopi, CBE Director since 1997	Oil Search Ltd; Bank of South Pacific; BSP Capital Ltd; Marsh Ltd, PomSoX Ltd, CDI Foundation and various other private companies.	Nil
T.J. Blackburn Director appointed August 2011	Director: The China Navigation Company Ltd: and various other companies in the Swire Group	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	Chairman Heli Niugini Ltd; Chairman New Guinea Energy Ltd; Director, Chemica Ltd; Maps Tuna Ltd; Sonway Ltd and various other private companies.	Nil
G.J. Dunlop Member of the Audit and Risk Committee Member of the Strategic Planning Committee Managing Director 2000 to 2003 Director since 1995	Director, John Swire & Sons (PNG) Ltd and group companies. Nil Director John Swire & Sons Pty Ltd; City Pharmacy Group Ltd; Hardware Haus Pty Ltd; Credit Corporation (PNG) Limited; Mainland Holdings Ltd Company Secretary 1987 to 2003	Nil
J. W. J Hughes- Hallett Director since 2010	Director: Swire Pacific Ltd, Cathay Pacific Airways Ltd, HSBC Holdings Ltd	Nil
Lady W.T. Kamit, CBE Chairperson of the Audit and Risk Committee Director since 2005	Director & Secretary; Bunowen Services Ltd, Gadens Administration Services Ltd, Senior Partner Gadens Lawyers, Director; South Pacific Post Ltd, Post Courier Ltd, Allied Press Ltd, Nautilus Minerals Niugini Limited, Newcrest Mining Ltd, Kamchild Ltd	Nil

DIRECTORS' REPORT

Steamships Trading Company Limited and Subsidiary Companies

Remuneration of Directors

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

	2011	2010
	K'000	K'000
W.L. Rothery	70	62
D.H. Cox OL*	-	-
E. H. Ruha*	-	-
G. Aopi, CBE	42	40
T.J. Blackburn (appointed 19 August 2011)	21	-
Sir Michael Bromley, KBE	90	76
G.J. Dunlop	84	76
J. W. J Hughes- Hallett	42	-
Lady W. T. Kamit, CBE	82	75
C.R. Kendall (resigned 25 May 2011)	21	40

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 11 No.	Dec 10 No.	Remuneration K'000	Dec 11 No.	Dec 10 No.	Remuneration K'000	Dec 11 No.	Dec 10 No.
100-110	-	4	350-360	1	2	600-610	-	1
110-120	1	4	360-370	4	-	630-640	1	-
120-130	-	4	370-380	-	1	650-660	1	-
130-140	4	5	380-390	1	1	670-680	1	1
140-150	4	2	390-400	1	1	690-700	-	1
150-160	1	3	400-410	2	-	700-710	-	1
160-170	3	4	410-420	1	2	710-720	1	2
170-180	3	8	420-430	3	2	730-740	-	1
180-190	8	2	430-440	-	1	750-760	1	-
190-200	4	3	440-450	1	1	780-790	2	-
200-210	6	2	450-460	-	2	840-850	1	-
210-220	4	1	460-470	2	-	860-870	-	1
220-230	-	1	470-480	2	1	880-890	1	1
230-240	2	6	480-490	2	1	900-910	1	1
240-250	6	3	490-500	1	-	970-980	-	1
250-260	3	2	500-510	-	1	980-990	1	-
260-270	5	1	510-520	2	1	990-1,000	-	1
270-280	4	2	520-530	1	-	1,000-1,010	-	1
280-290	1	2	540-550	2	2	1,010-1,020	1	-
290-300	1	-	550-560	1	1	1,150-1,160	1	-
300-310	1	-	560-570	1	-	1,180-1,190	1	-
310-320	2	1	570-580	1	1	1,340-1,350	1	-
320-330	-	2	590-600	-	1	1,370-1,380	-	1

In addition, an amount of K4,748,493 (2010: K7,844,465) 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
30 March 2012

W. L Rothery
Chairman



D.H. Cox OL
Managing Director



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

TABLE OF COMPARISONS

Steamships Trading Company Limited and Subsidiary Companies

	2011	2010	2009	2008	2007	2006	2005	2004
	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	554,349	428,157	353,883	302,595	254,230	218,833	196,161	162,157
Shareholders' funds	578,549	452,357	378,083	326,795	278,430	243,033	220,361	186,357
Minority shareholders' interest	75,365	62,851	43,854	18,336	13,684	11,094	10,056	6,431
	653,914	515,208	421,937	345,131	292,114	254,127	230,417	192,788
Fixed assets	938,709	786,510	664,196	353,261	263,276	227,773	193,639	173,858
Investments	28,445	15,416	17,939	33,337	22,225	16,839	10,572	11,181
Future deferred tax asset	-	9,282	7,305	4,150	5,358	12,944	24,207	9,885
Goodwill	17,183	17,183	17,183	7,578	3,568	3,568	3,068	-
Current assets	299,634	294,204	203,480	154,508	137,623	98,006	98,588	95,308
Total assets of the Group	1,283,971	1,122,595	910,103	552,834	432,050	359,130	330,074	290,232
Current liabilities	283,445	273,056	236,847	122,562	134,941	98,517	90,867	90,786
Non-current liabilities	346,612	334,331	251,319	85,141	4,995	6,486	8,790	6,658
Total liabilities of the Group	630,057	607,387	488,166	207,703	139,936	105,003	99,657	97,444
Net assets	653,914	515,208	421,937	345,131	292,114	254,127	230,417	192,788
Income statement								
Revenue	934,717	800,333	499,415	465,750	406,757	336,302	370,037	328,880
Operating profit before income tax and abnormals	233,967	180,834	120,602	111,615	91,208	53,502	45,434	13,590
Share of associates' profit	13,859	11,416	16,732	11,758	10,756	10,937	9,398	7,925
Income tax expense	(67,727)	(53,935)	(34,637)	(27,729)	(23,596)	(14,179)	(12,598)	(3,776)
Minority interests	(21,838)	(21,870)	(6,137)	(5,418)	(4,211)	(2,781)	(2,026)	(3,036)
Net profitable attributable to shareholders	158,261	116,445	96,560	90,226	74,157	47,479	40,208	14,703
Prior year adjustment	(1,061)	-	-	-	-	-	-	-
Depreciation transfer	-	-	-	159	1,467	1,467	1,467	1,467
Dividends paid or provided	(58,916)	(31,008)	(45,272)	(45,272)	(38,760)	(31,008)	(20,157)	(5,583)
Earnings retained this year	98,284	85,437	51,288	45,113	36,864	17,938	21,518	10,587
Ratios								
Current assets to current liabilities	1.06	1.08	0.86	1.26	1.02	0.99	1.09	1.05
Borrowings to shareholders' funds (%)	65.52	83.34	73.32	34.17	13.28	10.13	12.97	15.39
Net tangible asset backing per share (toea)	20.53	16.06	13.05	11.13	9.42	8.20	7.43	6.22
Net profit to revenue %	16.93	14.55	19.33	19.37	18.23	14.12	10.87	4.47
Net profit to shareholders' funds %	27.35	25.74	25.54	27.61	26.63	19.54	18.25	7.89
Net profit per share (toea)	510.39	375.53	311.40	290.98	239.15	153.12	129.67	47.42
Dividends paid (toea)	190	100	146	146	125	100	65	18
Earnings Per Shares	510t	376t	311t	291t	239t	153t	130t	47t
Earnings retained in relation to total earnings %	62.10	73.37	53.11	53.78	49.71	37.78	53.52	72.01

2009 and prior years have not been retrospectively adjusted for the change in accounting policy which resulted in the consolidation of New Britain Shipping Limited and Middle Fly Shipping Limited.

STOCK EXCHANGE INFORMATION

Steamships Trading Company Limited and Subsidiary Companies

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

All shares carry equal voting rights.

SHAREHOLDINGS

At 16 February 2012, there were 374 shareholders.

264	Holding 1	-	1,000 units
83	Holding 1,001	-	5,000 units
15	Holding 5,001	-	10,000 units
12	Holding 10,001	-	and over

6 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	6,199,399	19.99
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	22,405	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
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
Custodial Services Limited	8,178	0.03
Mary Patricia Haughton	8,161	0.03
Mrs Judith Scottholland	8,161	0.03
Bryce Family Super Fund	8,143	0.02
Mr David Mitchell Odlin	7,934	0.02
Makana Holdings Pty Ltd	7,850	0.02
	30,683,442	98.95

STOCK EXCHANGE INFORMATION

Steamships Trading Company Limited and Subsidiary Companies

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 take-overs). 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 §&
Chairman

Executive Directors

D. H. Cox, OL §
Managing Director

E. H. Ruha
Finance Director

Non-Executive Directors

G. Aopi, CBE
T.J. Blackburn
Sir Michael Bromley, KBE §+&
G. J. Dunlop +&
J. W. J. Hughes-Hallett
Lady W. T. Kamit, CBE +

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

Secretary

E. H. Ruha

Registered Office

Champion Parade
P.O. Box 1
Port Moresby
Papua New Guinea

Auditors

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

Share Registrars

Corporate Registry Services Pty Limited
Level 3
60 Carrington Street
Sydney, NSW 2000
Telephone (within Australia) 1300 855 080
Telephone from overseas +61 3 9615 5970
Fax +61 3 9611 5710

Stock Exchange

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

A. R. B. N.
055 836 952

Telephone: +675 322 0222



